

PRIME LONDON MARKET UPDATE

WINTER 2023/24

Introduction

While 2023 was a mixed year for the prime London property market, it could be argued that we start January 2024 in a slightly better place than the January of 12 months ago. While there are some new downsides to consider, chiefly an escalating conflict in the Middle East and a General Election campaign looming, the good news is that inflation has fallen and interest rates are starting to follow, providing a boost to sentiment.

However, we ended Q4 2023 on a subdued note with activity levels across both sales and lettings down on Q4 2022.

In the sales market achieved prices in 2023 were a little lower than 2022, continuing a longer-term trend of limited movements in either direction. Transactions were down on an annual basis but slightly ahead of typical pre-pandemic (2017 to 2019) activity. Levels of new instructions were steady, combining with fewer sales to result in the stock available for sale growing by 7.2% over the course of the year. The £5m+ price point remains the most active part of the market.

Q4 2023 saw a small quarterly rise in rents across the prime London lettings market despite the available stock of homes to let growing again. Annual rental growth slowed to 0.9%, compared to the 20%+ levels seen through 2022. The difference in performance between rental price bands grew in 2023, with demand for more affordable properties remaining very high.

Inflation has fallen and interest rates are starting to follow, providing a boost to sentiment.

Source: LonRes

Sales Market

The final quarter of 2023 saw sales activity across prime London lower on all main metrics compared to Q4 2022. Q4 2023 recorded 1.7% fewer new instructions, 3.3% fewer properties going under offer, and 22.7% fewer transactions. Comparing Q4 2023 to the longer-term final quarter trend gives a more mixed picture. There were 4.0% more new instructions, 1.5% fewer properties going under offer, and 13.8% fewer transactions versus the 2017 to 2019 Q4 average.

Looking at the full calendar year the results are more positive, especially in the context of pre-pandemic trends. For 2023 versus the 2017 to 2019 average there were 6% more new instructions, 13% more properties going under offer, and 2% more transactions. Compared to 2022 there was no change in new instructions, with 12% fewer properties going under offer and 19% fewer transactions.

This mix of supply and demand changes resulted in the stock of homes available to buy growing over the course of the year. There was 7.2% more stock on the market across prime London on 31 December 2023 than a year earlier, and 30.6% more than at the end of 2019.

