

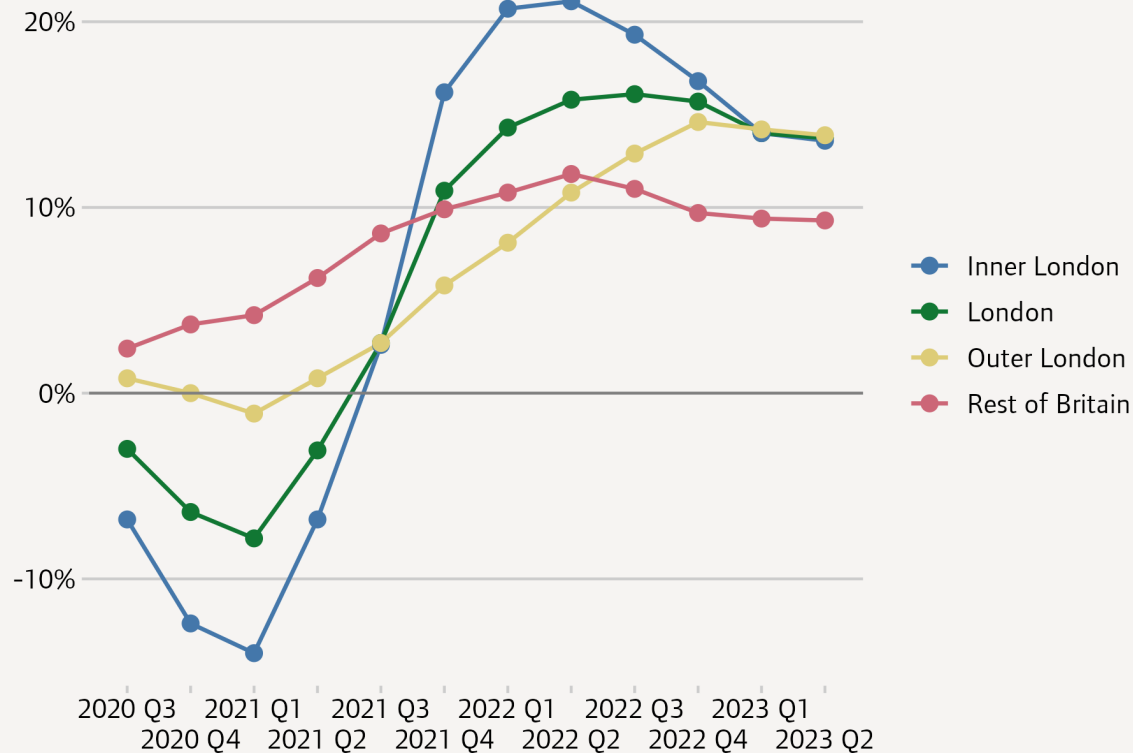
London Housing Market Report: August 2023

Summary

1. The rate of growth in average asking rents for new tenancies in London has slowed a little in the last year but remains very high despite the cost of living crisis.
2. Demand for rented rooms in London continues to outstrip supply, with early signs that demand is starting to rise rapidly in line with seasonal patterns from recent years.
3. House price growth has fallen sharply in recent months and remains lower in London than any other region.
4. Demand is falling in London and across the country as a whole, pointing to further price falls to come.
5. Starts, completions and sales of private units on large schemes in London have fallen in recent months, affected by factors including construction costs, high interest rates and the ending of the Help to Buy scheme.
6. The prices of construction materials in the UK fell between May and June 2023, but the stabilisation of prices since Spring 2022 continues to hold.
7. New housebuilding in London is running at a slower pace than in the last two years.

1. The rate of growth in average asking rents for new tenancies in London has slowed a little in the last year but remains very high despite the cost of living crisis.

