SAVILLS RESEARCH

London Housing Supply Update

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Completions bounce back in Q3, but housing delivery and sales activity vary significantly across price points

As the country moved out of lockdown in July, housing delivery in the capital returned to more normal levels in the third quarter of the year. However, the strength of the bounce back from the second quarter's subdued levels varied by price points, with the mainstream market seeing a stronger recovery than the prime market.

The pickup in sales activity across the housing market, which has been widespread and well reported since the introduction of the stamp duty holiday, is also reflected in the London new build market. However, as with completions, the sales figures for the quarter vary by price point. Mainstream sales, in the year to Q3 2020, are at their highest level since 2018, while prime sales currently sit at their lowest since 2012. The pickup in mainstream sales has been a pivotal factor in the significant fall in complete and unsold stock levels in London, the first fall since the end of 2014.

The latest completion numbers for London show housing delivery levels still well 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 21,598 completions in the year to Q3 2020. This represents an annual fall of -11%. Just over 5,300 completions were recorded in Q3, a significant increase from the 3,000 recorded in Q2. In 2020, we expect private completions as recorded by Molior to be around -8% below their 2019 levels.

Whilst the release of new data on Energy Performance Certificates (EPCs) has been delayed this quarter, Q2's data release indicated that London was more resilient than the rest of the country in terms of housing delivery during lockdown. The number of EPCs for new homes fell by -39% quarter-on-quarter in London, compared to a drop of -50% across the whole of England.

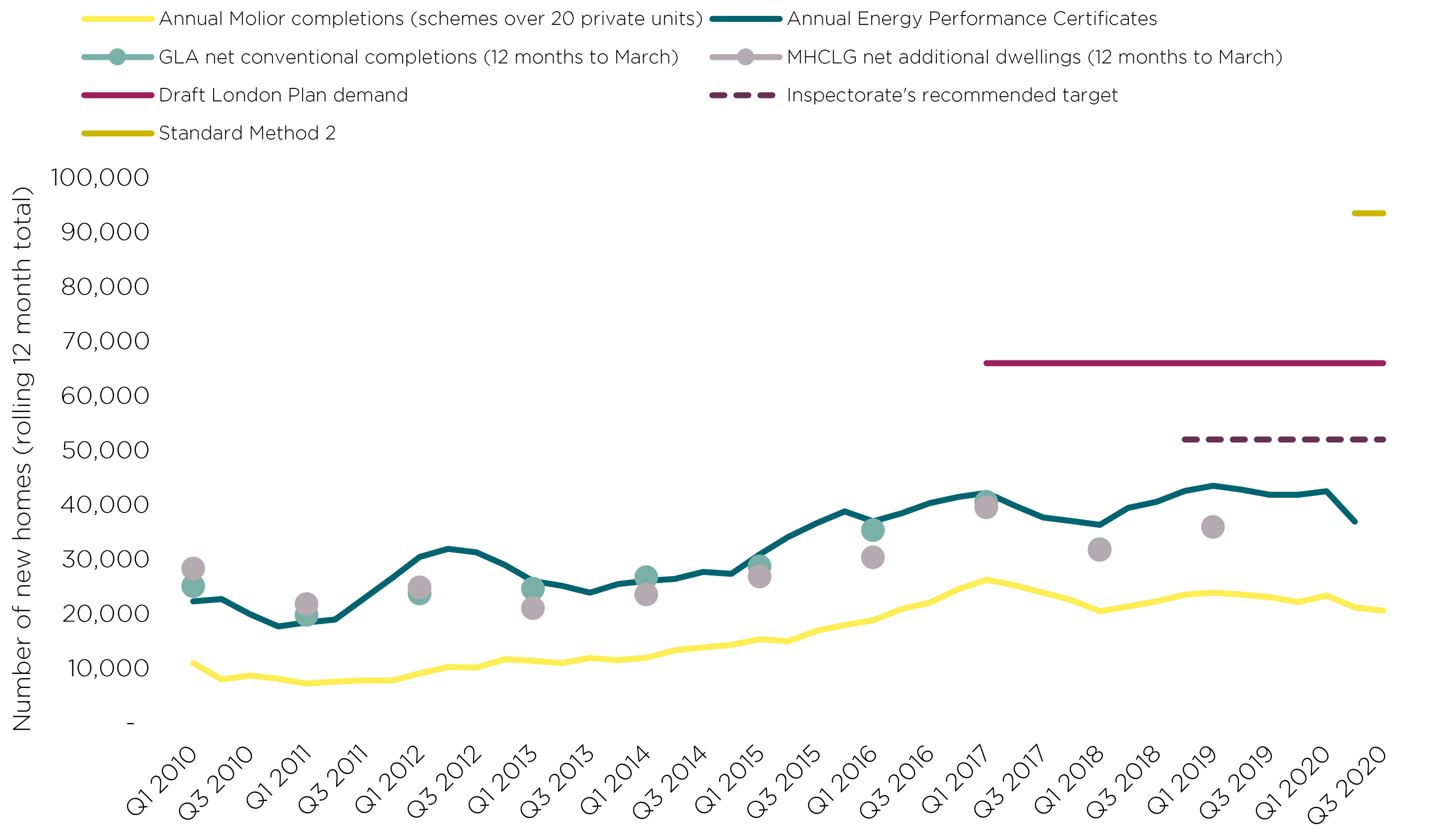
Whilst the short-term impact of Covid-19 on construction is evident, there remains a significant pipeline of over 61,000 private units under construction (on sites with more than 20 private homes) in London. Construction activity will be allowed to continue throughout the new lockdown across England and so the pipeline will translate into increased housing delivery in the medium term. This said, total delivery will still fall short of the 66,000 homes needed per annum, particularly as the number of starts on site has fallen by -34% over the last two years.

