

The new suburban wave

August 2017



Kinleigh Folkard & Hayward

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Developers seek pockets of affordability in a market driven by first-time buyers and Help to Buy.

Developers seek opportunities in outer zones of London

With reduced transaction levels in central London, developers have turned their attention to outer London where demand for new homes is buoyed up by greater affordability, the first-time buyer mortgage market and financial support from Help to Buy.

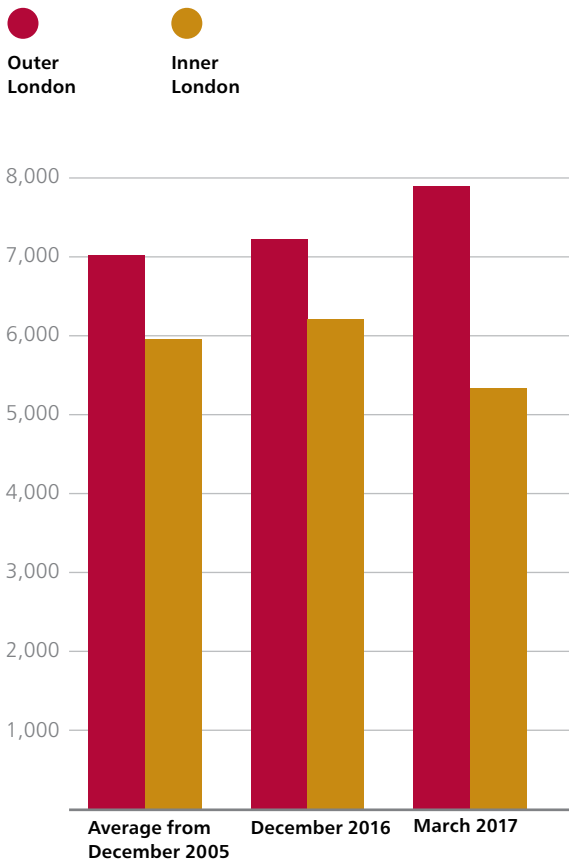
Small and medium developers follow the trend

Since 2005, the number of private housing starts in outer London has averaged 7,092 per annum (on a rolling basis). In the first quarter of 2017, there were 3,150 new starts, 75% more than the quarterly average.

In our last report we highlighted the growing presence of small and medium sized developers in London, encouraged by policy designed to support them at national and local government level. In this analysis we found that small and medium sized developments (SMDs) are also a growing presence in outer zones of London. This may, in part, be opportunity-led as developers need to identify smaller scale sites where they can increase density without damaging amenity value of open space.

The number of SMDs in Outer London rose by 69% in H1 2017 and by 16% in Inner London.

Private housing starts shift to outer London



Source: dataloft/DCLG

33%

Annual increase in private housing starts in outer London in March 2017
Source: DCLG

12.1%

Annual growth in average new build sale prices in outer London boroughs
Source: Land Registry, May 2017

50%

Small and medium sized construction firms expected increase in workloads in coming three months
Source: Federation of Master Builders, Q2 2017

66%

First time buyers in top two income quartiles
Source: English Housing Survey

69%

Increase in SMDs in Outer London H1 2017

New build prices grow fastest in north and east

New build pricing in outer London zones is growing at a higher rate than in central London zones. During the year to May, average new build prices (Land Registry) in Inner London boroughs rose at half the rate of those in outer boroughs (6.4% vs 12.1%).

While some inner boroughs performed better, boroughs with high levels of supply, including Wandsworth, Greenwich and Tower Hamlets experienced much smaller rises in prices. Where pricing has been lower historically there has been more room for prices to grow, particularly in areas supported by regeneration and improvements to the transport network. The best performing outer London boroughs were in north and east London, including Bexley (17.2%), Havering (14.8%), the two boroughs of Enfield and Redbridge (14.2%) and Barking and Dagenham (14.1%).

