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PRIME LONDON MARKET UPDATE

AUTUMN EDITION 2024

SHERWOODS INTERNATIONAL PROPERTIES

INTRODUCTION

The third quarter of the year is typically a mixed one for the prime London sales market, often starting with a quiet summer followed by a flurry of September activity. 2024 has not quite stuck to that script, with the usual rhythm upset by a surprise early general election right at the start of the quarter. We had a busy July, even quieter than usual August, and then September picked up again.

I highlighted previously that the resounding Labour win could provide a 'sense of stability' that would benefit the housing market, but that didn't last very long. Instead, we have seen a protracted lead-up to their first Budget and increasingly dire warnings about the state of the economy – not the best way to rebuild confidence.

This has impacted the top end of the market in particular, with increasing numbers of vendors looking to sell ahead of potential tax increases. Meanwhile, buyers are cautious, preferring to wait and see. And for those buyers who remain active, there's a lot of properties for them to choose from and they can afford to be, and are being, discerning. Whether the tax rises materialise or not, to some extent the damage to the important Autumn selling season has already been done thanks to the large gap between election and Budget.

Given this background, the wider prime London sales market has performed reasonably well. Average values haven't returned to growth, but the falls have slowed. Transactions in Q3 were slightly ahead of last year but more promisingly under offers have increased significantly. The improved mortgage market is likely to have played a part here, with rates on some deals falling below 4% following the base rate cut in August. But any return to the mortgage rates of c.1% seen in the latter half of the previous decade are unlikely based on current financial market expectations.

The prime London lettings market plotted a steadier course in Q3. Available stock is gradually recovering from the lows of the last couple of years, but in general limited supply continues to constrain activity. Newly agreed lets over the third quarter fell compared to last year, failing to build on the growth over the first half of 2024.

The outlook for the end of the year is in the balance. If the Budget delivers all the promised bad news, we could see sales activity slow down again, particularly at higher price points. If it turns out to be more bark than bite, we could see some pent-up demand unlocked and another twist in an up and down year, before the market finally settles.

- Nick Gregori, Head of Research, LONRES

Source: LONRES

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OVERVIEW

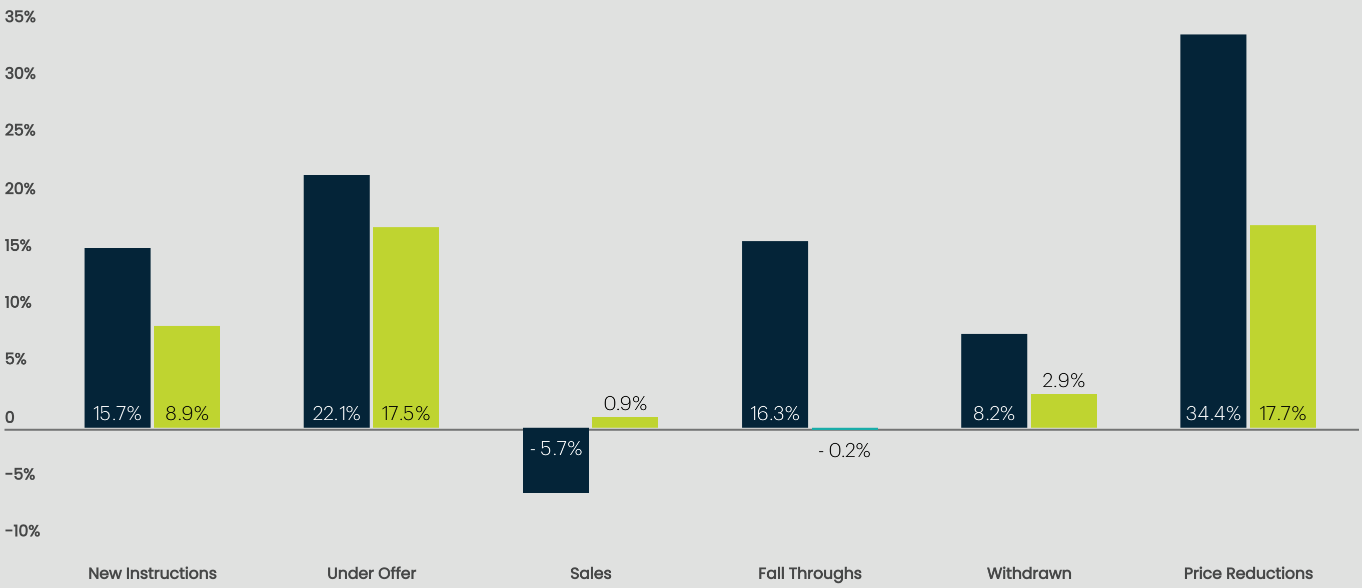
SALES MARKET

The third quarter of 2024 may have seen a new government, but the prime London property market broadly continued in line with recent trends. In short, that means static or slightly declining prices and activity, set against growing supply.

However, the signs from the past few weeks are that the market has improved following its usual summer hiatus, with under offer numbers in particular pointing to a recovery in sales volumes in Q4.

