LON RES

Summer Edition 2024

Prime London Market Update

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In this edition

Managing Director's

Opening thoughts

A wind of change seems to be sweeping across the nation. The recent general election has brought in a new government and with it a renewed sense of optimism. Granted Labour is in the early days of a honeymoon period, but a bit of stability is what we all need – it allows us to plan and make decisions based on (a degree) of certainty. Although not the only factor in the buying or selling decision-making process, we know that sentiment plays a big part. Having a sense of certainty, which brings with it an ability to plan, can only help.

Few would argue that there is a lot of uncertainty in the wider world right now. Topsy turvy politics in France and America, not to mention a war in Europe. It's my belief – and we've seen it before – that London's appeal as a safe-haven will shine through.

There has been a fair amount of talk about non-doms in recent months – in fact ever since the ex-Chancellor Jeremy Hunt announced in his March Budget that he would be phasing out non-dom status. And Labour in its pre-election manifesto said it will 'abolish non-dom status once and for all, replacing it with a modern scheme for people genuinely in the country for a short period.' We've yet to see the detail of what this will mean. But my observation right now would be that while there's been much discussion surrounding buyers leaving the country, little has been said about high end buyers coming into the country. And I'm hearing anecdotally - and seeing on the LonRes platform - that there are still a lot of top-end buyers in the market and they're buying.

Admittedly, these buyers are looking for value, and not prepared to pay above what they believe a property is worth. The cost of entry to buying is high. This is especially the case (at least in England and Northern Ireland) if you are a non-UK resident, where you're expected to pay an additional 2% on top of the regular stamp duty charge. The stakes are high and buyers – quite rightly – don't want to make a costly mistake.

But after a long period of drought when there has been a lack of properties to choose from, stock levels across prime London are on the rise, which means for those buyers who have money to spend, they have greater choice. And there are some great properties out there.

The summer months are traditionally slow for sales – although not of course for lettings – but it'll be interesting to see, now that the politics have settled, what happens next. And we'll back in the autumn to report our findings.

Happy holidays!

Anthony Payne
Managing Director

"After a long period of drought when there has been a lack of properties to choose from, stock levels across prime London are on the rise."

Foreword

Time to be tentatively optimistic

At the halfway point of the year it's a subdued story. Demand across the prime London sales market remained lower in Q2, resulting in annual falls for both values and transaction volumes. Supply continued to grow, increasing choice for buyers and potentially putting downward pressure on prices.

But these overall trends hide some subtler shifts within market sectors. Domestic demand is proving more resilient than that from overseas, which has an impact on performance across price points and neighbourhoods.

Stubbornly high interest rates are limiting the buying power and appetite of those requiring mortgages to buy. And the top end of the market – active post-pandemic – has seen the biggest increase in new supply, with demand falling back from the high levels seen in 2021 and 2022.

In the lettings market, the recovery in available stock continued – slowly – in Q2 and rental growth fell back slightly, despite continuing strong demand.

However, this report largely looks back while the outlook for the second half of 2024 is tentatively optimistic. Of course, it is often said that no one instructs a pessimistic estate agent, so there may be some wishful thinking involved, but the consensus among our survey responses was for both values and transactions to finish 2024 up on last year.

Regardless of one's political leaning, it appears the change of government has contributed to this improved sentiment. Labour's clear majority means the second half of the year should at least have a sense of stability. In our LonRes Agent Survey (which we ran in late June for the first time in a number of years) many agents noted that buyers and vendors were waiting for the general election before firming up their plans. But with the general election firmly behind us and five months more of the year still to go it's likely the market will get moving a bit sooner.

So far, the financial markets have reacted positively to the result. And if the predicted base rate cuts also come to pass, then Labour's economic inheritance could be a fortunate one. With rising political instability in the US and France combined with the ongoing conflicts around the globe, London's status as a safe haven for international buyers could rise again.

Nick Gregori
Head of Research

"Supply continued to grow, increasing choice for buyers and potentially putting downward pressure on prices."

Overview

Sales market

Sales volumes across prime London fell by 7.3% in Q2 compared to the same period last year. Relative to the 2017 to 2019 second quarter average, transactions were almost unchanged (0.9% growth). The equivalent figures for the £5m+ market represent an annual change of -21.5% and growth relative to the longer-term average of 17.2%. This highlights how activity in this top end market grew rapidly post-pandemic but is now starting to revert to earlier levels.

Responses to our latest LonRes Agent Survey suggest agents are confident of an improvement in the second half of the year. 54% of respondents forecast higher transactions (in their local market) for 2024 compared to 2023, against 27% expecting them to end the year lower (chart 1).

