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# PRIME LONDON MARKET UPDATE

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SPRING 2024

# Introduction

The first quarter of 2024 saw little change in the prime London sales market, with activity remaining subdued and further small falls in average prices. For prime London lettings, rental growth stabilised and activity increased slightly, indicating a more balanced market.

Our analysis shows that the clearest trend in the sales market is an increase in available stock. New instructions rose by 4.5% in Q1 on an annual basis, while there were lower levels of agreed sales and properties going under offer. This has resulted in a 9.7% rise in the number of homes for sale at the end of March compared to a year earlier. This trend is stronger in the £5m+ market, with a 26.5% rise, though activity here is also higher.

In the lettings market, annual rental growth is still in positive territory at 1.2%, but well down from the 2022 peak of more than 20%. Activity is still constrained by a lack of supply, although this is gradually improving. New letting instructions grew by 14.4% annually in Q1, but this is only just over half the average 2017 – 2019 (pre-pandemic) level.

The clearest trend in the sales market is an increase in available stock.

Source: LonRes



# Sales Market

House prices and transactions levels across prime London fell in Q1 2024 compared to a year earlier. The latest LonRes sales index recorded an annual change in values of -3.3%, while sales volumes fell by 10% compared to Q1 2023. The £5m+ market, which has been the best performer over the past three years, bucked this trend with a 1.3% rise in transactions over the same period. The longer-term context for activity is more positive – sales across all price points in Q1 were down 2.3% compared to the 2017 to 2019 average while £5m+ was up more than 28%.

Other indicators also suggest a mixed picture. On the supply side, there are rising levels of new instructions and price reductions, suggesting growing vendor motivation. Withdrawals are also low, so even with fewer sales the number of homes on the market is increasing. At the end of March there were 9.7% more homes for sale across prime London than a year earlier. Even with better sales volumes all these observations apply more strongly to the £5m+ market, where available stock is up by 26.5% over the same timeframe.



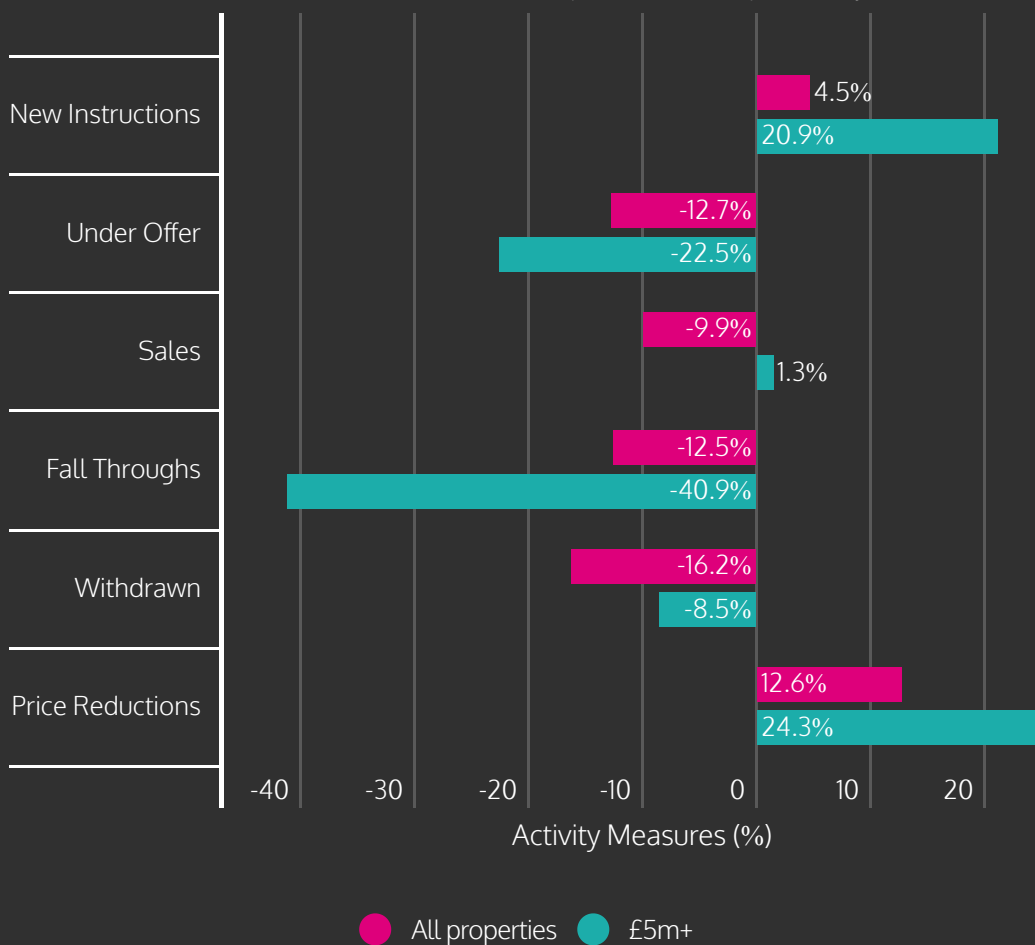
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Source: LonRes

