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Spring in the London Property Market: Key Trends in 2025

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As spring arrives, London's residential property market finds itself in a state of transition. House prices have remained stable, rental demand is at record levels, and buyer sentiment is showing early signs of improvement.

With shifting government policies, the prospect of lower interest rates, and a stabilising economic backdrop, many are asking: *what's next for the capital's housing market?*

House Prices: A Market Finding its Feet

London's house price growth has stagnated, reflecting affordability pressures and the impact of high mortgage rates. As of early 2025, annual house price growth in the capital stands at 0%, the weakest of any UK region. The average London property is valued at £548,939, with only a modest increase of £1,400 over the past year.

However, the stability in pricing may indicate a market reaching equilibrium. While demand slowed in early 2025, following a rush of transactions in late 2024 (ahead of stamp duty changes), surveyors and market analysts anticipate a gradual pick-up in activity later this year as interest rates ease.

Regional disparities remain stark. Outer London boroughs, particularly in East London, have seen the strongest price growth, as affordability constraints push buyers further from the city centre. Barking and Dagenham, Redbridge, and Havering all recorded average price increases of £5,000 – £7,000 in 2024, in contrast to prime central London, where values fell in boroughs like Kensington & Chelsea and Westminster.

For prospective buyers, affordability remains a key challenge. Higher mortgage rates have limited purchasing power, keeping many renters from stepping onto the property ladder. That said, as inflation eases and mortgage costs gradually decline, confidence is expected to improve, supporting a recovery in demand as 2025 progresses.

A Relentless Rental Market: Prices Keep Climbing

London's rental market remains under immense pressure, with demand far outstripping supply. Private rents in the capital surged by 11% in the year to January 2025, the highest growth rate of any UK region. The average monthly rent in London now stands at £2,227, with central boroughs commanding significantly higher rates.

Several factors are driving this continued surge:

- The affordability squeeze in the buying market has kept many would-be homeowners renting for longer.
- A shortage of rental stock - partly due to landlords selling up amid higher mortgage rates and regulatory pressures - has constrained supply.
- Strong demand from international tenants and corporate relocations has further intensified competition for prime rental properties.

While there are early signs of rental demand easing slightly - with tenant enquiries declining for a fourth consecutive month - this may simply reflect seasonal factors or affordability constraints. Landlords still anticipate further rent increases in 2025, given that demand continues to outpace available properties.

For tenants, this trend presents ongoing challenges. With fewer properties on the market and intense competition, bidding wars on rental homes have become increasingly common. Many renters are being forced to consider smaller properties, move to more affordable boroughs, or extend existing tenancies to avoid the uncertainty of finding a new home.

For investors, however, the rental market presents opportunities. Yields have improved, particularly for cash buyers, as rising rents enhance the long-term attractiveness of buy-to-let investments - despite higher borrowing costs.

Buyer Trends: What's Driving the Market?

While buyer demand slowed in early 2025, this is largely due to the end of temporary stamp duty reductions in March, which prompted a rush of purchases in late 2024. Many buyers pushed forward their transactions to take advantage of tax savings, leaving a short-term gap in demand.

However, the fundamentals of the market suggest demand will strengthen later in the year, driven by:

- A stabilising economic outlook, with wage growth now outpacing house price growth.
- Gradual reductions in interest rates, which will improve affordability and encourage more buyers into the market.
- Continued demand from first-time buyers and professionals, particularly in more affordable boroughs.

For international buyers, uncertainty surrounding tax changes - particularly regarding the treatment of non-domiciled residents - has led some high-net-worth individuals to rent rather than buy. This shift has driven record-high super-prime rental values, with properties over £5,000 per week seeing an 11% increase in tenancies year-on-year.

Meanwhile, family homes and larger properties in outer London boroughs have seen stronger demand, as buyers seek more space while still benefiting from relative affordability.

Key External Factors Shaping the Market

Several macroeconomic and policy factors are influencing the direction of London's property market:

Interest Rates and Mortgage Costs
After sharp increases in 2022 and 2023, the Bank of England has now paused rate hikes, with expectations of gradual cuts throughout 2025. This will be a key turning point for the housing market, making mortgages more affordable and unlocking demand from buyers who have been waiting on the sidelines.

Economic Growth and Employment
London's job market remains strong, with key sectors like finance, technology, and professional services continuing to expand. Wage growth is now exceeding house price growth, which should help to improve affordability over time.

Government Policy and Housing Supply
With a new government in place, policy changes are expected to focus on increasing housing supply. Revised planning rules will reintroduce mandatory housing targets, and efforts to speed up the development process could improve the supply of new homes.

However, changes to rental regulations - including the proposed abolition of Section 21 'no-fault' evictions - could reduce private rental supply if landlords exit the market. This could lead to further upward pressure on rents in an already tight market.

Looking Ahead: A Market for Landlords to Hold Steady

London's residential market is at a turning point, but landlords should think twice before selling up. While uncertainty remains, several key indicators suggest that retaining buy-to-let properties could be the best approach in the current climate:

- Rents continue to rise, and with tenant demand still exceeding supply, landlords are in a strong position.
- Property values have stabilised, and with interest rates expected to fall, the likelihood of a recovery in house prices increases later in the year.
- Exiting the market now means selling into a flat pricing environment, whereas a longer-term approach could allow landlords to benefit from price appreciation when demand rebounds.

Rather than selling in reaction to short-term regulatory pressures, landlords may benefit from a wait-and-see approach, particularly as financial conditions begin to ease. As interest rates fall and buyer confidence returns, the capital's property market is expected to strengthen, making it a potentially rewarding time for those who stay the course.

If you're considering selling or renting, contact us for a no-obligation assessment of your property and portfolio. Our expert team is on hand to provide clear, professional advice to help you make the right decision in today's evolving market.

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