*Strong demand in London sales market*

*2023 rental forecasts revised up*

*2023 sales forecasts revised down*

Knight Frank

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# London Residential Review

**Q4 2022**

# PRIME LONDON SALES MARKET INSIGHT

*London sales market resilient as rates start to climb*

With a third prime minister in place in as many months it has been a volatile period for the UK economy.

Rishi Sunak, a former chancellor, is being presented as a pragmatic leader that could provide stability.

However, set against the backdrop of high inflation and the rising cost of borrowing, the prime London residential property market faces challenges ahead.

To that end, we have updated our sales and lettings forecasts (see chart). The key takeaway is that we expect prices to fall next year due to the increasing cost of borrowing and the impact this is having on affordability.

The five-year swap rate, which dictates the price of most fixed-rate mortgages in the UK, exceeded 5% in early October compared to less than 3% in early July when we last issued our house price forecasts.

At 2.25%, the current bank rate is also 100 basis points higher than it was three months ago. The Bank of England is expected to keep raising rates in order to tackle inflation.

Higher mortgage costs will reverberate up through housing markets and be felt in prime London postcodes. However, the impact will be less marked due to higher levels of affluence and housing equity as well as a broader base of returning international buyers.

This is particularly the case in prime central London (PCL), where the percentage of cash buyers in the first nine months of this year was 52%, compared to 30% in prime outer London (POL).

That said, we expect prices to fall by 3% next year in PCL before rising modestly in subsequent years. The relative value in PCL compared to 2014 will underpin an overdue recovery in the medium term.

While we expect a 4% decline in POL, the 'race for space' trend has not yet run its course and will support demand beyond 2023.

For now, activity and price growth remain positive.

The number of new prospective buyers in PCL and POL was 53% above the five-year average (excluding 2020) in September. Supply has also been picking up after being subdued for most of last year. The number of new sales instructions was 22% higher and the number of offers accepted up by 79% in the same period.

Exchanges have been above the five-year average (excluding 2020) in each month of 2022. They hit a high in September at plus 75% (fig. 2).

Annual growth in PCL was 2.7% in September while the figure recorded in POL was 5.2%.

## NOTED

**79%**

Increase in the number of offers accepted in London in September versus the five-year average (excluding 2020).

**53%**

Increase in prospective buyers in London during September versus the five-year average (excluding 2020).

**52%**

Percentage of cash buyers in PCL in the first nine months of 2022.

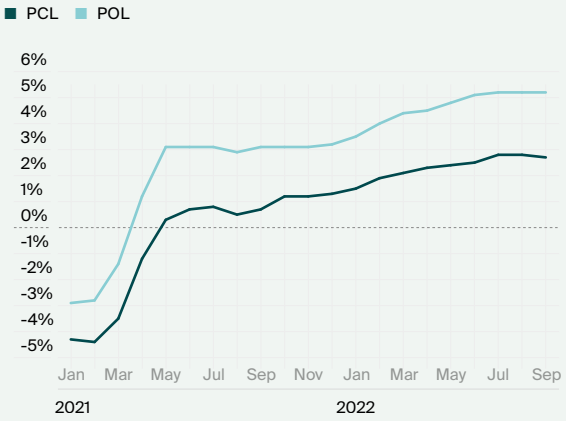
**"Higher mortgage costs will reverberate up through housing markets and be felt in prime London postcodes. However, the impact will be less marked due to higher levels of affluence and housing equity."**

TOM BILL

HEAD OF UK RESIDENTIAL RESEARCH

**1 Prime London price growth**

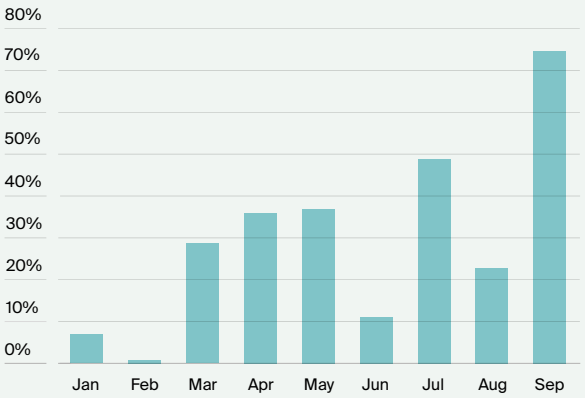
Annual % change




Source: Knight Frank Research

**2 London's strong sales performance in 2022 hit a new high in September**

Exchanges versus five-year average (excluding 2020)




