



LON
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PRIME LONDON MARKET UPDATE

Spring 2023

Introduction

The sales market stalled slightly across prime London over the first three months of the year, while in the lettings market, rents continued to rise.

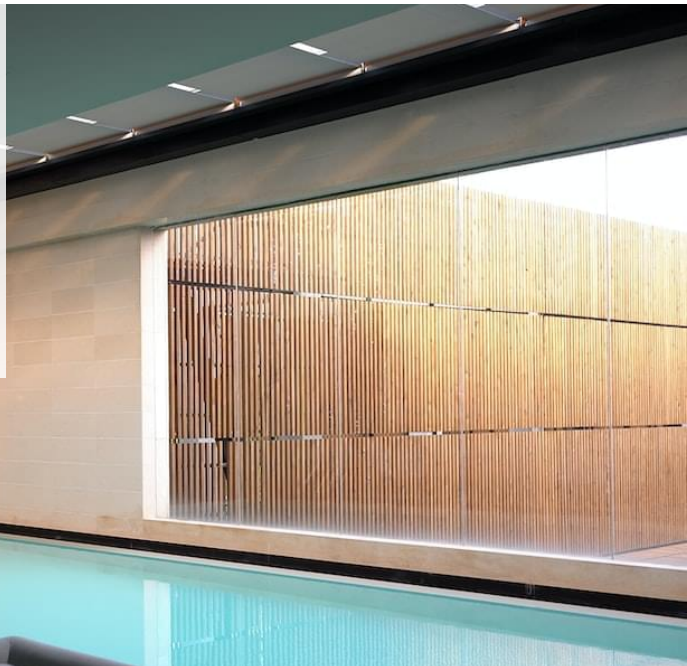
Sales volumes fell in Q1 of 2023 as buyer demand, dampened by the wider economic outlook, declined. That said the number of sales across prime London remains largely in line with pre-pandemic trends.

New instructions are rising, particularly in higher-value markets, which, if buyer demand holds up, could be an indicator of a pickup in sales activity later in the year. Whether these shifting conditions mark a return to a more 'normal' sales market or are the start of a downturn remains to be seen.

The prime London rental market also saw activity decline in Q1, but this is constrained by supply rather than demand. With demand outstripping supply, rental values grew again over the first quarter of the year. However, the rate of rental growth has slowed from the frantic pace of the previous 18 months. With no sign of new rental stock coming to the market, competition between tenants remains high.

Sales volumes fell in Q1 of 2023 as buyer demand, dampened by the wider economic outlook, declined.

Source: LonRes



Sales Market

House prices and transactions levels across prime London fell in Q1 2023 compared to a year earlier. The latest LonRes Sales Index recorded an annual change in values of -0.4%, while sales volumes fell by 23%. Activity in the £5m+ market fell by 32% in Q1 compared to a year earlier, back in line with 2019 levels. While this may appear to be a significant drop, it is simply a return to past trends – in line with 2019 levels – following a record high number of sales at the top-end of the market in 2022.

Price reductions over Q1 2023 add to the picture of a slowing market. Across prime London 52% of properties sold in March had seen their asking price reduced, up from a low of 33% last July, and average discounts grew to 8.3% compared to 4.7% also in July. This at a time when we head into spring – traditionally a busy selling season.

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£5m+ market fell
by 32% in Q1
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Source: LonRes



However, wider market indicators suggest a more mixed picture, with some positive signs. The number of deals falling through across all prime London is slightly down compared to Q1 last year and new instructions are rising. The number of £5m+ properties going under offer increased by 20% in the first quarter, so sales at the top end of the market are set to increase again in Q2.

The outlook for the prime London markets over the rest of 2023 may look relatively weaker when compared to the boom times of 2021 and 22. But the data for the first quarter suggests performance slightly ahead of pre-pandemic (2017 to 2019) trends.

In the longer term, the health of the prime London market will be determined by the wider economic and political environment and of course interest and exchange rates, which along with sentiment are among the key drivers for both buyers and sellers.