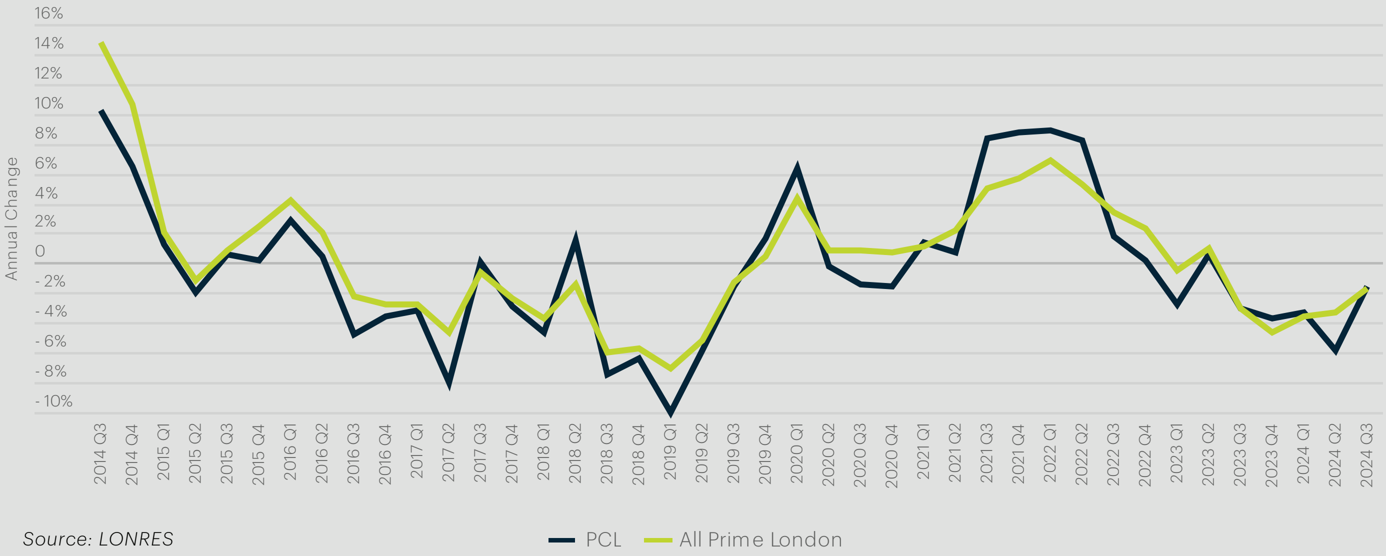
Transactions across prime London rose by 0.9% in Q3 compared to the same period last year, despite a 5.7% fall in September. New sales instructions increased by 8.9% on an annual basis in Q3, so in this context the sales growth appears low. But it takes time for deals to proceed to exchange. Under offer numbers are a timelier measure of demand and they have grown significantly through the last quarter, potentially signalling healthy growth in sales over the closing months of the year.

Chart 1 – Activity Measures Across Prime London
Compared to Same Period Last Year



Source: LONRES

Chart 2 – Average Annual Change in Achieved Sale Price



Source: LONRES

With 2024 so far seeing instructions rising and sales static, the volume of available stock on the market has been steadily growing. Across prime London there were 12.7% more homes for sale at the end of September than a year earlier and the total number is the highest it's been since the pandemic-affected market of mid-2020.

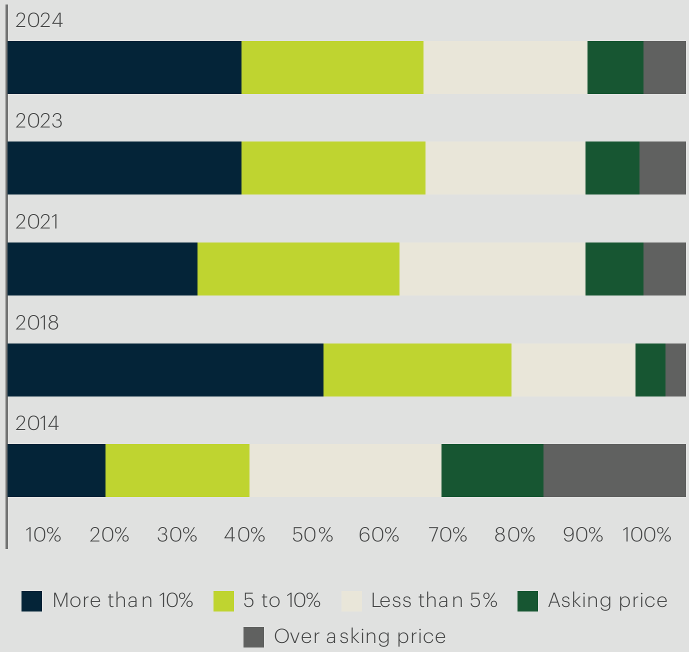
Our metrics looking at the properties that don't sell suggests some weakness in the market. Fall throughs in Q3 were unchanged from last year (-0.2%) and there was a slight rise in withdrawals (+2.9%) over the same period. But both increased more sharply in September.