The low number of properties going under offer in Q1 suggests that the outlook over the coming months is for continued low levels of activity. But the early Easter break may have had an impact here, as the week-by-week data showed a clear drop towards the end of March. The Budget on 6 March may have also contributed to a poor March. The changes to Multiple Dwelling Relief and 'non-dom' taxation are relatively small, affecting a small proportion of the market even in central London, but are still negative in terms of wider sentiment.

## Activity Measures Across Prime London in Q1 2024\*

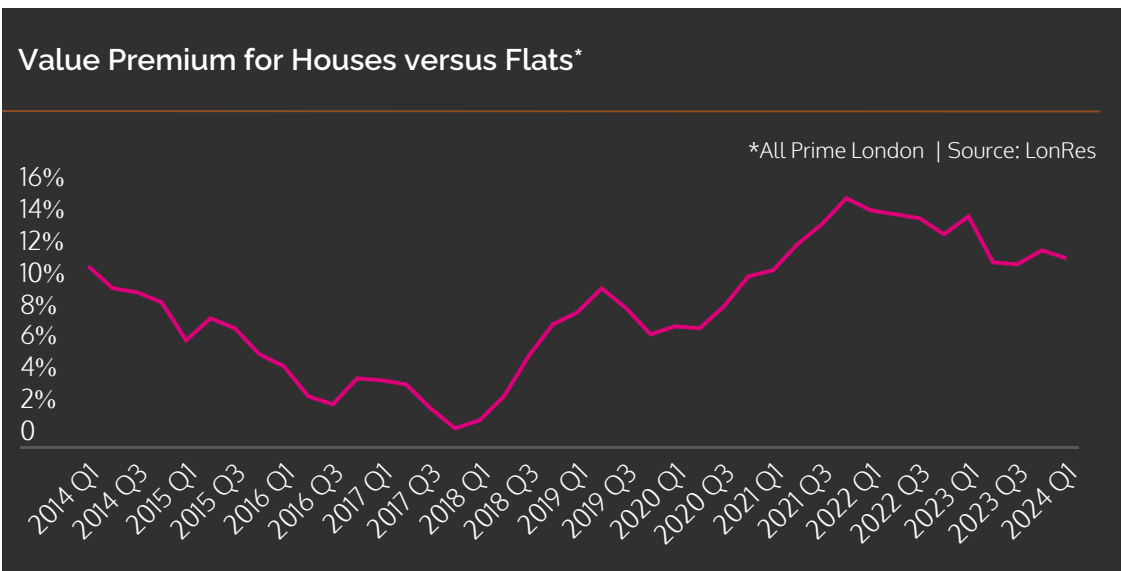
\*Compared to the same period last year | Source: LonRes



