LON RES

# PRIME LONDON MARKET UPDATE

August 2021

# Introduction

A month on from a record-breaking June, the impact of the stamp duty holiday is still with us. July saw fewer exchanges, as sales which under normal conditions would have occurred this month were pushed forward into June.

The difference between June and July was most stark at the lower end of the market, with the volume of sales under £1 million experiencing the highest annual fall in July. In contrast, the top end of the market (above £5 million) saw more sales this year than last, implying that buyers at this level appeared less inclined to be a part of the conveyancing scrum leading up to 30 June.

More properties were sold and let between January and July this year than in the same period in 2019

The lettings market was quieter than usual in July too. We saw fewer new properties reach the market and the number of new lets agreed, normally rising at this time of year, were no higher than levels seen in May and June. But, fewer new instructions have meant stock levels continue to fall and rents, which bottomed out in February, are continuing to increase. That said rents remain lower than in early 2020.

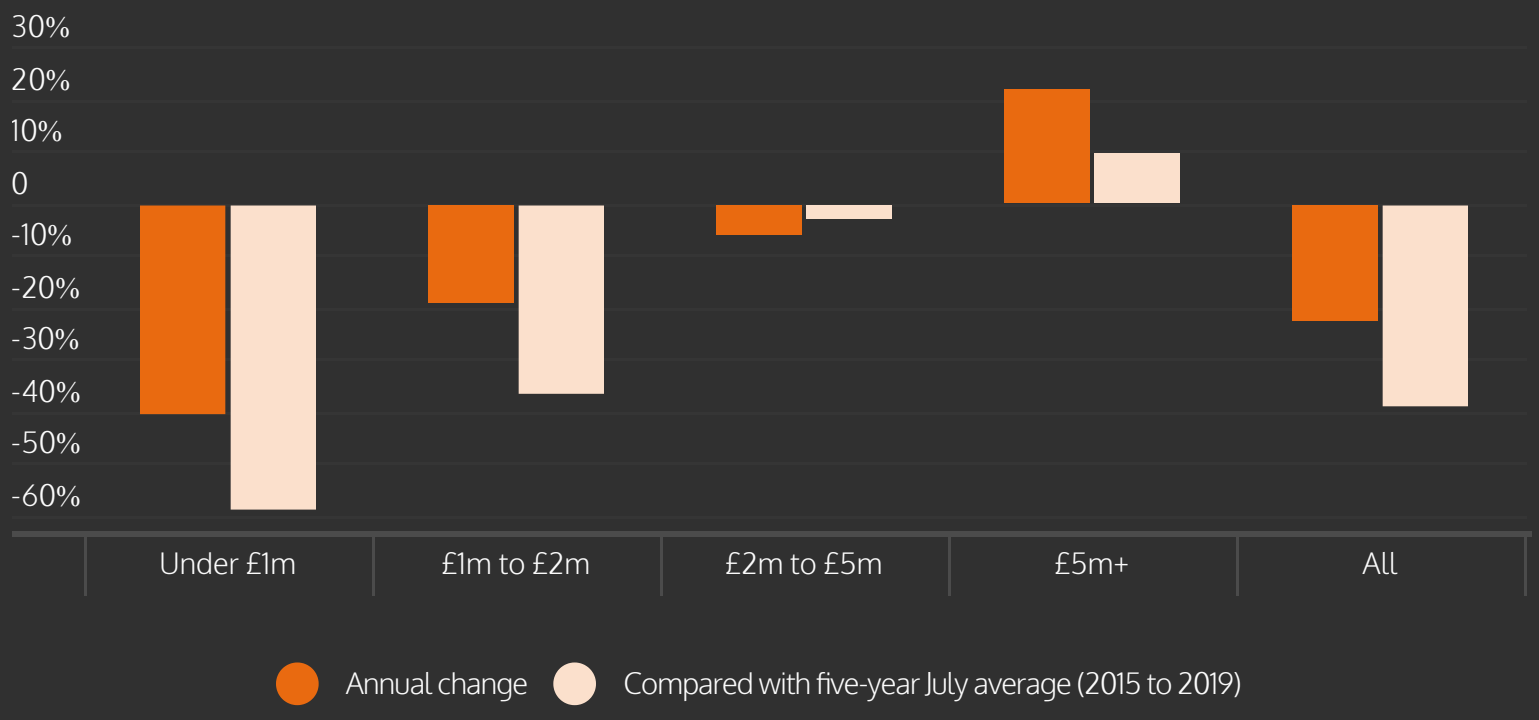
# Sales market

After a record-breaking June, we were prepared for a slow July market. The lure of a £15,000 stamp duty saving meant many deals were pulled forward into June. Over July, the number of properties sold fell 22% on July 2020 and was 39% down on the five-year July average (2015 to 2019).

