

London Housing Supply Update



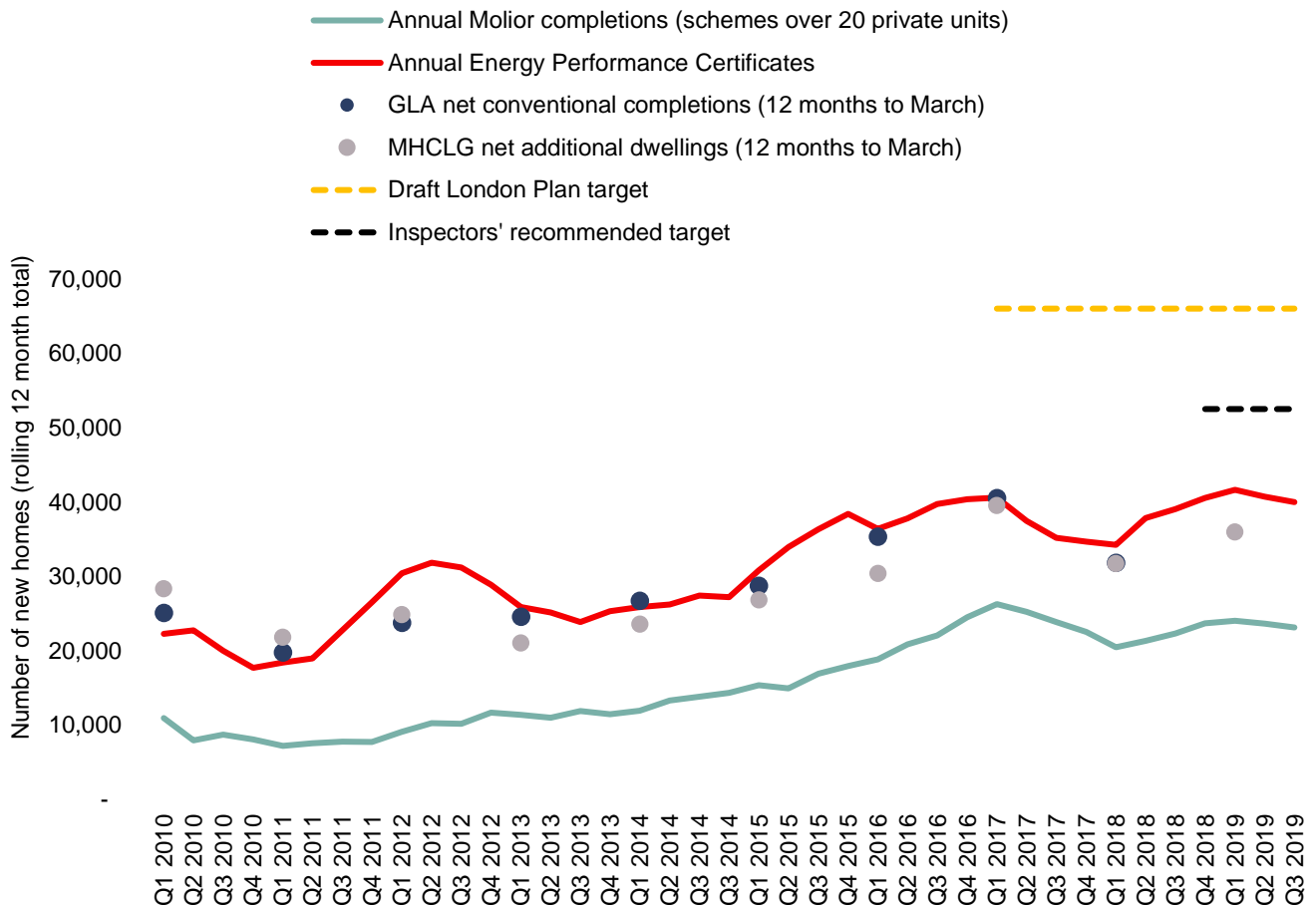
- House building has slowed in London in Q3 2019
- Mainstream sales have remained stable, supported by Help to Buy
- Complete and unsold units reach record highs
- Affordable homes delivery continues to climb steadily

New homes delivery in London slipped in the year to Q3 2019 according to lead indicators. The annual number of new build Energy Performance Certificates (EPCs), a proxy for total housing delivery, peaked at the beginning of the year at 41,640. This represented the highest ever recorded number of EPCs. However latest data show a 4.0% decline from this figure. The most recent figures for large sites paint a similar story. Data from Molior, who records the number of completions on sites over 20 private units, show a drop of 3.7% from Q1 2019. Molior recorded 23,136 housing completions in the year to Q3 2019, with 24% of these being Build To Rent completions.