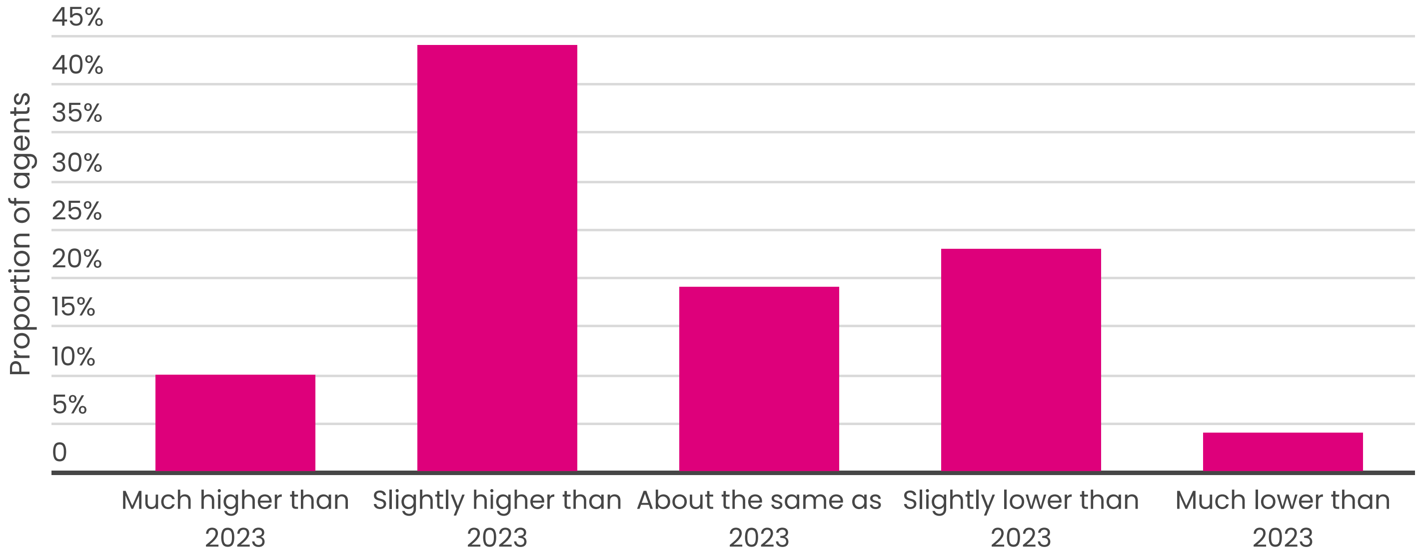
- 7.3%

Q2 sales volumes compared to Q2 2023 (*Source: LonRes*)

0.9%

Q2 sales volumes compared to Q2 2017-19 average (*Source: LonRes*)

1. Agents' Transaction Forecast for 2024 vs. 2023



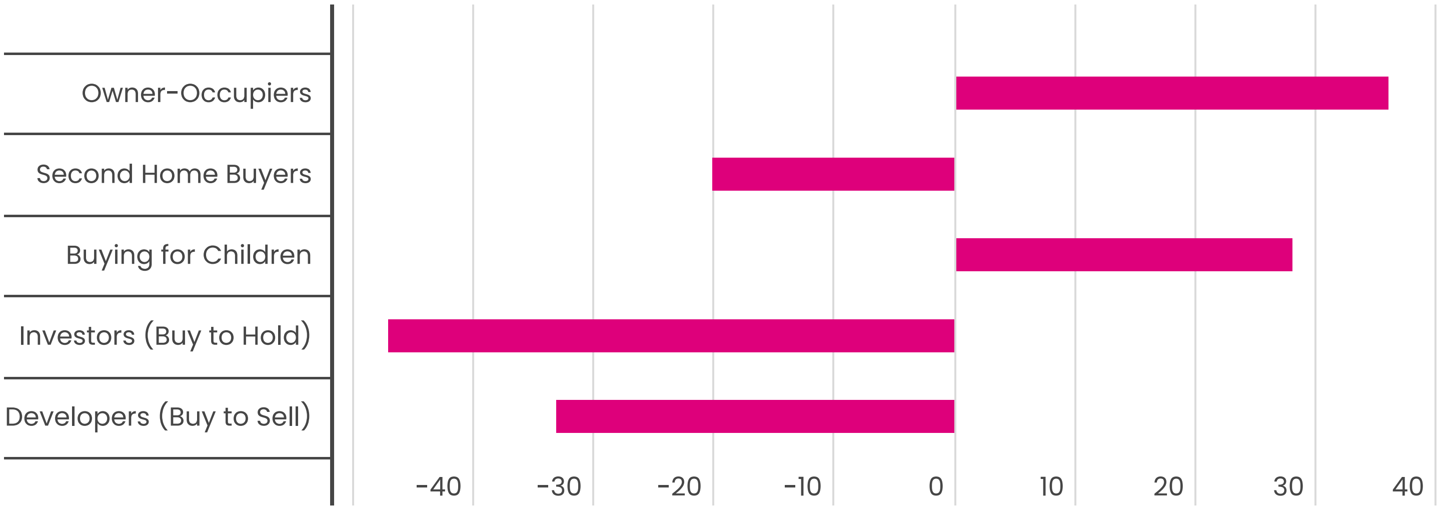
Source: LonRes Agent Survey Summer 2024

The outlook is likely to be very different across property types, as demand has changed a lot depending on the type of buyer (chart 2).

44% of agents reported higher demand from owner-occupiers while only 8% said it had fallen – a net balance of +36. They also reported an increase in people buying for their children. On the other hand, demand from developers, investors and second home buyers has fallen, with 60% of agents reporting less interest from investors compared to 13% saying it was higher.

2. Net Balance* of Sales Agents Reporting Increased Demand by Buyer Type

— Compared To A Year Ago (*See survey data notes on page 14)



