

*PCL price growth  
returns*

*Lettings imbalance  
reduces*

*Five-year forecasts*



# London Residential Review

Q3 2020

knightfrank.com/research



## PRIME LONDON SALES MARKET INSIGHT

*Prime central London registered its first quarterly price growth in Q3 since February as momentum continued to build*

As England goes into a second national lockdown, the property market is due to remain open, which should allow momentum to continue building in prime London markets.

In an indication of how demand has picked up, quarterly price growth returned to the prime central London property market in September for the first time since February this year (see fig. 2).

An average increase of 0.2% was the same figure recorded during the so-called 'Boris bounce' that followed the general election in December 2019. While 'bounce' is not the best description for what happened between July and September, there was a notable recovery from the period of marked uncertainty that caused prices to fall in Q2.

In prime outer London, September marked the second consecutive month of rising prices over a three-month period (+0.8%). This stronger performance has been driven by an increase in demand for family houses and more outdoor space since the lockdown.

Demand remains strong compared to previous years but there are signs it won't be as resurgent during Q4

as it was in Q3. The number of new prospective buyers registering in London was 49% above the five-year average in the week ending 10 October. That increase has halved since July and August.

As winter approaches, sentiment will remain key. UK economic forecasts have been downgraded in light of the second lockdown, however, activity in the property market is likely to remain high given the length of time it will take to complete deals agreed after the market re-opened in May. While the twin uncertainties of Brexit and the pandemic may deter some, the heightened stakes around what a no-deal would mean are one reason there is a growing belief that an agreement between the UK and EU will be reached. The end to the stamp duty holiday in March is also likely to increase trading volumes in the first quarter of next year, leading some to call for an extension as parts of the conveyancing system struggle to cope.

While prices in PCL and POL are expected to decline by 3% this year, an increase of 4% and 5% respectively is forecast for 2021 as the market strengthens.

## NOTED

### 0.2%

First quarterly price growth in prime central London in September since February 2020

### 3%

Expected decline in prices this year in both prime central and prime outer London

### 5%

Forecast increase in prime central London property prices in 2021, with prime London expected to outperform the wider UK property market over the next five years

**"Activity in the property market is likely to remain high given the length of time it will take to complete deals agreed after the market re-opened in May."**

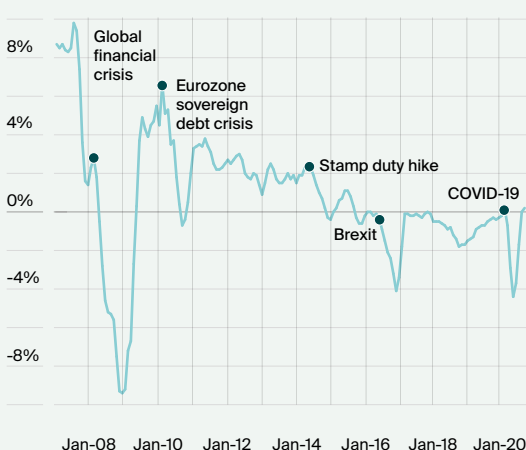


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### 1 Recovery times in prime central London

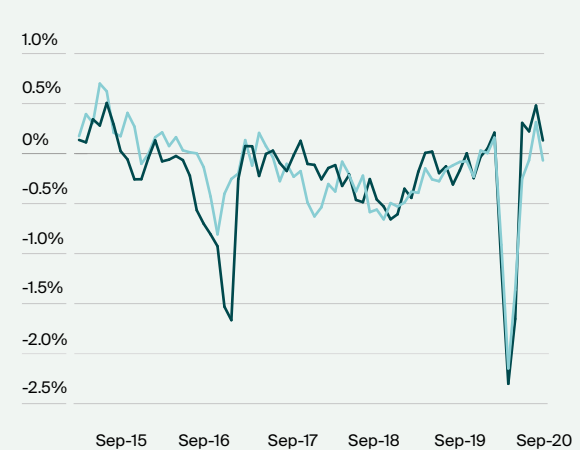
Quarterly price change (%)