EPCs and Molior are very much lead indicators as there is often a significant lag on official housebuilding figures. MHCLG statistics, recorded 35,959 'Net additional dwellings' in London in 2018/19. The GLA's 'Net conventional completions' is the official data source of London new build supply, but has the greatest lag of all the data sources. The most recent data is for 2017/18, and falls very much in line with all other sources, showing a decrease in 2017/18 to 31,851 homes, 21% below the previous release.

London supply is clearly falling well short of the MHCLG standard assessment of need of 72,000 and the draft New London Plan demand figure of 66,000 new homes each year. The London Plan target looks set to be revised down to 52,500 to align with available land supply following recommendations by independent Inspectors. Yet current levels of delivery still fall short of this recommended target.

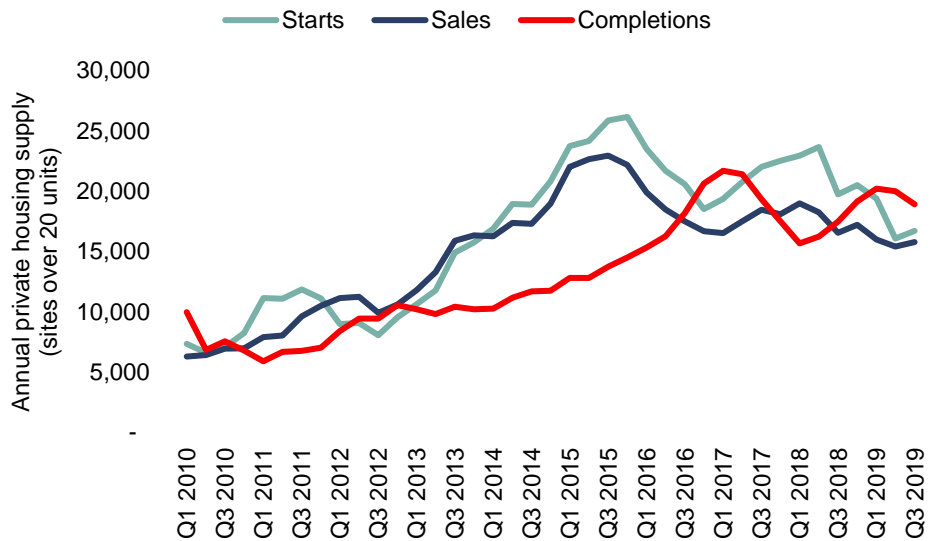
Figure 1 – How many homes are being built?



Source: Savills, MHCLG, EPC, Molior, GLA

Practical completions in the mainstream market (below £1,000psf) are down 5.4% quarter on quarter, but are still 8.1% higher than at this point last year. Mainstream starts, however, fell by 15.3% compared to Q3 2018. Although the latest quarterly data show a small rebound, starts are at their lowest point since 2013 and 36% below the 2015 peak. Mainstream sales are also well below their 2015 peak but relative to starts, have seen significantly smaller falls over the past 24 months, despite the backdrop of political and economic uncertainty. On a quarterly basis mainstream sales have ticked up by 2.4%.

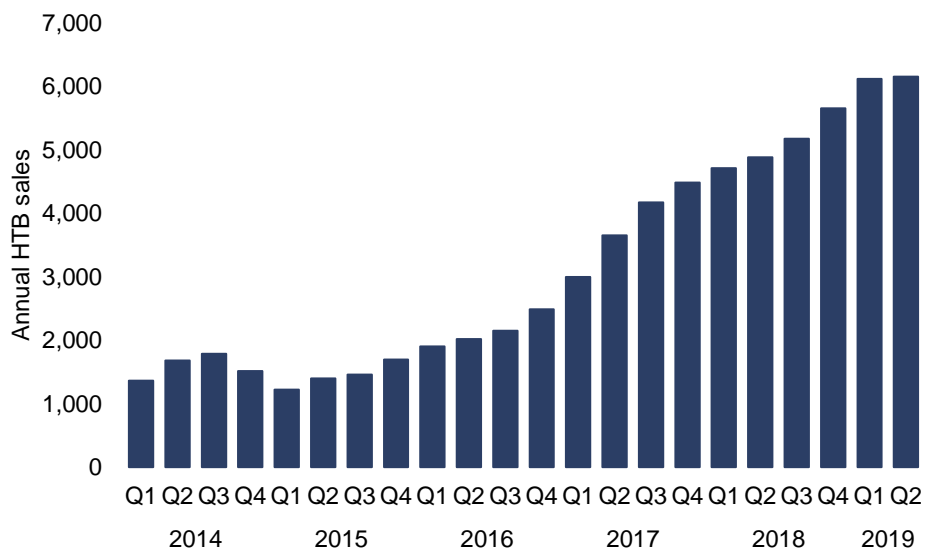
Figure 2 – Mainstream starts, sales and completions



