

March 2023 Issue

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Realism on pricing is needed as  
the average discount to asking  
price widens across prime  
London...

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# Analysis of the rime London housing market: February 2023



## Highs and lows

Prime London sales were 9.1% below their pre-pandemic average but under offers (a leading indicator) were 10.5% higher.



## Falling prices

Prime London house prices have fallen 2.8% over the last 12 months and are just 1.7% above their pre-pandemic levels.



## Discount to asking price rises

With a weaker market, the average discount to asking price has increased, from -4.7% in July last year to -8.4% in February.



## Discounts increase with time

LonRes data shows the longer it takes to sell, the bigger the discount to asking price. The average discount for homes sold in under three months was -3.5% but this rises to -14.5% for properties that took more than one year to sell.



## Stock shortages continue

The rental market is still suffering from a severe shortage of stock. New lets are 59.4% lower than prior to the pandemic and rents are still rising, up 8.4% over the last year.

Source: LonRes

## Monthly prime data: February 2023

	Prime Sales Annual Change	Prime Sales Change Since 2017-19*	Prime Lettings Annual Change	Prime Lettings Change Since 2017-19*
Achieved prices/ rents	-2.8%	1.7%	8.4%	19.0%
Properties sold/let	-32.9%	-9.1%	-29.5%	-59.4%
New instructions	14.0%	23.6%	-4.5%	-48.7%

\*(pre-pandemic)

Source: LonRes

## Back to pre-pandemic...

The prime London housing market is showing signs of returning to pre-pandemic levels of activity. The latest data for February shows that while the number of properties sold during the month was 33% lower than last year, it was just 9.1% lower than the 2017-19 average. However, the number of properties under offer - a leading indicator for sales - was 10.5% higher than the pre-pandemic average. Meanwhile, the number of new instructions continued to rise: 14.0% higher than February last year and 23.6% higher than before the pandemic.

It's a similar story for prices across prime London. Recent falls in prices are similar to those recorded by national indices such as Nationwide. However, the prime London market has recorded much lower price growth than the national market since 2015 when stamp duty changes hit the top-end of the housing market hardest.

Even the recent housing boom of 2020 – 2021, while having a bigger impact on activity at the top-end, boosted prices more in lower value markets. As such, the relative under-performance in prices relative to the national average has continued with prime London prices in February just 1.7% above their pre-pandemic average and still 5% below their 2015 peak.

There are multiple reasons for prime London's underperformance in recent years but changes in taxation have been significant.

## Annual change in house prices



Source: LonRes and Nationwide

## Discount to Sell...

The national housing market has clearly weakened following the mini-budget chaos and the prime London market is no exception. With higher interest rates and lower levels of activity, it is no surprise that prices have eased. The headline measure of achieved prices in prime London are only down 2.8% over the last year. However, it is the discount to asking price that really highlights how pricing reality has changed relative to expectations over the last few months.

...achieved prices in prime London are only down 2.8% over the last year.

Source: LonRes

The average discount to asking prices in prime London had increased in the years prior to the pandemic. As the market weakened and prices fell, it eventually hit its biggest discount since the financial crisis in February 2019 at -12.8%. The market then rebounded following the pandemic and this led to a gradual narrowing in the discount with a low of -4.7% recorded in July last year. Since then, the discount has widened again and in February stood at -8.4%. This suggests that sellers are having to be much more realistic about pricing if they want to transact in this market.