Annualised change in Rightmove asking rents, 2020 Q3 to 2023 Q2

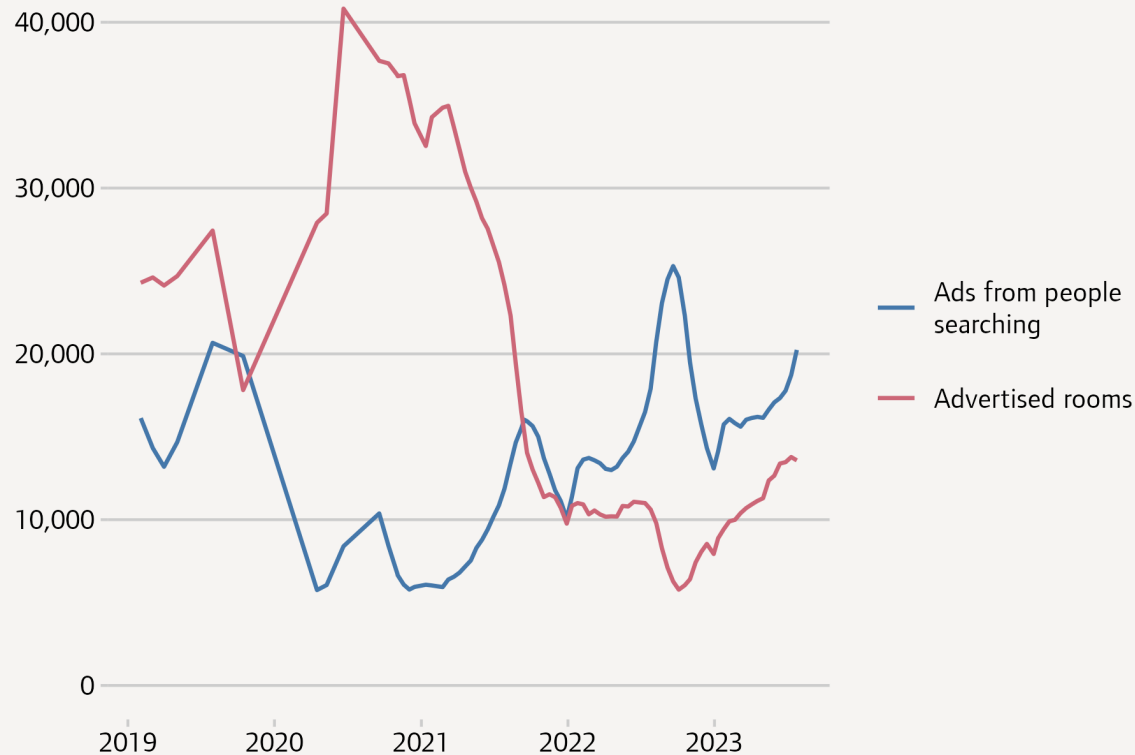


Source: Rightmove quarterly asking rent data

- According to [Rightmove](#), average asking rents for new tenancies in London reached £2,567 in Q2 2023. Annual rental growth slowed slightly in Q2 to 13.7%, with growth rates in Inner and Outer London converging. Annualised rental growth in London has now been over 10% for seven consecutive quarters.
- The rate of growth was lower in the rest of Britain at 9.3%, but still far above historical norms and showing little sign of falling, despite the wider cost of living crisis.
- [HomeLet](#) figures show that annual rental growth for new tenancies rose again to 12.5% in June. HomeLet's data also shows that Londoners starting new tenancies were spending an average of 37.3% of their income on rent in June, the highest figure recorded since the data began in 2014 and well above the average of 31.9% across the UK as a whole.

2. Demand for rented rooms in London continues to outstrip supply, with early signs that demand is starting to rise rapidly in line with seasonal patterns from recent years.

