LONDON PRIME MARKET REVIEW

MAY 2020

At this time of year, we would usually have released our latest quarterly statistics on the prime property market. The first quarter figures, which show an increase in activity, new listings and prices across the prime market would have been something to celebrate. A continuation of the good news we shared in the latter part of 2019. Instead this quarter we are doing something different. Reporting on the Q1 figures but also looking at the impact of the lockdown and social distancing on the prime housing market until the end of April.

SALES

Despite the disruptions in late March, prices across our three prime areas rose over Q1 2020, up 3.1% compared with Q1 2019. With the number of properties sold increasing by 9% over the same period. Prime central London (PCL) was busier still, with growth of 5.2% in prices and a 23% increase in sales over the same period.

We saw more properties reaching the market too post-election, with 22% more homes were listed for sale in the first quarter compared with the same period a year earlier across our three prime areas and 51% more in PCL.

However, these figures reflect a very different market to the one we are experiencing now. Current restrictions mean that agents, prospective buyers and tenants are unable to physically access properties they would like to list, purchase or let. But deals are still happening. Some purchasers are buying blind, others are offering on properties they viewed before government restrictions were tightened, or on the basis of virtual tours. All that said, we should be under no illusion; these deals represent a small proportion of those we would usually expect at this time of year.

The reality is that until restrictions are lifted the property market, with a few exceptions, will be on hold. Since the week beginning 16 March, when the government advised those who could do so, to work from home, and the end of April, the number of properties exchanging contracts across our prime London catchments has fallen to around 35% of levels seen in the same period a year ago. Unsurprisingly little has reached the market for sale, with new instructions down 72% between mid-March and the end of April compared with volumes a year ago.

Yet we have been encouraged by the lack of withdrawals and price reductions. Sellers appear to be leaving their homes on the market, effectively pressing pause on their sale until the market resumes. Since mid-March we have seen 70% fewer withdrawals than at the same point a year ago and 74% fewer homeowners reducing their asking price.

Note that for now we are not reporting on prices. This is not to mislead, but in a market where a small number of homes transact it is difficult to know what to best compare prices with. Agents are reporting some re-negotiation on deals currently being pushed through but few in prime London are forced sellers so many are holding firm.

LETTINGS

The lettings market saw the number of new lets fall again in the first quarter, down 28% on Q1 2019. High levels of renewals and a busier sales market all contributing to the lack of new lets agreed in the first three months of the year. New instructions fell too, with 16% fewer new listings in Q1 2020 compared with Q1 2019. But lack of stock meant achieved rents rose again the first quarter. The LonRes Prime Letting Index recorded an annual increase in achieved rents of 4.9% across our three prime areas in Q1 2020 compared with the first three months of 2019.

In the weeks prior to the lockdown we saw the number of fall throughs increase, as news suggested increased restrictions were imminent. Fall throughs peaked in the week of lockdown but have since returned to similar levels to those seen a year ago. Over lockdown the number of new lets agreed has fallen by 67% in the seven weeks from mid-March to the end of April. Inability to physically view properties has also meant we have seen a similar reduction in properties going under offer, down to less than a third of levels seen at the same point last year.

New instructions during lockdown fell too, down 28% on Q1 2019 but understandably landlords were still keen to list vacant properties (properties listed for sale fell 72% over the same period). Yet fewer new lets has resulted in a 20% increase in the number of properties available to let at the start of May this year compared with last. This has led to an increase in the number of asking price reductions in the last two weeks of April as landlords attempt to attract new tenants.

LOOKING AHEAD

Many have drawn a comparison with the impact of the financial crisis in 2008 and the current pandemic. But we believe it is too early to be making any links between the two. There are some fundamental differences.

In 2008 prior to the financial crisis, interest rates were at 5% and mortgages with little or no deposit and on interest-only terms were common. This meant that those who had bought at a point just before the crash had little in the way of a buffer to counter falling prices. Today, the situation is quite different.

We are currently seeing unprecedented peace time levels of government intervention and support to both companies and employees. This in stark contrast to 2008 when those who lost their jobs in the wake of the financial crisis had little – or even no - government support. But throughout the financial crisis homes could transact, albeit at prices lower than those seen pre-crash.

