Who buys new homes in London?

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MOLIOR · LONDON
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Contents

1. Executive Summary

This report explains who acquired new homes in London during 2019, and provides a comparison with Molior's previous reports covering the years 2006 and 2013.

The research analyses a range of purchaser groups including investors and owner occupiers, from the UK and overseas. There are five broad categories of private buyer for new homes in London:

- Owner occupiers - who will live in the completed homes, usually financing their purchase through a mortgage and often with the help of the Government's Help to Buy equity loan scheme.
- Build to Rent (BTR) investors - large scale corporate investors in entire residential blocks, with the sole intention of professionally managing the properties to rent. They are principally interested in net operating income over the medium to long term rather than capital gains.
- Buy to Let investors - who buy one or more homes in a development to be let out on completion, but for many of whom short to medium term capital gain is the motivator for purchase.
- Buy to Sell investors - who will buy early in the development process with the sole purpose of selling on at a profit and usually prior to construction completion.
- In addition, Affordable Housing Providers (including Housing Associations and other Registered Providers) sometimes deliver homes permitted for private sale as affordable instead.

The research will examine the motivations for each of these purchaser groups and the type of property purchased by them, in terms of location and price point.

19,831 new homes were sold in London during 2019 in schemes with 20 or more private homes. This figure excludes homes built on smaller sites, schemes with 100% affordable housing and new homes created through converting houses into flats. These homes are split amongst the purchaser groups as follows:

Buyer Group	Sub-Category	Buyers in London	Purchases in London	Percentage of Total Purchases
Owner occupier	Without Help to Buy	1,927	1,927	10%
	With Help to Buy	6,288	6,288	32%
Build to Rent	Market Operators	36	4,948	25%
	HAs and RPs	3	180	1%
Buy to Let	Private individuals (1-4 homes)	4,000	4,420	22%
	Private individuals (5+ homes)	5	25	<1%
	Companies and investment funds (5-50 homes)	40	580	3%
Buy to Sell	Speculators	400	450	2%
	Wholesalers	0	0	0%
Private sale as affordable	Affordable Housing Providers	12	1,013	5%
Total		12,711	19,831	100%

Buyer characteristics have changed markedly over the last fifteen years:

- The post-recession years from 2009 to 2015 saw London's market open to overseas buyers as developers and agents looked further afield to secure enough sales to release construction funding for developments. As a result, the biggest developers and selling agents now have sales operations in the main overseas centres like Hong Kong, Shanghai and Singapore.
- From 2016 onwards various fiscal measures were imposed in order reduce the attractiveness of new homes as an investment compared to other asset classes such as stocks and shares, reflecting public and political concern. These measures were the imposition of a 3% stamp duty surcharge for owners of more than one home and the phasing out of tax relief on mortgage interest payments for rented homes.
- For international buyers, these fiscal changes were partly countered by a weakening pound since the 2016 EU referendum. However, the March 2020 budget announced the introduction of an additional 2% levy for overseas buyers, which will be effective from April 2021.
- The Government introduced the Help to Buy initiative during 2013 as a way of both stimulating supply and reducing barriers to entry for buyers at the lower end of the market.
- BTR started coming becoming an asset class of significance from 2011 onwards, and in 2019 accounted for 26% of all new homes sold in London covered by this research.

Conversations with developers and their agents over the last decade suggest that, as a result of the above, the last 15 years have seen London's new homes being bought by an increasingly international range of buyers, including buyers from Hong Kong and mainland China in particular, as well as other far eastern countries such as Singapore and Malaysia. These buyers have focused on homes in central London and major regeneration projects in London Underground zones 1 to 3. They have bought for investment purposes and sometimes as a UK base for family members studying and starting their careers in the UK.

The last five years have also seen a marked shift away from amateur Buy to Let investors, partly towards professional BTR operators and partly towards owner occupiers in areas supported by the Help to Buy incentive scheme.

Some particularly significant shifts in the numbers are as follows:

- During 2013 81% of sales were to private individuals (investors or owner occupiers) using no more incentives than what developers were prepared to give.
- This compares to 34% during 2019.
- Meanwhile Help to Buy was used on 32% of sales during 2019, having only just been introduced during 2013.
- And the BTR sector only accounted for 8% of sales during 2013 but this had risen to 26% by 2019.
- Other corporate investors and Affordable Housing Providers and investors bought 11% of units sold during 2013, which shrunk to 8% during 2019.

During the same period construction volumes increased markedly - 62,600 units were under construction at the end of 2019 compared to just 34,100 at the end of 2013. It is highly unlikely that funders would have underwritten such an expansion without the underpinning of Help to Buy and BTR, which together accounted for 58% of all sales during 2019.

2. Methodology

There is no single source that categorises the buyer type for every new home purchased in London or elsewhere in the UK. Reasons of resourcing and commercial sensitivity have prevented the house building industry from compiling such a list. Therefore any research into the matter will involve a certain amount of estimation and reconciliation between various sources.

Where possible exact data is used, but gaps have had to be filled based on a broader view gained from conversations with developers and their agents. Consequently it should be noted that all of London's largest developers have willingly contributed to this report in some form or other.

At the end of each quarter during 2019 Molior London interviewed the developers with schemes being built or with stock homes across London. This work excluded schemes with fewer than 20 private homes and all numbers in this report refer to homes with planning consent to be delivered as private sale only.

Sales are counted at the point of reservation. Inevitably some of these deals fail to exchange or complete, but such failures are relatively few and waiting for exchange or sales completion would not provide a timely indication of sales activity.

Sales reservations made prior to construction start are counted when construction starts and not before. This is because whole blocks of pre-construction sales will fall through if construction fails to commence, as happened in a number of cases during the last recession.

This research activity revealed in detail that:

- 19,831 new homes were sold during 2019 spread across all 33 London local authorities;
- 5,128 of which were accounted for by BTR operators either building the homes in-house or buying in bulk from developers; and
- 1,013 of which were accounted for by tenure switches from private sale to affordable.

And, at the end of the year:

- 506 schemes were under construction containing 62,600 homes, 52% of these homes were sold, which was the same as 2018.
- 153 schemes were complete and contained 3,868 stock homes available for sale, which compares with 2,708 at the end of 2018.

