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PRIME LONDON MARKET UPDATE

SUMMER 2023

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Introduction

At the halfway point of 2023 the prime London sales market remained subdued, with house prices broadly flat and most measures of activity trending downwards from the higher levels recorded in 2021 and 2022. The lettings market is still seeing strong demand and limited supply, resulting in competition between tenants and continued rental growth.

The stock of homes for sale is growing, as new instructions have been steadily increasing while transactions fall back. This has been particularly marked in the £5m+ price band, where Q2 saw the highest number of new instructions on record, with sales unable to keep pace.

The falls in activity in the prime London rental market appeared to be bottoming out in Q2, with new instructions and agreed lets both remaining around 50% below their pre-pandemic levels. These falls may be overstated as rental demand is so strong that a significant proportion of properties are being let without listing, so are not captured in the data.

In the £5m+ market Q2 saw the highest number of instructions on record.

Source: LonRes

Sales Market

House prices in prime London returned to growth in Q2, but only slightly. The latest LonRes sales index recorded an annual change in values of 1.4% after a quarterly rise of 0.2%. Quarterly transaction volumes fell by 19.8% on an annual basis, with the traditional 'spring bounce' failing to materialise. As noted last quarter, while these annual comparisons look negative, market activity is broadly in line with pre-pandemic levels – sales volumes in the first half of this year are 4.6% higher than the 2017 to 2019 average.

The outlook for the second half of the year does appear uncertain, with metrics such as fall throughs and price reductions heading upwards. Fall throughs in the first half of the year are 2.3% up on 2022 and 47.5% higher than the 2017 to 2019 average. The number of new price reductions increased in Q2 to take the year to date total 28.4% higher than the first half of last year. By contrast the average discount and the proportion of sold properties that had been reduced fell back slightly from last quarter, suggesting more realistic pricing on the part of some vendors.

> ...sales volumes in the first half of this year are 4.6% higher than the 2017 to 2019 average.

Source: LonRes

The top end of the market slowed again in Q2. £5m+ sales volumes were down by 18.9% over the first half of the year compared to 2022. There were increases in new instructions (+20.3%), fall throughs (+27.5%) and price reductions (+96.5%) on the same basis. This now appears to be more of a buyers' market, with around 20% more stock for sale at the end of June compared to the start of the year.

Overall, while the market is still moving, many potential buyers seem content to wait out any period of uncertainty. After 13 interest rate rises in succession the financial markets still expect further tightening, so the second half of this year may be too soon for any improvement in sentiment.

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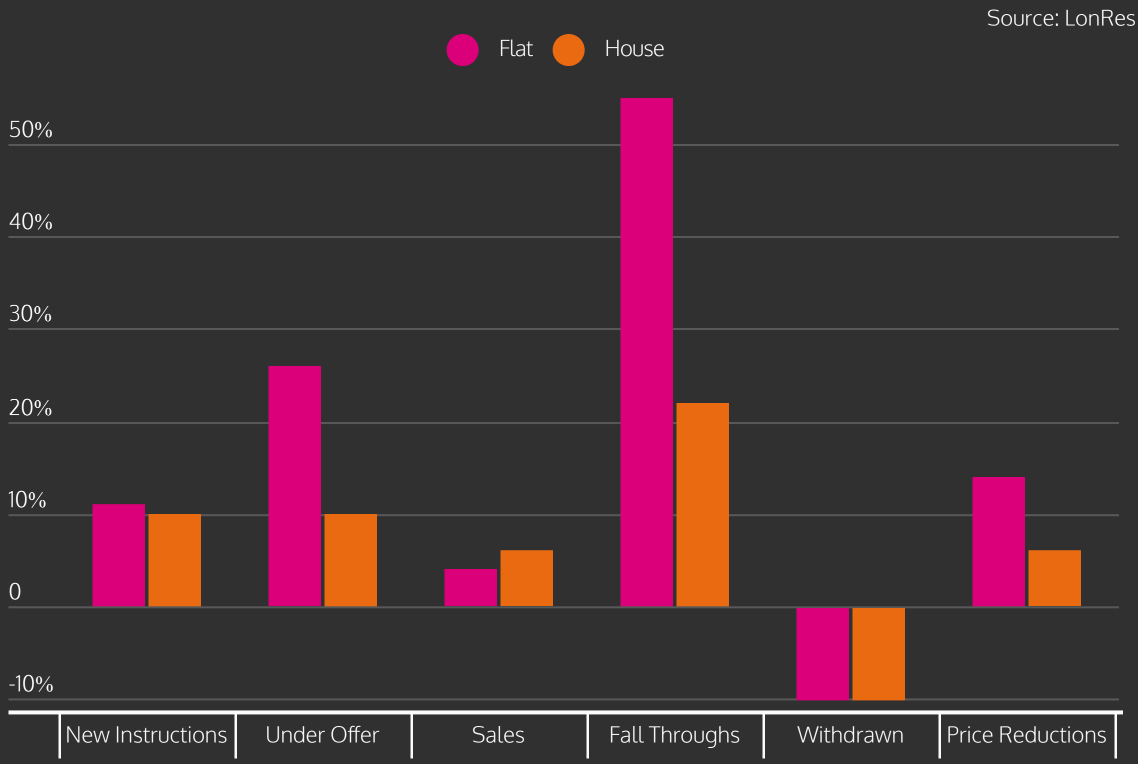
> Source: LonRes