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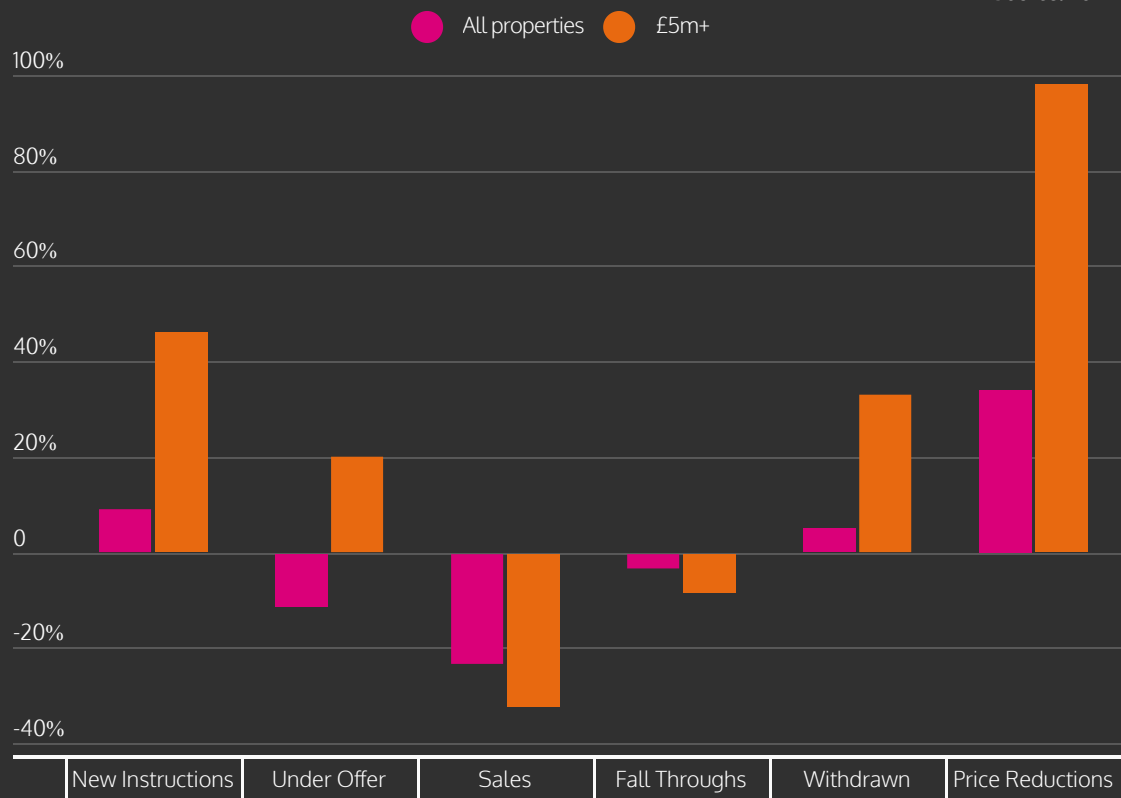
Source: LonRes