Each quarter this research also yielded the key driver of sales in all schemes that sold more than 12 homes as shown in the table below:

<table>
<tr><th rowspan="2">Main driver of sales - schemes with >12 sales</th><th colspan="2">Q1 2019</th><th colspan="2">Q2 2019</th><th colspan="2">Q3 2019</th><th colspan="2">Q4 2019</th></tr>
<tr><th>Schemes</th><th>Sales</th><th>Schemes</th><th>Sales</th><th>Schemes</th><th>Sales</th><th>Schemes</th><th>Sales</th></tr>
<tr><td>BTR</td><td>15</td><td>1,587</td><td>12</td><td>643</td><td>9</td><td>1,338</td><td>16</td><td>1,965</td></tr>
<tr><td>Bulk deal</td><td>9</td><td>333</td><td>9</td><td>518</td><td>1</td><td>161</td><td>4</td><td>123</td></tr>
<tr><td>Help to Buy</td><td>66</td><td>1,456</td><td>52</td><td>1,275</td><td>42</td><td>980</td><td>53</td><td>1,233</td></tr>
<tr><td>Launched prior to start of construction</td><td rowspan="3">24</td><td rowspan="3">568</td><td>5</td><td>477</td><td>3</td><td>138</td><td>1</td><td>90</td></tr>
<tr><td>Normal sales</td><td>7</td><td>103</td><td>8</td><td>128</td><td>19</td><td>309</td></tr>
<tr><td>Overseas</td><td>21</td><td>485</td><td>13</td><td>993</td><td>20</td><td>570</td></tr>
<tr><td>Switched to affordable</td><td>2</td><td>202</td><td>4</td><td>141</td><td>4</td><td>672</td><td>6</td><td>490</td></tr>
<tr><td>Total</td><td>116</td><td>4,146</td><td>110</td><td>3,642</td><td>80</td><td>4,410</td><td>119</td><td>4,780</td></tr>
</table>

In total 16,978 homes were sold in these top selling schemes during 2019, which is 86% of the total. However, readers should not simply add up the quarterly numbers against each 'Main driver' type to give an annual total without careful consideration:

- The table records the *main driver* of sales in the schemes concerned and not the reason for every sale that quarter. For example, Help to Buy was cited as the main driver of sales in 53 high selling schemes during Q4 2019, but not all of the 1,233 sales in those schemes were via Help to Buy. Some sold without the incentive.
- 'Normal' sales are those made either during construction or after completion, and via either onsite marketing suites or the London offices of appointed agents.
- There are overlaps between some of the main drivers. For example a significant proportion sales recorded against 'Launched prior to start' will have been to overseas buyers, as will have 'Bulk deals' and even some 'Normal' sales.
- For this reason this data provides useful pointers but it would be misleading to simply add up all the numbers

To gain a more refined view of the split between buy to let, buy to sell and owner occupier purchasers Molior interviewed senior industry professionals and sales directors with the intention of gaining a balanced view across a range of locations and development size.

The topic of sales to companies remains subject to intense commercial sensitivity and so Land Registry data has been obtained for all companies that have acquired five or more units during 2019. As with all Land Registry data this information relates to sales completions and some of the deals would have actually been agreed in 2018 or earlier. However, in broad terms this shows:

- 2,570 corporate sales completed during 2019.
- A third of these were acquisitions and transfers by BTR companies.
- A third were acquisitions of Section 106 affordable stock by Affordable Housing Providers.
- 7% were acquisitions of private stock by Affordable Housing Providers.
- 3% were miscellaneous sales like commercial premises within residential developments.
- Leaving 23%, 580 sales, as buy to let units purchased by 40 companies in deal sizes ranging from one to 41 units. In some cases the 'buyer' was simply a different operating vehicle owned by the developer, as happens when a developer chooses to retain a proportion of units rather than sell them.
- Note that many of the 580 units will come out of the 'Bulk deal' category in the table above.

Finally, it is worth noting two further sources:

- The Ministry of Housing, Communities and Local Government (MHCLG) *Help to Buy (Equity Loan Scheme) Statistics* state that 6,288 homes sold using the scheme during 2019. These numbers are quoted to provide a rough comparison only - there is also a time lag between sales reservation, as recorded in this report, and equity loan approval, as logged by MHCLG.
- The MHCLG also publishes quarterly experimental official statistics on the Energy Performance of Buildings which includes the number of Energy Performance Certificates (EPCs) lodged for new dwellings. An extract from this data published by the Greater London Authority in its document *Housing in London: 2019* suggests that 41,700 homes completed in London during the 2018/19 reporting period. This includes developments with fewer than 20 private units, as well as conversions and changes in use, such as from retail to residential, that are not monitored by Molior.

3. Key buyer group profiles

There are five broad categories of private buyer for new homes in London:

- Owner occupiers
- Build to Rent investors
- Buy to Let investors
- Buy to Sell investors
- In addition, Affordable Housing Providers sometimes deliver homes that are consented to be private as affordable or, in limited cases, acquire private homes from other developers to be provided as affordable.

This section first describes each of the categories and their sub-categories. It then summarises the level of buying activity in each category during 2006, 2013 and 2019 across London as a whole.

3.1 Owner-occupiers

The first category of private new homes purchaser in London is, of course, the owner-occupier, buying either a first or a second home.

This is often considered to be the most aspirational form of housing tenure, but high house prices present a significant barrier to entry for many. The Government introduced the Help to Buy initiative during 2013 as a way of both stimulating supply and reducing barriers to entry for buyers at the lower end of the market.

The success of the initiative has been the subject of much discussion. However, it has definitely generated demand as evidenced clearly in developments that contain both homes that qualify for Help to Buy (which sell) and others that do not (which often do not sell for quite some time).

3.1.1 Without Help to Buy

The number of un-assisted owner occupier purchases has always been limited by the need for buyers to raise a mortgage and fund a 10% deposit. Many developers have traditionally relied on Buy to Let investors to cover gaps in owner occupier demand. However, as this has dwindled many developments have been left high and dry, particularly in locations without obvious appeal to overseas buyers.

The proportion of unassisted owner occupier purchases rose from 30% during 2006 to 32% during 2013, but has fallen sharply to 10% during 2019.

