PrimeResi

May & June will be *defining months* in the 2023 market

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Buying agents *Richard & Sophie Rogerson* on navigating a new normal in Prime London...

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As the year opened, and with the political turbulence of the short-lived Truss era behind us, we anticipated that 2023 would signal the birth of a new, benign, and possibly ever-so-slightly boring ‘normal’ (write Richard and Sophie Rogerson).

The ship had been steadied, the FTSE had passed 8,000 and even the OBR thought the outlook had “brightened somewhat”, with the UK set to avoid a deep and prolonged recession. Economic headwinds suggested that the market would not see the buoyancy of the post-Covid era but with 2022 closing out as one of the busiest years on record – Savills reported 606 transactions over £5mn (£6.5bn in aggregate), more than any year since their records began back in 2006 – there was undoubtedly fire left in the market with more good quality cash buyers competing for a depleted pool of stock.

We didn’t have long to adjust to this new reality though before the next onslaught: SVB collapsed, UBS rescued Credit Suisse, CoCo bonds joined common parlance and Nouriel Roubini (Dr. Doom) warned that this could be 2008 all over again. Inflation and interest rates continue to rise and a sense of permacrisis pervades, fuelled by the never-ending negative news cycle. Should we already rue the day we feared a new-boring-normal?!

The mainstream malaise

With eleven rate rises since December 2021, and average mortgage rates increasing from 1.4% to 5.7% in 2022, it is hardly surprising that the mainstream residential markets are feeling the squeeze. Compounded by October's disastrous 'mini budget', commentators are predicting value falls of circa 8-15% during the course of 2023-2024, going a long way towards wiping out the post-Covid gains. With a lag in real data provided by the Land Registry, we are yet to fully understand the extent of the adjustment thus far. Nationwide's index suggests the market has fallen 3.1% year to date (to March 2023) with Halifax reporting a downward correction of 4.3% since August 2022.

The latest RICS survey substantiated this position with a record number of surveyors commenting that prices are falling whilst mortgage applications are down 40% from their pre-pandemic levels, the lowest level since 2009 other than during Covid Lockdown. In more positive news, the same survey also reported new buyer enquiries have recovered (a finding echoed by Knight Frank in their published data), perhaps on the back of improved economic forecasting and an expectation that mortgage rates may fall quicker than expected.

Indeed, there are lots of reasons to suggest that the fall will be softer and shorter than commentators and the national press would have you believe. The percentage of fixed mortgages (up around 80%), current low unemployment levels, the financial position of UK banks (notwithstanding recent events), and rigorous stress testing of mortgages since the GFC, ensure the mainstream market is showing some determined resilience. Ultimately, the fundamental drivers of supply and demand remain the same – there are not enough houses being built, we have a complex and difficult planning regime (where NIMBYs continue to block meaningful policy change) and the UK retains the preference of ownership over renting.

London breaks from the mainstream

Whilst London's prime markets certainly drew breath in the immediate aftermath of the political upset in Q4 2022, any loss of confidence in UK governance was quickly replaced by a surge in appetite from dollar-based buyers, showing their presence in the market and taking full advantage of the extraordinary currency discounts. The best of the super-prime new build developments – The OWO, The Glebe, The Whiteley and The Peninsula for example – were particularly well placed to benefit from this movement, providing an appealing, ready-to-go slice of sophisticated London real estate. Meanwhile, US family-favourite neighbourhoods such as Notting Hill, Chelsea and St. John's Wood also saw important houses trade in a competitive field.

Some important houses have been traded in Notting Hill

The start of 2023 has certainly been more dynamic in London than elsewhere in the country and demand from good buyers remains strong. Many commentators believe that London's prime markets have been 'due' growth ever since 2014; each time debilitated and delayed by some crisis or another. In terms of value growth in the post-Covid era, London's prime markets have significantly underperformed both the mainstream markets (which saw growth of 25%) and the global prime markets (reflecting growth of 8%) and market commentators predict that London's prime markets will see catch-up growth much sooner as a result. The softening of the dollar discount could have removed some of that impetus although, so far, we have not seen any slowdown in new clients onboarding from the US.

Notwithstanding this, we are certainly not immune from wider sentiment and the market generally has lacked some momentum in these early months of 2023 with most stakeholders showing some weariness from the pervading sense of global permacrisis. Certainly, sellers of good quality London homes are more unwilling than ever to commit to an overt marketing strategy, instead favouring a discreet placement of their homes, testing the market conditions and their guide price. With virtually zero financial distress in the market (and only limited distress caused by the cycle of life), the very discretionary nature of many Prime Central London sellers means their expectations on value remain resiliently high.

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Unsurprisingly, on the opposite side of the table, many buyers are more hopeful that the current landscape might produce more scope for opportunity and negotiation. Where quality is compromised, buyers should undoubtedly have more success today than they would have had a year ago. However, for good properties, there has been very little, if any, softening of expectations and an impasse between parties has inevitably ensued. And for the very best, unique and special properties, buyers know that they need to break cover sooner rather than later to avoid losing out. Once they do, they are unlikely to be alone in the field with competitive bidding wars and gazumping prevalent in the market once again.

We are also mindful that so far this year there are relatively few international buyers in the market, and the supply-demand dynamic could be further tested in certain postcodes as these discretionary participants re-enter the fray in the summer months.

Spring tides

If the sun is audacious enough to shine, and the collective mood improves, we predict that May and June will be defining months in the 2023 market, and an indication of what's to come. With the vivacity of the post-pandemic years firmly behind us, we suspect our 'new normal' will place us firmly back in old and familiar pre-Covid territory; a market characterised by frustratingly low levels of good quality stock (mostly traded discreetly and competitively behind closed doors), drawn out negotiations and challenging transactions. It seems the market will be anything but ever-so-slightly boring after all, and we are perhaps lucky that this very much plays to our strengths!

Best-in-class schemes including The Peninsula London have been well-placed to capitalise on the demand from US buyers