Source: Savills, Molior

Help to Buy has been vital in supporting the mainstream market in London, with the annual number of Help to Buy sales at a record high of 6,149 in the year to Q2 2019. From January 2021 Help to Buy exchanges will be limited to first time buyers (FTB). In London, 95% of users are already FTBs so the impact of this change will be limited. Despite the boost from Help to Buy, overall, mainstream sales still sit below the number of construction completions seen in this part of the market, leading to an unprecedented high of 2,143 complete and unsold units in the mainstream market.

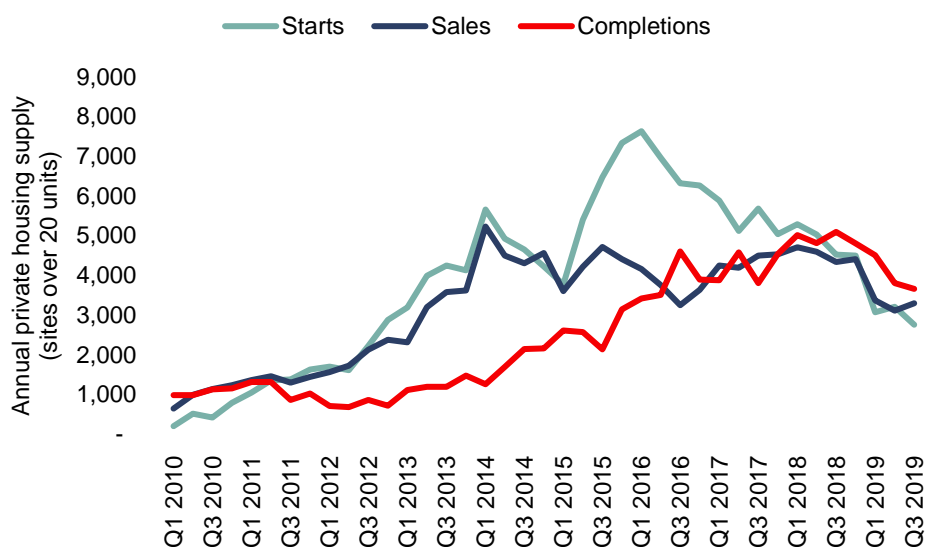
Figure 3 – Help to buy loans in London



Source: MHCLG

Much like the trend seen in the mainstream market, developers have responded to less certain times and construction starts in the prime market (above £1,000 psf) are down by more than 30% on an annual basis. Delivery in the prime market has also slowed, with completions down 15% on the same point in 2018. Pragmatism by developers on pricing and flexibility around discounts from asking prices has been important for maintaining sales rates in the prime market to an extent. But there remains an imbalance between delivery levels and sales meaning there are currently 988 complete and unsold units on the market.