3.1.2 With Help to Buy

In London homes priced up to £600,000 qualify for the Help to Buy incentive, under which the Government provides a 40% equity loan to the buyer. As such, the buyer just has to raise 55% mortgage finance and find another 5% in cash to pay as the deposit. The Government's equity loan is free of fees and interest for five years, at which point the buyer is charged a fee of 1.75% and interest becomes payable are a rate of RPI plus 1%. The equity loan is re-payable when the buyer eventually re-sells the home, or after 25 years if this does not happen.

During 2013 the initiative had only just got going, but during 2019 Help to Buy purchases accounted for almost 32% of all sales. MHCLG Help to Buy (Equity Loan Scheme) Statistics state that 6,288 homes sold using the scheme during 2019, of which 6,066 were first-time buyers – so 94% of those using Help to Buy in London in 2019 were first-time buyers.

3.1.3 Owner-occupiers - historical summary

The following table shows the proportion of owner-occupier activity as a percentage of the total number of new homes sold in London during 2006, 2013 and 2019.

Buyer sub-category	2006	2013	2019
London total new homes sold	16,000	22,592	19,831
Owner-occupiers - without Help to Buy	30%	32%	10%
Owner-occupiers - with Help to Buy	N/A	N/A	32%

3.2 Build to Rent investors

Build to Rent investors build or buy self-contained blocks of homes to be owned and operated in the long-term as professionally managed rental apartments.

Molior tracks BTR developments in London that:

- Have 20 or more BTR homes.
- Are destined to be owned and managed as an unbroken block.
- Whether, or not, they were purpose purpose-designed for BTR – which is still not the norm.

Molior counts BTR 'sales' as both in-house construction starts by BTR investors and bulk purchases from other developers.

Traditionally other types of buyer with a more speculative view of potential capital gains have outbid BTR investors, for whom a stable operating income in the medium to long term is the key consideration. This means that the BTR industry has often been highly supply constrained.

Prior to 2015, BTR developments tended to emerge under specific circumstances, often where a BTR investor could offer greater speed or certainty of sales than other sales routes.

However, as the wider sales market weakened following 2015, the BTR sector gained greater prominence. In 2018 it accounted for 33% of all new homes sold in London. This percentage fell in 2019 to 26%, which some commentators attributed to political uncertainty surrounding Brexit and the general election.

There are many types of BTR investor and this report defines them under two headings: Market Operators and Affordable Housing Providers. Local Authorities also occasionally purchase or develop blocks to be rented on the open market, although there is only one such example during 2019 – London Borough of Camden chose to deliver 28 private units in its Abbey Road Cross development for BTR.

3.2.1 Market Operators

These are a diverse range of profit making companies specifically set up to own and operate BTR properties, including:

- Relatively small private companies, some of which are the rental arms of private house builders.
- A very small number of long-term niche players such as Lexadon and Residential Land, who have developed or invested in rented homes before the concept of BTR attracted widespread interest.
- A smaller number of PLCs – such as Grainger and Sigma Capital.
- Specialist Institutional funds such as M&G Real Estate.
- UK offices of North American 'multi-family' operators such as Realstar.
- Residential arms of broader investment companies such as Westfield and Canary Wharf Group.
- Large scale residential vehicles set up to draw from wide range of funding sources, such as Get Living and Essential Living.

The proportion of Market Operator purchases rose from 8% of all new homes sold during 2013 to 25% during 2019.

3.2.2 Affordable Housing Providers

It is predominantly the larger Housing Associations that get involved in the Build to Rent sector, and they do this to subsidise their affordable housing activities. The returns from BTR are not as great in the short term as simply selling private homes, but the market risk profile is often seen as being much reduced. Risk profile is particularly important for the larger HAs that have raised money via the corporate bond market.

With in-house management teams already in place, a number of the larger HAs made an early move on the BTR sector, to diversify their income stream, both by developing on their own estates and occasionally by buying in bulk from house builders. L&Q, for example, is now London's third largest BTR operator by number of homes, either under construction or completed.

During 2019, however, HAs have not been so prominent – the proportion of HA BTR sales fell from 5% of all new build sales during 2013 to just under 1% during 2019. Two examples of BTR 'sales' during 2019 are:

- Southern Housing Group acquired 91 private units from Crest Nicholson at the Essex Brewery Development in Walthamstow, E17, and is letting them via its Spruce Homes market rent subsidiary.
- L&Q has chosen to retain all 61 private units at its Bow East Development in Bow, E3, and is letting them out via its L&Q PRS market rent subsidiary. Molior counts this as a 'sale' during 2019 because L&Q did not finalise the decision to retain the units, rather than sell them, until late in the build programme.

3.2.3 Build to Rent – historical summary

The following table shows the proportion of BTR Investor 'sales' as a percentage of the total number of new homes sold in London during 2006, 2013 and 2019.

Buyer sub-category	2006	2013	2019
London total new homes sold	16,000	22,592	19,831
BTR - Market developers	6%	3%	25%
BTR - Affordable Housing Providers	3%	5%	1%

3.3 Buy to Let investors

Buy to Let is the traditional expression used to cover the purchase of one or more homes in a development as a rental investment. It is distinct from Build to Rent (see above) because the homes are not held in large unbroken blocks and might not be professionally managed. Short- and medium-term capital gain is a major goal for the Buy to Let investors, but conversations with sales and lettings agents emphasise that the overwhelming majority of Buy to Let investors let out their properties, rather than leaving them empty.

Buy to Let investors fall in to three sub-categories:

- Private individuals who own just one or two properties
- Private individuals who own larger portfolios
- Companies and investment funds that own large portfolios

3.3.1 Private individuals who own just one or two properties

In 2006 the biggest buying category was individuals with small portfolios - usually just one or two homes. New homes were sold to a predominantly domestic audience and Buy to Let investors tended to buy close to where they lived to make managing the property easier. The purchaser's goal was to hold the property for 5-10 years in order to have an asset for their retirement or for their children. They could be well informed and understand the market intricately, or simply believe the perceived wisdom that residential property will always go up in value.