It was properties in the lower price brackets that saw the greatest fall in sales. Not surprising as this is where stamp duty savings made the biggest difference to a purchaser's overall bill. The number of properties sold below £1 million was down 40% on July 2020 and 58% lower than the 2015 to 2019 July average. The number of sales between £1 million and £5 million also lagged behind both the 2020 and long-run averages in July.

2021 reported the highest number of July sales at £5 million or more since 2015

## Transaction volumes by price band - July 2021



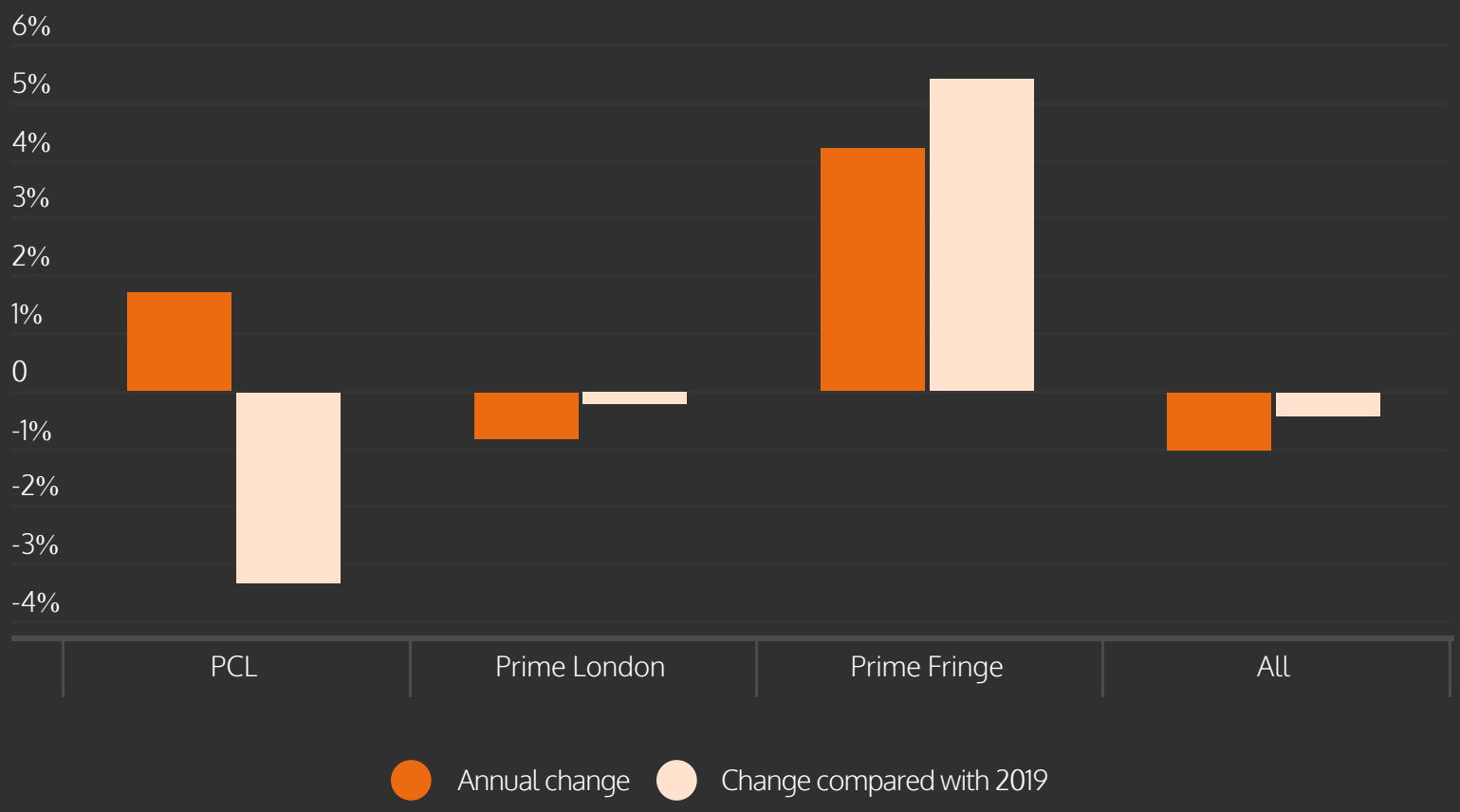

Source: LonRes

Activity at the top end of the market increased, with stamp duty savings accounting for a negligible amount of the overall buying costs. The number of properties sold at £5 million or more was 22% higher than July 2020 and 9% higher than the five-year average between 2015 and 2019. Indeed, the number of July sales this year at £5 million or more was the highest since 2015.

As the market settles prices have been impacted too. A higher proportion of more expensive homes sold in July has distorted average prices this month. The opposite of what we saw in May and June when a higher proportion of lower-priced properties changed hands. This reflects the difficultly in reporting monthly price changes which can be jumpy. Average prices rose 15% annually in July following a 6.2% annual fall in June.