Delivery is also falling well short of the proposed Standard Method 2 for calculating housing need, which was set out in the recent consultation on "Changes to the Current Planning System" and calculates that London requires 93,500 homes a year.

Despite the number of affordable starts on GLA housing programmes reaching a record high of 17,256 in 2019/20, completions remain someway below what is required, with just 7,775 affordable homes completed in 2019/20.

With the greatest demand for housing in London being for more 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 large shortfall in sub-market housing in London over the next five years.

Figure 1 London housing delivery



Source Savills, GLA AMR, EPCs, MHCLG

Mainstream sales driven up by Help to Buy and the stamp duty holiday

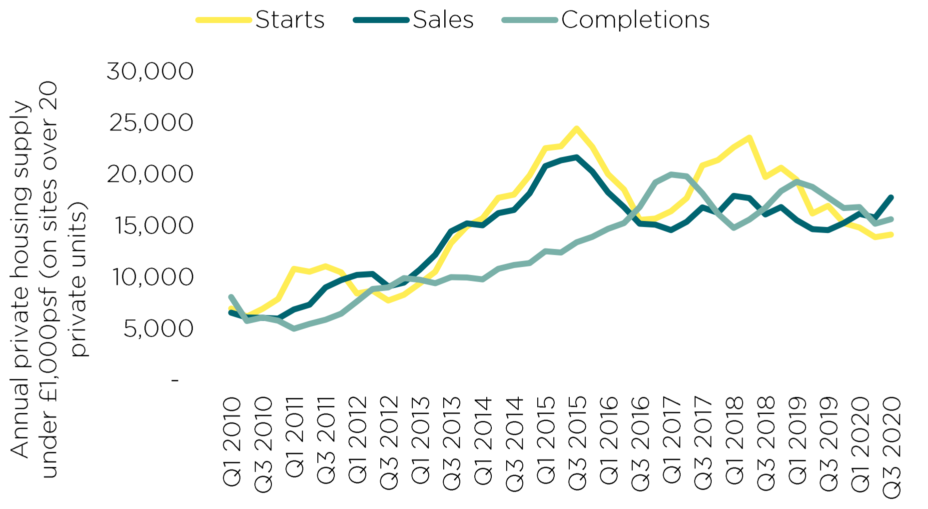
The mainstream market (below £1,000psf) saw annual sales reach their highest level since the start of 2018 in Q3 2020.

