PRIME LONDON MARKET UPDATE

AUTUMN 2023

Introduction

The third quarter of 2023 saw the market trends from the early part of the year continue. For the prime London sales market that meant weak demand feeding into falls in both values and transaction levels. On the lettings side, supply continued its slow recovery and demand remained strong for lower priced homes.

It is sales activity that continues to be harder hit than values. Transaction volumes have fallen significantly compared to the stronger sales market seen in 2021 and 2022 but remain in line or even slightly ahead of where they were pre-pandemic. Despite ongoing economic uncertainty, further price falls are likely to be limited by the level of equity in the market and the low growth seen over the past decade. The market for homes at £5m and above has also seen falls in activity from recent highs.

Rental growth remained high in Q3 despite an increase in new instructions and growth in the available stock of homes to let. The market appears to be becoming more price sensitive. Based on discount data, demand for homes at above £1000 per week weakened while below that there was no let up.

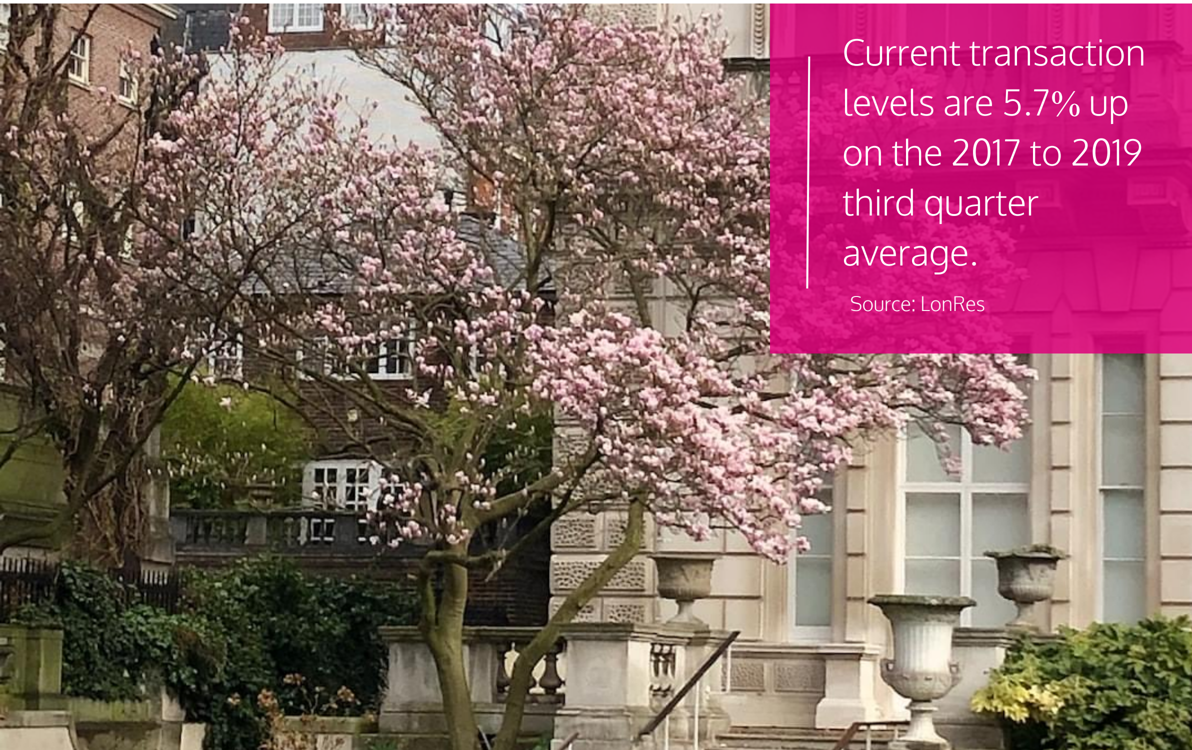
Despite ongoing economic uncertainty, further price falls are likely to be limited.

Source: LonRes

Sales Market

Sales activity remained relatively subdued in the third quarter of 2023, with even the traditional start of the autumn selling season in September failing to spark much of a revival. This view is formed by comparing the 2023 market to that of 2021 and 2022; Q3 saw 23% fewer sales than a year earlier. But looking further back, current transaction levels are not that different to those seen pre-pandemic. In fact, they are 5.7% up on the 2017 to 2019 third quarter average. Therefore, one's opinion of activity today is potentially shaped by which baseline period you would consider to be 'normal'.