Setting aside these more erratic monthly price changes, comparing prices achieved over the last three months provides a more accurate picture. Across prime areas of London prices in the three months to July were down 1% on July 2020. Prime fringe areas, popular with domestic buyers, again saw the highest annual increase, with prices up 4.2% on 2020 and 5.4% higher than 2019.

## Change in achieved prices - May to July 2021




Source: LonRes

Last year, the stamp duty holiday announcement on 8 July led to a surge in new instructions and under offers, compounded by an increase in new listings following the first lockdown between March and May. This makes comparing July 2021 with July 2020 misleading. While July this year looked particularly quiet compared with 2020, the reality is that new instructions and properties going under offer over the month were much more in line with the long-run average.

Our under offer data, which provides us with a robust indicator of sales activity over the coming months, shows the number of properties put under offer was down just 1% on the 2015 to 2019 July average and 8% down on 2020, when activity was recovering as the market re-opened. New instructions were also up - by 6% on the five-year average (2015 to 2019) and by 5% on July 2019. However, new instructions did fall short of 2020 levels, down 23%, when stamp duty incentives and lack of activity over the first lockdown brought more homes to market.

Looking ahead, the point at which overseas buyers are able to return to the prime market on mass is still uncertain. However, until then, a good pipeline of new instructions and under offers support a positive outlook for the prime market this autumn.

