LON RES

MONTHLY BRIEFING

PRIME LONDON MARKET

February 2023 Issue

Prime London sales market adjusts to the 'new normal'...

While prime London rental growth shows signs of slowing.

Analysis of the prime London Housing Market in January 2023

Pre-pandemic levels return

Prime London market returns to pre-pandemic levels of activity. The turmoil of the last few months has returned the market back to the levels of sales and under offers recorded prior to the pandemic.

Pricing gets real

Sellers have become more realistic about pricing, with the highest number of price reductions recorded in January since 2018.

Prime averages fall

Average achieved prices across prime London fell over the year, recording a -1.4% fall.

Top end market wins

Despite the challenges, the top end of the market remains strong with sales and new instructions well above last year's levels, 56% and 43% respectively.

Rental growth reduces

Rental growth across Prime London fell back into single digits in January (9%) for the first time since October 2021.

Source: LonRes

Monthly Prime Data: January

	Prime Sales Annual Change	Prime Sales Change Since 2017-19*	Prime Lettings Annual Change	Prime Lettings Change Since 2017-19*
Achieved prices/ rents	-1.4%	3.3%	9.0%	18.0%
Properties sold/let	-25.0%	-6.5%	-20.2%	-58.3%
New instructions	10.7%	7.4%	-16.1%	-55.4%

*(pre-pandemic)

Source: LonRes

Still Slow...

Housing market activity slowed in the final quarter of 2022 and this has carried through into the first month of 2023. The economic and political turmoil created by the Truss mini-budget has eased but interest rates are much higher than this time last year and buyer demand has subsequently fallen back.

While the prime London market is not seeing the same impact as the broader and more mortgage-dependent UK market, sales activity has been lower than seen in recent years and prices have fallen slightly (-1.4% over the last year).

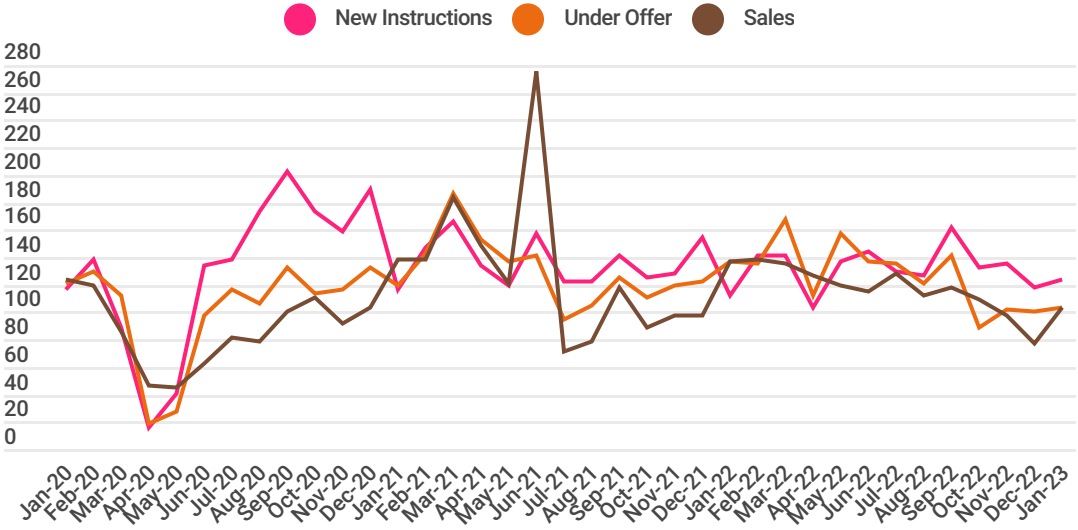
...under offers 4% higher in January 2023 than over the same month in 2019.

Source: LonRes

Under offers (a leading indicator for sales) and sales were consistently above their pre-pandemic levels in 2022 until the mini-budget fallout hit the market in October last year. The number of under offers fell from 41% above 2019 levels in September, to 11% below in October. Since then, they have hovered around 2019 levels, with under offers 4% higher in January 2023 than over the same month in 2019.

The situation for sales was similar, although it took a bit longer for the impact to feed through. Sales fell to 23% below 2019 levels in December but have bounced back in January 2023 to 3% higher than the same month in 2019. However, the figure for January last year (2022) was 37% higher. It appears the pandemic housing boom has ended, at least for the time being.

Measures of Activity in Prime London



Compared to the same month in 2019 | Source: LonRes

While sales activity has fallen back to pre-pandemic levels, the number of new instructions is still well above. The number of new instructions rose rapidly as the market emerged from lockdown in Summer 2020. While lower than those early months, the number of new instructions has been consistently above 2019 levels throughout the last 2.5 years. The economic turmoil of the last few months may have dampened sales activity, but new instructions have remained higher than prior to the pandemic. The figure for January 2023 was 24% higher than the same month in 2019.