Activity Measures Across Prime London in Q1 2023

– Compared to Same Period Last Year

Source: LonRes

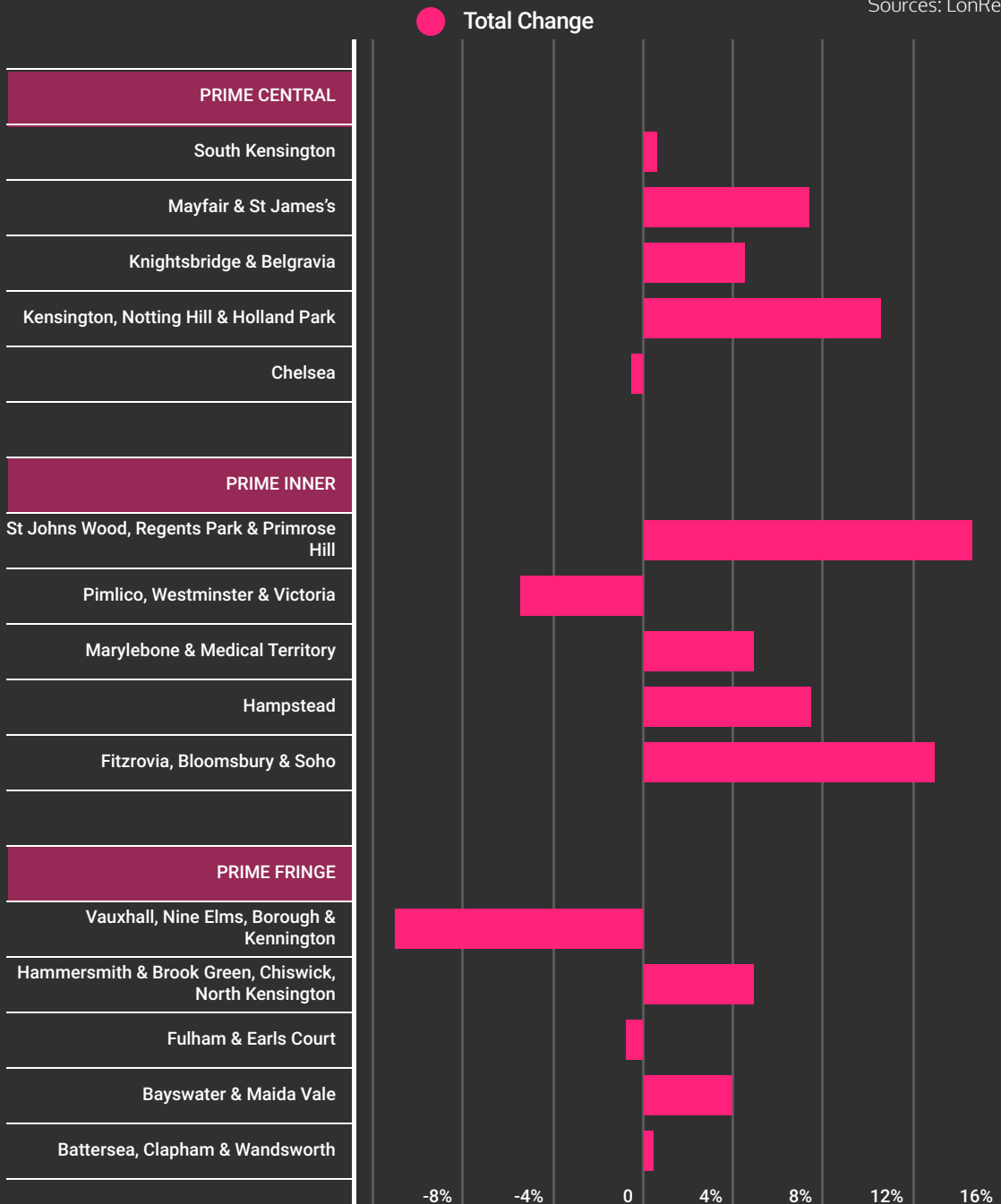


As is often the case the headline figures mask the detail below. The headline figures for Q1 2023 show a small annual price fall across the three LonRes areas. However, drilling down into the data shows that houses in prime fringe areas with an annual price growth of 6.7% performed best, while flats in prime central London were hardest hit with an annual price fall of 1.3%. It's interesting to note that in the medium-term all these sub-markets are up compared to their Q1 2020 benchmarks.

House prices across the whole of prime London are up 12.0% over the three year period, with flats up 6.8%. Looking longer-term, there is more divergence relative to the previous peak of the market in early 2016 – houses are up 2.9% on that basis whereas flats are down 5.0%.

Total Change in Achieved Sale Price Per Square Foot, Q1 2023 vs. Q1 2020

Sources: LonRes



Price movements at a neighbourhood level show even more variation. The majority of local markets have recorded growth since Q1 2020, with St. John's Wood, Regent's Park & Primrose Hill the best performer with values rising by 14.6% over three years. St John's Wood, Regents Park & Primrose Hill were among the best performers with price growth running at +14.6%.

Results on an annual basis are more volatile, with most areas seeing single-digit falls and only Kensington, Notting Hill & Holland Park in positive territory at +2.6%.

The best performing local markets in terms of sales activity do not necessarily correlate to price growth. Of the central areas, Chelsea has seen the highest increase in activity in Q1 2023, with 25.6% more sales compared to the 2017 to 2019 first quarter average. But values have been broadly flat over the past three years. Neighbouring Fulham & Earl's Court recorded a 45.1% rise in transactions on the same basis, again with no corresponding growth in achieved sale prices.



The majority of local markets have recorded growth since Q1 2020, with St. John's Wood, Regent's Park & Primrose Hill the best performer with values rising by 14.6% over three years

Source: LonRes


Lettings Market

Rental growth across prime London remained high in Q1 but slowed from the frantic pace of the previous 18 months. The latest LonRes prime London Rental Index recorded annual growth of 9.3% after a quarterly rise of 0.6%.