The number of price reductions has been growing too, with a 17.7% annual increase in Q3 and 34.4% in September alone. This suggests that vendors remain motivated to sell and that there are limits to the scale of buyer demand – they can afford to be selective.

The recent pick up in demand appears to have helped slow the price falls seen over the past few quarters, with an annual drop of 1.7% recorded by the latest LonRes Prime London Sales Index. The annual change in prime central london improved the most, up to -1.6% from -5.9% last quarter. With stock on the market continuing to rise.

15% **of properties sold at the asking price or higher**

Chart 3 – Distribution of Discounts Relative to Initial Asking Price, All Prime London, Selected Years



Source: LONRES

Data on discounts are an additional guide to the supplydemand balance in the market at a given time. For the properties sold in 2024 to date across prime London, over 60% achieved less than 95% of their initial asking price (chart 3). A further 24% sold below asking but within 5% of it, while 15% sold at the asking price or higher. This pattern is identical to 2023 and similar to the stronger market of 2021 (when 58% sold for less than 95% of initial asking price). The weakest year in recent times was 2018, where over 90% of deals failed to achieve asking price. The strongest was 2014 where 36% of sales were at asking price or above.

SALES

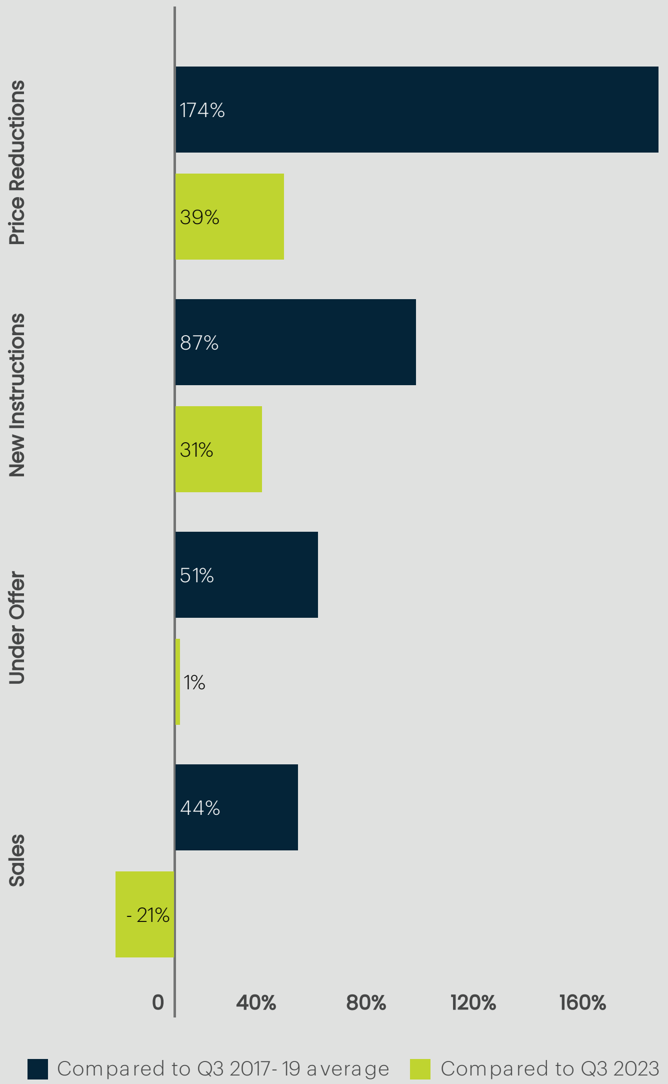
TOP END OF THE MARKET

The latest data indicates a slowdown at the top end of the market, with high supply and weaker demand in Q3 2024.

New £5m+ instructions rose by 31.5% compared to Q3 2023 and at the end of September there were 27.8% more properties for sale than a year earlier. Transactions in Q3 were 20.6% lower than at the same time last year while under offers were 1.4% higher over the same period.

However, taking a longer view and comparing the market to pre-pandemic trends looks more positive. Relative to the 2017-2019 Q3 average, new £5m+ instructions were up 86.5%, under offers were up 51.0% and sales were up 44.1%. Price reductions were up 173.8% (chart 4). There were 67.7% more £5m+ homes on the market at the end of September compared to five years earlier (30 September 2019).

Chart 4 – Measures of £5m+ Market Activity, Q3 2024



Source: LONRES

This wider context shows that the £5m+ market has grown notably compared to pre-2020. While demandhas fallen compared to 2021 through 2023, it is more the case that it was exceptionally high and returned towards normal this year rather than falling away significantly.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OVERVIEW

LETTINGS MARKET

The prime London lettings market was subdued in the third quarter of the year, with rents falling on a quarterly basis and activity down on Q3 last year based on both new instructions and agreed lets.

A lack of supply is likely a key limiting factor for volumes, as other indicators such as discounts and time on the market suggest demand remains relatively high.

In a reversal from the first half of the year, Q3, saw new instructions and agreed lets fall relative to the same period last year, by 1.5% and 7.4% respectively (chart 5). Properties available to let have been increasing but this is off a very low base.