The outlook for the closing months of 2023 is for more of the same. The number of new instructions coming to market in September was 9.3% lower than last year and the volume of stock available for sale at the end of September was 1.8% down on the same point one year earlier. The number of properties that went under offer in the third quarter was 25% down on an annual basis. In combination these metrics don't point to a significant increase in activity in Q4.



Current transaction levels are 5.7% up on the 2017 to 2019 third quarter average.

Source: LonRes

The recent slowdown in sales does now appear to be impacting achieved prices. Values across prime London fell by 2.2% in Q3 according to the LonRes Sales Index. This is the largest quarterly fall since the start of 2019 and contributed to an annual fall of 2.4%. The longer-term context here is one of prices ebbing and flowing for much of the past decade without a decisive movement in either direction.

Barring any significant unforeseen economic turmoil, we consider a continuation of these trends the most likely path for values in prime London. Further substantial falls are unlikely as values are well insulated by high levels of equity in the market and limited numbers of 'forced' sellers. The relatively low price growth over the last decade means there's less froth to come off this market than others around the country.

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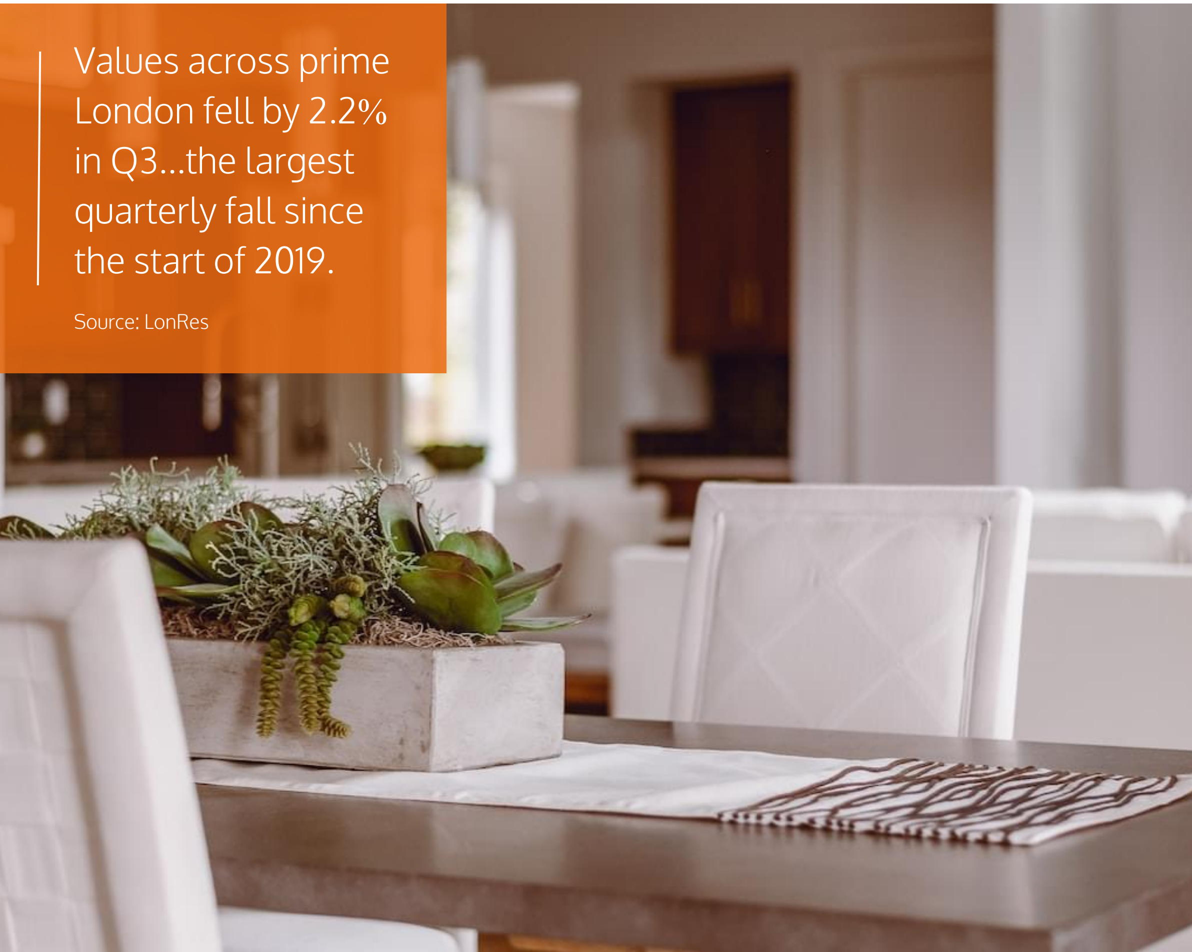
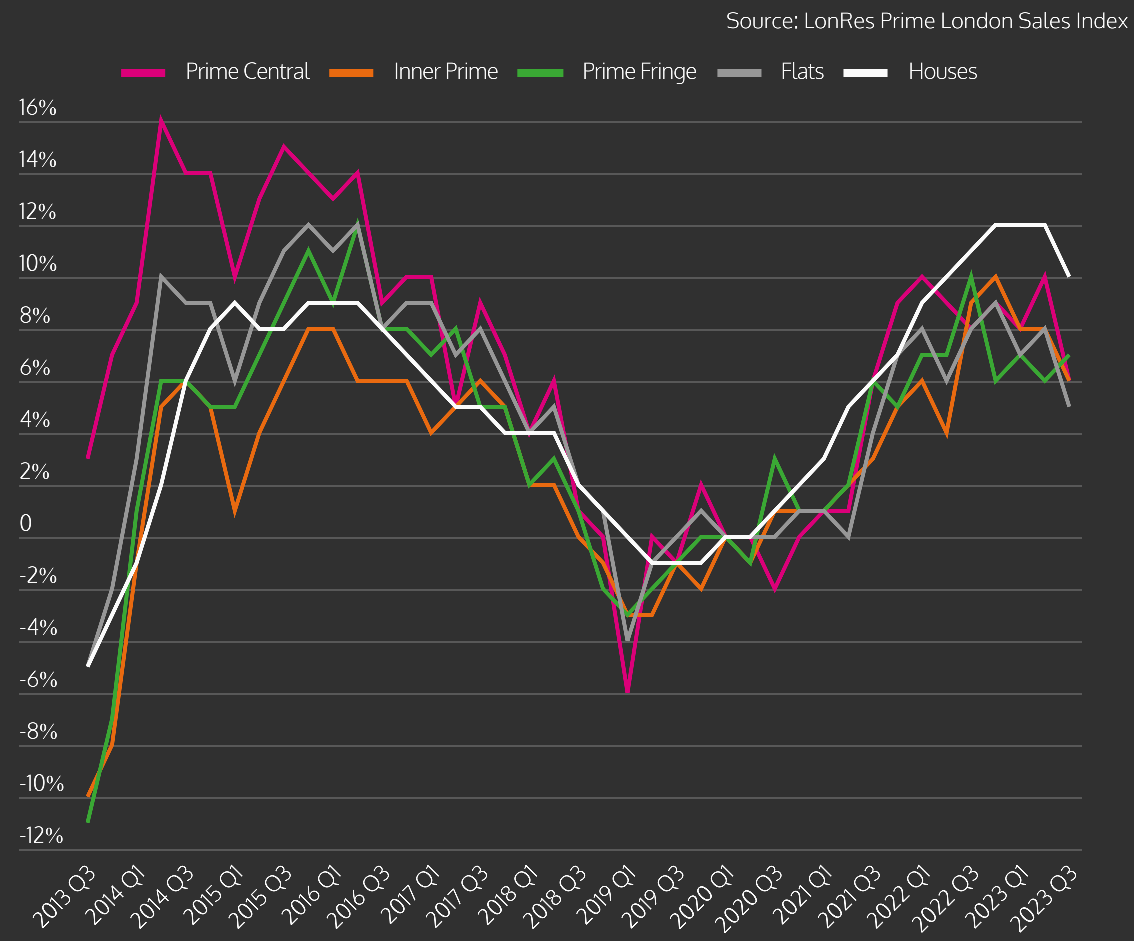
Source: LonRes



