Spring Edition 2025

Prime London Market Update

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Anthony Payne's

Opening Thoughts

Markets ebb and flow and while it may be spring, the market is proving a little sluggish. The cost of buying a property, and I don't mean just the price, but the actual buying costs which include stamp duty, are now so high. And for some prohibitively so.

Take a property with an asking price of £5m. The stamp duty costs alone add a further £513,750, or £613,750 if you're not a UK national. And that's before you factor in other associated costs such as legal fees, service charges and renovation work.

The total cost to the buyer can, within a heartbeat, add an extra £1m to the purchase price. But when they finally get the keys and they're standing outside their new home, that property is still worth £5m, despite the buyer having £1m less in their pocket. The entry cost to purchase is high and with little house price growth, the chances of recovering those costs quickly are slim.

Talking to LonRes subscribers, I know there are buyers out there, but buyers don't want to lose money they'll struggle to get back when they come to sell.

It seems to me there is a continued disconnect between the price sellers believe their house is worth and the price at which buyers are prepared to buy.

The hard reality is – and the truth is brutal! – everyone thinks their property is exceptional, but it's generally not. The 'exceptional' premium is proving a tad too high for buyers and the upshot is properties are simply sitting on the market unsold.

My advice to sellers is, don't sell if you're not prepared to sell at a price buyers want to pay. Hold on to it, enjoy living in it and when you're really ready to make the move, price it competitively. It's a tough market right now and buyers need to be persuaded to buy.

We can see in the LonRes numbers that areas such as St John's Wood and Hampstead are no longer commanding the prices they did not so long ago. A big house with a big garden was what everyone wanted during the pandemic years but prices in these two areas are now beyond those of traditional homes in the best areas of prime central London. And it's too much for buyers to take.

In what is currently a politically and economically turbulent world, buyers are cautious and if sellers are serious about selling this spring, they need to be sensitive to this.

Anthony Payne
Managing Director

"It seems to me there is a continued disconnect between the price sellers believe their house is worth and the price at which buyers are prepared to buy."

Head of Research's Introduction

Positive start to 2025, but what's next?

The last time we ran our agent survey, it coincided with the last few weeks of the 2024 General Election campaign.

Waiting for the outcome informed a lot of the responses, and our conclusions, given the potential impact of policy and taxation changes on the housing market. The theory that there could be a period of post-election stability didn't last long. Political and economic events around the world led to much uncertainty.

That uncertainty has ramped up in recent months, with the Trump administration's unpredictable approach to trade policy impacting businesses and stock markets across the world. This clearly has implications for prime central London's international buyers and the subsequent health of the capital's housing market more widely. The health of the global economy – particularly in relation to mobile high net worth individuals (HNWIs) who make up a significant number of London's property residents or buyers – is clearly important. The upshot is that extensive tariffs are likely to reduce growth in the short term, which would in general be negative for real estate investment.

The counterpoint is that inflation in the UK appears to be easing, which opens the way for interest rate cuts. This then feeds into lower mortgage rates, which have already started falling. With buyers conscious of value for money, any additional buying power would be very welcome. On a related note, the end of the stamp duty holiday on 31 March appears to have had its usual impact, with a flurry of transactions beating the deadline to make a saving. The data from April and the rest of Q2 – normally the key spring selling season – will show whether these are mostly deals brought forward, or a genuine increase in activity.

This mixed picture is reflected in some of the latest agents' comments. Many report cautious purchasers and lower demand in markets where you would expect greater proportions of discretionary buyers. Sales of top end and investment properties or homes traditionally bought by international buyers seem to be particularly subdued. The agents also note robust demand from domestic buyers, with a consensus expecting slight growth in prices and activity over 2025 in full compared to last year.

In the prime London lettings market demand is still outstripping supply at lower price points, driving an increase in rental growth following a relative lull around a year ago. The pressures in this market are coming from both sides, with a combination of landlords exiting the market and rising demand. Agents' comments on this issue were downbeat citing the many policy and tax changes that have negatively impacted would-be investors and subsequently the supply of rental homes onto the market.

Nick Gregori
Head of Research

"The theory that there could be a period of post-election stability didn't last long."

Sales volumes across prime London rose by

12.4%

in Q1 compared to the same period last year.

Source: LonRes Agent Survey

Overview

Sales Market

Sales volumes across prime London rose by 12.4% in Q1 compared to the same period last year. Relative to the 2017 to 2019 first quarter average, transactions were up by 20.5%.

