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# PRIME LONDON MARKET UPDATE

Winter 2022/23



# Introduction

2022 was a mixed year for the prime London residential market. The first three quarters saw the continuation of the post-pandemic boom with rising prices and robust levels of activity. However, the political turmoil and resulting financial market stress put a dampener on the market in the final quarter of the year. Despite the turmoil, prices rose to just below their previous peak during 2022 and the top-end of the market boomed while demand for houses fell slightly relative to flats.

The prime London rental market continues to report new record highs for rents. Rental growth rates have eased but average prices are still rising thanks to a lack of homes available to rent and strong demand from tenants.



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# Sales Market

The prime London housing market started 2022 as the previous year had ended. There were concerns about the prospects for the market from the beginning of 2022 with the threat of high inflation and rising interest rates looming. However, the prime London housing market, and the wider UK market too, ignored these concerns through most of the year.

As a result, the first three quarters of 2022 saw a continuation of the post-pandemic boom with high levels of activity amidst strong competition from buyers. As the following chart shows, the number of properties put under offer and sold during these first three quarters were much higher (26% to 40%) than the levels recorded in the three years prior to the pandemic.

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Unfortunately, the turmoil of the final quarter hit and the prime London market was not immune from its effects. The political chaos of September-October led to a fall in market activity in the final quarter of the year as interest rates shot up and buyer sentiment weakened.

The number of properties put under offer and sold fell back to near the low levels recorded in the three years leading up to the pandemic. There was also an increase in fall throughs and price reductions as the market re-adjusted to these new conditions. It is still not clear if these conditions will continue into 2023 and, if they do, how long they will last.

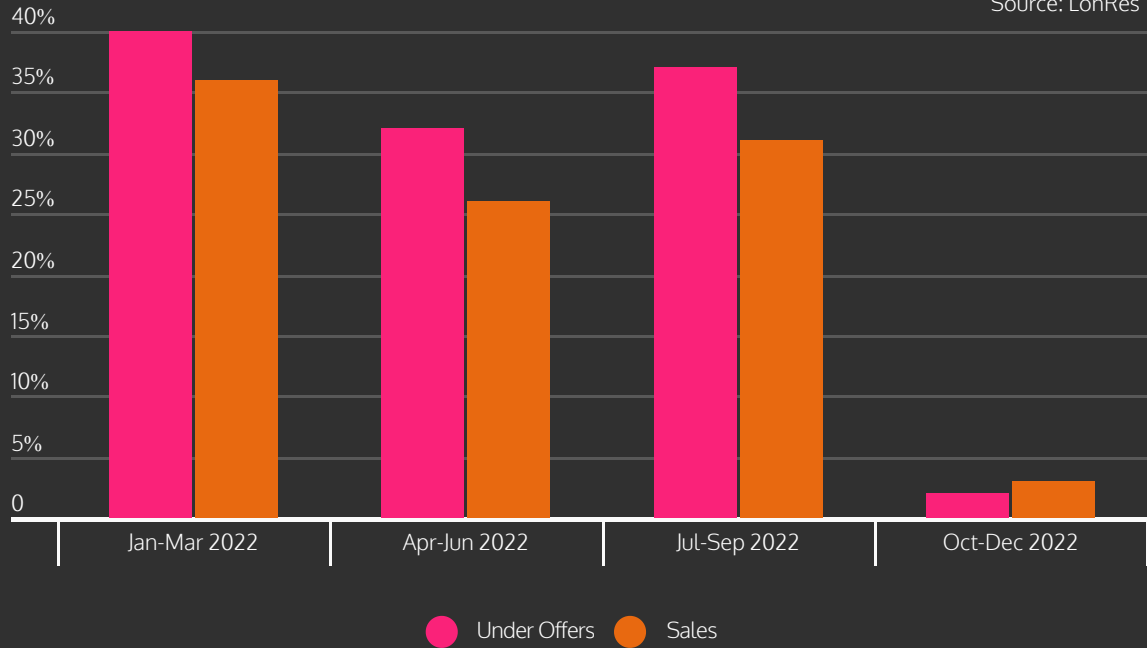


... There was also an increase in fall throughs and price reductions as the market re-adjusted to these new conditions (Q4).