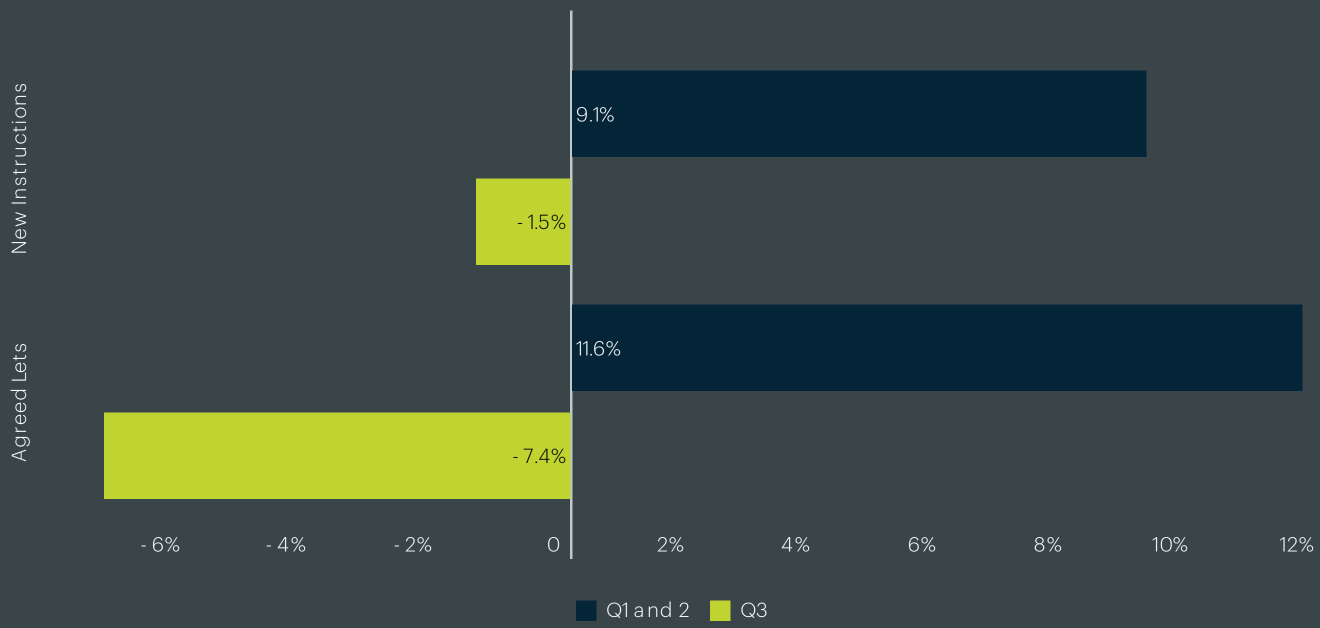
There were 8.9% more homes on the rental market across prime London at the end of September than a year earlier, but the current level is around half of that from five years ago (-47% vs end of September 2019).

8.9% More homes on the prime London rental market at the end of September 2024 vs September 2023

-47% More homes on the prime London rental market at the end of September 2024 vs September 2023

Source: LONRES

Chart 5 – Activity Measures Across Prime London
(Compared to Same Period Last Year)

