

**GLA** Housing and Land

# London housing market report: December 2021

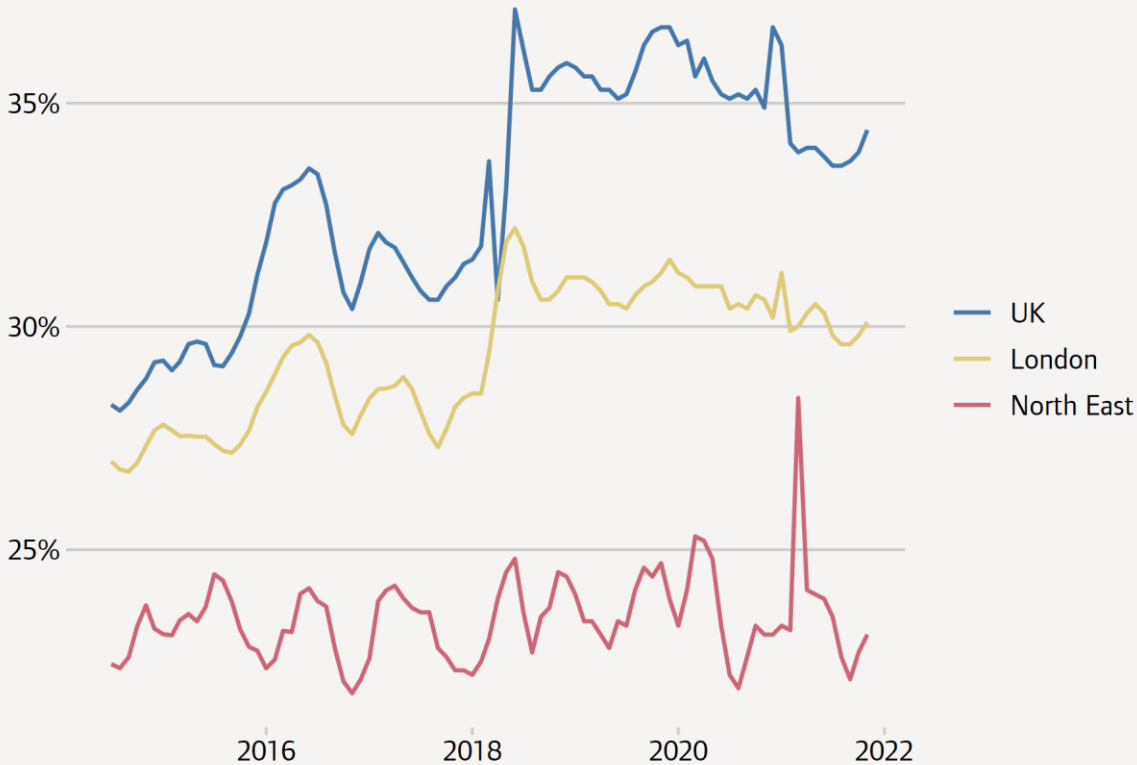
## Summary

1. Private rents across London increased considerably over the last quarter, surpassing pre-pandemic rates for the first time. Recent data indicates that rents are beginning to stabilise.
2. Stock of rental properties is low, and demand is rising in central London as renters return to the city centre.
3. Despite a large fall in demand in the sales market at the end of the Stamp Duty holiday, low supply of properties has resulted in continued moderate price growth.
4. London house price growth remains considerably lower than all other English regions.
5. Prices of construction materials continue to rise and reached a 40-year high in Q3. Despite some reports that prices have peaked, high prices are expected to continue until the end of 2022.
6. Forecasts indicate that labour shortages in the construction sector will become the largest cost pressure on the industry next year

Catarina Finnerty

1. Private rents in London rose rapidly from Q2 to Q3 this year, rising above the pre-pandemic level, but have begun to stabilise.