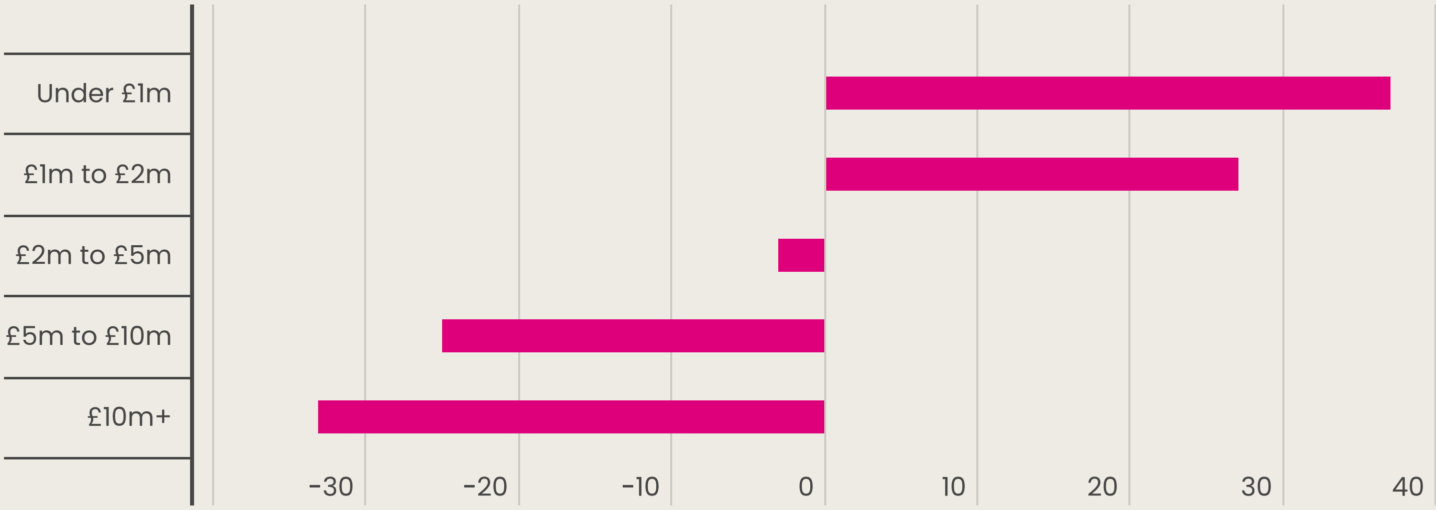
Source: LonRes Agent Survey Summer 2024

The survey results also suggest there has been a significant change in demand across price bands over the past 12 months (chart 3). 54% of agents reported higher demand for properties under £1m while only 17% thought it had fallen – a net balance of +37.

The figures for £10m+ are almost a mirror image, with 19% of agents reporting an increase in demand and 51% a decrease.

3. Net Balance of Sales Agents Reporting Increased Demand by Price Band

—Compared To A Year Ago

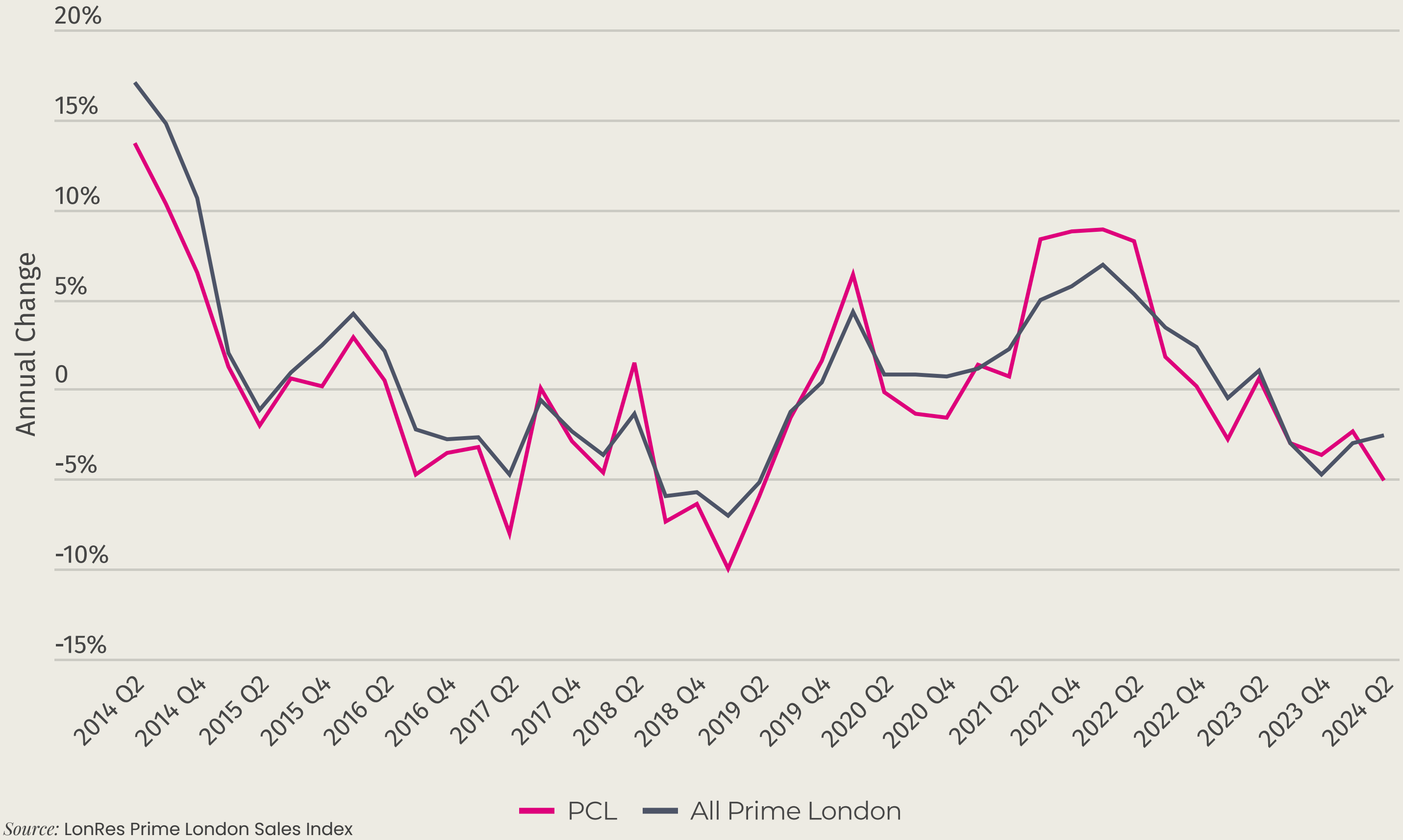


Source: LonRes Agent Survey Summer 2024

Supply is increasing across all price points. For prime London as a whole, analysis of LonRes data shows new instructions were 9.7% higher in Q2 than Q2 2023, while for £5m+ the increase over the same period was 38.5%. At the end of June there was 12.7% more stock on the market for sale across prime London than a year earlier, with 25.8% more £5m+ properties for sale.

You would expect to see limited price growth under these supply and demand conditions and that is indeed the case. The latest LonRes Prime London Sales Index recorded quarterly growth of 0.7%, although this fed into an annual fall of 2.6%. Prime London Fringe was the best performer with quarterly growth of 2.1% and a 1.4% rise on an annual basis.

