CHESTERTONS

Chestertons
London Residential Property Market Report

Autumn 2020

Chestertons London Residential Property Market Report – Autumn 2020

Sales market: Key trends

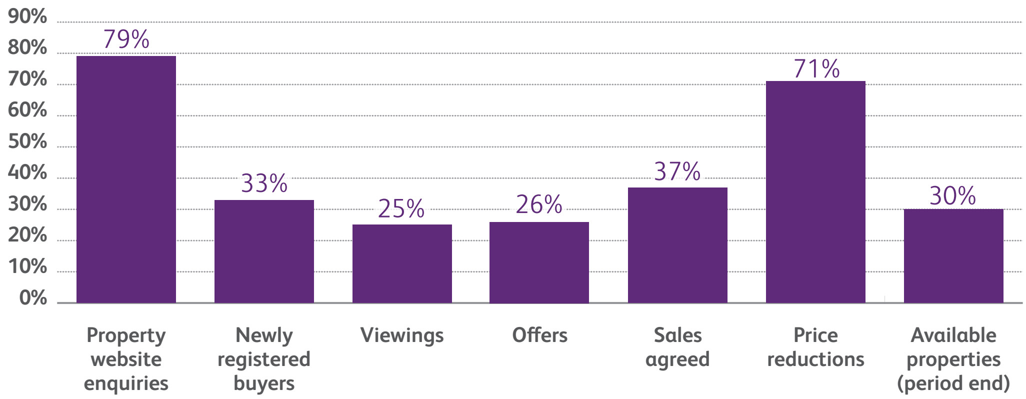
- More buyers enter the market, motivated by stamp duty holiday and lockdown experience
- High demand for larger properties with gardens and a potential home office
- Property prices down by 0.7% in higher value London locations
- Big increase in sales of new homes driven by Help-to-Buy and investors

Supply and demand

The London property market gathered considerable momentum in the three months to September and the number of sales agreed by Chestertons during this period more than doubled compared to the previous three months and was 37% higher than in the corresponding period last year. This increase is even more impressive given that international buyers, who typically account for a significant proportion of buyers in central London, have been largely absent since April.

Homeowners (and some landlords with vacant properties) continued to put their properties onto the market in greater numbers, and the number of new properties being advertised for sale by Chestertons rose by 110% compared to the previous three months and was 72% up on the same period in 2019. At the end of September, the total number of properties available for sale was 21% higher than at the end of June and 30% higher than September 2019.

Key market indicators: July-September: 2020 v 2019



Source: Chestertons Research

Between July and August, buyers became more active than they had been at any point since the first three months of 2016, with more making enquiries, undertaking viewings, making offers and agreeing purchases. There are a number of drivers behind this surge in activity:

- Lockdown experience caused more buyers to look for larger gardens or outside space
- With more people working from home, many required larger homes with space for a home office
- A desire to move before the stamp duty holiday ends next April
- With more properties coming onto the market, there is now more choice to tempt buyers to move

Houses with gardens and larger flats with balconies/roof terraces have been highly sought after, while smaller properties with no outdoor space have proved more difficult to sell.

