PRIME LONDON MARKET UPDATE

July 2020

With the Chancellor announcing cuts to stamp duty, set to run until the end of the financial year, this effectively puts an extra £15,000 in the pockets of those looking to buy a home at £500,000 or more. While for many buying at the upper end this will not be the deciding factor in whether or not they choose to buy now, it does add some reassurance that the government remains committed to the ongoing success of the UK housing market and will, we hope, lead to further increases in activity in the coming months.

And the market does have some ground to make up. With the UK locked down between mid-March and mid-May effectively putting the sector on hold, we saw significant falls in deals agreed and new stock reaching the market, particularly for sales.

Of course, the market will take some time to get back up to speed. But we are seeing encouraging signs. In the sales market properties going under offer are increasing and a relative lack of stock is supporting prices.

For lettings, the market is more challenging. Levels of supply are exceeding demand which leaves tenants in a strong position to negotiate.

SALES

Buyers still cautious but constrained supply levels mean prices hold firm

With half of the second quarter spent in lockdown we have seen far fewer exchanges and new listings, meaning analysis of our prime London data is more challenging than usual. And with little activity from mid-March to mid-May the impact of the pausing of the housing market will impact our statistics for some time yet.

With the prime housing market effectively closed for two months, we saw pent-up demand build, both from purchasers and those looking to list their properties for sale.

As lockdown eased, those people who had, a few months earlier, delayed their purchasing or selling decision started to return adding much needed activity into the prime market. That said, pent-up demand alone will not be enough to sustain growth. New entrants to the market are needed to continue the momentum through summer and beyond. We are hoping that the recent stamp duty announcements will help support this.

At LonRes one measure of demand we use is the number of new searches registered by buying agents and the (committed) purchasing power of those looking to transact. Since lockdown was eased in mid-May buying agents registered buyer requirements for more than £1.2 billion worth of searches. This equates to more than £22 million a day - significantly higher than both during and prior to lockdown.

Fewer properties put under offer when the market was locked down will impact our transaction figures for some time yet. Sales, measured by LonRes on exchange date, are still significantly lower than we would expect at this time of year. With June figures showing 47% fewer exchanges than in the same month a year ago. But this reflects the lack of activity in the preceding months rather than reflecting buyer appetite now.

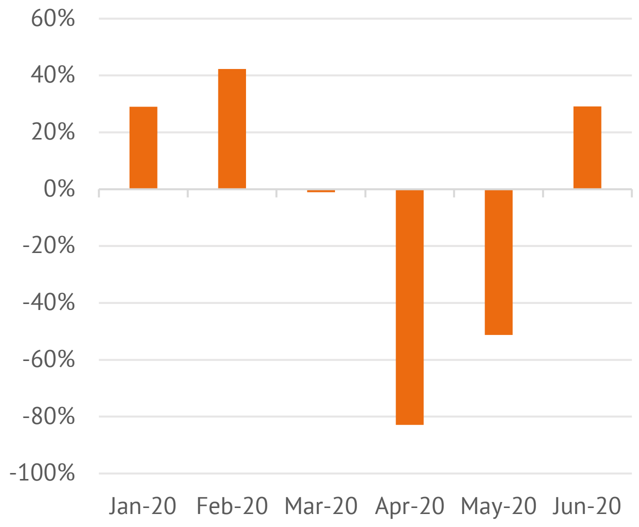
Comparing properties put under offer provides a more immediate indicator of buyer demand and confidence. And this does appear to be improving. Properties going under offer in June recovered to within just 5% of levels seen a year ago.

A lack of new instructions over lockdown has meant we have not seen a flood of new stock coming to the market. New listings rose in June, with a 29% increase in homes reaching the market for sale compared with the same month last year. A proportion of which we would ordinarily have seen come forward in April or May. Even with the increase in new instructions in June there are just 5% more properties on the market now than at the same point a year ago.

With fewer sales it is more difficult to assess changes in achieved prices. For now, it appears the increase in prices recorded in the first quarter, up 4.7% on Q1 2019, have stalled, with prices in the second quarter this year down 0.5% on Q1 and 1.2% higher than the same quarter last year.

