LONDON CENTRAL PORTFOLIO
Real Estate Investment Advisory

April and May Market Review

Prime Central London

This market review has been prepared by Prime Central London buying and investment agency, London Central Portfolio (LCP), in conjunction with Bricks & Logic (B&L). B&L is a respected residential data provider with a proprietary model that uses AI and big data techniques to provide market leading price accuracy and insights not available by utilising HM Land Registry information in isolation.

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LCP Market Review

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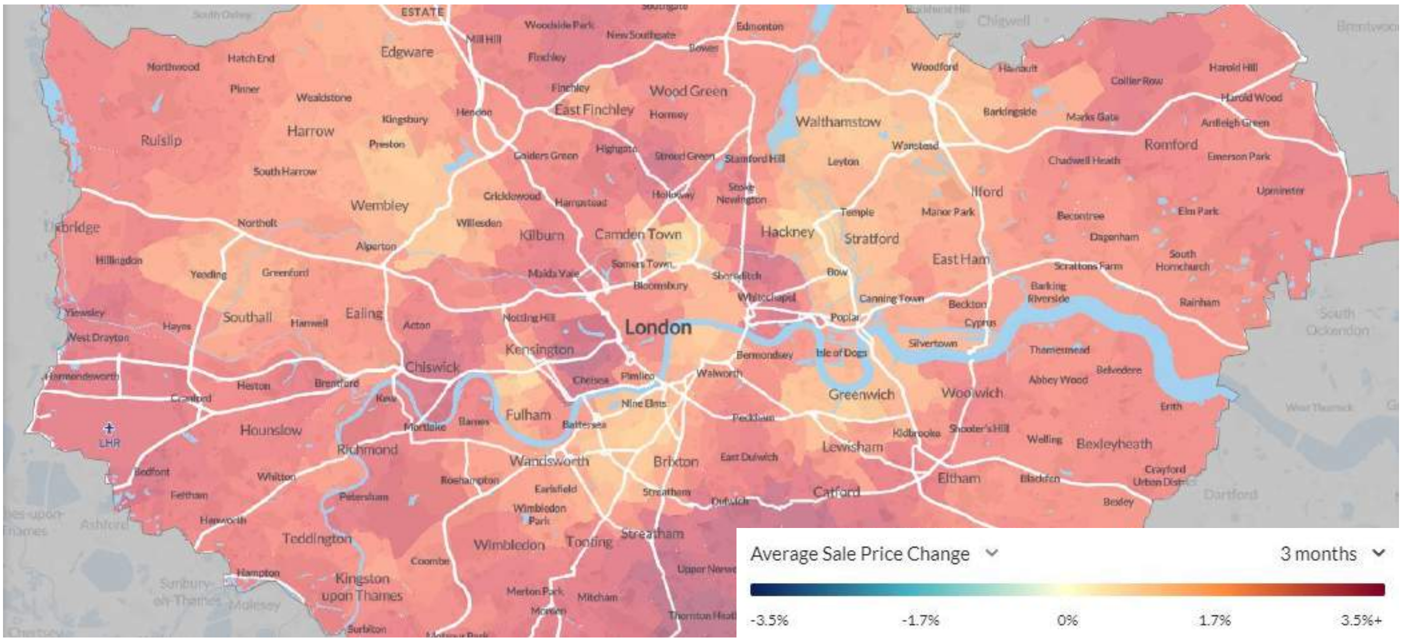
Heatmap 1: Relative price growth in all London boroughs over the past 3 months to May 2022



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IS A NARROWING OF THE PRICE GROWTH GAP BETWEEN FLATS AND HOUSES AROUND THE CORNER?

Fig. 1 PCL 3 month rolling average £ vs Annual volume of sale from May-15 to May-22