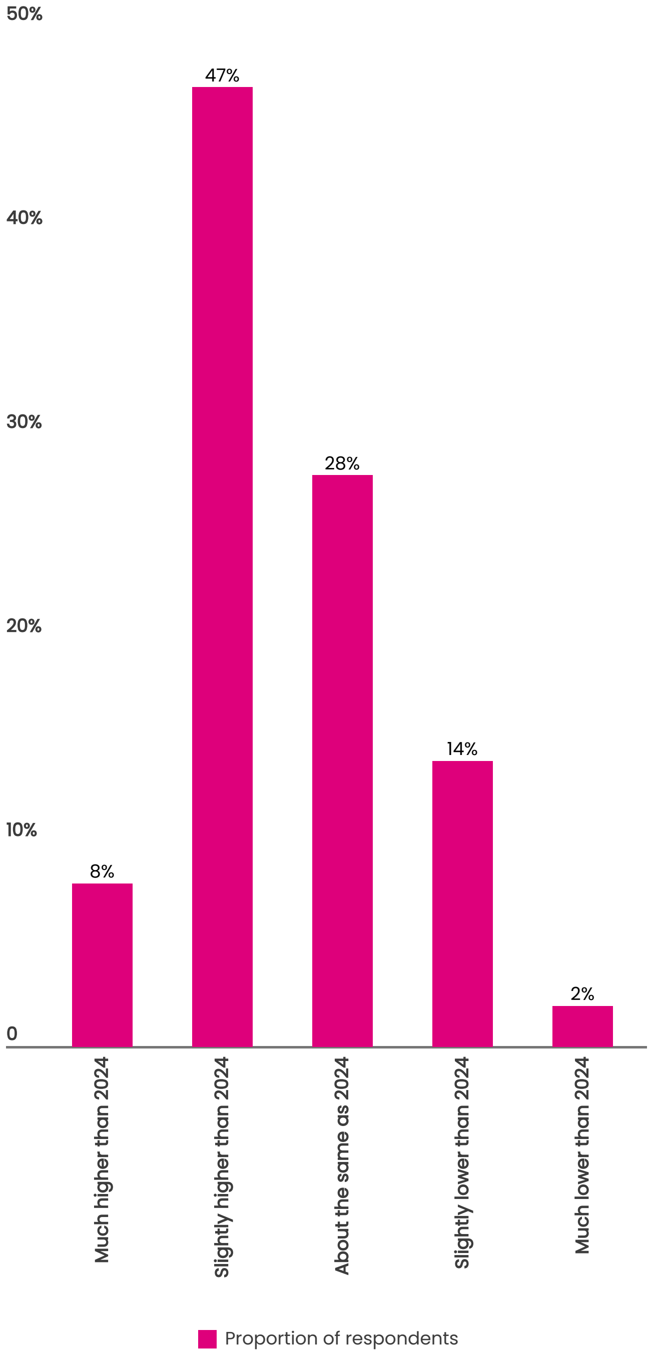
The equivalent figures for the £5m+ market show an annual change of -13.3% in Q1 but growth relative to the longer-term average of 25.1%. Activity at the top end of the market continues to slow from its 2021-22 peak but remains above pre-pandemic levels.

Twice a year we ask LonRes subscribers a series of questions about their market. The questions are designed to complement LonRes data and provide a snapshot of market sentiment from agents, their buyers and their sellers.

Responses to our latest LonRes Agent Survey, which took place in March, suggest agents are expecting the positive trend in the wider prime market to be sustained over the rest of the year.

55% of respondents forecast higher transactions (in their local market) for 2025 compared to 2024, against 17% expecting them to end the year lower (chart 1).

Chart 1 – Agents' Transaction Forecast for 2025 vs. 2024



Source: LonRes Agent Survey Spring 2025

This pattern of results is similar to that found in our Summer 2024 survey, suggesting the trends are becoming more entrenched.

***Net balance explained**

'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.

Note that references to proportions of respondents exclude any answers of 'not applicable' and some calculations may not sum due to rounding.

This overall increase – if it happens – is likely to be driven by rising demand from among a limited pool of buyer types. 45% of agents reported higher demand from owner-occupiers while only 11% said it had fallen – a net balance* of +34 (chart 2).