Source: Knight Frank Research

### 2 Monthly % price change in prime London

POL PCL



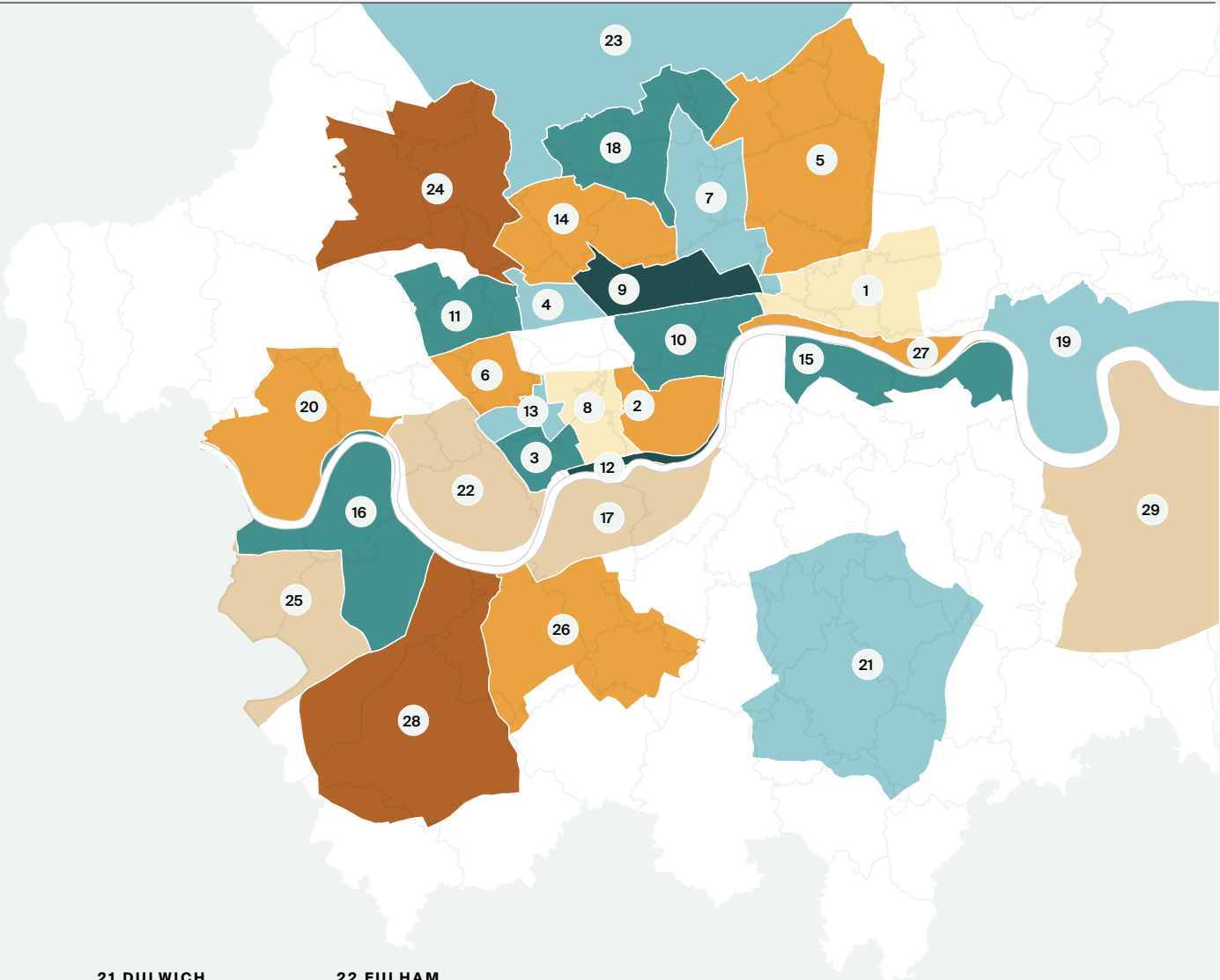
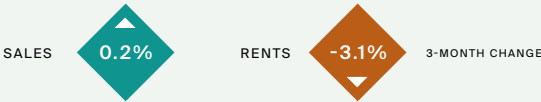
Source: Knight Frank Research



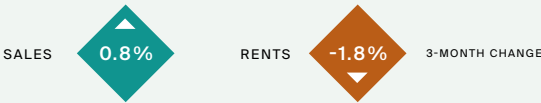
PRIME LONDON PRICE AND RENTAL GROWTH, SEPTEMBER 2020



PRIME CENTRAL LONDON



PRIME OUTER LONDON



## PRIME LONDON LETTINGS MARKET INSIGHT

*The lettings market imbalance is reducing as demand returns and excess supply in the market is absorbed*

Predictions that supply levels would remain low this year in the prime London lettings market, putting upward pressure on rents, were upended by the arrival of the Covid-19 pandemic.

Instead, the combination of relatively high levels of supply, which accumulated during and since the market lockdown, and weaker demand, has led to the largest annual rental value declines in more than a decade. In prime central London, the annual decline was 8.1% in September. In prime outer London it was 6.9% over the same period.

Supply has been driven higher by the addition of short-term rental properties onto the market as a result of the pandemic. Supply also increased during the market lockdown as more owners opted to let their property due to the widespread uncertainty caused by Covid-19.