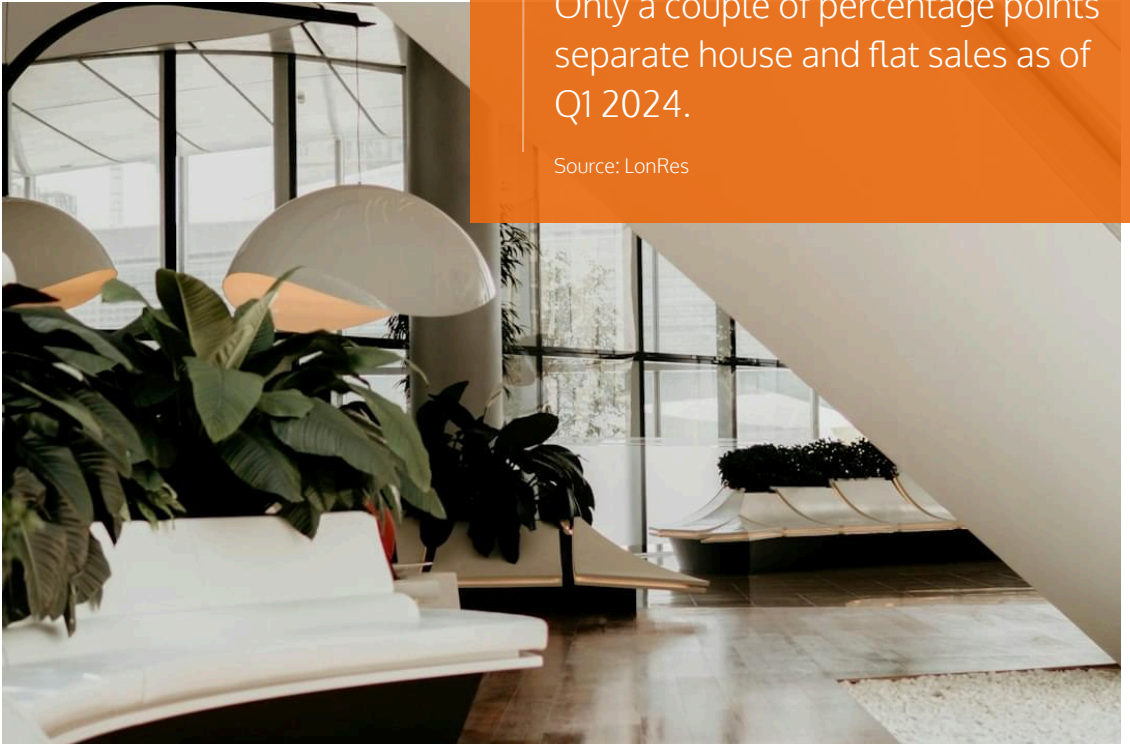
There are two key factors influencing the longer-term outlook for the prime London market, one domestic and one international. At home, the build up to a general election is likely to dominate any views on what happens next, although the short odds on a change of government mean that a lot of the impact is likely to be absorbed before the actual vote. Overseas, there is a growing possibility that Western nations will be drawn further into the conflict in the Middle East. This increases the risk of volatility in global financial markets – including property – although we have seen prime London property act as a ‘safe haven’ for investors in similar past circumstances too.

This March marked four years since the first Coronavirus lockdown. During and after the pandemic the so-called ‘race for space’ was the defining trend, a natural response to buyers spending more time at home and wanting more space, inside and out. Over the past decade houses have always attracted a premium over flats across prime London on a £ per sq ft basis, but by the end of 2017 this was down to 1.1%. By Q1 2020 it had grown to stand at 7.0%.

The gap stayed approximately stable for the first half of 2020, with the market initially subdued. As activity picked up the additional demand for houses translated into a growing premium, peaking at 15.6% at the end of 2021. After falling back slightly in 2023 it has stayed well above pre-pandemic levels since, sitting at 11.9% in Q1 2024.







Only a couple of percentage points separate house and flat sales as of Q1 2024.

Source: LonRes

Of course, it is not possible to attribute this change entirely to a post-pandemic shift in buyer preferences, there may be other factors in play reducing demand for flats. Leasehold properties in general have had some negative press over the past few years due to rising service charges and building safety compliance issues, but the timing of the change seen here from mid-2020 gives a strong indication of cause and effect.

Analysis of transactions over the same period initially showed a similar story. In Q2 2020 all activity slowed, but flat sales fell faster. By late 2020, house sales were increasing again while flats were down by around 15% compared to Q4 2019. Moving into 2021, demand for all property types in London was accelerating, but again houses were outperforming. Flat sales peaked at 26% above their 2019 level in Q2 2021, whereas houses reached almost +60% at the end of that year. Unlike for values, the gap has been closing since then, with only a couple of percentage points separating the two as of Q1 2024.