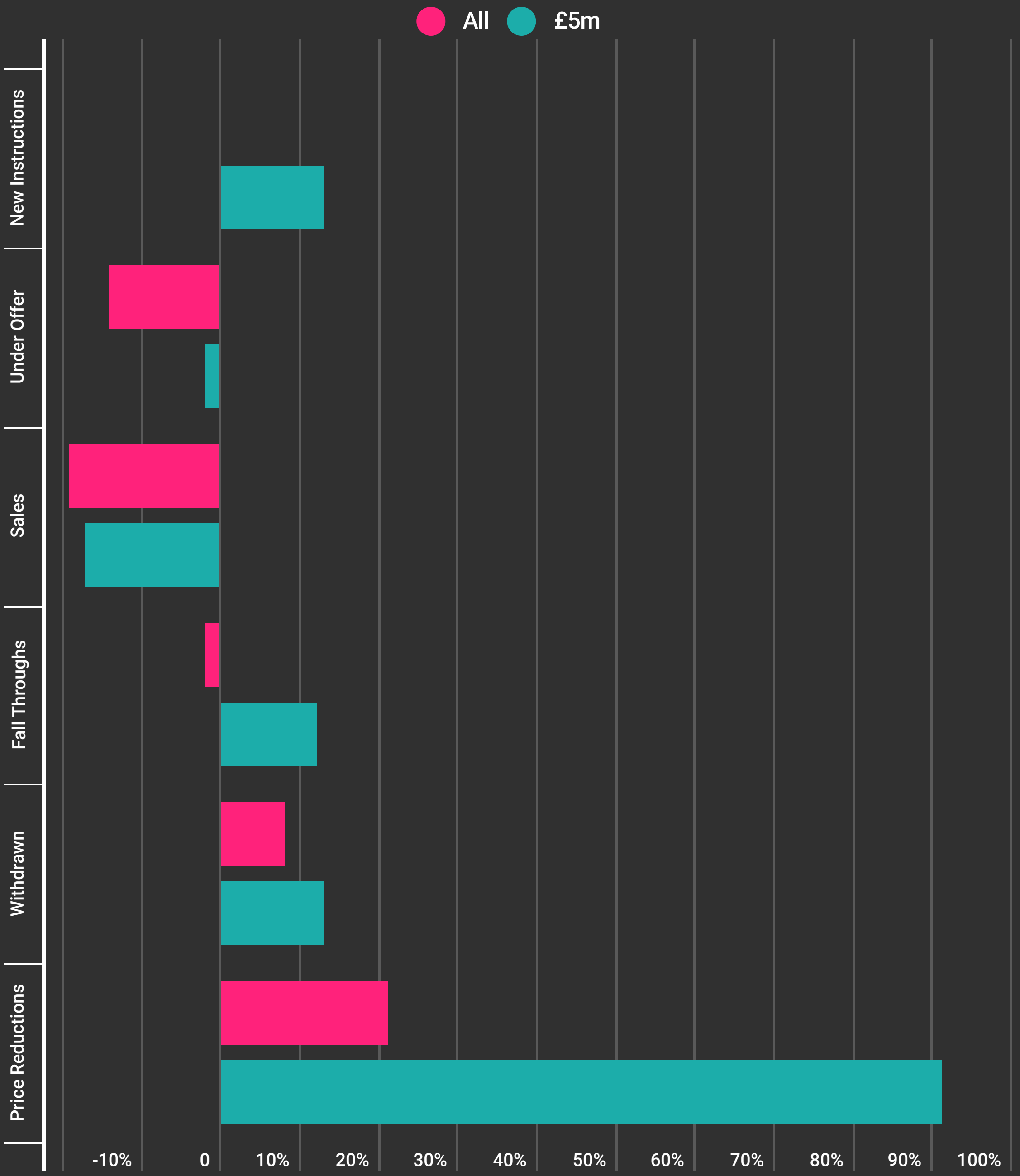
Change in Sales Values by Area/Type compared to Q1 2020



Broken down by sub-market the value trends are very similar, with all areas recording price falls on an annual basis and following the same general pattern of limited change over the longer-term. Even the difference in price growth between flats and houses has been relatively low over recent quarters. But the boost to house values due to increased demand during the pandemic has not been reversed – since Q1 2020 prices for houses across prime London have grown 10.4%, almost twice the rate of flats (+5.3%).

