

Article

# Exploring recent trends in the London housing market

An exploration of the recent trends in house price growth in London utilising the national statistic UK House Price Index (UK HPI) as a measure of house price inflation.

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# 1 . Exploring recent trends in the London housing market

This article covers recent trends in the London housing market, how they vary between boroughs, experiences of different property types, and the proportion of transactions accounted for by cash and mortgage purchases and by new-builds and existing properties. Using the National Statistic UK [House Price Index](#) (UK HPI) as a measure of house price inflation, we explore recent falls in house price growth in London, putting recent headline figures into context and identifying possible explanations for the trend. As sales only appear in the UK HPI once the purchases have been registered, there can be a delay before transactions feed into the index and, as such, caution is advised when interpreting price changes in the most recent periods, which could be revised.

In recent years, annual house price growth in London has been in steady decline. From a recent peak of 14.8% in March 2016, the annual rate of house price growth has fallen sharply, with three of the last five months seeing negative annual growth, as shown in Figure 1. The provisional estimate for July 2018 has annual growth at negative 0.7%; its lowest rate since September 2009. In May 2018, and for the first time since September 2010, annual growth in rental prices in London (measured by the [Index of Private Housing Rental Prices](#) (IPHRP)) also turned negative and has remained so since then. Changes to the 12-month growth rate for [private rental prices](#) are influenced by a range of factors, including changes in the 12-month growth rate for [house prices](#), as landlords seek sufficient rental yields for the purchase price. House prices can also be influenced by changes in the rental market as demand for property by landlords moves in response to rental market trends.

## Figure 1: 12-month growth rate of the UK House Price Index and Index of Private Housing Rental Prices

London, January 2012 to July 2018

[Download the data](#)

The extent of the recent slowdown in London is not reflected in the rest of Great Britain, as shown in Figure 2, which shows the HPI for London, Great Britain and Great Britain excluding London. The rate of annual house price growth for Great Britain is provisionally estimated to be 3.1% in July 2018, down from 8.3% in March 2016.

## Figure 2: 12-month growth rate of the House Price Index

London, Great Britain, and Great Britain excluding London, January 2012 to July 2018

[Download the data](#)

Recent decreases in the annual growth rates of both house prices and rents in London should be seen in the context of longer-term trends, as both series have historically experienced increases above the UK average. In July 2018, house prices in London were around 65% higher than in January 2012 while in August 2018 private housing rental prices were around 17% higher than in January 2012.

Figure 3 shows movements in the 12-month growth rates of sales volumes and house prices for London since January 2006. The data are shown up to March 2018 as more recent sales volumes data are too incomplete to be reliable. House price growth is shown on the right-hand scale to allow for comparison between the two. Both series follow similar patterns with trends in sales volumes tending to lead those in house prices by a few months. This may reflect a relatively fixed supply of properties in the short term but may also be due to sales volumes and prices reacting to other market factors at slightly different speeds.

During the 2008 to 2009 economic downturn both house prices and transaction volumes fell sharply. This was followed by relatively strong growth in transaction volumes and increasing house price growth, particularly during 2013 and 2014. This was followed by relatively strong growth in transaction volumes and increasing house price growth, particularly during 2013 and 2014. This may have been caused by high demand for London properties with very little growth in supply. Demand for housing was, for example, boosted by consistently low interest rates and a [falling deposit ratio](#).

Sales volumes growth also shows much larger movements than seen in house prices, with short-term spikes and falls in particular having less of an effect on prices. This was most apparent when sales volumes increased sharply in March 2016, before falling back in April 2016, which coincided with the introduction of a higher rate of Stamp Duty on additional properties in April 2016. With the introduction of the higher Stamp Duty rate on additional residential properties, purchasing an additional property incurs an extra 3% Stamp Duty rate on top of the existing Stamp Duty. Sales volumes in March 2016 were almost double those in March 2015, while prices were around 15% higher than a year before. Sales volume growth then fell back to negative 31% in April 2016 while price growth only fell slightly to around 12%.

