Mining new data to measure unsatisfied demand
Patterns of demand
By examining the movement patterns of the capital's potential buyers we can identify sources of future demand

Who buys new builds, and who will be buying them in the future? Our analysis details the groups of potential buyers currently active in London and the patterns of where they are gravitating towards. Crucially, it reveals gaps – which will mean opportunities for developers. By considering those who are not buying, we can help identify sources of potential future demand for new build homes. The key question is can we find those customers who can, but are choosing not to buy new build homes?

We know from our New Homes Market in Minutes that households across the UK tend to move further for new build properties than they would for second hand properties. High quality product, amenities and Help to Buy are often pull factors.

Even accounting for this, however, households moving into new build homes in London tend to remain within the same quadrant of London. For example, 74% of households who moved into a new build property in the North East quadrant came from that same quadrant.

London's quadrants attract households with different characteristics. For instance, the North West quadrant seems to capture more households with children and lower incomes than the rest of the quadrants. There is a strong multi-generational, community-based household presence here relative to other areas, whereas the South West tends to have slightly younger, more affluent households.

Deliver the right product and widen the catchment area
Large regeneration sites such as Stratford and Wembley attract buyers from a much wider range than the second hand markets (buyers in these schemes will travel up to 3.5 times further for new build property). Kidbrooke Park, a 4,800 home regeneration scheme in South East London, has managed to attract families to its scheme by delivering large numbers of family homes (including houses), but also, crucially, by delivering amenity and public realm suitable for children of a range of ages. The site's design interacts with the surrounding parkland and wetland, supporting residents' physical and mental wellbeing – factors rising rapidly up the agenda for many.

By considering the target market and providing suitable amenities, this scheme has drawn in a significant number of families – and those families are moving from further away to live there. Of the households that have moved into the scheme in the last 2.5 years, 69% had children, far greater than the 18% average for the borough (of movers into new build homes).

Who moves into London new build homes and where do they move from?

A high percentage of new build households stay in same quadrant

Household types Characteristics of households most likely to move to London new build

Source: Savills Research, Experian
**Identifying missing markets**

**Households moving out of London new build homes are disproportionately likely to be families with children. This suggests we’re not building enough new homes that are suitable for those families. You’d think the easiest way to find households that like to buy new build homes is to look at those households already living there. But only 16% of households moving from a London new build home move into another London new build. The majority move out, either into existing homes in London or out of London entirely.**

Those households living in new build homes tend to be younger than those living in second hand properties; they’re less likely to have children and more likely to live near their place of work or study. Those moving out of new build homes tend to be older and have children. Nearly a third of households who moved out of a London new build property had children, double the proportion of households moving in. 32% of households leaving London new build were aged 40-55, compared to 22% moving in.

Why are these families more likely to leave new build? The types of properties they move to may provide a clue. Those households moving from new build to existing properties go to a home that’s 13% larger, on average. They also have incomes 10% higher on average than those households staying in new build. Almost a third of households moving from a new build London home to a second hand property have incomes greater than £100,000. This suggests either larger new build homes that are suitable for families don’t offer good value for money, or there simply aren’t enough of them available.

**What does this mean for developers?**

There is a group of households who we know like to live in new build properties – after all, they’re living there now. But as those households’ needs change, they can no longer find new build accommodation that suits them. That means we should be building homes with access to outdoor space, ample storage, and child-friendly amenities. We need to design homes to support the needs of the community, and cater to these households.

**Missing markets**

Households moving from London new build to second hand are twice as likely to have children as those that stay – how can developers better meet their needs?
Widening the appeal

London delivers a greater proportion of larger, ‘family sized’ flats than other cities, yet families are choosing not to live in them. How can developers appeal to a wider range of different buyer types?

Case study: Television Centre, White City

Television Centre (TVC), the anchor to regeneration in White City, has attracted a very wide range of buyers – investors, first time buyers, upsizers, families and downsizers, both domestic and international. TVC did not set out with the intent to appeal to all of these groups, but had the clear vision to design homes that people could live in comfortably. This meant more generous apartments, with plentiful storage, generous outside space and functional, ergonomic design. Amenities sought to encourage a community to develop within the building.