The post-recession years from 2009 to 2015 saw London's market open significantly to overseas buyers as developers and their agents looked further afield to secure enough sales to release construction funding for schemes that would have otherwise not have started at that point in time. However, from 2016 onwards various fiscal changes were made to reduce the attractiveness of new homes as an investment compared to other asset classes. These measures were the imposition of a 3% stamp duty surcharge for owners of more than one home and the phasing out of tax relief on mortgage interest payments for rented homes.

There have been several results of these changes:

- Buy to Let investors are now a much more internationally diverse crowd, including buyers from Hong Kong and mainland China in particular, as well as other far eastern countries such as Singapore and Malaysia.
- The investor return margins are much finer than they used to be. So investors must be much more careful in their buying decisions to make consistent gains.

- Or, they must have a compelling reason to move wealth to the UK. Sometimes this need might arise from domestic considerations, but since the 2016 EU referendum a cheaper pound has often been reason enough.

The total proportion of Buy to Let purchases rose slightly from 28% during 2006, to 29% during 2013. Over that period there was a significant change in the composition of buyers - from predominantly domestic buyers during 2006 to around a third from overseas during 2013. The total proportion fell to 22% during 2019 and conversations with developers and their agents suggest that between 50% and 60% of those buy to let sales were to overseas buyers.

3.3.2 Buy to Let – private individuals with larger holdings (5+ homes)

In 2006 there was a small group of UK professionals who ran property portfolios often in parallel with the day job, and who might buy 10 to 50 homes in a scheme. However, the fiscal changes described above have made this sort of buyer quite rare in 2019.

Based on conversations with developers, in 2019 private bulk buyers tend to be very wealthy individuals, and the easy availability of owner details via the Land Registry means that most of them would prefer the privacy provided by operating behind a corporate vehicle. Molior therefore believes that the number of private bulk buyers who choose to purchase in their own name is now very small. Therefore the number of units involved is also now very small.

3.3.3 Buy to Let – companies and investment funds (5-50 homes)

Prior to the advent of BTR, there was a set of corporate entities that acquired homes as a more formal investment - either as companies, investment funds or as part of one of the historic estates.

BTR has since drawn away what institutional interest there was in this sector, but increased Land Registry transparency and other considerations mean that many wealthy private investors now choose to operate behind a corporate vehicle. It should be noted that Policy 5.3.D.iii of the London Housing Strategy states that the Mayor will continue, *‘to urge Government to set new standards of transparency in the property industry and particularly for properties owned by companies registered overseas.’*

Purchasers in this group might buy up to 50 homes, occasionally comprising entire blocks, and seek but not always get a genuine discount - of up to 20% if they can.

These buyers or their agents usually make investment-based decisions based on detailed market knowledge and research, although opportunistic buying does occur.

A sub-set of this class has emerged in the form of developers who have let out significant numbers of stock homes rather than face continued exposure to the sales market. Typically, these homes will be sold off piecemeal over the next few years, with tenants offered first refusal, but often the units will be transferred to a different holding company in the meantime.

Land Registry data shows that 40 companies completed sales of five or more units during 2019:

- Between them the 40 companies bought 580 units.
- The largest single transaction involved 41 units at Leven Wharf, E14, that the developer Vision Homes transferred into its own rental company rather than selling them.
- In a similar way Crest Nicholson bought 18 of its own units at its Essex Brewery development, E17.

- The most prolific purchaser appears to be Gatehouse Bank PLC, which acquired 123 units across 68 schemes in transaction sizes ranging from one to 13 units. However, Gatehouse Bank is a sharia-compliant finance specialist, where the mortgage provider effectively buys the property and sells it on to the resident through a combination of repayment instalments and rent spread over the period of the mortgage. So, the ultimate beneficiary of the purchases may be a number of private individuals.
- Other banks include Standard Chartered Bank and AHLI United Bank.
- 86% of the units were bought by UK registered companies. 14% were bought by companies registered overseas.

3.3.4 Buy to Let – historical summary

The following table shows the proportion of Buy to Let purchaser sales as a percentage of the total number of new homes sold in London during 2006, 2013 and 2019.

The total proportion of Buy to Let purchases rose slightly from 45% during 2006, to 48% during 2013, with the main change during this period being the composition of buyers - from predominantly domestic during 2006 to predominantly overseas during 2013. The total proportion fell to 25% during 2019 when around 60% of buy to let sales were to overseas buyers.

Buyer sub-category	2006	2013	2019
London total new homes sold	16,000	22,592	19,831
Buy to Let – Private individuals (1-4 homes)	28%	29%	22%
Buy to Let – Private individuals (5+ homes)	12.5%	15%	<1%
Buy to Let – Companies and Investment funds (5-50 homes)	4.5%	4%	3%

3.4 Buy to Sell investors

Buy to Sell investors buy from a developer with a view to selling on for a profit, and with no intention to take possession of the finished property for any significant period of time. They usually buy before construction commences, or soon after, and sometimes in bulk to act as a wholesaler – acting as an intermediary between developer and end purchasers.

Success in Buy to Sell demands a knowledge of the market and an understanding of some of the investment tools involved, such as assignable contracts – which allow the sales contract to be transferred from the original buyer to another purchaser who will then complete the sale when construction completes.

By purchasing the homes up-front, Buy to Sell investors should bear house price and sales rate risks for the developer. However, there were examples during the last recession where house prices had dropped to an extent that purchasers walked away from deals. They forfeited their deposits but left the developers with many units to resell and facing financial collapse as a result.

Buy to Sell used to be a significant component of the development industry, accounting for 16% of sales during 2006. However, this fell to 5% during 2013 and again to around 2% during 2019. This decline is due to three factors:

- All the large sales agencies now operate around the world making the wholesaler role largely redundant.
- Many property investment clubs and syndicates were unable to comply with Council of Mortgage Lenders rules to prevent money laundering and other fraudulent activity. Based on conversations with developers and their agents it is not believed that any such investment clubs and syndicates operated during 2019.
- Speculative purchasers can be unreliable when times are bad, which is off-putting to developers.

3.4.1 Buy to Sell – speculators

Speculators enter into contracts to buy apartments, aiming to sell on (re-assign) those contracts during the construction period. They buy at a discount (at a time when the developer has a particular sales target to achieve) and sell after 12-24 months of capital appreciation.