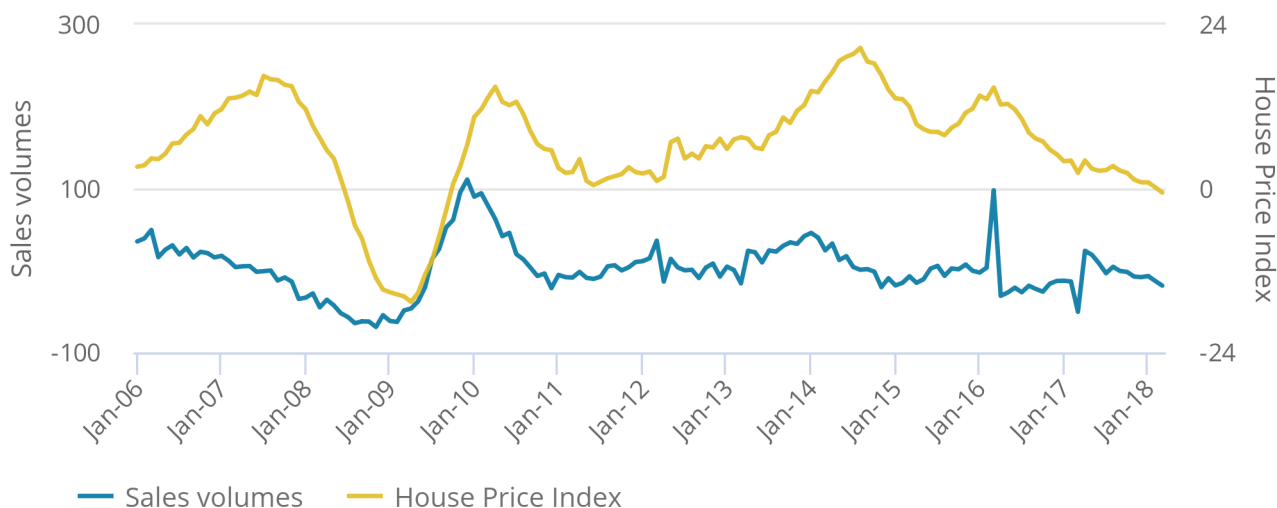
More recently, since mid-2016, we have seen a general fall in property transactions volumes in London and a slowdown in house price annual growth from around the same period. Both series have continued their downward trend with the rate of sales volumes growth having been negative for nine months between September 2017 and May 2018. This may be influenced by a slowdown in previous transactions, the buy-to-let market and other demand factors.

**Figure 3: 12-month growth rate of sales volumes and the House Price Index**

London, January 2006 to March 2018

## Figure 3: 12-month growth rate of sales volumes and the House Price Index

London, January 2006 to March 2018



Source: HM Land Registry, Office for National Statistics

Notes:

1. The most recent data is presented to March 2018 due to completeness of sales volumes data.

## 2 . Housing market trends vary between London boroughs

Figure 4 shows average annual house price growth for inner and outer London, see notes 1 and 2 below for a list of boroughs in inner and outer London. Recent negative house price growth in London appears to be driven primarily by inner London for which annual house price growth has been consistently negative for seven months. Annual house price growth for outer London has remained positive for the whole period. Both inner and outer London seem to follow similar trends in house price growth, with changes in outer London tending to appear slightly after those in inner London. Within these areas however, individual boroughs may have seen growth trends that differ from the average.

In the August 2018 Inflation Report the Bank of England pointed out that [developments in the London housing market have historically tended to lead other areas](#), with changes in the capital radiating outwards. The same may be true of inner and outer London, with changes in the centre leading those in outer London. In the most recent month the two regions with the lowest house price annual growth after London are the South East (1.8%), and East of England (2.4%), both of which neighbour London, suggesting that the downward trend may be starting to feed through to surrounding regions. However, the Bank also pointed out that “if the reasons for the current weakness in London are fairly idiosyncratic, they may indicate little about prospects for the UK housing market as a whole”.