Activity Measures by Property Type in H1 2023

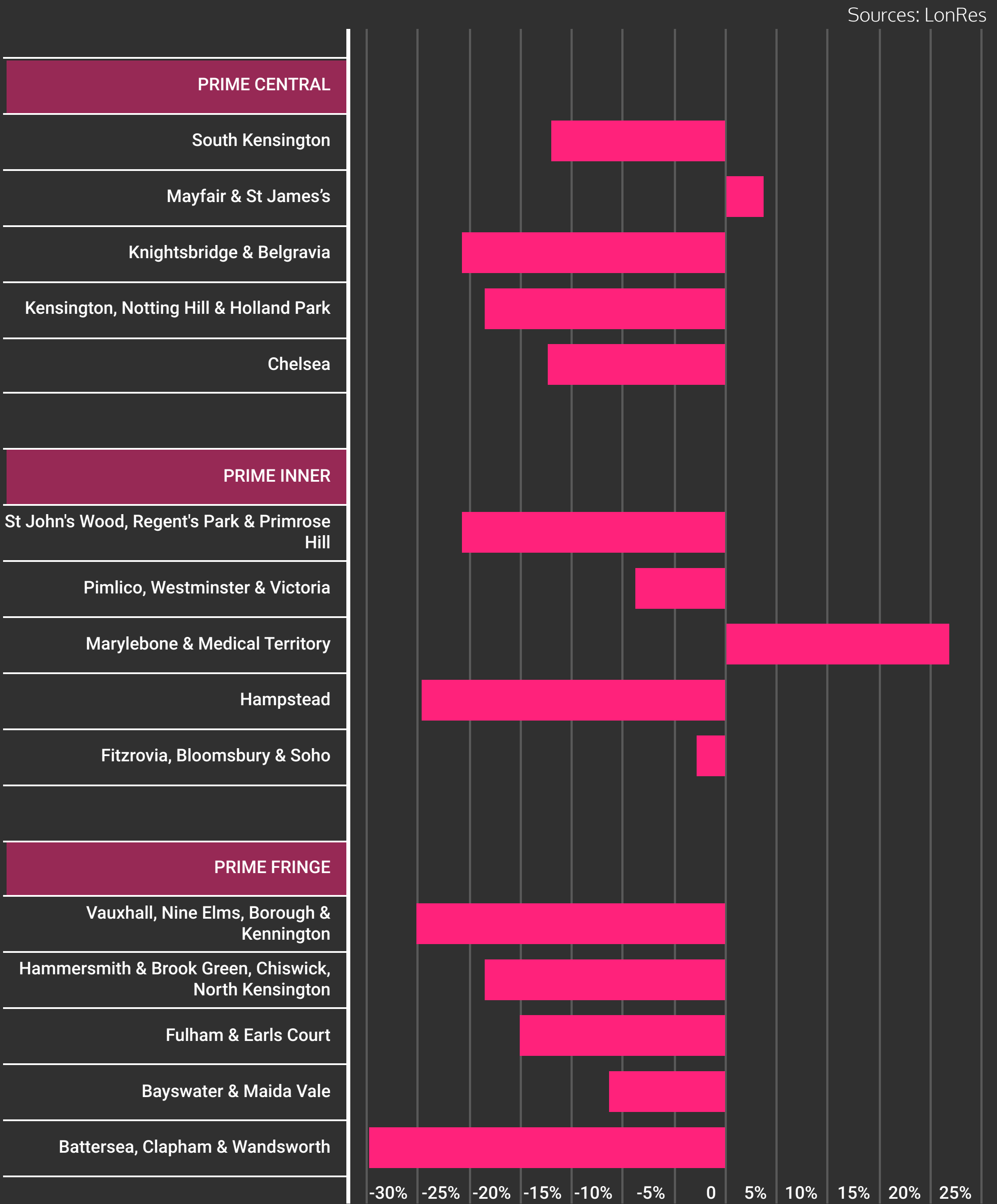
– Compared to 2017 to 2019 Average



Broken down by property type, the data for 2023 so far suggests that demand for flats and houses is more equal. This follows a period where houses were significantly more popular as buyers looked for more space during the pandemic. Relative to their 2017 to 2019 averages, transaction levels for both houses and flats are slightly up. The only significant difference is with relative levels of fall throughs, which is much higher for flats. This is likely due to issues with building safety act requirements and leases rather than the buyers.

The trend for pricing is similar. In the past year, flats have performed slightly better with growth of 2.2%, vs. 1.6% for houses. Compared to Q1 2020, flat prices in Q2 this year were 8.7% higher compared to 11.8% for houses. Despite apparent changes in buyer preferences, these figures show that there has not been much negative impact on sales volumes or pricing for flats relative to houses over the past three years.

Annual Change in Number of Agreed Sales, H1 2023 vs. H1 2022



As we reported earlier sales across prime London this year are down around 20% on 2022. At sub-market level the results are similar: prime central down 18.0%, prime inner down 16.4% and prime fringe down 24.0%. But some individual neighbourhoods are bucking this trend.

Mayfair & St. James's is the best performer in the central area, with an annual increase in transactions of 3.6%. From the prime inner catchment Marylebone has seen a 21.7% rise, and while all areas in prime fringe are down, Bayswater & Maida Vale has seen the smallest fall at -11.3%.

Longer-term changes show a different pattern, with transaction volumes compared to the 2017 to 2019 H1 average up the most in Chelsea (+35.6%) and Bayswater & Maida Vale (+35.2%). Only the fringe locations of Battersea, Clapham & Wandsworth, Hammersmith & Brook Green, Chiswick, North Kensington, and Vauxhall, Nine Elms, Borough & Kennington have seen falls in activity over the same timescale.

Mayfair & St. James's in the best performer in the central area, with an annual increase in transactions of 3.6%.