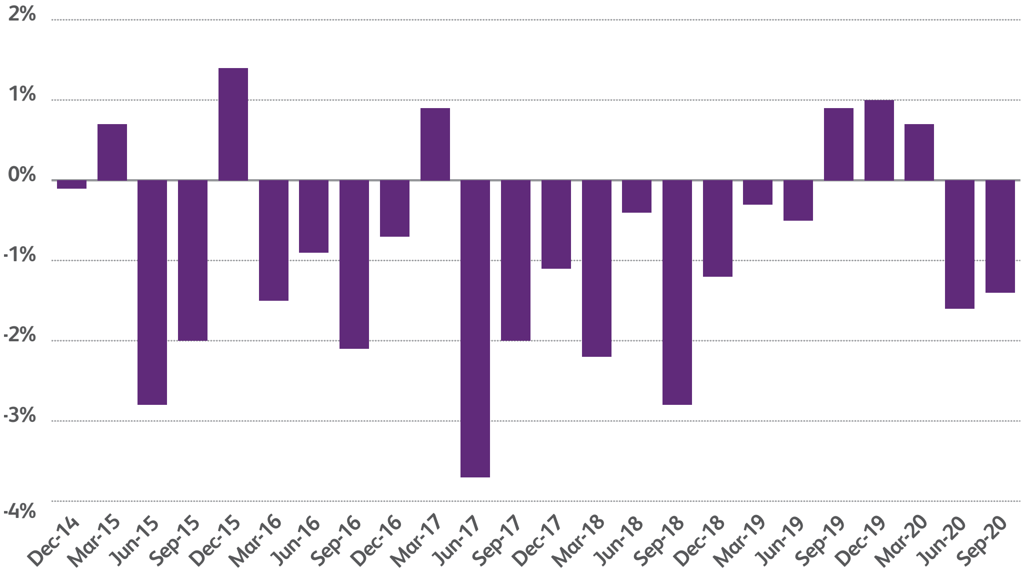
As people come to terms with the fact that Covid-19 will be with us for a while yet, the prospect of future lockdowns has also encouraged people to act quickly. Delays in the house purchase process have persuaded some buyers with the means to do so to use cash rather than a mortgage to remove the delays caused by mortgage applications, which have risen in recent months due to the sheer volume of applications that lenders have been receiving.

Prices

Despite the number of people looking to move, buyers have remained very price sensitive and a key factor in agreeing sales has been pricing properties appropriately. The number of sellers opting to reduce the asking price of their properties between July and September rose by 129%[1] compared to the preceding three months and was 76%[2] higher than in the same period last year. When a property has been priced competitively, it will often attract high levels of interest and can sometimes sell for above the asking price.

- Across Greater London as a whole, the Nationwide House Price Index reported that average house prices rose by 2.1% between July and September compared to the same period in 2019 (4.4% compared to Apr–Jun 2020), while Zoopla reported a 2.1% increase in asking prices in the year to September.
- However, at the end of September, Chestertons' own price index showed that average prices for properties in London's higher value locations were 1.4% lower than at the end of June and were 0.7% lower than in September 2019.
- Prices in Central London fell by 1.7% over the three months to September and were down by 4.0% compared to September last year.

Quarterly price growth in higher value locations



Source: Chestertons Research

New homes market

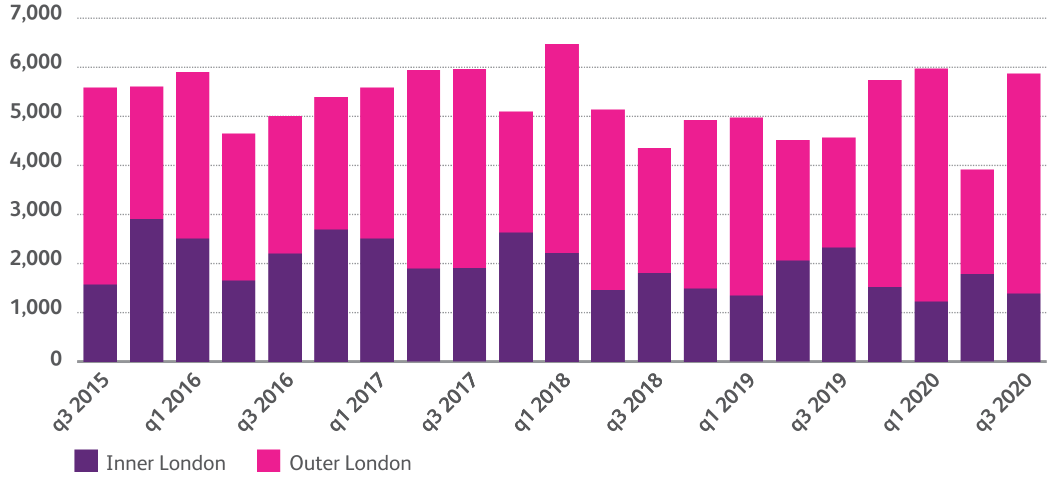
The new homes market enjoyed a very busy period between July and September with sales rising by 50% compared to the previous three months and by 29% compared to the same period in 2019. If sales are maintained at the average rate for the first nine months of this year over the next three months, we could see total sales for the year rise by 6% compared to 2019 which is startling given the disruption caused by Covid-19.

