

*Prime London sales  
recovery gathers pace*

*Lettings now a  
landlord's market*

*New rental forecast -  
2021 to 2025*



# London Residential Review

Q3 2021

[knightfrank.com/research](https://knightfrank.com/research)



# PRIME LONDON SALES MARKET INSIGHT

*London's residential market gathers momentum as life returns to the city*

The past quarter has felt like a pivotal moment in London's pandemic recovery, with the city open again and people returning to its offices.

A familiar rhythm is reasserting itself in a market affected by a series of lockdowns.

The end of the stamp duty holiday last month also signals a return to something closer to normality, albeit more space looks set to remain a key buyer requirement.

Knight Frank carried out a record number of transactions in London in June 2021 (figure 2), as buyers beat the stamp duty holiday deadline at the end of the month to save a maximum £15,000.

The June figure was 53% higher than March this year, which was the second highest month on record when transactions spiked ahead of the original stamp duty holiday deadline.

Prices in the three months to June grew by 0.5% in prime central London (PCL), which was the largest quarterly rise since August 2015. Annual price growth of 0.8% in July was the strongest rate since May 2016. With strong domestic demand and the easing of international

travel restrictions this momentum is expected to continue.

We forecast PCL will outperform all other parts of the UK residential market, with growth of 7% next year and 25% cumulatively from 2021 to 2025. POL prices will see a 4% increase next year, and 23% cumulatively from 2020 to 2025 by way of comparison.

As we head into the autumn, London's prime market appears to have largely shrugged off the impact of the stamp duty holiday.

Following the substantial winding down of the holiday in June, the number of sub-£2m exchanges in July was 30% below the same month in 2019. By August, the equivalent decline had narrowed to 5%. Above £2m, a section of the market where activity was less affected by the maximum £15,000 saving, exchanges were down by 5% versus July 2019 and 3% compared to August 2019.

The predictable result is a tightening of supply, particularly below £2m. Meanwhile demand remains high, with the number of new prospective buyers registering in July and August in London 21% above the five-year average.

## NOTED

### 21%

The number of new prospective buyers registering in July and August in London was 21% above the five-year average.

### 2.9%

Average price growth in the year to August in POL, which came after a quarterly increase of 0.8% in the three months to August.

### £10m

Properties valued at £10m and over saw average prices increase by 2% in the year to August 2021, making it the strongest performing segment within PCL.

◆ ◆

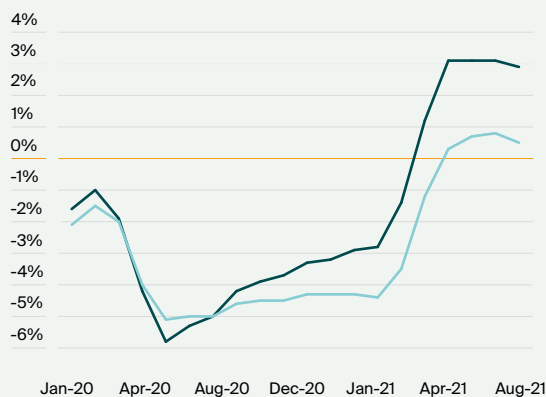
**“Knight Frank carried out a record number of transactions in London in June 2021, as buyers tried to complete ahead of the 30 June deadline.”**

◆ ◆

TOM BILL  
HEAD OF UK RESIDENTIAL RESEARCH

### 1 Prime property prices continue recovery

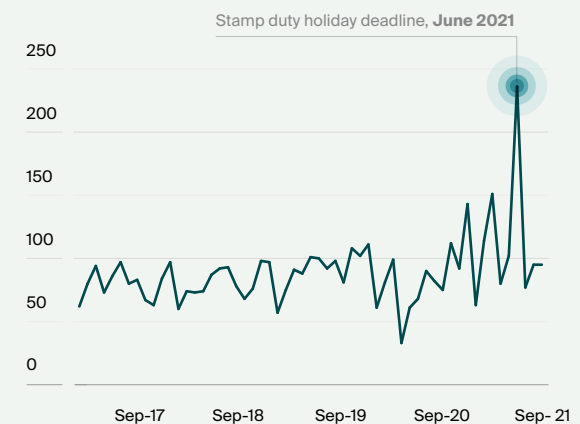
■ PCL annual % change ■ POL annual % change