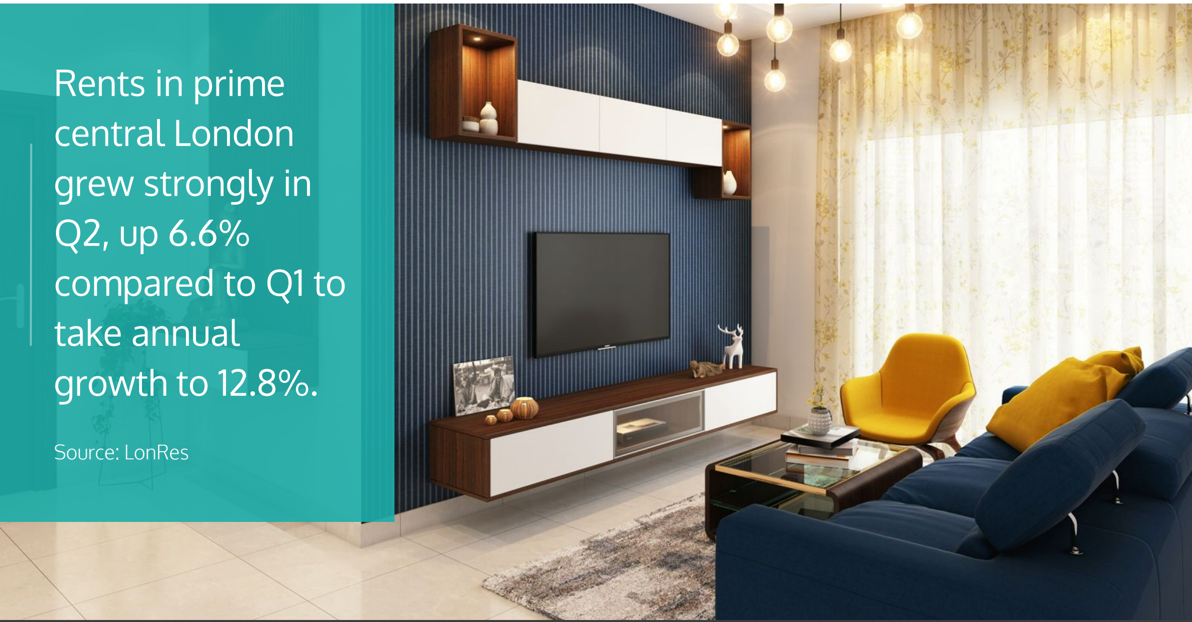
Source: LonRes

Lettings Market

Q2 in the prime London lettings market was much like Q1, with rental growth still high but well below the pace of late 2021 into 2022. The latest LonRes prime London Rental Index recorded annual growth of 8.8% after a quarterly rise of 2.4%. This is in a context where annual growth peaked at over 30% in Q2 last year.

Rents in prime central London grew strongly in Q2, up 6.6% compared to Q1 to take annual growth to 12.8%. There were smaller increases in both the prime inner and prime fringe catchments, of 4.9% and 8.0% annual growth respectively. Average yields across prime London were 4.09% in Q2, very slightly lower than Q1 but substantially higher than the 3.28% recorded at the end of 2020.