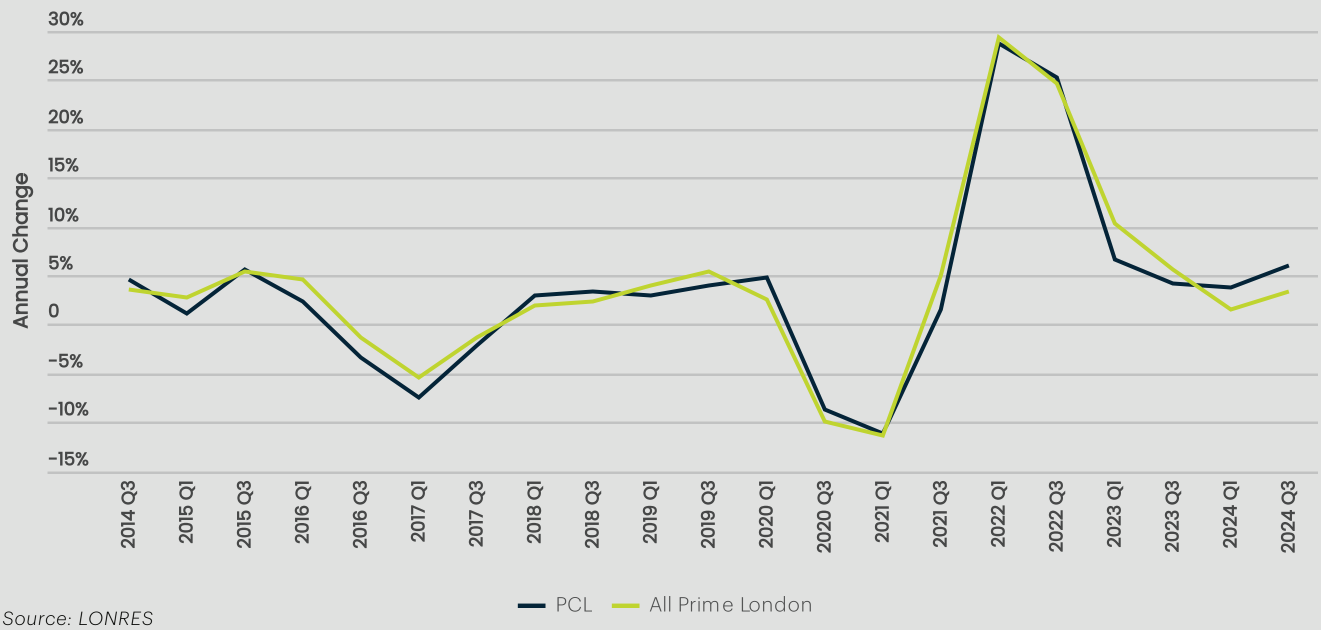


Source: LONRES

The latest LonRes Prime London Rental Index recorded a quarterly fall of -1.1%, although this translated into annual growth increasing to 3.3% due to last year's price movements. More generally, it is clear that rental growth has slowed from the high levels seen in 2022, despite an ongoing lack of supply.

Broken down by area, inner prime London – which includes areas such as Marylebone and St John's Wood – was the best performer in Q3 with quarterly growth of 0.4%, while prime central London recorded the highest annual growth of 6.1%, reversing the falls seen through 2023.

Chart 6 – Average Annual Change in Achieved Rents

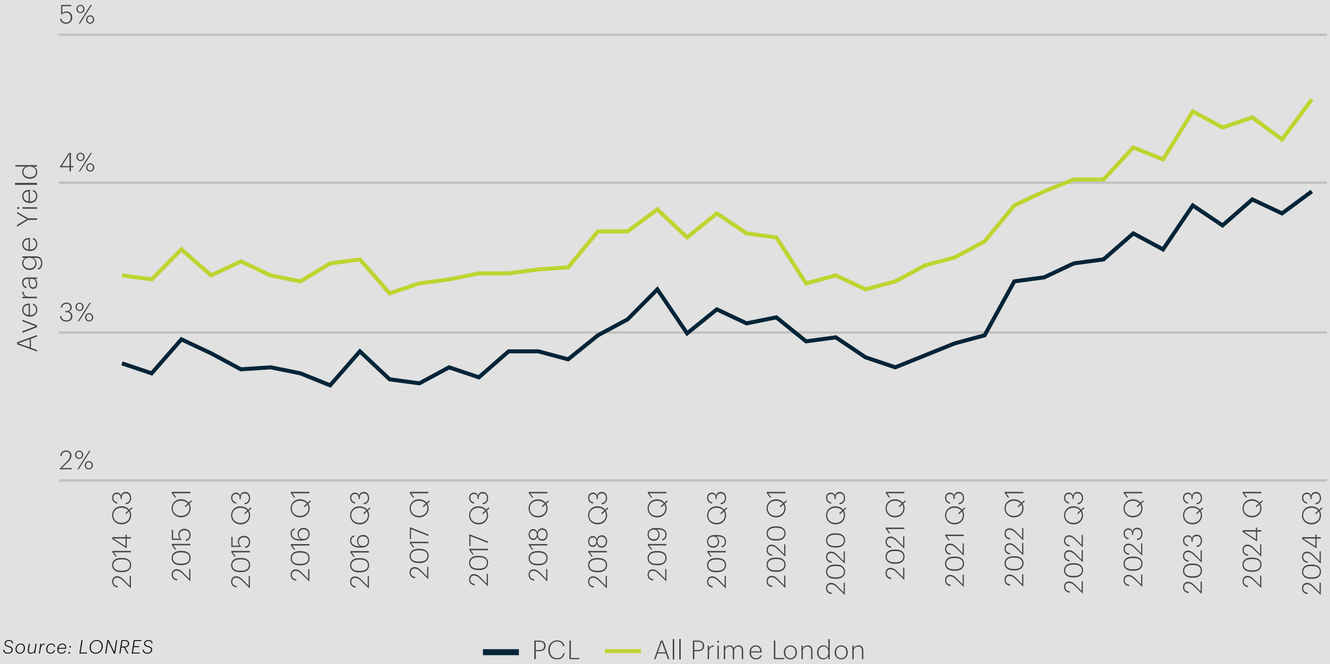


Source: LONRES

Yields across prime London have increased since 2021, as a result of strong rental growth combined with static or slightly declining capital values. Although rental growth has slowed, this pattern has continued over the year.