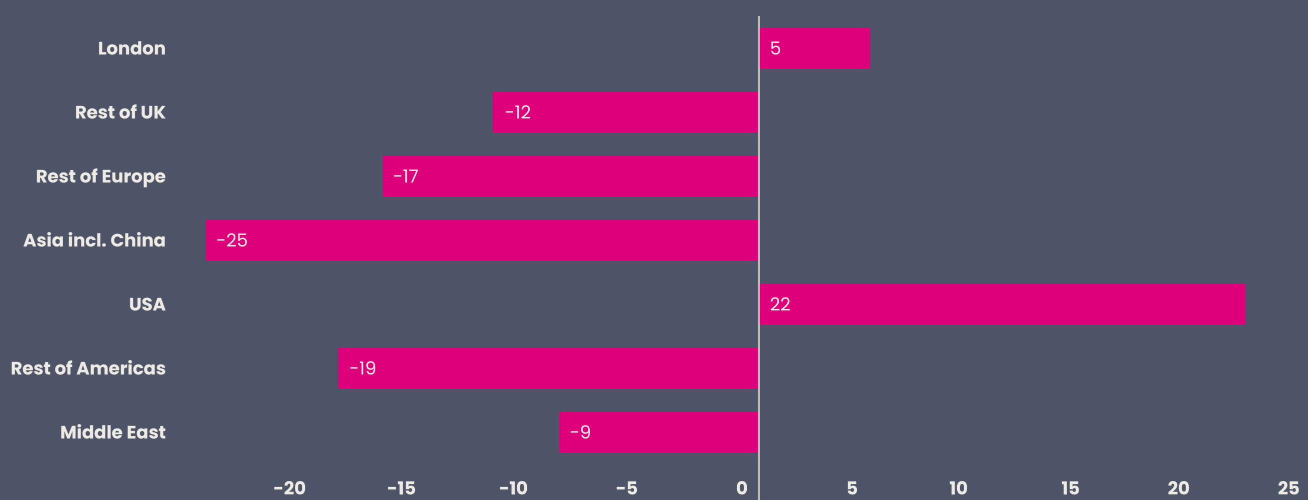
Agents also reported an increase in people buying for their children. But said that demand from developers, investors and second home buyers has fallen. Seventy-two percent of agents, reported less interest from investors compared to only 8% who said it was higher (chart 2).

Chart 2 – Net Balance* of Sales Agents Reporting Increased Demand by Buyer Type
Compared to A Year Ago

Source: LonRes Agent Survey Spring 2025

There have also been changes in demand depending on the origin of buyers. Thirty-seven percent of responses noted more interest from buyers already in London compared to 32% reporting a fall, for a net balance of +5 (chart 3). Negative net balances were recorded for the rest of the UK and all international locations bar the USA (+22).

Chart 3 – Net Balance of Sales Agents Reporting Increased Demand by Buyer Location – Compared to A Year Ago



Source: LonRes Agent Survey Spring 2025

56%

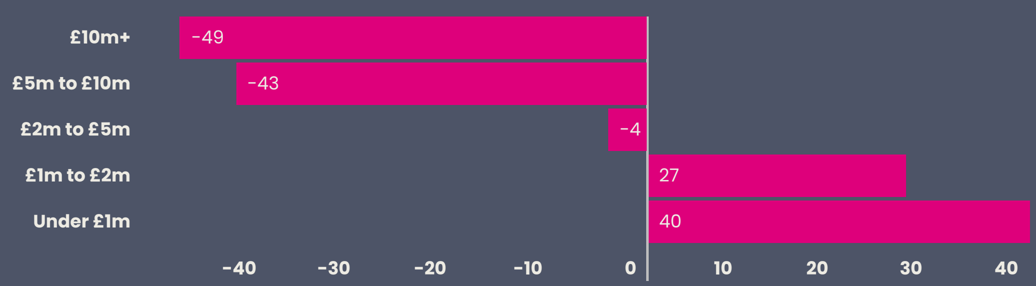
of agents reported higher demand for properties under

£1 million

Source: LonRes Agent Survey

The survey results also highlight a significant shift in demand across price bands over the past 12 months (chart 4). 56% of agents reported higher demand for properties under £1m while only 15% thought it had fallen – a net balance of +40. The figures for £5-10m and £10m+ both indicate a strong move in the opposite direction, with net balances of -43 and -49 respectively.