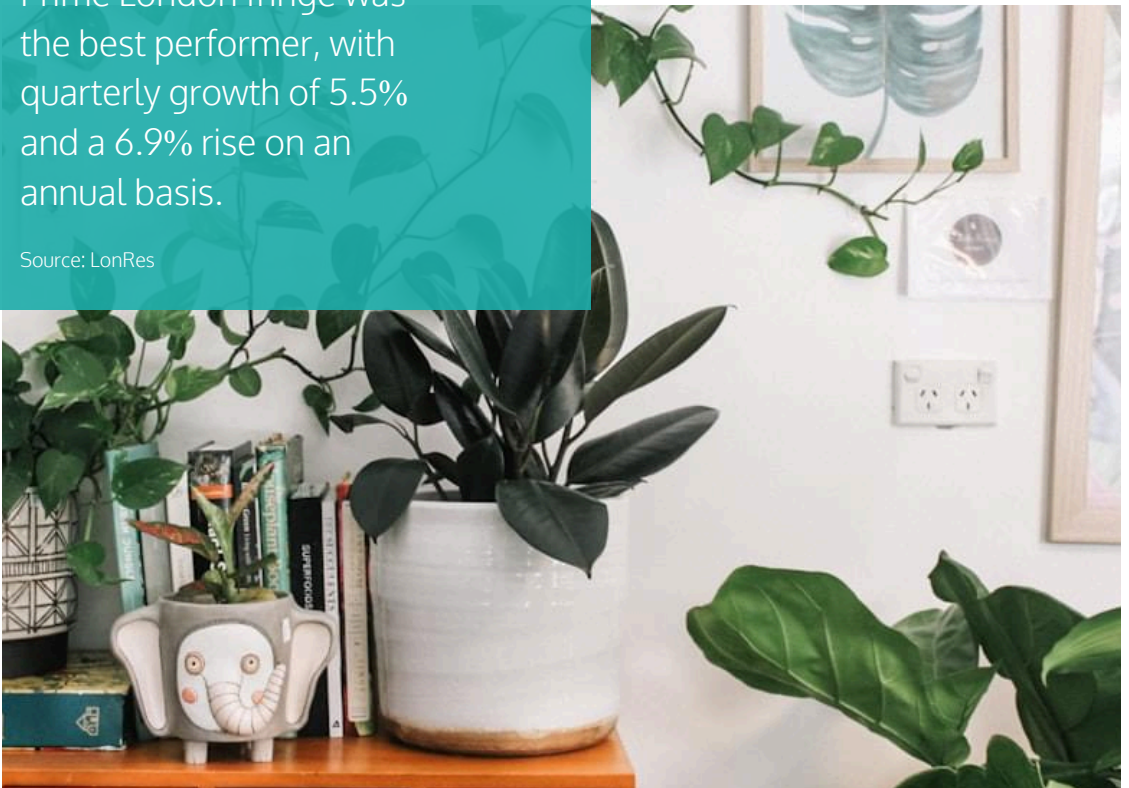
# Lettings Market

Rental growth stabilised in Q1 after slowing from the 20%+ peak seen in 2022. The latest LonRes Prime London Rental Index recorded annual growth of 1.2% after a quarterly rise of 1.8%. prime central London saw a quarterly rise of 2.2% in Q1, taking annual growth to 2.8%. Rents in inner prime fell slightly in Q1, by 0.2%, resulting in an annual fall of 3.0%. Prime London fringe was the best performer with quarterly growth of 5.5% and a 6.9% rise on an annual basis.

Prime London has seen average sales values falling slightly over the past three years, while rents have grown rapidly. In general, yields have therefore been rising and reached 4.53% across prime London in Q1. While this is slightly down on the recent peak of 4.58% in Q3 2023, it is well above the 3.7% average of the past years.

