

# The Missing Markets



Mining new data to measure unsatisfied demand

**We've known for years that** we are not building enough homes in London to meet need. It's not just a case of numbers, either. Are we building the right homes in the right places? Covid-19, Brexit, and macro stresses on the development market mean that, more than ever, we need to be confident that new homes are being delivered that meet people's requirements right across the city.

Even now, housing demand numbers are undoubtedly high, but is new build addressing the needs of the whole market? Are there renters and buyers out there who currently deliberately avoid new build developments, or never consider them in the first place? We know intimately the profile of those for whom new build is appealing, as they are already living in new build properties and engaging with the market.

Our analysis in this paper has uncovered a 'missing market' of households who are now leaving London new build. We estimate there are 23,500 households moving from new build homes into second hand homes in London, and a further 6,500 who are moving to London's commuter belt. Who are they? Where are they going? What has changed for them? In these pages we dive into the data, answer these questions and in partnership with Savills Development Consultancy experts, signpost developers to the actions they can take to capture this demand - they can't afford to miss out on it.



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# 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

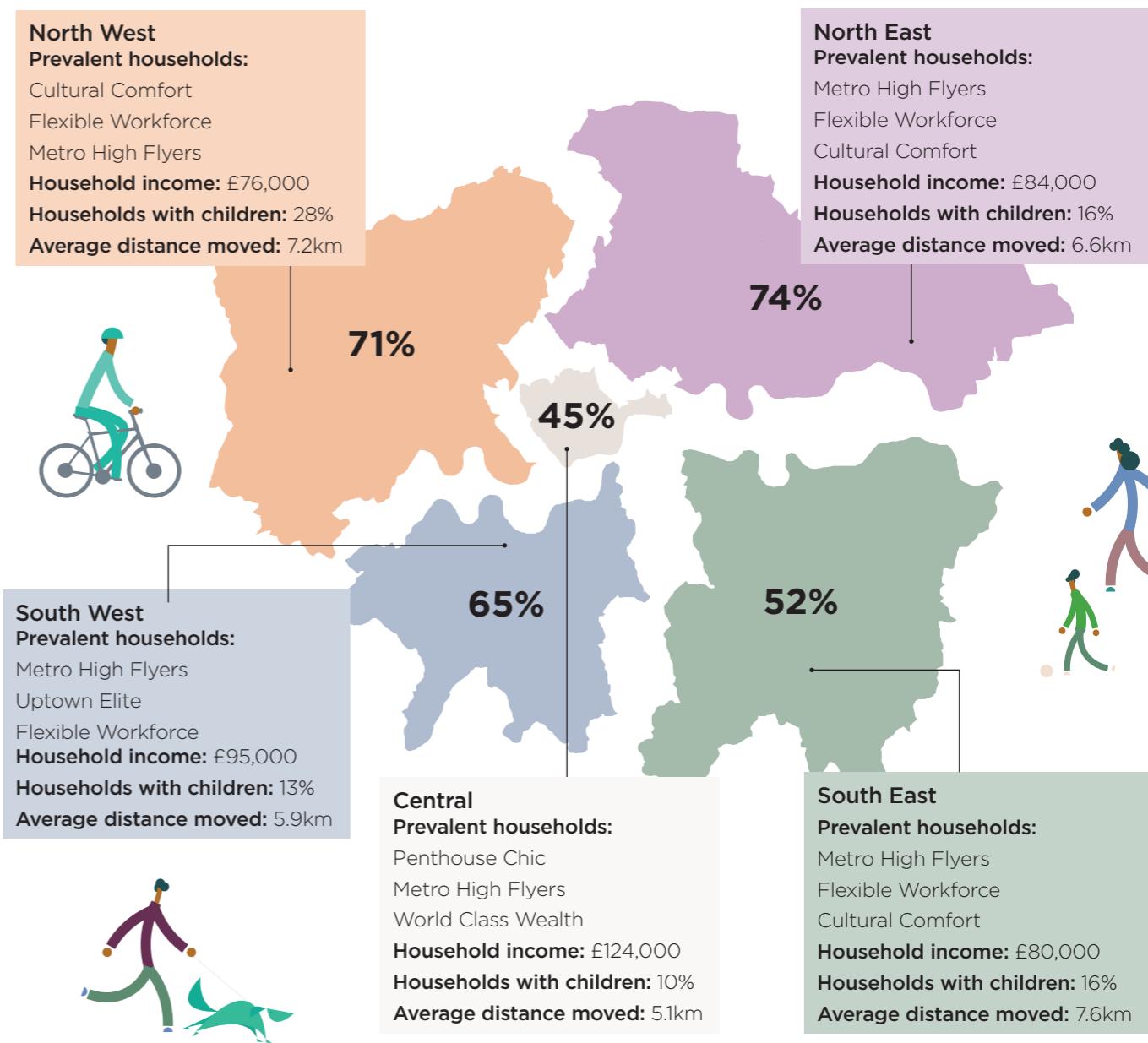
delivering large numbers of family homes (including houses), but also, crucially, by delivering amenity and public realm suitable for children of a range of ages.

