# London Residential Review

Q4 2023

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

knightfrank.com/research

# Prime London Sales Market

## Demand fragile despite pause in interest rate rises

The Bank of England paused its cycle of interest rate hikes in September, but demand for residential property remains fragile.

While the number of new prospective buyers in London rose 12% between August and September as this year's autumn market began, it was half the increase experienced in the previous two years. In calmer political times before 2016, the same jump exceeded 40%.

Essentially, the prime London property remains in a holding pattern. It has not experienced the extent of price declines seen across the UK but neither have the capital's more affluent postcodes been immune from the deteriorating economic sentiment.

The Nationwide House Price Index recorded its second consecutive annual decline of -5.4% this September, while prime central London (PCL) experienced a more modest 1.7% fall. In prime outer London (POL), the decrease was 1.4%.

Last month's pause by the Bank of England added to a sense that we have gone through the eye of the storm.

Indeed, we have updated our forecasts to reflect the fact we expect most of the decline in house prices across the UK will take place this year.

We are forecasting a 3% decline in both PCL and POL this year, as those markets continue to outperform the rest of the UK in terms of trading activity as well as price performance (see Prime market forecasts).

The number of new prospective buyers across the UK was 11% down in the Q3 of this year compared to the five-year average, while the figure for London was up by 13%. Meanwhile there was a 14% increase in exchanges in the capital while sales volumes fell by 9% across the country.

The primary reason for this resilience is that average prices are still 16% below their last peak in 2015 in PCL. In POL, they are still 8% down.

Average prices are also 2% lower than they were before the pandemic in PCL, which helps explain why transaction volumes were 11% higher than the five-year average in September (see fig. 1).

Meanwhile, across the UK, there was an equivalent 11% decline in August, non-seasonally adjusted figures from HMRC show.

In a departure from what took place after the global financial crisis, property prices in London have been less volatile than the rest of the country during this latest period of economic turbulence.

**14%**

Increase in the number of exchanges in the capital in Q3 2023 compared with the five-year average

**7.8**

The ratio of new prospective buyers (demand) to new instructions (supply) in September was up on 7.3 a year ago, underlining London's resilience

**12%**

Increase in new prospective buyers in London between August and September

**-1.7%**

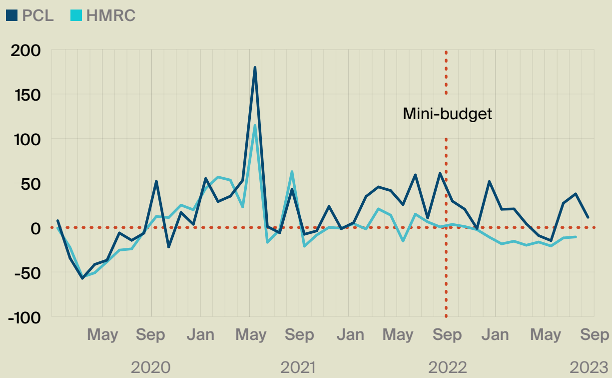
Change in annual prices in PCL in September. The decline was 1.4% in POL

"[London] has not experienced the extent of price declines seen across the UK but neither have the capital's more affluent postcodes been immune."

Tom Bill, Head of UK Residential Research

**Fig 1: Transaction volumes versus the five-year average**

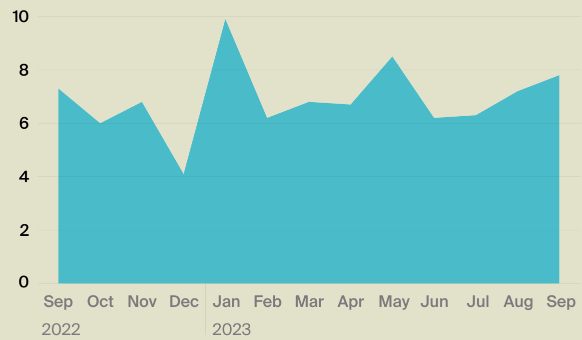
% change




Source: Knight Frank Research

**Fig 2: Ratio of new prospective buyers versus new instructions**

London (PCL and POL)