4. Average Annual Change in Achieved Sale Price



Source: LonRes Prime London Sales Index

−5.1%

Average annual change in achieved sale price in PCL
(Source: LonRes - Chart 4)

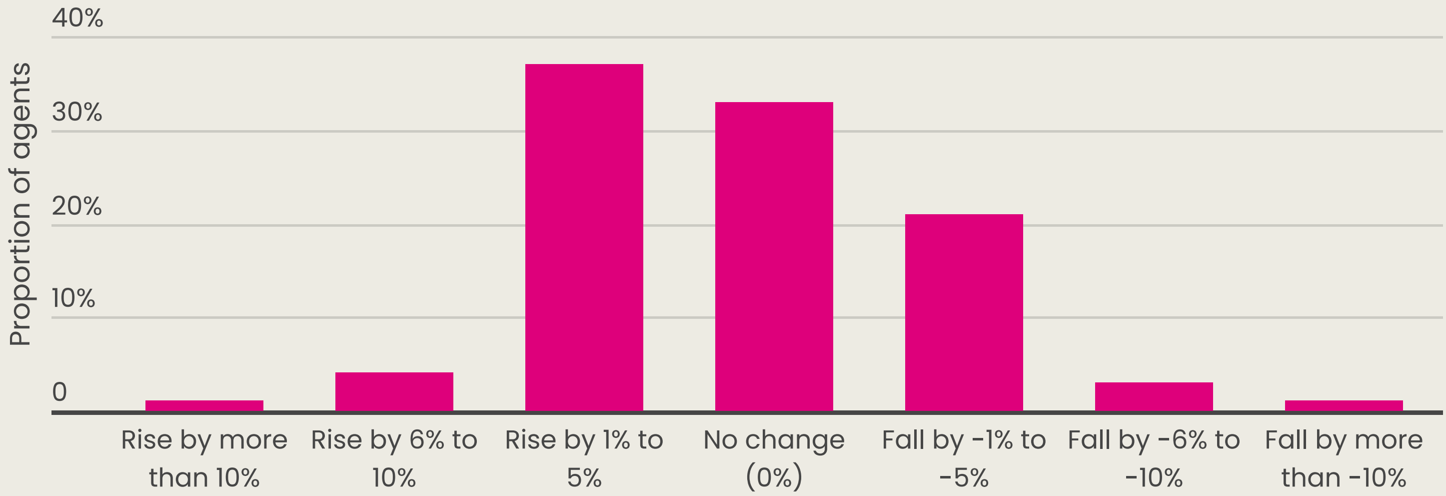
−2.6%

Average annual change in achieved sale price across all prime London
(Source: LonRes - Chart 4)

We have seen that agents expect sales volumes to improve in the second half of 2024, despite the evidence of the past few months.

And that split between recorded figures and agents' expectations is repeated when it comes to house prices, with 42% of respondents predicting a rise and 25% opting for a fall (chart 5). However, with over 90% of responses in the three middle options, the real consensus here is for little movement either way.

5. Agents' Price Forecast for 2024 vs. 2023



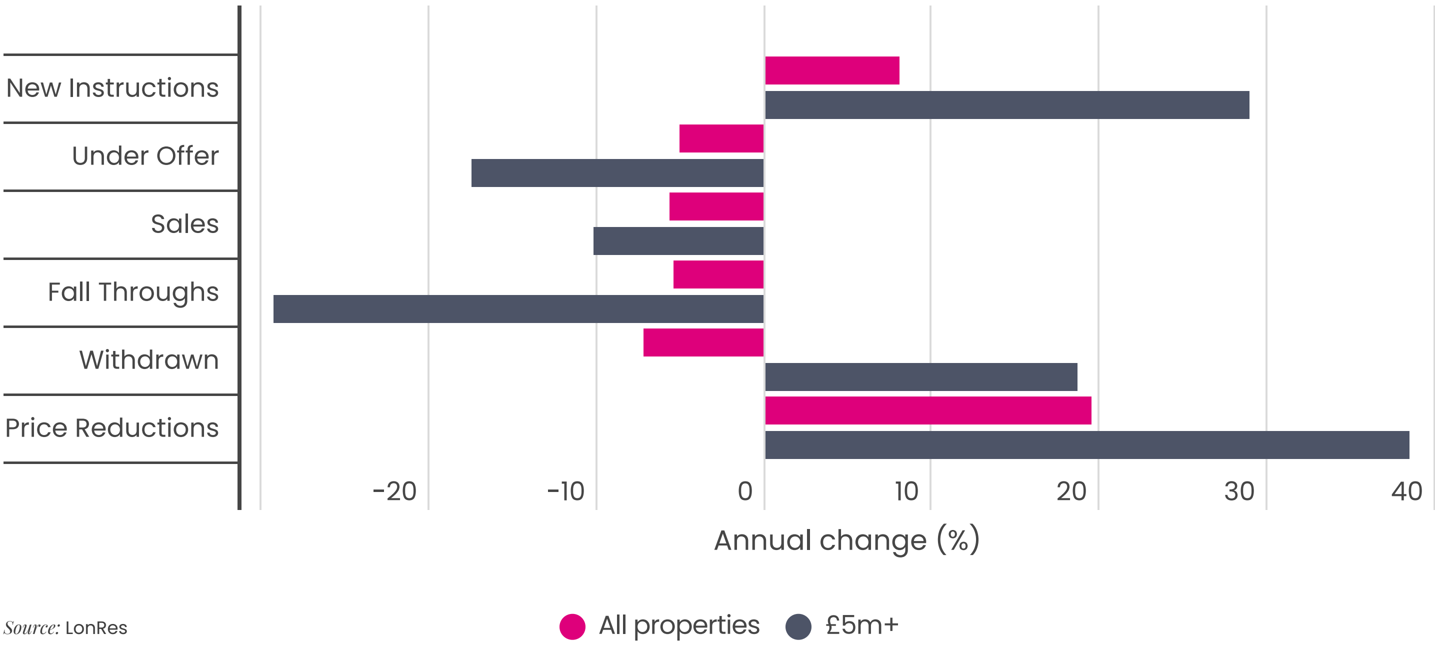
Source: LonRes Agent Survey Summer 2024

The number of properties withdrawn from sale has not increased in line with the growing stock, further adding to the number of homes for sale.