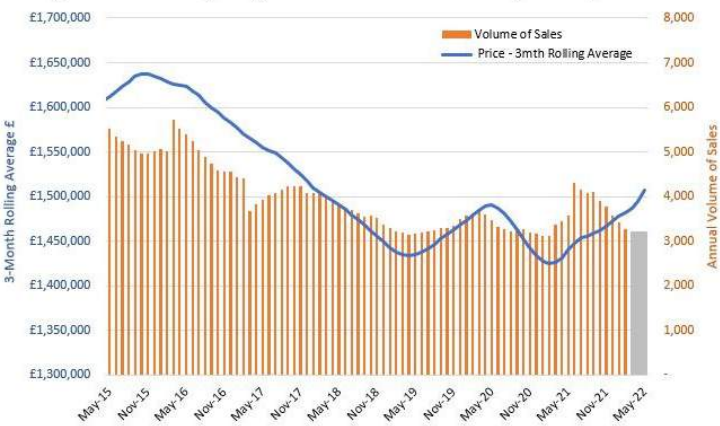
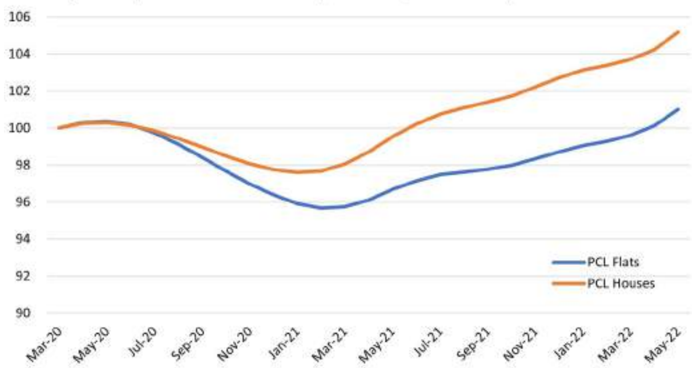


Fig. 2 PCL apartments versus houses price index (Mar-20 = 100)



The effect of overseas demand beginning to return to London is reflected in the heatmap above, as growth in values in Prime Central London (PCL) start to catch up with Greater London in the most recent quarter (March to May 2022).

Our market review highlights that average values in PCL in May 2022 have picked up from a low in 2021 and have now exceeded those seen in May 2020, by 1.2%. May 2020 had reflected the onset of what is known as the 'Boris Bounce' following the Conservative victory at the General Election at the end of 2019 and just prior to the suppressing effect on prices of the pandemic.

Whilst a positive indication of a long awaited turnround, average values at just over £1.5 million are still 7.9% below the peak seen in late 2015 of £1.64 million.

Latest transactional volumes however are still falling and are at near historic low levels at circa 3,200 sales over a 12-month period, 29% lower than the 10 year average. This suggests that there is a lot of pent-up demand as sellers have been unwilling to divest at suppressed prices. See Fig 1.

It is also important to note the divergence of price movements between houses and apartments in PCL. Whilst both suffered initially during the pandemic, since Spring 2021 house prices have picked up more strongly due to the return of domestic buyers whilst demand for apartments has still lagged in the absence of international investors. As travel restrictions ease and a return to normality resumes, it is likely that the demand for investment flats will start to pick up with a consequential upward impact on prices. See Fig 2.

Fig. 3 Heathrow passenger volumes, bus and underground journeys

With the lifting of COVID restrictions, a noticeable return of activity and recovery can be seen in the capital. In April 2022, Heathrow airport recorded a marked increase in volume, with over 5 million passengers, a return to 75% of pre-pandemic travels seen 24 months ago. This trend is mirrored in bus and underground journeys in London also showing a circa 75% return to normal levels prior to lockdowns. See Fig 3.

Whilst international travel is picking up, it still remains significantly behind normal activity and some travel from South East Asia is still constrained by restrictions. Consequently, there remains a delay in the full return of international investor demand crucial to the apartment recovery in PCL. For those investors highly sensitive to getting the timing of their investments right—a gradual recovery is being witnessed whilst values and volumes are still below previous peak levels.

On the other hand, whilst the UK domestic demand has performed very strongly during the pandemic, there are now headwinds in play with the removal of the stamp duty holiday which acted as a major purchase incentive during the pandemic and the rising cost of living.

Andrew Weir, CEO of LCP, comments

It is clear that the detail below the surface of PCL's performance is still highly nuanced. The widely anticipated return of overseas buyers is now considered to be a gradual process that will not return to pre-pandemic levels overnight. On the other hand, whilst the family house market continues to show a robust performance, we do expect to see some form of levelling out over the coming months. The apartment market still offers opportunities for investors who are keen to acquire real estate at a low point in the historic cycle but may need expert advice to identify such prospects. Undoubtedly, current price levels in this market segment will look attractive when viewed with the benefit of hindsight. PCL is also historically less affected by interest rate rises than the domestic market due to the large number of cash purchases and buyers who leverage up on a discretionary basis only. Property traditionally acts as an attractive safe haven tangible asset and a hedge against volatility and inflation. This viewed alongside below peak pricing and attractive Sterling exchange rates positions PCL as an appealing investment which is destined to see increasing levels of demand in H2 of 2022.

If you are thinking of acquiring London real estate and wish to discuss how to optimise your objectives, we would be delighted to speak to you.

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