# Activity Measures Across Prime London

– Compared to Same Period in 2017-2019

Source: LonRes



While prime London is less dependent on mortgages than other parts of the residential market, interest rates are still important. How high interest rates stay and for how long will be a key factor in the prospects for the prime London market in 2023 but perhaps the single most important short-term factor will be buyer sentiment. This appears to be holding firm, for the time being.

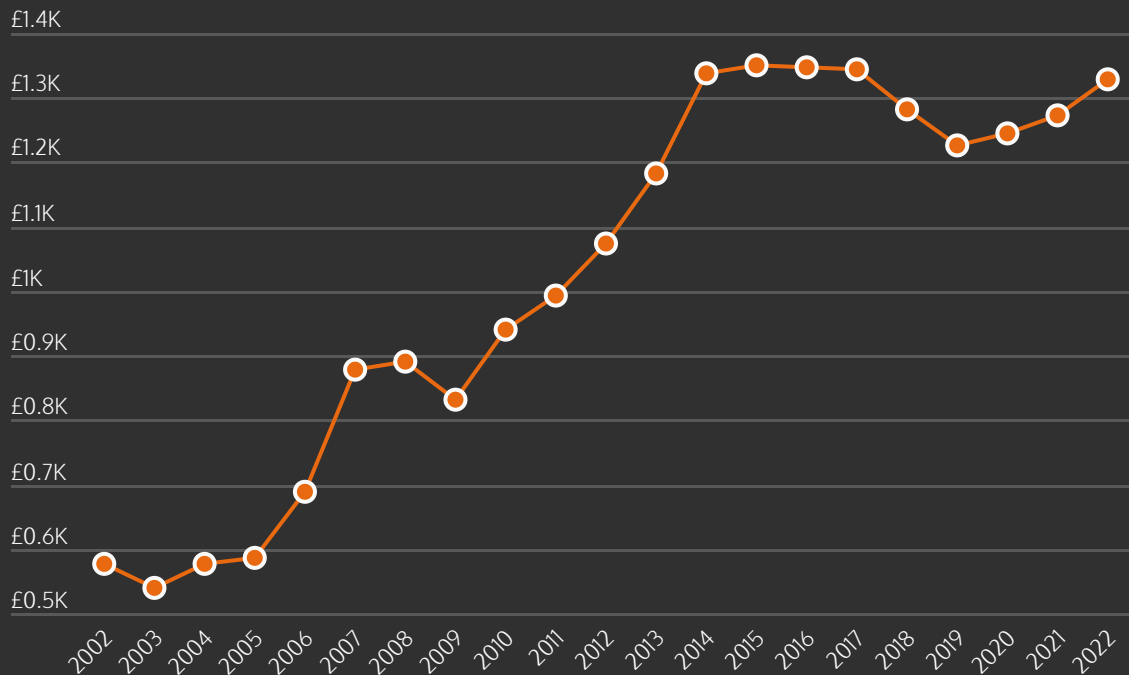
The years leading up to the pandemic had been tough for the prime London housing market but 2022 continued the post-pandemic recovery. Alongside lower activity levels, average prices had also fallen as tax changes and other factors dampened buyers' enthusiasm for purchasing. However, the housing market reopening in summer 2020 led to a resurgence in not just activity but also prices.

Average prices across prime London continued their recovery during 2022 and thanks to a 4.4% rise across the year, average achieved prices per sq. ft. were just 1.4% below their previous 2015 peak.

