Transactions surge in March

Rental declines bottom out

Latest five-year forecast

knightfrank.com/research

London Residential Review

Q2 2021

PRIME LONDON SALES MARKET INSIGHT

Record breaking activity lays the ground for sustained momentum into the summer as the economy reopens

March proved to be a record-breaker in the capital's sales market.

While January and February saw high levels of transactional activity and strong buyer demand, the combination of a stamp duty holiday, positive economic data and the pace of the vaccine roll-out, saw March's activity reach a new level.

March saw the highest number of exchanges, offers made, offers accepted and new prospective buyers registering with Knight Frank, in 10 years in London.

It also saw viewings and market valuation appraisals move ahead of the five-year average for the first time in 2021, after a period characterised by limited supply, as sellers held-off due to the pressures of home schooling during the lockdown and concerns about new Covid-19 variants.

The stamp duty holiday, initially due to end in March but deferred by six months with a taper, would have been less of a motivating factor in prime markets in the capital. However, the introduction of a 2% stamp duty surcharge for overseas buyers from April will have driven activity despite travel restrictions (passenger numbers through Heathrow were down 83% on an annual basis in March).

Consequently, the number of transactions in prime central London (PCL) was the highest it has been since March 2016, combined LonRes and Knight Frank data shows. There was a spike in activity in March 2016 ahead of a 3% stamp duty surcharge that was introduced the following month.

Removing that anomaly, the last time sales volumes were as high in PCL was July 2014, six months before a stamp duty increase in December.

In prime outer London (POL), transaction numbers also climbed to their highest level since March 2016. The previous high point was September 2015. Strong activity levels in POL, where there is a higher proportion of domestic buyers, demonstrates how the 2% overseas surcharge was only one of several factors driving activity in PCL.

The annual price decline in PCL was 3.5% in March, the smallest decline since the onset of the pandemic. In POL, average prices fell by 1.4%, which was the smallest decline since last February.

NOTED

3.5%
Smallest annual decline in prime central London prices in March 2021 since the start of the pandemic

2%
Forecast increase in prime central London prices in 2021, revised down from 3% due to enduring international travel restrictions

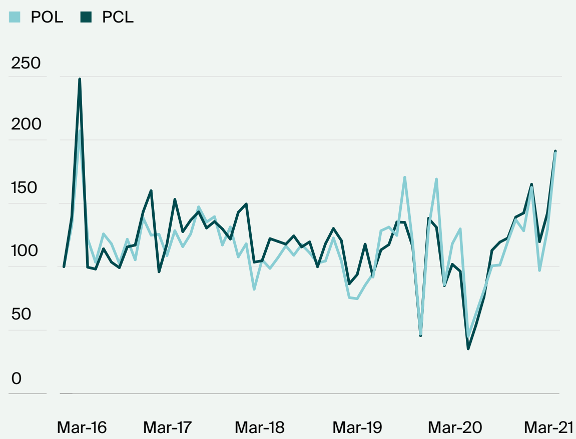
83%
Decline in passenger numbers at Heathrow airport in the year to March

"March saw the highest number of exchanges, offers made, offers accepted and new prospective buyers registering with Knight Frank, in 10 years."