Prior to the last recession a number of syndicates, companies and 'investment clubs' like Inside Track used to fill this role. These have mainly disappeared for reasons described above, but a small number of individual buyers continue to operate.

3.4.2 Buy to Sell – pure wholesalers

Prior to the last recession this was predominantly undertaken by Irish investors, because, at that time at least, Irish pensions could include homes to let. A well-informed front person or company would source stock to sell on to individuals in Ireland.

More common these days are companies such as Strawberry Star, IP Global or Mountain Capital that have bought in bulk at the outset of a development and have sold homes individually over the course of the construction programme. Such players have either not been that active in London during 2019 or have looked to diversify their businesses – Strawberry Star is developing homes to sell in-house and IP Global has acted on an agency-only basis on some projects.

3.4.3 Buy to Sell- historical summary

The following table shows the proportion of Buy to Sell investor sales as a percentage of the total number of new homes sold in London during 2006, 2013 and 2019.

<table>
<tr><th>Buyer sub-category</th><th>2006</th><th>2013</th><th>2019</th></tr>
<tr><td>London total new homes sold</td><td>16,000</td><td>22,592</td><td>19,831</td></tr>
<tr><td>Buy to Sell - Speculators</td><td rowspan="2">16%</td><td rowspan="2">5%</td><td>2%</td></tr>
<tr><td>Buy to Sell - Wholesalers</td><td>0%</td></tr>
</table>

3.5 Private switched to affordable

Affordable Housing Providers deliver private homes to subsidise their wider social portfolios but are often mindful of taking on sales market risks. In recent years the larger organisations have borrowed extensively from the corporate bond market at a low rate of interest on the basis of their large and relatively stable rental income streams.

With these considerations in mind it will often make sense to switch units from private to affordable. Shared ownership is particularly attractive - customers have a similar profile to open market buyers, albeit usually with lower incomes and savings, and there is still good potential for cross-subsidy.

Often this happens on developments that are within an Affordable Housing Provider's own portfolio. For example Notting Hill Genesis started building its Woolwich Reach project during 2019. The scheme was permitted as 75 homes including 42 private, which are all now being delivered as shared ownership.

Occasionally an HA will buy in bulk from a developer. An example in 2019 is Network Homes' forward purchase of Hollybrook Homes' Acton Lane scheme in its entirety. This has 105 homes in total, 72 of which were permitted as private but are now being delivered as shared ownership.

The following table shows the proportion of 'Private switched to affordable' sales as a percentage of the total number of New Homes sold in London during 2006, 2013 and 2019.

Buyer sub-category	2006	2013	2019
London total new homes sold	16,000	22,592	19,831
Affordable Housing Providers	0%	7%	5%

3.6 Key buyer groups - conclusion

As described above, London's new homes market has opened to buyers in a variety of international locations. Most recently there has also been a marked shift away from amateur buy to let investors, mainly towards professional BTR operators and partly towards owner-occupiers in areas supported by the Help to Buy incentive scheme.

The cumulative impact on buyer profile is summarised in the table below which gives the percentage split of sales across 2019 and the two previous editions of this study, which were compiled during 2006 and 2013:

Buyer Group	Sub-Category	2006	2013	2019
Owner occupier	Without Help to Buy	30%	32%	10%
	With Help to Buy	N/A	N/A	32%
Build to Rent	Market developers	6%	3%	25%
	Affordable Housing Providers	3%	5%	1%
Buy to Let	Private individuals (1-4)	28%	29%	22%
	Private individuals (5+)	12.5%	15%	<1%
	Companies and Investment funds (5+)	4.5%	4%	3%
Buy to Sell	Speculators	16%	5%	2%
	Wholesalers			0%
Private sale as affordable	HAs and RPs	0%	7%	5%
Total Sales (homes)		16,000	22,592	19,831

Specifically for 2019 the estimated split of the 19,831 new homes sold in London is as follows:

Buyer Group	Sub-Category	Buyers in London	Purchases in London	Percentage of Total Purchases
Owner occupier	Without Help to Buy	1,927	1,927	10%
	With Help to Buy	6,288	6,288	32%
Build to Rent	Market Operators	36	4,948	25%
	Affordable Housing Providers	3	180	1%
Buy to Let	Private individuals (1-4)	4,000	4,420	22%
	Private individuals (5+)	5	25	<1%
	Companies and Investment funds (5+)	40	580	3%
Buy to Sell	Speculators	400	450	2%
	Wholesalers	0	0	0%
Private sale as affordable	HAs and RPs	12	1,013	5%
Total		12,711	19,831	100%

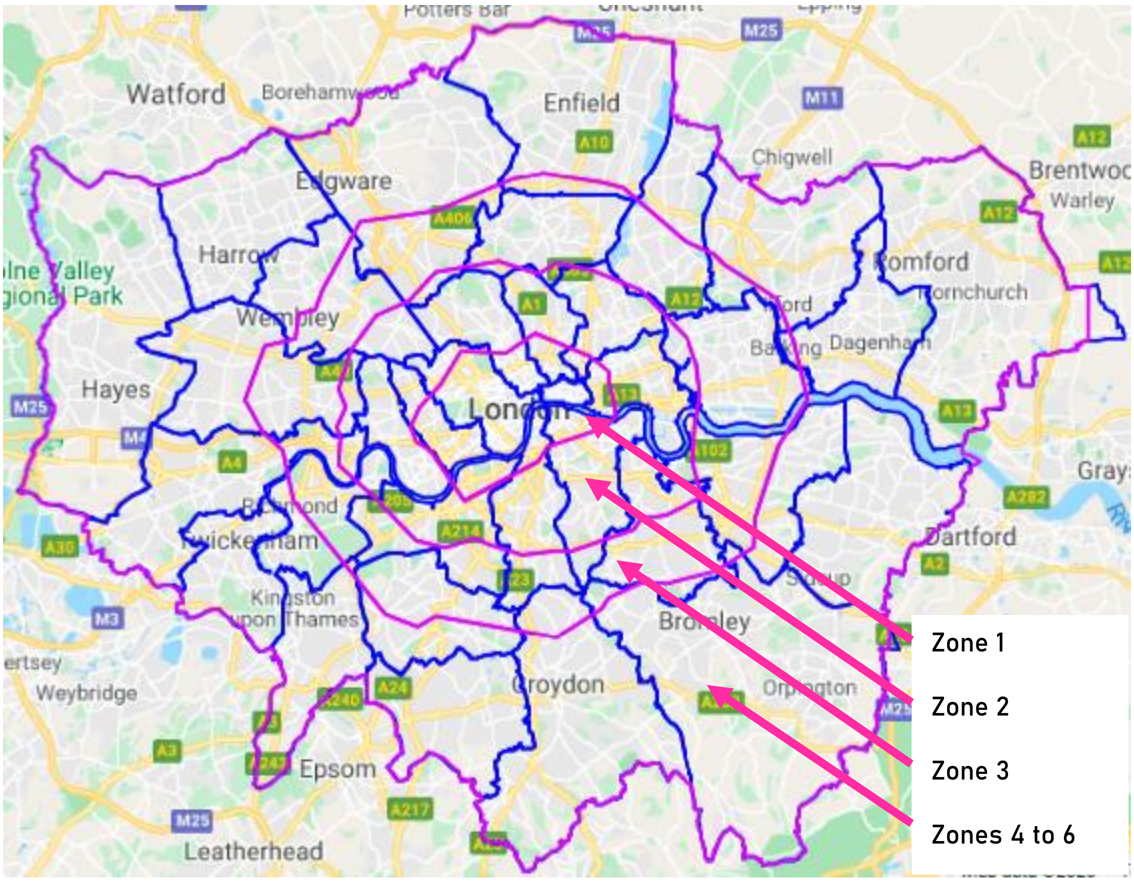
4. Who buys what, where and for how much?