## Figure 4: 12-month growth rate of House Price Index

### Inner London and outer London, January 2012 to July 2018

[Download the data](#)

Figure 5 shows the average 12-month growth rate in house prices between August 2017 and July 2018 for each London borough. The average 12-month growth rate in house prices in London was around 0.8% but there was a lot of variation in growth rates between boroughs. Redbridge had the highest average 12-month growth rate in house prices over the period at 4.1%, while the City of London had the lowest average 12-month growth rate at negative 6.7%. Out of 33 boroughs, nine had negative average growth rates over the period. This rises to 18 boroughs with negative annual house price growth in the most recent month, although the most recent data will be subject to revisions.

In general, the boroughs with negative average house price growth over the last year tend to be those in central and west London, where average property prices tend to be relatively high. This may indicate that house prices have reached a level from which continued high rates of growth are unsustainable.

## Figure 5: Average growth rate of House Price Index

### London boroughs, 12 months to July 2018

[Download the data](#)

The map below shows how 12-month growth rates for house prices and for sales volumes, and the average house price have changed over time across London.

## Figure 6: Movements in average house prices and the 12-month growth rate of sales volumes and the House Price Index

### London, January 2006 to July 2018

Tab 2 shows changes in the 12-month growth rate for house prices often start in boroughs in central and west London before moving outwards to the rest of the capital. This trend is visible in the build-up to the financial crisis in 2006 and 2007 where house prices were growing most quickly in central London then moving outwards, and during the economic downturn when house price growth fell sharply starting in central boroughs before reaching all of London. The same trend can be seen when house price growth increased steadily again between 2013 and 2015 and in recent negative house price growth, which has covered an increasing number of boroughs in recent months.

Annual growth in sales volumes – shown in tab 1- follows similar trends to house price growth, with increases and falls starting in the centre before radiating outwards. All boroughs had positive sales growth in March 2016 and negative sales growth in April 2016, which coincides with the introduction of a higher rate of Stamp Duty on additional properties in April 2016. The increases in sales growth in March 2016 were particularly pronounced in Kensington and Chelsea, Hammersmith and Fulham, and Richmond upon Thames.

Average price by borough, in tab 3, shows only gradual variation over time as the relative value of properties in different boroughs remains fairly static. However, it can be seen from the interactive map that house prices in all boroughs have built up gradually over the period such that none of the boroughs now have average prices in the lowest price bracket.

In order to look in more detail at the variation underlying the overall 12-month growth rate for properties in London, we can split the House Price Index a number of ways and consider trends for different property types, the role of cash and mortgage purchases, and new and existing property sales. Properties bought without a mortgage are referred to as cash purchases regardless of the actual payment method.

### **3 . All property types have seen similar movements in price growth and sales volumes**

Figure 7 shows annual house price growth in London for flats, terraced houses, semi-detached houses and detached houses. Although they have all followed broadly similar downward trends in annual growth over recent years, only two have seen negative growth in the last few months – flats and detached houses. Flats make up a relatively high proportion of property transactions in London – around 55% in 2017 – so the fall in prices for flats, rather than detached properties, is likely to be driving the recent downturn.

#### **Figure 7: Annual price growth rate by property type**

**London, January 2012 to July 2018**

[Download the data](#)

Figure 8 shows sales volumes by property type for London as a whole since Quarter 1 (Jan to Mar) 2013 using HM Land Registry's Price Paid Data, which tracks property sales in England and Wales. The amount of time between the sale of a property and the registration of this information with HM Land Registry typically ranges between two weeks and two months. Data for the two most recent months are therefore incomplete and do not give an indication of final monthly volumes.

Across the whole period more flats have been sold each month than any other property type in London. However, there was a sharp drop in Quarter 2 (Apr to June) 2016.