Comparison of Activity Measures by Price Band - 2023 Year to Date vs 2022

Sources: LonRes



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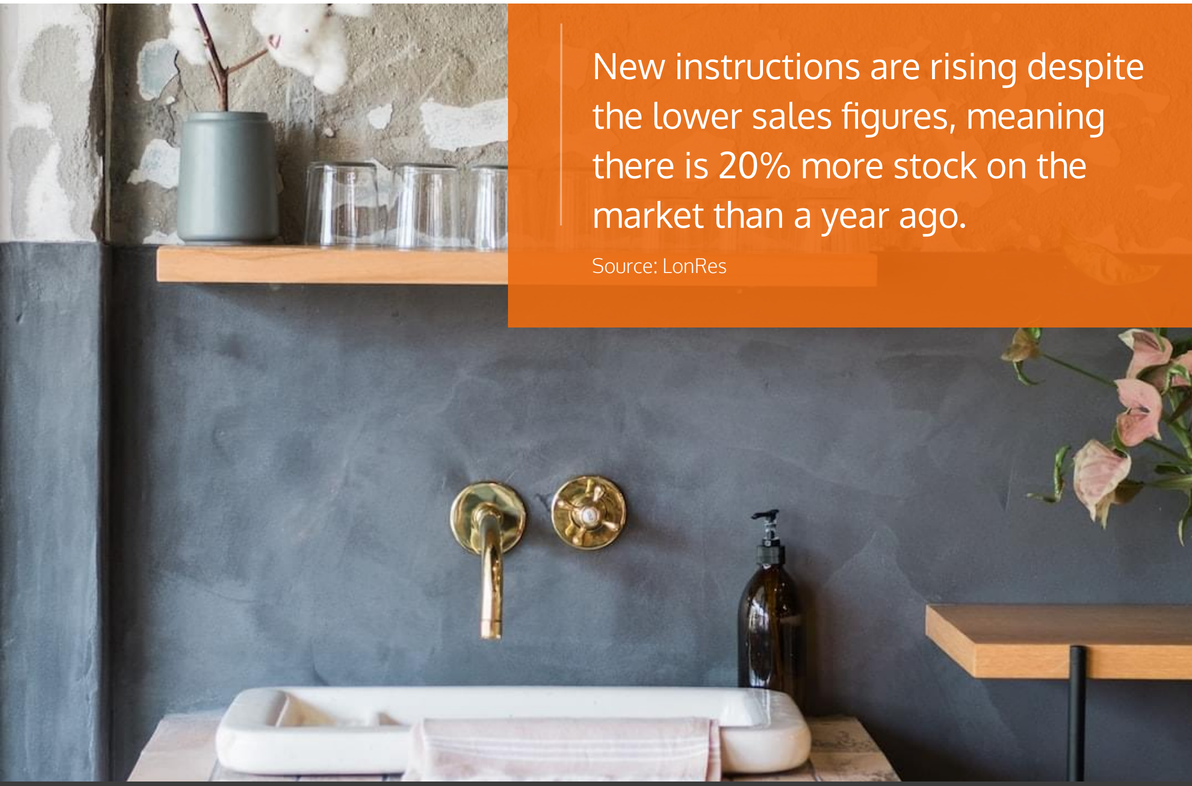
Looking at the sales activity metrics by price band shows that even £5m+ properties – previously the strongest performer over the past couple of years – are affected by the wider slowdown. Based purely on transaction numbers, £5m+ has seen a similar drop to the whole market – 17% fewer in 2023 to date compared to last year. The figure for all price points is a 19% fall. But the other metrics point to a weakening top end market.

New instructions are rising despite the lower sales figures, meaning there is 20% more stock on the market than a year ago. The large rise in price reductions of 91% more than a year ago appears very negative but is in part due to the larger number of homes for sale. A fairer comparison is the proportion of £5m+ properties that sell following a reduction in asking price. This reached 41.3% in Q3, which is the highest figure since Q1 2019 (barring the lockdown-affected Q2 2020).

Much like other parts of the market, looking further back provides a different context. The 17% fall in transactions becomes a 47% rise if you change the baseline from 2022 to 2017-19. Compared to Q3 2019 there were almost twice as many £5m+ sales in Q3 this year.



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>
> Source: LonRes

Lettings Market

Q3 saw a small shift back to a more balanced rental market. Supply across prime London increased slightly with 5.6% more new letting instructions compared to Q3 2022. With agreed lets falling by 9.3% over the same timeframe, stock available to let at the end of September was 56% higher than a year earlier. While this annual change seems like a large increase, compared to September 2019 the current stock of available properties is around 48% lower.

Rents across prime London decreased by 3.1% compared to Q2, according to the latest LonRes Prime London Rental Index, with annual growth slowing to 5.7%. This was the first quarterly fall since Q2 2021, although it comes off a very high base. A year ago rents were growing by over 20% on an annual basis, so this latest rise is on top of that – it is not surprising that the pace of growth has slowed.

