Prices in PCL return to annual growth

Rental value declines narrow

Stamp duty holiday drives activity

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London Residential Review

Summer 2021

PRIME LONDON SALES MARKET INSIGHT

Prime central London prices increase for the first time in five years

Prices in prime Central London (PCL) increased by 0.3% in the year to May. While it wasn't a large increase, it was the first rise in five years and underlines how the recovery of the property market in PCL is not reliant on the re-opening of international travel.

The last time prices increased on an annual basis was in May 2016. This was the month before the EU referendum. Subsequent political uncertainty, combined with a growing number of taxes on high-value property, meant average prices fell 17% in the intervening period.

A period of house price inflation in PCL has therefore been overdue and was on the horizon when the pandemic struck, (figure 1). While prices are on their way up, the relaxing of international travel rules, potentially later this year, will provide a more noticeable boost in locations such as Mayfair and Knightsbridge.

Low numbers of overseas buyers have come to the UK in recent months, but the ending of quarantine rules will lift demand. Although travellers may still need to quarantine when they return home, any relaxation of the rules means visiting London will become more tenable.

The other impact of rising prices will be a further erosion of the discount for buyers denominated in overseas currencies.

Annual price growth in prime outer London (POL) increased to 3.1% in May, which was the strongest rate of growth since before the EU referendum in March 2016.

Growing demand for space and greenery after three national lockdowns has led to annual price growth in excess of 6% in markets like Richmond, Dulwich, Wandsworth and Belsize Park. Wimbledon experienced price growth of 9.4% in the year to May, which was the strongest of all London markets.

Activity has remained heightened in the lead up to the revised deadline for the full stamp duty holiday on 30 June. The number of offers accepted in PCL and POL reached its highest level in a decade in April, (figure 2), as buyers attempt to complete before the end of the holiday to save up to £15,000. From July until the end of September, the maximum saving tapers to £2,500 with the stamp duty holiday ending in October.

NOTED

3.1%
Annual price growth in POL in May was the strongest since before the EU referendum in March 2016

2%
Price growth forecast for PCL in 2021, which if achieved will be the first annual increase in the capital's prime central market in five years.

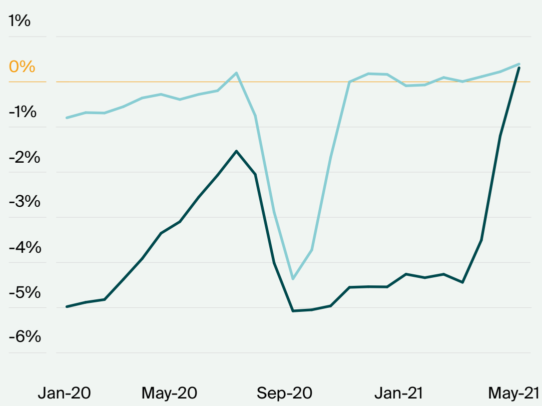
£2,500
The maximum saving under the stamp duty holiday taper period, which runs from July until the end of September.

"It was the first rise in five years and underlines how the recovery of the property market in PCL is not reliant on the re-opening of international travel."