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.



## 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

Metro High Flyers	Flexible Workforce	Cultural Comfort	Penthouse Chic	Uptown Elite	World Class Wealth	Central Pulse
20 and 30-something households with high-paying jobs renting expensive apartments in highly commutable areas; often sharers	Young, transient households who move seamlessly to follow their career aspirations	Thriving families with good incomes who live in inner-city communities and tend to own their homes	Early 30-something single households renting premium-priced flats in central locations with highly paid City-based jobs	Households with children who own larger homes in accessible inner suburbs, as they enjoy comfort over busy city life	Privileged households with generational wealth that allows them to live a global and luxurious lifestyle while occupying London's most expensive areas	Young households on graduate starter salaries renting city centre flats in vibrant locations close to their jobs and nightlife

Source: Savills Research, Experian

# Moving on out

Why do only a small percentage of families living in new build consider another new build property in London as their next option?

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.

## RETAINED CUSTOMERS

Move to London new build



**Just 16% have children**  
**HOUSEHOLD INCOME £85,000**

## MISSING MARKETS

Move to London second hand



**32% have children**  
**HOUSEHOLD INCOME £96,000**



**Where are households moving to?** With 42,000 households moving out of London new build homes each year, where are they going?

## LEAVING LONDON

**REST OF UK HOUSEHOLD INCOME £56,000**



## COMMUTER BELT

**46% have children**  
**HOUSEHOLD INCOME £81,000**

**6,500**

**12,000**

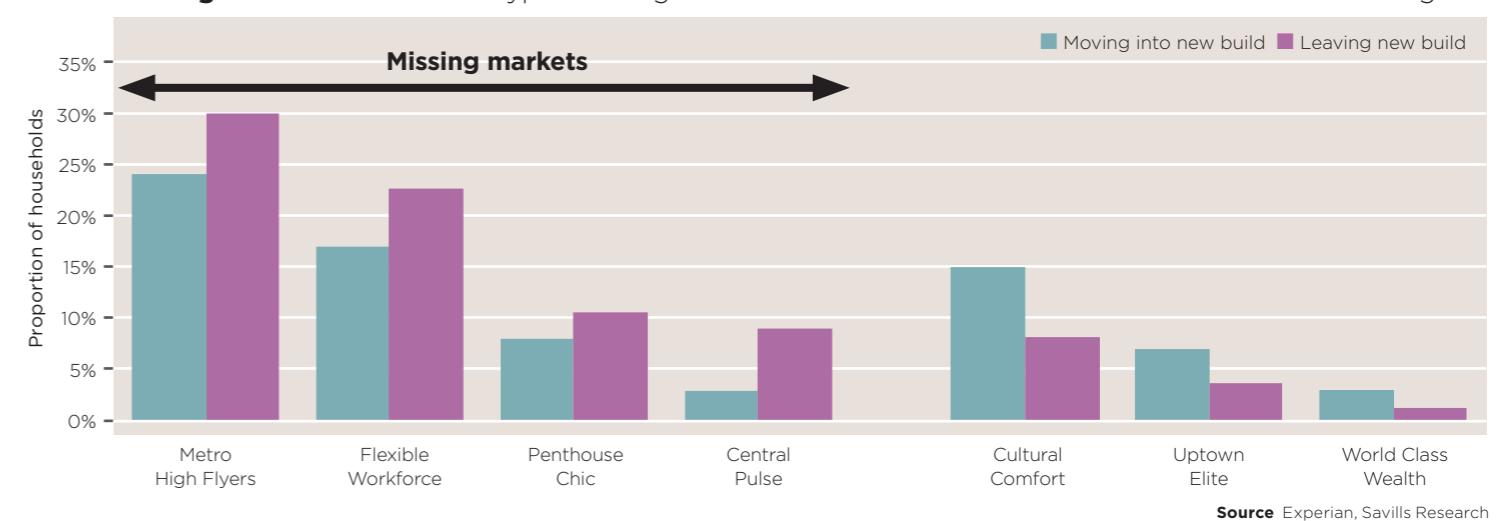
**6,500**

**5,500**

**23,500**

**42,000  
movers  
per year**

**Missing markets** Household types leaving new build homes in London are different to those moving in



“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?

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 flats, compared to 31% in Greater Manchester, and 35% 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 the market, 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

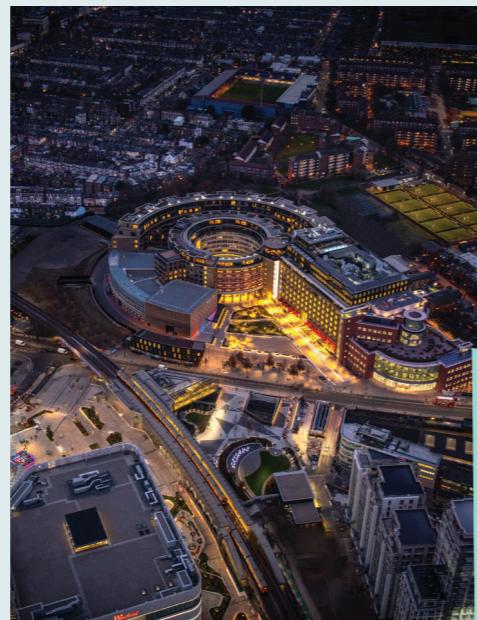
London delivers more flats over 900 sq. ft. than other cities



## 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 attraction of families to this development is particularly interesting for us. TVC is an urban, highly mixed use scheme, with office and entertainment uses very much part of everyday life – it is busy, not a scheme you would naturally expect families to move to. Yet throughout the building you see babies, toddlers, children doing homework, teens in the screening room and even in the gym. Proof, we feel, that if you design a product with variety and that is more involving and interesting, your market appeal is much wider, more enduring and sustainable.



# The missing markets

In London, new build developments aiming to attract family households must look to deliver against family needs