The realisation of the limitations of current homes, new need for home-working and leisure space, Help to Buy and the stamp duty holiday have all contributed to strong levels of demand in the mainstream market.

Conversely, new starts have continued on their long-term downward trajectory despite a slight pickup in Q3. In the year to Q3 2020, mainstream starts are -16% below where they were at this point last year.

Mainstream completions have returned to normal levels following a lockdown-stricken Q2. In the year to Q3 2020, completions are down -12% annually, though Q3 saw a 77% increase from Q2, and are also 5.6% above the preceding four-quarter average (Q3 2019 – Q1 2020).

Figure 2 Mainstream starts, sales and completions



Source Savills, Molior

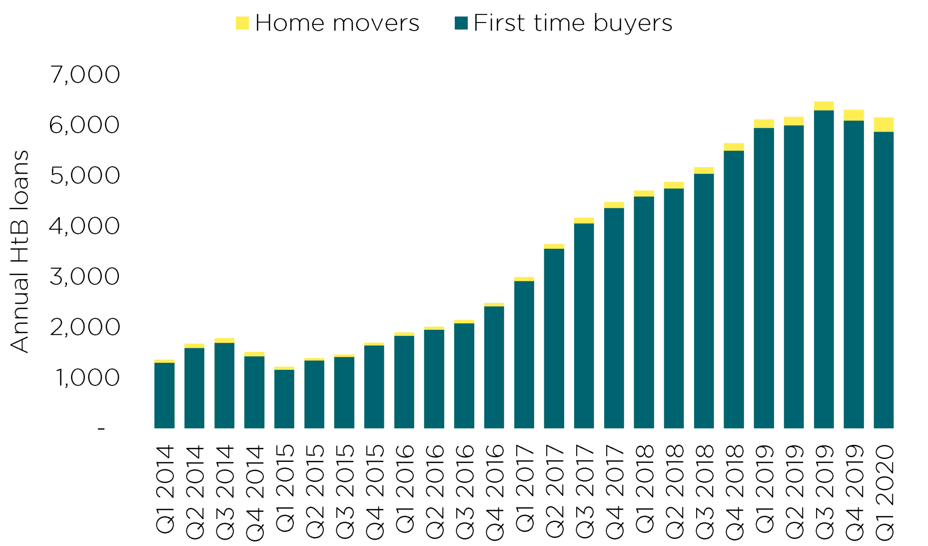
Help to Buy sales fell slightly in Q1 but will be boosted by the stamp duty holiday

There were 6,155 Help to Buy (HtB) loans recorded in London in the year to Q1 2020.

The government has announced an extension to the practical completion deadline to 28 February in order to qualify for the current scheme. After 31 March, only first-time buyers (FTBs) will qualify for HtB, though they already make up the vast majority (95%) of HtB users in London.

The incentive of the stamp duty holiday until 31 March 2020 is expected to increase HtB demand in London more than the rest of the country. This is because stamp duty (SDLT) saving makes up a greater proportion of the deposit than elsewhere in the capital. For the average value of a London HtB property in Q1 2020 (£455,000), the SDLT saving would be £12,750 for a home mover and £7,750 for a FTB. A full note on the stamp duty holiday's impact on development can be found here.