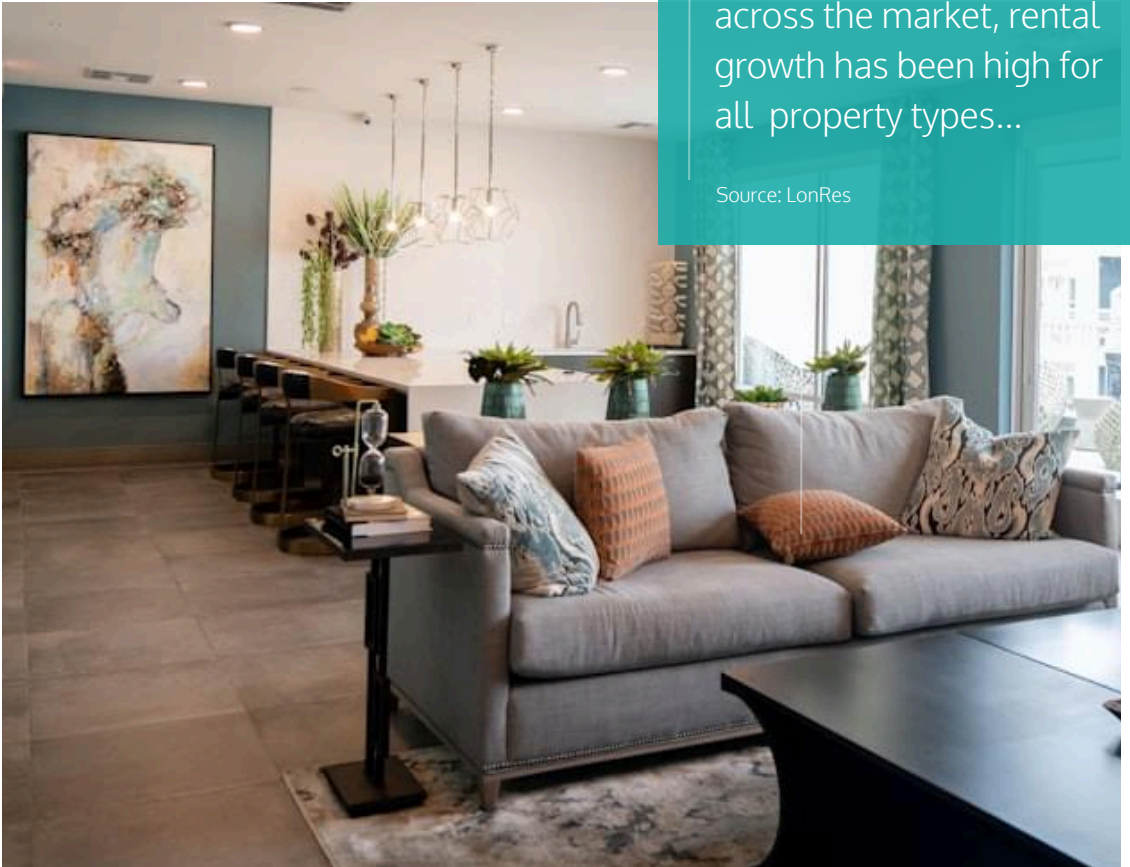
Prime London fringe was the best performer, with quarterly growth of 5.5% and a 6.9% rise on an annual basis.

Source: LonRes



With supply constrained across the market, rental growth has been high for all property types...

