PRIME LONDON MARKET UPDATE

Autumn 2022

Introduction

The events of the last two weeks have added an unwelcome degree of uncertainty to the UK's economy and housing markets. Prime London has not been immune to that uncertainty with evidence of more cautious buyers. Sales falling through, properties withdrawn from the market, and price reductions all spiked in the week following the mini budget. But the fallout has also created an opportunity for some, with new instructions rising and the number of properties under offer both higher than the same period last year. Meanwhile, the weakness of the pound may encourage some international buyers to take advantage, potentially offsetting some of the challenges facing the more mortgage dependent markets across the rest of the UK.

Meanwhile, rental activity in the Prime London market continues to be limited by the lack of homes available to rent. While the annual growth in average rents has slowed slightly in recent months, they are still rising rapidly.

Sales falling through, properties withdrawn from the market, and price reductions all spiked in the week following the mini budget.

Source: LonRes

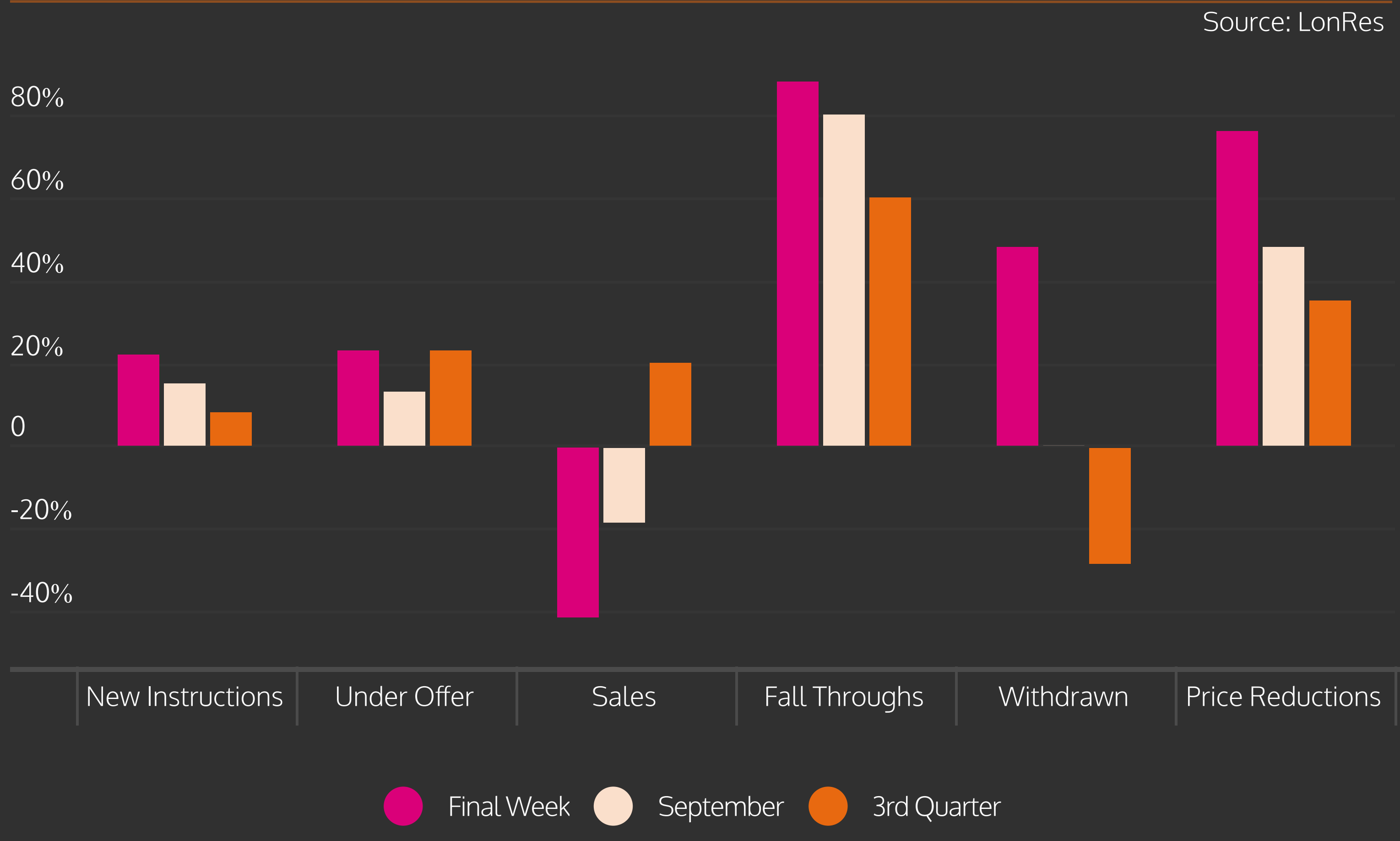
Sales Market

The third quarter of 2022 has seen relatively robust levels of activity in prime London. New instructions were up 8% compared to the same quarter last year while properties under offer and sold were up 23% and 20% respectively. With continued demand for homes, prices were 2.3% higher than last year according to the LonRes index. However, it is September that tends to be the most important month in the quarter and the final week of last month – the announcement of a mini budget – will set the tone for the weeks ahead.

September is an important month for the prime London housing market. It is the time when agents' new instructions, gained over the summer months, finally come to the market. This year was no exception with September's new instructions 15% higher than the same month last year. Meanwhile, price reductions were up 48% over the same period.

Activity Measures Across Prime London in September

– Compared to the Same Period Last Year



While September's sales have been significantly lower than last year (-18%), this is against last year's spike in transactions driven by the ending of the stamp duty holiday (30 September 2021). That said last month's sales were 3.7% higher than the pre-pandemic average for September. Perhaps more importantly, properties under offer were 13% higher in September 2022 than the same month last year.

In the longer-term, the response of the prime London market will ultimately depend on a wide range of factors including the future path of interest rates and exchange rates, along with the underlying economic and political environment.

The most important events of September 2022 were during its final week. The political and financial turmoil has had a significant impact on the UK's housing market and the prime London market was no exception. While one week's data should come with a bit of health warning, the underlying trends are indicative of what happened, as it happened.

As the first chart shows, the number of sales falling through rose during the final week when compared to the same week last year (+88%) while the number of price reductions spiked (+76%) along with properties withdrawn from the market (+48%).

