Achieve Ambitions

Central London Development

UK Residential Research | June 2018

The Central London Development sales market remains slower than developers would like, but prices have remained firm for the past year. Importantly, sales activity picked up strongly during Q1 2018. Some developers are delaying launches, but most are continuing with existing plans. Help to Buy is providing a significant boost to the market below £600,000. Development activity has been slowing over the past three years but is also showing signs of stabilisation. The volume of construction activity is high by historic standards but, with planning applications slowing sharply, driven in part by the Mayor's firmer stance on affordable housing provision, the medium-term supply pipeline is less certain.

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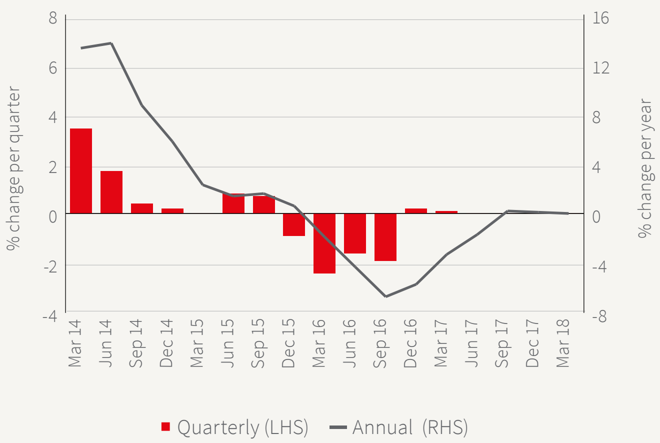
Sales market

- Launches up in Q1
- Sales rebound sharply in Q1
- Help to Buy playing key role

Development market

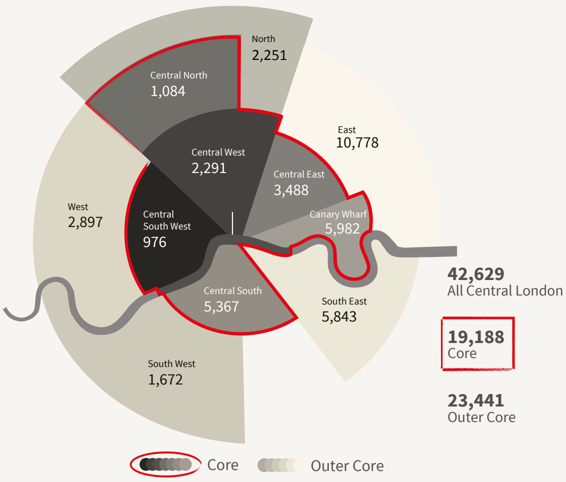
- Number of construction starts stabilising
- Under construction total high and plateauing
- Planning applications notably down

Prices hold firm in Q1 2018



Source: JLL

Development activity has strong east bias



Number of units under construction as at Q1 2018

Source: JLL, Molior

JLL Central London Development research covers the area from Acton in the west to City Airport in the east and from New Southgate in the north to Kidbrooke in the south. Core markets are Central South West, Central West, Central North, Central East, Canary Wharf and Central South. Outer Core markets are West, North, East, South East and South West.

Central London Development

Sales market

Firmer footing

There are strong signs that the Central London Development market is moving to a firmer footing - and certainly a surer footing than has been the case for the past three years.

Key trends continue to pulsate through the market. These include a 'search for value' mentality amongst owner-occupiers, investors and indeed developers. Lower value schemes are performing better and Outer London is outpacing Inner London. Another key factor is Help to Buy – so schemes with a unit price below £600,000 are seeing notably higher levels of demand and sales.

Developments which offer another angle such as an infrastructure impact like Crossrail or a regeneration boost like Nine Elms are also ahead of the chasing pack.

However, more broadly, the Central London Development sales market is still adjusting to more moderate demand due to ongoing political uncertainty. A number of developers have selectively deferred marketing activities, but most have accepted that a significant market improvement is unlikely in the short-term and are continuing to market schemes as planned.

Prices stable

On average, prices across the Central London Development market have not changed in the year to Q1 2018. Prices have remained static in every submarket during this time.

Prices fell following the 3% stamp duty surcharge on investment and second home purchases in Q4 2015 with developers accepting discounts to bolster sales rates. Following a number of quarters of readjustment, prices and discounts have now stabilised.

Discounts relative to asking prices are still widely available but 10% or more, which was occasionally negotiable 6-12 months ago, are now no longer on the table – implying a strengthening in market conditions.

Launches slowing

The number of unit launches in Central London has been on a steady decline for three years now. The peak was in Q1 2015 when 14,460 units were launched in the preceding year.

In the year to Q1 2018, this had slipped to just 7,941 units, a 46% decline. This comes despite a pick-up in launches during Q1 2018.