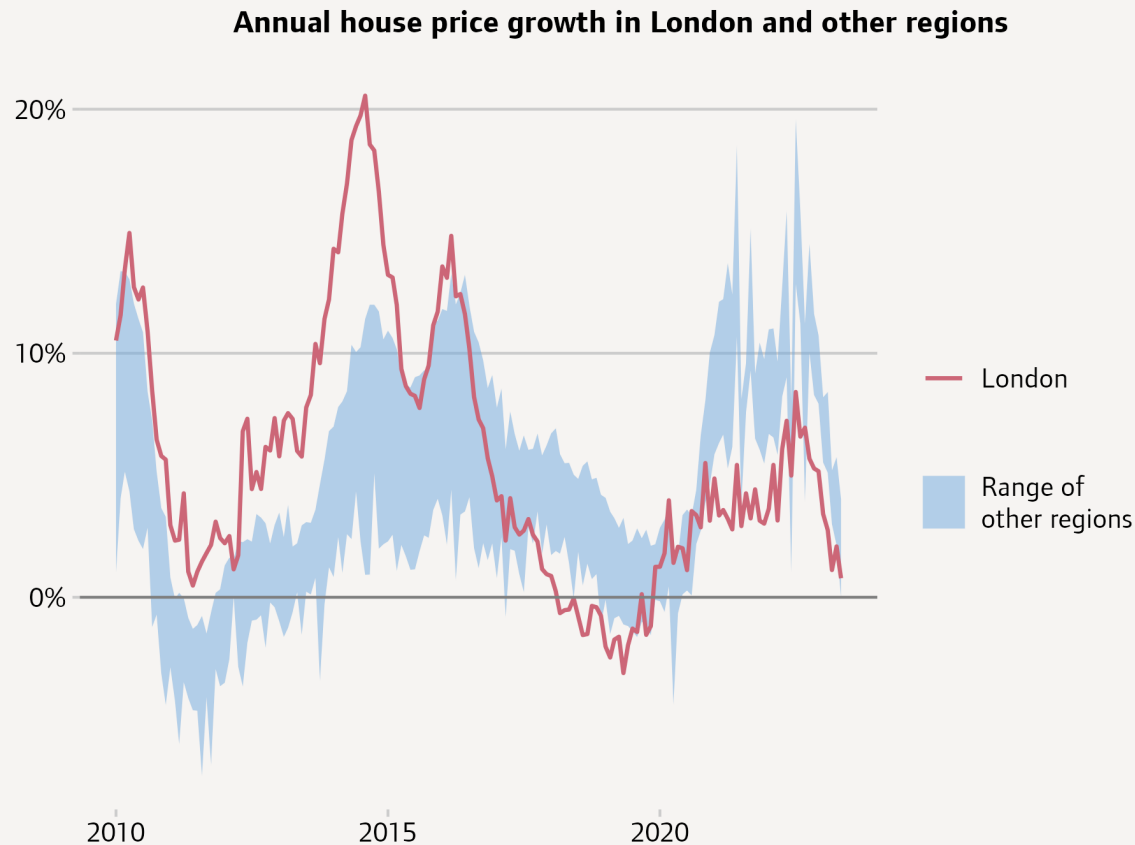
Supply of and demand for rooms in London flatshares (SpareRoom data)



Source: Data gathered from [SpareRoom](https://www.spareroom.com). The number of people searching is measured as the number who have placed a 'room wanted' ad, which is lower than the number of people searching for rooms on the site

- Figures gathered from SpareRoom.com show that the number of ads placed by people searching and the number of rooms available have both increased in recent months. There were 0.7 rooms available per searcher in late July, slightly above the 0.6 the same time last year. Recent weeks have seen a particularly rapid rise in the number of ads from people searching for rooms, matching seasonal patterns in 2021 and 2022.
- Data gathered from Zoopla shows that number of one-bedroom homes available to rent in London below £1,500 per month fell to 1,146 in July, down from 2,066 in July 2022. There was a similar falls in the number of 2- and 3-bedroom homes available below the benchmarks of £1,750 and £2,500 a month respectively.
- RICS survey respondents in June reported continued high demand for rental properties in London which are driving higher rents.

