

Prices fall in 2020

*Lettings imbalance
persists*

*Latest five-year
forecasts*



London Residential Review

Q1 2021

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PRIME LONDON SALES MARKET INSIGHT

Sales market finishes down in 2020 but 2021 should deliver a return to price growth as the economy opens up

With England in a third national lockdown, assessing how short-term sentiment will change in the capital remains complex.

While some form of lockdown may remain in place into Q2, any evidence that the vaccination programme is limiting the impact of Covid-19 may begin to encourage more activity in the market.

In the first three weeks of January, prospective buyers registering in London remained 17% ahead of the five-year average, demonstrating appetite to buy remains.

Yet there has been a subtle shift in sentiment, with the prospect of more sellers holding off due to Covid-related uncertainty during the first weeks of 2021. This pent up supply saw appraisals for sale in London trailing the five-year average by more than a third in January. As a result of these developments we have revised our forecast (see London and UK Price Forecast on page 6).

The London property market was shaped by the search for space during 2020 and restrictions on international travel. This played to prime outer London's (POL) strengths and disproportionately curbed demand

prime central London (PCL).

It also saw the annual price change in PCL and POL reach its widest point in 2020 during December, with average prices in PCL down 4.3% during 2020, while the annual decline in POL was 3.2% (see fig. 1).

Uncertainty ahead of the Brexit deal signed late last month also played its part. The number of viewings in the week to 12 December in PCL was 11% below the five-year average, while in POL the figure was 27% above the five-year average.

Overall, the relatively muted price performance since the market re-opened in May underscores how the release of pent-up demand has been balanced by fragile economic sentiment.

However, momentum is building in higher-value markets across London, which has been particularly notable between £5 million and £10 million (see fig. 2).

The increase reflects growing demand for houses, which tend to be more numerous in this price bracket and more in-demand among domestic buyers.

NOTED

4.3%

Annual price fall in prime central London during 2020

3.2%

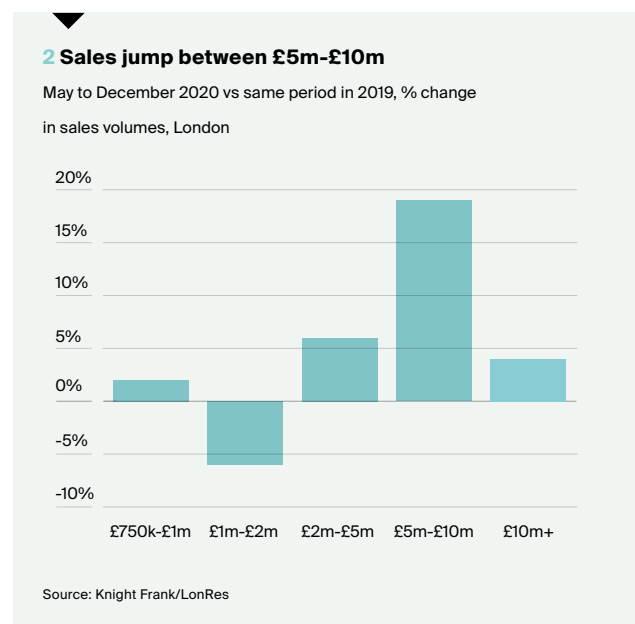
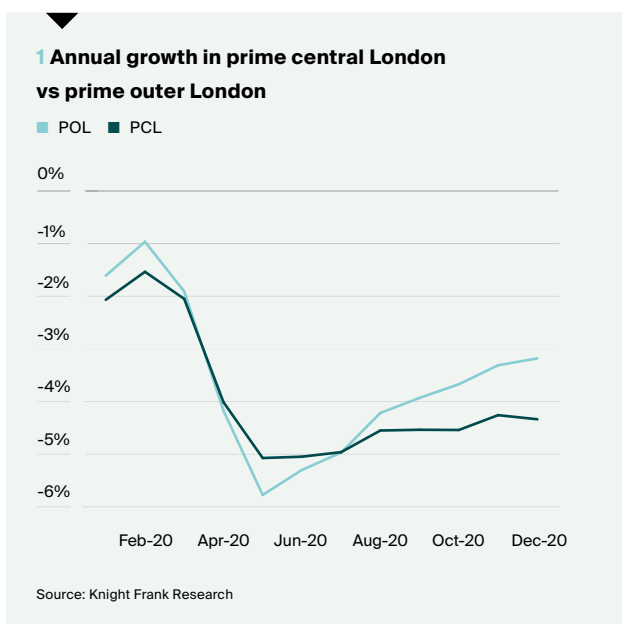
Annual price fall in prime outer London during 2020