The London development market is very different to other UK cities. New development in London is overwhelmingly flats: 92% of sales between 2017 and 2019 in London were for flats, compared to 35% in Greater Manchester, and 33% in Birmingham. This is due to the type of sites available for development, where high land values require high density to make schemes more viable. However, of those flats, London does deliver more larger sized flats, of over 900 sq. ft., than other cities. Clearly, these other cities are providing larger sized accommodation in the form of houses instead.

Earlier in this report we identified that households with children in particular are leaving new build properties, even if they have lived in new build homes before. This suggests that despite larger sized flats being built in London, they don’t seem to be meeting the needs of these households. Just 12% of London flats over 900 sq. ft. sold over the last three years are occupied by households with children.

However, it is possible for developers to adapt their strategy to tap into this underserved demand in London, whether that be through targeted sales and marketing, or in refining the product accordingly. On page seven our Development Consultancy team have looked at how developers could widen the appeal for families, without discouraging other buyer types.

Bigger flats

London delivers more flats over 900 sq. ft. than other cities

Proportion of 1, 2 and 3 bed sales

<table>
<thead>
<tr>
<th></th>
<th>Greater London</th>
<th>Greater Manchester</th>
<th>Birmingham</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 bed</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2 bed</td>
<td>30%</td>
<td>12%</td>
<td>60%</td>
</tr>
<tr>
<td>3 bed</td>
<td>40%</td>
<td>88%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: NIGL Savills Research

The perception of larger flats

Generally speaking, developers favour building one and two bed flats. That’s understandable, as three and four bed flats have a higher capital value, are less attractive to investors for off-plan sales (as they have a lower yield and a smaller rental pool), and can take longer to sell. Those that are delivered are frequently done so in order to comply with planning requirements, which require a certain proportion of new build homes in a scheme to be for family living.

We often debate the design and delivery of ‘family units’ in London schemes. When confronted with the space vs affordability argument, some developers simply adhere to minimum unit sizes. Based on this research, we suggest ‘family units’ are not really delivering against family needs. How do we change the perception of these larger homes? What new build developers need to understand is the gap of unmet demand. These missing markets we have identified in London are likely to have built up some equity, are hitting their stride in earnings and have the capacity to borrow more.

Clearly there is still demand out there for the types of larger flats we’re building now.

Proportion of 1, 2 and 3 bed sales

- Greater London: 30%
- Greater Manchester: 12%
- Birmingham: 60%

These higher specification homes, often penthouses, are particularly appealing for the downsizer market. But building larger homes that don’t work for families means leaving a substantial pool of potential buyers unserved.

Understanding the demands and the characteristics of this ‘missing market’ can help give developers confidence there will be robust demand for their homes before they start marketing, or even before they submit planning.

Flexibility, space, convenience

Households’ priorities were already changing before Covid-19. Living under lockdown for several months has accelerated those changes, forcing emerging trends to the forefront.

Individual needs are a function of age, stage, situation and family dynamic. Rational and practical space planning, for example, well-proportioned rooms, sufficient storage, useful kitchens and dividable space for remote working.

Market appeal is the key to the success of a scheme and this includes delivering healthy and sustainable buildings that promote well-being (for all households, not just families). Environmental Social and Governance (ESG) criteria have risen up the agenda for all households and are an increasingly important consideration. One example is designing the building so apartments don’t overheat and therefore removing the need for comfort cooling.
Observations
FIVE KEY CONSIDERATIONS FOR DEVELOPERS TO WIDEN THE APPEAL FOR FAMILIES
(without discouraging other buyer types)

1. FLEXIBLE & PRACTICAL SPACE
   Understanding the priorities and needs of your target markets and how these may change over time.

2. THE VALUE OF CONVENIENCE
   The compelling reason to buy new build – getting it right when it comes to management, servicing, functional design and specification.

3. AGILE USE OF AMENITY SPACE
   A perk of living at density, spaces that feel like an extension to your home, appeal to a diverse buyer group and are affordable to the relative price point.

4. ESG
   The responsibility of delivering better buildings that positively contribute to the environment, social inclusion, mental health and well-being, in order to foster a successful place.

5. MARKETING
   Understanding the market segmentation for different product types and markets, allocating marketing budgets appropriately, and making realistic assumptions on when the units will sell.

London Residential Development Consultancy
We advise everyone from landowners and developers to sovereign wealth funds and house builders to ensure that the development opportunity is maximised, their scheme is market facing, and the product can be executed through a successful launch and sales process.

Savills Research
We’re a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.