

*London sales pipeline
hits 10-year high*

*Lettings market
hits new highs*

*Demand continues to
outstrip supply*



London Residential Review

Q1 2022

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PRIME LONDON SALES MARKET INSIGHT

London market poised for strong performance in 2022

With the lifting of Covid restrictions and a return to the office underway, London is poised to continue its recovery in 2022.

The coming months have the potential to deliver a bounce in transactions, with supply accelerating to catch up with demand. The market could be boosted further by the return of more international buyers in 2022, which despite a relaxation of travel rules last year are still not as significant a part of London's property market as they were before the pandemic.

Supply in London is rebuilding after the shelves cleared quickly during the stamp duty holiday, but it has lagged demand, which indicates the presence of a large number of frustrated buyers ready to act. New prospective buyers registering in London were 46% higher than the five-year average in 2021, while new instructions for sale were flat in the same period.

Average prices in prime central London (PCL) increased 1.3% in the year to December, reflecting the static market conditions seen over the last nine months (fig 1). However, it compared to a decline of 4.3% recorded in December 2020.

Meanwhile, in prime outer London (POL) average prices rose 3.2%, which

was the strongest annual rate of growth since February 2016. This reflected the robustness of demand for space and greenery during the pandemic. The increase compared to a decline of 3.2% recorded in the year to December 2020.

Ahead of the emergence of Omicron, the London sales pipeline reached a ten-year high in November as the capital moved firmly back onto the radar of buyers (fig 2).

In PCL, the number of offers accepted was 116% higher than the same month in 2020 while in POL, there was a 25% increase over the same period.

It is indicative of how demand has shifted back towards London as the pandemic has evolved. Across the UK, the biggest increases in the number of new prospective buyers in the three months to November compared to 2020 were all in London.

We expect prices to rise further across London this year, with a more notable upswing in PCL when international travel resumes.

The return of international buyers and the long-overdue recovery in PCL means price growth is predicted to be 8% this year, outperforming many other UK markets.

NOTED

116%

Increase in offers accepted in November 2021 versus November 2020 in prime central London.

3.2%

Average price increase in prime outer London in the year to December, which was the strongest annual increase since February 2016.

1.3%

Average price increase in prime central London in the year to December.

◆ ◆

“Across the UK, the biggest increases in the number of new prospective buyers in the three months to November compared to 2020 were all in London.”