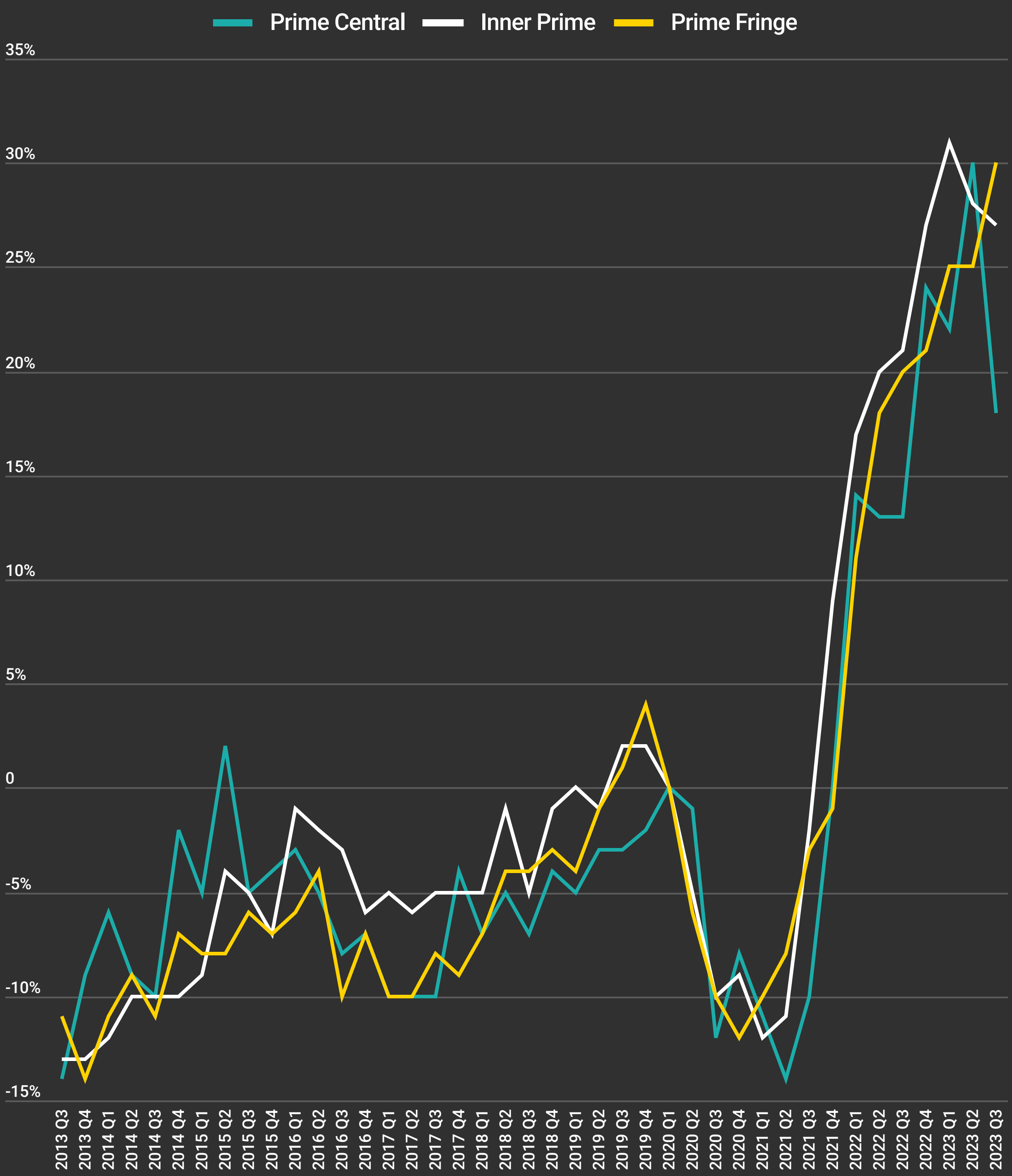
It is higher value properties and central London that are contributing most to this slight slowdown. Rents in prime central London fell by 8.5% in Q3, more than reversing the 6.4% rise last quarter. Our inner and fringe prime catchment areas fared better, with quarterly changes of -0.4% and +4.2% respectively in Q3. Average yields across prime London were 4.44% in Q3, rising from 4.11% in Q2 and significantly up on the recent low of 3.28% recorded at the end of 2020.

Supply across prime London increased slightly... stock available to let at the end of September was 56% higher than a year earlier