First-time buyers

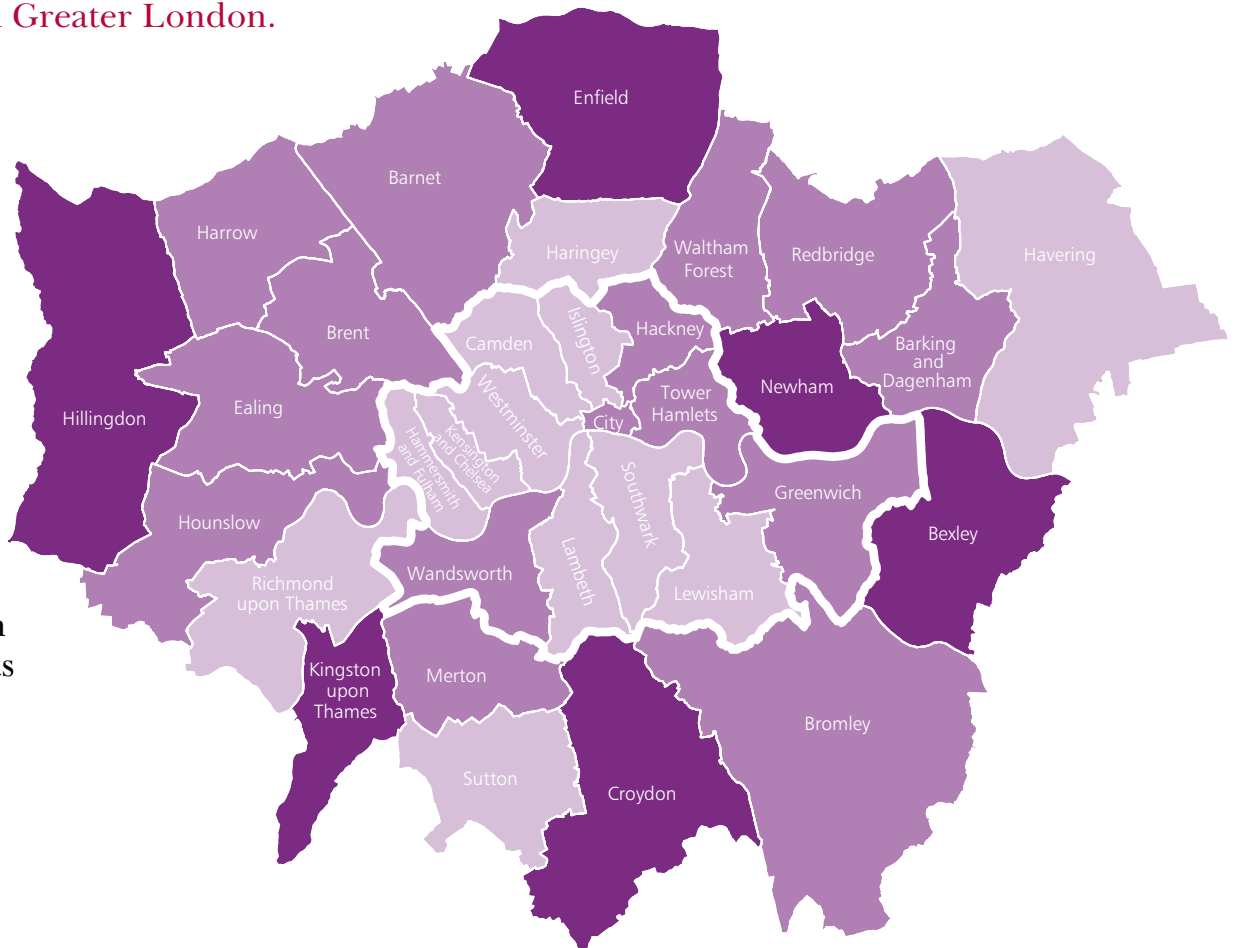
First-time buyers (FTBs) have been an important driver of the mortgaged housing market this year, as UK Finance reports a continued decline in home movers. In the 12 months to April, first-time buyers were up 8% compared to the previous 12 months but home movers were down 9%. First-time buyers are generally priced out of inner London zones.

UK Finance expect a fall in FTBs in 2017 if the economy weakens. However, inflation unexpectedly slowing to 2.6% in June has delayed what appeared to be an imminent rise in interest rates.