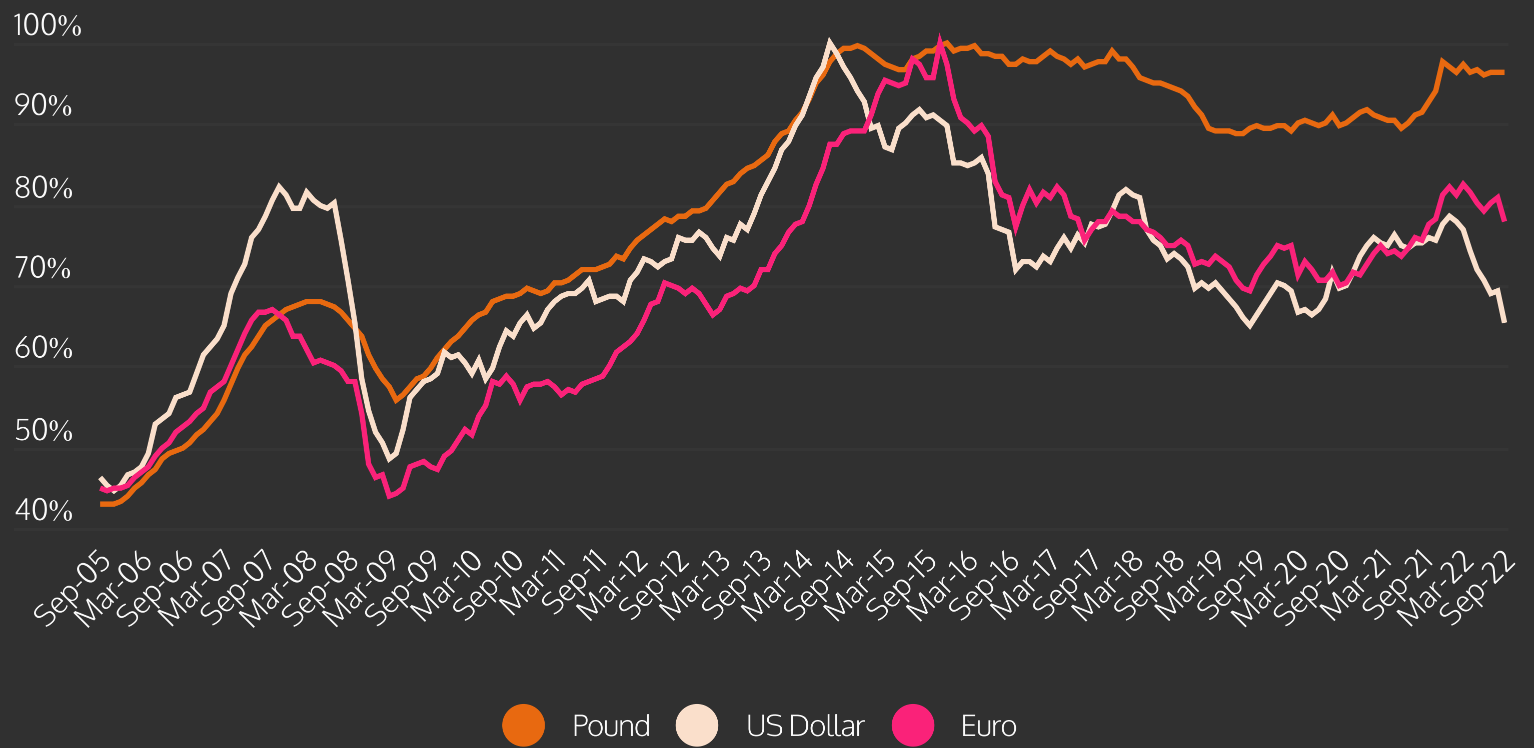
Sales were 41% lower than the same week last year although this again reflects the ending of the stamp duty holiday, and a more representative comparison shows they were 8% lower than their pre-pandemic average. Despite all the bad news, the number of properties put under offer in the final week of September was 23% higher than last year and new instructions rose 22% over the same period.

It will take time for the financial and housing markets to adjust to the new situation. LonRes data suggests there have been mixed immediate responses across Prime London to the change in economic conditions and political uncertainty. There are clearly some negative impacts as buyers and sellers choose to sit tight rather than proceed with their sale/purchase. However, the data suggests some sellers have been keen to accelerate their sale with a price reduction while the increase in properties under offer during the final week suggests some buyers have been in a rush too.

Prime London Values Converted into Different Currencies

– Indexed, 100 = 2014/15 Peak

Sources: LonRes, Bank of England



Currency rate fluctuations are considered a key driver of international buyer demand in Prime London. Recent falls in the pound, especially compared to the US Dollar, have been regularly cited as a reason to invest in the Prime London market. As the second chart shows, average prime London prices per square foot were just below their previous 2014/15 peak for achieved prices in September (-4%). However, prices were nearly 22% lower than their peak when converted to Euros and 35% lower when converted to US Dollars. That represents a substantial discount.

However, the apparent discount for international buyers is not the only driver of demand and could just as easily be a reason to avoid entering the market. While the depreciation of the pound versus other currencies may be good for new buyers, it is less good for existing owners – especially if they have a foreign currency loan secured against their property – and could limit transactions in the market.

The ongoing weakness of the currency also reflects the lack of appetite for UK-based investment irrespective of asset class. The risk of further depreciation in the pound was highlighted by its volatility in recent weeks and there are far easier ways to make a currency play than illiquid property markets. It is more likely that any currency discount is just one of many factors that international buyers will consider when making their decision to buy a property in Prime London.