**Rent to income ratio in London and other regions**

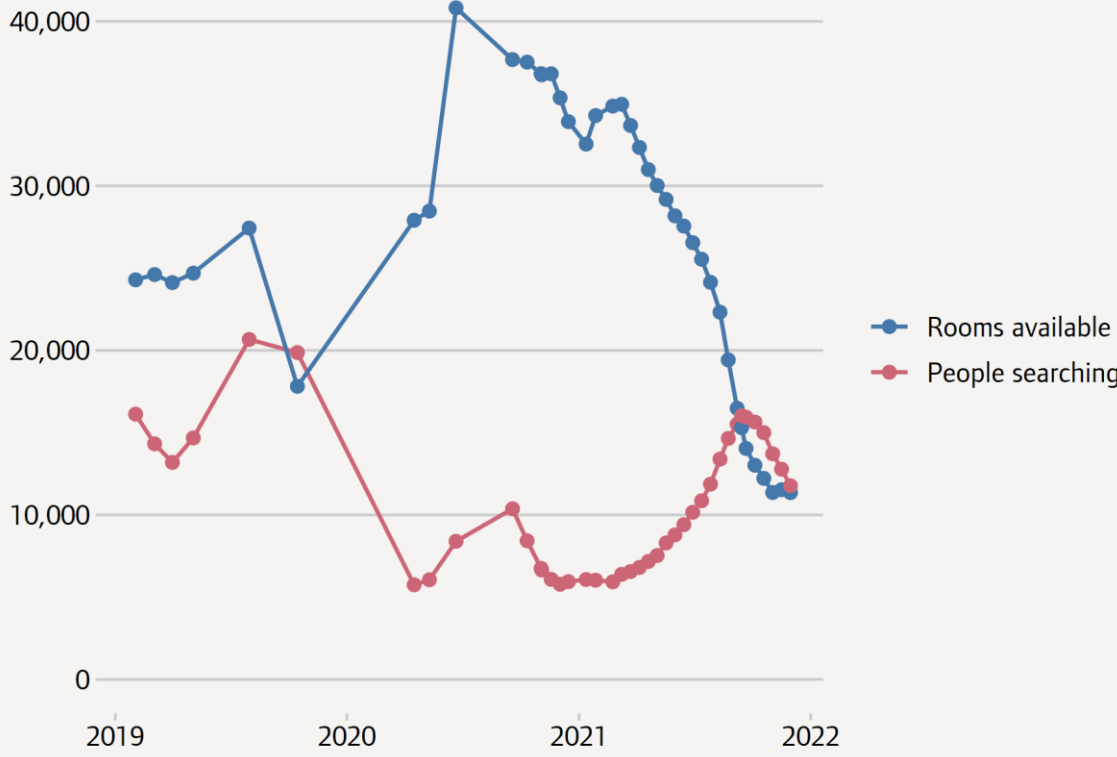


Source: Homelet rental index report November 2021

- [Homelet](#) data shows a 11.5% increase in rents in London in November compared to the same time last year. According to their figures, the average rent for new tenancies in London is £1,757 per month, 66% higher than the national average of £1,058. London rents rose quickly from May to September 2021, increasing by nearly 11% during that period, but have now stabilised.
- Data from Rightmove shows a rent price increase of 11.1% since November 2019 and a rise of 13.5% since the mid-pandemic dip in November 2020. In Q3, asking rents overtook pre-pandemic rates and by November they had reached 3% higher than before the first lockdown.
- Comparing rents to incomes in regions across the UK show that the rent to income ratio in London remains 2% below pre-pandemic levels. According to Homelet data, in the region with the most affordable rents, the North East, affordability is 1% below pre-pandemic levels, in line with the national average.

2. The central London rental market is experiencing a lack of supply and increasing demand within both the flatsharing and prime residential markets as renters are returning to inner London.