# Average Achieved Price Per Square Foot

– Prime London

Sources: LonRes



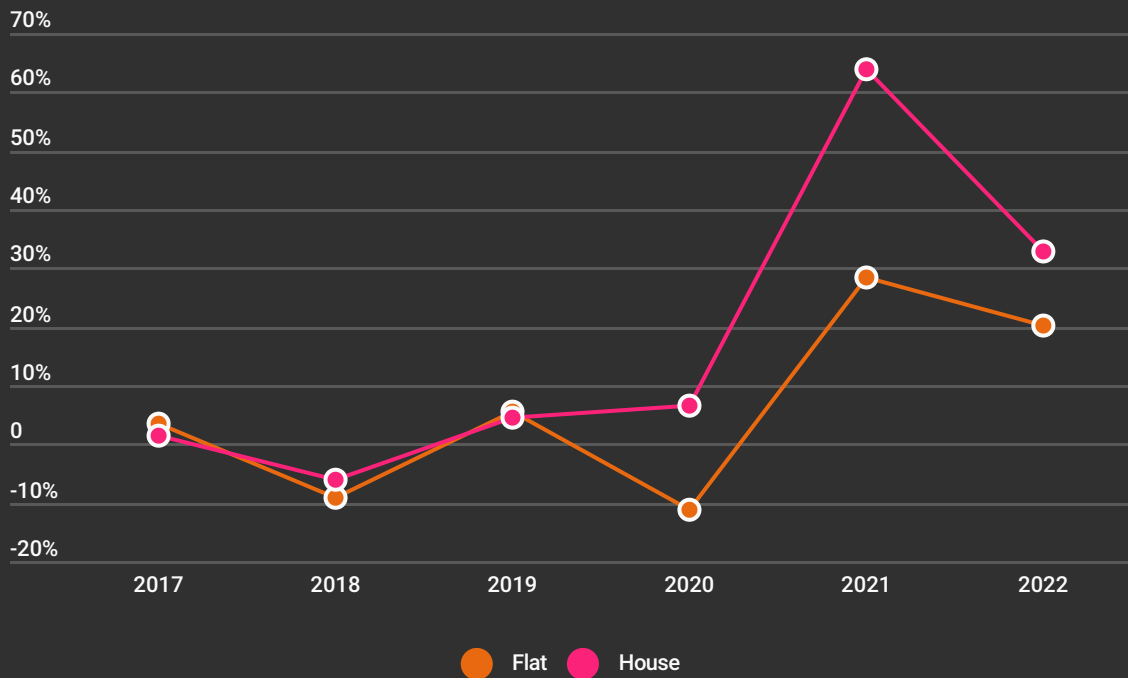
One of the key features of the prime London market since the pandemic has been the divergence in demand for houses versus flats. Houses have been much more popular across most markets as buyers sought larger homes and outside space not typically offered by flats. This trend continued through 2022 but in the last quarter of the year, there were signs that flats were becoming relatively more desirable.

The chart shows sales of both flats and houses fell in 2022 compared to the stamp duty holiday boosted in 2021. However, the fall in house sales was larger and so the gap narrowed. With rising energy prices and increasing interest rates, the relative attraction of flats increased – a positive sign for the prime London market given flats make up most of the housing stock in the area.

