
Q1 - 2025
BAARTZ

LONDON PRIME PROPERTY MARKET Q1 UPDATE

Welcome.

Prime Central London Sales: Flat Prices and Cautious Demand

Prime central London (PCL) property prices have remained broadly flat over the past quarter. In fact, average PCL values ended 2024 about **1% lower year-on-year** , reflecting a market that is still roughly **17% below its last peak (2015)** . The annual price change in January 2025 was a modest **-0.8%** – an improvement from the steeper **-2.3% decline** seen a year earlier . This stabilisation suggests that the sharp corrections of recent years may be bottoming out, aided by a slightly more favourable interest rate environment mid-2024 .

Buyer demand in PCL has been subdued as the new year begins. The data suggests the number of new prospective buyers registering in London was **8% below the five-year average** in the second half of 2024, with **offers made down 11%** over the same period . High borrowing costs and political uncertainty (especially around taxation of foreign owners) have made buyers more cautious. Cash buyers are in a strong position to negotiate, and indeed **transaction volumes held steady** in 2024 (up 0.5% vs 2023) thanks to a late-year bounce when clarity emerged on taxes . Overall, PCL values have been essentially *treading water for about four years* now . This pause, combined with the price dip since 2015, means savvy investors see **relative value in London** compared to its heyday . As one analyst noted, fifteen years ago any bout of global market volatility would send international money rushing into PCL as a safe haven – today that effect is more muted , partly due to tax and regulatory changes dampening foreign enthusiasm.

Prime Lettings: Slower Rent Growth but Strong High-End Demand

London's **prime lettings market** has been a story of cooling growth in recent months – but with notable strength at the very top end. After the pandemic-era rental surge, **supply has finally started to build**. The number of new rental listings across prime central and outer London was **3% higher in 2024** than in 2023 as some landlords returned to the market. This easing of the supply crunch helped calm the frantic rent rises of prior years. **Average rents in prime central London rose only about 0.6% in the year to January 2025**, a dramatic slowdown from the **7%+ annual growth** seen a year before . For 2024 as a whole, PCL rents were virtually flat (+0.7% YoY) . In prime outer London, rent growth was similarly muted at ~1% – the slowest pace since mid-2021 . Essentially, the rental market has moved back to a more **balanced, "business as usual" state** after several years of extreme shortage-driven leaps.

Yet within this calmer picture, the **high-end lettings segment is booming**. Political uncertainty around new tax rules for *non-domiciled* (non-dom) residents has led many wealthy international buyers to **rent rather than buy in London** for now . In the final quarter of 2024, the number of tenancies starting above **£1,000 per week was 8% higher** than the same period a year prior; in the **super-prime (£5,000+ per week)** bracket, tenancies jumped **11%** . By contrast, rental activity in the broader market (all price levels) dipped 12% in that quarter amid post-election seasonal lull.

With rents levelling off and prime values flat, **rental yields in PCL have improved**. In blue-chip neighbourhoods like Chelsea, gross yields for flats now average around **4.2%** – historically robust for prime London. (By comparison, just a couple years ago yields nearer 3% were common, before rents climbed ~25% since 2021 .) These healthier yields, combined with softer prices, have attracted interest from investors seeking income. However, landlords remain wary of upcoming regulations – for example, the UK's Renter's Reform Bill (ending no-fault evictions) could shrink the rental supply later in 2025, potentially swinging the pendulum back to **tighter supply and faster rent rises** if some landlords sell off . For now though, London's prime rental market has settled into a more stable equilibrium: **demand from tenants is holding steady (+0.6% in 2024)** and well-matched by

gradually rising supply . Global Perspective: How London Stacks Up vs. New York and Monaco

London's prime market doesn't exist in a vacuum – it's instructive to compare it with other elite global property hubs like **New York** and **Monaco**. All three locations are renowned for eye-watering prices and coveted by international investors, but there are clear differences in pricing levels, investor sentiment, and policy influences.

• **Pricing:** By global standards, *London and New York are almost neck-and-neck on pricing*, while Monaco reigns as the priciest market on the planet. According to Knight Frank, **US $1 million buys roughly 34 square meters of prime property in New York, 33.5 sq m in London, but only about 16 sq m in Monaco** . In other words, $1M might snag a comfortable **366 sq ft** pied-à-terre in Manhattan or a similar-sized flat in Kensington, but in Monaco you'd only get **172 sq ft** – literally about the size of a parking space. It's no surprise Monaco's average prices are in a league of their own, having climbed **38% over the last decade** to make the principality the **world's most expensive luxury housing market** . For context, prime London and New York saw modest **price dips of around 2% in 2023** , whereas Monaco still notched a small increase (~1%). Both London and New York remain below their all-time price peaks (London ~17% below, New York ~8% below) , suggesting some room for recovery. This relative "value" argument is part of the appeal for buyers eyeing London or New York now, whereas **Monaco's prices rarely correct much** due to chronically tight supply.