The following analysis splits London according to four TfL transport zone groupings:

- Zone 1: Central London.
- Zone 2: Inner London.
- Zone 3: Intermediate London.
- Zones 4,5,6: Outer London.

The following table summarises the split of sales in 2019 by area and buyer type:

Area	Buy to Sell	Buy to Let	Build to Rent	Owner Occupiers	Private sale as affordable	Total homes sold
Zone 1	6%	32%	30%	32%	0%	3,169
Zone 2	5%	59%	13%	18%	5%	5,205
Zone 3	0%	12%	32%	50%	6%	5,698
Zones 4,5,6	0%	4%	30%	59%	7%	5,759



4.1 Zone 1

This is defined as central London – the boundary being a line linking the first stations classified by TfL as London Underground Zone 2. During 2019:

- The average asking price was £2,140 per square foot (psf).
- 3,169 homes sold.
- 32% were to owner occupiers – less than 5% of these using Help to Buy.
- 30% were BTR – most of which were in Greystar's section of Nine Elms Parkside.
- 32% were Buy to Let.
- 6% of these sales were Buy to Sell.
- No private homes were delivered as affordable.

This is a surprisingly diverse area containing the super-prime areas of central London as well as some major regeneration areas such as Kings Cross, Nine Elms and Whitechapel. It is the area of prime interest to the most discerning of international buyers and developments are designed, built and priced accordingly. While many of the buyers are normally based overseas, many of the homes they buy are held for occupation, either as one of several of properties in global capitals, or for use of family members working or studying in the UK. It makes very little sense to these buyers to simply leave apartments empty as a pure cash dump.

4.2 Zone 2

This is the inner London area between a line linking the first stations classified by TfL as London Underground Zone 2 and the one linking stations classified as Zone 3. During 2019:

- The average asking price was £960 psf.
- 5,205 homes sold.
- 18% were to owner occupiers – approximately 10% of these using Help to Buy.
- 13% were BTR.
- 59% were Buy to Let.
- 5% of these sales were Buy to Sell.
- 5% were private homes now being delivered as affordable.

22 out of 49 developments on the market in Zone 2 at the end of 2019 are situated within the borough of Tower Hamlets. These are typically high density developments clustered around Canary Wharf and other areas with good accessibility, regeneration interest, river views or all the above. These schemes generate high levels of investor interest at home and overseas and will normally be launched on, or prior to, construction start.

Elsewhere in Zone 2 there are hotspots of accessibility in fringe areas that have only more recently appeared on the investor radar. White City is a good example but also more challenging locations such as Woodberry Down and Bermondsey.

4.3 Zone 3

This is the intermediate area separating inner London from outer London. It is described by some as the optimal area for Build to Rent because of its relatively high accessibility and potential density, but relatively low pricing. It is defined as the area between a line linking the first stations classified by TfL as London Underground Zone 3 and the one linking stations classified as Zone 4. During 2019:

- The average asking price was £680 psf.

- 5,698 homes sold.
- 50% were to owner occupiers – c. 90% using Help to Buy.
- 32% were BTR.
- 12% were Buy to Let.
- There were negligible Buy to Sell sales.
- 6% were private homes now being delivered as affordable.

As with Zone 2, many of the developments currently being marketed are clustered around regeneration hotspots such as Woolwich, Stratford, Hornsey, Colindale and Acton. In many cases it is a large housebuilder that is delivering several phases of a major regeneration project – such as Berkeley Group at Woolwich and Countryside at Acton. The developments are of less interest to overseas investors but are still highly accessible and therefore attract a broad mix of buyers. Often the larger phased schemes have a continuously manned marketing suite, selling homes across severally phases and with homes on offer in varying degrees of construction completeness.

Housebuilders will also often sell blocks within large projects to BTR operators as a way of generating or maintaining sales momentum. BTR blocks will often be either the first blocks in a scheme or phase to go under construction or the last – first if this is what is needed to release construction funds, or last if it turns out that completed homes are coming off the production line much faster than they can be sold.

4.4 Zones 4, 5 and 6

This is outer London – the inner boundary being a line linking the first stations classified by TfL as London Underground Zone 4 and the outer boundary being to the extent of the Outer London boroughs. During 2019:

- The average asking price was £620 psf.
- 5,759 homes sold.
- 59% were to owner occupiers – more than 90% of these using Help to Buy.
- 30% were BTR.
- 4% were Buy to Let.
- None of these sales were Buy to Sell.
- 7% were private homes now being delivered as affordable.

