London prices continue climbing

Lettings remain a landlord's market

New five-year forecasts published

Knight Frank

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London Residential Review

Q2 2022

PRIME LONDON SALES MARKET INSIGHT

London recovery gathers pace as pandemic impact recedes

The price recovery gathered pace in London markets during the first three months of 2022 as the pandemic faded and demand rebounded.

In prime central London (PCL), average prices grew by 2.1% in the year to March (fig. 1), which was the strongest annual rate of growth since May 2015.

In addition to the re-opening of the economy, relatively good value is driving demand in central London after six years of subdued activity.

Average prices in PCL in March were 16% lower than they were at the start of 2016. That compares to a 9% decline in prime outer London (POL) and a 13% increase in country markets.

Prices fell in PCL as it bore the brunt of tax changes and political uncertainty in the wake of the Brexit vote in June 2016, and buyers increasingly recognise there are areas of good value.

Underlining the strength of demand, the number of new prospective buyers in PCL was 85% higher than the five-year average in the first quarter of this year (fig. 2). That compared to an increase of 72% across the whole of London and 42% in UK regional markets.

The key influence on the future performance of the market will be the return of international buyers. However, given the current extent of lockdowns in some parts of the world, the return is likely to be more gradual than transformational.

This suggests stronger price growth will only return next year when overseas demand starts to exert more of an impact (see our newly published forecasts on page 6 for more) with annual price growth of 3.5% expected for PCL in 2022.

In 2023 we expect average price growth to reach 6%, and PCL will be the top performing part of the residential property market in the five years to 2026.

We expect prices in POL to peak this year at 4%, with lower growth after this. Average prices increased by 4.4% in the year to March, which was also the strongest rate of growth since May 2015.

While prime outer areas of the capital continue to benefit from the so-called 'race for space', we expect demand to soften as mortgage rates rise and the cost-of-living squeeze intensifies. Rising supply will also increase downwards pressure on prices.

NOTED

85%

Increase in new prospective buyers in PCL during Q1 2022 versus the five-year average.

16%

Average prices are 16% lower in PCL than they were at the start of 2016.

4.4%

Average price increase in POL in the year to March, which was the strongest rate of growth since May 2015.

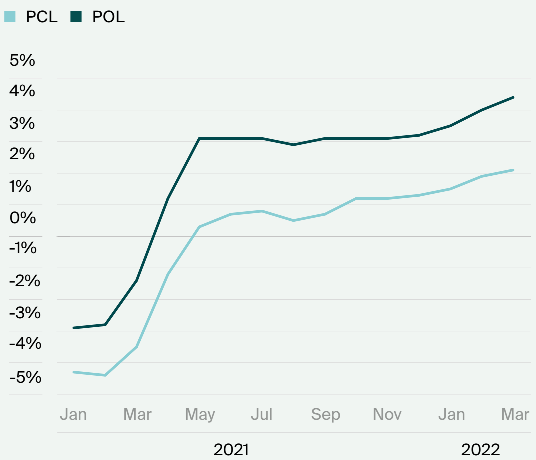
"In addition to the re-opening of the economy, relatively good value is driving demand in central London after six years of subdued activity."