Demand has come principally from buyers using Help-to-Buy and investors acquiring build-to-rent properties. Sales to overseas buyers also picked up considerably, with a weak pound and lower prices making UK property look more attractive.

Despite the increase in sales, the percentage of unsold homes under construction across London at the end of September was the same as at the end of June – 46% – which equates to just over 28,000 properties, the lowest it has been since the end of June 2017. A further 3,180 properties were completed and unsold, a reduction of 16% since June.

The number of new homes at various stages of construction at the end of September (61,487) was slightly lower (0.9%) than at the end of June and 11% below the peak construction recorded at the end of June 2018, since when construction volumes have been gradually reducing each year.

London's Quarterly New Homes Sales



Source: Molior: data reflects schemes of 20 or more units

Outlook

Since contracting by nearly a fifth between March and May, the UK economy has begun to recover and the latest forecast for economic growth[3] in 2021 is 6.4% compared to a projected fall of 10.1% for 2020 as a whole. It is not yet clear what impact the ending of the Brexit transition period (31st December) and the Government's furlough scheme will have on the property market but unemployment will certainly rise which will have a knock-on effect.

Meanwhile, the rush to beat the stamp duty holiday deadline will continue to motivate buyers and sellers, although time is fast running out to ensure completion by the end of next March. Non-resident buyers will also be mindful of the introduction of the 2% stamp duty surcharge next April.

However, the difficult economic backcloth on top of tighter mortgage lending criteria seen in recent months will likely curb the number of sales next year. We think that prices across Greater London as a whole will fall by 2% as the impact of higher unemployment hits home and many households still in employment keep a tighter rein on spending.

In the higher value locations covered by Chestertons, we forecast prices will return to growth of 0%-2% in 2021, assuming no further prolonged Tier 3 lockdown measures. London's diverse economy, much of which has proved more resilient since the arrival of Covid-19, should enable a quicker than expected recovery and if international travel restrictions are lifted, the return of foreign buyers, aided by a weak pound and prices that are lower than for many years, will provide a boost to the market, especially in central London.