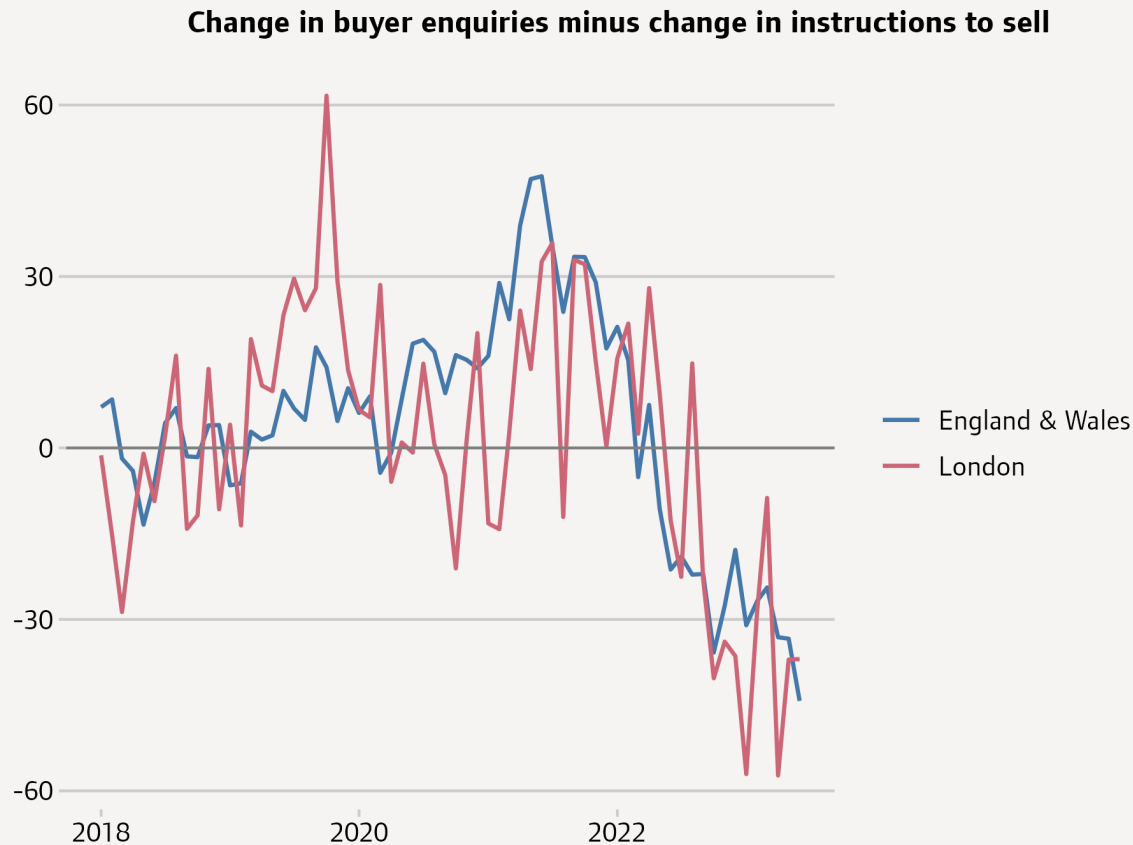
3. House price growth has fallen sharply in recent months and remains lower in London than any other region.



Source: ONS, UK House Price Index

- According to the ONS House Price Index, the average house price from completed sales in London fell to £525,600 in June, from a peak of £544,500 in September 2022. London prices rose 0.8% in the last year, but all regions are showing sharp slowdowns in price growth.
- More recent data from Rightmove shows that the average price of London homes coming to market fell by 0.6% over the last year. The average asking price in London (not adjusted to account for the mix of homes sold as the ONS figure is) in July was £688,500, down from a peak of £692,800 in July 2022.
- At borough level, Rightmove reported the fastest growth in asking prices in Inner London boroughs, led by Haringey and Tower Hamlets (both around 3%). The biggest drops were in Outer London boroughs, led by Barnet at -4% and Merton at -3%.