Outer London drives new supply

21% more units in the pipeline between January and July 2017 – applications, permissions and under construction in Greater London.

Source: dataLoft using EGi



Total change in number of units in pipeline

(January 2017 v July 2017)

- Over 50%
- 10–50%
- Less than 10%

EGi definition of inner and outer London

In 11 boroughs, all new applications are small and medium sized developments. Seven of these are in outer London.

Construction rises in outer London boroughs

	% change (January 2017 v July 2017)	Total units (July 2017)
Kingston	349%	350
Harrow	159%	999
Newham	113%	3,951
Bexley	92%	463
Brent	66%	1,925

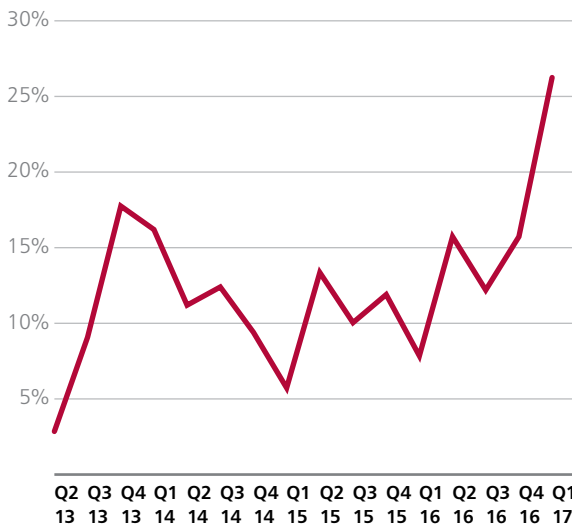
Source: dataLoft using EGi – January 2017 v July 2017

Housing policy steers the market

Alok Sharma was appointed as housing minister following the general election in June. He is the sixth person in the role since 2010, raising concerns about continuity in policy direction. We can expect a focus on building maintenance and safety in the aftermath of the terrible Grenfell Tower disaster.

There is no doubt that the Help to Buy (HTB) scheme succeeded in boosting demand and house building in the UK, although its impact in London was limited until the government raised the equity loan available from 20% to 40% of value in February 2016. Until then, HTB equity loans were involved in around 11% of new build sales, but by Q1 2017, that had risen to more than 25% of new build sales.

Help to Buy equity loans in London as % of new build sales



Source: dataloft/HM Treasury

Outer London dominates HTB equity loan uptake

In total, there have been 7,476 HTB equity loans in London since the scheme was introduced in Q2 2013 and almost a quarter (23%) of these were granted in the six months between October 2016 and March 2017. The vast majority of HTB equity loans are in outer London, where prices are more likely to come under the £600,000 qualification threshold. Where it has been possible to offer HTB in more central areas, it has proved extremely popular.

Are developers becoming more cautious about starting large schemes in London?

A shift to smaller schemes at application and new construction stage, suggests that developers in London are becoming more cautious about initiating large developments (151+ private residential units). It may also reflect steps to help small and medium-sized developments (SMDs), outlined in the Housing White Paper. SMDs are also supported by the government's Home Building Fund, launched in October 2016 and the GLA's small sites scheme which brings together data, development standards and professional support to rebalance land markets in favour of small and medium sized builders.

Build to Rent (BTR) mirrors residential supply patterns

Industry estimates are suggesting that around 70% of all BTR units delivered in the first quarter of 2017 were in outer London boroughs and primarily in small and medium-sized developments. Although there is considerable impetus and political will behind the professional BTR sector, opportunities are still difficult to secure. Build to Rent activity, as a proportion of all private starts, has fallen back to levels seen prior to 2016.

Boroughs ranked by HTB loans made April 2013 – March 2017

Borough	No. of loans
Havering	674
Barnet	659
Bexley	453
Greenwich	410
Croydon	404

Boroughs ranked by HTB loans made October 2016 – March 2017

Borough	No. of loans
Barnet	158
Lambeth	110
Croydon	98
Tower Hamlets	92
Southwark	92

Source: dataloft/HM Treasury

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Date of publication: August 2017