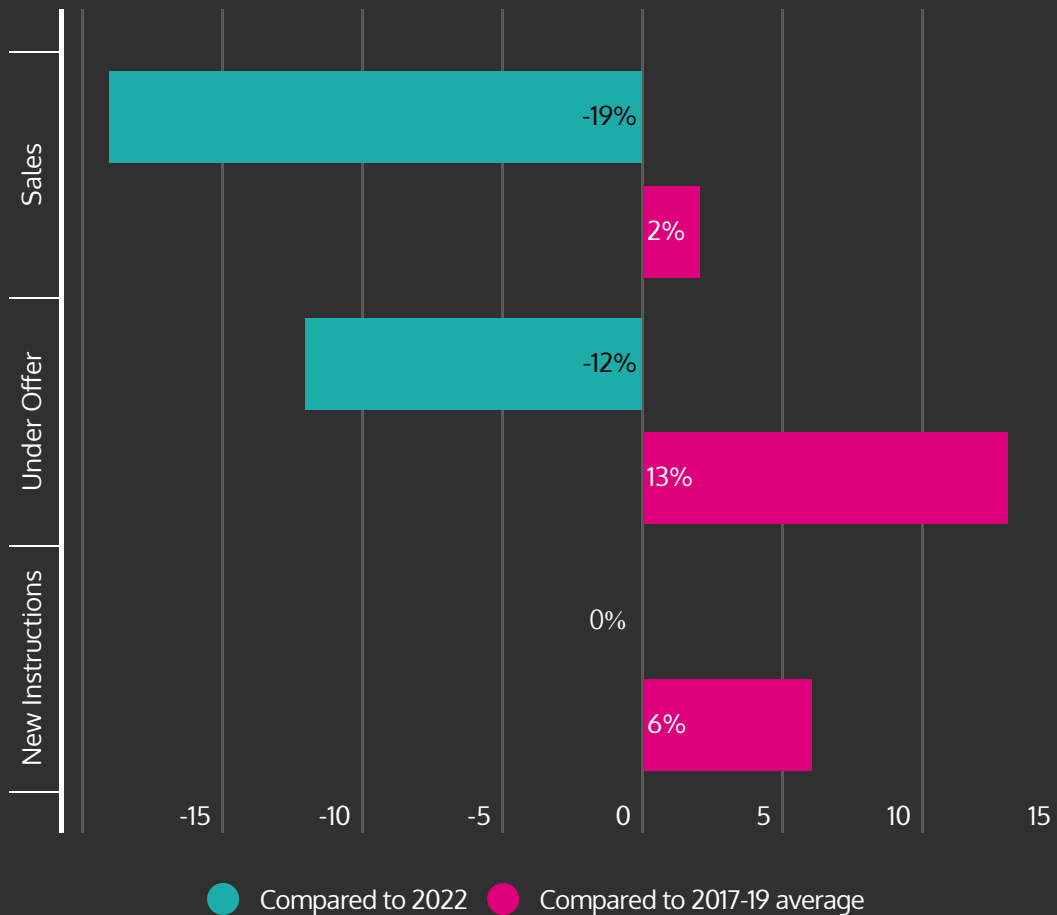


There was 7.2% more stock on the market across prime London on 31st December 2023 than a year earlier

Source: LonRes

Sales Activity Measures in 2023, All Prime London

Source: LonRes



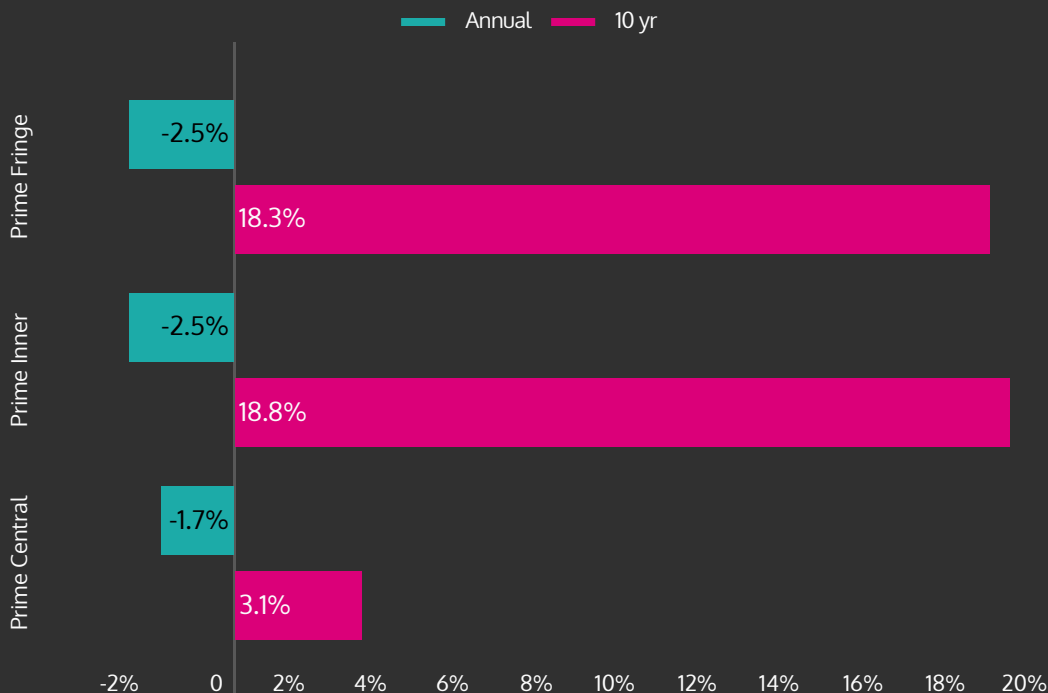
Slower activity is having a small impact on values. The average achieved price per sqft across prime London in 2023 was £1,319, a 1.9% fall compared to 2022. This fall was generated by growing discounts, from an average of 6.3% of asking price in 2022 to 8.2% in 2023. The proportion of properties where the asking price was reduced prior to sale was 47.4% in 2023 compared to 39.8% a year earlier. Time on the market (listing to exchange) also grew slightly, with 16% of properties selling in less than three months in 2023 versus 18% in 2022.

Looking back further, values have been broadly static across prime London compared to their previous peak in 2014/15. The average achieved price a decade ago, in 2013, was £1,186 across prime London. A year later it was £1,337, higher than it was in 2023. Of course, some locations have seen more significant movements over that decade. In general, the highest value locations of prime central London have underperformed while more affordable (in relative terms) areas have done better.