Chart 4 – Net Balance of Sales Agents Reporting Increased Demand by Price Band
– Compared to A Year Ago



Source: LonRes Agent Survey Spring 2025

While demand might be dependent on price point, supply is increasing across the whole market. For prime London as a whole, new instructions were 20.3% higher in Q1 than Q1 2024, while for £5m+ the increase over the same period was 31.6% (chart 5).

At the end of March there was 9.1% more stock on the market for sale across prime London than a year earlier, with 22.2% more £5m+ properties for sale.

Other measures also suggest high levels of vendor motivation, with the number of price reductions rising significantly in Q1 compared to the same period last year – by 57.7% across prime London and by 69.0% for £5m+ homes (chart 5).

Chart 5 – Activity Measures Across Prime London in Q1 2025
– Compared to Same Period Last Year

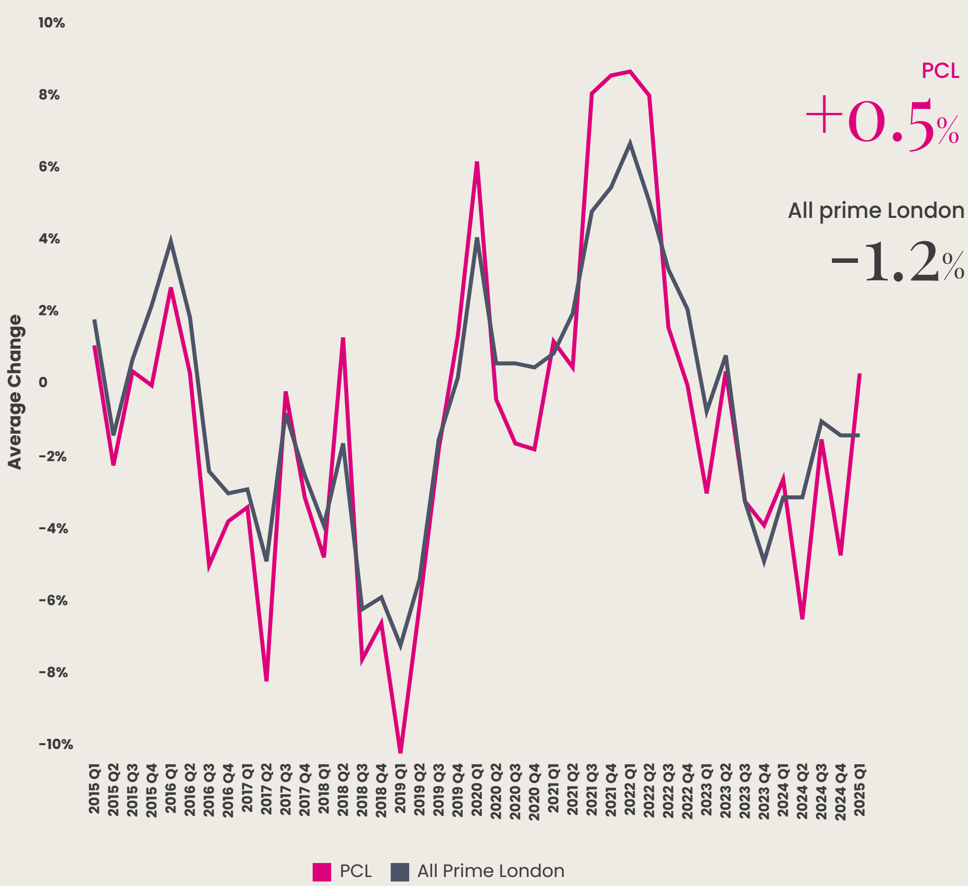
Source: LonRes Agent Survey Spring 2025

House price growth in prime London has been muted at best since 2021-22, when the release of pent-up post-pandemic demand, combined with a stamp duty holiday, drove some of the strongest price growth for a number of years.

The current market is more price sensitive and value movements have been quite volatile in recent quarters.

The latest LonRes Prime London Sales Index recorded annual growth in prime central London (PCL) for the first time since Q2 2023, with a 0.5% rise (chart 6). The equivalent figure for the wider prime London market was a 1.2% fall.

