London Residential Review

Q2 2023

Knight Frank's quarterly analysis of the prime London sales and lettings markets

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Prime London Sales Market

London recovery continues in Q1 after mini-Budget shock

The further we get from last year's poorly-received mini-Budget the brighter the outlook has become for the prime London sales market.

If the final quarter of 2022 was about coming to terms with the immediate impact of Kwasi Kwarteng's fiscal announcement, which saw mortgage rates spike, the first months of this year have been about buyers and sellers putting that period behind them.

Indeed, demand for apartments in Prime Central London (PCL) has risen steadily as overseas buyers have re-entered the market after a Covid-enforced hiatus.

The number of passengers arriving at Heathrow in March was down 5% compared with the same month in 2019. The equivalent drop in 2021 was 91%. As a result, the proportion of flat sales in PCL in Q4 2022 was 73%, which was the highest level in three years, Knight Frank data shows.

Despite the new economic landscape for international and domestic buyers, by March the London prime sales market found itself in a position that could be described as "reassuringly uneventful".

If you compare the 12-month period to February with the preceding year, a whole range of indicators show little change.

This is not a property market averse to dramatic movements, with PCL prices falling 24% in the year to March 2009 as the Global Financial Crisis kicked in. This was followed by a 20% increase over the subsequent 12 months as PCL property became a target of safe haven investors.

In March 2023, average prices were just 1% lower than three years ago, when the pandemic first struck. Over the last 12 months, the movement has been even smaller (+0.5%).

It has been slightly more eventful in prime outer London (POL), with average prices in March 2.4% higher than a year ago after a flat six months (see fig. 1).

It's not only prices that have been subdued. The number of sales in the year to March was unchanged on the previous 12 months. Meanwhile, new prospective buyers were down 1% as were viewings.

The one real change was supply, with the number of instructions was up 20% in the year to March versus the previous year (see fig.2). This return to more normal stock levels after the tight conditions of the pandemic partly explains why annual price growth has remained subdued.

However, we don't expect a return to double-digit price changes soon.

73%

The proportion of flat sales in PCL in Q4 2022, which was the highest level in three years

20%

The increase in instructions in the year to March versus the previous period signposts a return to more normal stock levels

5%

The number of passengers arriving at Heathrow in March was down 5% compared with the same month in 2019

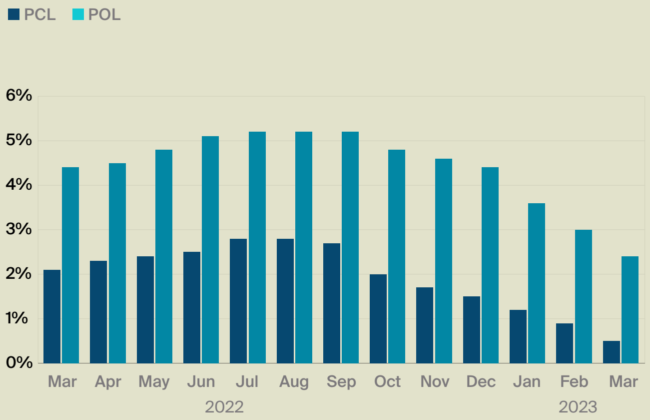
2.4%

Average price growth in POL in the year to March (compared to a 1% decline in PCL)

> "The further we get from last year's poorly-received mini-Budget the brighter the outlook has become for the prime London sales market."