The rush to complete transactions in Quarter 1 (Jan to Mar) 2016 may partly explain the drop in Quarter 2 (Apr to June) 2016 but sales volumes have remained relatively muted in the period since. One possible explanation is that the higher rate of Stamp Duty may be deterring landlords from investing in the capital. London has historically had a strong buy-to-let market, with higher rates of multiple property ownership than elsewhere in the UK. With the introduction of the new Stamp Duty rates, purchasing an additional property incurs an extra 3% Stamp Duty rate on top of the existing Stamp Duty. With high average house prices in London, this 3% is likely to amount to a relatively large charge. An alternative option for investors choosing to still invest in the property market would be to split their investment between multiple properties. This would be more feasible to do outside of the capital and may reduce the overall Stamp Duty rate if investing in lower-value properties, which fall within lower Stamp Duty bands. The London housing market may also have been particularly affected by [a fall in net EU migration and wider uncertainty following the Brexit referendum result](#) in June 2016.

Additional properties may account for a higher proportion of sales for flats than for other property types. Flats also typically make up a higher proportion of property transactions in inner London than outer London. It is unclear whether the fall in annual price growth for flats reflects the fall in price growth in inner London, or the other way around, or whether other factors are affecting both.

#### **Figure 8: Quarterly sales volumes by property type**

**London, Quarter 1 (Jan to Mar) 2012 to Quarter 2 (Apr to June) 2018**

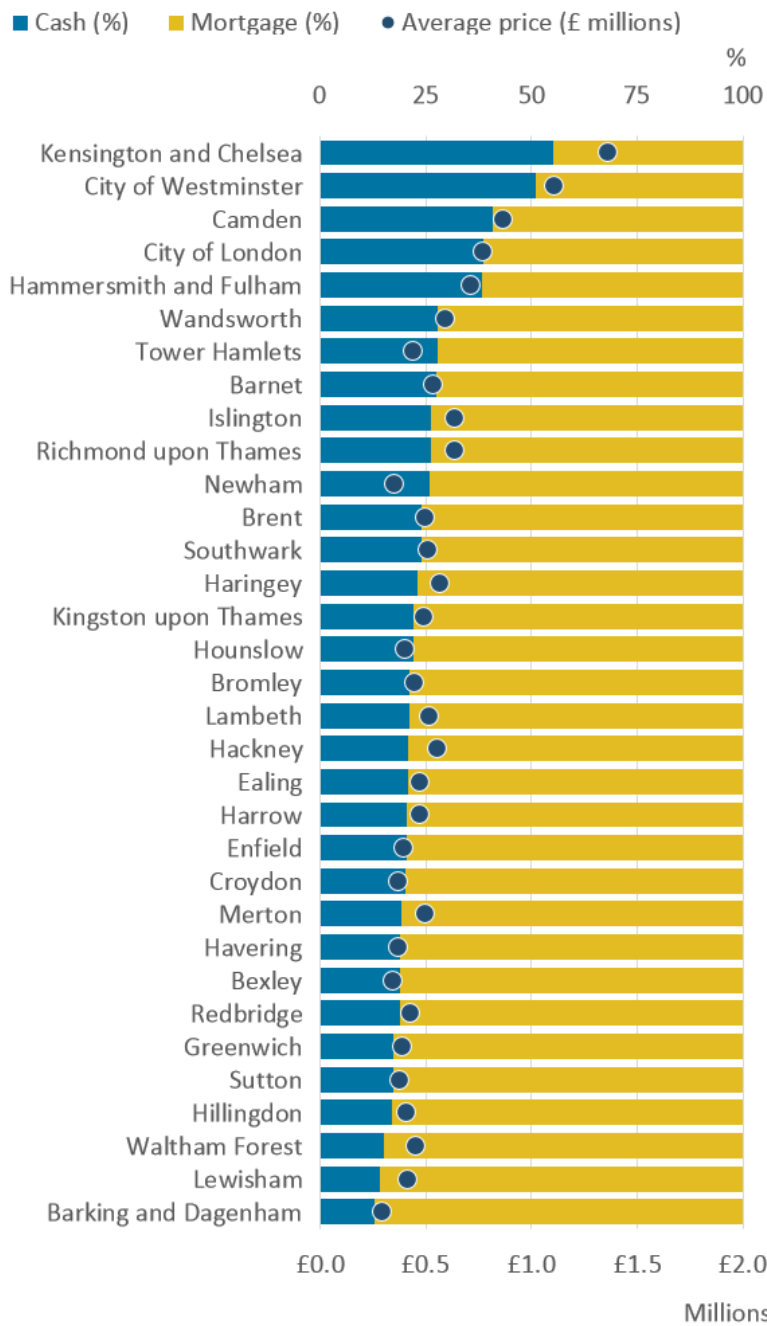
## **4 . Cash purchases account for a varying proportion of total transactions by borough**