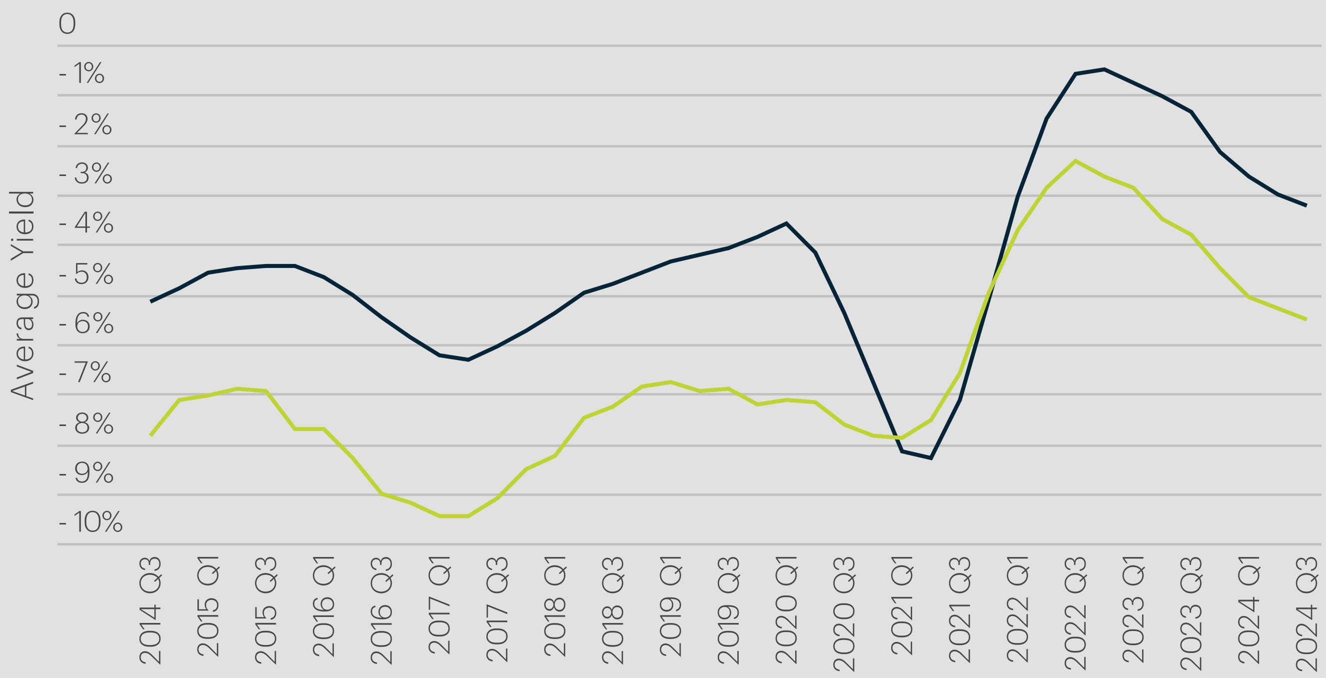
The average yield across prime London in Q3 was 4.56%, up from 4.29% in Q2. The wider context is that yields remain well above their 2014 – 2020 levels when they averaged around 3.5% and were stable for much of the period.

Chart 7 – Average Annual Yields



Source: LONRES

Chart 8 – Average Discount from Initial Asking Rent, All Prime London



Source: LONRES

With supply remaining constrained, the true level of demand in the market may be disguised – the properties that tenants want to live in are simply not available. Alternative indicators such as time on the market and discounts suggest that demand is slightly less strong than it was in 2022 and 2023 but higher than pre-pandemic trends.

The average time on the market in Q3 was 58 days compared to 52 in Q3 last year and 72 days for 2017 to 2019. Following a similar pattern, the average discount to asking rent in Q3 was 2.2% compared to 1.4% last year and 4.2% for 2017 to 2019.

The gap in discounts between flats and houses closed in 2021 as demand for flats fell following the pandemic (chart 8), but has mostly returned as the market came back to normality. Five years ago, in Q3 2019, the average flat let for 3.3% under asking price compared to 6.0% for a house. In Q2 2021 this gap had reversed to 7.3% for flats and 5.4% for houses.

58 days **The average time on the market in Q3**

Source: LONRES

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SALES & LETTINGS

NEIGHBOURHOOD NUMBERS

As always, the averages across our all-prime London catchment hide some significant variations at neighbourhood level. Here we highlight some local market trends for the year to date.

On average, a single square foot of prime London property is currently worth around £1,300. However, the average this year in our Mayfair & St James's catchment is almost double that at £2,388. The highest achieved value in this area is triple that average at more than £7,000. In Marylebone, this year's highest value sale achieved over £5,500 per sq ft, more than three and a half times the local average. The top end of the market in both these areas has grown thanks to recent luxury developments (*figures are confirmed sales 2024 year to date and exclude short leases).

The lettings market offers similar contrasts. Average weekly rents range from less than £350 for a studio flat in Hampstead to almost £4,000 for a three or more bedroom flat in Mayfair & St James's.