Tom Bill, Head of UK Residential Research

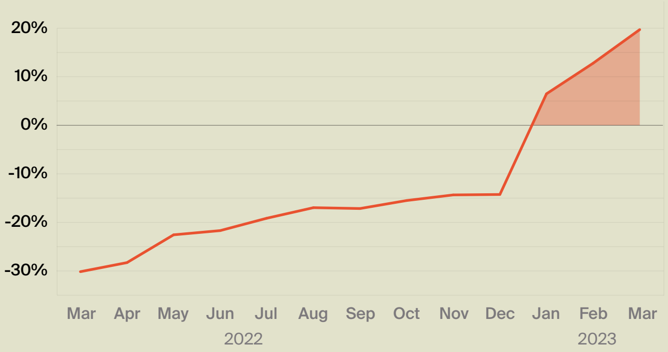
Fig 1: Prime London annual % price growth



Source: Knight Frank Research

Fig 2: Supply in London sales market normalising

London instructions, year on year % change



Source: Knight Frank Research

Prime London price and rental growth

March 2023, 3 month % change

Prime central London

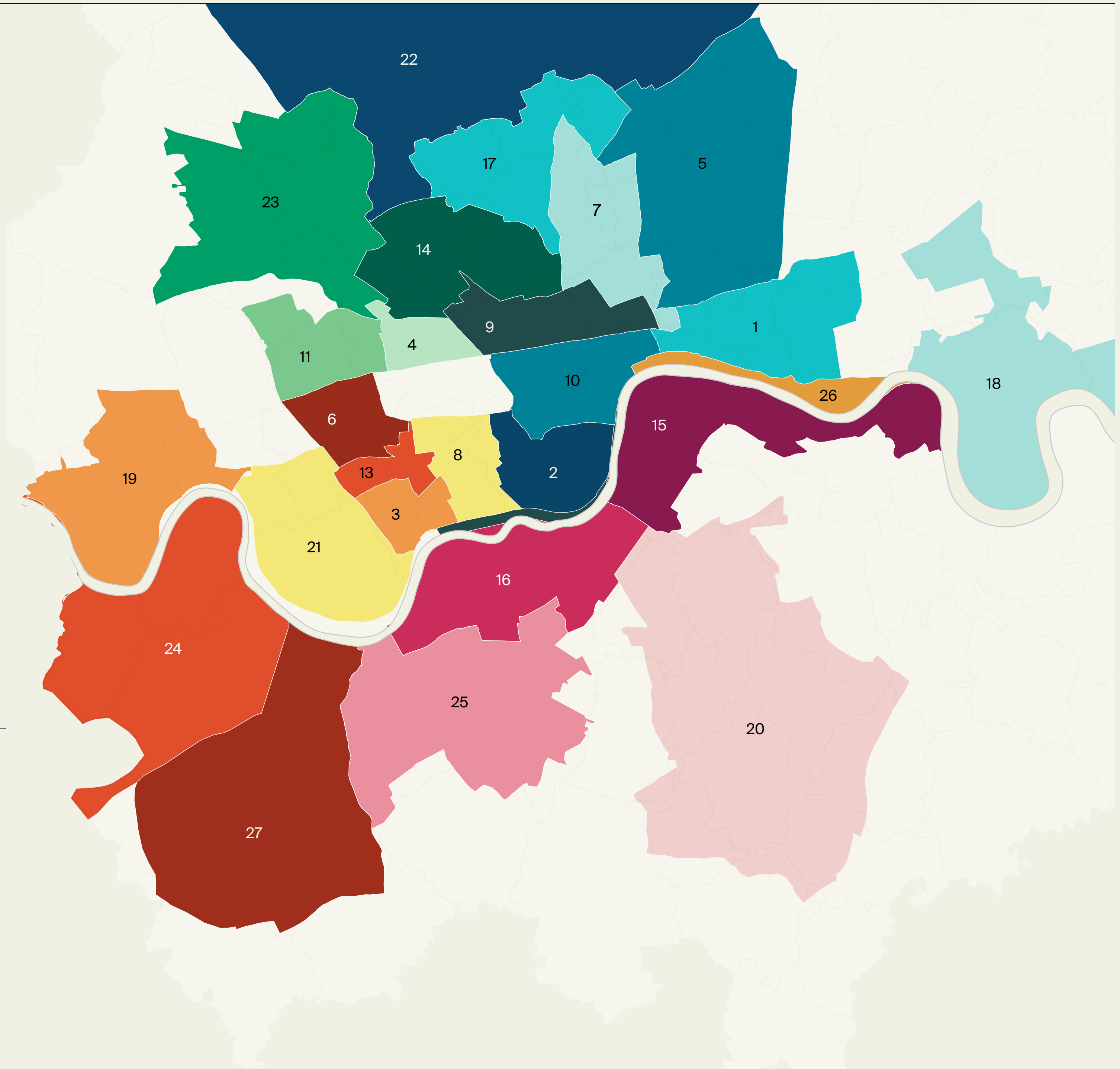
	Sales	Rents
Prime central London	-0.2%	2.7%