In summary, what we're seeing now is a return to a more normal market. Prior to September's mini-budget, the market had been extraordinarily strong but following Truss's economic policy, it turned downwards. The market is now settling to just over 2019 pre-pandemic levels.

...the number of new instructions has been consistently above 2019 levels throughout the last 2.5 years.

Source: LonRes

Realistic Pricing...

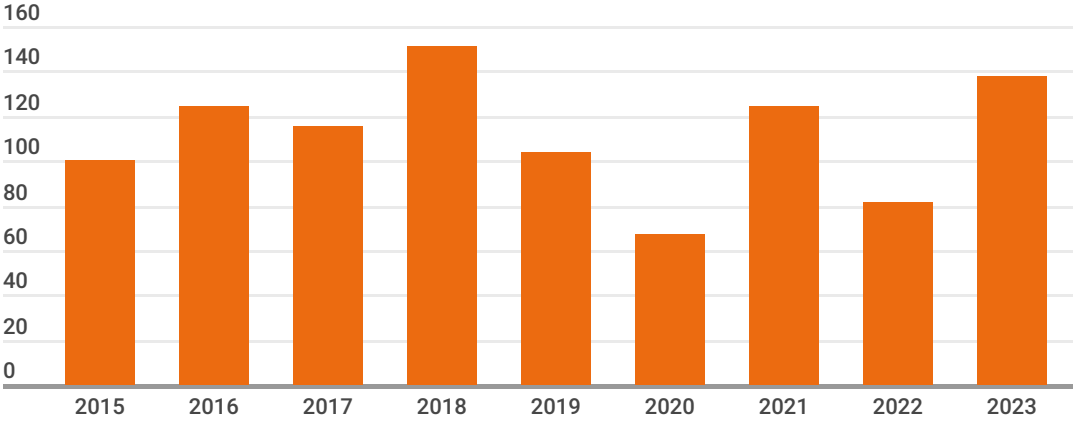
With weaker demand and lower sales activity since the mini-budget, it is not surprising that some sellers have had to become more realistic about the price they can achieve. Pricing levels often lag the market and this is what we're seeing now. The recent boom and a lack of homes available to sell may have encouraged some to try and achieve prices last seen prior to the mini-budget. But the market has changed.

While some sellers may choose to withdraw their homes from the market, others may need to be more realistic about the value others put on their home if they're serious about selling.

LonRes data shows the number of properties recording price reductions has increased since the end of September. While much lower than the absolute numbers recorded in October and November last year, the number of properties seeing price reductions in January 2023 was the highest for that month since 2018 according to LonRes records.

Further analysis shows that it is the top end of the market that has seen the biggest increase in price reductions compared to last year, perhaps reflecting the increase in available supply in that part of the market.

Number of Price Reductions in January



Index, 2015 = 100 | Source: LonRes

Top End Remains Strong ...

While the broader prime London housing market has returned to pre-pandemic levels of activity, the top end of the market is still strong. January 2023 saw a continuation of this trend, with both rising sales and new instructions of properties priced at £5 million or more – perhaps encouraged by sellers being more realistic on pricing.

The number of new instructions across the whole of the LonRes three prime areas (but primarily in prime central London), in January 2023 was 167% higher than January 2019 and 43% higher than January last year.

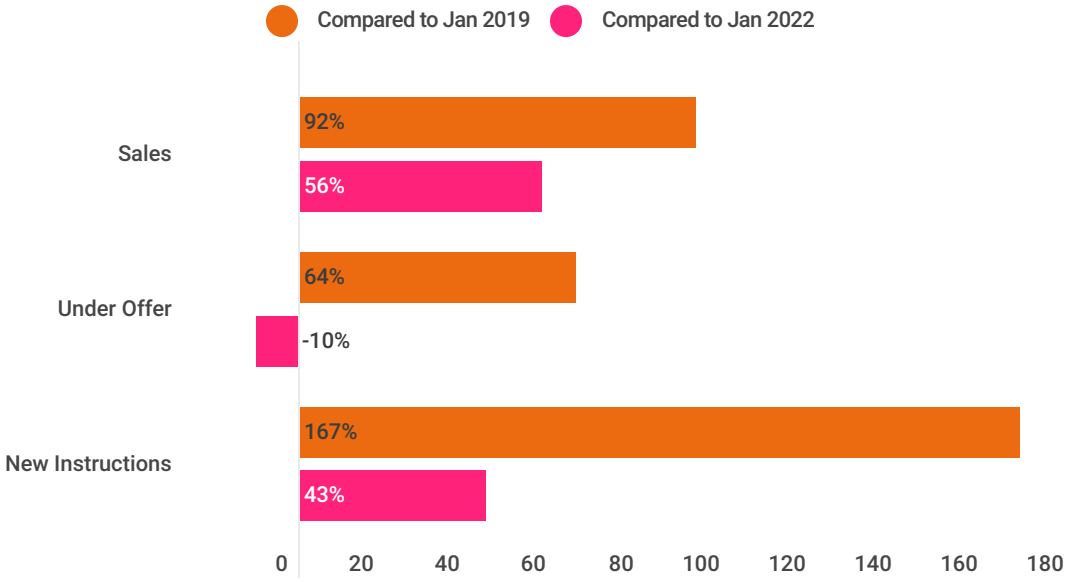
The number of sales of £5 million plus properties has also increased. The number of sales in January 2023 was 92% higher than January 2019 and 56% higher than January last year.

