

August 2022

No sign of price slowdown in prime London housing market as demand remains high and stock levels low

Rental market continues to suffer as more tenants renew and fewer new homes available to rent

Analysis of the Prime London Housing Market



Prices rise

Prices continued to rise across prime London in July ending the month 7.7% higher than last year and 4.2% higher than their pre-pandemic average (2017-19). This represents the highest growth rate since January 2015.



Close to peak

Across prime London prices are now close to their 2014 previous peak. Prices were just 2% lower between May and July 2022 than at the same period in 2014.



Price recovery

As prices have recovered, the average discount to asking price has nearly halved – from 9.6% in May-July 2019 to 5.8% in May-July 2022.



Discount variables

But there are variations across prime London by both place and property type– larger discounts (the difference between asking and achieved price) were recorded in prime central London than in prime fringe, and there were smaller discounts for houses than flats.



Demand vs stock

A lack of stock and increased demand continues to drive prices. In July new instructions rose by 4.7% compared to the same period last year.



New lets

Prime London's rental market continues to suffer from an imbalance between supply and demand. Year-on-year new lets were down over 45% in July, leading to the lowest number of properties let in the month of July since LonRes records began (2005).

Source: LonRes

	Prime Sales Annual Change	Prime Sales Change Since 2017-19	Prime Lettings Annual Change	Prime Lettings Change Since 2017-19
Achieved prices/rents	7.7%	4.2%	25.8%	14.6%
Properties sold/let	43.7%	9.8%	-45.8%	-52.9%
New instructions	4.7%	22.6%	-15.9%	-42.1%

Despite wider economic concerns, prime London market remains resilient...

Despite rising concerns about the state of the wider economy, the prime London market is in good health. During July activity levels in prime London were above pre-pandemic levels. Sales in July were 9.8% higher than their 2017-19 average and prices were up 4.2%.

Meanwhile, new instructions remain firmly higher than their pre-pandemic average (22.6%).

LonRes

The years leading up to the pandemic (2017-19) saw both demand and prices fall across prime central and the wider prime London housing markets.

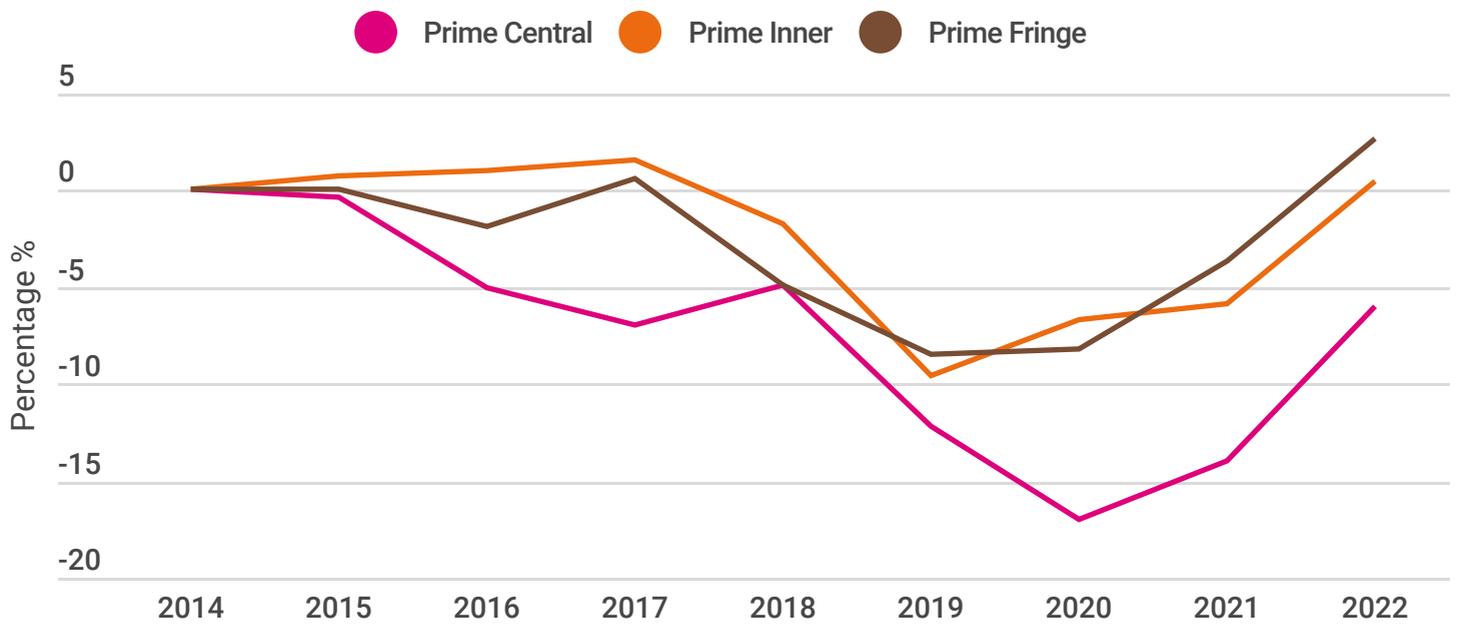
But in a reversal of fortunes, the capital's prime markets have been steadily recovering. Property prices are still rising amidst a lack of stock (new instructions rose by just 4.7% over July compared to July last year) and continued demand from buyers. While year-on-year transactions (properties sold) across prime London in July increased by over 43%.