Cash purchases account for around a third of property transactions in London and have shown little variation over the period since January 2012. The proportion of sales varied from a peak of 32% in May 2017 to a low of 20% in May 2018. Average prices for cash and mortgage purchases have followed very similar trends over the period, with the average price of properties bought as a cash purchase in London being consistently higher than those purchased with a mortgage. The average price of a property bought as a cash purchase in July 2018 was £512,000 while the average price of a property bought with a mortgage in July 2018 was £477,000.

Although the proportion of transactions accounted for by cash purchases in London has remained fairly stable over time there is considerable variation between London boroughs. Figure 9 shows the proportion of property transactions in each borough that were completed as cash or mortgage purchases in 2017, as well as the average house price by borough. Broadly speaking, boroughs with higher average house prices also have a higher proportion of property transactions that were cash purchases. The proportion of property sales accounted for by cash purchases ranged from around 13% in Barking and Dagenham to around 55% in Kensington and Chelsea. The higher proportion of cash purchases in boroughs with higher average house prices may reflect the relative desirability of properties in those boroughs.

**Figure 9: Sales volumes proportion for cash and mortgage purchases (top axis) and average price (bottom axis)**

London boroughs, 2017



1. The funding status of every property transaction cannot be determined, as such the sum of the cash and mortgage transactions may not equal the total.

Source: HM Land Registry, Office for National Statistics

Notes:

1. The funding status of every property transaction cannot be determined, as such the sum of the cash and mortgage transactions may not equal the total.



As overall cash and mortgage purchases have followed similar trends they are unlikely to explain the recent downturn experienced in London. However, some of these data may reflect that downturn. For example, the overall proportion of cash purchases in London has been slightly lower in recent months. This may reflect reduced demand for properties in inner London, which also has the highest proportion of cash purchases. The boroughs with the highest proportion of cash purchases also have relatively high average prices so reduced demand in those boroughs may account for some of the reduction of overall house price growth in London.

## **5 . Sales volumes in London and the rest of Great Britain increased sharply in March 2016**

Figure 10 shows sales volumes in London, Great Britain, and Great Britain excluding London from January 2012 to May 2018. All three series show a sharp spike in property transactions in March 2016, immediately prior to the introduction of a higher rate of Stamp Duty on additional properties in April 2016. Sales volumes fell sharply when the new Stamp Duty rate was introduced in April 2016, with volumes in London having remained relatively low in the period since while sales volumes in Great Britain, and Great Britain excluding London both returned more closely to their previous levels.

### **Figure 10: Sales volumes**

**London (right panel), Great Britain (left panel) and Great Britain excluding London (left panel), January 2012 to May 2018**

[Download the data](#)

Figure 11 shows the annual growth rate of sales volumes in March and April 2016 for each London borough. All boroughs, apart from City of London, saw a large increase in sales volume growth in March 2016 and a drop in sales volume growth in April 2016. There is no obvious pattern to the boroughs that saw the largest difference in volumes growth between March and April 2016. The lack of increase in City of London in March 2016 likely reflects the small sample size.

### **Figure 11: Annual growth rate of sales volumes**

**London boroughs, March 2016, and April 2016**

[Download the data](#)

## **6 . Prices for new-builds and existing properties are more similar in London than in the rest of Great Britain**

The downward trend in sales volumes has been particularly pronounced for sales of existing properties that, since mid-2016, have broadly remained below previous trends. By contrast, sales volumes for new-builds saw a slight spike and drop around the time of the Stamp Duty change but remain in line with previous trends. Since then, transactions for new-builds have remained relatively high and have not seen the sustained low levels experienced for existing properties.