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Lettings Market

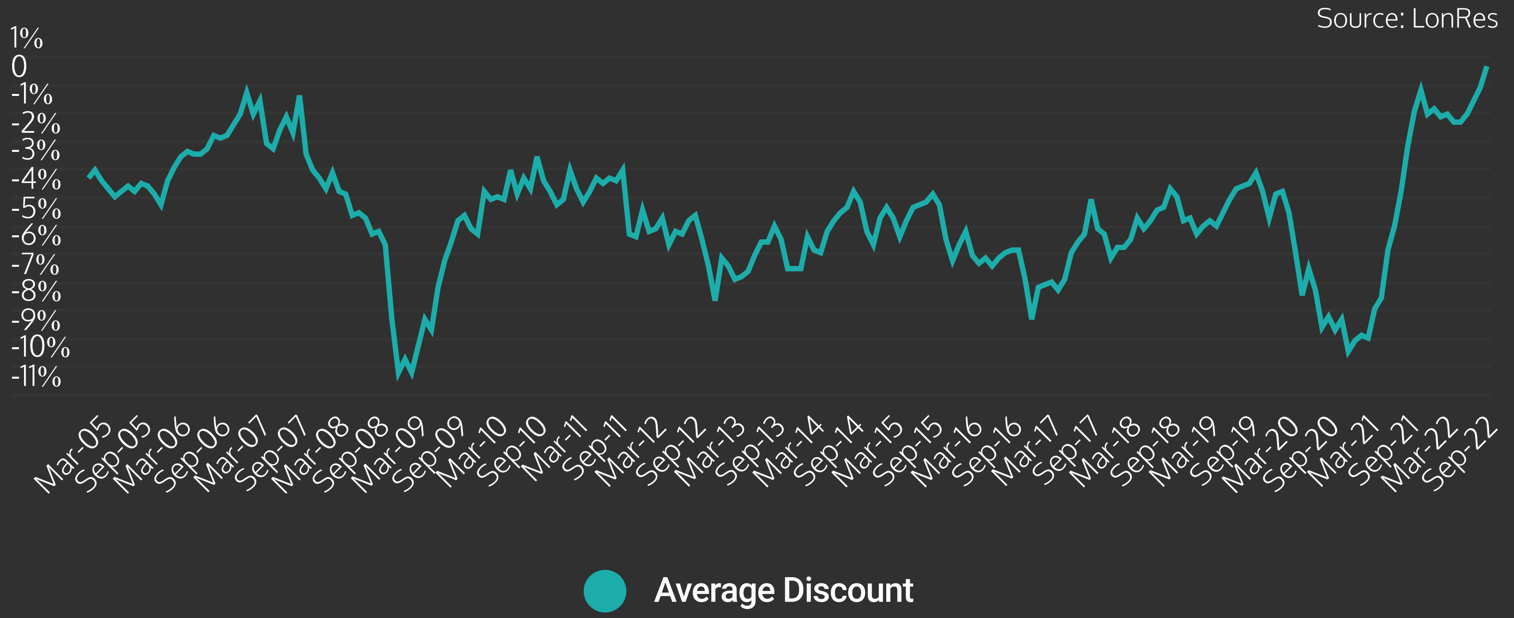
Activity levels in the prime London rental market are still well below normal levels. New instructions during the third quarter of 2022 were 21% lower than the same period last year while properties under offer were 29% lower. With a severe lack of stock available to rent, the number of sales were down 43% on last year.

Both within the quarter and across the year, September is usually one of the busiest months for the rental market. However, a lack of stock continued to limit activity. The number of new lets during September was 38.5% lower than last year while new instructions were 24.8% lower.

While the supply of homes available to rent is limited, tenant demand remains strong. Rents are still rising rapidly from last year's lows, though annual growth (20.5%) has slowed slightly from recent high rates.

The time it takes properties to let is still near record lows while the percentage of properties let with a discount to the asking rent was just 12%. As a result, and for the first time in LonRes records (which go back to 2005), the average discount to asking rents turned positive as shown in the chart below. This means tenants paid, on average, 0.6% more than the asking rent when agreeing a new tenancy during September.

Average Discount to Asking Rent



Rents are rising rapidly across all property types though there are some interesting differences by property type and size. Smaller flats have seen the fastest rent rises over the last year, studios up 21%, 1-bed flats up 19%, and 2-bed flats up 22%. But the percentage change since 2019 is lower for these properties – reflecting bigger rental falls in 2021 and so a bigger bounce back.

It is larger (2 and 3+ bed) flats that have recorded the biggest rent rises since 2019 (18%), suggesting these properties are most in demand. Meanwhile, houses have recorded the lowest growth over the last 12 months (just 8%) though growth is higher since 2019 at 14% as demand for houses held firm during the pandemic and rents did not fall. There are still no signs of any big increases in homes available to rent – during what is typically the busiest time of the year for the rental market. This suggests upwards pressure on rents will continue in coming months.