Developments in outer London are characterised by houses and low-rise apartment buildings with some more dense blocks and office-to-residential conversions in town centre locations such as Harrow, Uxbridge and Croydon. There is a noticeably lower concentration of developments in the eastern boroughs – from Enfield round to Bromley.

BTR investors have acquired and developed high-rise blocks clustered around the town centre locations mentioned above, but otherwise owner-occupiers using Help to Buy are more common. Low density schemes tend to be launched only once significant numbers of homes are reaching completion.

However, it has been extremely difficult to sell homes that are too valuable to be sold through Help to Buy, such as larger houses. This has fed through into growing numbers of unsold completed homes in the western segment of outer London – the eastern segment is sufficiently low cost such that even larger homes tend to find a buyer.

5. How does the development industry shape the new homes sales market?

In general terms London's regional variations described in the previous section largely result from a moving balance between three factors:

- Land availability – amount and nature;
- What the planning system will permit; and
- The relative attractiveness to investors – who will tend to out-bid owner occupiers to a greater degree towards the centre and in other locations with a good story.

The first two of these issues are supply side constraints, which force house builders to focus on acquiring with planning consent already in place, rather than expending resources on the time-consuming business of piecing sites together and gaining permission themselves. Consequently there is a telling lack of product differentiation between the larger house builders, although developments in prime central London are designed and specified to a noticeably higher standard than elsewhere.

However, the third issue, investor appetite, plays a major role in marketing strategy by determining when schemes are launched in the construction programme and whether they are marketed overseas or not. As described below it also often determines what medium and high density schemes make it through to construction.

5.1 Marketing medium and high density schemes

For developments that involve large apartment buildings entire blocks must be built in one go. There is no way of cautiously dripping homes through the construction and marketing processes. In such cases funders usually require a significant number of up-front sales before releasing cash to build. Typically, a funder might require that 40% of the homes in a high-risk scheme are sold prior to start on site. In the aftermath of the 2008/2009 recession discussions with developers at the time suggested that this proportion could have been anything between 70% and 100%.

Importantly, it tends to be investors who buy up-front rather than owner-occupiers, who prefer to see the end-product. Since the last recession the quest for investor sales on most schemes has inevitably entailed an element of overseas marketing.

So, medium and high rise developments will often be advertised both domestically and internationally. The exception is schemes where the developer has made an offer to provide 'first dibs' to UK residents on homes priced up to £350,000 for the first three months they are on sale. For other schemes, the first launch might happen sometime prior to construction start at the agent's offices in London, and simultaneously in an exhibition suite in Hong Kong. Often there will be a deliberate attempt to generate an auction room atmosphere and, in theory, investors should be able to secure a lower price.

Developers such as Berkeley Group, Ballymore and Mount Anvil tend to deliver high density developments that are launched up-front to investors at home and overseas, again with the exception of homes to which the "first dibs" offer applies.

5.2 Marketing low density schemes

For low density projects involving houses and low rise blocks of flats the sales risks are easier to manage. A risk averse builder could theoretically build a handful of houses in a matter of months to test the market before embarking on a larger number.

Therefore, the marketing of peripheral low-density schemes tends to commence when show homes are ready and when a number of other homes are within six months of completion. Advertising is entirely domestic – via the normal online channels plus maybe local press. Developers will want buyers to pay the full price and any incentives in a challenging market tend to revolve around finishing packages and maybe stamp duty incentives rather than a large cash discount.

Developers such as Bellway, Countryside, Fairview, Persimmon and Taylor Wimpey typically deliver low to medium density owner-occupier focused schemes that are marketed purely at domestically and with an emphasis on late sales.

In practice many London marketing campaigns are a hybrid of both the ‘High’ and ‘Low’ density approaches described above. Even if a scheme launches well overseas the developer will hold homes back to be marketed from an onsite marketing suite and therefore capture the higher price at completion. Similarly, outer London schemes may be ‘soft-launched’ earlier on to test the water and mop up any latent investor interest. This also acknowledges the fact that owner-occupiers are increasingly prepared to buy off plan.

5.3 The impact of Help to Buy

Help to Buy has tended to amplify these pre-existing trends. The incentive cannot be applied to sales until the homes involved are within six months of completion and they must be priced below £600,000 in London. Very few schemes within Zone 1 contain qualifying homes, because of the price restriction, and a few more in Zone 2.

However, in Zones 3, 4, 5 and 6, Help to Buy has been the key driver of sales. In these outer zones, developers who have the need to obtain early up-front sales have been turning to BTR operators, rather than smaller investors.

6. Conclusion

Between the millennium and the 2008 recession London's residential development industry served a relatively simple and largely domestic range of buyers. In 2006, Buy to Let investors bought 45% of homes built in the capital, speculative buy to sell investors bought 16% and owner occupiers bought 30%. Build to Rent accounted for less than 10% of sales.

Since then buyer characteristics have changed significantly:

- The post-recession years from 2009 to 2015 saw London's market open to overseas buyers as developers and agents looked further afield to secure enough sales to release construction funding for developments. As a result, the biggest developers and selling agents now have sales operations in the main overseas centres like Hong Kong, Shanghai and Singapore. This has largely supplanted the activities previously carried out by the traditional Buy to Sell investors such as buyers' clubs and wholesalers.
- From 2016 onwards various fiscal measures were imposed in order reduce the attractiveness of new homes as an investment compared to other asset classes such as stocks and shares, reflecting public and political concern. These measures were the imposition of a 3% stamp duty surcharge for owners of more than one home and the phasing out of tax relief on mortgage interest payments for rented homes.
- For international buyers, these fiscal changes were partly countered by a weakening pound since the 2016 EU referendum. However, the March 2020 budget announced the introduction of an additional 2% levy for overseas buyers, which will be effective from April 2021.
- The Government introduced the Help to Buy initiative during 2013 as a way of both stimulating supply and reducing barriers to entry for buyers at the lower end of the market.
- BTR started coming becoming an asset class of significance from 2011 onwards, and in 2019 accounted for 26% of all new homes sold in London. This was down from 33% during 2018.