This may reflect supply-side differences as the existing property market is more able to respond in the short-term to policy changes or price changes, whereas the supply of new-build properties is subject to other factors such as long-term investments, planning permission and building times, which cannot always be changed quickly in response to market factors.

Figure 12 shows average prices for new-builds and existing properties since January 2012 for London and Great Britain excluding London. In London, both series have followed similar trends for most of the period but have deviated more recently with new-build prices outstripping those for existing properties since September 2016. This contrasts with trends in the rest of Great Britain where average prices for new-build properties have consistently been above those for existing properties throughout the period.

## Figure 12: Average prices for new and existing builds

### London and Great Britain excluding London, January 2012 to May 2018

[Download the data](#)

Figure 13 shows the proportion of property transactions accounted for by new and existing properties in each London borough in 2017, as well as the average price for new and existing properties for each borough. The proportion of property sales accounted for by new-builds varies considerably between boroughs, from a high of 45% in Newham to a low of 3% in Islington.

The sustained demand for new-build properties as well as the recent growth in prices for new-builds may be partly driven by changes to the Help to Buy scheme. Help to Buy in England provides a loan to people purchasing a new-build property up to the value of £600,000, other similar schemes operate in Scotland, Wales and Northern Ireland. The buyer must provide a deposit of at least 5% of the property value with an additional 20% of the value being provided as a loan from the government. In February 2016, the government increased the upper limit for the equity loan from 20% to 40% for Greater London.

House prices in London are historically high and remain unaffordable for many, with potential buyers also often facing high rents, which make it difficult to save for a deposit. By reducing the amount of deposit required, Help to Buy is likely to make purchasing a new-build property more feasible for potential buyers. This may partly explain the sustained demand, and prices, for new-build properties as a proportion of those who can buy new-build properties would be unable to afford to buy an existing property without the help of the equity loan. This is likely to be particularly relevant in boroughs where the average price of new-build properties is close to, or even less than, that for existing properties.

Help to Buy [release data on the number of Help to Buy equity loans](#) taken up by London borough by quarter. Although the data are not directly comparable with the HPI we can use them to give a sense of how many new-build transactions may be accounted for by Help to Buy transactions in each borough. There appears to be no clear correlation between boroughs with a high proportion of new-build transactions and a high proportion of those transactions being completed through Help to Buy. Those with the highest proportions of new-build transactions generally have amongst the lowest proportions of Help to Buy loans. This suggests that the high proportions of new-build transactions are not being driven specifically by Help to Buy, but may reflect other factors such as the affordability of properties, general demand for properties in those boroughs and other local factors.