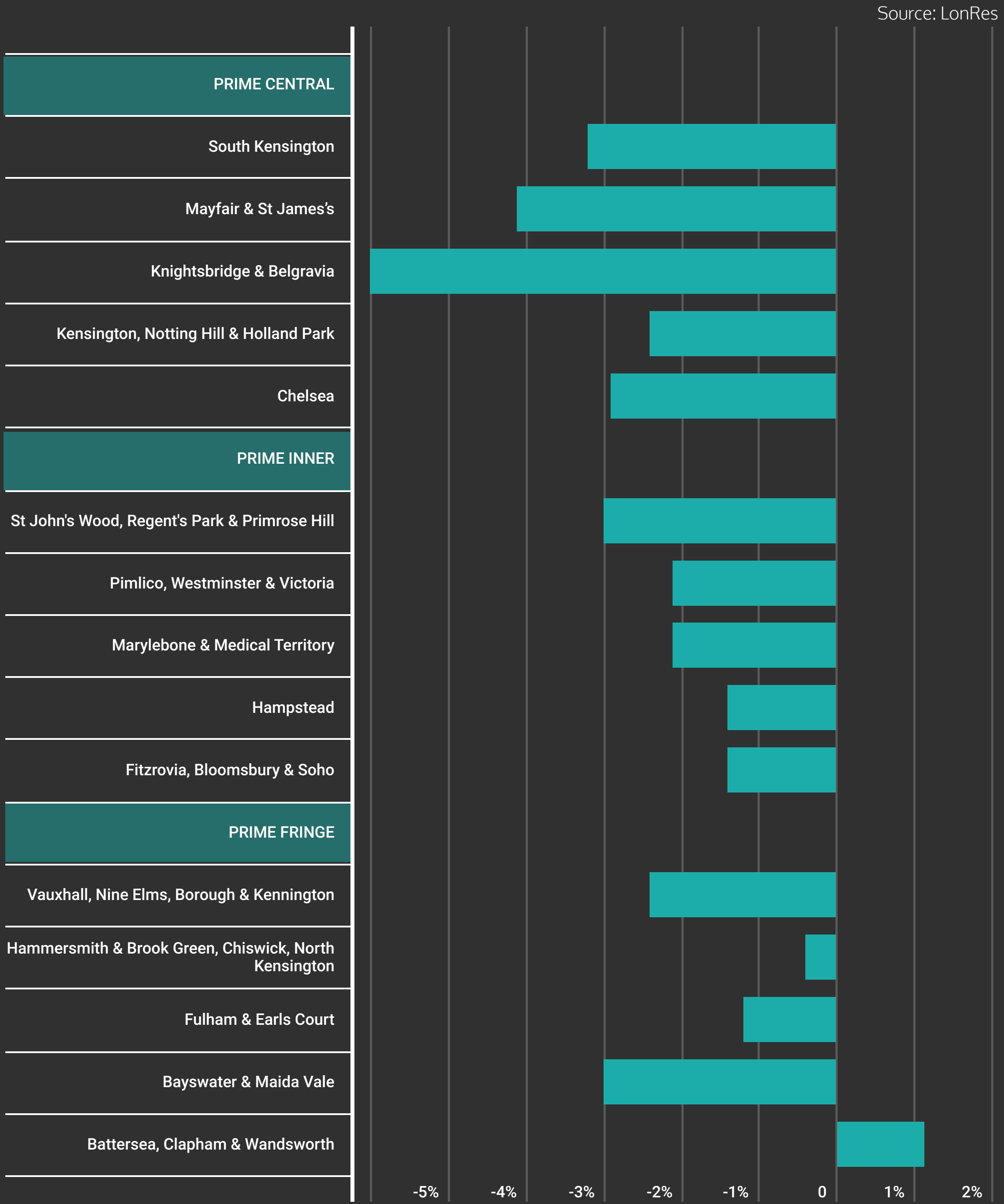
Lettings activity remained very low compared to pre-pandemic levels but appeared to be bottoming out. New lettings instructions increased in Q2 compared to Q1 but still recorded an annual fall of 6.0%. The number of properties going under offer was down by 8.3% over the same period, while new lets agreed fell by 24.5%. It is important to note that these falls may be overstated as rental demand is so strong that a significant proportion of properties are being let without listing, so are not captured in the data.



> Rents in prime central London grew strongly in Q2, up 6.6% compared to Q1 to take annual growth to 12.8%.