# Sales by Property Type Across Prime London

- Compared to 2017-2019 Average

Sources: LonRes



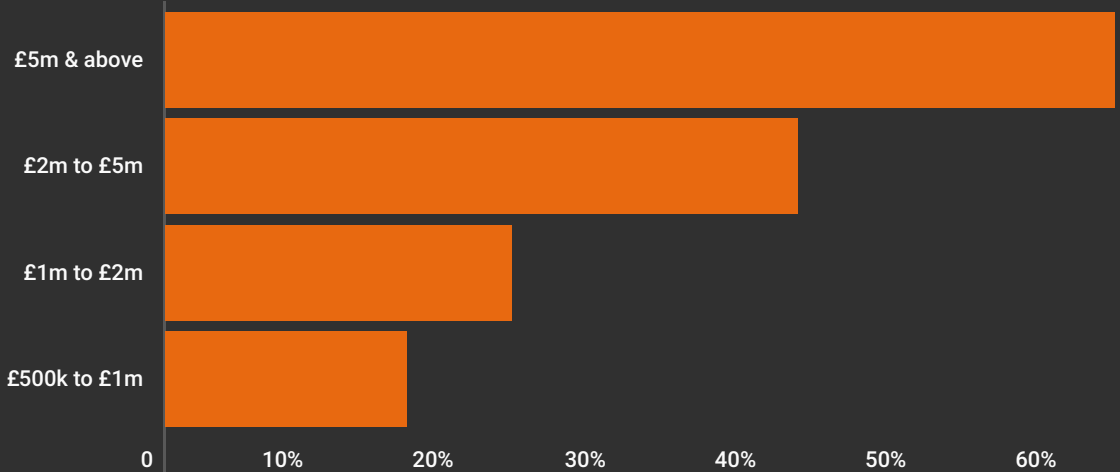
The top-end of the prime London market was the strongest part of the market in terms of activity during 2022. Properties sold at £5 million and above, might form a relatively small part of the prime London market at around 8% of sales, but it is this market that recorded the highest growth compared to the pre-pandemic average during 2022.

Sales across all price bands were higher than their 2017-2019 average during the year, despite the fall in the final quarter. The £1 million to £2 million market saw 23% more sales in 2022 than the 2017-2019 average while the £2 million to £5 million market recorded a 42% rise over the same period. But the highest price band (£5 million and above) was the one that recorded the biggest increase, with sales in 2022 63% higher than the average for 2017-2019.

# Sales by Price Band Across Prime London

– 2022 Compared to Same Period in 2017-2019

Sources: LonRes



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# Lettings Market

The rental market has seen a complete reversal in fortunes over the last two years. The pandemic hit the prime London rental market hard as tenants disappeared, to both the country and abroad. Rents and activity fell while homes available to rent on the market increased. The situation has now firmly reversed. A severe lack of stock available to rent has reduced market activity and led to a rapid rise in average rents.

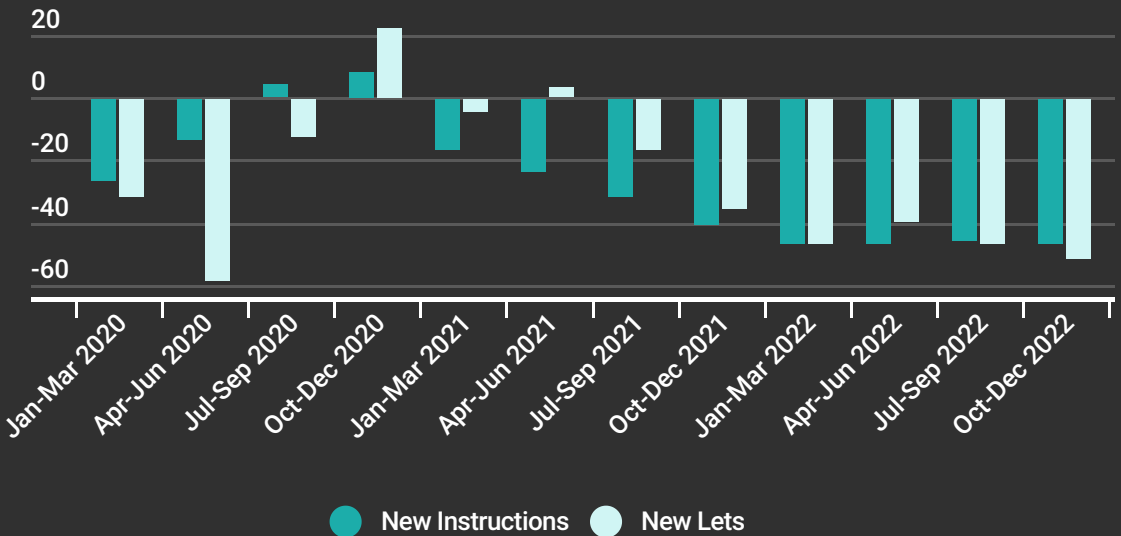
Activity levels in prime London rental market were severely depressed during 2022. Despite a rebound in demand as people returned to live, work, and study in London, a fall in new instructions led to a lack of homes available to rent.