Source: LonRes

Change in Rental Values by Area compared to Q1 2020

Source: LonRes Prime London Rental Index



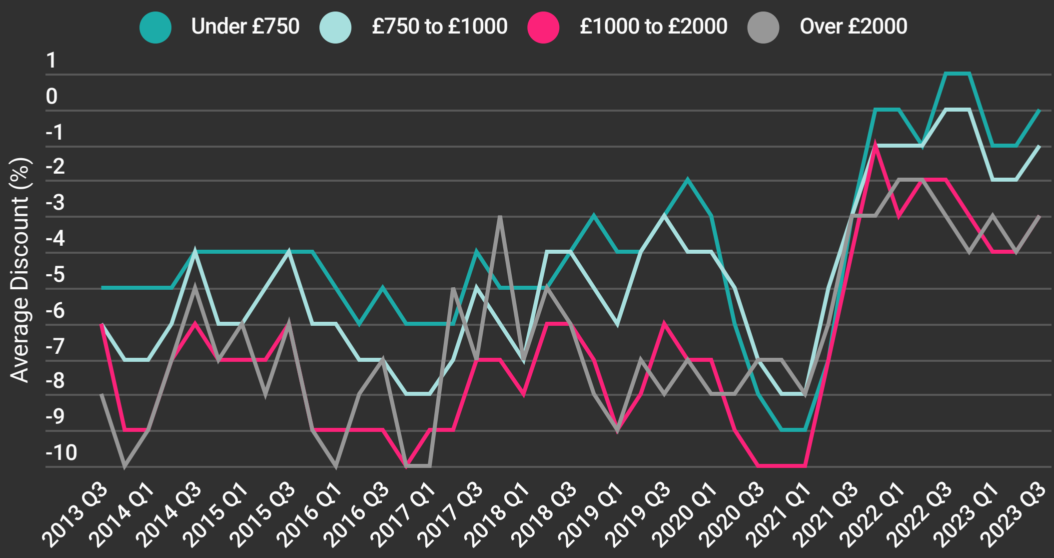
The longer-term context is that rents were approximately flat for five years from 2015 to early 2020, before quickly falling 10-15% due to a sudden drop in tenant demand caused by the pandemic. As demand returned the bounce back in values was equally rapid. The falls were recovered towards the end of 2021 and rents accelerated towards 30% more than their 2020 Q1 level by the start of 2023.

Our data on price reductions indicates that rental growth could slow further. For 2023 to date there have been 70% more reductions than the same period in 2022. While some of this rise is due to the higher level of stock noted above, the proportion of properties seeing a price reduction before they are let has increased from 12% in Q3 last year to 19% this year.

The extent of this further slowdown and whether that moves into price falls will depend on whether the recent small rises in supply continue to increase. A slower sales environment can also have a crossover impact on the dynamics of the lettings market. Factors such as accidental landlords and potential buyers preferring to rent while they wait for a better market may affect supply and demand of homes to let.

Average Discount to Asking Rent by Weekly Price Band

Source: LonRes



The average discount to asking rent across prime London was 1.3% in Q3, reflecting the strength of the market. This is a slightly higher level of discounting than Q3 last year, when properties were on average achieving 100% of asking rent, but well below pre-2020 levels where discounts of around 5% were typical.

Higher value rental properties have historically required larger average discounts, but the gap to lower value homes has been volatile in recent years. As the market started to recover through 2021 there was relatively little difference in average discounts by rental price band. But the gap opened up in 2022, and as of Q3 this year there is a clear divide above and below the £1000 per week mark.