Source: Knight Frank Research

# Prime London price and rental growth

September 2023, 3 month % change

## Prime central London

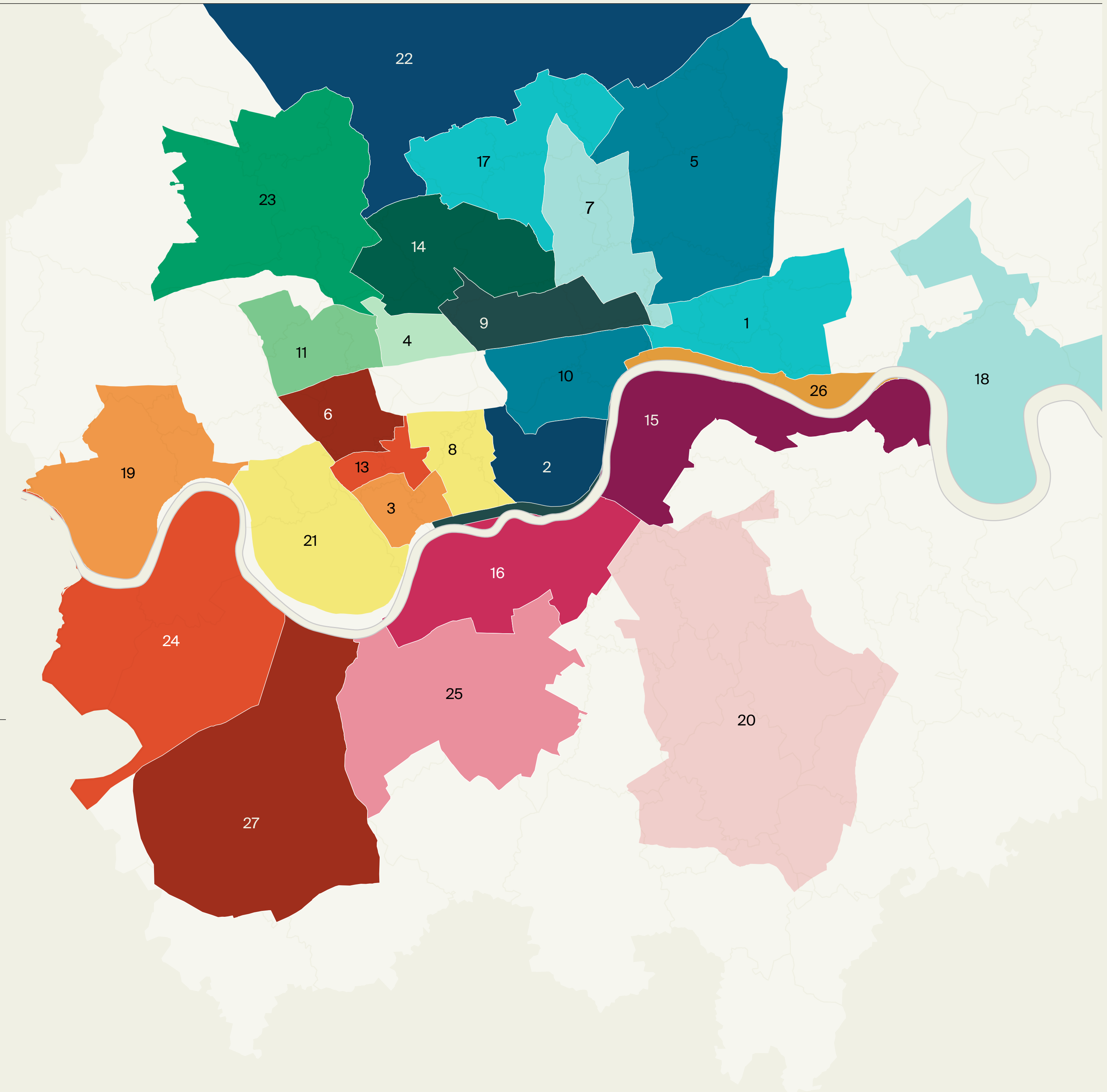
| Sales -0.7% | Rents 2.6% |
|---|---|

| Area | Sales | Rents |
|---|---|---|
| 1 Aldgate | -1.7% | 3.3% |
| 2 Belgravia | 0.3% | 3.8% |
| 3 Chelsea | -0.7% | 1.8% |
| 4 Hyde Park | 0.5% | 1.1% |
| 5 Islington | -1.4% | 3.5% |
| 6 Kensington | -0.5% | 5.6% |
| 7 King's Cross | -0.6% | 2.2% |
| 8 Knightsbridge | -1.9% | 2.4% |
| 9 Marylebone | -1.3% | 3.0% |
| 10 Mayfair | -1.3% | 2.0% |
| 11 Notting Hill | -0.1% | -0.2% |
| 12 Riverside | -1.6% | 1.7% |
| 13 South Kensington | 0.3% | 1.1% |
| 14 St John's Wood | 0.3% | 1.7% |
| 15 Tower Bridge | -0.7% | 5.6% |

## Prime outer London

| Sales -0.9% | Rents 2.5% |
|---|---|

| Area | Sales | Rents |
|---|---|---|
| 16 Battersea | -1.7% | 2.6% |
| 17 Belsize Park | 0.3% | 2.1% |
| 18 Canary Wharf | -0.3% | 4.4% |
| 19 Chiswick | -1.0% | |
| 20 Dulwich | 0% | |
| 21 Fulham | -0.4% | 0.4% |
| 22 Hampstead | 0% | 1.9% |
| 23 Queens Park | -2.8% | 4.4% |
| 24 Richmond | -1.7% | 2.6% |
| 25 Wandsworth | -1.3% | 0.9% |
| 26 Wapping | 0.3% | 1.2% |
| 27 Wimbledon | -1.1% | 3.1% |




Increase Decrease No change

# Prime London Lettings Market

Prime London rental value growth slows as supply rises

The downwards trajectory for annual rental value growth in prime London markets continued in Q3 as supply increased and demand held steady.

The number of new prospective tenants in prime London postcodes was flat compared to the five-year average in Q3, our data shows. Meanwhile, listings in prime central London (PCL) were only 12% down, according to Rightmove, a figure that compares to decline of 37% in the same quarter last year.

