Offers accepted at 10-year high

2022 forecasts revised up

Demand outstrips supply in lettings market

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London Residential Review

Q3 2022

PRIME LONDON SALES MARKET INSIGHT

Trading activity rises as supply catches up with demand

Sales activity in London rose in the second quarter of this year, as supply began catching up with strong demand.

The number of new sales instructions in Q2 was the third highest figure in a decade while the number of new prospective buyers was the second highest total over the last ten years.

The result was the highest number of offers accepted since 2012 (fig. 1) and the third highest number of exchanges.

Demand far exceeded supply during the frenetic trading conditions of the 14-month stamp duty holiday, which ended last September. Property sold so quickly that prospective sellers held back due to a lack of purchase options, creating a vicious circle of low supply.

That has only slowly reversed, and activity levels built to a crescendo in the late spring/early summer, supported by the fact London has regained its gravitational pull as offices re-opened and normal city life resumed.

So, how sustainable is the current period of strong trading?

Rising mortgage rates will eventually begin to curb demand, which will happen to a greater extent in lower price brackets and domestic-driven markets.

Higher levels of affluence, housing equity and a broader base of international buyers will support demand in prime central London (PCL) even as the cost-of-living squeeze gets tighter.

For now, the prospect of higher borrowing costs is bringing buyers and sellers forward.

Another drag on activity, over the summer, will be the return of seasonality as more buyers and sellers take a holiday. Staff shortages within the conveyancing chain are also prolonging transaction times.

Meanwhile, international travel restrictions will keep a lid on demand and prices in PCL while they remain in place.

There is still a wide divergence in terms of international passenger numbers compared to 2019 (fig. 2). The overall figure was 17% lower in June, but it was greater for Asia Pacific (-52%), where many countries still have tighter Covid restrictions.

Ultimately, we expect the measured return of international buyers over the next few years to boost PCL, leading it to outperform the wider market.

NOTED

5.1%

Annual growth was 5.1% in prime outer London in June. However, it was the fourth month of slowing quarterly growth (1.5%), underlining how the race for space is calming down.

2.5%

Average prices in PCL increased by 2.5% in the year to June. The rise was the strongest rate of growth since April 2015.

-17%

International passenger numbers at Heathrow airport remain 17% down on the same period three years ago in June, with many countries still enforcing Covid restrictions.

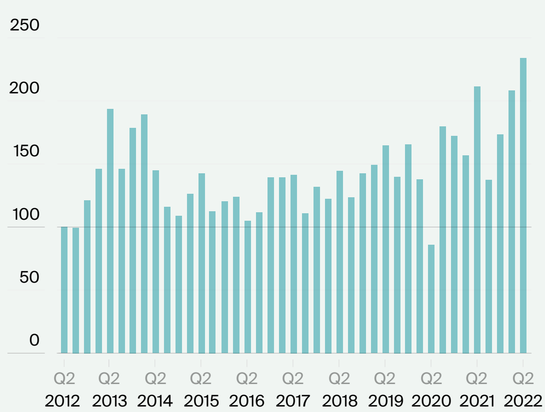
"For now, the prospect of higher borrowing costs is bringing buyers and sellers forward."