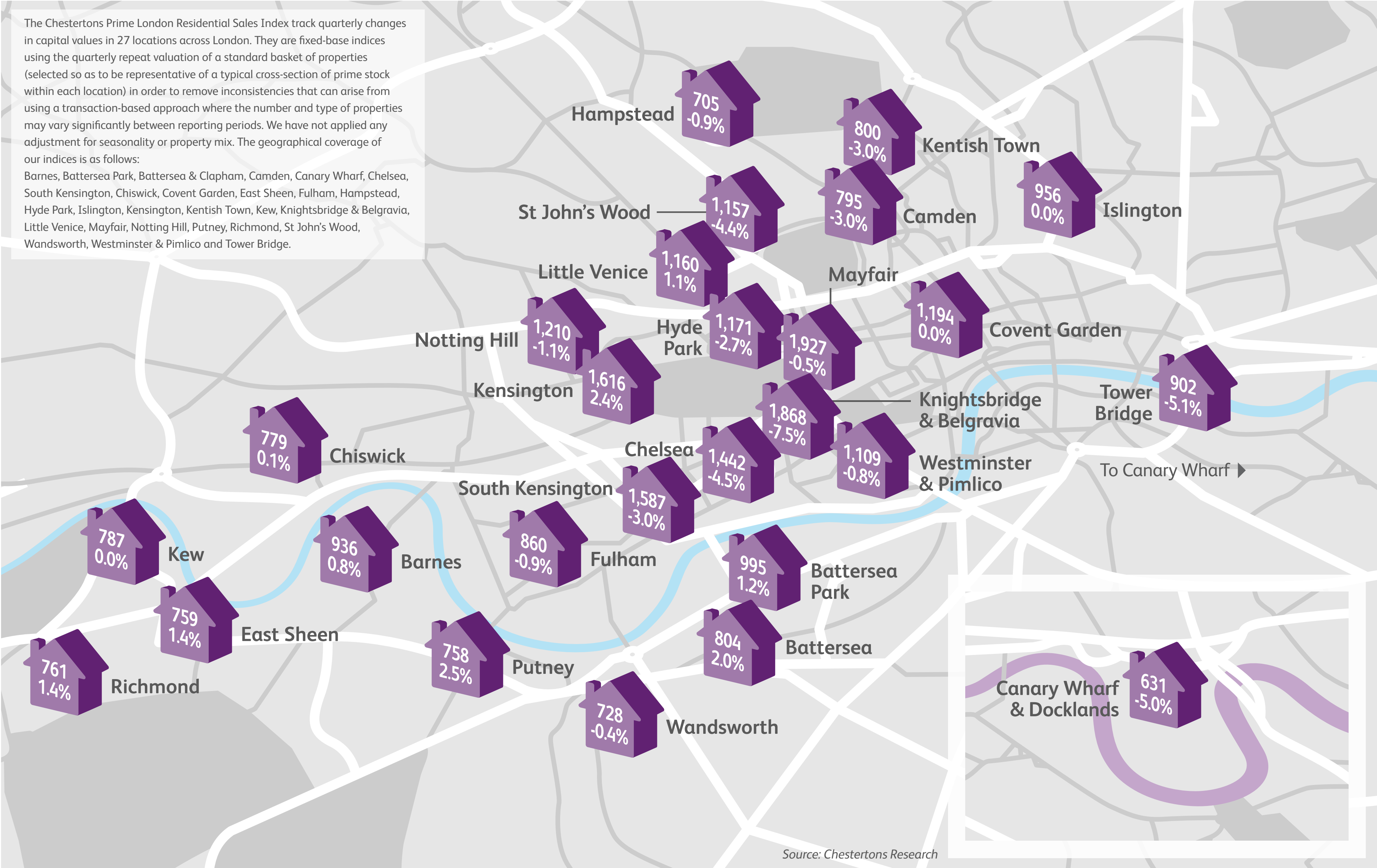
London residential price growth forecasts

	2019	2020	2021	2022	2023	2024
Greater London	1.2%	2.0%	-2.0%	2.0%	2.0%	3.0%
Prime* Other London	-2.5%	-2.0%	2.0%	3.0%	2.0%	2.0%
Prime* Central London	-0.1%	-3.0%	0.0%	2.0%	3.0%	3.0%

Source: Chestertons Research

Residential capital values (£/sq ft) & 3-month growth as at end-Sep 2020

The Chestertons Prime London Residential Sales Index track quarterly changes in capital values in 27 locations across London. They are fixed-base indices using the quarterly repeat valuation of a standard basket of properties (selected so as to be representative of a typical cross-section of prime stock within each location) in order to remove inconsistencies that can arise from using a transaction-based approach where the number and type of properties may vary significantly between reporting periods. We have not applied any adjustment for seasonality or property mix. The geographical coverage of our indices is as follows:
Barnes, Battersea Park, Battersea & Clapham, Camden, Canary Wharf, Chelsea, South Kensington, Chiswick, Covent Garden, East Sheen, Fulham, Hampstead, Hyde Park, Islington, Kensington, Kentish Town, Kew, Knightsbridge & Belgravia, Little Venice, Mayfair, Notting Hill, Putney, Richmond, St John's Wood, Wandsworth, Westminster & Pimlico and Tower Bridge.