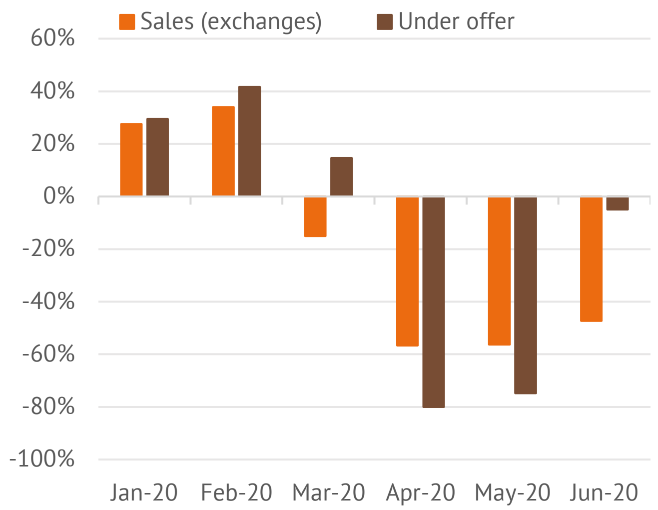
Looking ahead it is important to remember prime London pre-lockdown was just starting to emerge from a five-year period of falling prices and buyers were seeing value. The lack of forced sellers will leave some bargain hunters disappointed, but it bodes well for stability in the market over the coming months.

New sales instructions – annual change



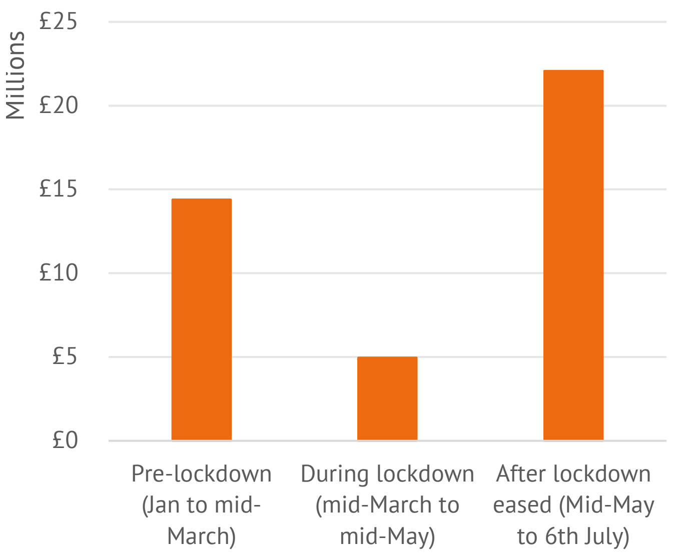
Source: LonRes

Transactions and under offer – annual change



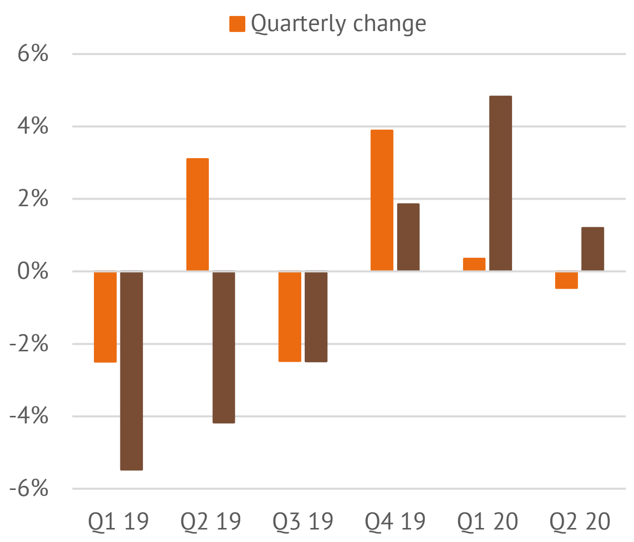
Source: LonRes

Average daily value of buying agent searches



Source: LonRes

Change in achieved prices



Source: LonRes

LETTINGS

Stock levels increase further for prime rentals putting downward pressure on rents

Despite lockdown, the number of rental properties reaching the market to let in the second quarter of 2020 was just 2% down on the same period a year ago. Under normal circumstances this would not have been an issue, but with fewer tenants looking to secure a new home stock levels continued to build over the second quarter. At the start of July, across central London there were 53% more properties available to let than at the same point a year ago.