Source: Knight Frank Research

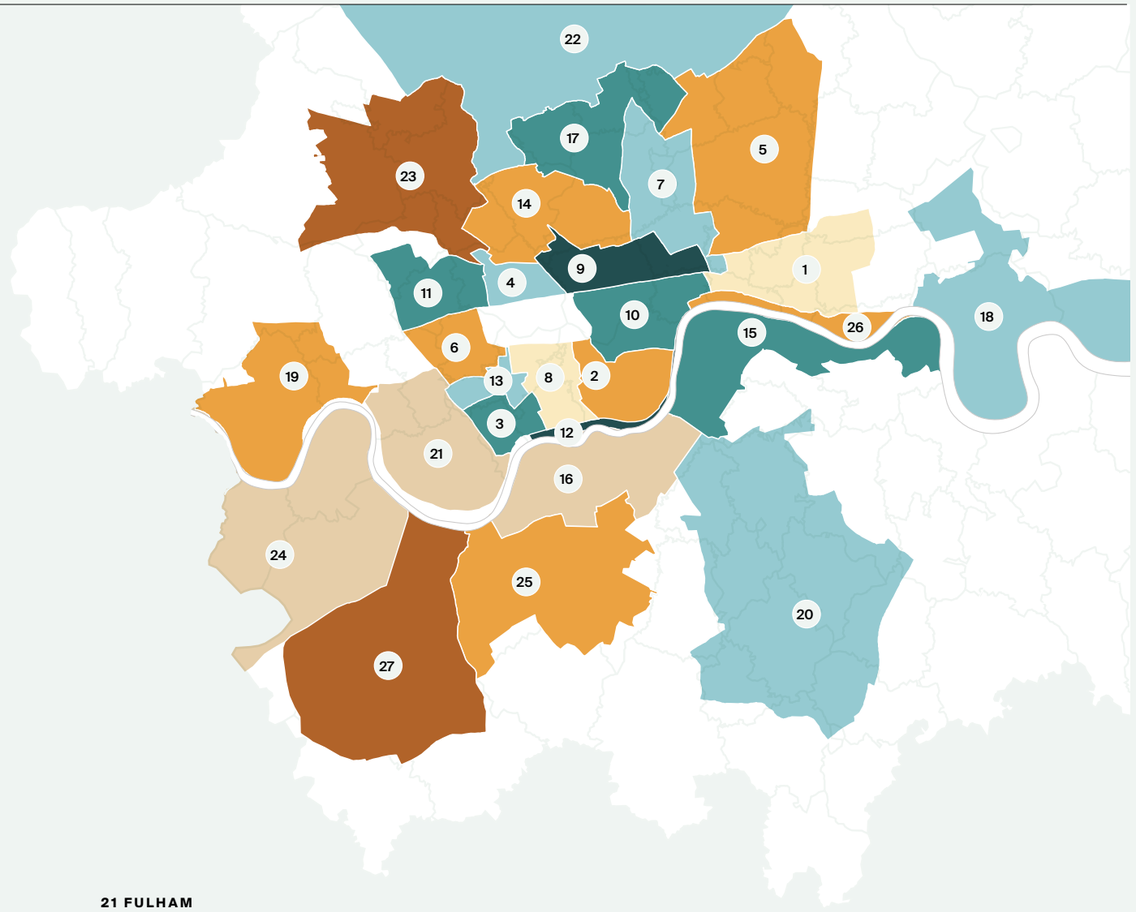
# PRIME LONDON PRICE AND RENTAL GROWTH, SEPTEMBER 2022

Knight Frank

## PRIME CENTRAL LONDON

SALES 0.5% RENTS 5.6% 3-MONTH CHANGE

| | SALES | RENTS |
|---|---|---|
| 1 ALDGATE | -0.4% | 9.2% |
| 2 BELGRAVIA | 0.4% | 6.4% |
| 3 CHELSEA | -0.3% | 1.4% |
| 4 BAYSWATER | 1.3% | 8.7% |
| 5 ISLINGTON | 0.4% | 6.3% |
| 6 KENSINGTON | 0.1% | 6.0% |
| 7 KING'S CROSS | -0.2% | 5.3% |
| 8 KNIGHTSBRIDGE | 3.3% | 5.1% |
| 9 MARYLEBONE | -0.2% | 3.0% |
| 10 MAYFAIR | -0.2% | 6.7% |
| 11 NOTTING HILL | 0.7% | 7.5% |
| 12 RIVERSIDE | 0.1% | 6.6% |
| 13 SOUTH KENSINGTON | -0.1% | 6.1% |
| 14 ST JOHN'S WOOD | 0.6% | 4.2% |
| 15 TOWER BRIDGE | 1.9% | 4.2% |




## PRIME OUTER LONDON

SALES 0.9% RENTS 4.4% 3-MONTH CHANGE

| | SALES | RENTS |
|---|---|---|
| 16 BATTERSEA | 2.7% | 6.6% |
| 17 BELSIZE PARK | 0% | 2.1% |
| 18 CANARY WHARF | -0.2% | 4.7% |
| 19 CHISWICK | 0.5% | |
| 20 DULWICH | 2.9% | |
| 21 FULHAM | -0.1% | 9.0% |
| 22 HAMPSTEAD | 0.6% | 2.8% |
| 23 QUEENS PARK | 1.9% | 6.6% |
| 24 RICHMOND | 1.2% | 4.0% |
| 25 WANDSWORTH | 1.5% | 1.1% |
| 26 WAPPING | 0.5% | 3.6% |
| 27 WIMBLEDON | 0.9% | 1.1% |

# PRIME LONDON LETTINGS MARKET INSIGHT

*Demand continues to outstrip supply in prime rental markets*

While the adverse reaction to September's mini-budget by financial markets saw sales forecasts revised down, it has led to the opposite reaction for the prime London rental market (see chart).

