

Prime Central London

Q4 2022

Prime Collection



Prime Central London sales market

2022 was a record-breaking year for Prime Central London (PCL). Buyers spent almost £5.2 billion on homes last year, 9% higher than in 2021, already a strong year, and the highest amount spent for more than ten years. Even in 2014, when sales reached £4.94 billion, 5% less was spent than in 2022.

Part of the reason for the higher spend overall was an increase in sales activity at the top end of the market. The amount spent on homes sold for £10 million or more rose 16% on 2021 and was 81% higher than the total spend in 2019.

But it was not all about big spenders. The number of homes sold in 2022 was up 6% on a busy 2021 and just 1.4% lower than in 2013, the busiest year for sales in the last decade.



Properties on the market at year end



Source: JLL Research/ LonRes



Prime Central London has not been immune to political and economic uncertainty that has overshadowed the UK market in recent months. On one hand there is less reliance on debt in the prime market than in mainstream, meaning fluctuations in interest rates have less of an impact, however increased uncertainty, and a higher proportion of discretionary purchasers in PCL have resulted in prices falling back in Q4.

The JLL Prime Central London Index recorded a 3.5% quarterly fall in Q4 2022. With prices ending the year 2.4% lower than in Q4 2021.

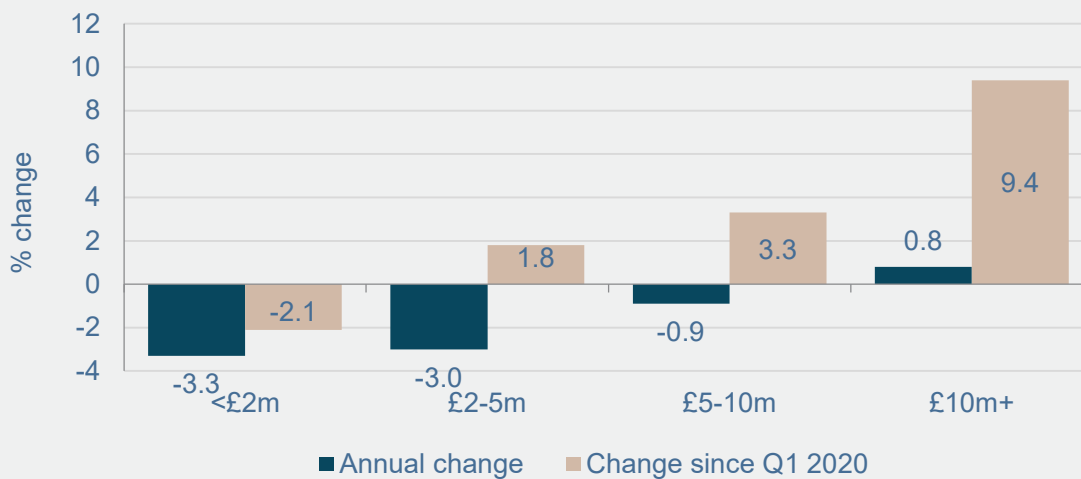
Prime Central London Report | Q4 2022 | PCL sales



The impact of political and economic uncertainty continues to be felt more acutely in the lower price bands. Small flats (1/2 bedrooms) recorded the highest annual fall, down 3.4%. The higher price point for large flats (3/4 bedrooms) and larger houses (4+ bedrooms) mean that fewer purchasers are reliant on high levels of debt to purchase, these properties recorded more modest annual falls of less than 1%.

The number of properties on the market at the end of Q4 2022 fell this quarter, in line with usual seasonal activity. At the end of Q4 2022 there were 2,847 homes on the market in PCL, 3% higher than the same point a year ago and down 9% compared to the end of Q3.

Change in achieved prices by price band



Source: JLL Research

Prime Central London Report | Q4 2022

While prices fell in the fourth quarter there was little sign of a slowdown in sales activity. There have been more than 500 sales recorded each quarter in 2022, with activity returning to levels last seen in 2015.

The number of properties sold in Q4 2022 fell 2% on Q3 2022, but it is not unusual to see a fall between Q3 and Q4. Sales volumes were 15% higher than Q4 2021, although the stamp duty holiday distorted figures last year. Taking 2022 in its entirety shows transaction volumes rose 6% on 2021, with 2022 the busiest year for PCL sales since 2014 (when just 1.3% more homes sold). Compared with 2021 we saw 12.7% more flats transact, compared with a 13.1% fall in the number of houses. But this reflects a particularly strong Q4 2021 rather than a slow fourth quarter in 2022.