TOM BILL
HEAD OF UK RESIDENTIAL RESEARCH

1 Annual price growth returns to PCL

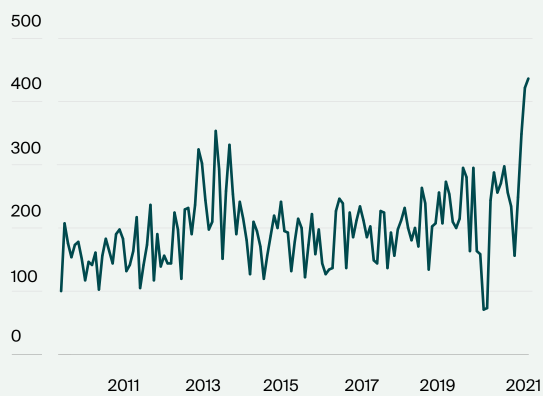
Quarterly % change ■ Annual % change



Source: Knight Frank

2 Offers accepted spike in April

Rebased to 100 at January 2010, PCL and POL



Source: Knight Frank

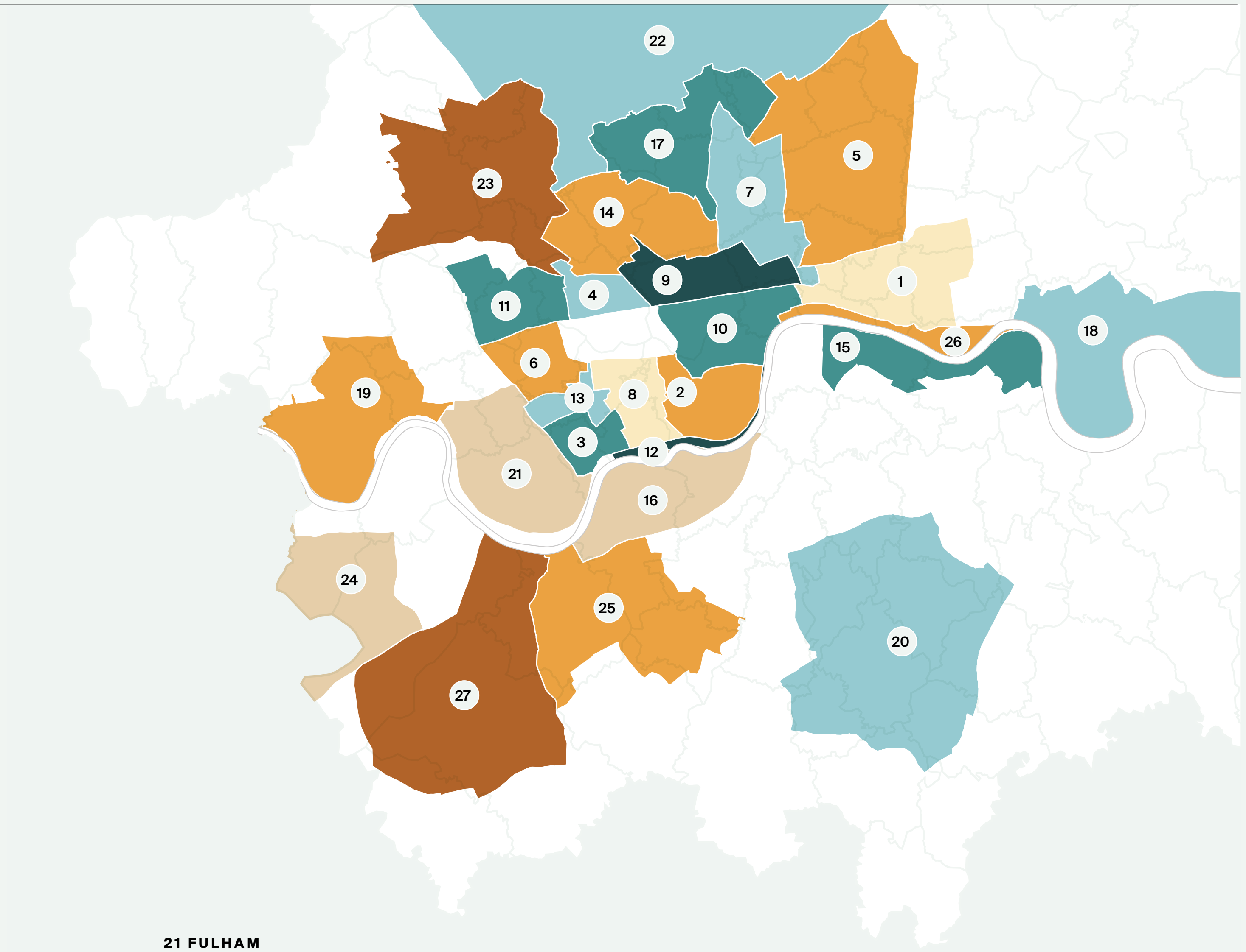
PRIME LONDON PRICE AND RENTAL GROWTH, MAY 2021

Knight Frank

PRIME CENTRAL LONDON

SALES 0.4% RENTS -2.6% 3-MONTH CHANGE

3-MONTH CHANGE	SALES	RENTS
1 ALDGATE	-1.8%	-2.5%
2 BELGRAVIA	0.5%	-1.7%
3 CHELSEA	0.0%	-0.3%
4 BAYSWATER	2.2%	-3.6%
5 ISLINGTON	1.6%	-1.5%
6 KENSINGTON	0.1%	0.0%
7 KING'S CROSS	0.0%	-2.8%
8 KNIGHTSBRIDGE	0.0%	-0.1%
9 MARYLEBONE	-0.4%	-2.9%
10 MAYFAIR	0.0%	-4.9%
11 NOTTING HILL	1.4%	-5.7%
12 RIVERSIDE	0.0%	-6.1%
13 SOUTH KENSINGTON	1.3%	0.0%
14 ST JOHN'S WOOD	0.3%	-2.0%
15 TOWER BRIDGE	0.7%	-5.2%



PRIME OUTER LONDON

SALES 0.7% RENTS -1.4% 3-MONTH CHANGE

3-MONTH CHANGE	SALES	RENTS
16 BATTERSEA	0.0%	-5.4%
17 BELSIZE PARK	1.0%	0.3%
18 CANARY WHARF	-1.3%	-1.7%
19 CHISWICK	0.0%	
20 DULWICH	1.7%	
21 FULHAM	0.9%	0.5%
22 HAMPSTEAD	0.0%	1.8%
23 QUEENS PARK	2.2%	-1.8%
24 RICHMOND	1.8%	-1.0%
25 WANDSWORTH	0.7%	
26 WAPPING	-0.3%	-0.8%
27 WIMBLEDON	3.5%	-0.8%

PRIME LONDON LETTINGS MARKET INSIGHT

Stronger demand is helping to narrow rental value declines in prime London markets

The rental value declines that have taken place in prime London property markets over the course of the pandemic are in reverse with demand continuing to build.