While this partly reflects last year's post-stamp duty holiday trough, there is no sign of a post-holiday hangover at the top-end of the market (£5m+) which is still recording high levels of sales. There were 3.9% more sales of £5m+ properties in the year to July 2022 than at the previous peak in 2014. This in turn has helped push prices back towards peak levels recorded in the years prior to Covid.

Prices across wider prime London were just 2% lower in May-July 2022 than at the same period in 2014. And in some markets are now higher. In prime fringe prices between May and July this year were 2.6% higher than they were between May and July in 2014.

However, not all markets have recovered and in Prime Central London prices are still 6% lower than eight years ago. That said even here prices have recovered from the lows recorded during the pandemic.

Percentage Change in Average Prices Since 2014



Average of May-July | Source: LonRes

Buyer and seller expectations align...

As prices return to their previous peaks, the pricing expectations of sellers and buyers have come closer together.

The average discount to asking prices hit 10% in 2018 and 2019 – similar to the discount recorded during the depths of the financial crisis in 2009. But, alongside the recovery in prices and activity levels, the average discount has narrowed in recent years.

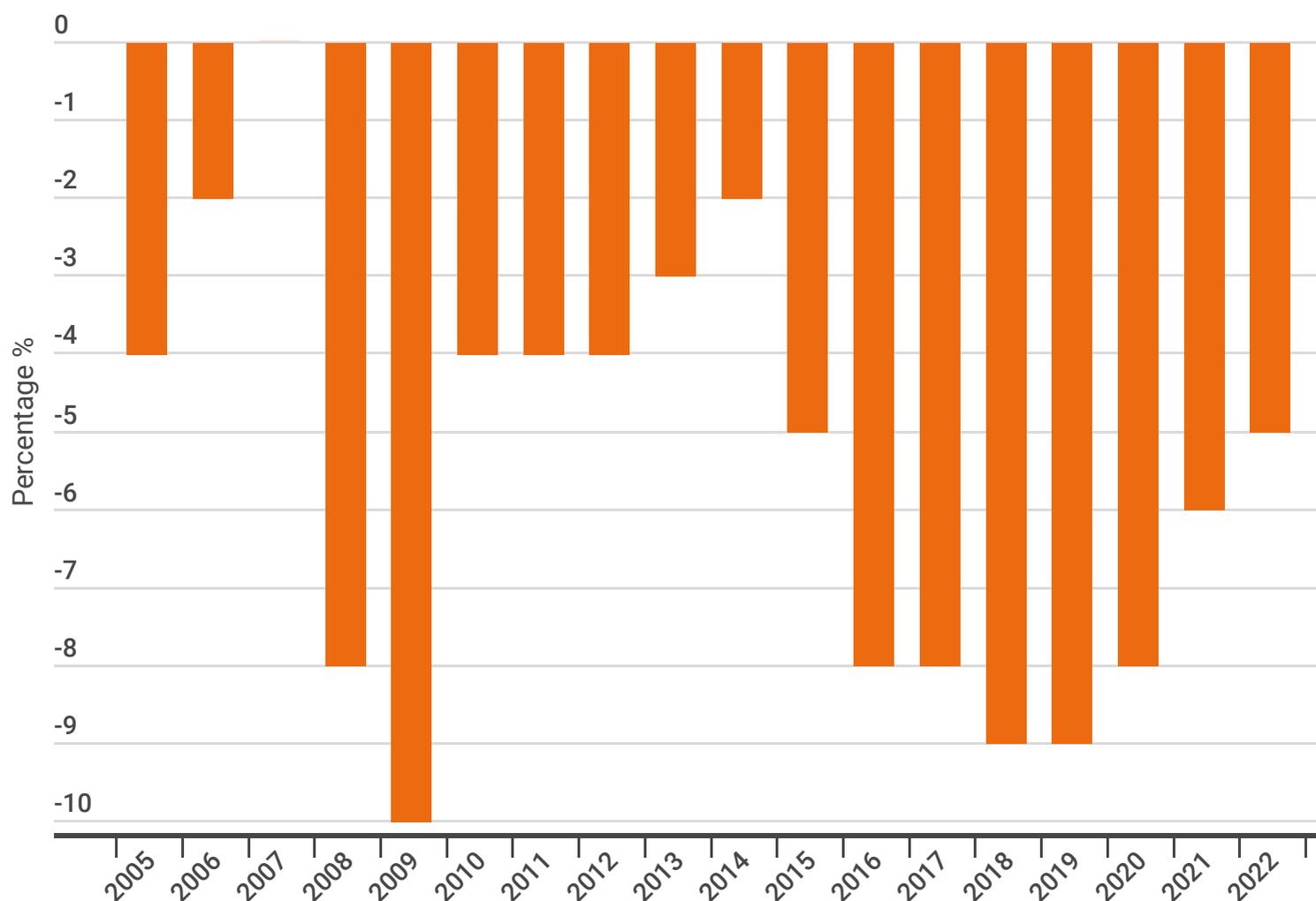
The average discount across prime London was just 5.8% recorded in May-July 2022 - similar to the 5.7% recorded during the same period in 2015.