Figure 4 – Prime starts, sales and completions

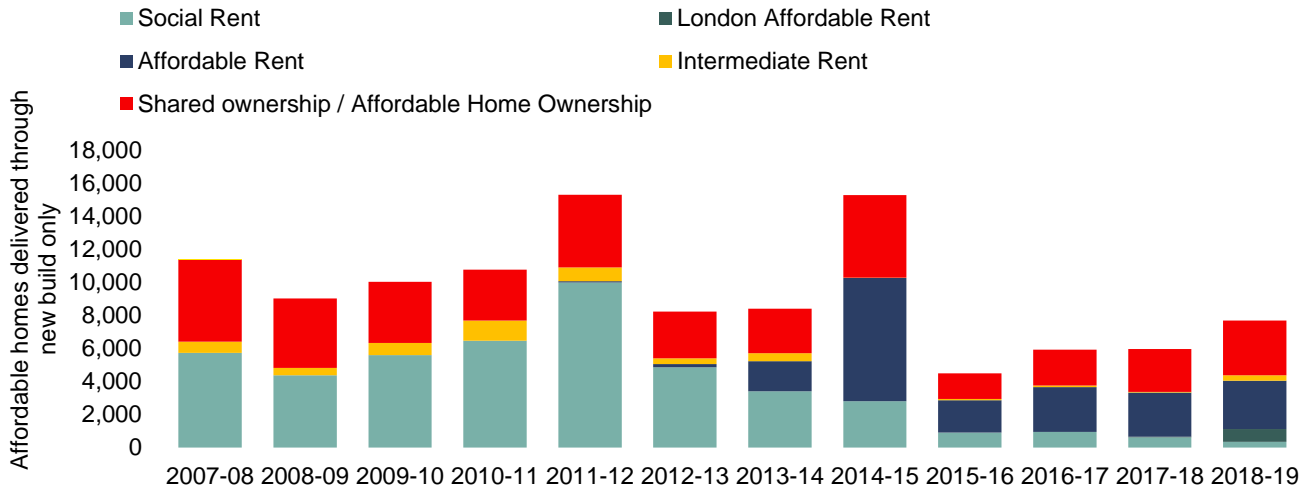


Source: Savills, Molior

Affordable homes delivery

MHCLG’s latest release on affordable home delivery shows a continuing increase in the gross number of new affordable homes. With 7,727 affordable homes built in London in 2018/19, this is the third successive year in which delivery has increased, with 29% more homes built than last year. 43% of these homes were shared ownership, which marks an increase from 32% in 2013/14. The number of Social Rent and London Affordable Rent homes built in 2018/19 accounted for just 15% of total affordable delivery, down from when Social Rent made up 41% of delivery in 2013/14.

Figure 5 – Gross affordable completions by tenure

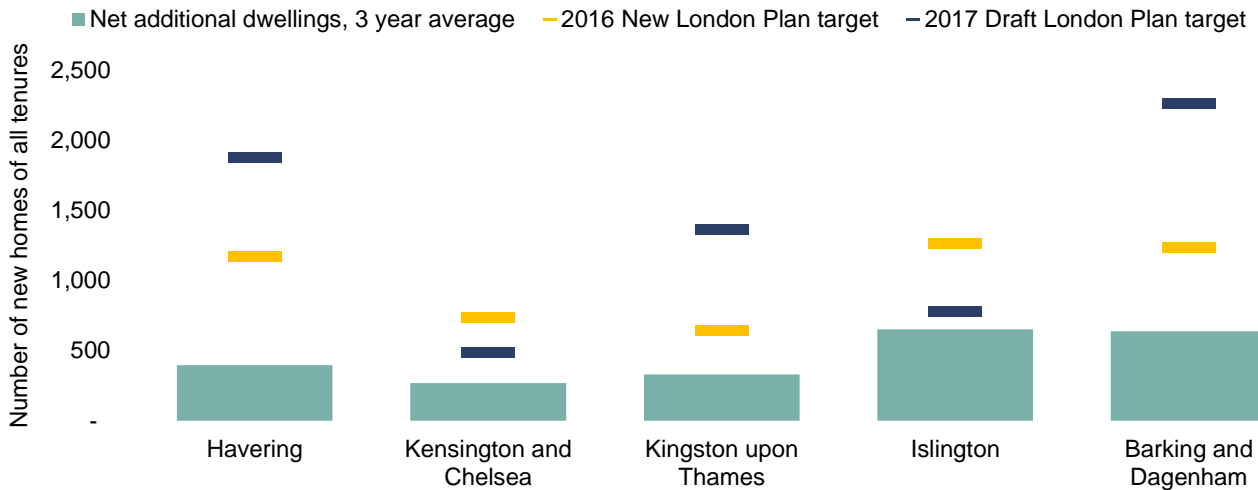


Source: MHCLG

Which boroughs are struggling to deliver their housing targets?

18 of the 32 London boroughs are currently delivering below their 2016 London Plan targets based on the three year average of MHCLG net additional dwellings figures against the targets for housebuilding in each borough. The five worst-performing boroughs in terms of delivery against their targets are shown in the chart below, with Havering and Kensington and Chelsea being the only boroughs to be building less than 50% of the targets set out in the 2016 New London Plan.

Figure 6 – Worst performing boroughs against their targets

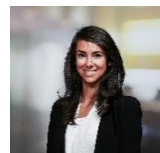


Source: MHCLG

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