The proportion of launches across Central London that were located in Core markets during Q1 fell to just 17% of the total, down from 62% in Q3 2016.

Sales boost in Q1

The number of new build sales in Central London increased during Q1 2018 compared with Q4 2017. The number jumped 31% to 2,450 units.

Importantly too, the number of sales each year looks to be stabilising at around 8,500 units following a steady decline since Q1 2015.

This also suggests that the market is stabilising.

Buyer profile

Another key trend to emerge over the last three years is a shift in the timing of sales during the marketing and build phases. Far more sales are now being made nearer to project completion.

This largely reflects the changing buyer demographic. There is now a far greater proportion of domestic owner-occupiers buying new build units. They tend to buy close to completion rather than off-plan.

There is still a healthy appetite from overseas investors with China the standout performer. Demand levels have been boosted to some extent by the weaker pound but investor levels overall are lower than three years ago.

Central London Development

Development market

Cautiously positive

Central London residential developers remain cautiously positive. Broadly speaking they are keen to progress existing schemes and to commence new developments, especially if they are at the right price-point and in the right location.

So schemes in Underground Zones 2 and 3 are preferred to Zone 1 while the east and, to a slightly lesser degree, the west have greater favour than north or south London.

Schemes which qualify for Help to Buy are particularly desirable, given the additional end-user demand.

Given the more challenging sales market conditions over the past three years it is encouraging that the number of unit starts has not dropped too sharply. Indeed, this has stabilised over the past year with the total number of units under construction still close to its record high.

Some developers have discussed deferring the commencement of schemes, but almost all have elected to continue with their agreed plans and timings.

Unit starts fall

The number of new units that commenced construction fell sharply in Q1 2018. Just 2,836 units were started, a fall from 3,369 units in Q4 2017 and the average of 3,676 units over the preceding four years.

The drop in Core markets is particularly notable. Only 187 units commenced in Q1, down from 1,288 in Q4.

Overall, however, the number of starts across Central London has been reasonably robust and stable over the past year - suggesting that developers are keen to continue building despite the challenging sales environment.

Construction volumes hold firm

The number of units under construction across Central London has plateaued over the past six months. But at 42,629 units it is still close to peak levels for this cycle.

45% of units under construction are in Core markets, but we expect this to reduce over the next few years, as developers look further and further afield for the best trading conditions. In terms of planning, only around 25% of permissions are in Core markets, emphasising the Outer Core preference and the expected reduction in construction activity in Core markets over the next few years.

The map on page one clearly shows the bias in construction activity to the eastern half of London. The East, Canary Wharf and South East regions have the highest number of units underway, but Central East is also high on the list.

BTR and policy impacting

Of the 42,629 units under construction, 5,683 units, or 15%, are Build to Rent (BTR) units. This has escalated from just 6% in 2014, emphasising the increasing proportion and importance of BTR on Central London housing delivery.

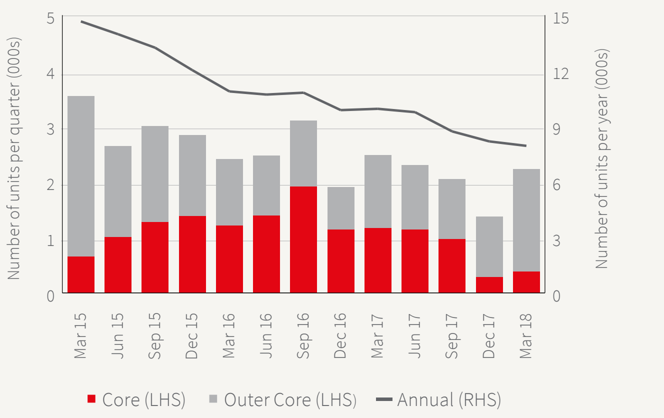
It is surprising that 46% of BTR units under construction are in Core markets, but this is almost entirely made up of units in the more affordable Canary Wharf area.

The longer-term outlook for construction activity is less clear. The number of units entering the planning system each year has almost halved between Q1 2015 and Q1 2018 (see chart). The slowdown in Q1 2018 specifically and in Core markets are even more marked.

Sadiq Khan's more onerous and firmer stance on affordable housing provision, which includes the important viability review mechanism, is undoubtedly a crucial factor in this slowdown. It is also having the desired effect of changing the planning and development landscape - enforcing the 35% affordable housing criteria as well as greater transparency.