However, the average discount varies by area and property type. The discount to asking price ratio is biggest in prime central London (7.3%) and smallest in prime fringe London (4.8%). Similarly, the discount for flats (6.2%) is bigger than for houses (4.8%), irrespective of the sub-market they're in. The variation in discount by place and property type partly reflects the relative recoveries in the different prime London markets.

Prospective sellers have been proven to show signs of price-anchoring – the price they are willing to sell is closely linked to their expectations of what their home is worth – often set at the peak of pricing. As prices across prime London return to their previous peaks and discounts to asking prices narrow, this could encourage more potential sellers to list their property for sale in the coming months.

For the time being there appears to be plenty of demand from buyers – the number of properties under offer in July was 39% higher than last year and 53% higher than the pre-pandemic average.

Average Discount To Asking Price



Prime London | Average May - July | Source: LonRes

Average Discount to Asking Price by Area and Property Type

	Prime Central	Prime Inner	Prime Fringe	All Prime London
House	-6.1%	-4.7%	-3.8%	-4.8%
Flat	-7.9%	-6.1%	-5.2%	-6.2%
Total	-7.3%	-5.8%	-4.8%	-5.8%

May - July | Source: LonRes

Low stock levels, high demand and increased renewals characterise prime London rental market

The rental market across prime London continues to suffer from a combination of low activity and rapidly rising rents. Activity levels, be they new instructions, under offers, or new lets, are still well below normal levels and close to the exceptionally low levels seen during the market lockdown of 2020.

This continues the reversal of last year's market as people return to work and city centre living. With limited homes available to rent, many existing tenants are choosing to renew, while new tenants are left to fight over the few remaining properties available to rent. As a consequence, many tenants are finding themselves subject to tougher rental tenancy terms.

Looking ahead, the next few months are traditionally a busy period for the rental market. Much like the sales market, the availability of new properties will be key for both those looking for a home and those involved in the business of letting them out.



Analysis of LonRes data for this August briefing has been carried out by Neal Hudson of BuiltPlace - exclusively for LonRes - using data up to 31 July 2022.

*Prime London analysis includes properties within the following postcodes SW1Y, SW1X, SW1W, SW1A, SW3, SW7, SW10, W1S, W1K, W1J, W8, NW1, NW3, NW8, SW1P, SW1V, W1T, W1H, W1U, W1G, W1W, W2, W11, W14, SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10.

The prime areas break down as:

Prime Central London: SW1Y, SW1X, SW1W, SW1A, SW3, SW7, SW10, W1S, W1K, W1J, W8.

Prime Inner 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.

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