Figure 3 Help to Buy loans in London



Source MHCLG

International travel restrictions slow down sales in the prime market

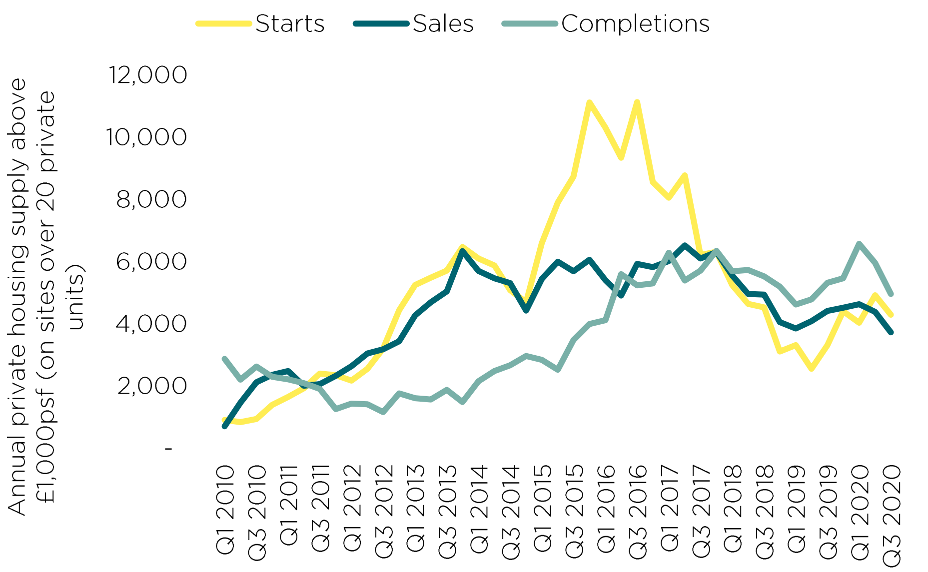
Annual prime sales are currently at their lowest level in nearly eight years as restricted international travel has hampered prime demand from overseas. However, London has always been seen as a safe haven and has strong fundamentals for investment, so once a vaccine is rolled out, central London's city buzz will return, bringing back demand from overseas purchasers.

Despite the low sales numbers, the number of complete and unsold units in the prime market decreased in Q3.

While annual prime starts have also dipped slightly in this quarter, they still sit significantly above where they were at this point last year, with an increase of 30% compared to Q3 2019.

Prime completions have not seen the same scale of bounce back as the mainstream market. However, the large pipeline will lead to increased completions over the next three months and into 2021.

Figure 4 Prime starts, sales and completions



Source Savills, Molior

Help to Buy has been the main driver of sales in Q3

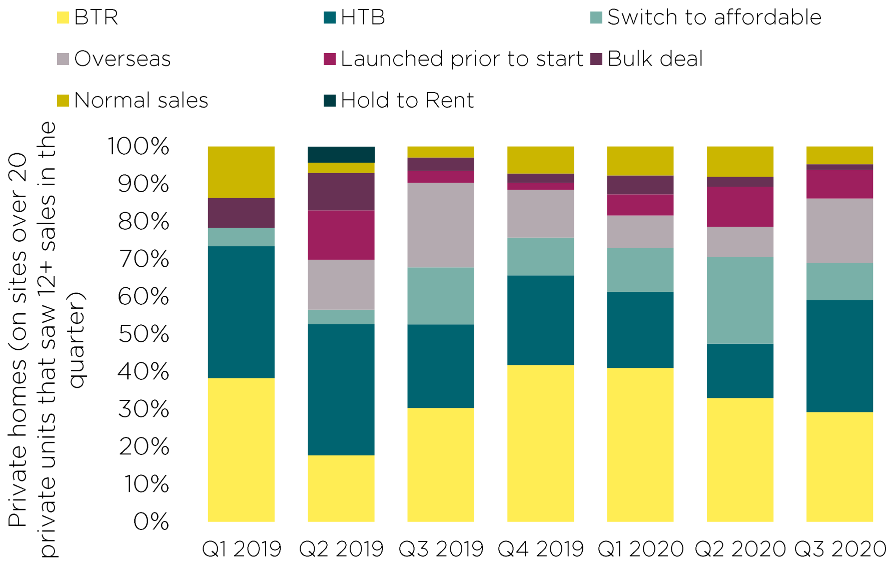
Help to Buy was the largest driver of sales in Q3, overtaking Build to Rent (BTR) for the first time since Q2 2019. This has been fuelled by the stamp duty holiday which has resulted in more sales being made to individual purchasers rather than via other exit routes such as BTR or switching to affordable.