This lack of homes has, in turn, led to a fall in the number of new lets in the market, as the chart shows. There are a number of possible reasons for the decline in activity – some suggesting a short-term effect and others more long-term. These include a temporary rebound from the pandemic, landlords selling their properties, and a shift to longer-term tenancies.

## Measures of Rental Activity Across Prime London

– Compared to Same Period in 2017-2019

Source: LonRes



The lack of homes to rent and strong tenant demand helped increase prime London rents to new record highs in 2022. 2021 marked the recovery in prime London rents following their falls during the pandemic. 2022 continued that trend, albeit the annual growth rate declined slightly, from 19% at the end of 2021 to 14% at the end of 2022.

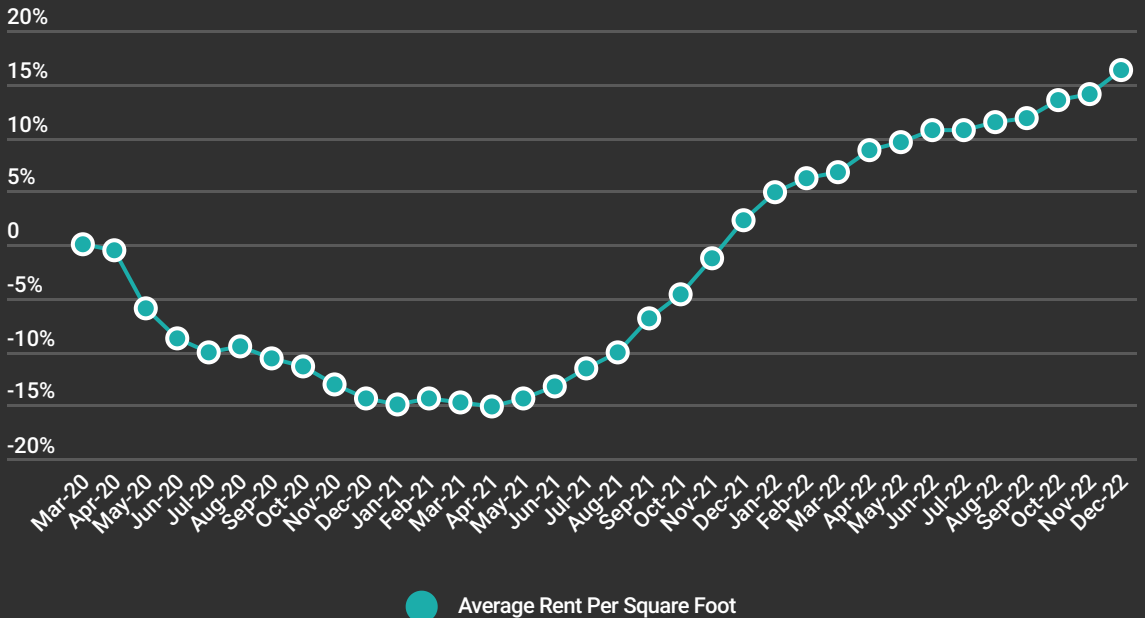
There were other signs of just how tight the rental market was in 2022. The average discount to average rents fell to near zero in 2022, with some months recording a premium – tenants offering more than asking rents on average. As a result, the proportion of rental homes with reductions in asking prices fell to low levels – though around 1 in 10 still recorded a discount.

The average time on the market also collapsed, hitting record-low levels during the year according to LonRes data. Tenant affordability may prove a barrier to further rent rises in some markets but this is unlikely to affect the upper end of the prime London market. Instead, it may be the threat of recession along with job losses in the City and other sectors that could lead to the prime London rental market easing.

## Change in Rents Per Square Foot by Property Type

– September 2022

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.

Analysis of LonRes data for Prime London Market Update has been carried out by Neal Hudson of BuiltPlace - exclusively for LonRes - using data up to 31 December 2022.

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