Other market metrics reinforce the view that availability is increasing. If – and when – sentiment improves among buyers, they may find more choice for their budget than in recent years. The number of price reductions in the first half of the year grew faster than new instructions across all price points, with the £5m+ market in particular seeing an increasing proportion of reduced listings (chart 6).

6. Activity Measures Across Prime London in H1 2024

– Compared To Same Period Last Year



Source: LonRes

Open Questions

Agent Survey

We asked agents...

"Which aspects of your market have returned to pre-pandemic trends and which remain different?"

"Higher demand for parents buying for children. Increased stock levels from rental investors selling properties to reduce portfolios. Outside space still high on the list of must haves!"

"The price increase for properties with outside space has definitely calmed down. That said properties without any outside space are the hardest to sell in the present market. The buy-to-let market was a strong market for 2-bed flats, and this has definitely dropped off."

"Unlike pre-pandemic when it was almost fashionable to take on a project, these days people will pay top dollar for something that is ready to move in to but are unwilling to do the works themselves. Too much hassle, too few contractors, don't want the aggravation."

A majority of agents responding to this question thought their markets were still different from pre-2020, but not all. The key changes related to outdoor space, patterns of working, and properties in need of refurbishment.

Some agents also noted a trend of people purchasing more for the longer term. In terms of buyer types, many mentioned a shift away from 'true' buy-to-let investment and some noted buyers taking a more flexible approach – looking for properties that can be used for children, for themselves, or possibly rented out in future.

Many respondents mentioned the continuing requirement for outdoor space as a key feature of their market, although some noted it was not quite as essential as previously and that the price premium had reduced.

There appear to have been a range of responses to changing working patterns over the past 4 years. Some of the people who moved out of London have remained out, either commuting back in or working from home. But of those moving back (or seeking to) there is a mix between looking for a pied-à-terre in addition to the country home and those wanting their main home back in the capital.

Many agents highlighted the trend of buyers being put off properties in need of modernisation. Most blamed the increased cost of labour and materials, but some also noted uncertainty around timing and a lack of suitable contractors.

We asked the agents...

"What impact have the proposed changes to the UK's non-domiciled (non-dom) taxation policy (to be implemented from April 2025) had on your market? And/or what impact do you think they will have in the future?"

"It has affected the Prime and Super Prime sectors enormously, HNWs and UHNWs are less attracted to the UK, while other nations roll out the red carpet for them."

"We have had clients stall their searches to await further clarity on non-dom status. It will invariably have an impact on the central London market and it is a topic of concern for both buying and selling agents."

"I hear that a number of current residents are considering leaving but they have some time to make their arrangements so it is an orderly exit. International buyers still wish to have a base in the UK but this may be through a prime rental rather than a purchase."

The consensus among agents is that this is already having some negative impact, with some suggesting a significant change as affected buyers put searches on hold and vendors explore their sale options, particularly for £5m+ properties.

Some commented that there has been a build-up of tax and policy measures that have made London increasingly less appealing over time to overseas and high net worth people, and that this merely adds to it. Others noted that they were expecting a new Labour government after the election and that this could lead to further negative changes.

A minority of agents also commented that the appeal of London would outweigh any changes, and that economic issues were of more importance.

Lettings market

There was a further slowdown in rental growth across prime London in Q2, with the latest LonRes Index reporting an annual change of +1.4%, compared with 2.4% in Q1. While the rate of growth has slowed significantly from the peak seen in 2022 (chart 7), actual rents remain at record high levels, almost 30% above their level at the end of 2019.

+1.4%

Prime London annual rental growth in Q2 2024
(Source: LonRes- Chart 7)