4. Demand is falling in London and across the country as a whole, pointing to further price falls to come.

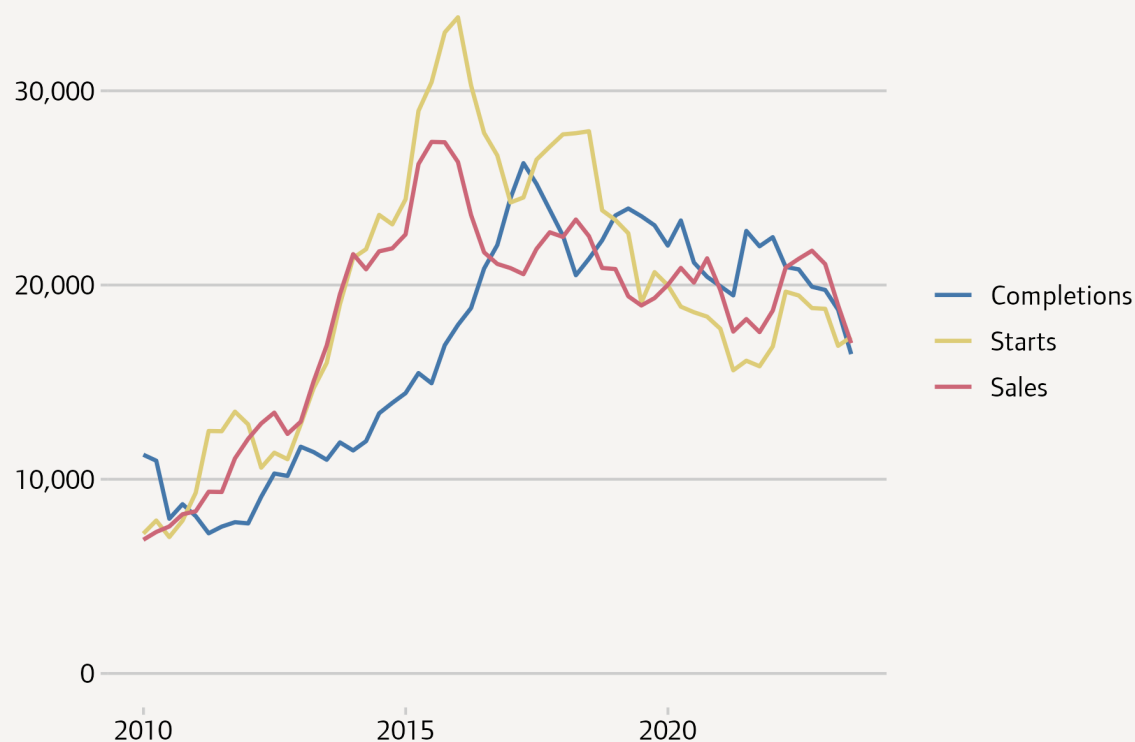


Source: RICS monthly housing market survey

- This chart combines the monthly change in buyer enquiries and the change in the number of new homes listed for sale (as reported by RICS survey respondents) to show whether demand is rising or falling more than supply.
- In recent months demand has fallen sharply while supply has increased, resulting in a net decrease in demand both in London and across England and Wales as a whole.
- The sales market looks likely to remain weak in at least the short term. The Bank of England raised its base rate to 5.25% in early August and is expected to keep rates 'restrictive' into 2024 in an effort to bring down stubbornly high rates of inflation.

5. Starts, completions and sales of private units on large schemes in London have fallen in recent months, affected by factors including construction costs, high interest rates and the ending of the Help to Buy scheme.