3%

Forecast increase in prime central London prices in 2021, with price growth in the Greater London area expected to be 1%

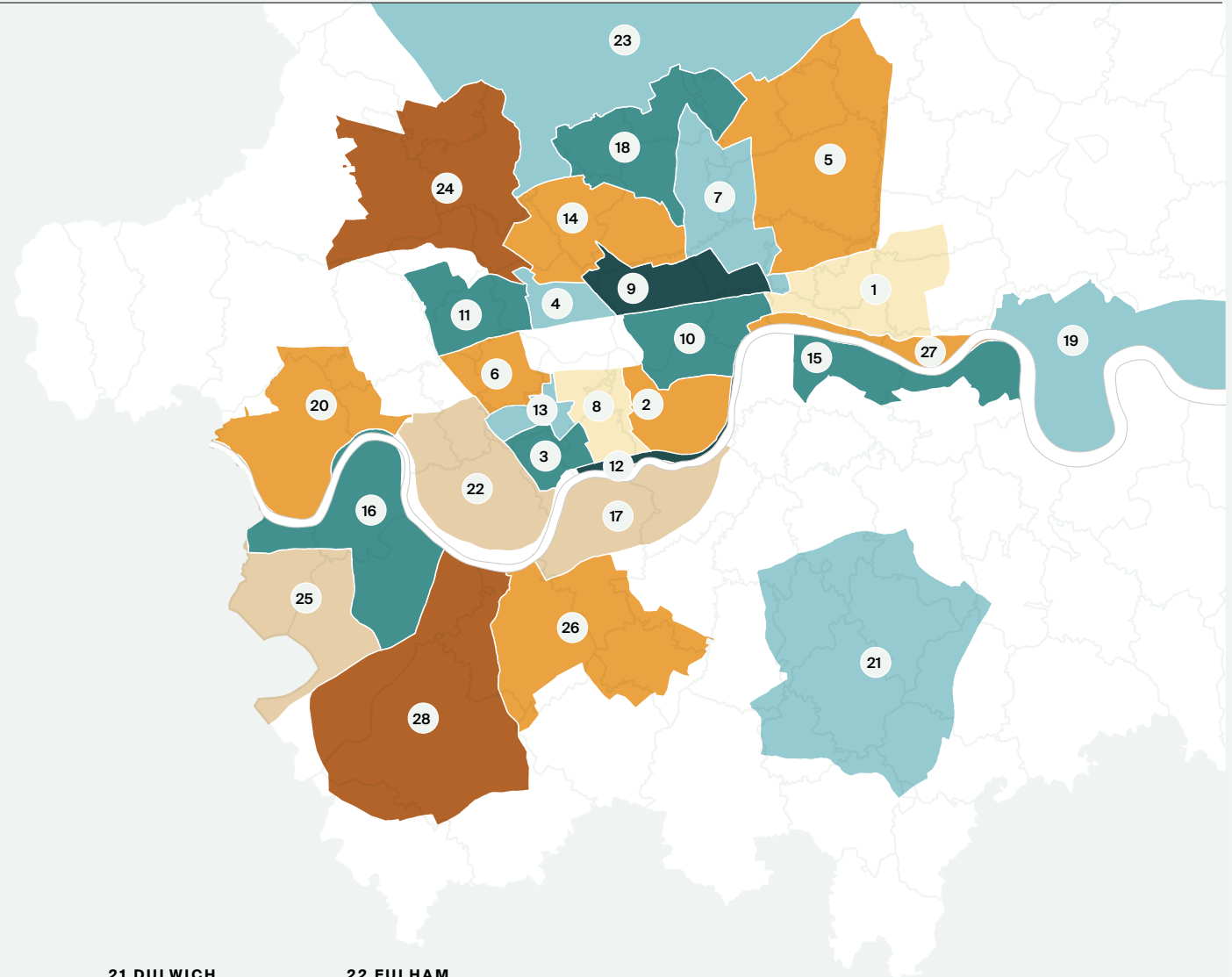
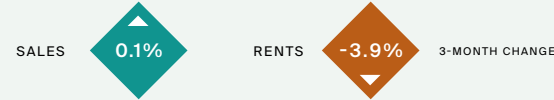
"Overall, the relatively muted price performance since the market re-opened in May underscores how the release of pent-up demand has been balanced by fragile economic sentiment."