£7,133

Highest achieved £ per sq ft in Mayfair & St. James's

£2,388

Highest achieved £ per sq ft in Mayfair & St. James's

£1,269

Average achieved £ per sq ft across prime London

Source: LONRES

NEIGHBOURHOOD NUMBERS

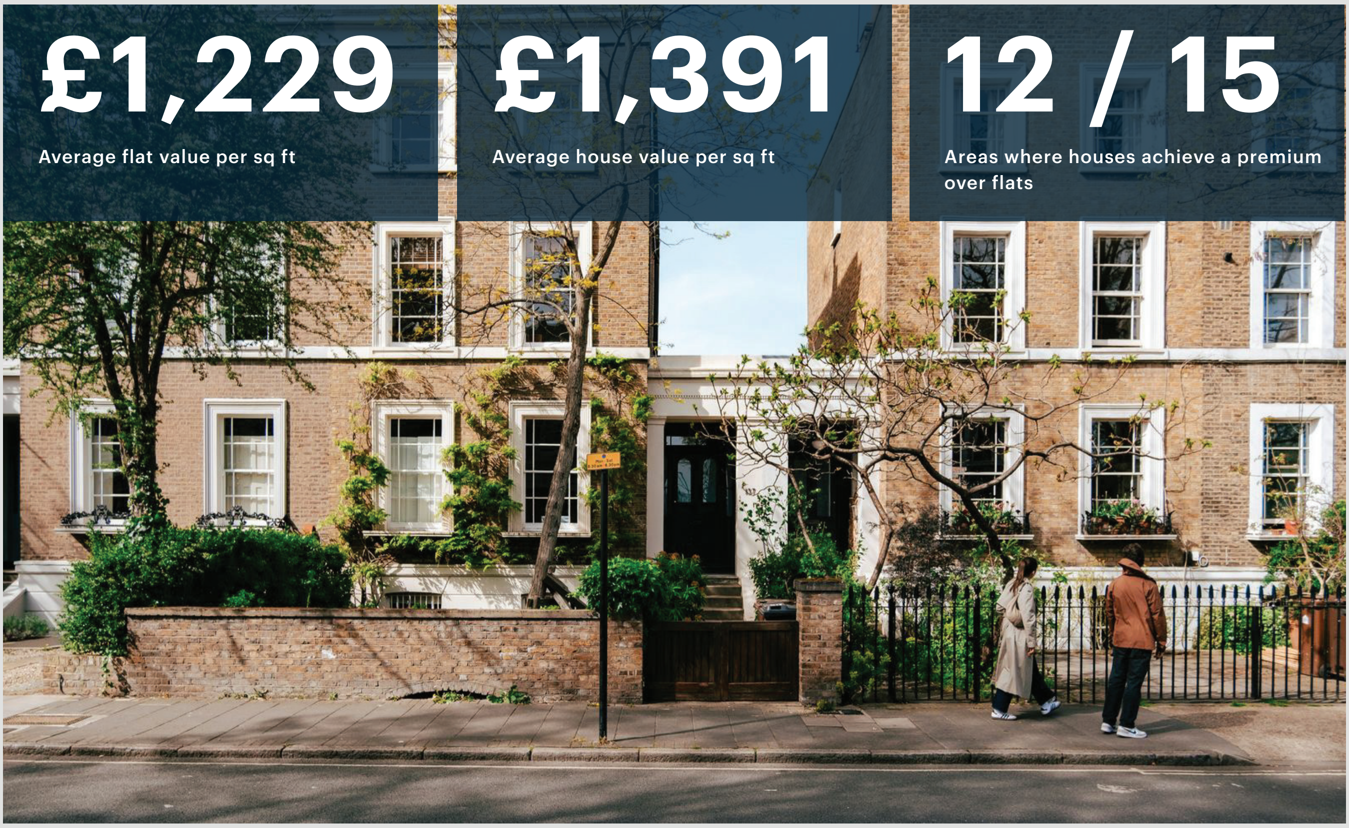
SALES HOUSES vs FLATS

Across prime London this year, houses achieved a value premium per of £162 per sq ft over flats, but this trend doesn't apply to every local area.

In Chelsea, houses achieve a £407 per sq ft premium over flats while in neighbouring Fulham & Earls Court this falls to only £11.

Overall, average values per sq ft are higher for houses than flats in 12 out of the 15 local markets comprising our main prime London catchment.

In St John's Wood *(*Includes Regents Park and Primrose Hill)*, houses this year have sold for an average of £429 more than flats, a premium of almost 40%. Of the three areas where flats command a premium, Mayfair & St James's is the largest at £167.