Annualised quarterly Molior data on starts, sales and completions

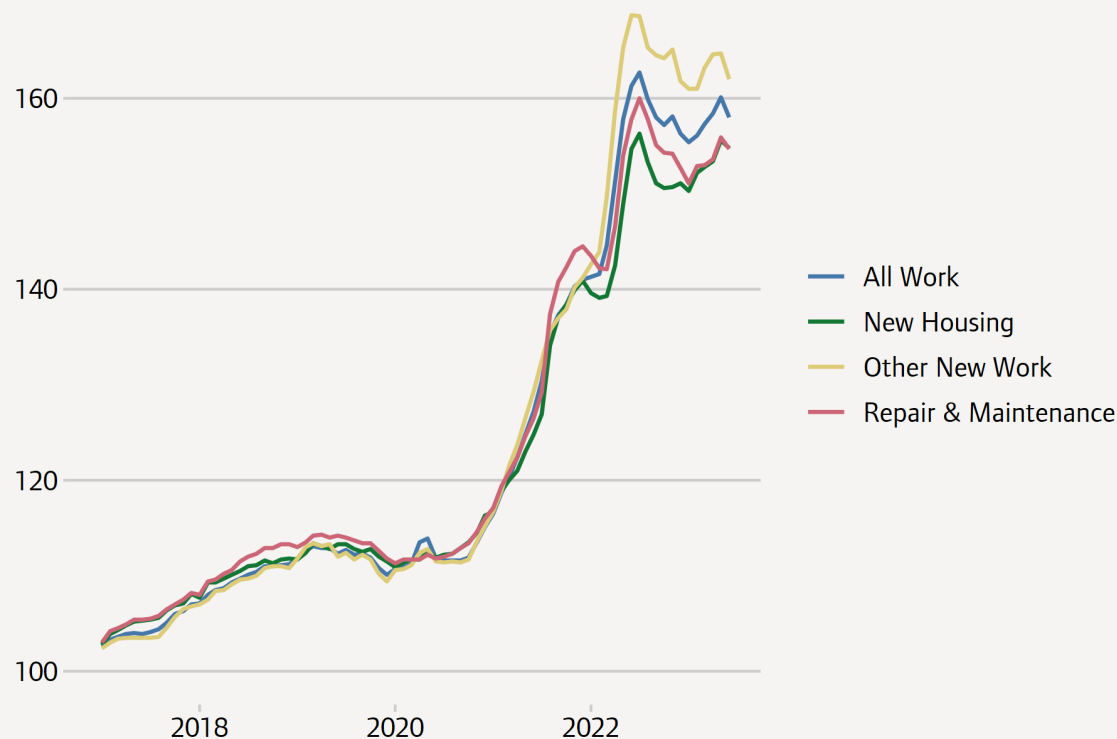


Source: Molior

- [Molior](#) monitors data on the supply of homes on schemes with at least 20 private units in London. Their figures for the second quarter of 2023 show a fall in the numbers of starts, completions and sales over the last year. Compared to the year to June 2022, starts in the last 12 months have fallen by 11%, completions by 21% and sales by 20%.
- One key reason for the fall in sales is the end of the Help to Buy scheme, which had been one of the largest drivers of sales over recent years. Molior report that sales to overseas buyers have increased in the last six months, while Build to Rent development remains the largest source of demand for new homes.
- Some housebuilders have responded to falling market demand by selling new homes to affordable housing providers. According to Molior there were around 1,150 market homes switched to affordable housing in the first six months of 2023.

6. The prices of construction materials in the UK fell between May and June 2023, but the stabilisation of prices since spring 2022 continues to hold.