Chart 6 – Average Annual Change in Achieved Sale Price



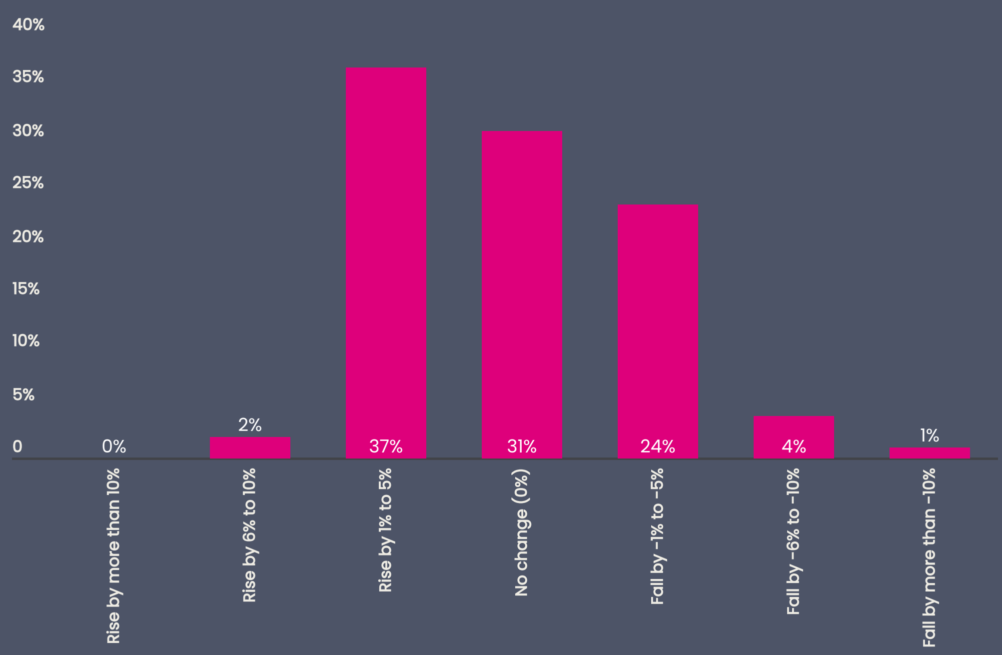
Source: LonRes Agent Survey Spring 2025

Despite the recent track record for prices, the majority of agents responding to our survey do not expect values to end the year down. But the overall view is relatively balanced:

40% of respondents predicted a rise while 29% think prices will fall (chart 7).

The 92% of answers between -5% and 5% suggest another year of mainly sideways progress is most likely.

Chart 7 – Agents' Price Forecast for 2025 vs. 2024



Source: LonRes Agent Survey Spring 2025

The LonRes Agent Survey

– Spring 2025

The LonRes Agent Survey is published twice a year. This spring survey was carried out between 3 – 21 March 2025, receiving over 500 responses.

Over 16 questions, we asked LonRes sales and lettings subscribers for their views on the prime London housing market. The survey is designed to complement LonRes data and provides a snapshot of what agents are seeing in their market at a given time. The survey includes views on buyer, seller, landlord and tenant behaviour.

As part of the survey we include some open questions on topical issues. These provide additional depth and colour to the survey. Here are some of the questions we asked and responses given.

We asked the sales agents

What reasons have your vendors been giving for putting their home on the market over the past six months?

Many agents mentioned vendors wanting to sell additional homes and investment properties. Within this broad category a range of specific reasons were highlighted. Some described investors seeking to exit the private rental sector completely due to increased regulation (citing the introduction of the Renters' Rights Bill) or higher mortgage repayments making it less (or even un-) profitable.

Others said their clients were looking to simplify portfolios, sell pieds-a-terre that were no longer needed, free up capital for other investments – including buying property for children – or avoid potential future higher capital gains or inheritance taxes. With the majority of rental investment properties being flats, high and increasing service charges were also mentioned as a factor.

Regarding owner-occupier vendors, some agents noted seeing more people leaving the UK, particularly at the top end of the market where London competes with other global cities – Dubai received more than one specific mention.

For balance, some agents reported that they were seeing no change to the usual sale drivers, citing the '3 Ds' (death, debt and divorce) as well as normal levels of up- or downsizing and moving out of London to other parts of the UK.

"We've seen landlords exiting the market due to legislation and not being able to offset high interest rates. Plus owners selling to get away from escalating service charges."

"Many sellers are acting now due to fears that Capital Gains Tax may increase in the next couple of years. Landlords continue to exit the market due to higher mortgage rates, stricter regulations (e.g. energy efficiency rules, rental reforms), and higher taxation."

We asked the sales agents

Thinking about buyers, what reasons are they giving about not moving forward with viewings or offers?