TOM BILL

HEAD OF UK RESIDENTIAL RESEARCH

1 Price recovery gathers pace in the sales market

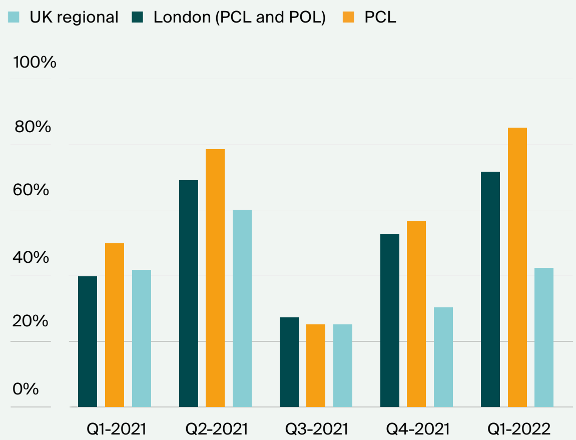
Annual % change



Source: Knight Frank Research

2 PCL demand outpaces London and UK markets

New prospective buyers, Quarter versus 5-year average



Source: Knight Frank Research

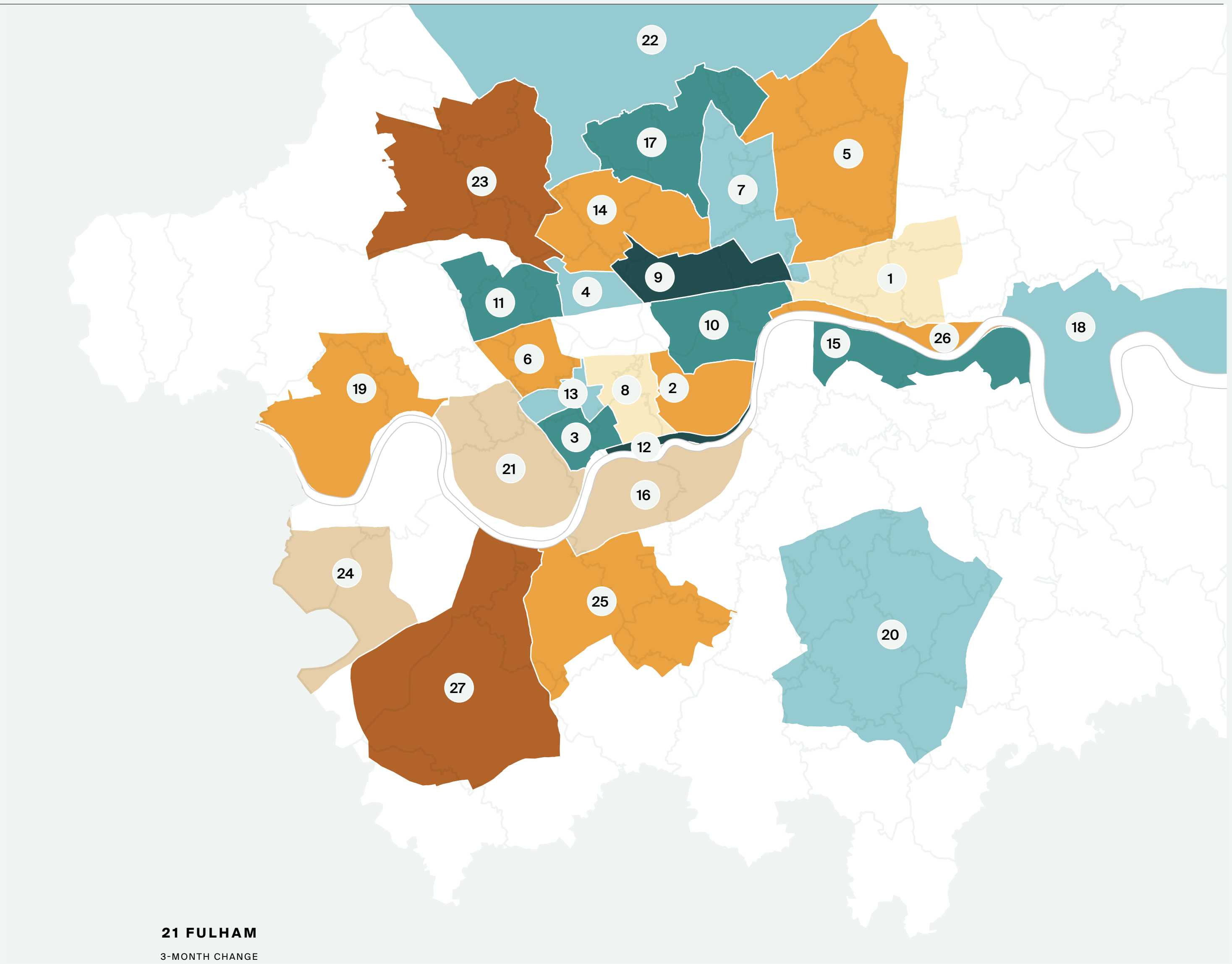
PRIME LONDON PRICE AND RENTAL GROWTH, MARCH 2022