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>
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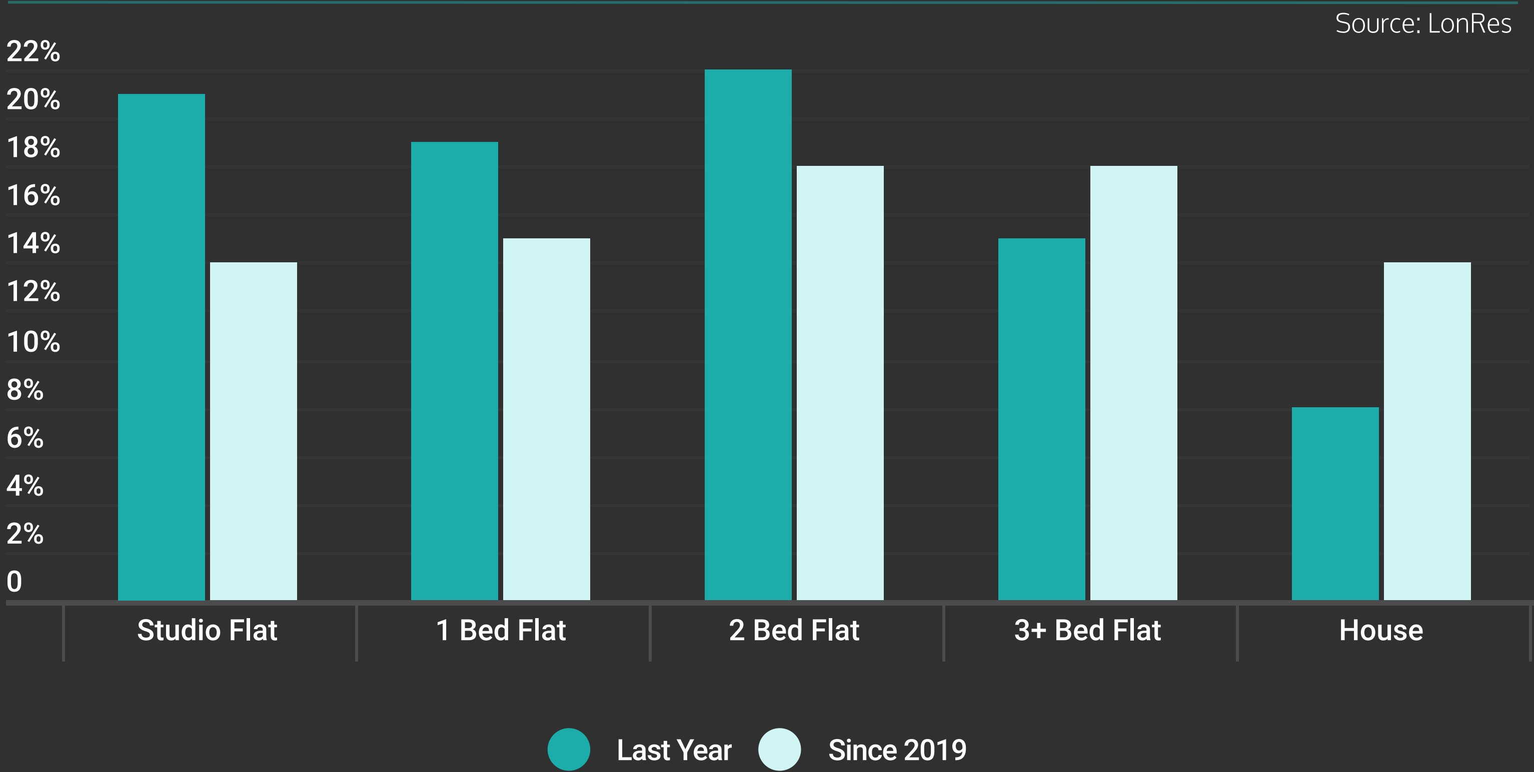
Change in Rents Per Square Foot by Property Type – September 2022



*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 30 September 2022.

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