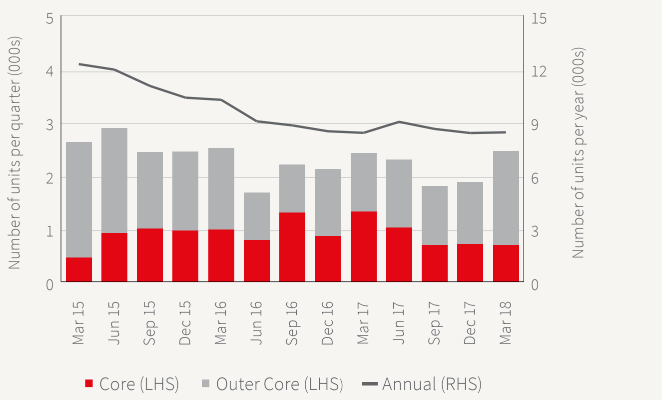
Importantly, now that developer profit is constrained by these new initiatives, it has reduced the number and appetite of land buyers and will continue to suppress planning applications, especially while the sales market is also somewhat subdued.

Pick-up in launches in Q1, but trend is down



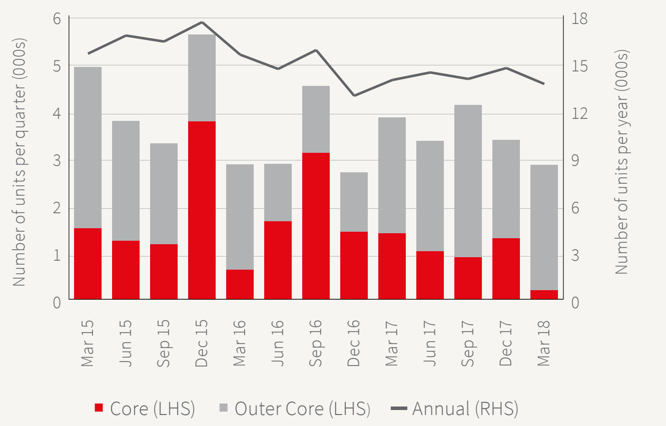
Source: JLL, Molior

Number of units sold now stabilising



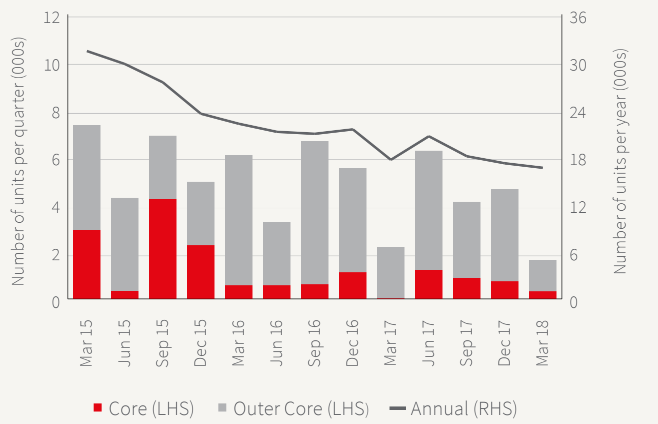
Source: JLL, Molior

Annual housing starts steady, despite Q1 dip



Source: JLL, Molior

New planning applications continue to slide



Source: JLL, Molior

Outlook

Several aspects of the Central London Development market are showing signs of stabilisation during early 2018. We expect this to continue for the remainder of the year.

A little confidence is returning to the market, albeit with an air of caution given recent trading conditions and the short-term economic and political outlook.

But we expect the next moves in prices and sales activity to be upward. The sales market will remain challenging with affordability a key issue for the increasingly important owner-occupier buyer group.

Consequently, we expect Help to Buy will continue to play a pivotal role. It is certainly bolstering prices and supporting sales rates, and is likely to do so until the initiative expires in 2021.

The improving market conditions will only be gradual during 2018. We expect prices will remain broadly the same throughout 2018 with a slight uptick in sales volumes.

In the development market, we believe new construction starts and the total number of units under construction will remain at current levels for the remainder of the year.

We forecast that the dichotomy between fortunes in Core and Outer Core markets will expand over the next few years. We expect development activity in Core markets will slow from around 45% of all Central London units towards 25% by 2020. This will be particularly visible in the more traditional prime London submarkets rather than the higher volume submarkets around Nine Elms and Canary Wharf.

There will be exceptions and pockets of development, such as in Grosvenor Square, but this trend will present opportunities for developers happy to remain active in London's more expensive submarkets.

House price growth (% pa)	2018	2019	2020	2021	2022	2018-22*
Central London Developments	0	½	2	3	4	9.8
Greater London	0	1½	2	3½	4	11.4
UK	1	2	2½	3	3½	12.6

Rental growth (% pa)	2018	2019	2020	2021	2022	2018-22*
Central London Developments	0	1½	2	2½	2½	8.8
Greater London	1½	2	2	2½	2½	10.9
UK	2	2½	2½	2½	2½	12.6

*Source: JLL *cumulative growth*

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