Source: Knight Frank

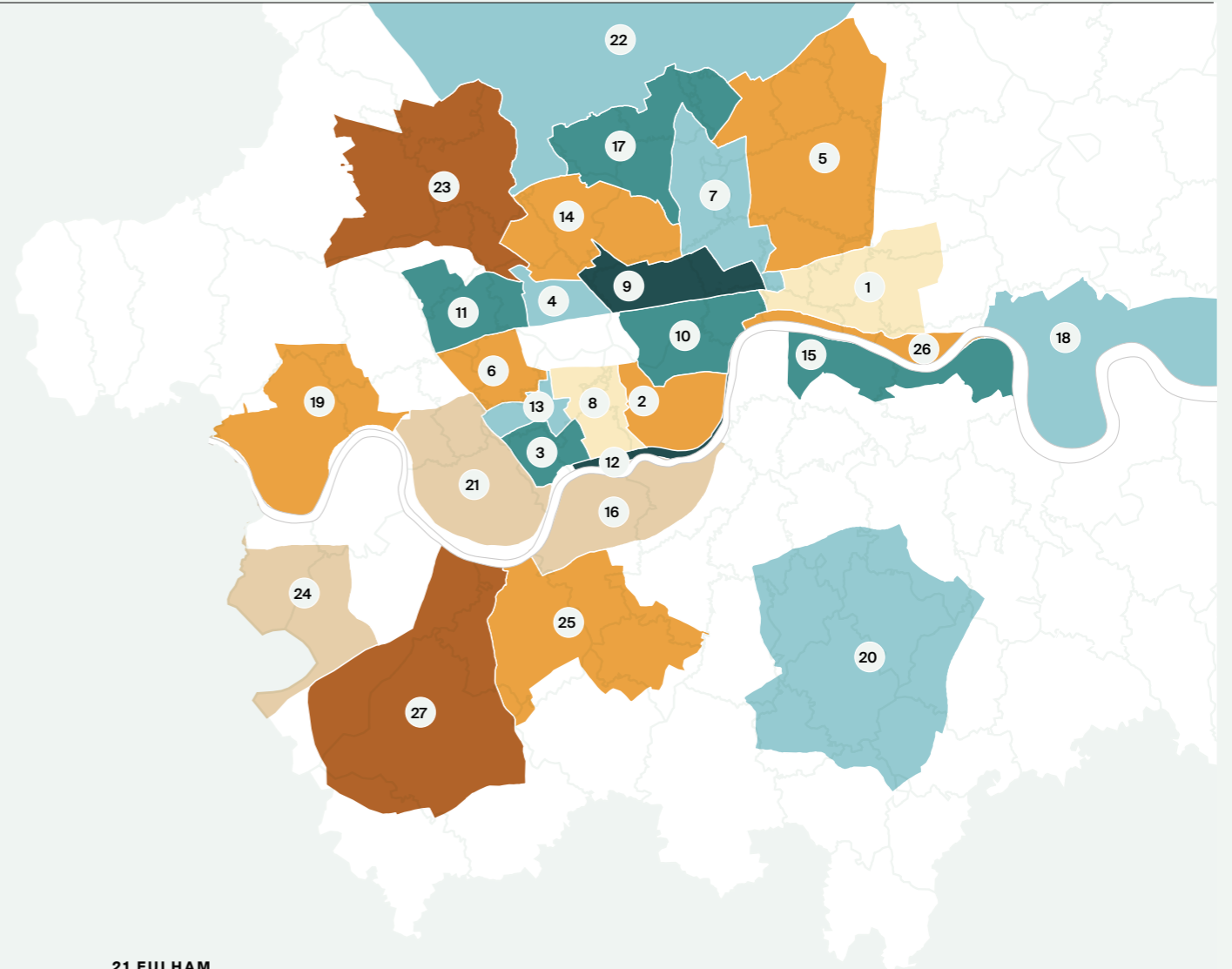
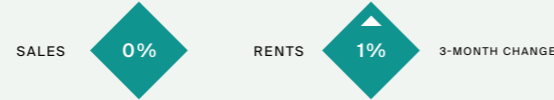
### 2 Exchanges in prime London hit a record in June

Exchanges rebased to 100 Jan 2016

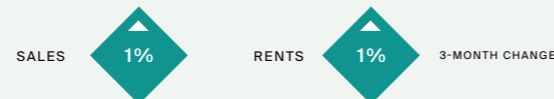


Source: Knight Frank

PRIME CENTRAL LONDON



PRIME OUTER LONDON



# PRIME LONDON LETTINGS MARKET INSIGHT

*Rental sector becomes a landlord's market as demand booms and supply tightens*

With London reopened for business, the lettings market has been through a dramatic transformation, moving from a tenant's to landlord's market in the space of months due to surging demand.

Momentum began to build in June, with two records broken. The number of new prospective tenants registering reached the highest level on record, as did the number of viewings.

Compared to 2019, which was an active year in the lettings market, the number of viewings was 82% higher in the month of June. The number of new prospective tenants was 97% higher.