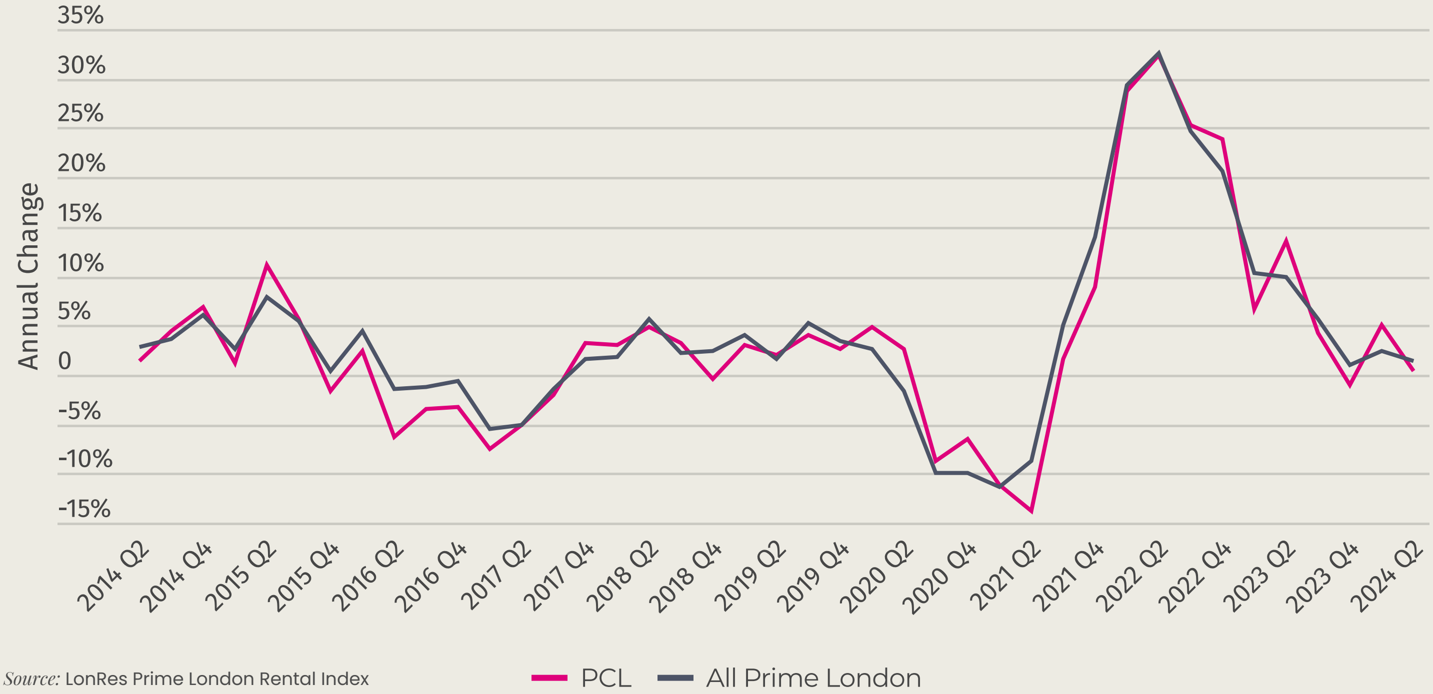
30%

Rental growth since the end of 2019
(Source: LonRes)

Rents in prime central London were broadly unchanged in Q2, with a 0.7% quarterly rise resulting in annual growth of 0.3%. The inner prime and fringe catchments performed slightly better, with annual growth of 1.8% and 3.4% respectively.

With little movement in either sales or rental values this quarter, yields were also stable. The average yield across prime London in Q2 was 4.25%, slightly down on Q1 (4.41%) but slightly higher than a year ago (4.16%). Looking longer term, yields are currently well above their 2013 to 2020 average of around 3.5%.

7. Average Annual Change in Achieved Rents

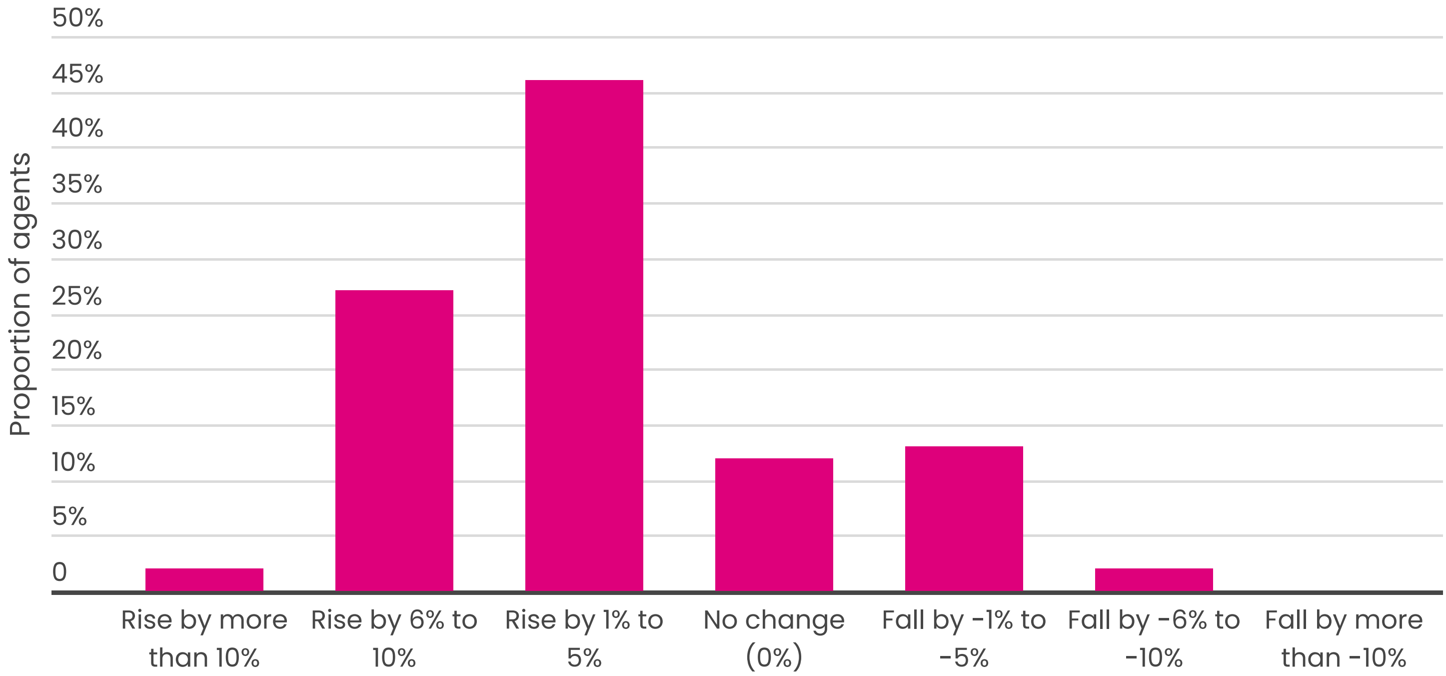


Source: LonRes Prime London Rental Index

A majority of letting agents expect that rental growth will pick up again in the second half of the year. 74% of respondents to our survey thought rents at the end of 2024 would be higher than 2023, compared to only 14% expecting a fall (chart 8). This includes a significant minority feeling positive and forecasting growth of 6% or more (29% of all respondents).

Looking longer term, yields are currently well above their 2013 to 2020 average of around 3.5%.