Meanwhile, demand in London and the Home Counties has been impacted by the presence of fewer international students and corporate tenants due to travel restrictions.

However, there are signs the imbalance is starting to reduce as

supply is absorbed by the market and demand comes back to some extent, driven in part by the falling rental values of recent months, as figure 3 shows.

The number of new prospective tenants increased by 93% compared to the five-year average in the week ending 10 October and the number has been climbing week-on-week since September.

While the decrease in rental values is likely to continue into Q4, the declines will narrow and eventually stabilise before rents begin to rise in 2021 as the marked imbalance between supply and demand seen during much of 2020 recedes. Both PCL and POL rental values are forecast to grow by 3% in 2021.

Meanwhile, in the final week of October, the number of viewings was 97% above the five-year average, continuing a trend that has been in place since the summer.

In the same period, the number of tenancies started was 59% higher than the five-year average, underlining how active the market remains, irrespective of the supply/demand imbalance.

## NOTED

### 8.1%

Annual decline in rental values in prime central London in September due

### 6.9%

Fall in annual rental values in prime outer London in September, the largest decline in more than a decade

### 3%

Forecast increase in rental values during 2021 for both prime central and prime outer London

**"While the decrease in rental values is likely to continue into Q4, the declines will narrow and eventually stabilise before rents begin to rise in 2021."**

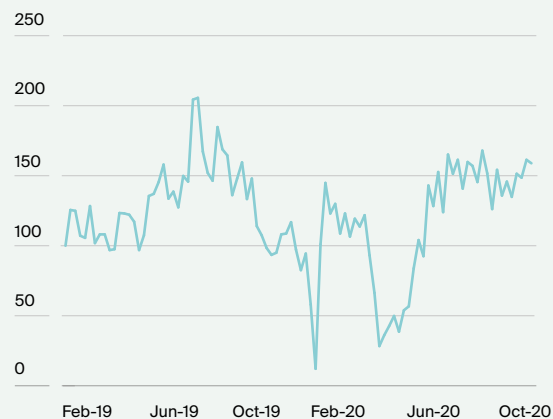
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### 3 Tenant demand strengthens

New prospective tenants, PCL and POL, rebased to 100 at January 2019  
(figures are weekly, which accounts for the drop in Dec 2019)

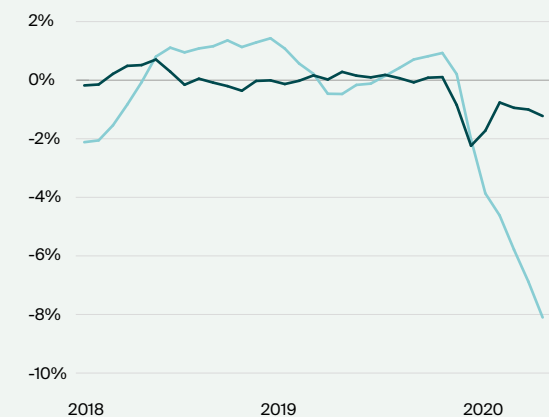
■ 2019 ■ 2020



Source: Knight Frank Research

### 4 Annual and monthly % rental change in PCL

■ Annual % price change ■ Monthly % price change



Source: Knight Frank Research

# LONDON AND UK PRICE FORECAST - 2020 TO 2024

The UK property market has experienced the most abrupt change in sentiment in its history since May.

While the market was shut for eight weeks against the disorientating backdrop of a global pandemic, the prophecies about the housing market were understandably dire.

However, this has not been the case since the market re-opened in May. The latest data from the Bank of England shows mortgage approvals for house purchase increased from 88,500 in August to 91,500 in September, the highest figure in three years,

which is just one of several indicators underlining the strength of the recovery in the property market.

Against this backdrop, we updated our UK property market forecasts. Despite a second national lockdown in England, our central scenario remains that double-digit price falls will not take place. However, we forecast UK property transactions will fall by 15% this year compared to 2019.

We believe prices in prime regional and mainstream UK markets will outperform prime central and outer London this year. However, we expect

prime London markets to outperform over the course of the next five years. Prices in prime central London have corrected by more than any other UK market over the last five years and we expect this to support growth in the medium term, boosted by the lifting of international travel restrictions.

While price growth is likely to be curbed by a stamp duty surcharge for overseas buyers next year in PCL, we would expect stronger upwards pressure on prices to follow. Prime outer London will continue to benefit from stronger demand for outdoor space into 2021.

	2020	2021	2022	2023	2024	CUMULATIVE 2020-2024
PCL	-3%	4%	6%	5%	4%	17%
POL	-3%	5%	4%	4%	4%	15%
PRIME REGIONAL	1%	4%	3%	3%	3%	15%
UK	2%	1%	3%	4%	3%	14%

## 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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