£2.2 million

Average budget for PCL buyers registering with JLL in 2022

£5.2bn

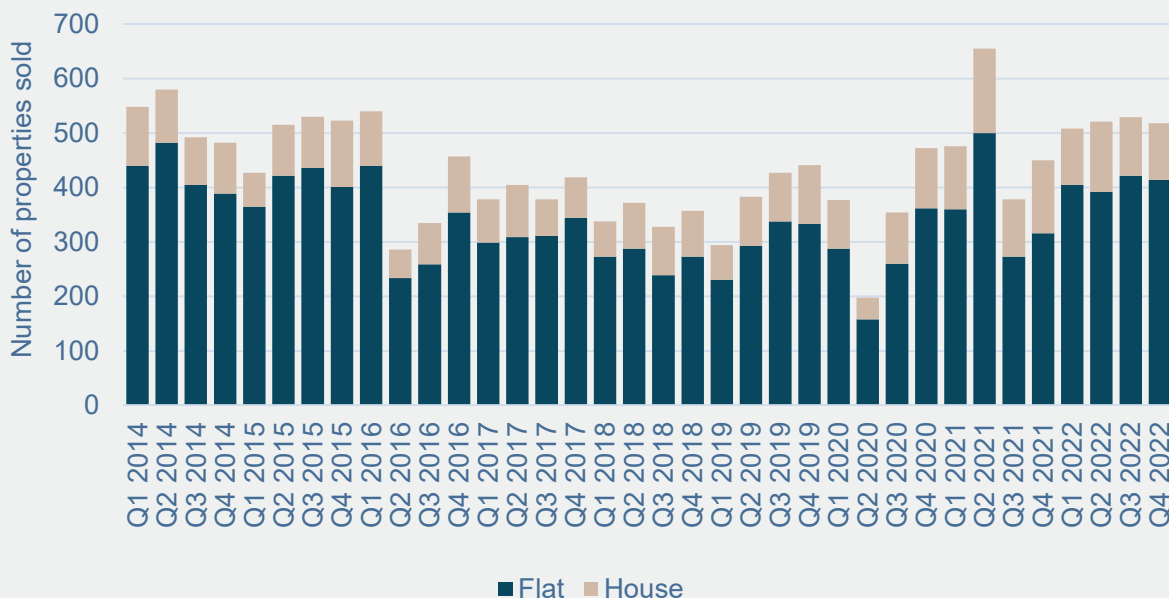
Total spend on homes in PCL in 2022

11%

Of properties sold in 2022 achieved £5 million or more

Source: JLL Research/LonRes

Sales activity increases in 2022



Prime Central London Lettings

Figures from the 2021 Census show the prime boroughs of Kensington & Chelsea and City of Westminster proportionally have some of the highest volumes of privately rented homes in the country.

With more than 40% of homes privately rented meaning it remains the dominant tenure in PCL. Indeed, in certain wards in Prime Central London more than half of homes are rented privately according to the 2021 Census.

Yet despite a high proportion of privately rented homes demand continued to outstrip supply in 2022. Rental stock levels across Prime Central London remain below historic levels, as more tenants renew, and fewer new rental properties reach the market.

The number of properties available to let at the end of Q4 2022 was 13% higher than at the same point in 2021, when stock levels bottomed out, but remain 45% lower than in 2019.



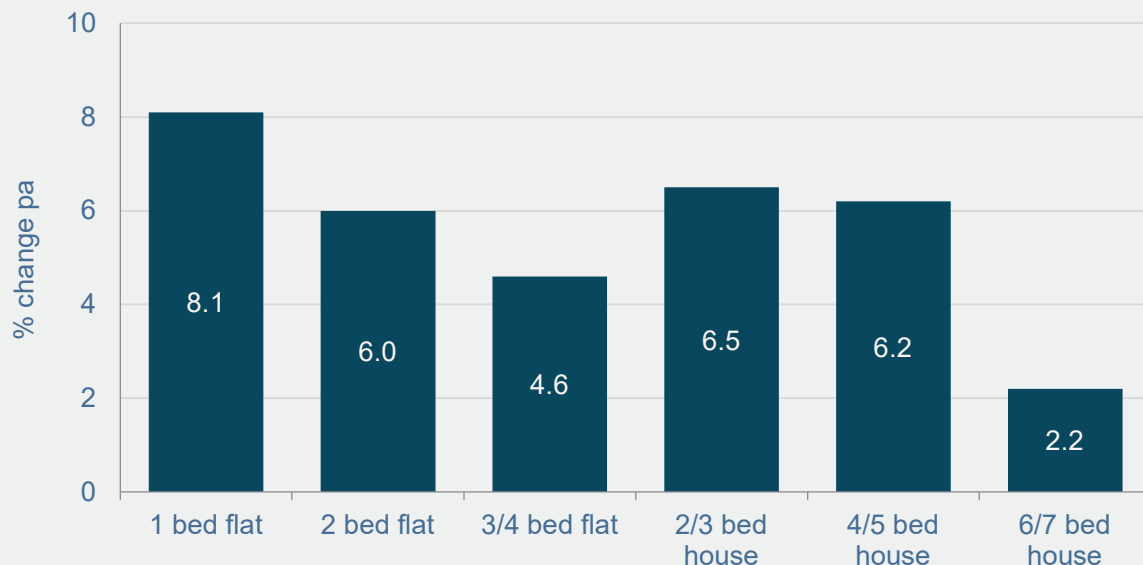
Prime Central London Report | Q4 2022 | PCL lettings