Source: LonRes



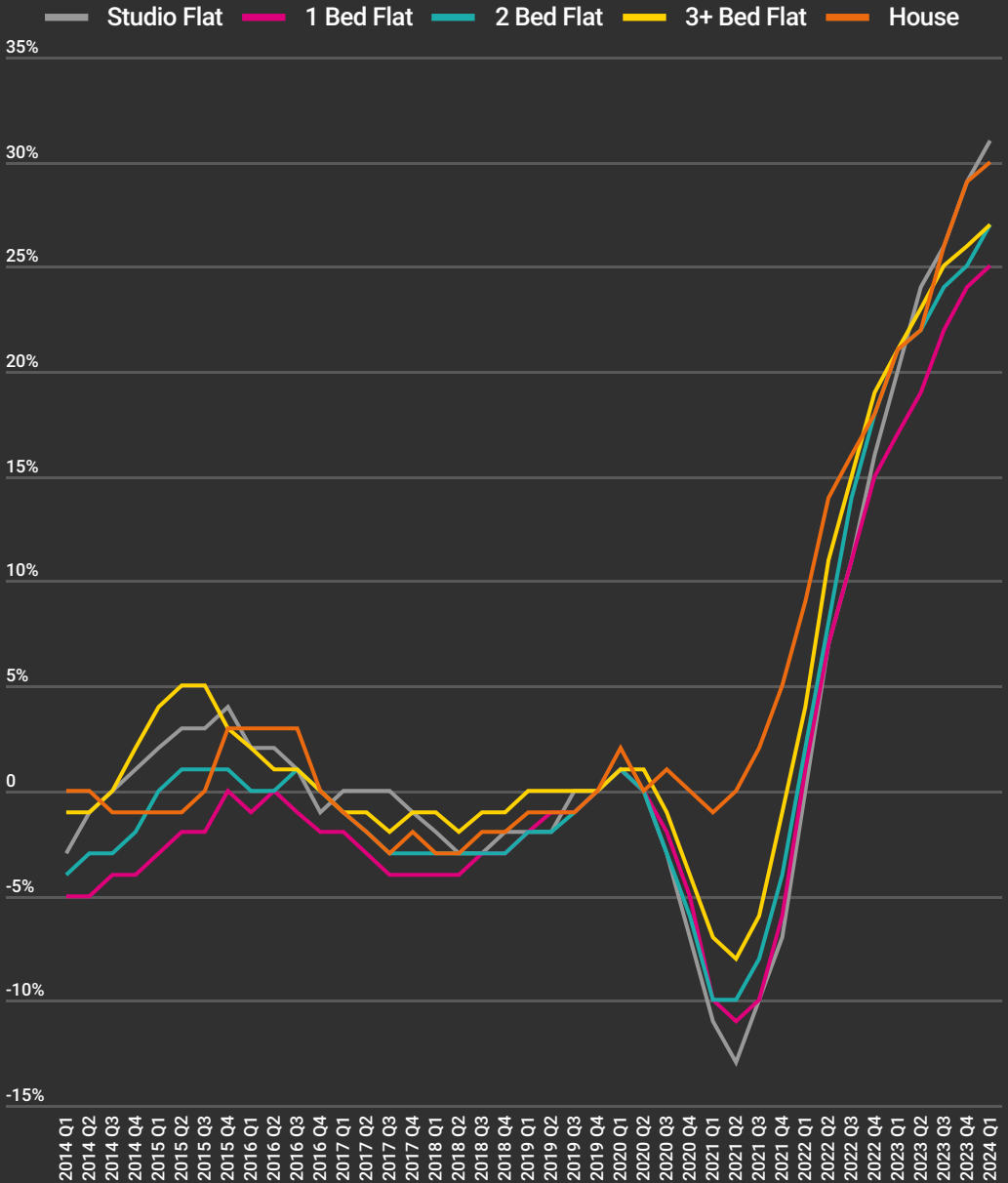
Activity in the prime London lettings market has not recovered to the levels seen pre-pandemic, but there are signs that it is improving. New lettings instructions grew by 14.4% in Q1 on an annual basis, with the number of properties going under offer and new lets agreed up by 1.4% and 2.4% respectively over the same period. All three metrics still sit at around half of their pre-pandemic (2017 to 2019) averages.

With supply constrained across the market, rental growth has been high for all property types, but this is a recent trend. Prior to 2020 there was very little change in rents, on average values grew by around 1% in the five years to Q4 2019. They have been more volatile since, dropping sharply in 2020 as demand disappeared before recovering strongly.



# Rental Values by Property Types Relative to 2019 Q4

Source: LonRes



Broken down by property type, rents in Q1 2024 for all types are around 25-30% above their Q4 2019 level. But they have reached this point via different trajectories. Rental values for houses barely fell in 2020, and have climbed steadily since to reach +29.9% relative to Q4 2019.

Studios fell the fastest in 2020, down to a low of -13.0% in Q2 2021, before recovering rapidly to +30.5% in Q1 2024. Other flat types followed a path somewhere between these extremes.

The performance of studios suggests that tenant preferences may be responding to changing working patterns in the capital. Increased demand for pieds-à-terre will be coming from workers who may have moved out during or after the pandemic and have returned to a 'hybrid' role (mix of office-based and work from home), in addition to keeping a family home out of London.