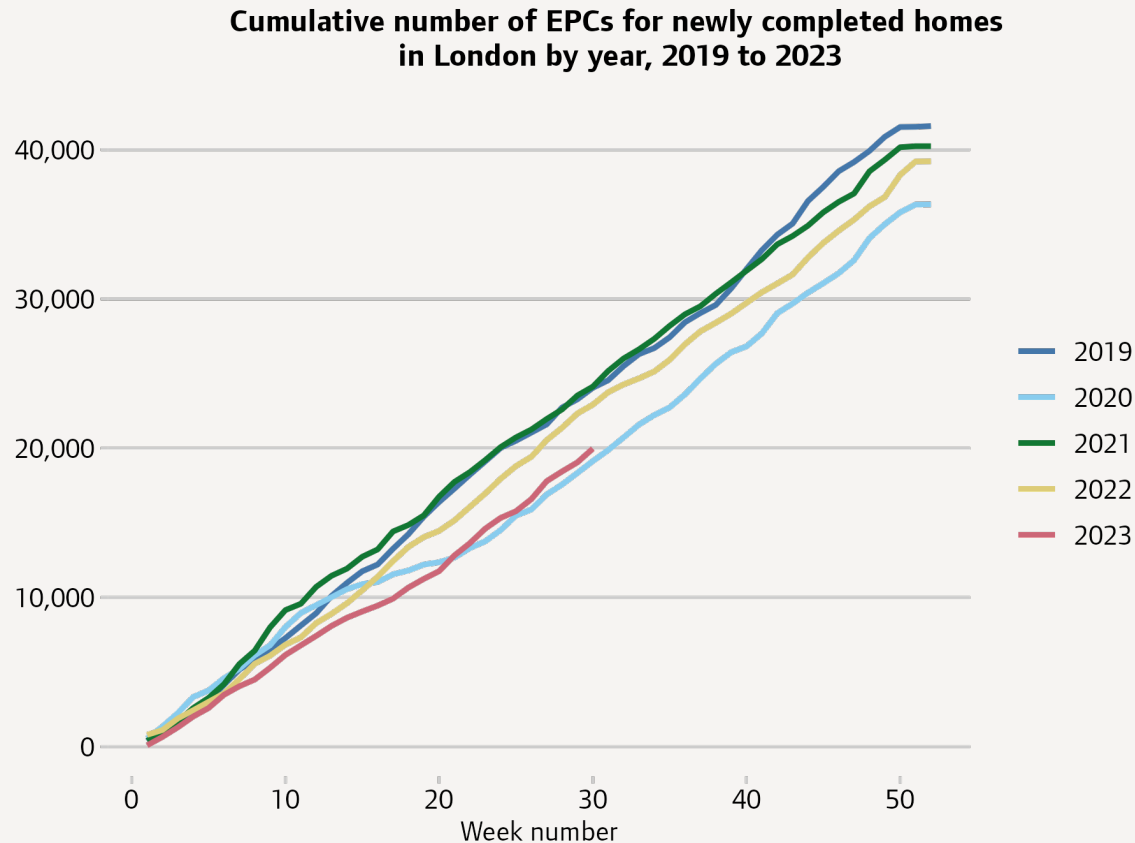
UK construction material price indices (2015 = 100)



Source: [BEIS Monthly Statistics of Building Materials and Components](#)

- Latest [BEIS data](#) shows a fall of 0.5% in the prices of materials used in new housing between May and June 2023, and an increase of 0.1% over the last year. This is the smallest annual increase since December 2020 and the monthly change indicates that there is still little sign of construction material prices rising again in the near future.
- Despite this, the main concerns for construction firms in July continued to be inflation of goods and services prices, falling demand and taxation, according to the [ONS Business Insights Survey](#). In the labour market, 20% of construction firms reported experiencing a shortage of workers in mid-July, up from 16% in June. This shortage is impacting businesses by requiring an increase in the number of employees working longer hours since June, and the number of firms having to pause trading in some parts of the business has more than doubled to 12%.

7. New housebuilding in London is running at a slower pace than in the last two years.



Source: DLUHC Energy Performance Certificate data

- [DLUHC data](#) showing the number of EPCs recorded weekly in London gives a good indication of completions, and recent figures point to a lower number of homes completed so far this year compared to the previous two years.
- The July [CIPS UK construction PMI](#) reported another sharp decline in housebuilding across the country, while commercial and civil engineering construction activity increased. Respondents to their survey again pointed to high borrowing costs as a key constraint to demand for new homes.
- In its August Monetary Policy Report, the Bank of England forecast that housing investment (which includes new construction, house improvements and spending associated with house purchases) would fall sharply by 6% in 2023, by another 6% in 2024 and by 3% in 2025, reflecting the impact of sustained high interest rates.