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

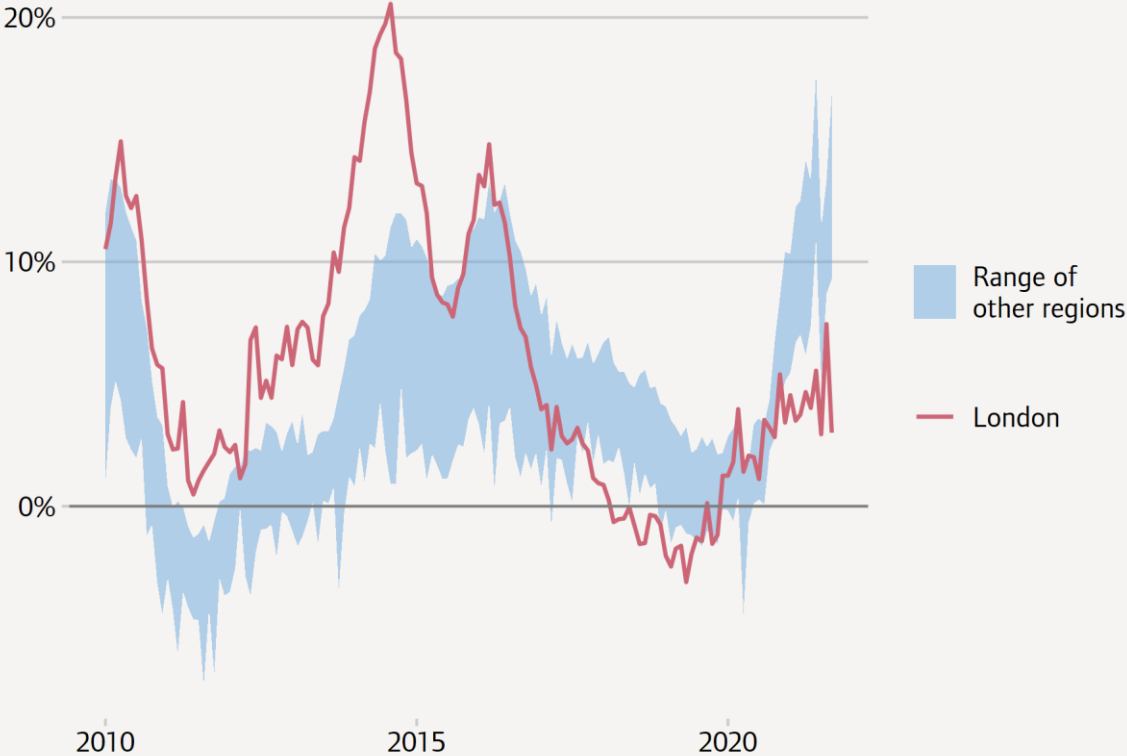


Source: Data gathered from <https://www.spareroom.co.uk/flatshare-house-share/uk/> and from archived versions of the page via the Internet Archive for before November 2020

- Data from the [SpareRoom](#) website show a fall in both the number of rooms available for flatsharing in London and the number of people searching for rooms from Q2 to Q3 2021. A significant fall in the availability of rooms has occurred in central London, where demand for rooms is more than double the supply, indicating that renters are returning in large numbers to the area.
- In the prime London market, a similar trend of low levels of supply and increasing demand are causing prices to rise rapidly. According to [data from Savills](#), prime rents in Westminster, Belgravia and Chelsea have risen by 6.4%, 6.2% and 5.7% respectively over Q3.
- Sustained growth in prime rental markets are forecasted to continue into next year, with [Knight Frank](#) predicting a rise of 7% in prime residential prices. This would represent the largest growth rate for eight years and the highest growth in Europe.

3. At 2.8%, annual house price rises in London continue to be the lowest of any English region, considerably lower than the national price growth of 11.8%.