• **Rents & Yields:** Prime rental markets boomed on both sides of the Atlantic recently, but are showing signs of cooling. New York's luxury rents have skyrocketed – over the three years leading up to Q1 2024, **rents in New York jumped 54%**, a surge *matched by London* (and Singapore) during the same period . These synchronised rent hikes pushed yields slightly higher in both cities. Gross yields for ultra-prime residential assets in New York City tend to hover in the low- to mid-3% range, comparable to prime London's ~3-4% range, though local factors (property taxes, maintenance fees) can narrow the net returns. In Monaco, rents are also extremely high – in fact, Monaco was **the world's most expensive rental market** last year . Even a relatively modest 1,100 sq ft apartment can command around **$19,000 per month in rent** in Monaco . Despite these hefty rents, the extraordinary capital values mean Monaco's rental yields are often the lowest of the three (many owners are more interested in capital preservation than income). In summary, **London and New York offer broadly similar rental yields (around 3%** on prime residences), whereas **Monaco offers a super-safe haven at closer to 1–2% yields** – ultra-low by normal standards, but acceptable to billionaire investors who prize Monaco's unique advantages.

• **Investor Sentiment:** Investor sentiment in all three hubs has been mixed lately, influenced by economic forces and local policies. In *London*, sentiment is cautious but not negative – the city's long-term appeal as a global financial centre keeps investors interested, but many are in "wait and see" mode pending clarity on taxes and the post-election policy environment. Notably, changes to the UK's **non-dom**

tax regime (shortening the tax-free period for foreign residents) have made some wealthy buyers hesitate on London purchases . This group hasn't disappeared – many are simply **renting in London short-term** (as noted) while keeping an eye on whether the government might tweak inheritance tax or offer other incentives . By contrast, *New York* sentiment has been buoyed by a robust U.S. economy but tempered by high interest rates. The U.S. Fed's tightening cycle made mortgages costly in 2024, slowing some buyer activity, yet New York's luxury market has shown resilience. A healthy number of domestic U.S. buyers (tech and finance professionals, bolstered by stock market gains) have offset any drop in overseas buyers. In fact, New York overtook London in 2024 to rank **#2 globally for ultra-prime ($10M+) home sales** by volume (trailing only Dubai) – a sign that rich buyers are still confident investing in NYC. Meanwhile, *Monaco* investor sentiment remains arguably the strongest of all. The principality's appeal as a **"magnet for the super-rich"** is undimmed – with no income or capital gains taxes, political stability, and glamour, Monaco real estate is seen as a quasi-**store of wealth**. Demand far outstrips supply in Monaco's 2 km² territory, so even global downturns barely dent its luxury property values. Investors in Monaco are typically ultra-wealthy individuals prioritising asset safety and lifestyle over short-term gains, and their sentiment stays positive as long as Monaco maintains its exclusivity (which it diligently does).

- **Regulatory Influences:** The policy landscape is an increasingly important driver differentiating these markets. *London* has introduced several measures in recent years that affect investors: a **2% foreign buyer stamp duty surcharge**, higher stamp duty tiers for luxury homes, and the impending end of no-fault evictions (part of renter protections) all factor into investment decisions. The recent change of government has also brought talk of further tax changes – for example, potential reforms to property taxes or non-dom status – injecting a bit of uncertainty. On the flip side, the UK chose **not** to implement a blanket foreign-buyer ban (unlike, say, Canada's temporary ban), keeping London relatively open to international capital. In *New York*, real estate regulation tends to focus on rent controls for lower-end apartments and high property taxes, rather than restricting foreign purchases. New York State has occasionally debated a "pied-à-terre tax" on luxury second homes, but so far this has not materialised. However, closing costs in NYC are steep (including mansion taxes on pricey sales), and annual property taxes can significantly eat into returns – effectively a form of ongoing regulation that investors account for. Also, the political environment in the U.S. (with a new presidential term beginning in 2025) could influence fiscal policy and investor confidence indirectly . Turning to *Monaco*, its regulatory stance is uniquely favourable to wealthy residents: there are **no annual property taxes**, and purchasing is straightforward for foreigners – though obtaining residency in Monaco requires a substantial financial commitment (e.g. a €500,000+ bank deposit) . Strict building height limits and lengthy approval processes also severely constrain new development, effectively **regulating supply** to remain low. Thus, Monaco's policymakers intentionally keep the market tight and exclusive.

Key Takeaways and Outlook

London's prime market in Q1 can be characterised as *stable but in a holding pattern*. Prices are essentially flat and still below peak, offering potential upside if political clouds clear.

Rental yields have improved on the back of slow but steady rent growth, which is good news for investors seeking income . Demand is there, but buyers are negotiating hard and waiting for the right moment – evidenced by slightly lower buyer inquiries but a small uptick in completed sales . Much hinges on **key drivers** like interest rates (will cuts come later in 2025 to ease financing costs?), tax policy (will the UK refine its stance to retain global investors?), and supply trends (will more listings finally give buyers options, or will landlords exit and tighten the rental supply?).