Source: Chestertons Research

Lettings market: Key trends

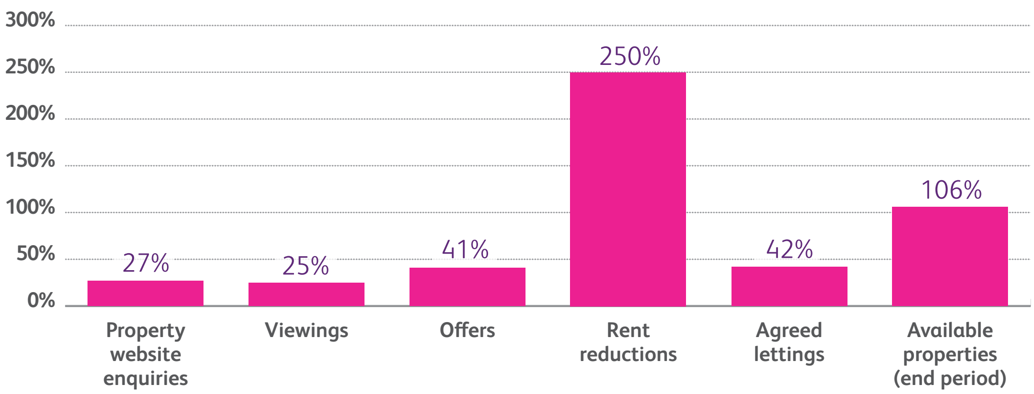
- Demand for rented accommodation in London remains high
- The supply of rental properties in London has increased significantly
- Rents continue to fall as tenants negotiate hard
- Investment yields fall in most locations

Supply and demand

Following on from a quieter spring period, London's lettings market was extremely busy during the summer months and into early autumn. In the three months to September, Chestertons recorded a 170% increase in the number of tenancies it agreed compared to the previous three months and a 42% increase compared to the same period last year. There was also a 34% increase in the number of tenancies which were renewed compared to the previous three months.

The increases are all the more impressive given that the number of international higher education students and corporate executives was significantly lower than usual due to travel restrictions and the impact of Covid-19 on businesses' expenditure.

Key market indicators: Jul – Sep: 2020 v 2019



Source: Chestertons' Research

The number of properties available to rent also rose by 106% at the end of September compared to the same point in 2019, taking availability to levels not seen for several years. Supply has been augmented by sellers offering properties for rent while they wait for prices to pick up in the sales market and by an increase in the number of properties moving from the short let market into the mainstream lettings sector. Despite this, average void periods reduced from a 2020 peak of 23 days in June to 19 in September[4] thanks to the sheer number of tenants in the market.

There have been some interesting trends emerging as a result of the lockdown:

- As in the sales market, properties offering a garden and sufficient indoor space to allow for uninterrupted homeworking have proved most popular
- Whilst tenants usually focus primarily on the quality of the decoration and fixtures, the desire for more space and a garden has seen some tenants prepared to sacrifice the quality of accommodation to some extent in return for a larger property.
- As people have sought companionship for themselves or their children, there has been an increase in demand for properties which allow pets.