Area	Sales	Rents
1 Aldgate	-2.4%	1.3%
2 Belgravia	0.5%	2.0%
3 Chelsea	-0.7%	0.0%
4 Hyde Park	-0.5%	4.8%
5 Islington	1.3%	3.9%
6 Kensington	-0.1%	1.4%
7 King's Cross	-0.2%	-1.1%
8 Knightsbridge	1.1%	3.0%
9 Marylebone	0.4%	5.4%
10 Mayfair	-0.8%	2.9%
11 Notting Hill	0.0%	3.3%
12 Riverside	-1.5%	5.1%
13 South Kensington	-1.5%	1.9%
14 St John's Wood	0.4%	1.2%
15 Tower Bridge	0.8%	2.5%

Prime outer London

	Sales	Rents
Prime outer London	0.2%	2.0%

Area	Sales	Rents
16 Battersea	-1.0%	4.8%
17 Belsize Park	1.1%	1.2%
18 Canary Wharf	-0.2%	-1.0%
19 Chiswick	-0.4%	
20 Dulwich	0.0%	
21 Fulham	0.2%	-1.8%
22 Hampstead	0.0%	0.5%
23 Queens Park	2.0%	6.9%
24 Richmond	-0.2%	5.5%
25 Wandsworth	1.6%	-0.5%
26 Wapping	-0.3%	2.2%
27 Wimbledon	0.1%	0.1%



Increase Decrease No change

Prime London Lettings Market

Strength of sales market keeps lettings supply tight

In the three years since the pandemic struck, rental values have risen by 27% in prime central London (PCL) and by 23% in prime outer London (POL).

Rents have been pushed higher by stock shortages over the last 18 months, while the re-opening of offices and universities has boosted demand. Supply has struggled to keep pace as owners took advantage of a resurgent sales market, which was turbo-charged by a stamp duty holiday. Prospective landlords have also been put off by tax hikes in recent years and the prospect of further legislative changes, intensifying upwards pressure on rents.

The frenetic conditions of the last 18 months have calmed down but not disappeared altogether. Annual rental value growth in March was 16.9% in PCL and 15.2% in POL, the lowest figures since November 2021.

Although the numbers compare to 25%-plus this time last year, they are still high by historical standards.

Back in January there were the first signs that supply was increasing, as rising mortgage rates and downward pressure on prices in the sales market tempted more property owners to consider letting. It didn't last.

A better-than-expected sales market means lettings supply has not risen to the extent some expected. It has produced fewer so-called 'accidental landlords', or owners that decide to let out their property after failing to achieve their asking price.

New listings in London in February were down by around a third versus the five-year average, Rightmove data shows.

For higher-value properties, lettings supply is less scarce because owners are typically more discretionary about their options and more have chosen the rental route in recent months due to the economic turbulence.

The number of market valuation appraisals, which is a leading indicator of supply, was 44% higher than the five-year average for properties valued at less than £1,000 per week in March in London. Between £1,000 and £5,000 per week, there was a 166% increase (see fig. 3).

The greater supply of higher-value properties is reflected in lower levels of rental value growth (see fig. 4)

Ultimately it means prospective tenants could face the frustration of supply that stays lower for longer, with the market some way from equilibrium.

166%

Increase in market valuation appraisals in London between £1,000 and £5,000 per week in March versus the five-year average.