Across our PCL catchment, where values averaged £1,737 per sq. ft. in 2023, they are 3.1% higher than in 2013. By contrast our inner prime (2023 average: £1,245) and prime fringe (£926) areas saw growth of 18.8% and 18.3% over the same period. On an annual basis the falls last year were all similarly small.

Change in Average Achieved Sale Price per sqft by Area*


*2023 vs. 2022 and 2013 | Source: LonRes



PCL's relative underperformance can be explained by a range of factors. It is the sector most dependent on international buyers, some of whom may have been dissuaded of London's appeal by tax changes, Brexit, and the pandemic, to name three.

The relative value offered at the very top end of the market by this lack of price growth does appear to have driven a recovery in activity for homes over £5m. In 2023 there were 47% more transactions in this market compared to the 2017 to 2019 average, compared to the 2% growth across all price points noted earlier. Although 2023 saw a fall in sales of 13% compared to 2022, this was still the best performing sector and well above the -19% recorded by the market as a whole.

Increased demand for £5m+ homes does appear to have stimulated supply too. New instructions in 2023 were 8.8% higher than a year earlier and, combined with the lower levels of sales activity, this has resulted in 21% more £5m+ stock for sale across prime London on 31 December 2023 than a year earlier, and 49% more than at the end of 2019.



In 2023 there were 47% more transactions in the £5m+ market compared to the 2017 to 2019 average

Source: LonRes

Lettings Market

The prime London lettings market cooled further at the end of 2023 as available stock increased and the pace of annual rental growth fell again. Average rents actually grew slightly quarter-on-quarter – reversing some of Q3's large fall – but the overall trend is clearly for slower growth. The rate of annual increases peaked at over 30% in Q2 2022 but was down to 0.9% in Q4, according to the latest LonRes Prime London Rental Index. Average yields across prime London were 4.37% in Q4, falling slightly from 4.47% in Q3 but significantly up on the recent low of 3.28% recorded at the end of 2020.

Other indicators of lettings demand are slightly below 2022 levels but remain strong. The average time on market in 2023 was 53 days across prime London, up on 2022's 45 days but well below the longer-term average (71 days from 2017 to 2019). The average discount to asking price also rose slightly in 2023, to 2.2% from 0.6% in 2022, compared to 4.9% from 2017 to 2019.

While all three of our catchment areas have followed similar trends in terms of rental growth, recent data points to more of a slowdown in PCL and inner prime. This is likely to be more of a price effect than a location one – demand for more affordable rental properties remains very strong.

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

Source: LonRes



Annual Rental Growth by Area

Source: LonRes Prime London Rental Index

Prime Central Inner Prime Prime Fringe




New instructions across prime London in the final quarter of 2023 grew by 13.0% compared to Q4 2022, but after a slower first half this made the annual total 1.7% lower than 2022. The number of lets agreed in Q4 was 3.2% lower than a year ago, with the 2023 total ending up around 10% down on 2022.

The combination of rising supply and lower letting volumes resulted in the stock of available homes to let growing by 60% over the course of the year. However, 2022 was an unusual year for lettings, with demand massively outstripping supply. Compared to the more normal conditions pre-pandemic, available stock is low. There were 31% fewer properties available at the end of 2023 versus the end of 2019.

While the overall prime London lettings market has seen a relatively small slowdown in demand, some larger differences are emerging when the metrics are broken down by rental band. The average discount to asking price for properties listed at £750 per week or below was 1.1% in 2023, whereas for those at £2,000+ it was 4.1%.

Similarly, average time on the market for properties listed at £750 per week or below was 41 days in 2023, whereas for those at £2,000+ it was 86 days. While the highest priced rentals do typically spend longer on the market, this ratio of more than two to one is the highest in over 10 years.