TOM BILL

HEAD OF UK RESIDENTIAL RESEARCH

1 Prime London property market most active in five years (Jan 2016 =100)



Source: Knight Frank Research

2 Annual price growth in prime central London and prime outer London

Source: Knight Frank Research

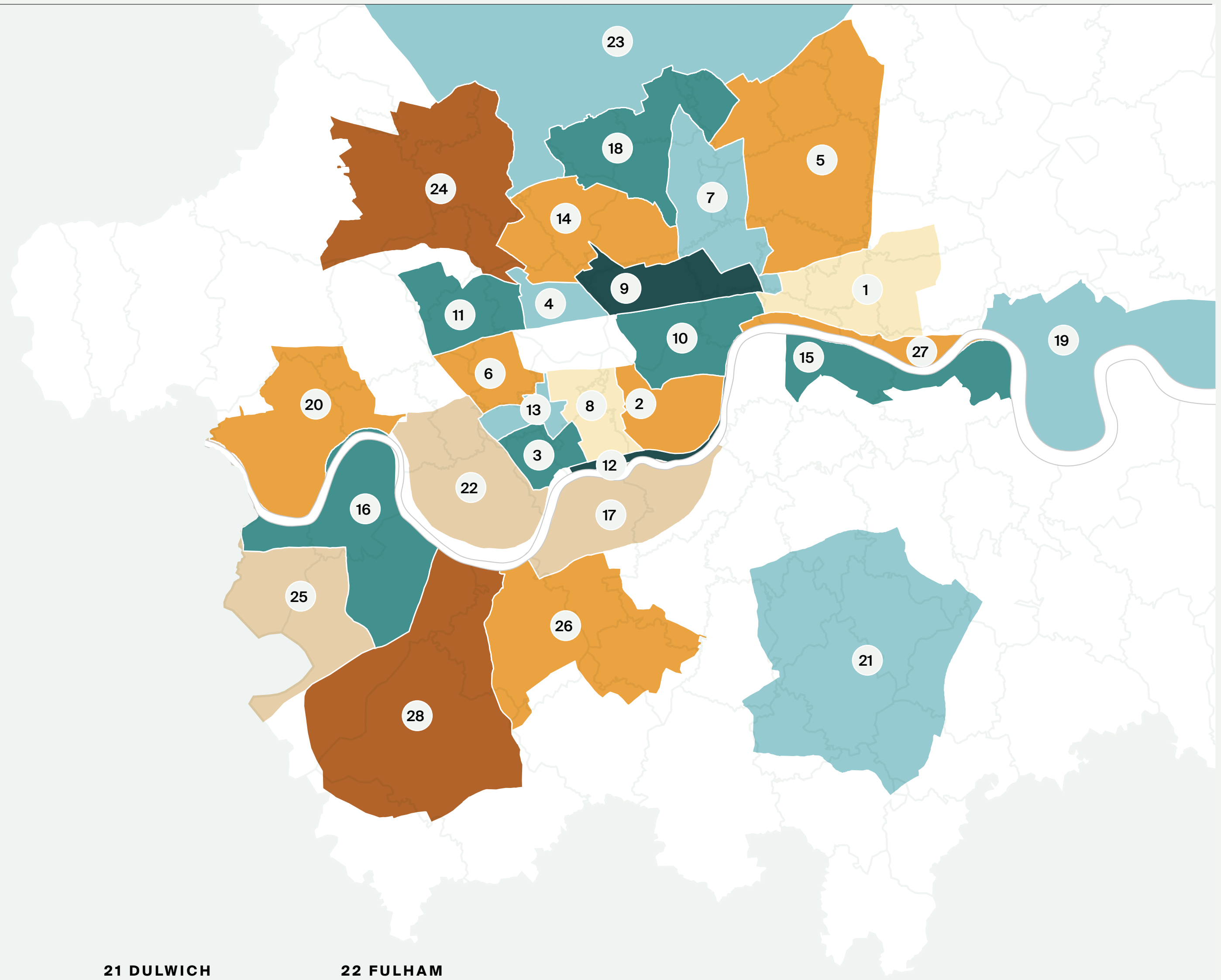
PRIME LONDON PRICE AND RENTAL GROWTH, MARCH 2021