TOM BILL
HEAD OF UK RESIDENTIAL RESEARCH

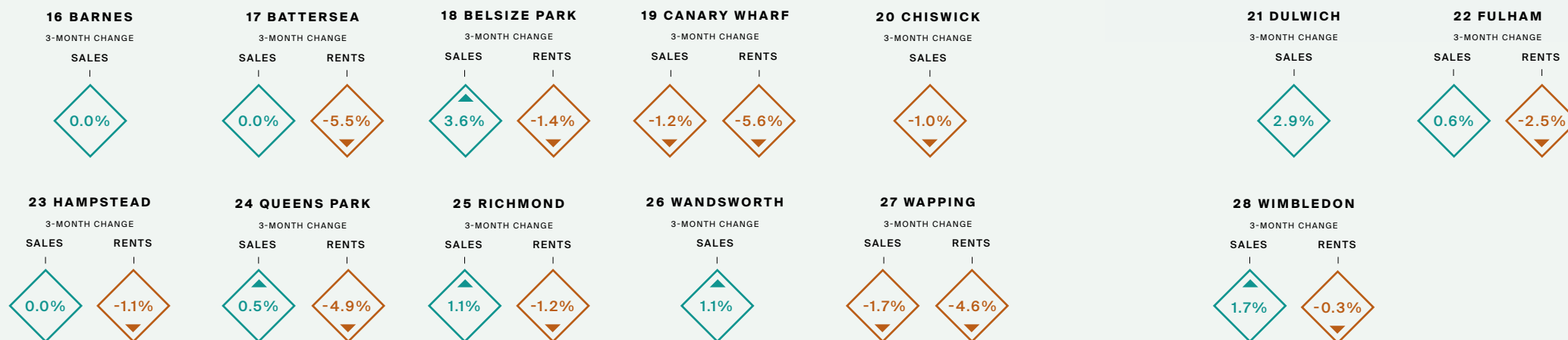
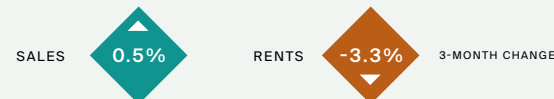


PRIME LONDON PRICE AND RENTAL GROWTH, DECEMBER 2020

PRIME CENTRAL LONDON



PRIME OUTER LONDON



PRIME LONDON LETTINGS MARKET INSIGHT

Tenants are taking advantage of the downwards pressure on rents and the market remains active

The latest lockdown may further delay the recovery in rental values, after a year where supply outstripped demand against the backdrop of the pandemic.

Higher levels of supply and weaker demand continued to exert downwards pressure on rental values across prime London markets in the final months of 2020.

Average rents finished 2020 down 11.9% in prime central London and 9.8% in prime outer London.

Supply has been pushed higher by a glut of short-term rental properties coming onto the long-let market due to the pandemic. Demand from international students and corporate tenants has also been weaker due to Covid-19 and associated international travel restrictions.