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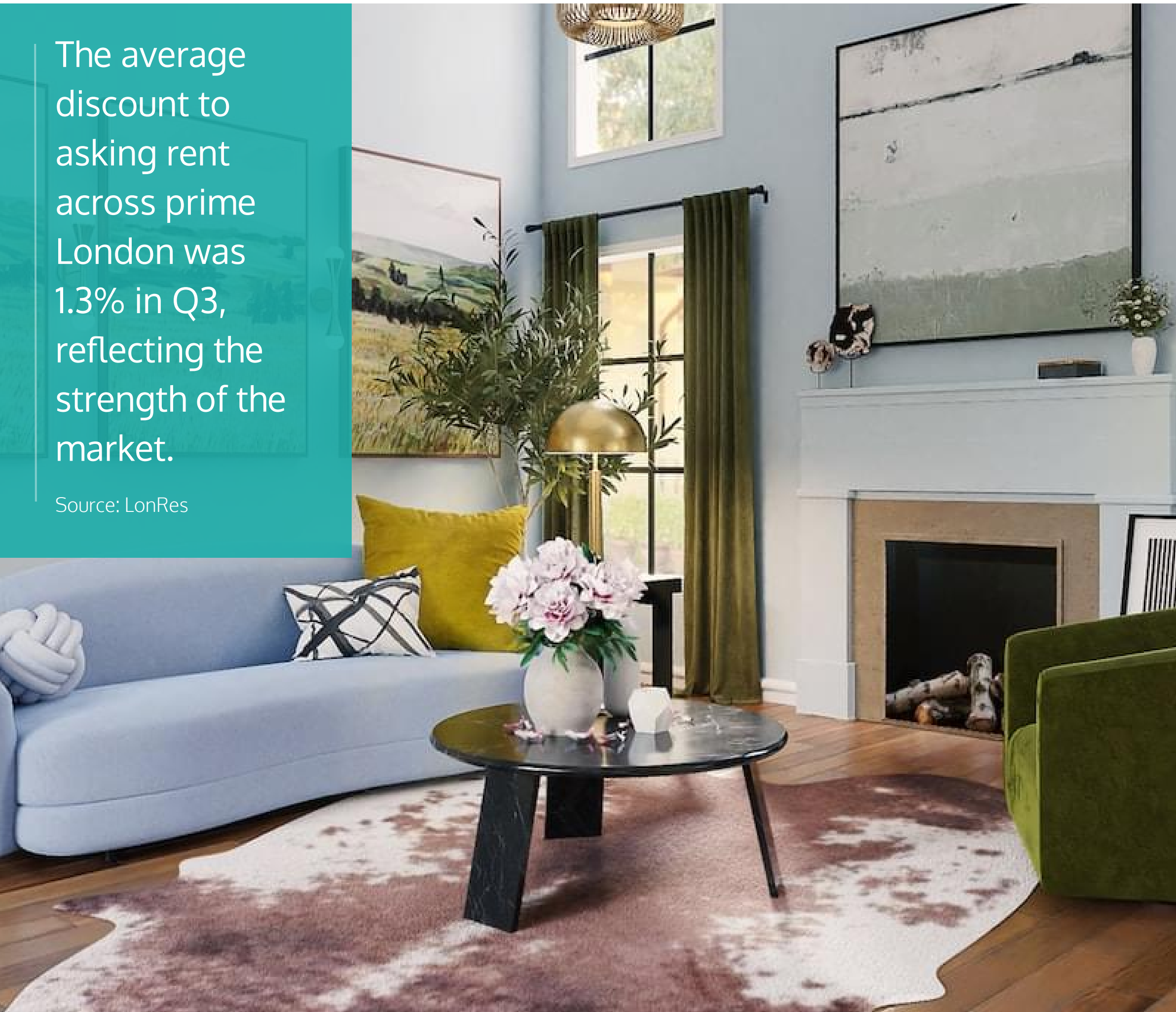
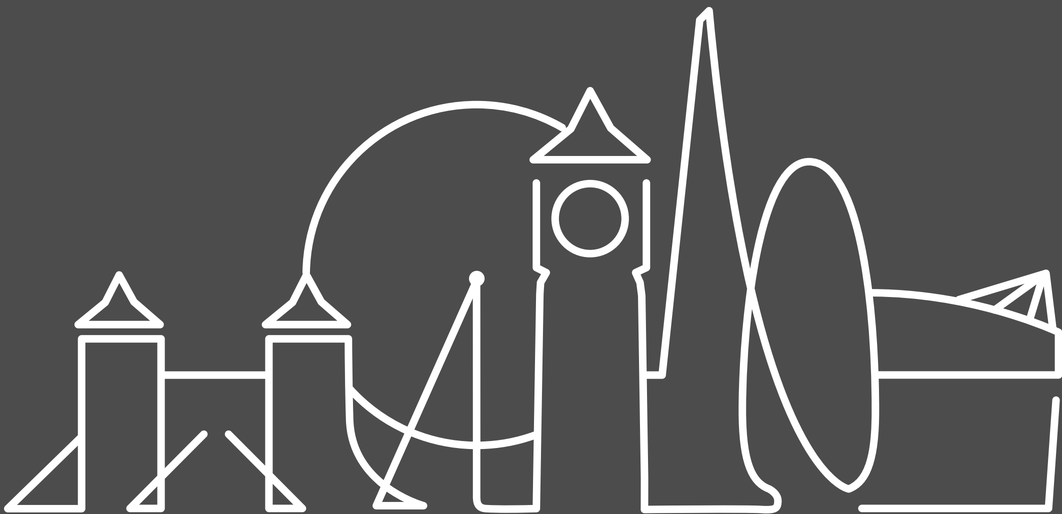
Source: LonRes





*The analysis for this report takes in the three LonRes catchment areas:
Prime Central London: SW1Y, SW1X, SW1W, SW1A, SW3, SW7, SW10, W1S, W1K, W1J, W8.
Prime London: NW1, NW3, NW8, SW1P, SW1V, W1T, W1H, W1U, W1G, W1W, W2, W11, W14.
Prime Fringe: SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10.

Analysis of LonRes data for this Prime London Market Update has been carried out by Nick Gregori, Head of Research at LonRes, using data up to 30 September 2023.

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