Knight Frank

PRIME CENTRAL LONDON

SALES 0.1% RENTS -3.4% 3-MONTH CHANGE

	3-month change: Sales	3-month change: Rents
1 ALDGATE	-1.1%	-1.6%
2 BELGRAVIA	0.4%	-1.1%
3 CHELSEA	0.0%	-1.4%
4 BAYSWATER	0.1%	-4.0%
5 ISLINGTON	0.6%	-3.8%
6 KENSINGTON	0.3%	-0.9%
7 KING'S CROSS	0.3%	-5.5%
8 KNIGHTSBRIDGE	0.3%	-1.0%
9 MARYLEBONE	0.3%	-3.0%
10 MAYFAIR	0.0%	-7.5%
11 NOTTING HILL	-0.2%	-4.1%
12 RIVERSIDE	0.0%	-7.5%
13 SOUTH KENSINGTON	0.0%	-1.2%
14 ST JOHN'S WOOD	0.3%	-3.8%
15 TOWER BRIDGE	0.1%	-4.9%



PRIME OUTER LONDON

SALES 0.9% RENTS -2.4% 3-MONTH CHANGE

	3-month change: Sales	3-month change: Rents
16 BARNES	0.1%	
17 BATTERSEA	0.0%	-6.0%
18 BELSIZE PARK	1.0%	-0.1%
19 CANARY WHARF	-1.0%	-2.3%
20 CHISWICK	0.0%	
21 DULWICH	2.2%	
22 FULHAM	-0.1%	-4.1%
23 HAMPSTEAD	0.1%	1.5%
24 QUEENS PARK	1.6%	-3.1%
25 RICHMOND	1.2%	-1.6%
26 WANDSWORTH	0.2%	
27 WAPPING	0.4%	-2.6%
28 WIMBLEDON	7.3%	1.3%

PRIME LONDON LETTINGS MARKET INSIGHT

Rental declines may have bottomed out as demand grows faster than supply for the first time since the start of the pandemic

Average rents in prime central London declined 14.3% in the year to March, continuing a pattern established over the course of the pandemic.

While supply has spiked due to the closure of the short-let market, demand has been curtailed by international travel restrictions. There are signs that is beginning to change.

The annual decline of 14.3% in PCL suggests rental value declines are bottoming out, as figure 3 below shows. It was the smallest increment in the annual decline since the start of the pandemic 12 months ago, having widened from 14.1% in February.

A more significant shift took place in prime outer London. Average rents fell by 11.4% in March, which compared to 11.7% in February. It was the first time the annual decline had shrunk since February 2020.

Furthermore, demand grew faster than supply in PCL last month for the first time since November 2019 (figure 3). The number of new prospective tenants increased by 167% in March compared to the same month last year. Meanwhile the number of market valuation appraisals rose by 127% over the same period.

With the UK economy being gradually reopened and high demand for "staycations" forecast this year, there will be a longer-term reduction in the quantity of stock on the long-let market, which should help ease downwards pressure on rental values.

Meanwhile, the number of tenancies started in the first two months of this year was 5% higher than last year as tenants took advantage of falling rents.

The travel restrictions that have affected the sales market have also had a marked impact on the super-prime (£5,000+/week) lettings market in London. There were 15 tenancies agreed in first two months of 2021, which is the quietest start to the year in five years.

In 2020, there were 137 super-prime tenancies agreed in London, a 11% decline on the previous year (154) due to the impact of Covid-19. However, 87 of these were signed between July and December, making it the second most active equivalent period in the last seven years, LonRes data shows.

NOTED

14.3%
Decline in rental values in the year to March in prime central London

153%
Annual increase in prospective tenants in prime central London in March

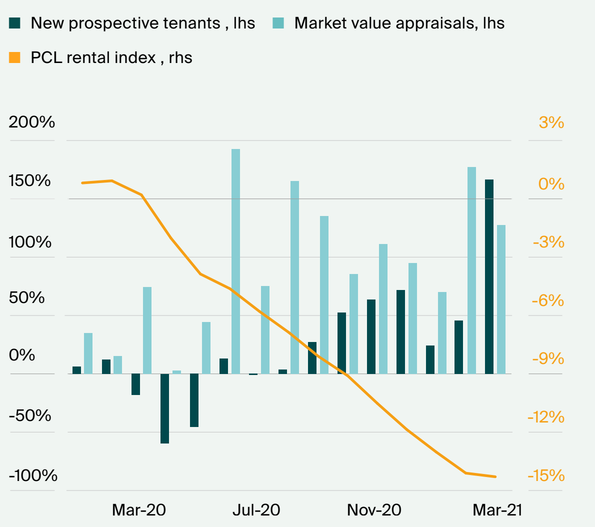
127%
Annual increase in market valuation appraisals in prime central London in March