Knight Frank

PRIME CENTRAL LONDON

SALES 1% RENTS 2% 3-MONTH CHANGE

3-MONTH CHANGE	SALES	RENTS
1 ALDGATE	-1%	2%
2 BELGRAVIA	2%	1%
3 CHELSEA	1%	1%
4 BAYSWATER	2%	2%
5 ISLINGTON	0%	2%
6 KENSINGTON	1%	3%
7 KING'S CROSS	0%	3%
8 KNIGHTSBRIDGE	0%	1%
9 MARYLEBONE	0%	1%
10 MAYFAIR	1%	1%
11 NOTTING HILL	1%	4%
12 RIVERSIDE	0%	2%
13 SOUTH KENSINGTON	4%	2%
14 ST JOHN'S WOOD	1%	1%
15 TOWER BRIDGE	1%	0%



PRIME OUTER LONDON

SALES 2% RENTS 2% 3-MONTH CHANGE

3-MONTH CHANGE	SALES	RENTS
16 BATTERSEA	4%	7%
17 BELSIZE PARK	1%	1%
18 CANARY WHARF	0%	1%
19 CHISWICK	2%	
20 DULWICH	2%	
21 FULHAM	2%	3%
22 HAMPSTEAD	0%	3%
23 QUEENS PARK	2%	5%
24 RICHMOND	2%	-1%
25 WANDSWORTH	6%	0%
26 WAPPING	1%	2%
27 WIMBLEDON	4%	-1%

PRIME LONDON LETTINGS MARKET INSIGHT

Rents on upwards trajectory in prime London markets

Landlords remained in the driving seat in the rental market across London in the first quarter, as the recovery in the lettings market maintained its momentum.

Low supply and high demand means that average rental values in prime central London (PCL) increased by 3.5% in the first three months of the year. In prime outer London (POL), there was a rise of 2.5%.

Annual growth has reached record levels due to how far rental values fell in the early months of last year, as the market became flooded with short-let rental properties due to pandemic staycation restrictions in what has been a rollercoaster period for the London lettings market.

Average rental values increased by 21% in POL and by 26.3% in PCL in the year to March (fig.3). Rents are now 8.2% higher than they were before the pandemic in PCL and 7.2% in POL.

We would expect annual growth to return to single digits later this year, due to the equally steep rise in rents that took place in the second half of last year as the return to the office and resumption of face to face teaching drove demand.

Rental growth in PCL is expected to be 8% this year and 3.5% next. For POL rental growth is expected to be 5% in POL in 2022, and 3.5% in 2023.

For now, demand is still outstripping supply, which means short void periods for landlords but a tough market for tenants. Although supply has been picking up, demand continues to grow more quickly, maintaining the imbalance.

The number of market valuation appraisals (a leading indicator of supply) was 25% higher in the year to March than the previous 12 months. At the same time, the number of prospective new tenants was 48% higher (fig. 4), and viewings were up 20%.

Furthermore, the number of leads from relocation agents in March reached its highest level since August 2019 in a sign that demand from overseas tenants will remain strong.

Leads were 211% higher than they were a year ago, as businesses pushed ahead with plans that had been put on hold during the pandemic and successive lockdowns.

NOTED

48%

Increase in new prospective tenants in London in the year to March versus the previous 12 month period.

26.3%

Average increase in rental values in PCL in the year to March. Rents are now 8.2% higher than they were before the pandemic in PCL.