8. Agents' Rental Value Forecast for 2024 vs. 2023



Source: LonRes Agent Survey Summer 2024

9.8%
Annual increase in new letting instructions, H1 2024
(Source: LonRes)

9.1%
Annual increase in new lets agreed, H1 2024
(Source: LonRes)

8.0%
Annual increase in rental homes available, 30 June 2024
(Source: LonRes)

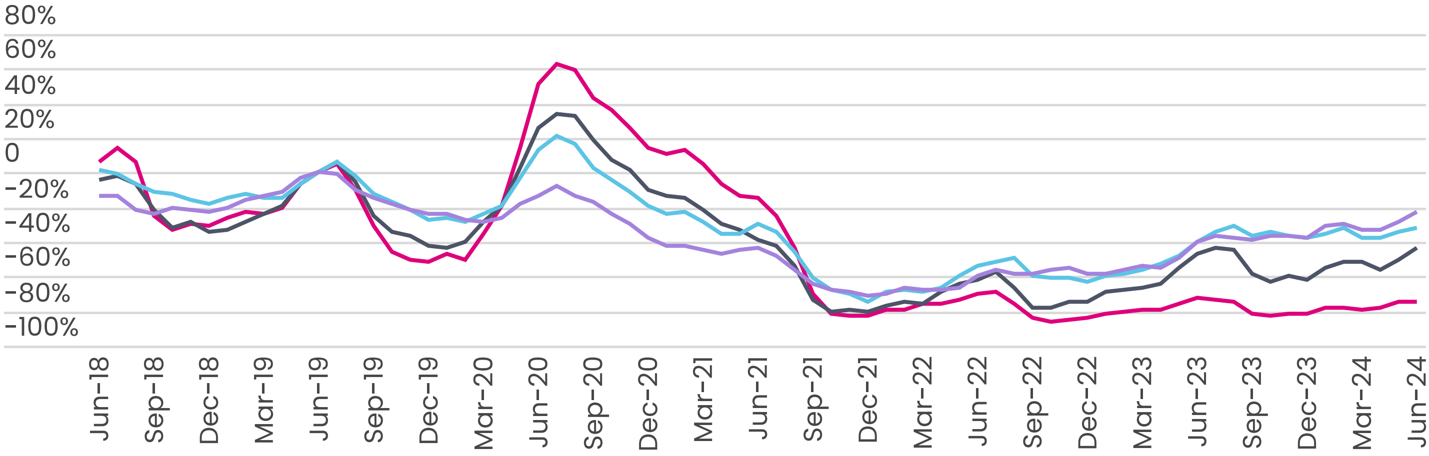
70%
Decrease in £750 pw and under rental homes available, 30 June 2024 vs 5 years ago
(Source: LonRes)

The first half of 2024 has seen a gradual recovery in lettings activity across prime London, although supply at more affordable price points remains constrained. New lettings instructions were up 9.8% over the first six months of the year compared to 2023, while the number of agreed lets was up 9.1% over the same period.

Properties available to let have been rising, although the pace of growth slowed in June. There were 8.0% more homes on the rental market across prime London than a year earlier. Price remains the most significant factor in terms of available stock.

Availability of homes fell across all price points in 2021, bottoming out at the end of that year. Since then, stock levels have started to recover, but different price points have moved at different speeds (chart 9). Below £750 per week, progress has been gradual at best – availability was 6.4% lower at the end of June than a year earlier and is more than 70% below where it was five years ago. Above £1,000 per week the recovery has been much clearer, with the £750 to £1,000 band also seeing growth.

9. Stock on the Market by Weekly Rent vs. June 2019, All Prime London

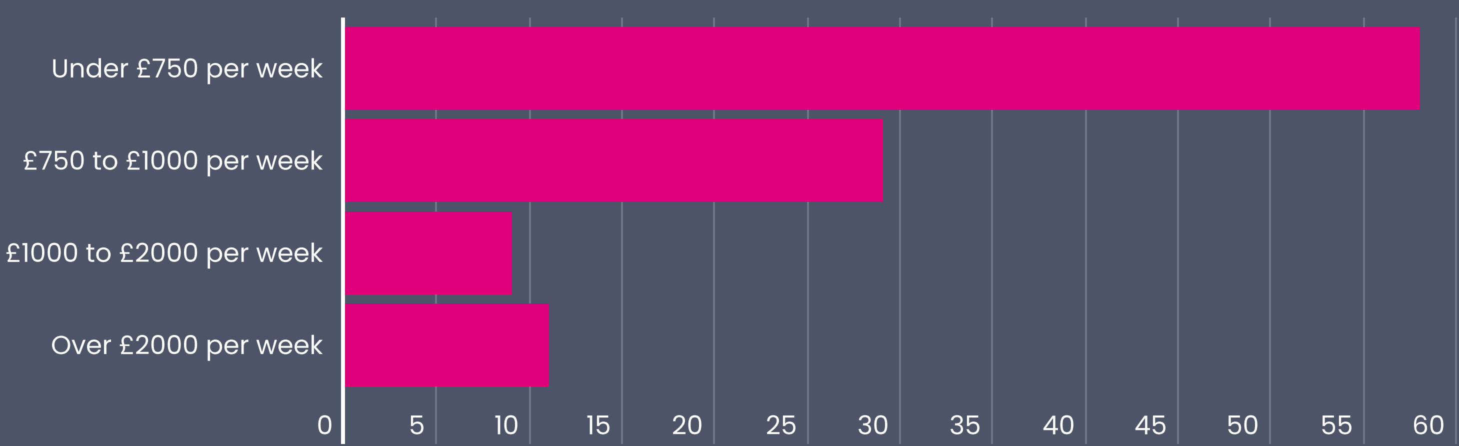


Source: LonRes

Supply has not recovered across all price points, but demand is following a different pattern according to the results of our Agent Survey.

For the under £750 per week band, 68% of respondents thought demand was higher than a year earlier while only 9% said it had fallen – a net balance of +58. Positive figures were reported for all other bands too (chart 10).