**Figure 13: Proportion of new and existing properties sales volumes (top axis) and average prices (bottom axis)**

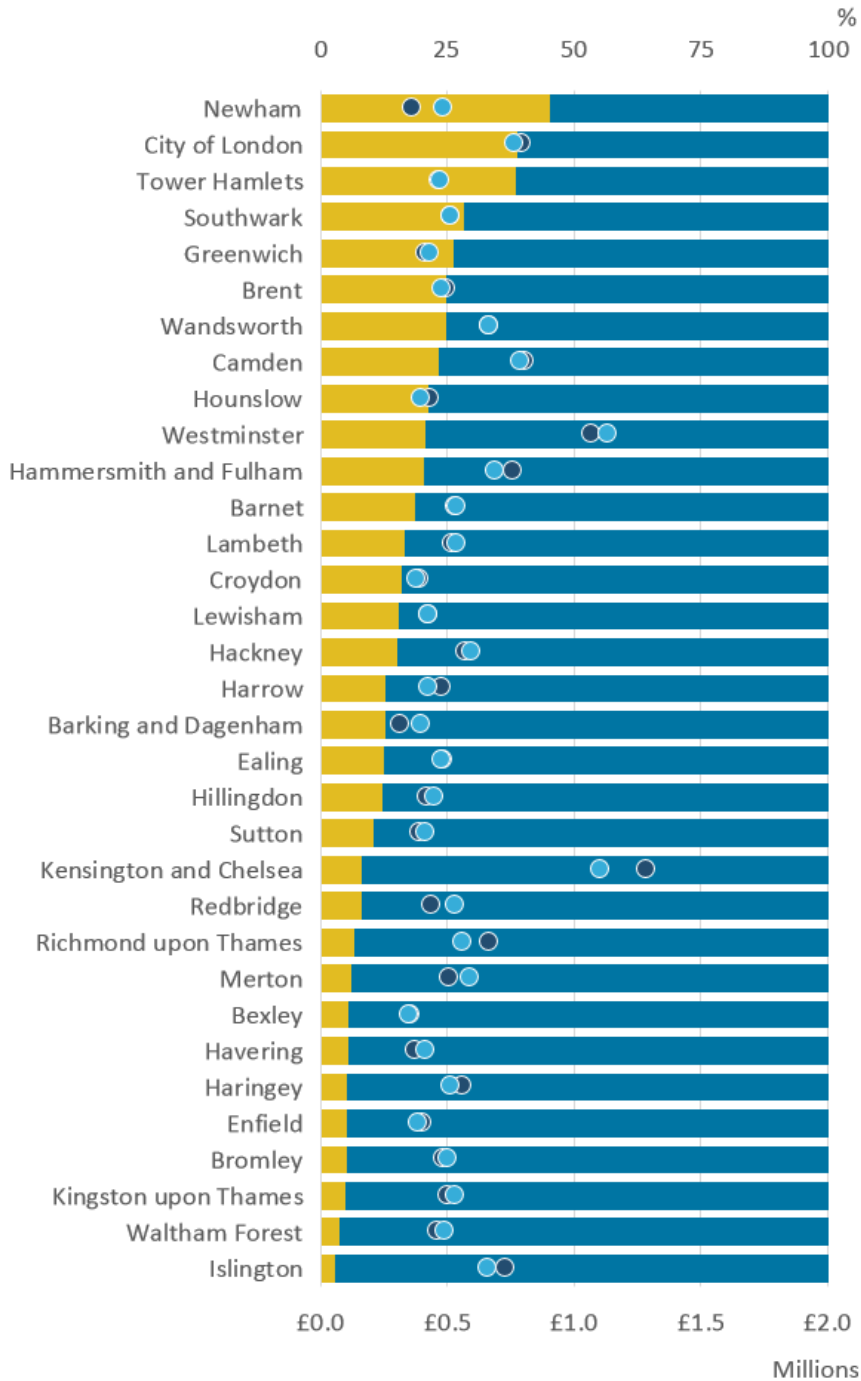
**London boroughs, 2017**

Proportion of sales

■ Existing builds (%)      ■ New builds (%)

Average price

● Existing builds (£ millions)   ● New builds (£ millions)



Source: HM Land Registry, Office for National Statistics

## **7 . Conclusion**

Recent negative house price growth has primarily been concentrated in inner London but the most recent data suggest it may now also be radiating outwards. This may reflect trends seen previously where changes start in inner London before moving outwards to the rest of the capital and the rest of the country. On the other hand, in the context of previous sustained high price growth, the recent downward trends within London may reflect factors that are less relevant to the rest of the country.

London seems to have been more affected than the rest of Great Britain by the dip in sales volumes in the second quarter of 2016. This may be because London historically has a relatively large proportion of additional properties that are now subject to a higher rate of Stamp Duty. It may also reflect other factors such as uncertainty following the Brexit referendum result and local factors given the variation by borough.

Sales volumes for existing properties fell by more than those for new-builds from mid-2016. However, average prices for new-builds have grown more quickly in recent months than those for existing properties. This may partly reflect the influence of the Help to Buy scheme that makes it easier for people to purchase a new-build property under £600,000. Boroughs with average prices below £600,000 are more likely to be in outer London than inner London, which may account for some of the difference in house price growth between inner and outer London.

## **8 . Authors**

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