Annual rental value growth in PCL was 11.2% in September, which was the lowest figure in two years. In prime outer London (POL), an increase of 10% means that we are likely to be back in single digits in the fourth quarter of 2023 (see fig. 3).

Supply has decreased in recent years as more owners have been put off buy-to-let ownership by a proliferation of taxes and red tape.

Meanwhile, demand has dipped over the summer for reasons that include the lower number of Chinese students choosing to attend university in the UK.

In our updated forecast for the rental market (see Prime market forecasts), we think the downwards trajectory for growth will continue until the end of the year, reaching 8% in both markets.

As the imbalance between supply and demand continues to reduce, we think rental value growth will return to more normal levels from 2024.

Supply is picking up more quickly in higher-value markets (see fig. 4).

The number of instructions for lettings properties valued above £1,000 per week in London was 45% higher this September than January 2022. Meanwhile, below that figure, there was an 18% decline.

Owners of higher-value properties are often more discretionary, and some have chosen to let them out until the trajectory of prices in the sales market becomes clearer.

As a result, annual rental value growth in PCL above £1,500 per week was 9.6% in September compared to 12.4% below that figure.

"I think the market is at a pivotal point," said David Mumby, head of prime central London lettings at Knight Frank. "Below £1,000 per week, demand is still ferociously strong but in higher-value markets the time taking to rent is elongating as stock increases.

