

Kinleigh Folkard & Hayward



Land and New Homes report

New year, new opportunities

Spring 2020



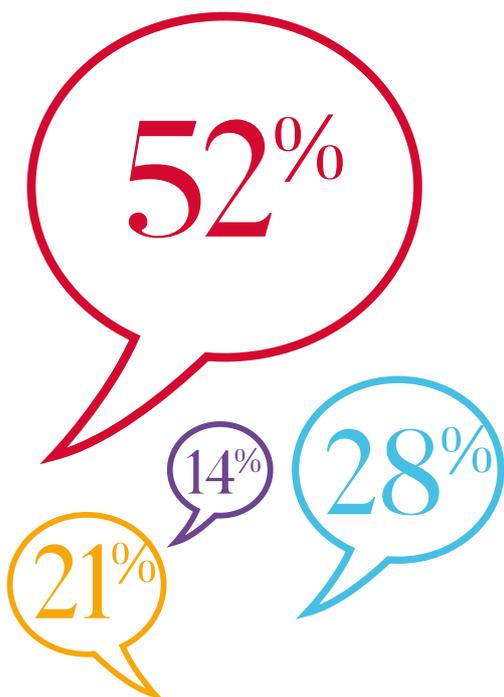
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As activity in London's new homes market shows clear signs of a pick up, we explore market dynamics and the role of central and local government policy.

New year marked by uplift in demand

Increase in enquiries

- Online buyer enquiries
- Branch buyer enquiries
- Online tenant enquiries
- Branch tenant enquiries



Source: dataloft, KFH, weeks 1 to 4, January 2020 compared to same period in 2019.

Green shoots

The Conservative's clear majority in the December general election gave the housing market some of the certainty it had been craving. This pick-up in activity during the first weeks of the new year has been dubbed the 'Boris Bounce'. At KFH we recorded a 52% increase in online buyer enquiries in the first four weeks of 2020, compared to the same period last year. The question is whether this will be sustained and for how long? In this report, we look at the fundamentals and policy shaping the new homes market across London and the opportunities this opens up for developers.

Town centre regeneration

Town centres are the next tier of settlements to be the focus for regeneration. For housing, this translates into increasing densities close to transport nodes. This critical mass of households will help breathe life into these areas by supporting retail (particularly small independents) and leisure uses.

A strategy supported by central government policy, permitted development rights were extended on the 25th May 2019 to allow change of use from retail to residential. Pledges were also made to bring vitality back to town centres and create 'thriving high streets'. Thornton Heath High Street in Croydon is one of 14 pilots country-wide to receive funding and tailored advice via the High Street Task Force.

Regionally, the GLA has identified 93 town centres as having high potential for residential development. Of these, 17 have been assigned a new potential network classification above where they currently stand. These locations are shown on the map on the next page.

Role of public land

Transport for London (TfL) is working to bring forward sites for housing around transport nodes, in conjunction with local authorities. Historically, TfL has bought and disposed of land titles around tube stations as a means to generate non-fare revenue and deliver thousands of new homes. The first stage of its investment programme focused on sites which were typically station car parks, delivering 350 housing units with notional public realm and/or transport upgrade works.

More recently, TfL has formed a strategic partnership with Grainger to develop out a Build to Rent portfolio. Another tranche of funding will see projects which are collaborative, leveraging external land ownerships to deliver marriage values, place-making and improved transport systems. The first of this type is due to go into planning this spring in Morden.

66,000 per annum

London's need for **additional new homes**

Source: The London Plan (Intend to Publish Version), December 2019

93% increase

Units in the **planning pipeline** in Greater London

Source: Molior, January 2020 v January 2019 (schemes with 20+ private residential units)