The combination of Help to Buy, the stamp duty holiday and fewer completions has helped revitalise sales activity on a number of completed developments, leading to a notable decrease this quarter in the number of complete and unsold stock in London for the first time since the end of 2014.

There has been an uptick in overseas demand this quarter, though this appears to be very driven by price point and location, with more investment at mainstream rather than prime price points.

Overseas demand has been boosted by the stamp duty holiday and a 2% SDLT surcharge for all purchases by non UK residents to be introduced on 1 April next year.

Figure 5 Main driver of sales



Source, Molior

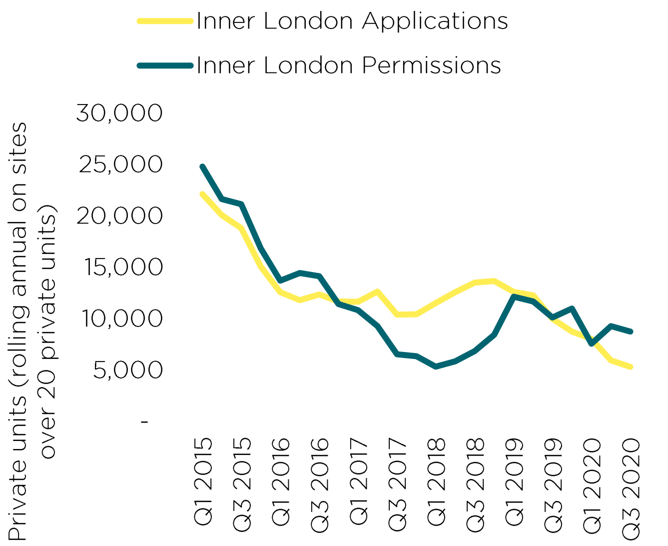
Data on new applications submitted and permissions granted offer a forward looking indicator for future construction starts and suggest that London will continue to undershoot the published 66,000 new homes target.

New applications and new permissions have been on a downward trend in Inner London since the start of 2015. In the year to Q3 2020 in Inner London, applications were -76% below their peak in 2015, while the number of new permissions were -65% below 2015 levels.

In Outer London, there has been a divergence between applications submitted and permissions granted in the past 18 months.

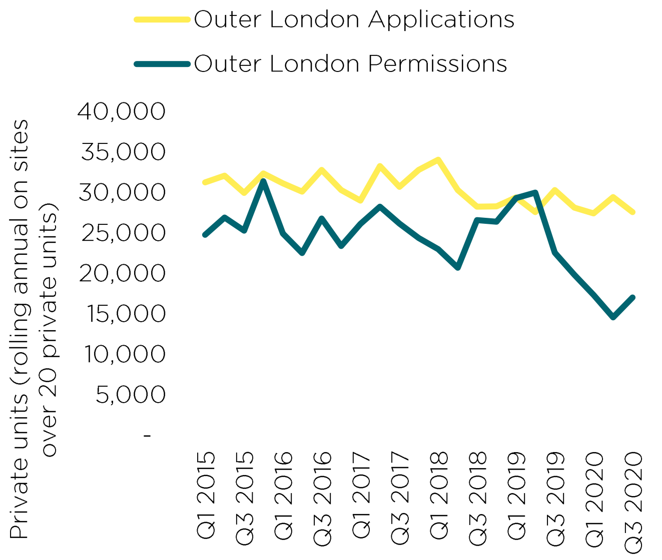
New applications in Outer London have remained relatively robust, just -9% below where they were at this point last year. Permissions granted, however, have decreased by -24% during that time. This is due to a number of developers tying up resolution to grant, but the current uncertainty and rising build costs are making it more difficult to agree Section 106 terms.

Figure 6 Inner London applications and permissions



Source, Molior

Figure 7 Outer London applications and permissions



Source, Molior

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