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London Housing Supply Update

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Housing supply in London remains short of need, but completions likely to increase in the medium term

Covid-19 will have a significant impact on London development. Data from Q1 2020 is yet to fully reflect the impact of the pandemic and ensuing lockdown of the UK. Sales in Q2 have fallen fast following government restrictions on house sales, with sales in the second half of the quarter set to be boosted by pent up demand, following the lifting of those restrictions, subject to guidance. Completions will be delayed due to periods of inactivity on site during lockdown and reduced construction capacity on site. Assuming housebuilders are able to work back up to 80% of their previous capacity by the end of the year, we expect the rate of delivery to be 30-35% below 2019 output. A full note on Covid-19's impact on development can be found here.

The latest indicators of housing supply in London shows current housing delivery levels remaining some way short of the draft London Plan identified need of 66,000 homes per annum.

Data from Molior, which tracks the number of completions across schemes with more than 20 private homes in London, shows a pickup in housing completions in the year to Q1 2020 with 23,500 completions recorded. This marks an annual drop of 2.2%, and it is 10.9% below the peak of Q1 2017.

In the year to Q1 2020 there were 42,633 Energy Performance Certificates (EPCs) issued in London, marking a 2.0% decrease annually.

EPCs and Molior's figures are very much lead indicators as there is often a significant lag on official housebuilding numbers.

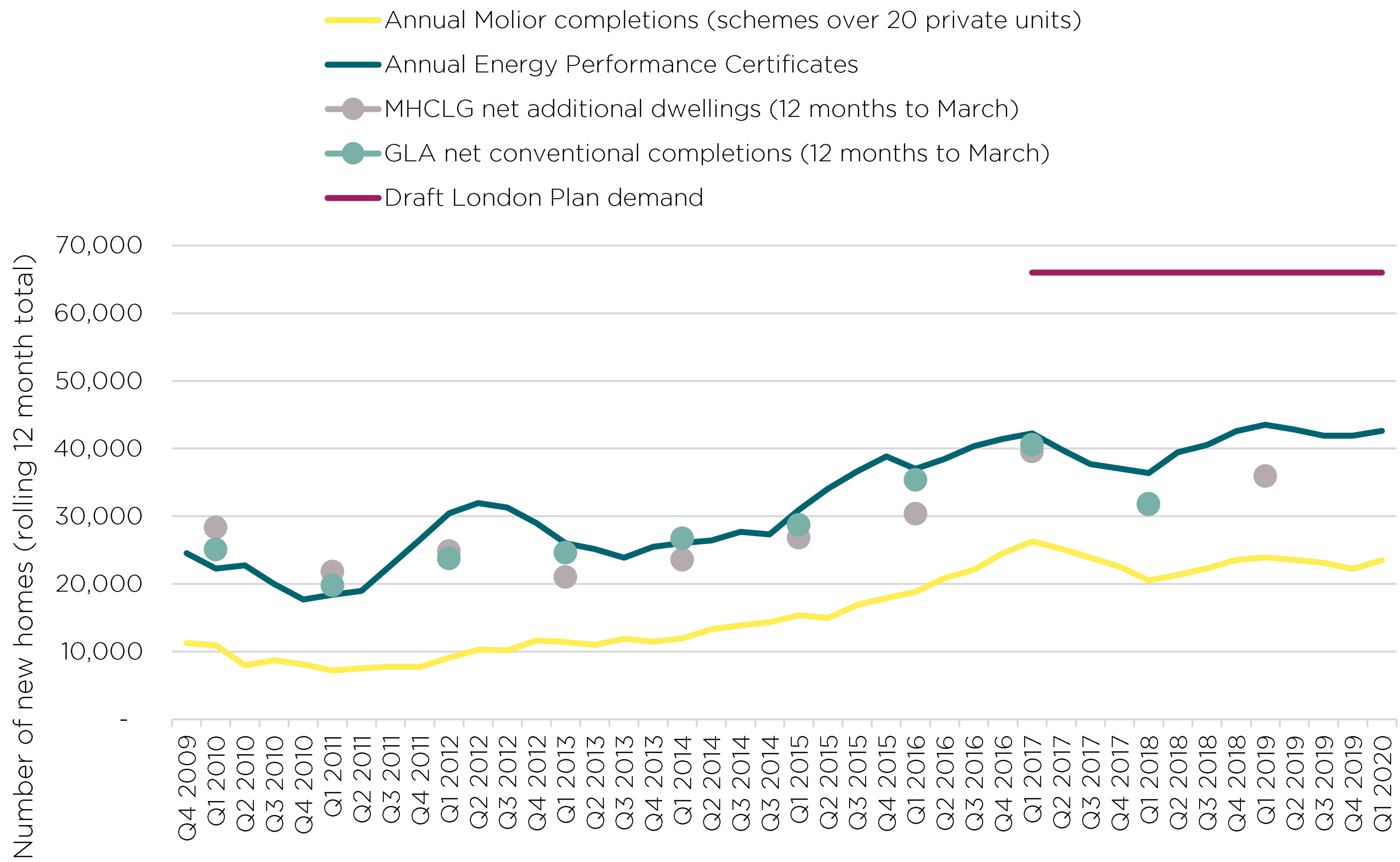
MHCLG statistics, recorded 35,959 'Net additional dwellings' in London in 2018/19. The GLA's 'Net conventional completions' is the official data source of London new build supply, but has the greatest lag of all the data sources. The most recent data is for 2017/18, showing just 31,851 homes completed, but all other sources show a significant pick up since then.