Prime central London saw a small quarterly fall in rental values of 0.6% in Q1, following strong growth in Q4 2022, whereas rents in prime London fringe grew by 3.1% after lower rises in the second half of 2022.

With capital values broadly static, average yields have been growing across prime London, reaching 4.18% in Q1. This is the highest level since 2012 and is a significant rise from their recent low of 3.28% in Q4 2020.

All measures of lettings activity were down compared to a year ago, as the market continues to be constrained by a lack of available stock. New lettings instructions fell by 11.3% in Q1 on an annual basis, with the number of properties going under offer and new lets agreed down by 12.3% and 19.2% respectively over the same period. All three metrics now sit at less than half of their pre-pandemic (2017 to 2019) averages.

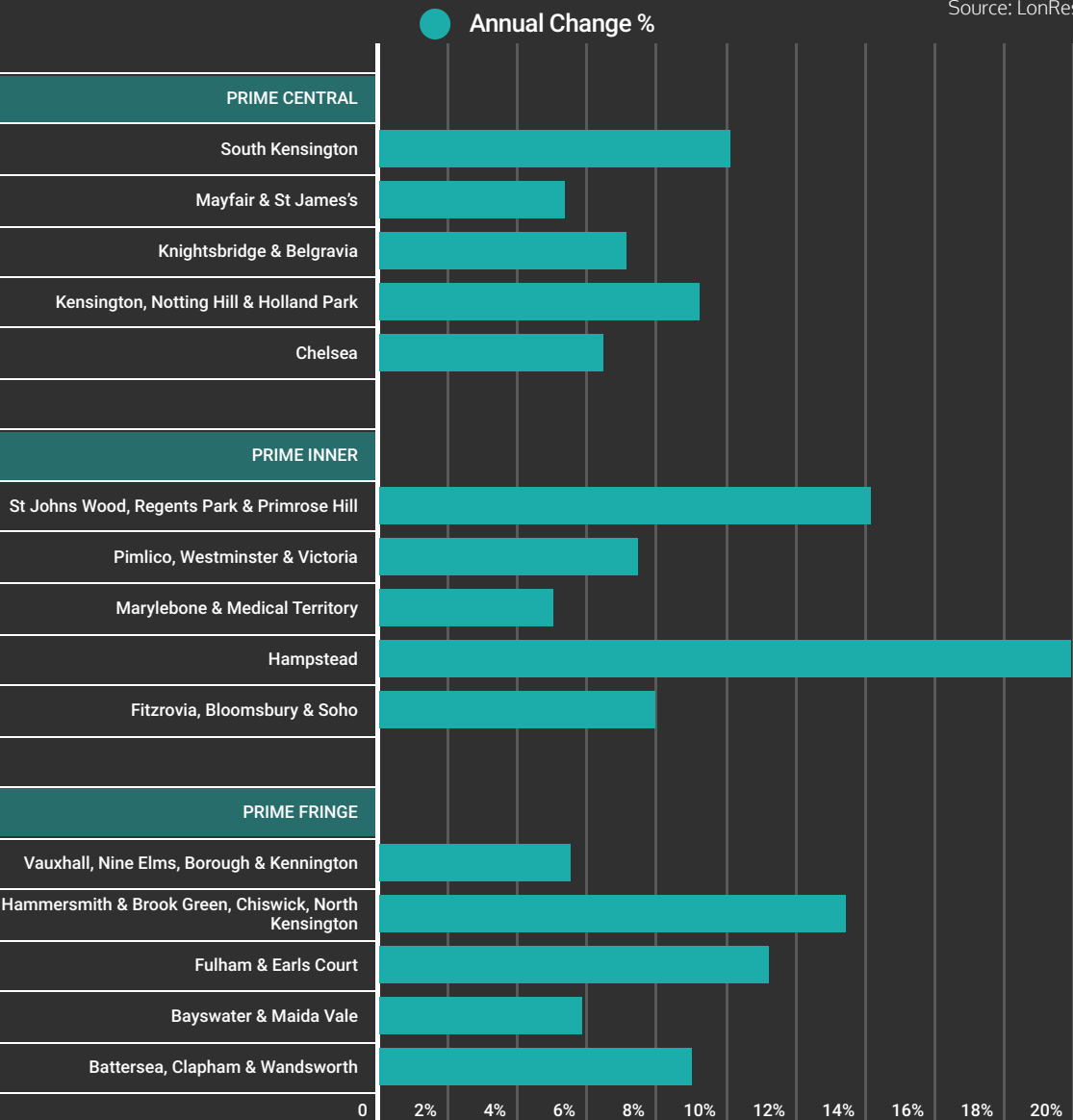


Prime central London saw a small quarterly fall in rental values of 0.6% in Q1

Source: LonRes

Annual Change in Achieved Rent Per Square Foot, Q1 2023 vs. Q1 2022

Source: LonRes

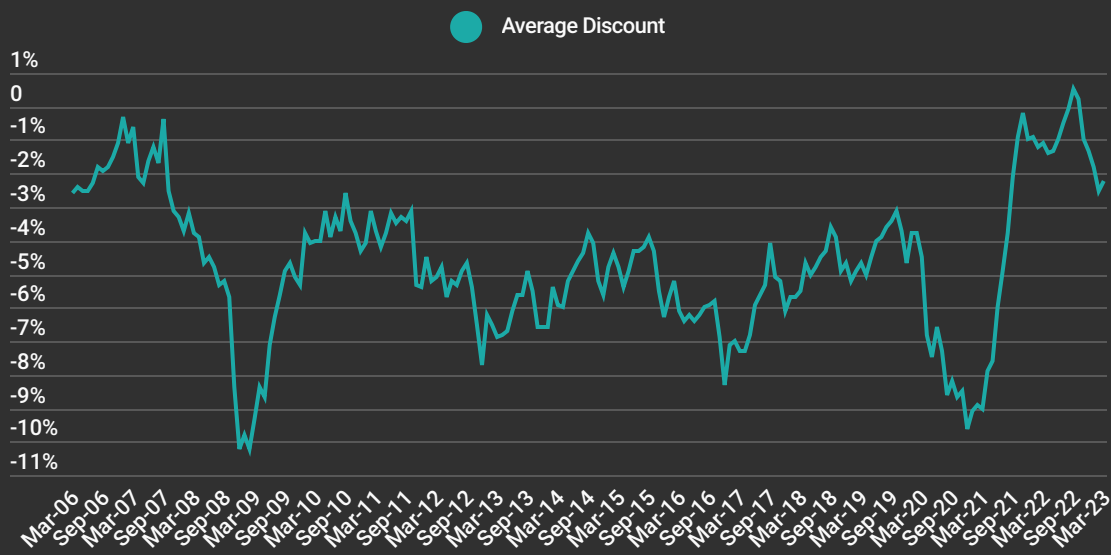


Strong annual rental growth was seen in all local markets across prime London in Q1, with many neighbourhoods recording rises of over 10%. North London was the strongest performer, with Hampstead at 19.9% and St. John’s Wood, Regents Park & Primrose Hill at 14.1% annual growth.

Both areas bucked the general trend by seeing higher numbers of new lets agreed in the first quarter of 2023 than a year earlier. On a longer-term comparison, none of the local market areas saw new lettings above 60% of their pre-pandemic (2017 to 2019) average levels in Q1.