## Prime London average discount to asking price



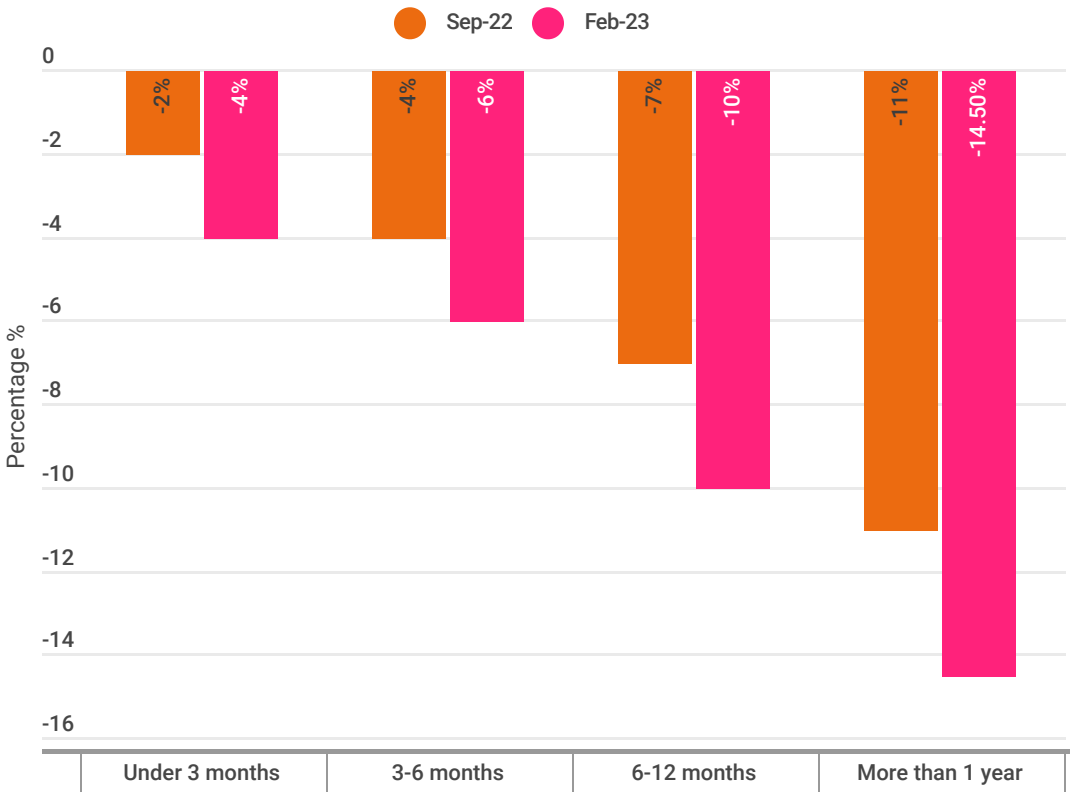
Source: LonRes

The need for realistic pricing is further highlighted by the average discount to asking price depending on how long it took for the property to sell. On average, the longer it takes to sell the bigger the discount to asking price is required.

In September last year, the average discount to asking price for homes selling in under three months was just -1.7% while the discount for homes taking between six and twelve months was -7.3%. The analysis suggests that getting the pricing right at the start of the process is key to a quicker sale while a property that struggles to sell may end up having to accept a significant discount further down the line.

Getting the pricing right in the current market is even more important. The latest data for February shows the average discount to asking price has increased irrespective of the time it takes to sell – highlighting that the overall trend is driven by an increase in the discount rather than an increase in the time to sell. The current discount for homes selling in under three months is now -3.5% while the discount for those selling in six to twelve months is now -9.6%.

## Prime London discount to asking price by time to sell



Source: LonRes

# Rental market continues to suffer from a severe stock shortage...

The lack of homes available to rent in prime London is severe. In February, the number of new instructions was 49% below their pre-pandemic average while the number of under offers was 51% and the number of new lets was 59% lower. This post-pandemic squeeze on activity shows no signs of abating and may be exacerbated by the current issues in the sales market as people are both forced or decide to hold off buying given the uncertainty in the housing and mortgage markets.

With stock in short supply, it is no surprise that average rents continue to rise. The latest data for February shows that they rose 8.4% over the last year and are now 19% above their pre-pandemic levels. That's similar to last month's figure of 8.2%. In most markets across the UK, affordability pressures should put an upper limit on rents. However, given the more international profile of the rental market in central London, it is less clear what mechanism could reverse this situation in the short term beyond an unexpected collapse in demand.

## Measures of rental activity in prime London



Compared to Same Month in 2017/19 | 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 28 February 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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