TOM BILL

HEAD OF UK RESIDENTIAL RESEARCH

1 Offers accepted at decade-long high in Q2 2022

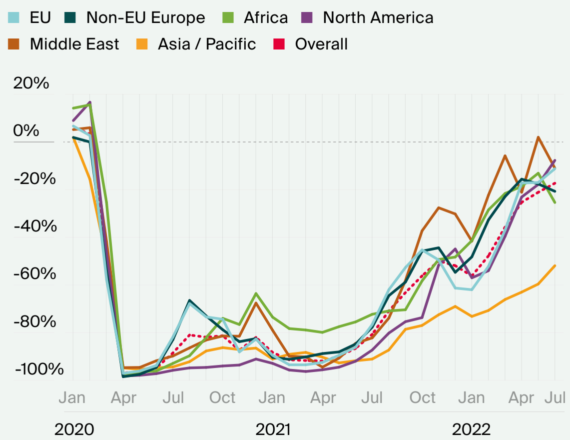
PCL and POL, rebased to 100 at Q2 2012



Source: Knight Frank Research

2 Heathrow passenger numbers vs 3-years ago

% change over period



Source: Knight Frank Research

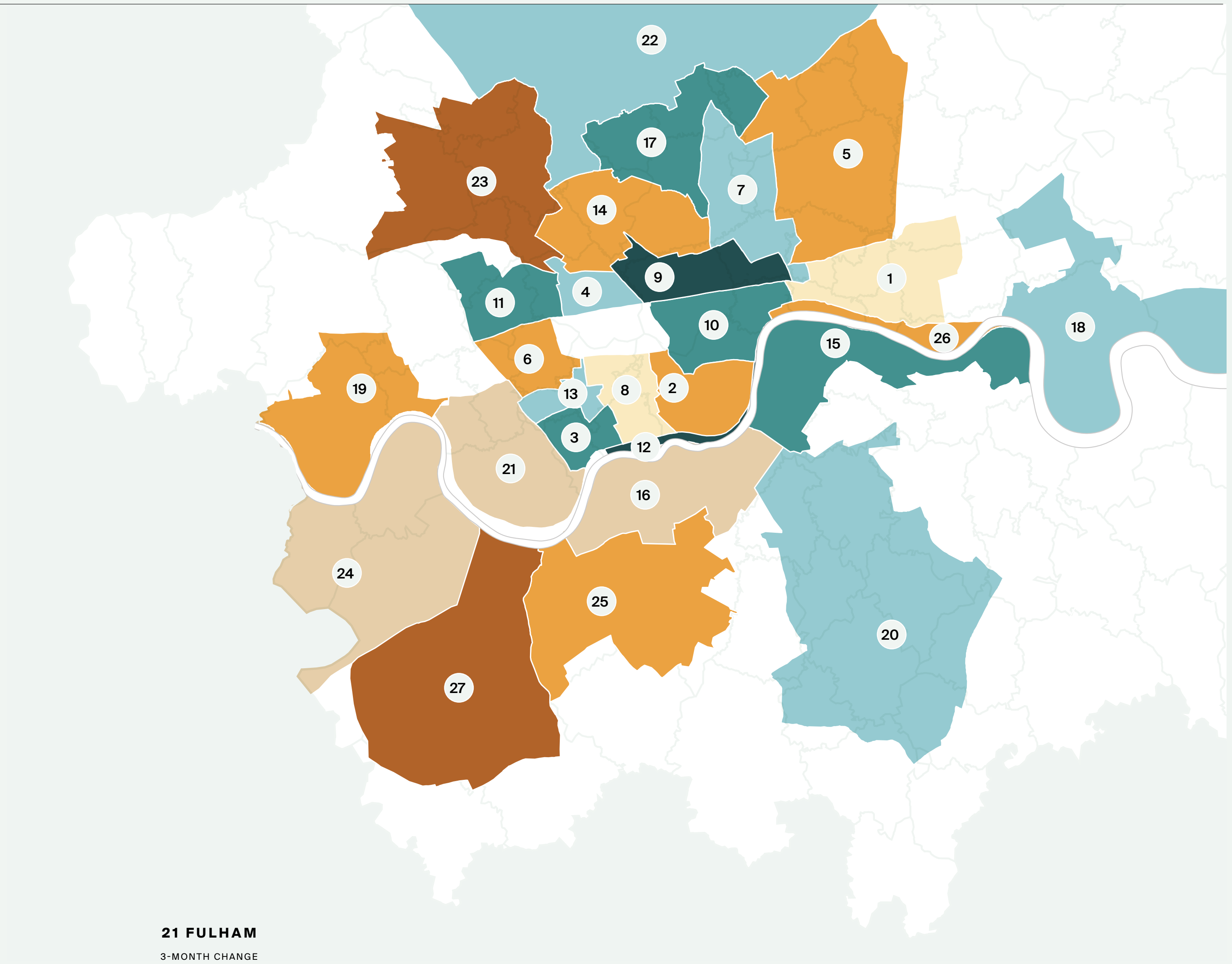
PRIME LONDON PRICE AND RENTAL GROWTH, JUNE 2022

Knight Frank

PRIME CENTRAL LONDON

SALES 0.8% RENTS 4.7% 3-MONTH CHANGE

3-month change	Sales	Rents
1 ALDGATE	-0.4%	5.7%
2 BELGRAVIA	1.1%	6%
3 CHELSEA	0.4%	4.2%
4 BAYSWATER	1.8%	4.5%
5 ISLINGTON	0%	3.6%
6 KENSINGTON	0.4%	5.4%
7 KING'S CROSS	0.2%	2.4%
8 KNIGHTSBRIDGE	0.8%	3.1%
9 MARYLEBONE	1.1%	3.2%
10 MAYFAIR	0.3%	4.2%
11 NOTTING HILL	0.1%	7.5%
12 RIVERSIDE	2.0%	7.8%
13 SOUTH KENSINGTON	2.7%	4.9%
14 ST JOHN'S WOOD	2%	6.5%
15 TOWER BRIDGE	0.3%	2.6%



PRIME OUTER LONDON

SALES 1.5% RENTS 4.8% 3-MONTH CHANGE

3-month change	Sales	Rents
16 BATTERSEA	2.5%	7.1%
17 BELSIZE PARK	0%	1.3%
18 CANARY WHARF	0.3%	0.8%
19 CHISWICK	4.0%	
20 DULWICH	2.7%	
21 FULHAM	0%	18.7%
22 HAMPSTEAD	0%	6.4%
23 QUEENS PARK	2.1%	3.6%
24 RICHMOND	1.5%	1.1%
25 WANDSWORTH	3.6%	2.5%
26 WAPPING	0.5%	4.4%
27 WIMBLEDON	1.8%	0.8%

PRIME LONDON LETTINGS MARKET INSIGHT

Lettings remains a landlord's market despite improving supply

While supply and demand are rebalancing in the sales market, the amount of property available to rent remains low compared to demand in prime areas of London.