Whilst all of the supply indicators show a large shortfall in delivery against housing need, there remains a significant pipeline of homes under construction. Molior's latest private construction numbers on large sites indicate there were still over 61,000 units under construction in Q1 2020. Covid-19 will undoubtedly have an impact on construction in the short term, though once we pass through the period of uncertainty, the large pipeline suggests that completions will increase over a five year period, though total supply is still likely to fall well short of the 66,000 needed.

Affordable housing delivery has remained relatively constant in London at around 7,500 on average over the last 10 years, though dropped sharply in 2017/18 to just 4,700 affordable home completions. However, more recent data from MHCLG shows affordable home delivery increased in 2018/19.

With the greatest demand for housing in London being for affordable homes, local councils have stepped up their efforts in building these homes. A number of local authorities have their own housing companies with significant development pipelines for the next few years. Despite this, there is still expected to be a significant shortfall in sub-market housing in London over the next five years.

Figure 1 London housing delivery



Source Savills, GLA AMR, EPCs, MHCLG

The mainstream market (below £1,000psf) saw starts on site continue to fall in Q1 2020. Under 15,000 mainstream units started construction in the 12 months to Q1 2020, the lowest annual total since 2013.

By contrast, annual mainstream sales volumes increased by 4% in the year to the end of Q1 2020 compared to the previous twelve months with a number of developments each seeing over 20 sales through Help to Buy in Q1 according to the latest research from Molior.

Like starts, completions fell by 12% in the year to Q1 2020. However, there are still 39,000 mainstream units under construction as at Q1 and so completions look set to pick up in the medium term. In the long term, the significant fall in mainstream starts will lead to fewer mainstream completions.

Help to Buy continues to be vital in supporting the mainstream market in London. The annual number of Help to Buy sales in the capital reached a record high of 6,439 in the 12 months to Q3 2019, up 5% on the previous quarter and up 24% on this time last year.

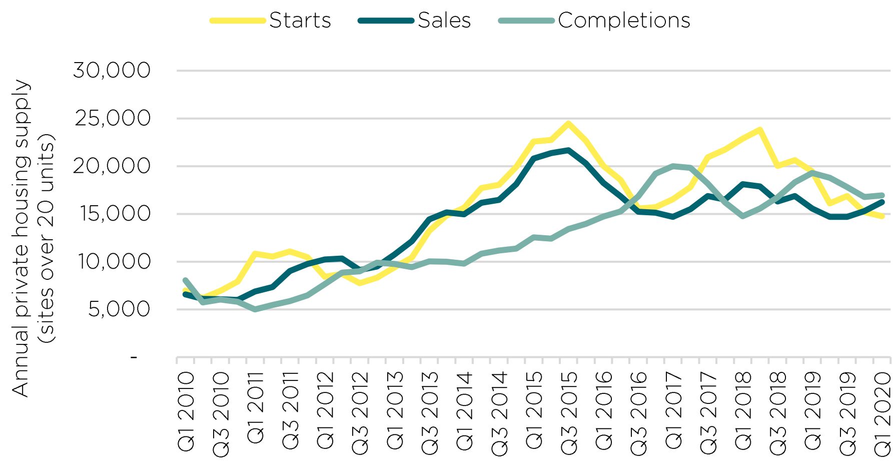
As it stands, from 2021 Help to Buy exchanges will be limited to first time buyers (FTB). In London, 95% of users are already FTBs so the impact of this change will be limited. The scheme is set to be phased out completely by 2023, meaning completions will need to have been finalised by the end of March 2023. However, the government may look to adjust these timeframes to support the market when we come out of lockdown.