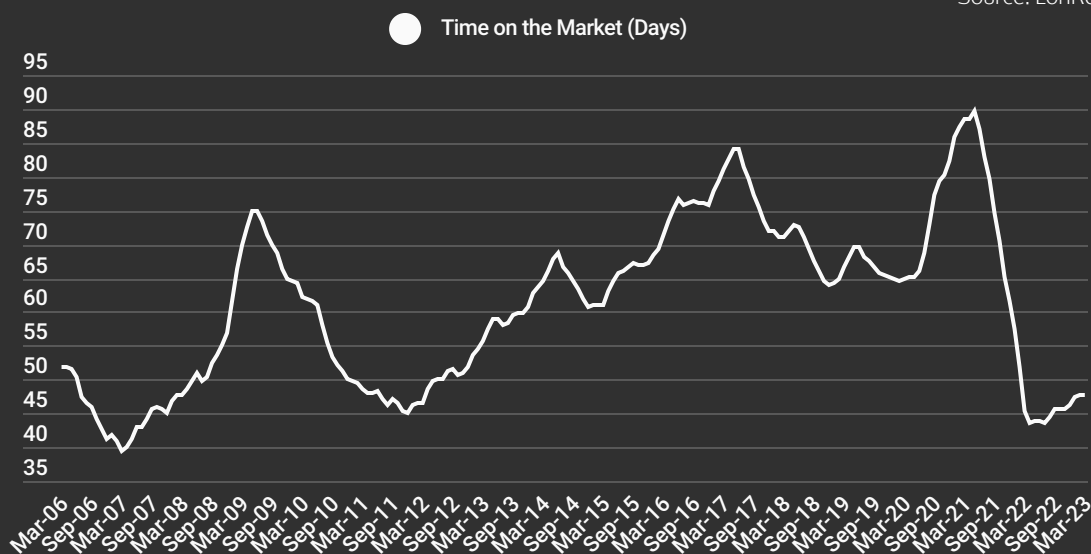
Average Discount

Source: LonRes



Average Time on the Market

Source: LonRes



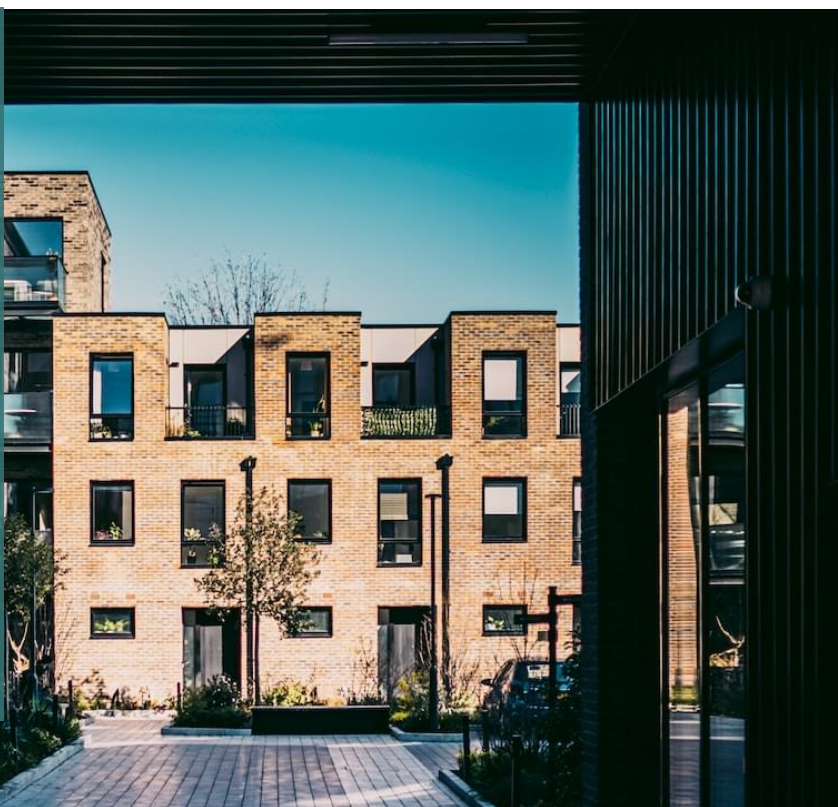
While pricing and activity data continues to indicate a robust rental market, analysis of average discounts and time on the market suggest a slight softening compared to the recent peak in demand. Competition among tenants in the second half of last year was so strong that properties were achieving 100.5% of their asking rent on average in September 2022. This has fallen to 97.8% in March but remains well above longer-term average levels.

Time on the market has followed a similar pattern, reaching a 15-year low of 43.5 days on average in July 2022 then increasing slightly to reach 47.8 in March. The number of properties where the asking price was reduced prior to being let has increased more quickly, from a record low of 10.0% in July 2022 to 22.5% in March.

Overall, there is little evidence in the data that we are moving away from the high demand, low supply conditions seen in recent months, with tenants' decreasing affordability the main factor limiting further double-digit rental growth in many markets.

The number of properties where the asking price was reduced prior to being let has increased more quickly, from a record low of 10.0% in July 2022 to 22.5% in March.

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 Prime London Market Update has been carried out by Nick Gregori of BuiltPlace - exclusively for LonRes - using data up to 31 March 2023.

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