£1,229
Average flat value per sq ft

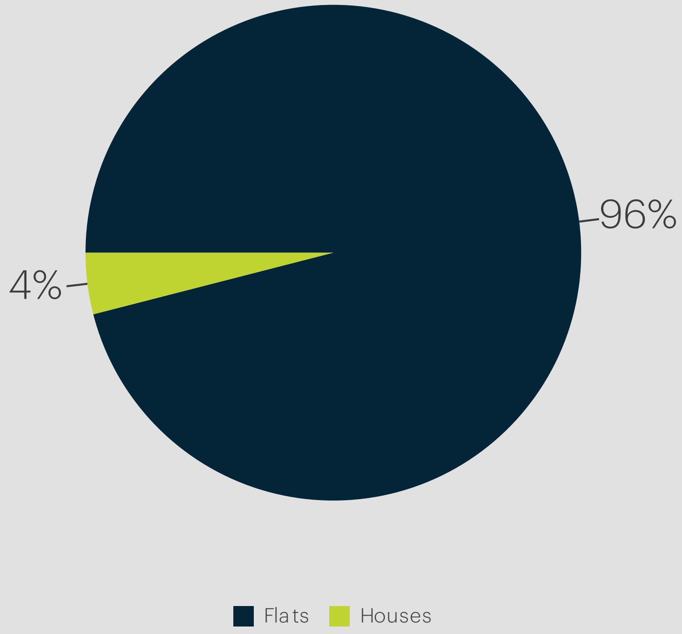
£1,391
Average house value per sq ft

12 / 15
Areas where houses achieve a premium over flats

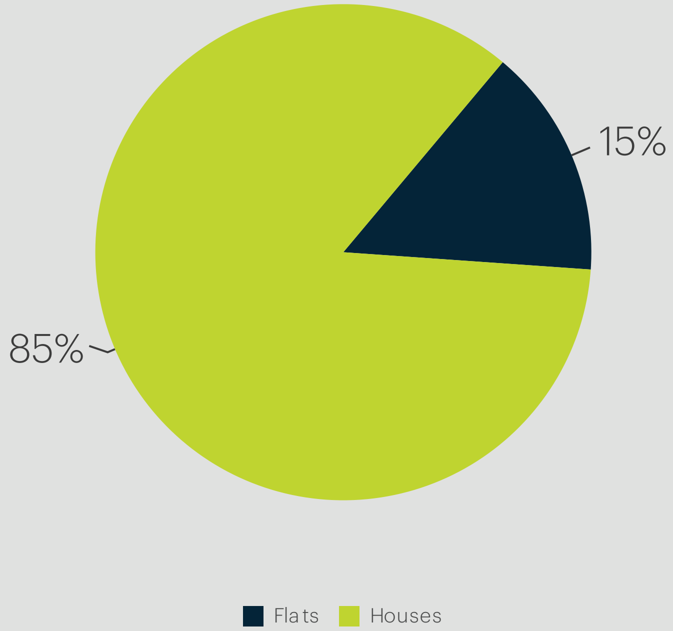
Source: LONRES

SALES BY TYPE IN

FITZROVIA, BLOOMSBURY & SOHO



HAMMERSMITH & BROOK GREEN, CHISWICK, NORTH KENSINGTON



Source: LONRES

Across prime London, houses made up 42% of £1m+ sales over the first nine months of this year. At neighbourhood level this figure ranged from 4% in Fitzrovia, Bloomsbury & Soho to 85% in Hammersmith & Brook Green, Chiswick and North Kensington.

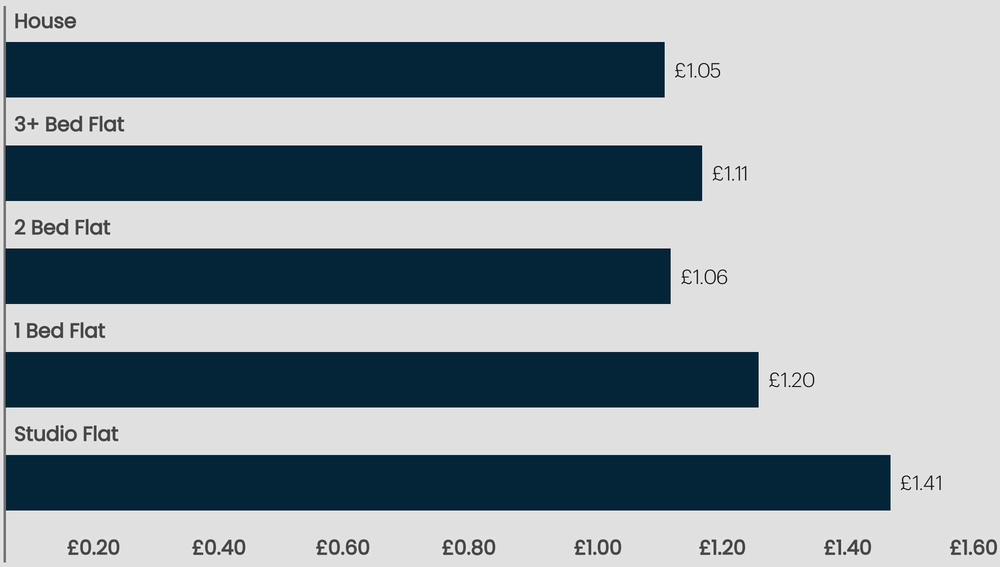
NEIGHBOURHOOD NUMBERS

LOCAL LETTINGS

The local lettings markets across prime London also vary significantly from the overall average. The average achieved weekly rent for a 2-bed flat so far this year across the whole catchment is £920, while at neighbourhood level this varies from £594 to £1,718.

Studios have the highest average rents per sq ft in 13 out of 15 areas, and across prime London command a significant premium compared to other property types.

Average achieved rental £ per sq ft per year by property type, all prime London



Source: LONRES

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LET'S CONNECT!

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