The annual number of starts in the prime market (£1,000psf+) is higher than a year ago, although Q1 2020 saw the lowest level of prime starts in a single quarter since 2011.

Prime annual sales increased by 21% in the year to Q1 2020, marking four successive quarters of growth. Overseas buyers will be subject to a 2% stamp duty surcharge effective from April 2021, which is expected to trigger an increase in activity from those who will be impacted at the end of 2020 and beginning of 2021, providing the Covid-19 pandemic begins to dissipate within that timeframe.

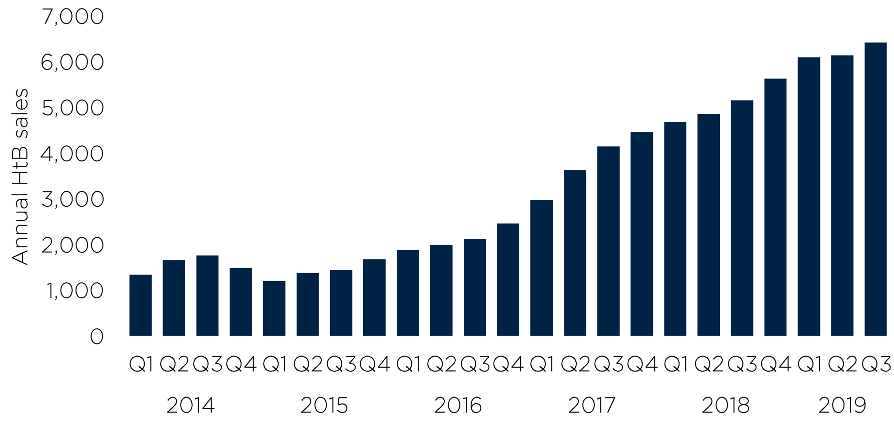
There were 6,500 prime completions in the year to Q1 2020 marking the highest ever level of delivery, and stands at 42% higher than at this point last year, However, they are still some way behind the volume of starts seen between 2015 and 2017 and so are likely to continue to pick up in the medium term.

Figure 2 Mainstream starts, sales and completions



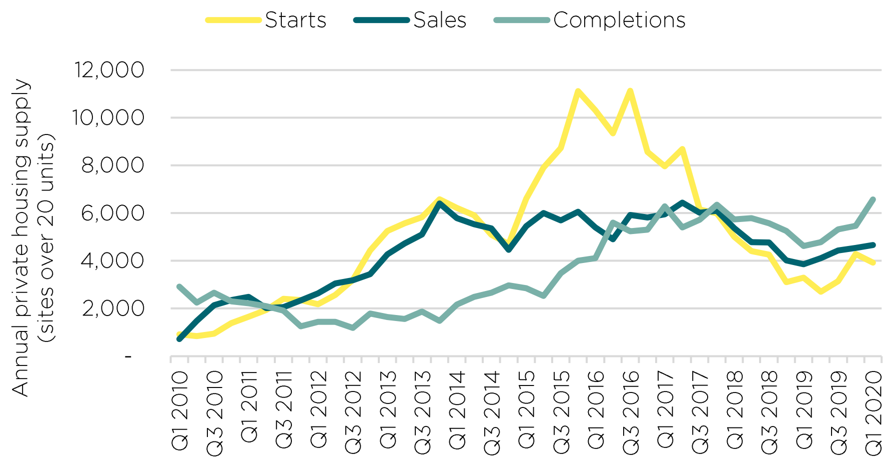
Source Savills, Molior

Figure 3 Help to buy loans in London



Source Savills, Molior

Figure 4 Prime starts, sales and completions



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