The impact of this supply/demand imbalance had started to weaken over the summer but tougher lockdown measures, including a second national lockdown in November, pushed rental values down for a second time in 2020 (see fig. 3) before the latest national lockdown.

What is also apparent is that central London has been more

impacted than outer areas including south-west London, where a stronger sales market means fewer rental properties have come onto the market. For example, the decline was 3.2% in Wimbledon and 4.2% in Hampstead during 2020.

Despite the declines, the number of tenancies started remains well above the five-year average (see fig 4). Many tenants are moving due to a need for more space or to be closer to work, while also taking advantage of lower rents.

In Canary Wharf prospective tenants are looking to be able to walk to work, highlighting an interesting consequence of the pandemic in the capital. In Q4 2020, viewing numbers in Canary Wharf increased by 124% compared to the same period in 2019. This compared to a London-wide average rise of 53%.

As the Covid-19 vaccine roll-out programme gathers pace, travel restrictions are relaxed, and London returns to something closer to normality, the supply and demand gap should begin to close this year, which could see the current trend reverse.

NOTED

11.9%

Annual rental value fall in PCL during 2020

9.8%

Annual rental value decline in POL during 2020

124%

Increase in viewings by prospective tenants in Canary Wharf during Q4 2020.

◆ ◆

“What is also apparent is that central London has been more impacted than outer areas including south-west London, where a stronger sales market means fewer rental properties have come onto the market.”

◆ ◆

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3 Rental values dipped in prime London after the summer

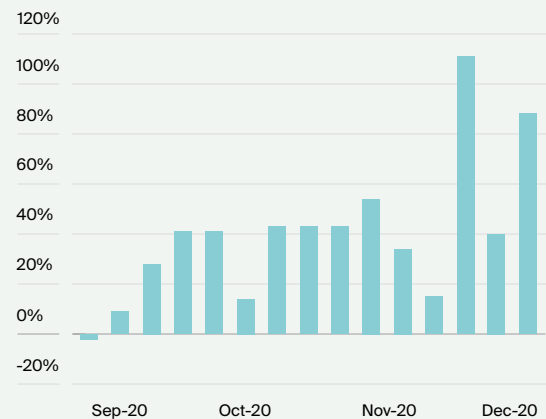
■ POL ■ PCL



Source: Knight Frank Research

4 Tenancies rise as rents fall

Weekly % change in tenancies started vs five-year average.



Source: Knight Frank Research

LONDON AND UK PRICE FORECAST - 2021 TO 2025

We expect UK prices to be flat over the course of this year (the previous figure was +1%) and have also removed a percentage point from our forecasts for prime central and prime outer London.

While the short-term economic outlook has deteriorated, the end of the furlough scheme will not necessarily have a materially negative impact on house prices by itself.

Although the end of the stamp duty holiday will curb demand, the

Covid-19 vaccine rollout means any cliff-edge will feel less precipitous by the start of April.

In Greater London, we expect prices to be broadly flat this year, with a forecast of 1% growth reflecting the greater resilience of the economy in the capital as support measures are unwound. Beyond this year, we expect the UK to outperform due to affordability constraints in London as demand is pushed further into the regions.

A period of price inflation is overdue in the capital, despite the introduction of a 2% stamp duty surcharge in April. Between 2021 and 2025 we forecast that prices in PCL will outperform the market, with a cumulative increase over the period of 25%. The cumulative price increase in POL from 2021 to 2025 is expected to be 23%, meaning prime London markets will outpace the UK, Greater London and prime regional markets during this time.

	2021	2022	2023	2024	2025	CUMULATIVE 2021 - 2025
PCL	3%	6%	5%	4%	5%	25%
POL	4%	4%	4%	4%	5%	23%
PRIME REGIONAL	4%	5%	3%	3%	4%	20%
UK	0%	3%	4%	4%	5%	17%
GREATER LONDON	1%	2%	3%	3%	4%	14%

Please get in touch with us

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