Rents and yields

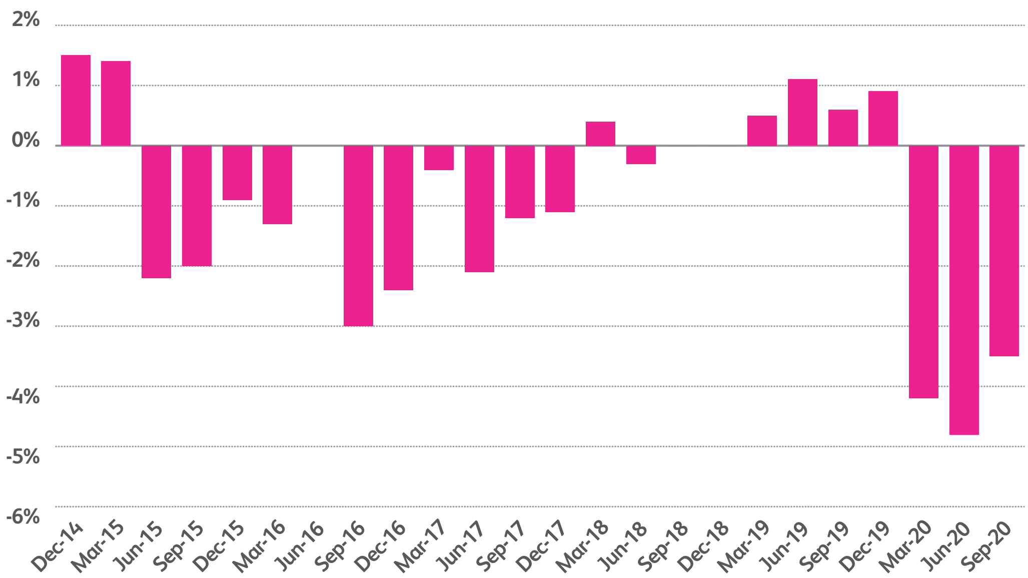
Across Greater London, average rents fell by 7.5%[5] in the year to September as many tenants have reduced their budgets in reaction to being furloughed or having their salaries or bonuses reduced.

With more rental properties now on the market, tenants also have a larger selection to choose from and landlords have had to reduce asking rents in order to attract tenants. Chestertons recorded a 250% increase in the number of landlords that chose to reduce the asking rent of their property between July and September compared to the same period last year. Smaller flats, especially one-bed properties with no outside space, have generally suffered the steepest falls. Many existing tenants were also able to successfully negotiate rents downwards when renewing their contracts.

Chestertons' Rent Index showed rents in the higher value locations of London fell by 3.5% between July and September and at the end of September were 10.6% lower than at the same point last year. Rents fell in most of the areas covered by Chestertons, although in South West London a shortage of family homes and strong demand resulted in slight increases in Kew, Richmond and Putney.

For some landlords, the fall in rents has proved the final straw following recent tax increases and stricter regulations and there has been an increase in the number of vacant properties being offered for sale.