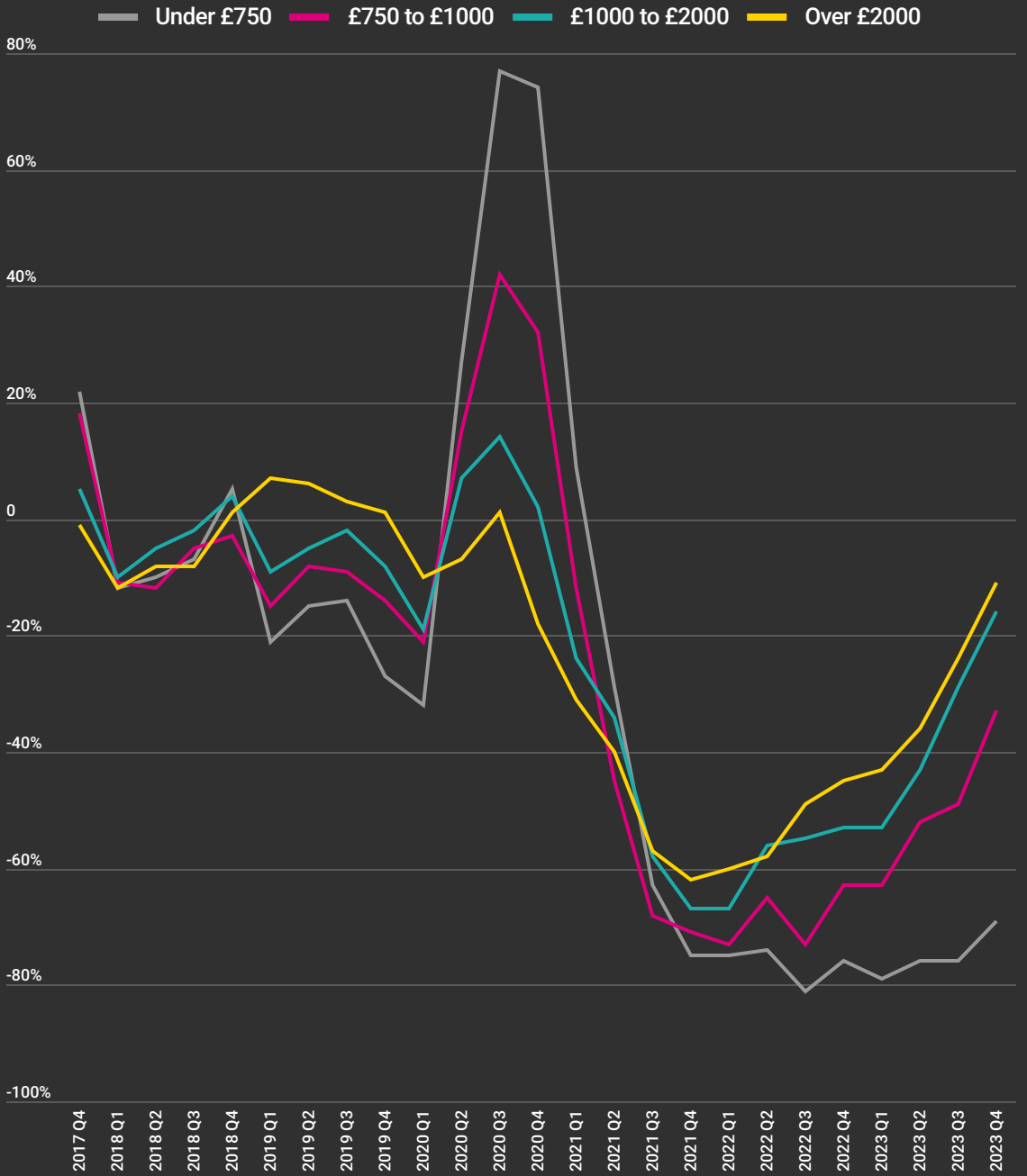


New instructions across prime London in the final quarter of 2023 grew by 13% compared to Q4 2022

Source: LonRes


Stock Available to Let by Rental Price Band*

* Change vs. Average of Same Quarter 2017-2019 | Source: LonRes



The difference in performance across rental price bands is explained by the available stock to let data and how it has been changing over recent years. Compared to 2017 to 2019, available stock in 2020 increased dramatically for cheaper properties. The pandemic caused demand for flats without outdoor space to plummet while supply was boosted by additional stock switched from short lets.

In 2021, demand recovered strongly but supply couldn't keep up, so availability across all price points decreased by similar levels. Since then, the stock of homes to let at higher rents has been increasing steadily. In the £2,000+ per week band there was 11% less stock on the market at the end of 2023 compared to the 2017 to 2019 average, recovering from -62% at the end of 2021. By contrast the most recent figure for £750 and below was -69%, up from -81% in 2022 Q3. Assuming the recent trends in terms of new supply continue, these differences between price points are likely to persist.



The stock of homes to let at higher rents has been increasing steadily since 2021.

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 December 2023.

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