We have mentioned that rental growth has slowed, and other indicators also suggest more balance between supply and demand. Stock on the market is recovering from the low point reached at the end of 2021. There were 38.8% more properties available to let at the end of March than a year earlier. Average discounts have grown from a low of zero in Q3 2022 to 4.1% in Q1 2024. The proportion of properties that see their asking rent reduced before being let increased from 11.9% to 33.8% over the same period.

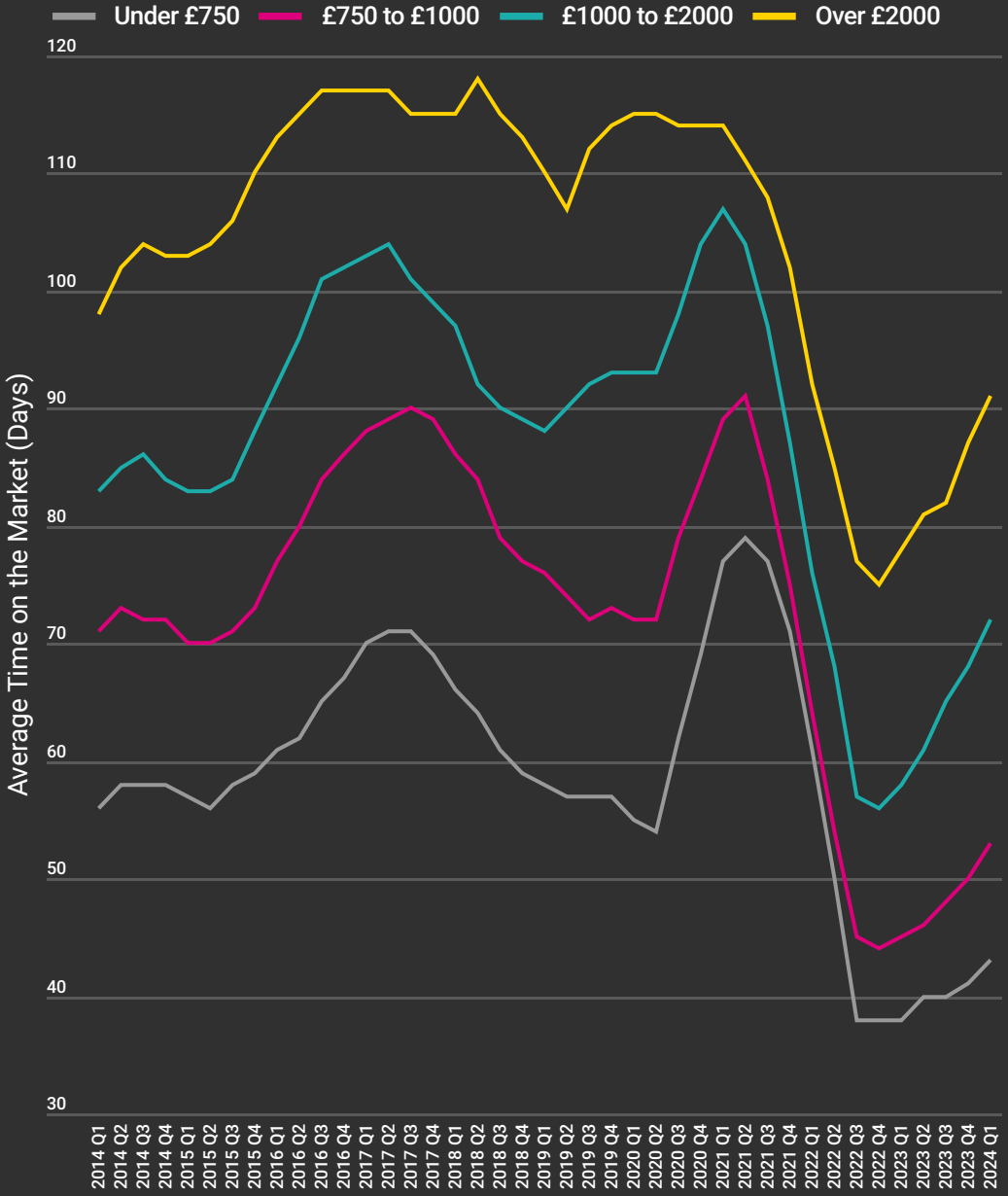
Stock on the market is recovering from the low point reached at the end of 2021.