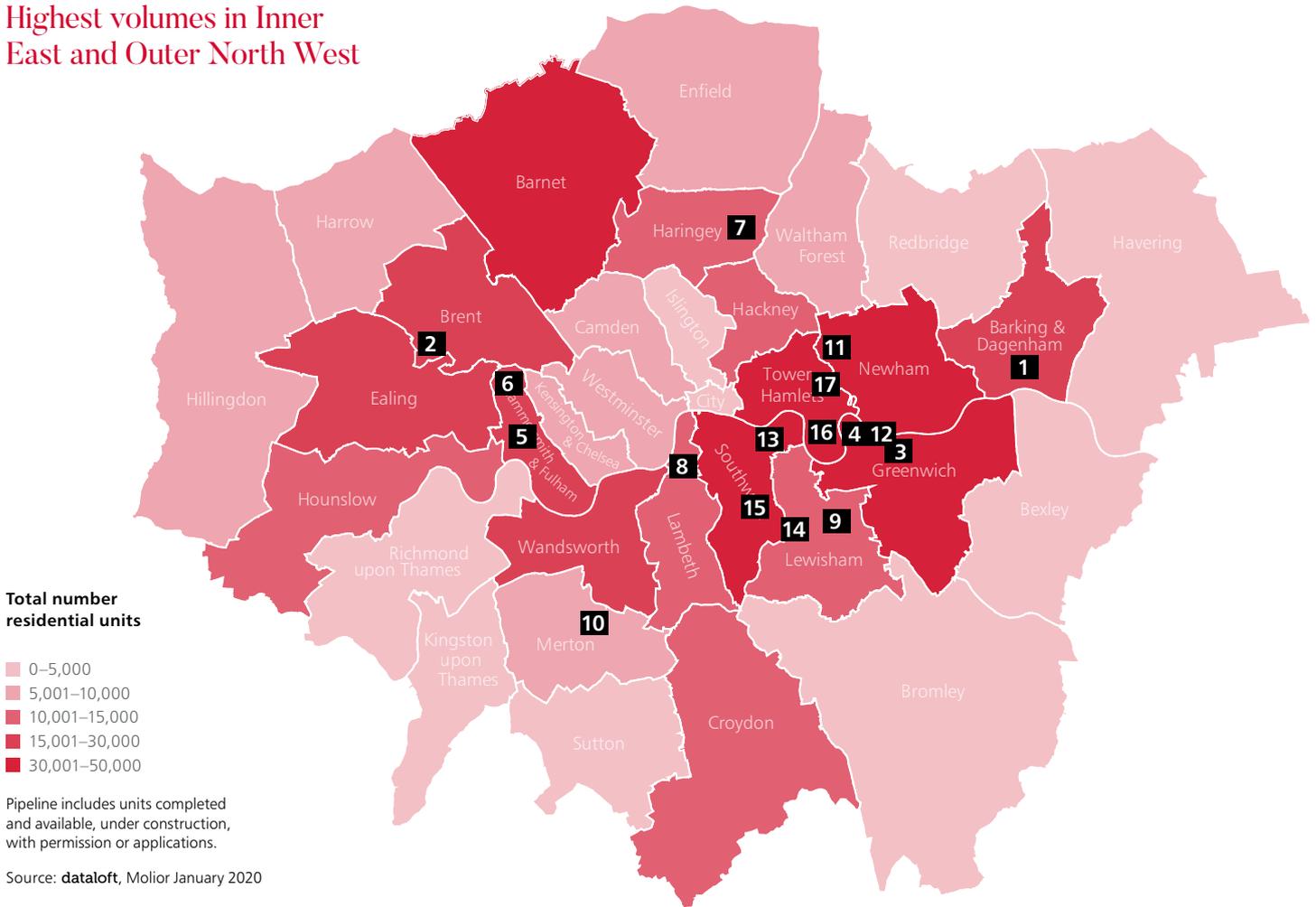
39% increase

Number of **schemes** in the **planning pipeline** in Greater London

Source: Molior, January 2020 v January 2019 (schemes with 20+ private residential units)

London's housing pipeline

Highest volumes in Inner East and Outer North West



75%

Percentage of schemes* in outer London boroughs (68% of inner) are made up of **medium-sized sites** of between **20 and 150 units**.

Source: Molior, *20+ private residential units

Small and medium-sized sites

The Mayor recognises the benefits of diversity in housing delivery to meet targets and has been encouraging the role of small sites (1 to 25 units). These can be developed more quickly and enable smaller builders to enter the market. The annual (minimum) target for small sites is 12,000 homes per annum. One successful initiative has been the 'Small Sites, Small builders' programme with TfL which is to be expanded by the Mayor to include other public land sites.