**Annual house price growth in London and other regions**

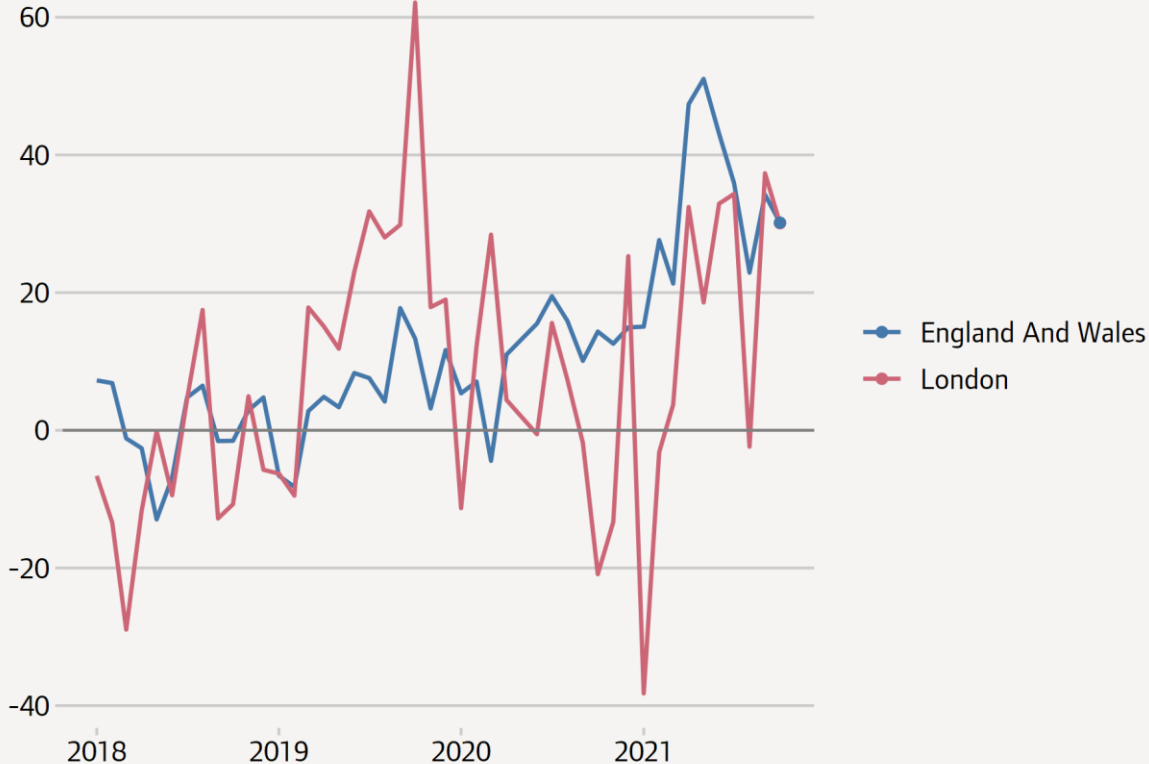


Source: ONS, UK House Price Index

- [ONS](#) data shows that house prices in London rose by 2.8% over the year to September 2021, down from a 6.7% increase in August. This means that London has reported the lowest house price increases of any English region for the tenth consecutive month, as the national price increase was 11.8% in the year to September. The average house price in London is £507,000, three quarters higher than the national average of £288,000.
- More recent data from [Rightmove](#) shows an annual increase in house prices of 2.7% in November. Data from the last month show a typical seasonal fall in prices during the pre-Christmas period, which are in line with national figures. At 6.5% Bromley has experienced the largest annual price increase of any borough, whilst Islington has seen an annual price fall of 4.4%. Annual price growth figures show no clear pattern between inner and outer London.

4. Although demand in the sales market has dampened as a result of the Stamp Duty holiday drawing to an end and low confidence amongst buyers, prices continue to moderately grow due to the low supply of homes in London.

**Change in buyer enquiries minus change in instructions to sell**

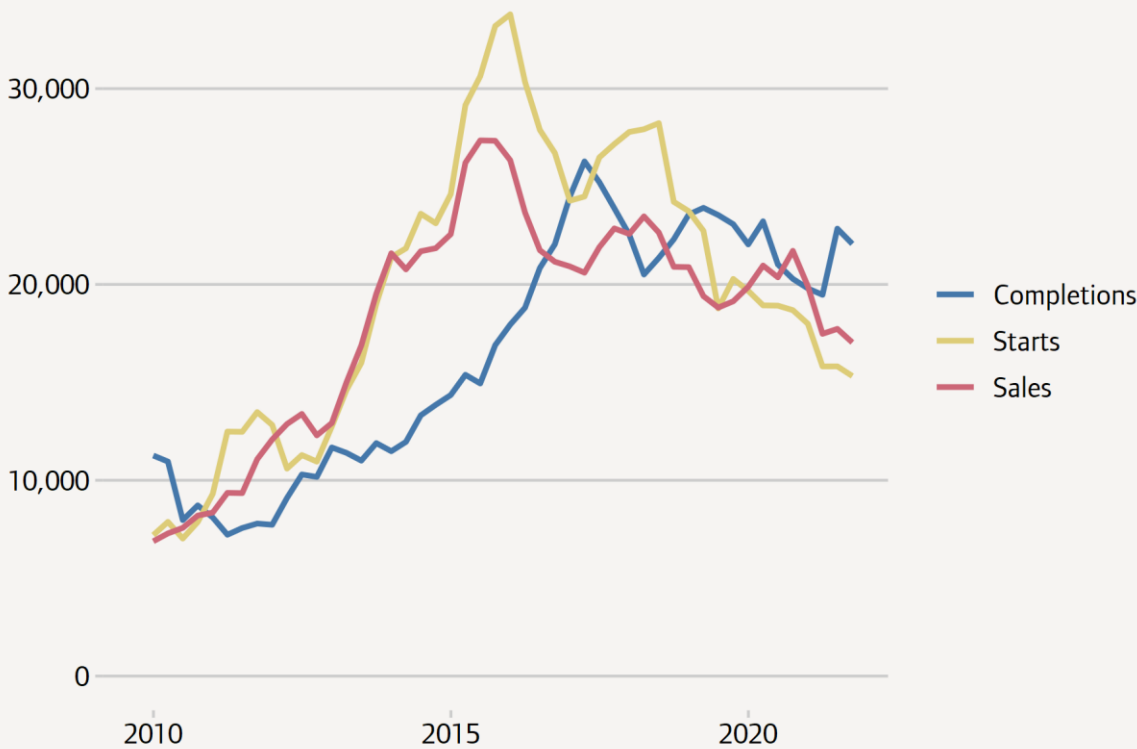


Source: RICS monthly housing market survey

- Responses to the [RICS housing market survey](#) reported a low supply of homes for sale in October 2021, which is resulting in moderate price growth despite some uncertainty amongst buyers. Buyer’s confidence is low due to the threat of interest rate rises by the Bank of England and the rise in the Omicron variant, as well as the ending of government support schemes including the Stamp Duty holiday.
- According to [UK Finance](#) data on homemover completions, home purchases fell dramatically in Q3 as expected as the Stamp Duty holiday came to a partial end. However, the fall was less significant than previously seen post-stamp duty support schemes, and activity in Q3 remained higher than the same time last year.
- Data from the government on the [Help to Buy equity loan scheme](#) show the number of homes bought under the scheme in the first quarter of 2021 was 37% higher than the same time last year.