Source: LonRes



# Average Time on the Market by Weekly Rent Band

Source: LonRes

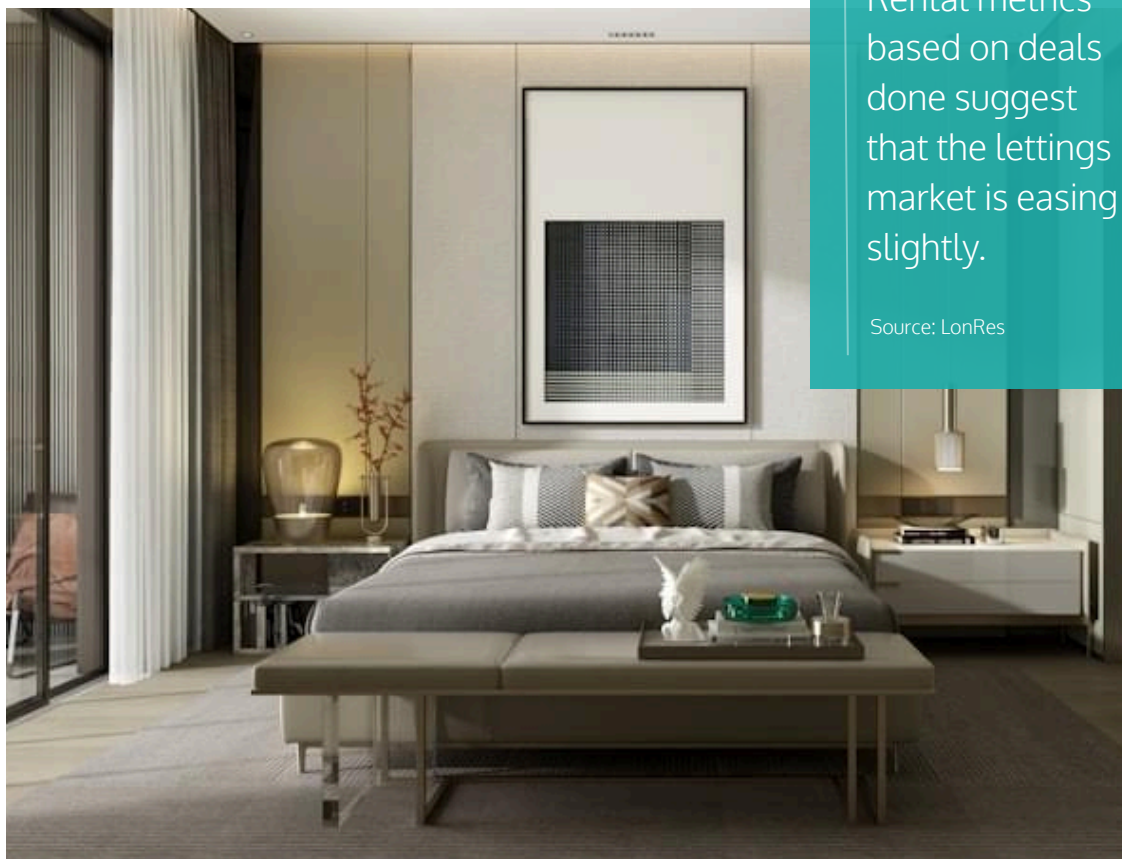


The average time on the market has also been rising since late 2022, when the average across all prime London was around 45 days. In Q1 2024 it was 56 days. Broken down by weekly rent band, the difference between higher and lower value properties has grown again after closing up during 2021. In Q2 of that year, the average time on the market for £2000+ per week properties was 111 days, compared to 79 for £750 per week and under, a ratio of 1.4. In Q3 2022 this ratio increased to 2.0. Since the end of 2022 the ratio between bands has stayed similar but time on the market has risen across all rental values.

All the rental metrics based on deals done suggest that the lettings market is easing slightly, but supply remains highly constrained compared to pre-2020 trends, particularly at lower price points.

Rental metrics based on deals done suggest that the lettings market is easing slightly.

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 31 March 2024.

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