Without knowing when current restrictions will be lifted, it is difficult to say with any real certainty what the impact will be on the economy and the housing market. Because of this, we feel it is not helpful to try and second guess when or indeed where prices, transaction and demand will find their level in the short-term.

Yet without meaning to be flippant, there are some market fundamentals which, we hope, will place the prime market in good stead to recover once conditions improve.

Following the financial crisis average prices in PCL fell by 21% in less than 12 months. Yet prospective buyers were quick to recognise value and by the end of 2010, prices in central London had returned to their 2008 peak.

There will unfortunately be financial casualties of the pandemic which may force some homeowners into listing their properties for sale. But the majority of those owning homes in central London have a more significant equity buffer than in 2008 and holding costs (mainly servicing mortgage debt) are lower too. We expect that rather than sell, unless they must, many homeowners will revert to the frame of mind they were in a year ago, namely sit back, wait and hold off from transacting.

This suggests we will see little activity in the short-term but will, we hope, mean that once conditions improve we'll start to see a return to the positive market which had begun to emerge in the six months prior to social distancing measures being introduced.

Once restrictions are lifted there will obviously be significant challenges for our industry and the wider economy. But for now, we'll look at a few reasons to be optimistic.

Here's what we are holding on to for when the market returns.

Cash is king: prime London's ability to move quickly

Prime central London has historically led the recovery of any recent downturn. Homeowners in prime areas of London traditionally have low levels of debt secured against their homes, with many owning them outright without a mortgage. In previous periods of recovery this has meant buyers have been able to act more quickly once the market started to pick up. Even those who do need a mortgage often have sizable deposits or additional assets to allay banks fears in times of uncertainty surrounding prices.

People will want to move

There is still pent-up demand. Activity in the prime market between 2015 and 2020 was down 30% on the previous five years and over this period the number of withdrawals often exceeded sales. This means there are a significant number of homeowners who would have liked to have moved over the last five years but have been unable or unwilling to do so. An extended period of time spent within their own homes will likely only increase this desire to move when the time is right. The real challenge in the short-term remains whether these households have the means or inclination to transact.

Uncertain times favour tangible and usable assets

One of the differences with this pandemic is the geographical spread. Although some countries have been spared the most severe levels of infection, the impact of this pandemic is global and has hit both domestic and global economies. This has meant traditional tradable assets, such as oil and (certain) stocks will be more adversely impacted as companies struggle in the wake of falling demand. With significant volatility within such asset classes, tangible assets such as prime London homes have often proved a haven. And they could do so again.

The lettings market can react quickly

Agents are reporting an increase in new applicants for lettings properties in prime areas of London. Once restrictions are eased the lettings market is well placed to react quickly to address tenant demand. Stock levels have risen compared with levels pre-lockdown and landlords will be keen to accommodate new tenants as activity increases.

CONCLUSIONS

Obviously, the governments priority at present is how best to preserve life and control the pandemic. But it is important to remember the vital role of the housing market to the UK economy. At its simplest property transactions provide thousands of jobs, both directly and through many ancillary services associated with home moves. For most homeowners, residential property remains their largest asset and store of wealth. Not only providing a roof over their head, but also in many cases acting as a pension fund and security blanket for the future.

There may be a rocky road ahead, and we are under no illusion that this could include some difficult times for the housing market, but we hope and expect government will do all they can to ensure that these assets remain secure in the longer term. Until then, stay at home, stay safe and keep in touch.

Take care.

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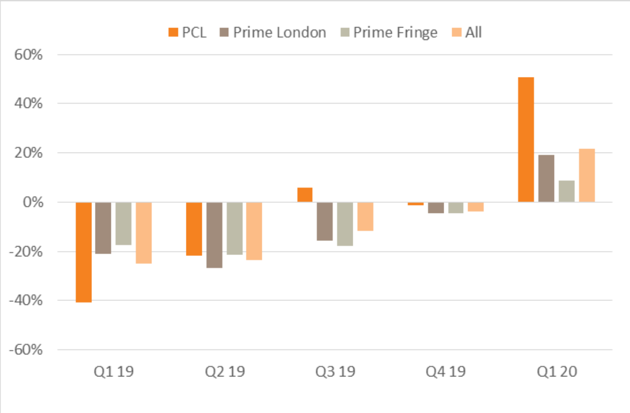
See charts on next page…