The number of new prospective tenants registering in May was the fifth highest figure in a decade and June was the sixth, underlining how strong demand remains after the re-opening of offices and universities.

Meanwhile, on the supply side, new listings are still around a third below their long-run average in prime central London (PCL) and prime outer London (POL).

However, there are early signs that supply may be slowly picking up. In June, the number of market valuation appraisals (a leading indicator of supply) was the tenth highest figure in a decade.

One reason for the increase is that more owners are letting out their property after failing to achieve their desired price in the sales market.

Another cause is the higher churn of tenants as a growing number of workers are changing jobs or leaving the UK altogether. One in five workers are likely to quit their jobs in the next 12 months, according to a global survey by accountant PWC.

As a result, the ratio of new prospective tenants (demand) to market valuation appraisals (supply) fell to 4.7 in June, which is lower than it was last summer (fig. 3). However, this ratio may increase in coming months with the arrival of international students and corporate tenants.

After reaching a peak in April, annual rental increases in June narrowed to 26.8% in PCL and 21% in POL. Over the first six months of the year, rents rose 8.4% in PCL and 7.4% in POL, underlining how a large part of this annual increase took place in the second half of 2021 (fig. 4). Rental values hit their low point in the first half of 2021 as the market was flooded with short-let properties due to staycation restrictions.

Although supply is still lagging demand upwards pressure on rents remains strong, and we have revised our London rental forecasts up for 2022. We now expect rental value growth of 11% in PCL and 9% in POL, up from 8% and 5%, respectively.

NOTED

70%

Increase in prospective tenants in May versus the five-year average (excluding 2020).

26.8%

Annual increase in average rental values in PCL in June.

21%

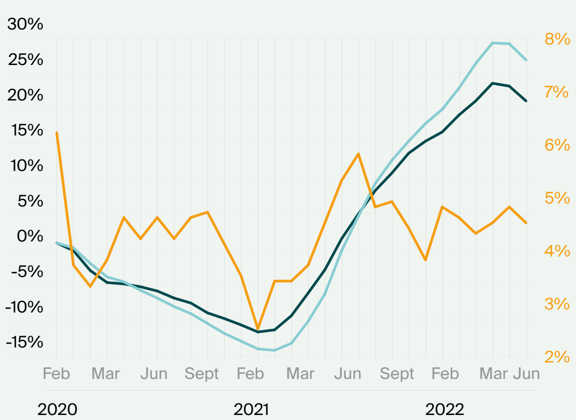
Annual increase in average rental values in POL in June.

"The number of new prospective tenants registering in May was the fifth highest figure in a decade, underlining how strong demand remains after the re-opening of offices and universities."

TOM BILL

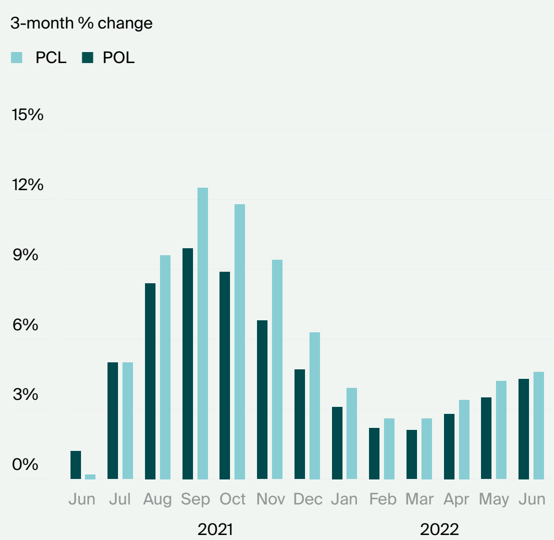
TOM BILL, HEAD OF UK RESIDENTIAL RESEARCH

3 Rent rises narrow as demand stays firm



Source: Knight Frank Research

4 London rental growth moderates compared to 2021



Source: Knight Frank Research

PRIME LONDON IN NUMBERS

56%

New prospective buyers in prime London were up 56% versus the five-year average in the second quarter of this year, and the total number of new prospective buyers was the second highest in the last ten years, underlining the strength of demand that exists despite the cooling UK economy.

26.1%

The PCL lettings market is set for cumulative growth of 26.1% in the next five years. The distortive effect of low supply has kept rental value growth high. We expect stock levels to be particularly squeezed over this summer as high demand from corporate tenants and students exceeds available supply. We have revised up rental growth expectations in 2022 for PCL from 8% to 11%.

22.8%

The PCL sales market will see average price growth of 4% this year (revised up from 3.5%) and average prices will advance 6% in 2023 as international buyers continue to return to the market and domestic demand remains resilient. Over the five years to 2026 we forecast PCL prices will climb by 22.8% cumulatively, outperforming the rest of the UK property sales market.

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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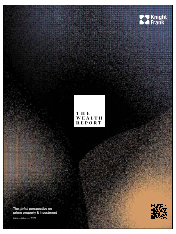

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