44%

The increase in market valuation appraisals in London under £1,000 per week in March versus the five-year average

27%

The average increase in rental values in PCL since the pandemic

15.2%

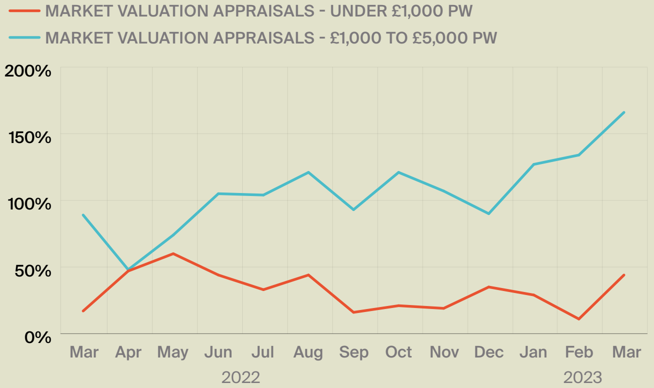
Annual rental growth remains at a historically high level. However, rental growth of 15.2% in POL in March was the smallest annual increase since November 2021

> "A better-than-expected sales market means lettings supply has not risen to the extent some expected."

Tom Bill, Head of UK Residential Research

Fig 3: Lettings supply stronger in higher value bands

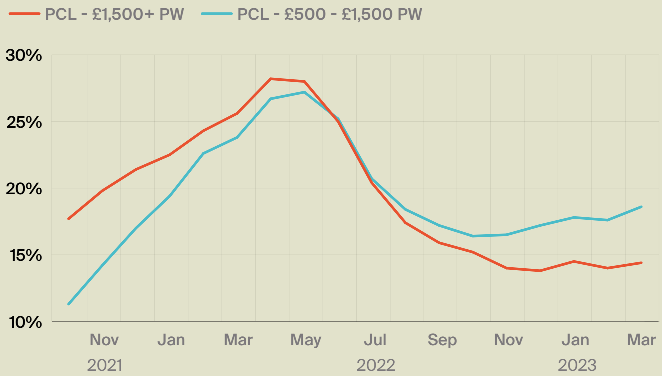
Monthly % change versus the 5-year average



Source: Knight Frank Research

Fig 4: Rental growth weaker in higher value bands

Annual % change



Source: Knight Frank Research

Prime property market forecast

We have updated our five-year UK housing market forecasts.

We still expect UK house prices to decline by around 10% over the next two years as the impact of higher mortgage rates takes its toll on affordability.

However, we expect any weakness to be shorter-lived and now forecast a 4% rise in 2025.

We believe prime London markets will outperform the UK over the next several years due to the higher proportion of cash buyers, as well as the return of international travel. The currency discount and the fact average prices in prime central London are 15% down from the last peak in mid-2015 will also play their part.

In the prime London lettings market, supply looks like it may stay lower for longer, keeping upwards pressure on rental values, and our forecasts remain unchanged.

Sales market forecast 2023 - 2027

	2023	2024	2025	2026	2027	5 year cumulative
UK	-5.0%	-5.0%	4.0%	4.0%	5.0%	2.5%
PCL	-3.0%	0.0%	3.0%	4.0%	4.0%	8.1%
POL	-4.0%	1.0%	2.5%	2.5%	2.5%	4.4%

Rental market forecast 2023 - 2027

	2023	2024	2025	2026	2027	5 year cumulative
UK	4.0%	4.0%	3.5%	3.0%	2.5%	18.2%
PCL	6.0%	3.5%	3.0%	3.0%	3.0%	19.9%
POL	6.0%	3.5%	3.0%	3.0%	3.0%	19.9%

Source: Knight Frank Research

Forecasts relate to average prices for exisiting homes. New build prices many not move at the same rate.

Got a question? Do get in touch, and you can sign up for more analysis at knightfrank.com/research.

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