5. Since the previous quarter, sales and starts on large developments have increased as international investment returns, but completions have fallen by 30% due to rising costs and labour shortages.

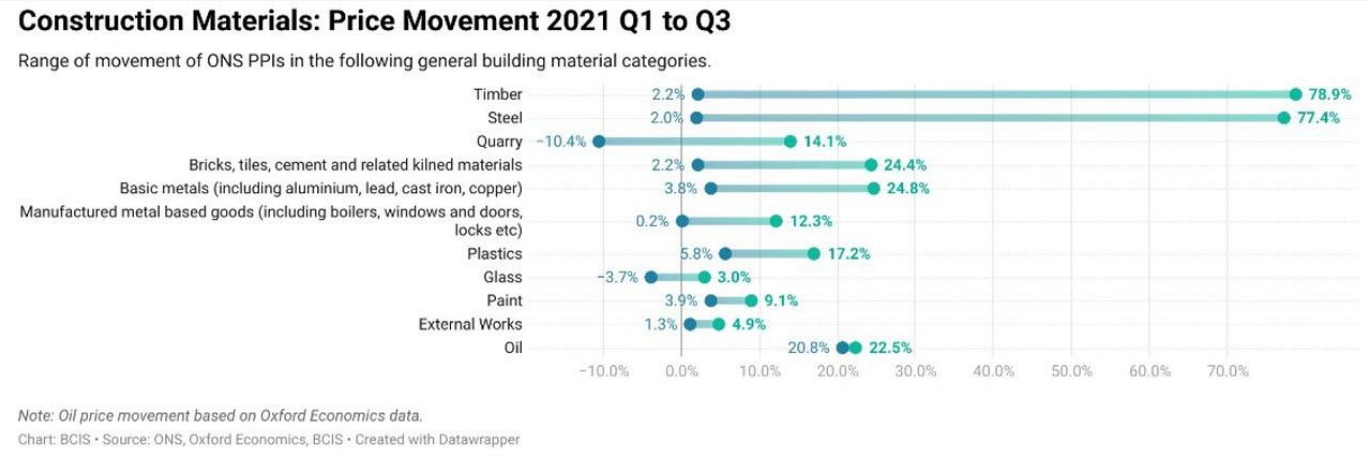
**Annualised quarterly Molior data on starts, sales and completions**



Source: Molior quarterly reports, four quarterly rolling totals

- [Molior](#) figures show a fall in the yearly rolling average of starts, sales and completions on large sites in London. Despite an increase of starts from Q2 to Q3 this year, the number of units under construction at the end of Q3 2021 is 10% lower than at the end of 2020. Similarly, Q3 saw the highest number of sales of new homes in London in the last 12 months but was still 12% less than the number sold in Q3 2020.
- Since the partial ending of stamp duty relief in June, completions of large developments in London have fallen by 30%. Some projects may have been extended due to the increases in construction costs and lack of labour availability, postponing their completion dates.
- In the last 8 weeks, [data on Energy Performance Certificates for new dwellings](#) show over 6,150 new homes have been registered in London. This figure has remained steady since mid-July, after a peak of new homes being registered in March 2021.

6. Prices of construction materials continued to rise in Q3 but may have reached their peak, whilst shortages of labour increase pressure on the sector and are forecasted to become the primary reason for build cost inflation next year.



Source: [BCIS Material Cost Index](#).

- According to the [BCIS Materials Cost Index](#) the cost of construction materials has reached a 40-year high in Q3 2021, however recent surveys suggest that prices have peaked. Timber and steel have seen the largest price increases since the first quarter of 2021, rising by 79% and 77% respectively.
- Labour and skills shortages in the construction sector continue to impact projects and are expected to become the largest cause of cost pressures next year. According to Emsi, the number of online job postings for skilled construction and building trades roles in London was 15% higher in September 2021 than in September 2019.
- In order to attract construction staff, employers have been forced to raise wages in the sector. Advertised UK construction wages rose by 6.7% from February to July 2021, according to figures from Indeed.