Stock levels remain low by historical standards, with the number of new properties coming to the market down by around a third compared to the five-year average (excluding 2020), which has been the case for the last year.

Meanwhile, the number of new prospective tenants registering with Knight Frank across London in September was 68% above the five-year average (excluding 2020).

As a result of this imbalance persisting for longer than anticipated, we have revised up our rental value forecasts for 2022 and 2023.

We now expect rental values to end this year 15% higher in PCL and 12% in POL (up from 11% and 9% respectively). We expect 6% growth in both markets next year, up from a forecast of 3.5% in June.

The key question for the lettings market is whether more uncertain conditions in the sales market create a larger number of new landlords or tenants.

On the one hand, the uncertainty will boost the supply of lettings properties. This will be the result of sales failing to exchange due to mortgage rate volatility and owners deciding to let their property in the short-term after failing to achieve their asking price.

At the same time, a growing number of frustrated buyers will become tenants, particularly if they sense price declines will be short-lived.

The extent of this influx of buyers and sellers from the sales market will depend on where mortgage rates settle. The difference between 5% and 6% could potentially have a strong bearing on behaviour.

If a weaker sales market creates more landlords than tenants, this will put downwards pressure on rental values – and vice versa.

Rental values grew by 18.6% in the year to September in PCL, which has narrowed from 29.2% in April. In POL, growth was 15.4%, down from 23.5% in April (fig. 3)

## NOTED

**68%**

Increase in new prospective tenants in London in September versus the five-year average (excluding 2020).

**15%**

Forecast for rental value growth this year in PCL, revised up from 11%.

**6%**

Expected rental growth in prime London rental markets in 2023, revised up from 3.5%.

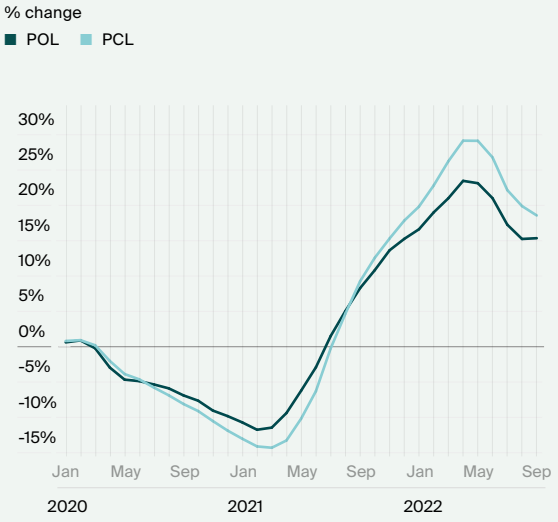
**"The key question for the lettings market is whether more uncertain conditions in the sales market create a larger number of new landlords or tenants."**

TOM BILL

TOM BILL, HEAD OF UK RESIDENTIAL RESEARCH

**3 Annual rental growth**

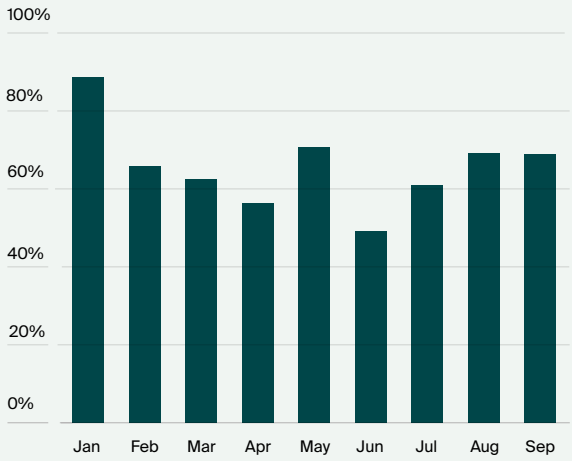
% change




Source: Knight Frank Research

**4 Demand outstrips supply in prime rental market**

New prospective tenants versus the five-year average in PCL and POL combined (excluding 2020)




Source: Knight Frank Research

# FIVE-YEAR FORECAST – 2022 TO 2026

**Prime sales market forecast** 2022-2026

| | 2022 | 2023 | 2024 | 2025 | 2026 | 5 year cumulative |
|---|---|---|---|---|---|---|
| Prime Central London | 3.5% | -3.0% | 0.0% | 3.0% | 4.0% | 7.5% |
| Prime Outer London | 5.0% | -4.0% | 0.0% | 2.5% | 2.5% | 5.9% |

**Prime rental market forecast** 2022-2026

| | 2022 | 2023 | 2024 | 2025 | 2026 | 5 year cumulative |
|---|---|---|---|---|---|---|
| Prime Central London | 15.0% | 6.0% | 3.5% | 3.0% | 3.0% | 33.9% |
| Prime Outer London | 12.0% | 6.0% | 3.5% | 3.0% | 3.0% | 30.4% |

Forecasts relate to average prices in the second hand market. New build vaules may not move at the same rate.

Source: Knight Frank Research

## 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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