Many agents described their prospective buyers as nervous, uncertain or cautious. High interest rates and stamp duty costs were blamed by some, while the seemingly poor prospects for future price growth were also cited as a barrier to agreeing deals. For some markets, there still appears to be a mismatch between buyer and seller price expectations.

Some agents talked about buyers unwilling to compromise, explaining that high moving costs mean purchases are likely to be for the longer term. More stock coming to the market encourages a 'wait and see' strategy for buyers, which is feeding into a vicious circle of inactivity.

"I think there is a more cautious approach to buying the right things, with many buyers looking to make a larger step up the ladder from a domestic perspective, a family house for a 10-15 year move rather than a smaller jump for 3-5 years."

"The cost of buying (interest alone) is not too much different from the cost of renting whilst rates are where they are. The view of buying and benefitting in the long run from capital appreciation has now gone."

We asked the lettings agents

What are the reasons for rental listing volumes across London not recovering to pre-pandemic levels? And what measures would improve lettings supply?

The lettings agents echoed the sales agents saying that there were higher than usual levels of landlords selling their rental properties which in turn is constraining supply. Many blamed the government and ongoing legislation that has made investment in buy-to-let less of an attractive proposition. Some also reported tenants staying longer. Combined there are there are clear impacts on both sides of the supply-demand equation.

Ideas for improving the situation were limited. Many agents wanted unspecified 'incentives' for landlords to enter or remain in the market, but acknowledged that buyers or owners of additional properties in London are unlikely to be at the front of the queue for any financial subsidies from the government.

"Changes in government, changes in rental regulations favouring tenants, and high borrowing rates have led to a fairly large-scale sell-off of rental properties across London. There has been notably less rental stock and a significant increase in the number of rental properties on the market for sale."

"The government changes don't help private landlords wanting to stay in the market and there is no incentive for new landlords to get into the market. Many more rental properties are being listed for sale or sales being discussed than ever before."

Overview

Lettings Market

The prime London rental market continues to be underpinned by constrained supply. Demand - particularly at higher price points - has cooled from the highs of 2022 and 2023, but has remained strong enough to drive further rental growth.