21%

Average increase in rental values in POL in the year to March. Rents are now 7.2% higher than they were before the pandemic in POL.

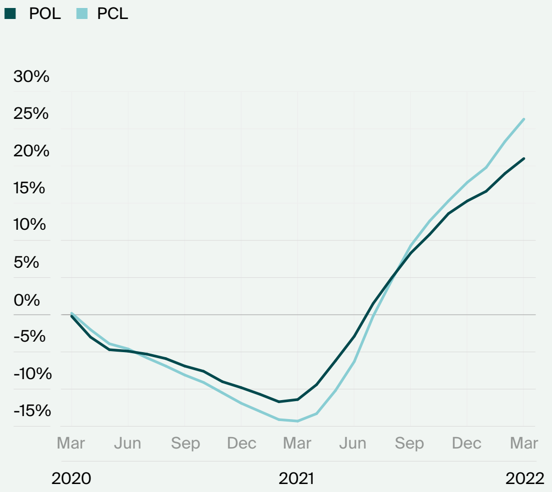
"Demand is still outstripping supply, which means short void periods for landlords but a tough market for tenants."

TOM BILL

TOM BILL, HEAD OF UK RESIDENTIAL RESEARCH

3 Prime London rents rebound

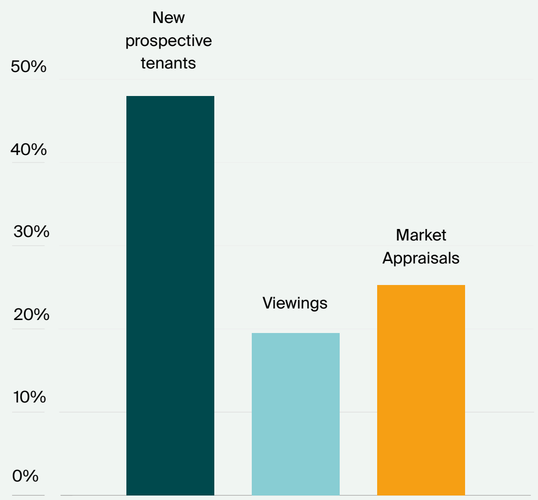
Annual % change



Source: Knight Frank Research

4 Demand outstrips supply in London lettings market

12 months to March 2022 vs 12 months to March 2021



Source: Knight Frank Research

FIVE-YEAR FORECAST – 2022 TO 2026

In PCL, we forecast 3.5% growth this year as the property market inside zone 1 continues its overdue recovery after six years of political uncertainty and tax changes.

We forecast that growth will be 6% in 2023 as the return of international buyers gathers pace. That is later than we previously anticipated and reflects how there is unlikely to be a single moment when overseas demand normalises.

In an echo of the wider UK market, we expect POL to continue to benefit from the ‘race for space’ this year, which is likely to tail off from 2023.

The rental market in London continues to be marked by high demand and low supply, which we forecast will produce growth of 8% in PCL this year. We believe that rental value growth will normalise from next year and we expect increases of below 4% in PCL from 2023. We expect less of a marked imbalance in POL and following growth of 5% this year, we forecast 3.5% next year.

Prime sales market forecast 2022-2026

	2022	2023	2024	2025	2026	5 year cumulative
Prime Central London	3.5%	6.0%	5.0%	3.0%	3.0%	22.2%
Prime Outer London	4.0%	3.0%	3.0%	2.5%	2.5%	15.9%

Source: Knight Frank Research

Prime rental market forecast 2022-2026

	2022	2023	2024	2025	2026	5 year cumulative
Prime Central London	8.0%	3.5%	3.5%	3.0%	3.0%	22.7%
Prime Outer London	5.0%	3.5%	3.5%	3.0%	3.0%	19.3%

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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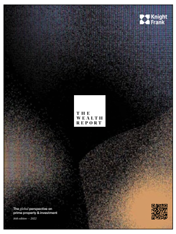

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