◆ ◆

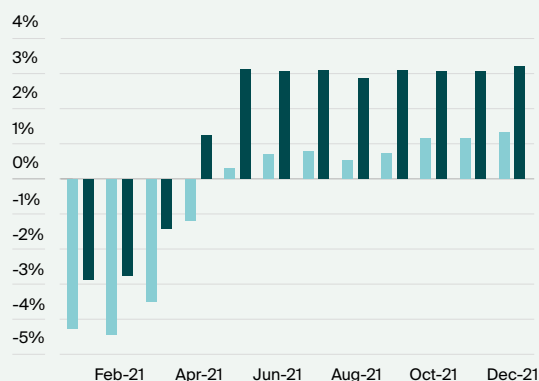
TOM BILL

HEAD OF UK RESIDENTIAL RESEARCH

1 Prime London prices returned to growth in 2021

Annual % change

■ PCL Sales ■ POL Sales

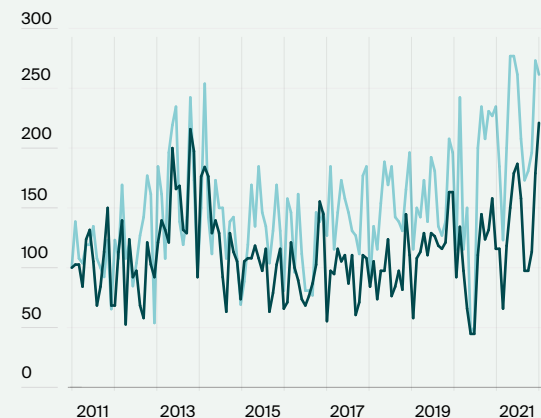


Source: Knight Frank

2 Offers accepted hit a ten-year high in November

Rebased to 100 Jan 2011

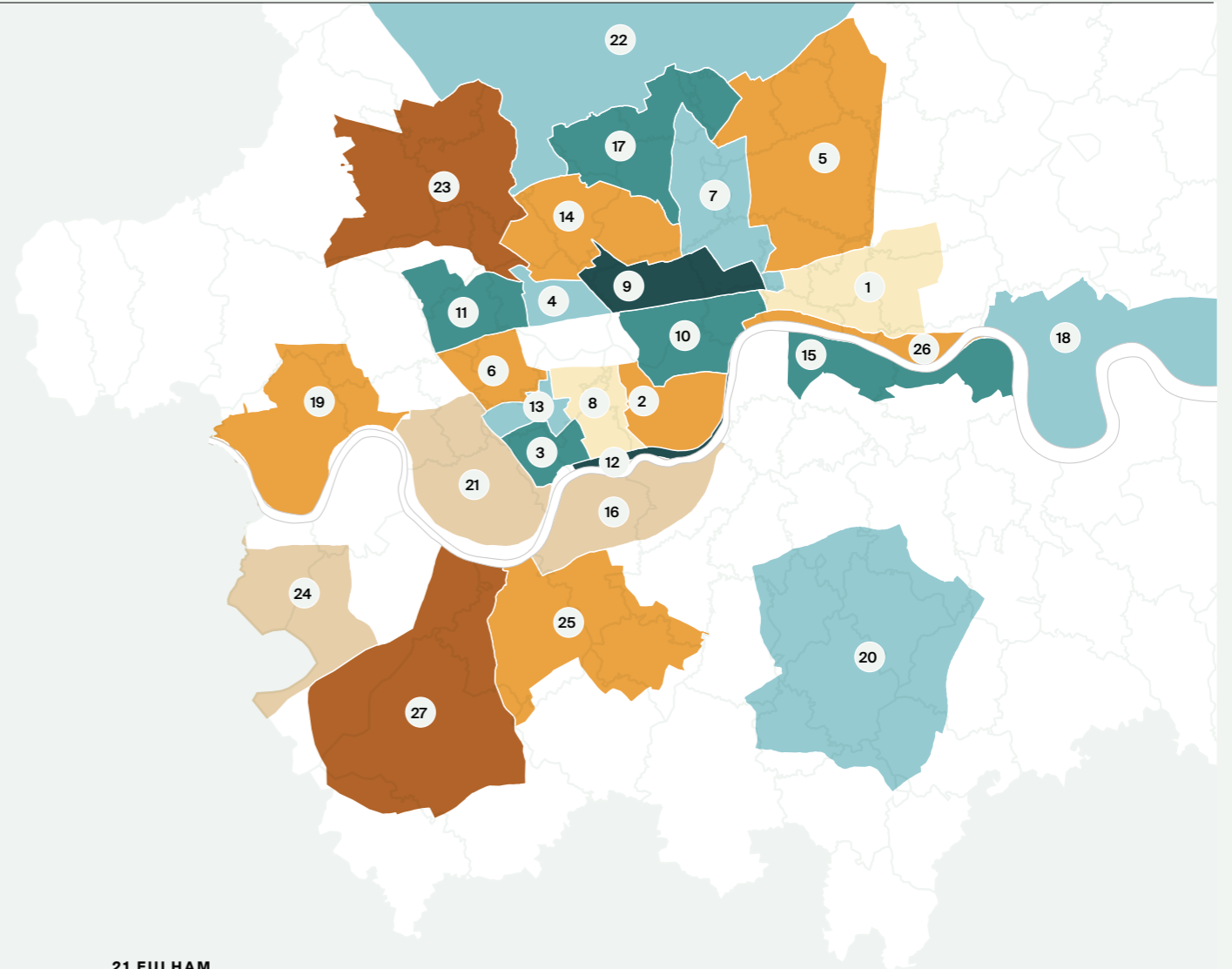
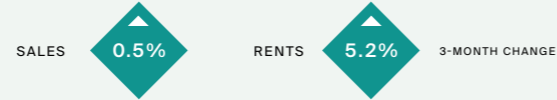
■ PCL Sales ■ POL Sales



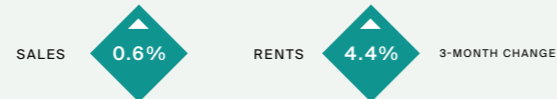
Source: Knight Frank

PRIME LONDON PRICE AND RENTAL GROWTH, DECEMBER 2021

PRIME CENTRAL LONDON



PRIME OUTER LONDON



PRIME LONDON LETTINGS MARKET INSIGHT

Lettings market in prime London ends 2021 on a high

Nine months ago, few would have predicted that rents would end the year in positive territory in the prime London lettings market.

Thanks to a sharp retreat in supply and the physical re-opening of offices and universities it happened.

Supply surged dramatically in the early months of 2021 thanks to the closure of the short-let staycation market (fig 3).