In the second quarter the number of new lets fell by almost two thirds (63%) on the same period last year. But volumes increased in June, with double the number of properties let compared with the previous month.

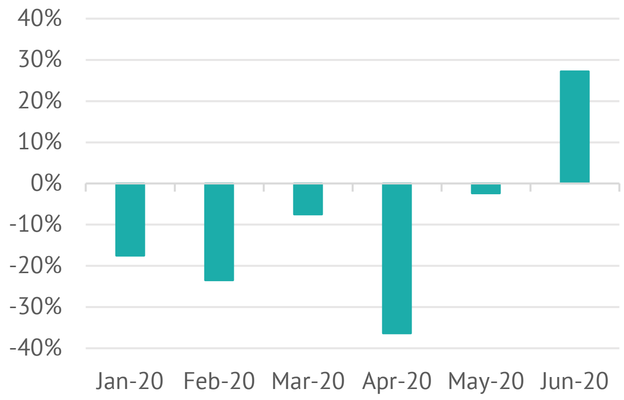
Despite an increase over the previous month, volumes let in June were still 49% down on the same month a year ago. As the market opens up we would expect the number of prospective tenants to rise, but with fewer workers returning to their London offices, at least for now, demand needs to increase further to absorb excess stock currently listed to let.

The lettings market does tend to react more quickly to fluctuations in stock levels, with an increase in choice for tenants generally resulting in a softening of achieved rents. The latest figures from the LonRes Prime London Lettings Index showing rents fell 4.7% across our three prime catchments in Q2 2020 compared with the previous quarter. Rents over Q2 2020 are on average, 0.7% lower than they were the same three months a year ago. Taking June in isolation also shows a fall in rental values, with average prices paid in June 2020 down 4.6% on the same month a year ago.

For now, high levels of rental stock mean prospective tenants have choice and are in a strong position to negotiate. Landlords, keen to secure a good tenant are reducing their asking prices and entertaining higher discounts. The number of properties where the asking price has been reduced rose in June to 39% of lets, up from 30% in May and 23% at the start of 2020. Average discounts increased too, with tenants negotiating an average of 7.1% off initial asking rents in June, up from 4.5% at the same point a year ago.

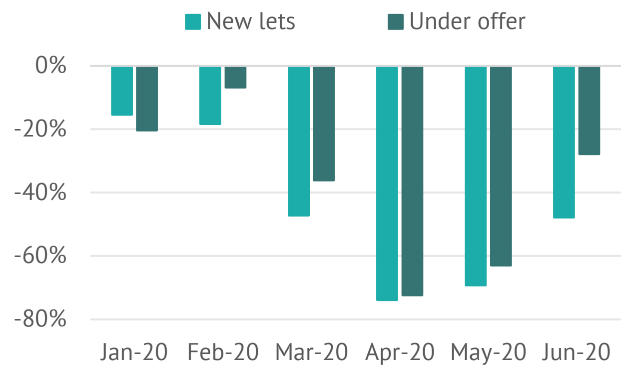
Looking ahead we will be keeping a close eye on levels of demand from new tenants to assess whether the current imbalance in stock and demand is a short-term, post-lockdown blip or a more fundamental shift in demand. What is clear is that until we see greater parity between demand and levels of rental stock we can expect further downward pressure on rents to come.