"The annual decline of 14.3% in PCL suggests rental value declines are bottoming out. It was the smallest increment in the annual decline since the start of the pandemic 12 months ago."

TOM BILL

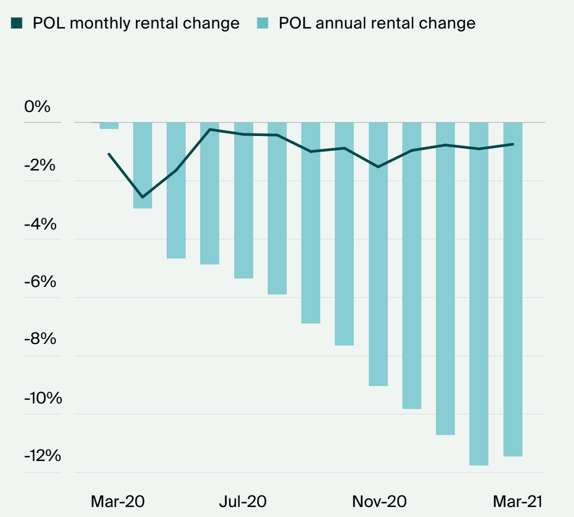
HEAD OF UK RESIDENTIAL RESEARCH

3 Rental value declines in PCL bottom out



Source: Knight Frank Research

4 POL annual and monthly rental change



Source: Knight Frank Research

LONDON AND UK PRICE FORECAST - 2021 TO 2025

The stamp duty holiday and the furlough scheme extentions in the Budget in March have changed the landscape for the housing market in 2021, and we have revised our forecasts as a result.

We expect UK house prices to increase by 5% in 2021, rising from a forecast of zero at the start of this year. The strength of key market indicators in the first months of this year meant that an upwards revision was likely even before last month's Budget.

We now expect price growth in the UK to outperform Greater London as the impact of the tapered stamp duty holiday extension drives demand in lower-value markets more consistently through to the end of September.

Our forecasts for prime outer London and prime regional markets have remained largely unchanged as both areas continue to benefit from a drive for more space and greenery.

However, continued uncertainty around the relaxation of international travel restrictions means we have revised our 2021 forecast for prime central London down to 2% from 3%.

Furthermore, when international buyers return there is now an additonal 2% stamp duty surcharge in place. With no price growth due to the absence of international buyers in recent months, the surcharge has effectively been priced in, although a period of price discovery will take place when international buyers return in greater numbers.

	2021	2022	2023	2024	2025	CUMALITIVE 2021 - 2025
PCL	2%	7%	5%	4%	5%	25%
POL	4%	4%	4%	4%	5%	23%
PRIME REGIONAL	4%	4%	3%	3%	4%	19%
UK	5%	4%	4%	4%	5%	24%
GREATER LONDON	4%	4%	3%	3%	3%	18%

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.

James Clarke
Head of London Sales
+44 20 3826 0625
james.clarke@knightfrank.com

Gary Hall
Head of Lettings
+44 20 7480 4474
gary.hall@knightfrank.com

Tom Bill
Head of UK Residential Research
+44 20 7861 1492
tom.bill@knightfrank.com

Chris Druce
Senior Research Analyst
+44 20 7861 5102
chris.druce@knightfrank.com

Recent Publications

The Wealth Report 2021

London Super Prime Lettings – Spring 2021

New York Focus 2021

Active Capital

Knight Frank Research Reports are available at knightfrank.com/research

Knight Frank