70%

of respondents to our survey thought rents would rise in 2025

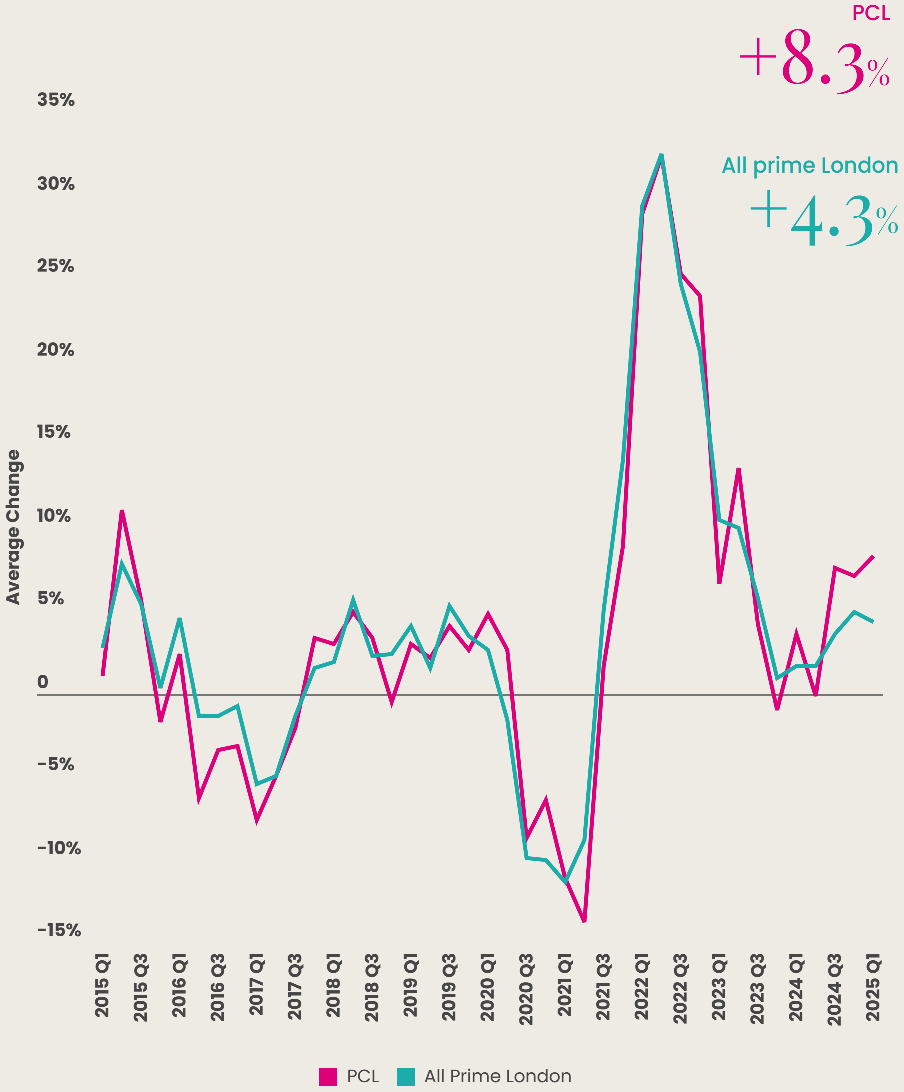
Source: LonRes Agent Survey

The pace of rental growth was broadly steady in Q1, consolidating gains from the second half of last year. The latest LonRes Index recorded an annual change of +4.3% across prime London, compared with 4.9% in Q4 2024 (chart 8). Rents in Prime Central London rose more quickly, by 8.3% on an annual basis, with rents in the Inner Prime catchment also rising, by 3.2% over the same period.

Prime Fringe saw a 3.4% fall, after being the best performing area for much of 2023 and 2024. Average rents remain at record high levels, more than 30% above their level at the end of 2019.

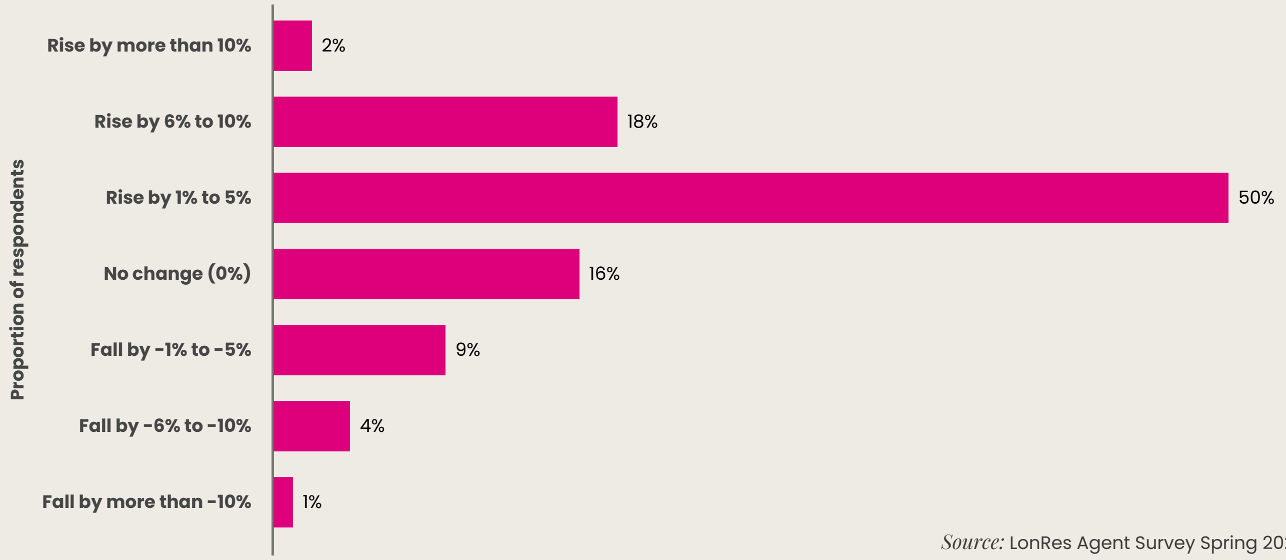
With rents growing faster than capital values in Q1, yields also increased. The average yield across Prime London was 4.88%, up from 4.56% in Q4 2024. Looking longer term, yields are currently well above their 2013 to 2020 average of around 3.5%.

Chart 8 – Average Annual Change in Achieved Rents



Source: LonRes Prime London Rental Index

Chart 9 – Agents' Rental Value Forecast for 2025 vs. 2024



Source: LonRes Agent Survey Spring 2025

Looking at the year ahead, our survey respondents favoured rental growth continuing at a similar pace.