Conversations with developers and their agents over the last decade suggest that, as a result of the above, the last 15 years have seen London's new homes being bought by an increasingly international range of buyers, including buyers from Hong Kong and mainland China in particular, as well as other far eastern countries such as Singapore and Malaysia. These buyers have focused on homes in central London and major regeneration projects in London Underground zones 1 to 3. They have bought for investment purposes and sometimes as a UK base for family members studying and starting their careers in the UK.

The last six years have also seen a marked shift away from amateur Buy to Let investors, partly towards professional BTR operators and partly towards owner occupiers in areas supported by the Help to Buy incentive scheme.

The reduced role of individual purchasers is particularly revealing in the numbers:

- As recently as 2013 81% of sales were to private individuals using no more incentives than what developers were prepared to give.
- In 2019 66% of sales were to private individuals, and only 34% of purchases were made without the assistance of Help to Buy.
- The flip side is that where corporate buyers accounted for 19% of sales during 2013, they accounted for 34% of the market during 2019, with BTR operators accounting for 26%.

This shift is not as much a reflection of buyer preference as necessity on the part of house builders. During the same period construction volumes have increased markedly - 62,600 units were under construction compare to just 34,100 at the end of 2013. It is highly unlikely that funders would have underwritten such an expansion without the underpinning of Help to Buy and BTR, which together accounted for 58% of all sales during 2019.

7. Appendices

- Appendix A –Summary of Buyer Preferences
- Appendix B – Example developments

Appendix A – Summary of Buyer Preferences

The table on the following page summarises the buying preferences for all the various types of private buyer, including an assessment of each buyer group's appetite for London when compared with other regional/UK/international cities.

Buyer Group	Sub-Category	Who are they?	Goal or Incentives?	Time horizon?	Appetite for London (1 low – 5 high)
Owner occupier	Without Help to Buy	Private Individuals	Somewhere to live, but also capital growth potential.	5+ years	-
	With Help to Buy	Private Individuals	Somewhere to live, but also capital growth potential.	5+ years	-
Build to Rent	Market operators	Companies – including funds and special purpose vehicles	Net operating income.	10-15 years	3
	HAs and RPs	Larger HAs and RPs	- Net operating income. - Subsidise social portfolio. - Diversify market risk associated with private sale and shared ownership.	15+ years	3
Buy to Let	Private individuals (1-4)	Private individuals (domestic and overseas)	Income, capital growth, currency movement and security	5-10 years	5
	Private individuals (5+)	Private individuals – domestic and overseas	Income, capital growth, currency movement and security	5-10 years	4
	Companies and Investment funds (5+)	- Historic Estates (e.g. Crown Estate) - Formally constituted funds - Property developers	Income, in the case of developers to cover face until homes are sold.	6 months – 10 years	2
Buy to Sell	Speculators	- Private individuals (mainly overseas) - Companies	Buy at a discount to open market value, look to reassign contract at a profit before completion.	Within the build programme	2
	Wholesalers	- Companies	Buy at a discount to OMV, look to reassign contract before completion.	Within the build programme	1

Appendix B: Example Developments

Zone 1

The Berkeley Group's West End Gate, W2, is a good example of a major development within Zone 1. The scheme contains 542 private homes and will complete during Q3 2021. 128 homes sold during 2019 to a mixture of domestic and overseas buyers and including some small bulk purchases.

The cheapest studios at West End Gate have been priced from £646,000 (well above the £600,000 Help to Buy threshold), while 1-beds have been from £749,500, 2-beds from £1.23m and 3-beds from £1.58m.

Zone 2

Ballymore's Goodluck Hope, E14, is an example of a riverside investor-focused scheme within Zone 2. 516 homes are currently underway in three blocks and a tower. They will complete across a range of phases from summer 2020 to summer 2022. 143 homes sold during 209, many of them overseas.

Studios have been priced from £399,000, 1-beds from £493,000, 2-beds from £544,000 and 3-beds from £1.05m. Some of these are within the scope of Help to Buy but the first launches occurred prior to construction start and were reliant on investor sales – Ballymore sold 300 homes of the first phase of 349 before commencing construction.

Notting Hill Genesis's Manor Place Depot, SE17, has followed a different path. The scheme is in a relatively unglamorous location south of Elephant and Castle and contains 166 private homes, which completed during Q3 2019. 20 of these were delivered for shared ownership and the remainder were not launched until construction was within a year of completion. 84 homes sold during 2019, many of them through the Help to Buy initiative.

There have been both 1-beds and 2-beds priced below the £600,000 Help to Buy threshold – from £467,500 and £595,000 respectively, while 3-beds have been priced from £732,500.

Zone 3

Redrow's Colindale Gardens is a good example of a Zone 3 project. At the end of 2019 Redrow had completed 681 out of 2,320 private homes in the masterplan and 440 more are under construction. 190 homes sold on the open market during 2019, many via Help to Buy.

There are 1-beds, 2-beds and 3-beds available priced below the Help to Buy threshold, starting from £360,000, £385,000 and £538,000 respectively. 344 further homes were sold to Realstar for BTR, although these had not yet commenced at the end of 2019. In previous years 211 BTR homes were sold to L&Q PRS and 186 to M&G – to kick off phases in both cases.

Zones 4 to 6

Millbrook Park is a good example of a large scale outer London development. The site was originally the Inglis Barracks and has been developed in-line with a 2,240 home masterplan originally drawn up by the Inlgis Consortium (St Modwen, VSM, London Borough of Barnet and Annington). The Inglis Consortium has divided the site into 15 serviced plots, which are being developed by nine separate house builders so far.

Six of these phases are complete and six others are currently live. In total 427 homes were sold during 2019, split between houses and low-rise apartments. Most of the sales were to owner occupiers, although Taylor Wimpey did sell a block of 30 flats to a single investor during Q4.

Phases with apartments available through Help to Buy have sold well – all of Barratt's 1-beds and 2-beds have so far been priced below £600,000 and 85 sold since launching at the end of April 2019. However, others have not fared so well – many would consider this to be a premium location, accessible to both the London Underground and open countryside, so the larger houses have been priced accordingly, putting them well beyond the reach of Help to Buy.

At the other end of the spectrum Tide Construction is building The Croydon for Greystar, which is 437 BTR homes (plus 109 affordable) in a 44-storey modular tower. This is an exceptionally dense project for outer London, but crucially it is just across the road from the East Croydon transport interchange.