Lettings instructions – annual change



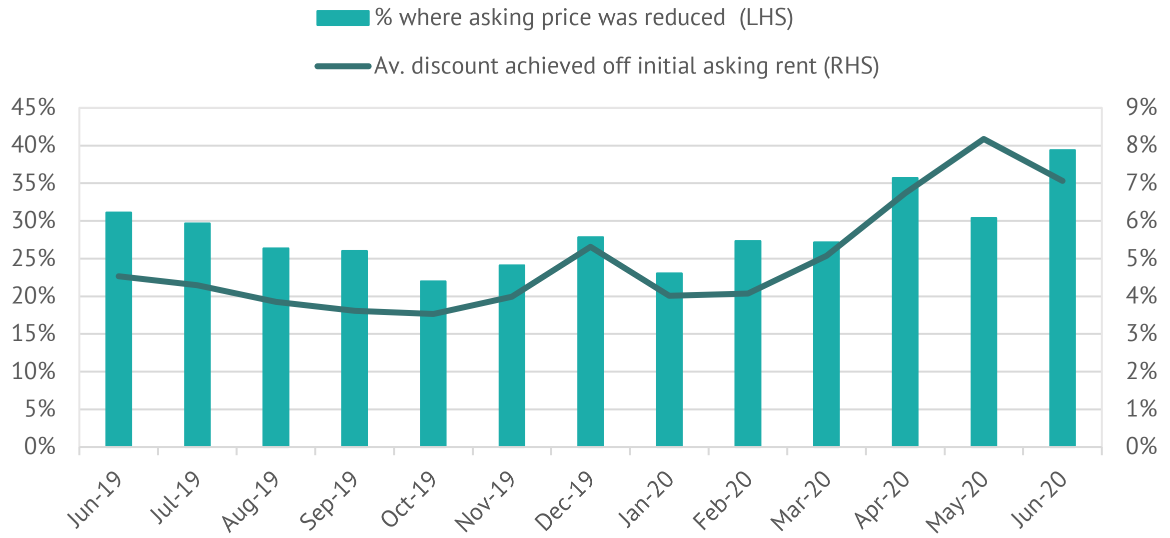
Source: LonRes

New lets and under offer – annual change



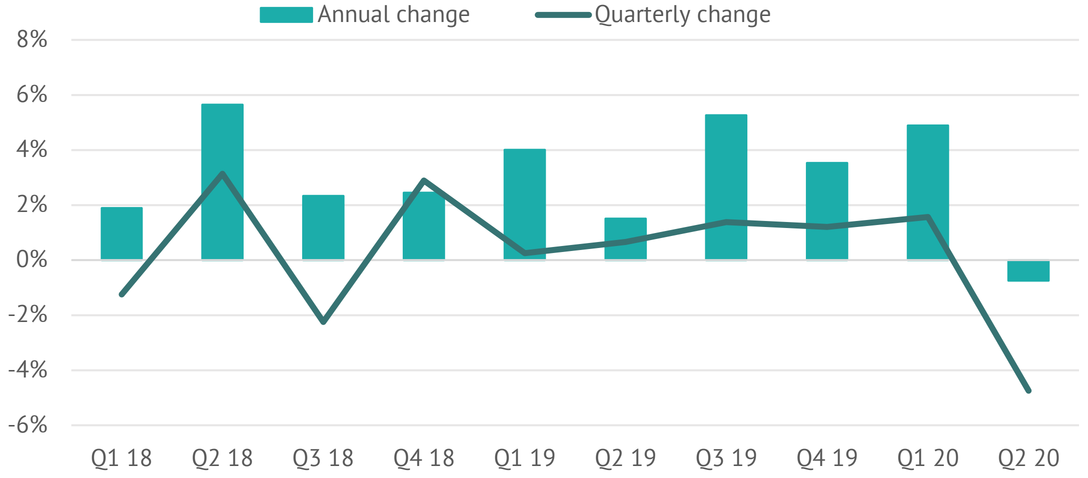
Source: LonRes

Properties let – Average discounts and price reductions



Source: LonRes

Change in LonRes Prime London Lettings Index



Source: LonRes

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Central London analysis includes properties within:

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.
Prime Fringe: SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10.