In February 2021, the number of market appraisals, which is when a landlord requests a valuation for the purposes of listing, was 254% higher than the same month in 2020. By December, the increase had narrowed to 6%, with a large number of Airbnb-type properties back on the short-let market.

This precipitous drop in supply drove rents higher, with average rental values climbing 2.9% in the year to December in prime central London (PCL). In prime outer London (POL) there was a 3.7% rise.

These increases at the year-end compare to double-digit declines recorded just nine months ago. Indeed, the six-month increase of 8.2% in PCL in December is the

highest recorded over an equivalent period since December 2010. A corresponding rise of 7.1% in POL was last exceeded in September 2007.

After some jitters before Christmas when the Omicron variant first appeared, students and companies are now activating their plans. Their problem is continuing tight supply (fig 4).

The numbers of corporate relocation enquiries was five times higher in the final quarter of last year than it was in Q2 2020. Meanwhile, the number of market valuation appraisals was only 38% higher.

There will also be a steady flow of students looking for rental properties in the early months of 2022, which will accentuate this imbalance.

The first reason is that universities have staggered the return of face to face learning. Second, many of those who were unsuccessful in finding a property in time for September moved into temporary accommodation, which means they are still looking.

Meanwhile, demand from corporate tenants will rise as spring approaches and companies press ahead with delayed relocation plans.

NOTED

8.2%

Six-month increase in rental values in December in PCL is the highest for a decade.

5x

The number of corporate relocation enquiries was five times higher in Q4 2021 than in Q2 2020.

3.7%

Average rental increase in prime outer London in 2021.

◆ ◆

“After some jitters before Christmas when the Omicron variant first appeared, students and companies are now activating their plans. Their problem is that supply remains tight.”

◆ ◆

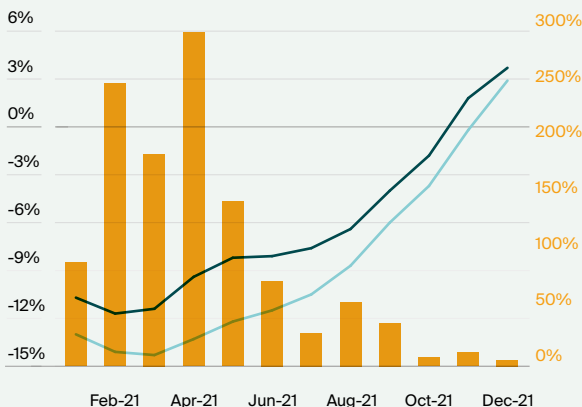
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3 Prime London lettings: a year of two halves

Annual % change

Supply (PCL and POL combined), rhs
POL rental index PCL rental index, lhs

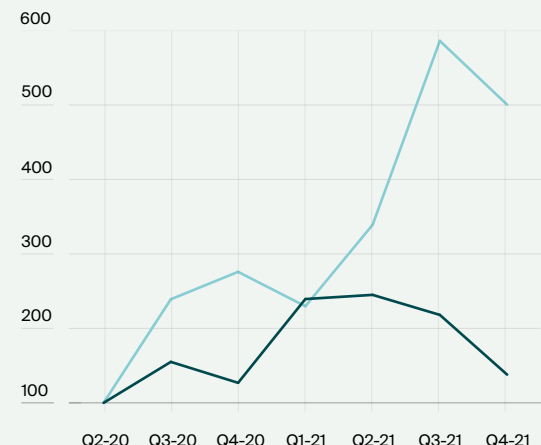


Source: Knight Frank

4 Rental supply trails demand

Rebased to 100 Q2 2020

Corporate relocation enquiries Market valuation appraisals



Source: Knight Frank

PRIME LONDON IN NUMBERS



Heathrow passenger numbers were down by 53% versus 2019 in December. While this compares with -82% in December 2020, it highlights that despite the relaxation of travel restrictions in the UK it hasn't so far meant a return to business as normal for overseas property buyers.



Increase in new prospective buyers registering with Knight Frank in London in 2021 versus the five-year average. This compares to an increase of 39% outside of London, underlining that despite predictions at the onset of the pandemic in 2020 that demand for urban living would be permanently reduced, London is in buyers' sights.



Increase in new prospective tenants registering with Knight Frank in December 2021. With the worst of Covid restrictions seemingly behind us, demand for rental property remains high and will build in the first months of this year as corporate customers and students alike push ahead with their plans, driving rental values higher.

Please get in touch with us

If you are looking to buy, sell or would just like some property advice, we would love to hear from you.



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