It appears the resurgence in sales activity and recovery in prices in this market has helped encourage the largely discretionary sellers to list their homes, resulting in a feedback loop that has led to more sales and more homes being listed for sale.

However, with high numbers of new instructions, the number of homes on the market at £5 million or more is rising (15% higher than last year). This might be a concern in the wider market, especially with the 10% decline in under offers compared to last year.

While many sellers have adjusted their price expectations given the large number of price reductions, the discretionary nature of the top end market suggests many others will simply withdraw from the market if they fail to achieve the price they expect. And this appears to be the case, with January 2023 recording the largest number of properties withdrawn from the £5 million plus market in a single month according to LonRes records.

Measures of £5m+ Market Activity - January 2023



Source: LonRes

Rents Rising Less Rapidly...

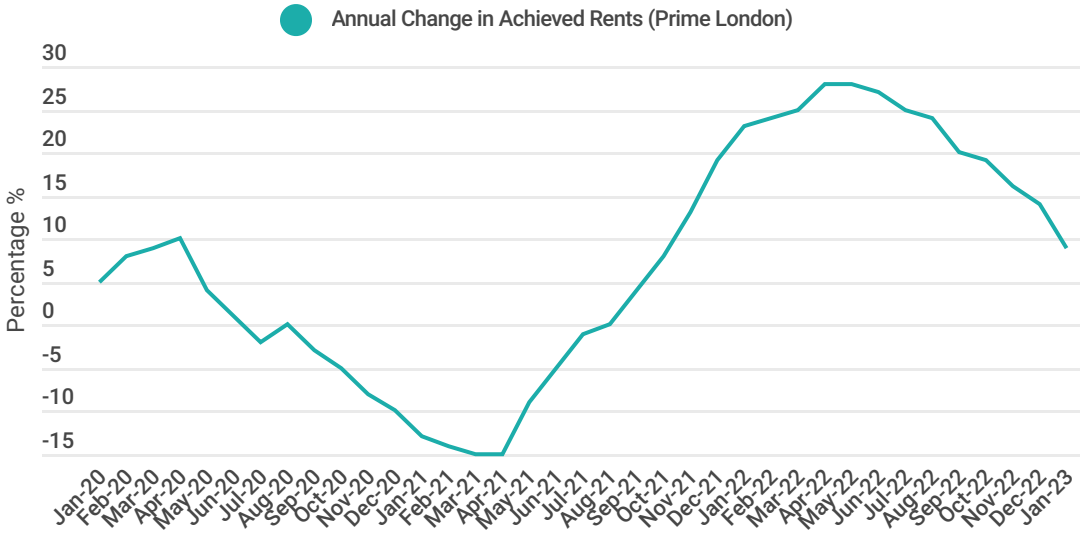
The last two years have seen a massive rise in rents from their early 2021 lows but there are some tentative signs that the rate of growth is easing and rents may even be levelling off. Demand for rental homes collapsed during the first year of the pandemic as domestic and international tenants left the capital.

Rents fell sharply and activity levels collapsed. However, the situation quickly reversed as people returned to London to live, work, and study. This resulted in a rapid recovery in rents – returning to their pre-pandemic levels in late 2021 and recording double-digit rental growth.

Over the last year, the constrained availability of homes to rent has severely limited activity in the market and pushed rents to new highs. In January 2023, rents were 18% higher than their pre-pandemic average. However, the rate of growth has eased and January saw it return to single digits for the first time since October 2021. It was still an annual rise of 9%.

There are also some tentative signs that rents have levelled off in recent months. However, this tends to be a quieter time of the year for the rental market and the lack of homes available to rent is still severe. A sustained slowing in rents would probably require a recovery in the number of homes available to rent or fall in demand. That appears unlikely in the immediate future.

Annual Change in Achieved Rents - Prime London



Source: LonRes

Analysis of LonRes data for this Monthly Briefing has been carried out by Neal Hudson of BuiltPlace - exclusively for LonRes - using data up to 31 January 2023.

*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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