10. Net Balance of Letting Agents Reporting Increased Demand by Weekly Rent
– Compared To A Year Ago



Source: LonRes Agent Survey Summer 2024

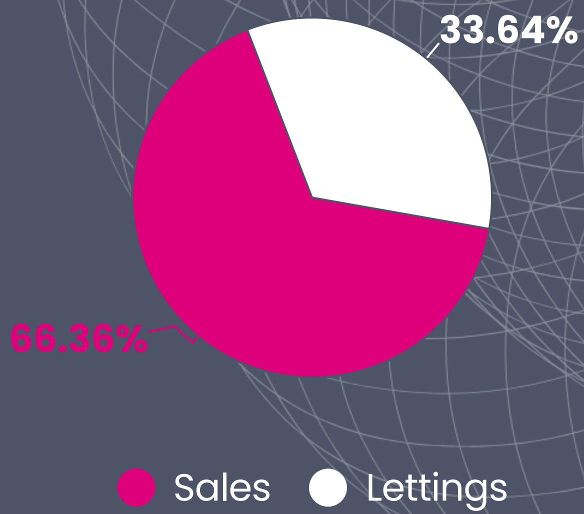
Other rental metrics indicate a more balanced market than at the same point last year.

The average discount to asking rent in Q2 was 3.6% compared to 2.4% last year, and the average time on the market in Q2 was 65 days compared to 52 last year. Without a significant recovery in new supply – particularly at lower price points – the outlook for the lettings market is unlikely to change. That means lower activity and rents remaining high.

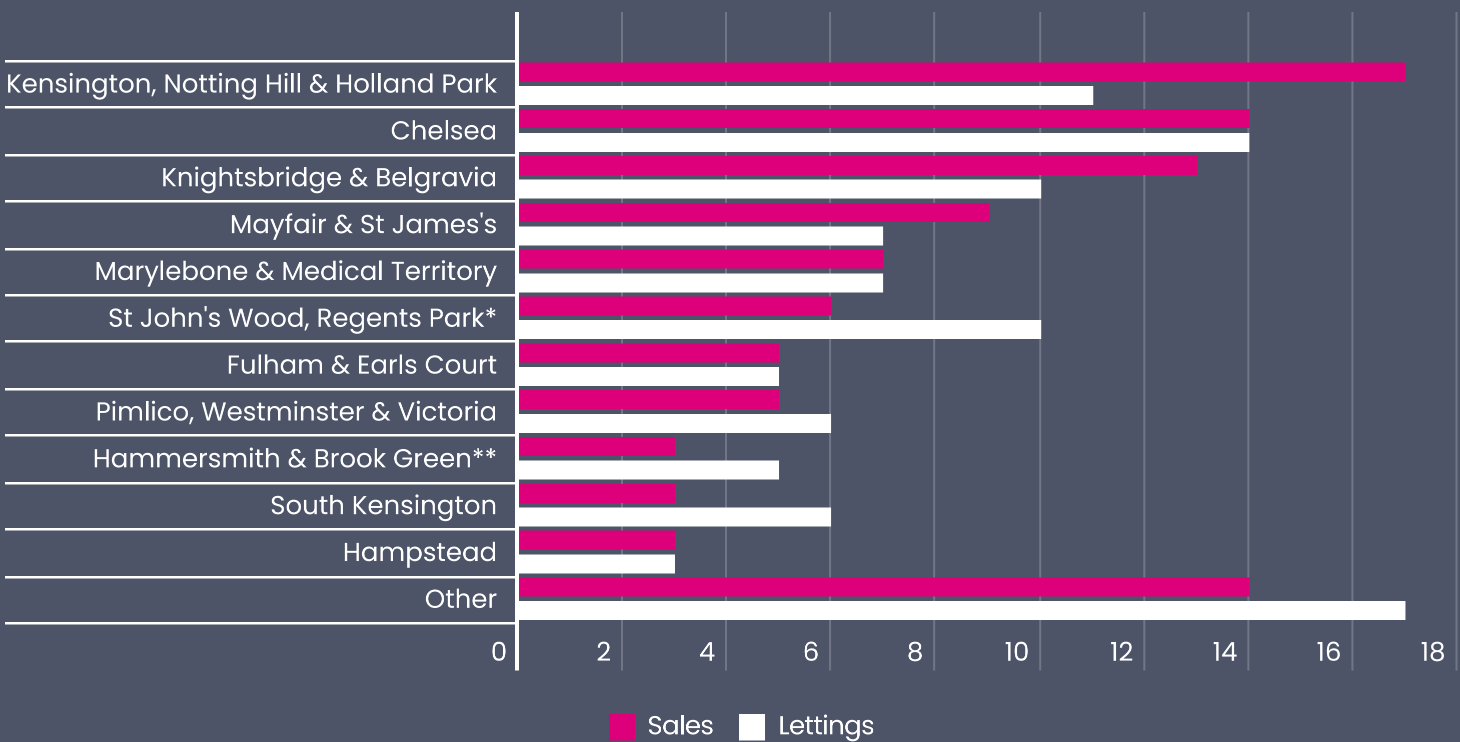
Notes and methodology

Agent Survey

We ran our Agent Survey this quarter for the first time in a number of years. We received answers from 531 agents, 73% of which were from the sales market. These covered all the main central London neighbourhoods, with the highest proportions from the Knightsbridge & Belgravia, Chelsea, and Kensington, Notting Hill & Holland Park catchments. Fringe areas were also well represented, with around 15% of both sets of responses.



Agent Survey results by area



** St John's Wood, Regents Park & Camden*
** * Hammersmith & Brook Green, Chiswick, North Kensington*

Our main aim was to gain some additional understanding of the driving factors behind some of the trends seen in our data and to help make sense of the current market environment.

Survey data notes
The survey was open to LonRes subscribers only and carried out from 10 to 24 June. References to proportions of respondents exclude any answers of 'not applicable'. 'Net balance' is calculated as the proportion of respondents answering positively minus the proportion answering negatively. E.g. 44% of agents reporting higher demand and 8% reporting lower demand = a net balance of +36. Some calculations may not sum due to rounding.

LonRes Data

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 2024.

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