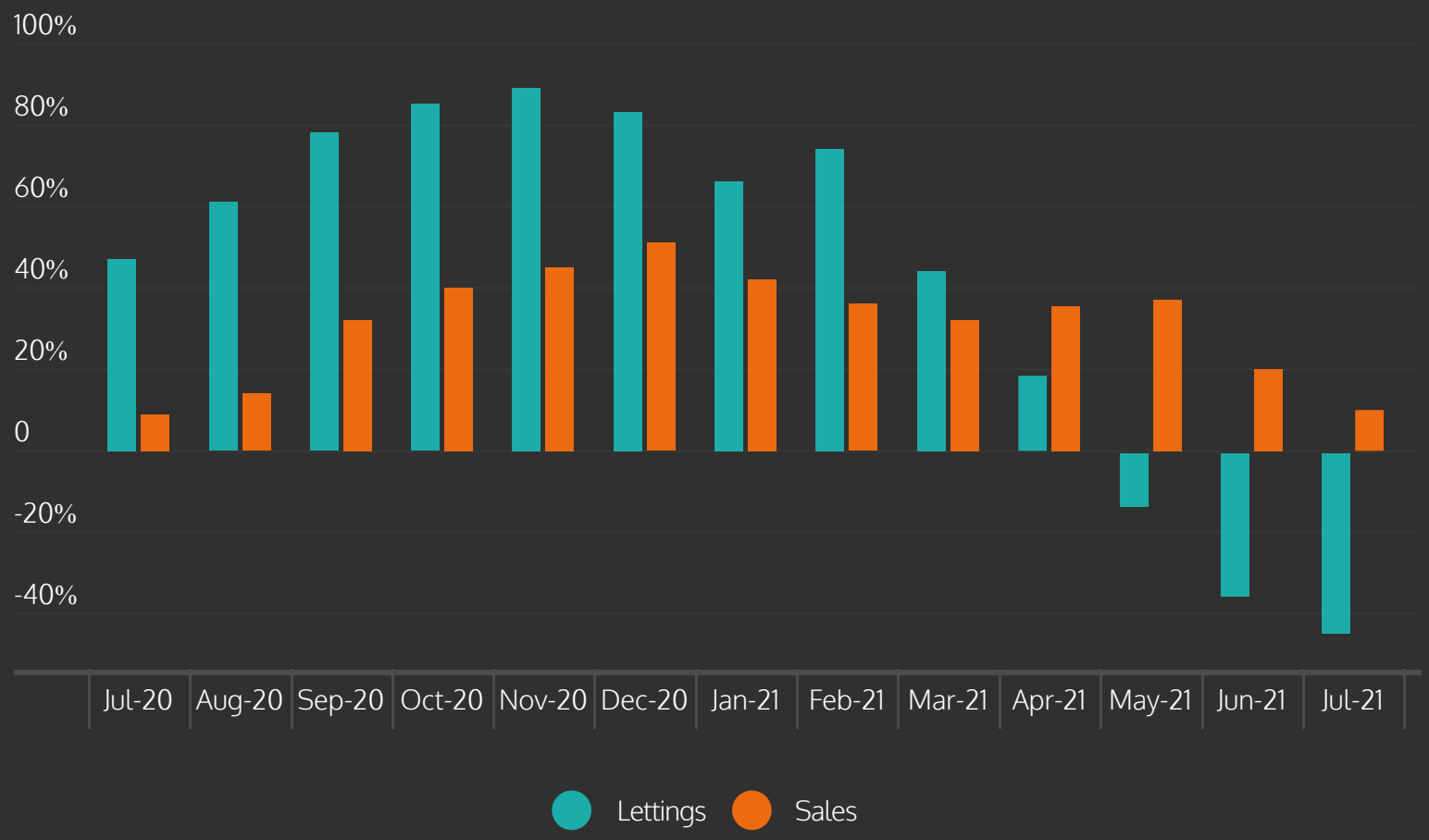
# Lettings Market

A year ago, the prime London rental market saw stock levels rise sharply. The imbalance between available stock and demand led to a rapid fall in achieved rents as landlords competed for tenants. This year, we have seen stock on the market to let return to more manageable levels, with 44% fewer properties available now than at the end of July 2020.

This fall in lettings stock has more to do with a reduction in the number of new instructions than an increase in new lets. The number of properties listed to let in July was down 32% on the same month a year ago and 46% lower than the five-year 2015 to 2019 July average. Indeed, the number of new instructions so far this year was down 8% on 2020 and 25% lower than the 2015 to 2019 average between January and July.

July recorded a 4.3% annual increase in achieved rents

## Annual change in stock on the market




Source: LonRes

With fewer new listings, less stock and an increase in demand, rents have begun to recover. July recorded a 4.3% annual increase in achieved rents. Prime central London saw the highest annual increase, with rents rising 6% annually, followed by prime London at 2.9% and prime fringe at 2.2%. This means that rents are now 10.8% lower than the peak in February 2020.

Activity is recovering too. The number of properties let in the first seven months of 2021 was 56% higher than in 2020. Of course, this is a low benchmark. Yet, comparing the number of new lets with 2019 still shows a marginal increase in activity this year, with 2.5% more new lets between January and July 2021 compared with volumes two years ago.

The prime London lettings market is usually quite predictable in terms of when we see the highest levels of activity. In a normal year, we would expect July to signal the start of a busy summer for new lets, with volumes normally reaching their peak in August and September. Yet July this year has been quieter, the number of new lets down 9% on July 2020 and 24% lower than July 2019.

Looking ahead, with lower levels of stock we are confident that rents will continue to recover over the next few months.

Although with a higher number of companies further delaying re-opening their offices and travel restrictions still in place we could we see a quieter summer for lettings than many had hoped.

## Achieved rents July 2021 - change since peak and annual change


Source: LonRes

*The analysis for this report takes in the three LonRes catchment areas:
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.

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