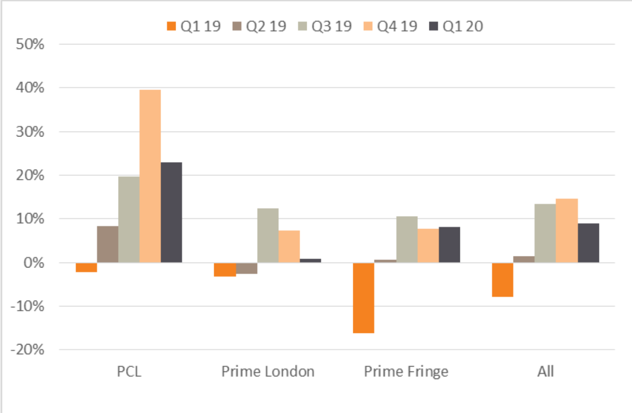
KEY STATISTICS: SALES

New instructions – annual change



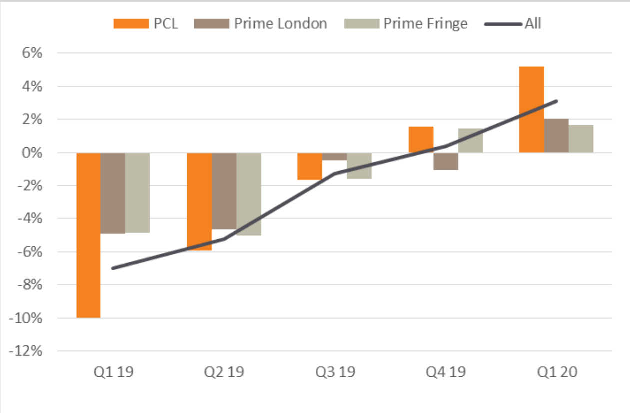
Source: LonRes

Transactions – annual change



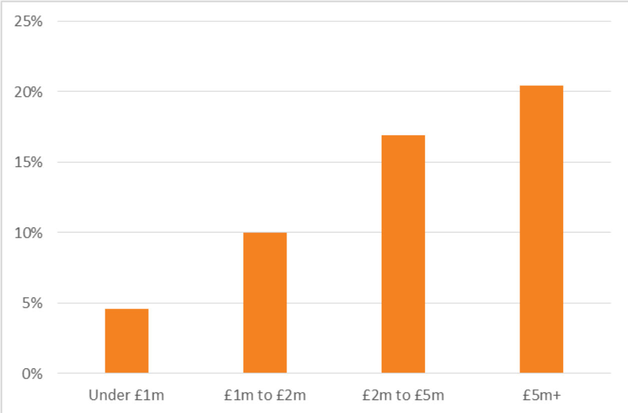
Source: LonRes

Achieved prices – annual change



Source: LonRes

Sales by price band Q1 2020– annual change



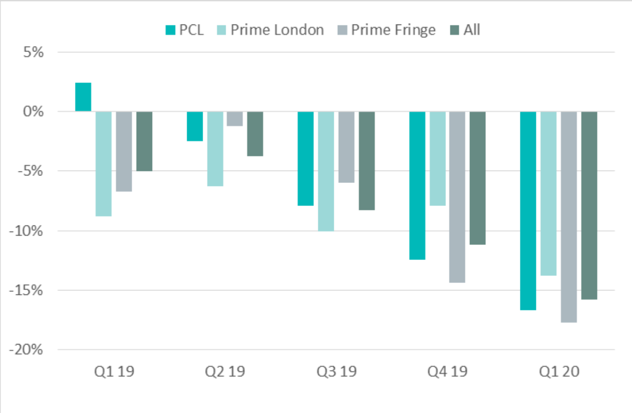
Source: LonRes (three prime areas)

2020 Activity pre and during lockdown – Annual change

Source: LonRes (pre-lockdown 1st Jan to 16 March & Post-lockdown 16th March to 30th April)