Quarterly rental value growth in higher value locations

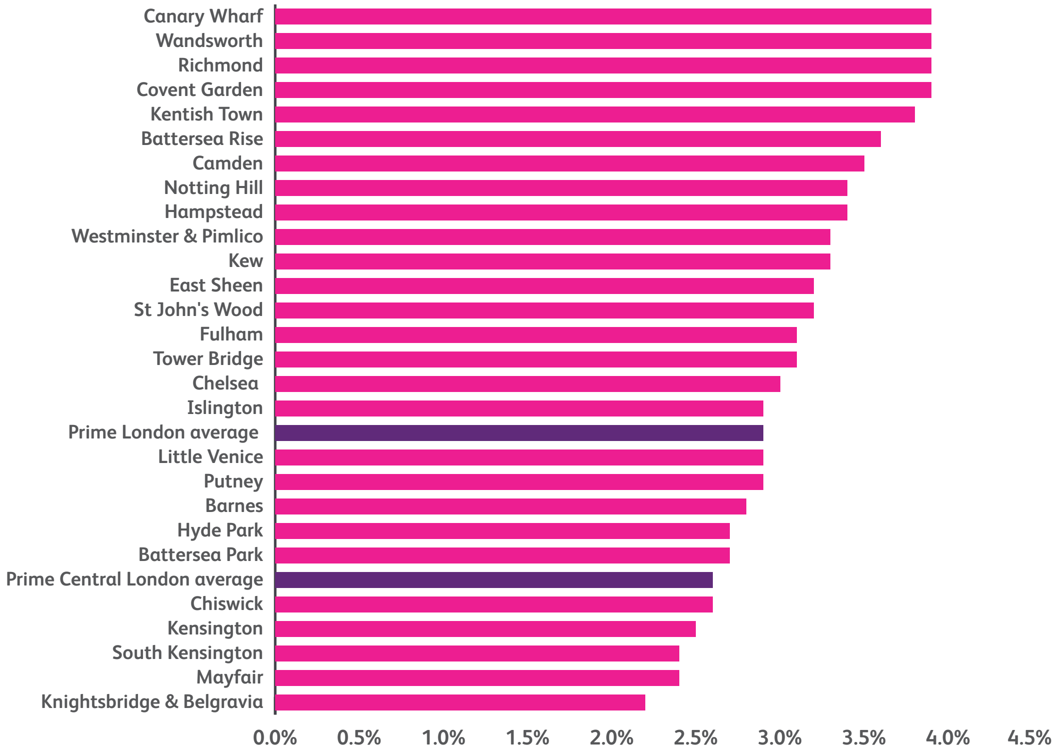


Source: Chestertons Research

With rents falling faster than prices, average yields have also come down and in the locations covered by Chestertons, gross yields stood at 2.9% in September compared to 3.0% in June and 3.3% in September 2019. In Central London, yields dropped to 2.6% from 3.0% in September last year.

*Higher value locations

Prime London gross rental yields*



*As of 30th September 2020

Source: Chestertons Research

Outlook

Tenants and landlords alike remain under considerable financial pressure as a result of the economic fallout from Covid-19 but tenants at least can take advantage of the wide choice of properties available to rent and the sharp fall in rents since the end of March.

Although there are good opportunities for investors to buy properties more cheaply than for some time, we are likely to see more investors selling properties. The recovery of the rental market depends largely on the Government response to spikes in the Covid-19 infection rate and the resulting impact on the economy.

Assuming any future lockdowns are confined to a local level and are not prolonged, and the economy continues to recover as anticipated, tenant demand should remain strong. Nonetheless, we forecast average rents across Greater London will fall by 5% in 2021.

Although the supply of rental properties is greater in London's higher value locations, we believe that there is potential for rents to recover more quickly if corporate demand picks up and foreign students are confident to return to the UK. For 2021, we forecast rents in the higher value locations will fall slightly less than Greater London and may drop by 3%-4% in 2021.

London residential rent forecast

	2019	2020	2021	2022	2023	2024
London	2.5%	-10.0%	-5.0%	2.0%	2.0%	3.0%
Prime central London*	1.9%	-15.0%	-4.0%	2.5%	3.0%	3.0%
Prime other London*	3.6%	-7.5%	-3.0%	2.5%	2.5%	2.5%

*Higher value locations

Source: Chestertons Research

Notes and sources:

[1] Source: Chestertons Research
[2] Source: Chestertons Research
[3] Source: HM Treasury Panel of Independent Forecasters, October 2020
[4] Source: Goodlord Rental Index
[5] Source: Goodlord Rent Index
All new homes data is sourced from Molior