**45%**

Increase in the number of instructions for £1,000+ per week letting properties from January 2022 and September 2023

**11.2%**

Annual rental growth in PCL in September, which was the lowest amount in two years

**38%**

Increase in market valuation appraisals to let in London in Q3 2023

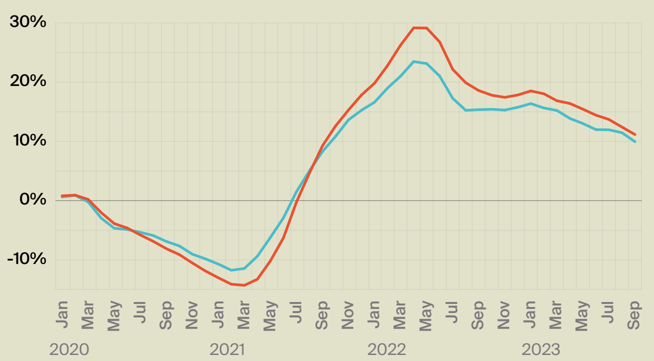
**8%**

Forecast annual increase in rental values this year in prime London

"Owners of higher-value properties are often more discretionary, and some have chosen to let them out until the trajectory of prices in the sales market becomes clearer."

Tom Bill, Head of UK Residential Research

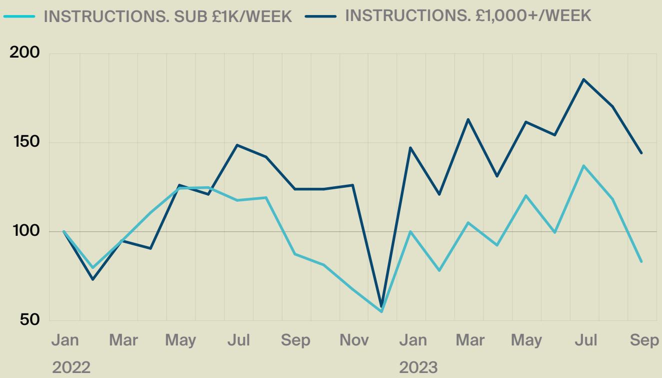
**Fig 3: London annual % rental change**




Source: Knight Frank Research

**Fig 4: Prime supply rises in London lettings market**

Rebased to 100 in January 2022




Source: Knight Frank Research

## Prime London price declines to bottom out this year

The cost of borrowing has lurched erratically in the past year, and sentiment has been eroded, which has put downwards pressure on house prices and, to a more noticeable extent, transaction volumes.

The volatility this summer means that we now expect UK house prices to fall by 7% this year, more than our forecast of -5% in March (and by 4% next year before returning to growth in 2025).

We still think PCL will experience a smaller correction, due to a combination of more cash sales, the fact prices are still more than 15% below their last peak in mid-2015 and the fuller return of international travel.

We have left our forecasts for PCL unchanged but expect a slightly smaller fall (-3% rather than -4%) this year in POL and a marginally stronger recovery from 2026. POL continues to benefit from demand that is more domestic and needs-driven.

In the rental market, we think there will be stronger growth this year and next in PCL and POL as the imbalance between supply and demand takes more time to correct.

There is evidence the balance is correcting in the capital's high value markets due to the discretionary nature of owners, some of whom have decided to let out their property due to the uncertain trajectory for prices.

Prime market sales and lettings forecasts 2023 - 2027

| | PCL sales | POL sales | PCL lettings | POL lettings |
|---|---|---|---|---|
| 2023 | -3% | -3% | 8% | 8% |
| 2024 | 0% | 1% | 5% | 4.5% |
| 2025 | 3% | 2.5% | 3% | 3% |
| 2026 | 4% | 3% | 3% | 3% |
| 2027 | 4% | 3% | 3% | 3% |
| **5-year cumulative** | **8.1%** | **6.5%** | **23.9%** | **23.3%** |

Source: Knight Frank Research

"We still think PCL will experience a smaller correction, due to more cash sales, [and] the fact prices are still more than 15% below their last peak"

Tom Bill, Head of UK Residential Research

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

SIGN UP ONLINE


**Rory Penn**
Head of London Sales
+44 20 7861 1150
rory.penn@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


Knight Frank