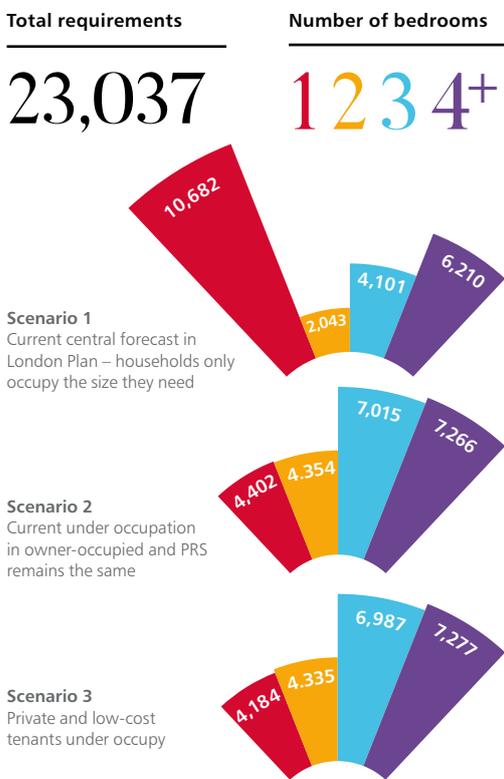
High Streets: high potential for residential development

- 1 Merrilands Crescent
- 2 Brent Cross
- 3 Woolwich
- 4 North Greenwich
- 5 Shepherd's Bush
- 6 Old Oak High Street
- 7 Tottenham Hale
- 8 Vauxhall
- 9 Lewisham
- 10 Colliers Wood
- 11 Stratford
- 12 Gallions Reach
- 13 Canada Water
- 14 Old Kent Road/Peckham Park Road
- 15 Old Kent Road/East Street
- 16 Crossharbour
- 17 Bromley-by-Bow

Housing delivery in London has been on an upward trend reaching 40,536* in 2018, albeit still some way short of the 66,000 homes needed.

*Number of properties sold, EPC data

Market housing requirements by bedrooms



Source: dataloft, London SHMA 2017 addendum

Supply/demand disparity

By the end of Q3 2019, the number of new properties sold stood at 29,308* suggesting a new home delivery rate similar to 2018 and thus some way off target. During the last few months political uncertainty led to a slowdown in market activity. Although supply is still failing to clear the demand backlog, the issues of high house prices, affordability and tighter mortgage restrictions remain a concern for many Londoners. The housing shortage will no doubt be a key manifesto theme in the upcoming Mayoral election.

Less emphasis on 1 bed homes

Further due diligence has been undertaken on the targets in the London Plan. One important amendment for developers is a change in the sizing mix requirements of new units, according to the addendum of the Strategic Housing Market Assessment 2017. The alternative scenarios (to reflect the reality of current under-occupation levels in owner-occupied, privately rented and low-cost rental properties) result in a shift towards more 2+ bed homes and less 1-bed homes.

The next incentive

The number of new homes sold in London using the Help to Buy (HTB) scheme has doubled since its inception in 2013/14, to 52,268 in Q3 2018-Q2 2019. At KFH, 69% of new homes sales in 2019 were supported by Help to Buy. The rules of the scheme are changing in April 2021 to help only first-time buyers (already 91% of the uptake in London). Developers who have factored this certainty of demand into their viability models will push to sell their units before the scheme is due to end in March 2023. There may be a temporary peak in supply.

If no further incentive is offered by the government, then we are likely to see a shift back to developer-led sales incentives, such as part exchange, stamp duty paid and possibly shared equity. The end of HTB could also see a return in demand for smaller units (studios and 1 beds) as greater affordability pressures put an end to 'leapfrogging' the first rung of the housing ladder. Such a change in the accommodation mix could conflict with the London Plan amendments outlined above.

281

Average size of scheme in planning pipeline

Source: Molior January 2020 (schemes with 20+ private residential units in London)

107%

Increase in the number of units in planning pipeline in Outer London boroughs

Source: Molior Jan 2020 v Jan 2019 (schemes with 20+ private residential units)

91%

Help to Buy purchasers who are first-time buyers

Source: MHCLG, 12 months to end of Q2 2019, Greater London

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Date of publication: Spring 2020