Source: LonRes

Average Discount to Asking Rent by Neighbourhood, H1 2023

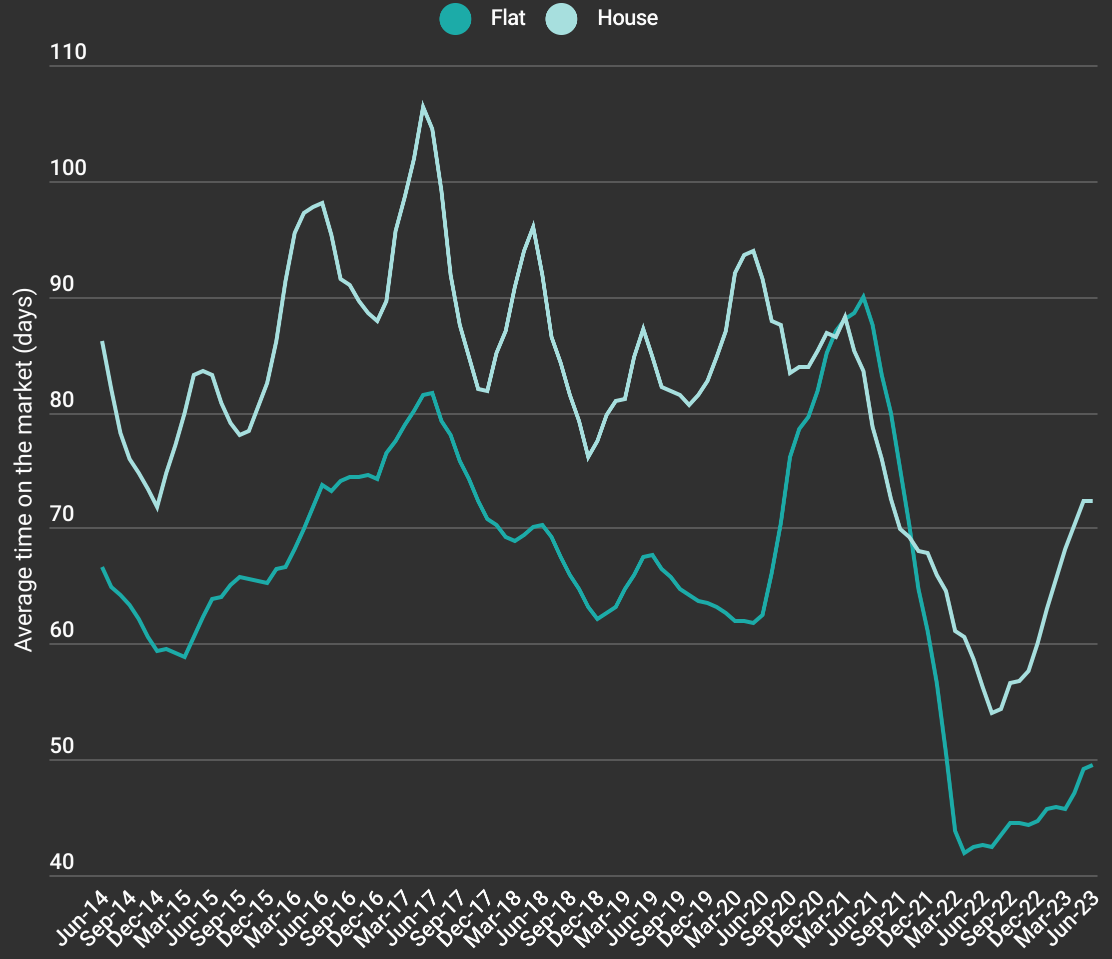


The average discount to asking rent across prime London was 2.4% in Q2. This is low relative to typical longer-term levels but a significant increase from the peak of the market in Q3 last year, where properties were achieving 100% of asking rent on average.

Broken down by neighbourhood, discounts in prime central London (PCL) are higher than other areas, suggesting that the highest value markets are seeing slightly weaker demand this year. Comparing the first half of 2023 to last year, discounts have grown in all five PCL neighbourhoods.

Average Time on the Market by Property Type

Source: LonRes



Average time on the market for rental properties remains low, reflecting the strength of demand from tenants. The average time to let in the first half of 2023 was 52 days across prime London, compared to 71 days between 2015 and 2019 and a minimum of 44 reached in April 2022. The difference between houses and flats was consistently in the 15 to 25 day range until 2020, but like many metrics the pandemic had a significant impact.

The time to let for houses continued in line with its previous longer-term trend into 2021, before falling steadily to a low of 54 days in July 2022. By contrast, demand for flats dropped quickly in 2020, with the average time to let increasing to 90 days by May 2021. The difference between the two property types in June this year was 23 days, back in line with the typical pre-pandemic level.

In summary, the prime London lettings market continues to see strong demand set against very low levels of new supply, supporting further growth in rents over and above the high levels recorded in 2022. There is no sign of new instructions increasing in response, and with Q3 typically the seasonal peak in demand competition is only set to intensify over the rest of the year.

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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 June 2023.

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