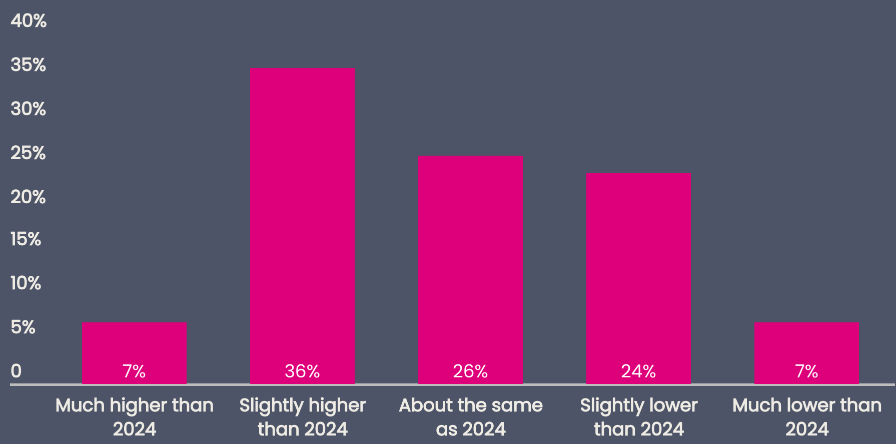
Source: LonRes Agent Survey

70% of respondents to our survey thought rents would rise in 2025, with 50% opting for growth of 1 to 5% (chart 9). Despite the strong start to the year, around 1 in 7 agents (14%) forecast a fall in rents and a further 16% thought they would end 2025 unchanged.

Rents might be growing but rental activity remains subdued. LonRes data for Q1 indicated an annual decrease of 27.1% in lets agreed and a 26.7% decrease in new instructions, with activity on both measures remaining significantly below pre-pandemic levels. The stock of available rental properties also decreased on an annual basis, with 16.0% fewer homes on the market across prime London at the end of March than a year earlier. It is, however, important to note that these measured activity levels may overstate the true falls as fewer rental properties are being advertised, be that on LonRes or other sources including public-facing portals.

The results from our survey – which asked agents about expectations for rental activity in their local markets – confirm that the available data may not be telling the whole story. 43% of respondents forecast higher transaction levels for 2025 compared to 2024, against 31% expecting them to end the year lower (chart 10).

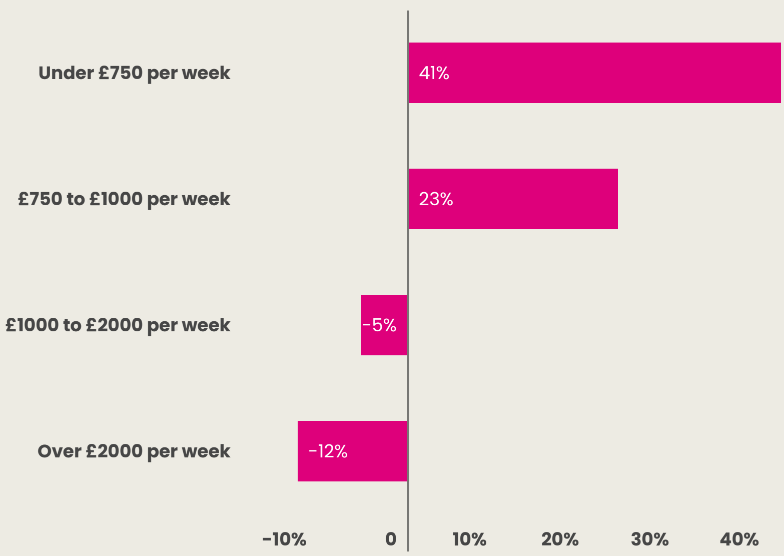
Chart 10 – Agents' Rental Transaction Forecast for 2025 vs. 2024



Source: LonRes Agent Survey Spring 2025

Any increase in rental activity is likely to be driven by lower price points, according to the results of our Agent Survey. For the under £750 per week band, 52% of respondents thought demand was higher than a year earlier while only 11% said it had fallen – a net balance of +41. For rentals of over £1,000 per week the agents reported slight decreases in demand (chart 11).

Chart 11 – Net Balance of Letting Agents Reporting Increased Demand by Weekly Rent – Compared to A Year Ago



Source: LonRes Agent Survey Spring 2025

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 31 March 2025.

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