By July, rental values had risen month-on-month for the first time since the start of the pandemic. The catalyst for this, against a backdrop of surging demand, remains a shortage of properties in central London and suburban locations as the race for space intensifies.

We forecast rental values will end 2021 flat in PCL and POL. That means we expect rents to rise by 5% in PCL and by 3% in POL over the next six months (see forecast below).

Fast forward to August and the

number of new prospective tenants registering with Knight Frank was 73% higher than the same month in 2019. Strong demand and low supply, which have been exacerbated by the pandemic, means landlords are now in the driving seat and the switch from a tenant's market has been swift.

Supply is low because, in similar fashion to parts of the sales market, the shelves have emptied quickly due to strong demand. Furthermore, many would-be landlords sold in order to take advantage of the frenetic sales market in the first half of the year caused by the stamp duty holiday.

On top of that, the flood of short-let properties that came onto the long-let market and helped initially create a tenant's market has dried up as staycation restrictions have been lifted.

Meanwhile, demand is coming from various sources, including the return of international students and office workers. The ratio of new prospective tenants (demand) to market valuation appraisals (supply) is now back where it was before the pandemic (figure 3).

## NOTED

**73%**

Increase in new prospective tenants in August compared with the same month in 2019. It was also the highest figure recorded by Knight Frank over the last five years.

**1.2%**

Biggest increase over a three-month period since July 2018 in average rents in PCL.

**0.9%**

Biggest increase over a three-month period since June 2018 in average rents in POL.

◆ ◆  
**“Strong demand and low supply, which have been exacerbated by the pandemic, means landlords are now in the driving seat and the switch from a tenant's market has been swift.”**

◆ ◆  
**TOM BILL**  
 HEAD OF UK RESIDENTIAL RESEARCH.

### 3 Supply and demand re-balance to pre-Covid levels

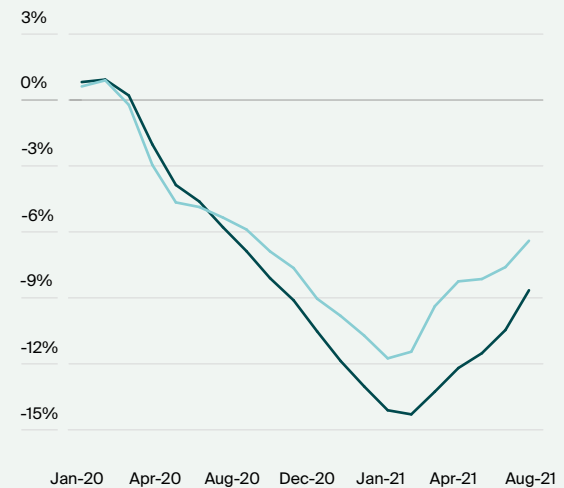
Ratio of new prospective tenants to market valuations



Source: Knight Frank

### 4 Higher demand reverses annual rental value declines

■ POL ■ PCL



Source: Knight Frank

# PRIME RENTAL FORECAST - 2021 TO 2025

We forecast rental values will end 2021 flat in PCL and POL. That means we expect rents to rise by 5% in PCL and by 3% in POL over the remainder of the year.

By December this year, average rental values will be 12% below their pre-pandemic level in PCL and 10% below in POL. However, we forecast

that rents will have recovered to their pre-pandemic level by 2023, with average rental values rising by 8% in PCL next year and 6% in POL.

By way of comparison, annual rental value growth exceeded 15% as the property market recovered from the global financial crisis.

Meanwhile, rental values across

the UK will continue to experience upwards pressure over the next five years due to the growth of renting as a tenure model. Affordability constraints in the sales market and the greater flexibility that renting offers are two of the factors that will underpin demand and drive high levels of institutional investment into the sector.

|     | 2021 | 2022 | 2023 | 2024 | 2025 | CUMULATIVE 2021 - 2025 |
|-----|------|------|------|------|------|------------------------|
| PCL | 0%   | 8%   | 4%   | 4%   | 4%   | 21%                    |
| POL | 0%   | 6%   | 4%   | 4%   | 5%   | 20%                    |
| UK  | 2%   | 3%   | 3%   | 3%   | 3%   | 15%                    |

## 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



### Flora Harley

Partner, Residential Research

+44 20 78611436

flora.harley@knightfrank.com



### Anna Czaban

Department Head, Residential

Lettings Management

+44 203861 6988

anna.czaban@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



Global Buyers Survey 2021



Active Capital 2021



Super Prime London Report



**Knight Frank Research Reports are available at**  
[knightfrank.com/research](https://knightfrank.com/research)



Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: © Knight Frank LLP 2021 This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.