## 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 this new dataset affords us is an opportunity to understand the gaps 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. 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.

Families require more storage, parking, ability to divide space, easy access for buggies, outdoor amenity, and on a wish list would be indoor play space. This missing market we talk of would be more likely to buy new build in family friendly locations (near schools and parks) if the product was there.

Convenience is key. New build schemes must make life easier for their residents, not harder, through functional, practical design and thoughtful management, i.e. servicing and repair of utilities, arrangement of child care and cleaning or management of deliveries.

Outdoor and shared amenity spaces must be versatile to support the communities that will form and grow in these new places. The buildings and environment need to support healthy, sustainable lifestyles, and the marketing of these schemes must reflect each target market's needs and priorities.

## Creating a diverse community

What does a successful place look like? Developers are more than ever thinking beyond the initial measure of successful schemes as rate of sale. With the rise of Build to Rent, certainly developers are looking at some of the longer-term measures of success that will attract residents five, ten, or even 20 years from now.

There is already a large body of research demonstrating the long term value of diverse, multi-generational communities in building resilient, successful places. New build homes should be able to deliver flexible, agile and practical spaces which appeal to all, whilst also accommodating changing lifestyles. There are themes that apply to a diverse market that need to be incorporated into design now. These include home-working, sustainable living and well-being, and these needs have to be addressed whilst designing viable and deliverable buildings.

Each scheme is unique, and will require individual attention to inform its strategy with reference to its location, competition, and product, to get the sales and marketing just right. We can't expect this report to give all the answers, but it will demonstrate the depths of analysis we go to in establishing the best advice for our clients.

**“Outdoor and shared amenity spaces must be versatile to support the communities that will form and grow in these new places”**

# 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.

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