Residential weekly rents & 3-month growth as at end-Sep 2020

The Chestertons Prime London Residential Lettings Index track quarterly changes in rental values in 28 locations across London. They are fixed-base indices and are based on the quarterly repeat valuation of a standard basket of resale properties (selected so as to be representative of the typical cross-section of prime stock within each location) in order to remove inconsistencies which can arise from using a transaction based approach where the number and type of properties may vary significantly between reporting periods. We have not applied any adjustment for seasonality or property mix. The geographical coverage of our indices is as follows:
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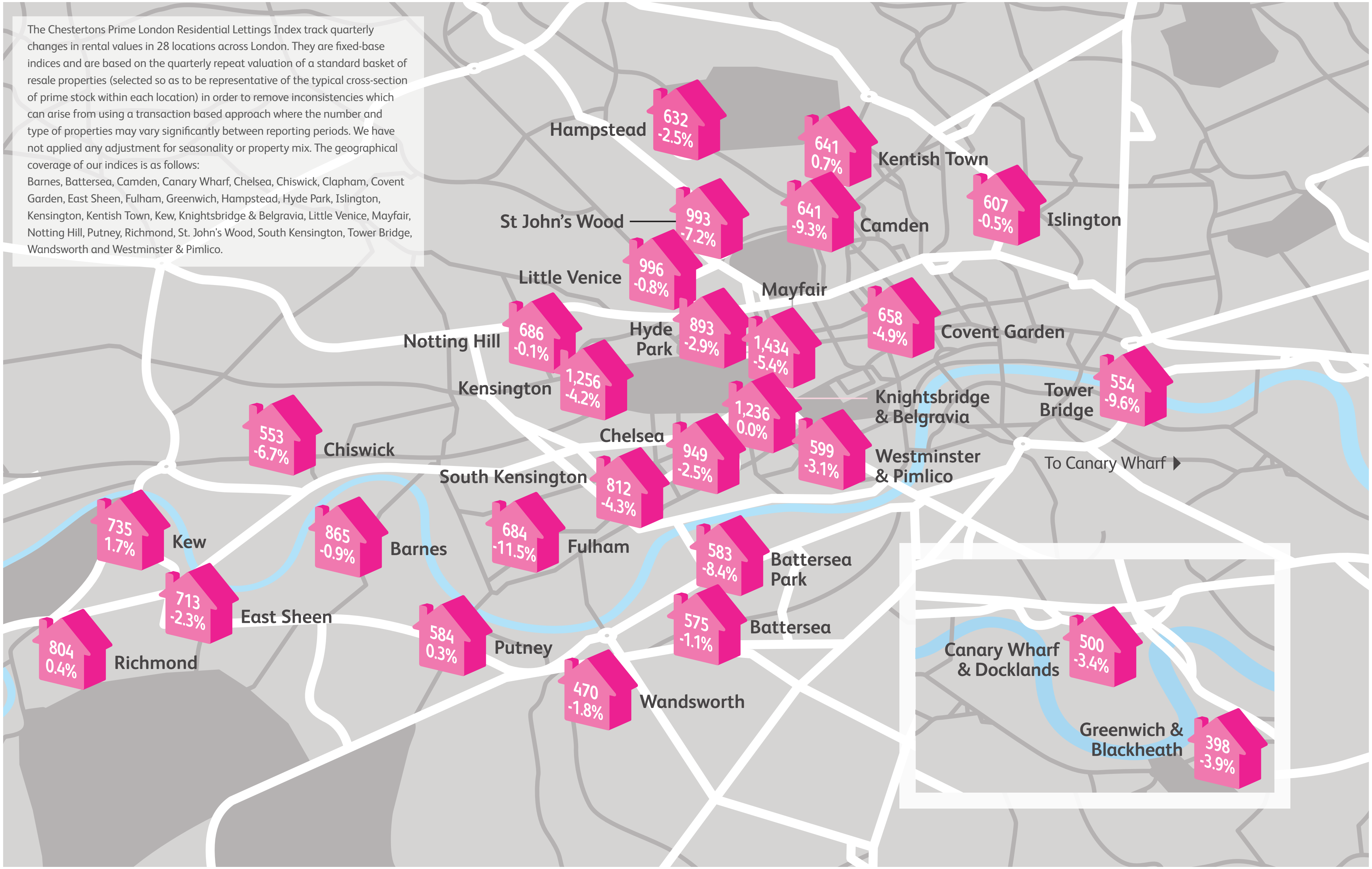

*Higher value locations

Source: Chestertons Research

Contact

Chestertons is the London and international residential property specialist that knows its business and markets like no one else and every year helps thousands of people buy, sell, let, rent and manage their homes and investments. With more than 30 offices across the capital, Chestertons has one of the largest networks in London, as well as a strong international presence around the globe.

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