Underlining the extent of the increase in demand, the number of new prospective tenants in the three months to May was 76% higher than the first three months of 2020.

As a result, average rental values declined 12.2% in prime central London (PCL) in the year to May, which compared to a fall of 14.3% in March. In prime outer London (POL), the figure was -8.2%, compared to a decline that bottomed out at -11.7% in February.

Tenants are taking advantage of falling rents and moving to properties that enable them to shorten their commute or gain extra home-working space against the backdrop of the UK's economic recovery.

The number of properties that rented in locations surrounding London's two main financial districts increased by 21% in April this year compared to March 2020.

In addition to domestic tenants returning to work, demand from international students is building. This may drive activity levels higher and increase upwards pressure on rental values in coming months.

Supply levels remain high due to the fact a large number of short-let properties transferred to the long-let market during the pandemic. However, there are signs more balance is returning, which is putting upwards pressure on rental values, as the chart below shows (figure 3).

Against this backdrop, a gap is opening up between different parts of the lettings market. Exceptionally strong demand in the sales market for houses with outdoor space has reduced supply and put upwards pressure on rental values for this type of property.

The number of houses listed for rent between £2,000 and £4,000 per week in prime central London fell by 83% between March 2020 and April 2021, OnTheMarket data shows.

The shortage is having an impact on rental values (fig 4). Average rents for houses in PCL fell 8.6% in the year to May compared to 13.8% for flats.

NOTED

76%

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83%

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12.2%

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"Tenants are taking advantage of falling rents and moving to properties that enable them to shorten their commute or gain extra home-working space."

TOM BILL

HEAD OF UK RESIDENTIAL RESEARCH.

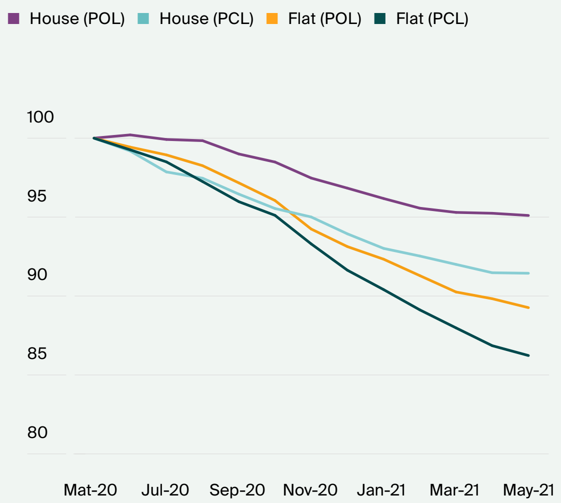
3 Higher demand reverses rental value declines

Ratio of new prospective tenants to market valuation appraisals (PCL and POL combined)

Source: Knight Frank Research

4 Rental values diverge between houses and flats

Knight Frank rental value indices, rebased to 100 at May 2020



Source: Knight Frank Research

PRIME LONDON IN NUMBERS

-7.8%

Rental values for properties valued above £2,000 per week fell by 7.8% in the year to April in prime central London, which was less than PCL average of 13.3%. “The strong sales market means there are some parts of the lettings market in prime central London that are almost bereft of options for tenants, for example houses in Notting Hill and Chelsea,” said David Mumby, head of prime central London lettings at Knight Frank.

19.2%

The effective discount based on price and currency movements in PCL compared to the period before the EU referendum for a buyer denominated in US dollars at the end of May. That compares to 24.3% in December 2020, and will erode further if prices continue to rise and the pound strengthen.

12,480

The number of new listings in prime central and prime outer London and the Home Counties has come down since peaking last summer, OnTheMarket data shows. The figure was 12,480 in May this year, down 47% from 23,647 last July. This suggests that after a period of high supply due to a large amount of short-term lets transferring to the long-term let market due to the pandemic, balance is returning, which will put upwards pressure on rental values.

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

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

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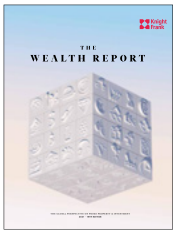

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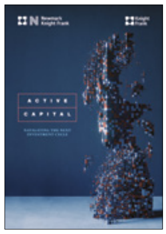

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