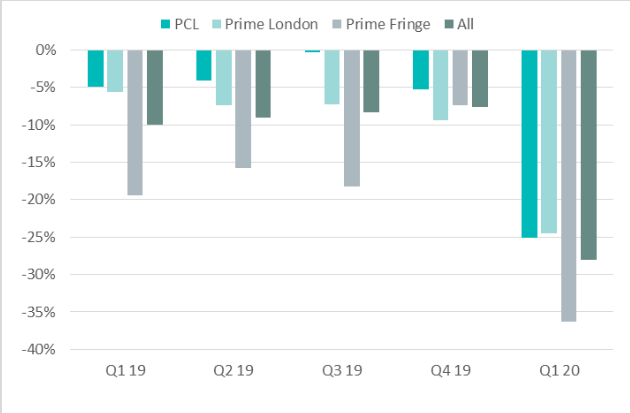
KEY STATISTICS: LETTINGS

New instructions – annual change



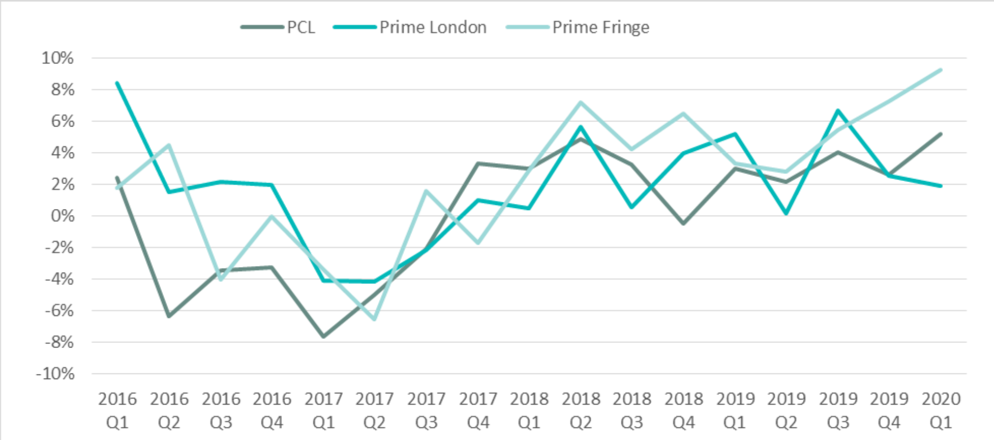
Source: LonRes

New lets – annual change



Source: LonRes

Annual change in LonRes Prime London Lettings Index



Source: LonRes

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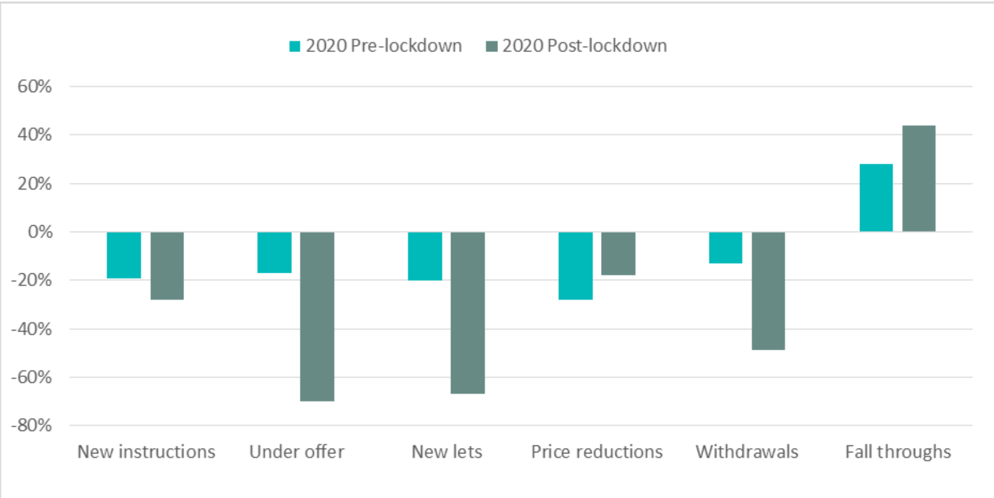

Source: LonRes (pre-lockdown 1st Jan to 16 March & Post-lockdown 16th March to 30th April)

Prime Central London includes properties within: SW1Y, SW1X, SW1W, SW1A, SW3, SW7, SW10, W1S, W1K, W1J, W8.
Prime London includes properties within: NW1, NW3, NW8, SW1P, SW1V, W1T, W1H, W1U, W1G, W1W, W2, W11, W14.
Prime Fringe includes properties within: SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10.