At this point a year ago annual growth in achieved rents in PCL were in double digits, as tenants returned to the city and the market rebounded. Of course, we are now comparing rents in Q4 with a stronger market in late 2021, so it is not surprising that annual increases have started to fall from the highs experienced earlier in the year. Rents plateaued in Q4 2022 after six quarterly increases, the JLL Prime Central London Index falling 0.5% in Q4 2022 compared with the previous quarter. But rents are still higher than they were a year ago. The JLL Prime Central London Index recorded a 6.1% annual increase in achieved rents in the fourth quarter. Rents achieved in Q4 2022 were 8.2% higher than they were pre-pandemic in Q1 2020.

Rental values continue to increase across all price brackets, although rates of growth are falling back. The highest growth is still being recorded for properties commanding lower average rental values. Properties let at under £1,000 per week have seen rents rise by 8.1% annually while those with rental values over £3,000 per week increased by a more modest 2.2%.

Almost half (48%) of the properties let by JLL within Prime Central London in Q4 2022 were renewals, up from 37% in Q4 last year and 24% in 2019. With high rates of renewals continuing to impact both new lets agreed and returning stock levels.

Annual change in achieved rents by type



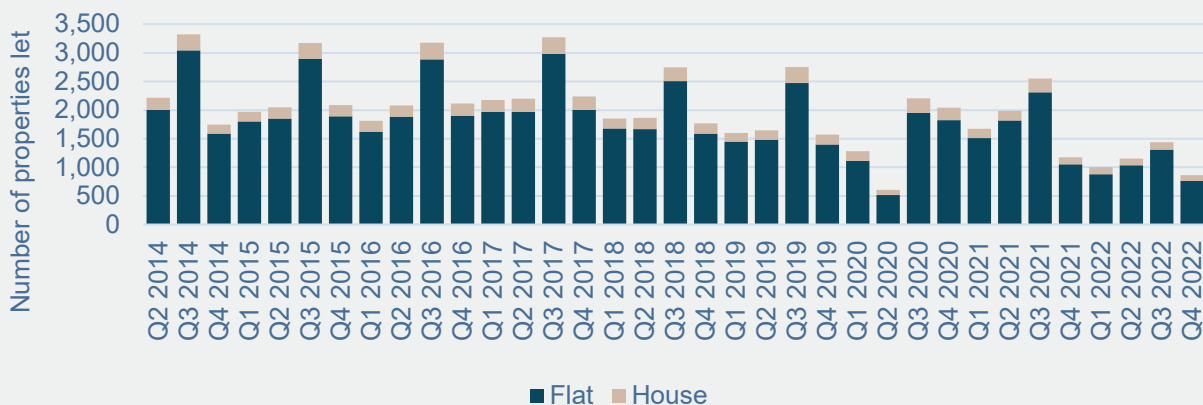
Source: JLL Research

Prime Central London Report | Q4 2022 | PCL lettings

The number of new lets fell in Q4 2022 compared with the previous three quarters, although we usually expect the fourth to be a quieter quarter for new lets. But the number of new lets recorded continues to lag long run averages. With the number of new lets in Q4 2022 27% lower than Q4 2021.

Comparing the number of new lets in 2022 (January to December) shows an annual fall. The number of properties let in 2022 40% lower than volumes in 2021 and 28% lower than 2020 which included periods of lockdown.

New lets fall....



Source: JLL Research/ LonRes

as more tenants renew



Source: JLL Research/ LonRes

Prime Central London Report | Q4 2022 | Market outlook

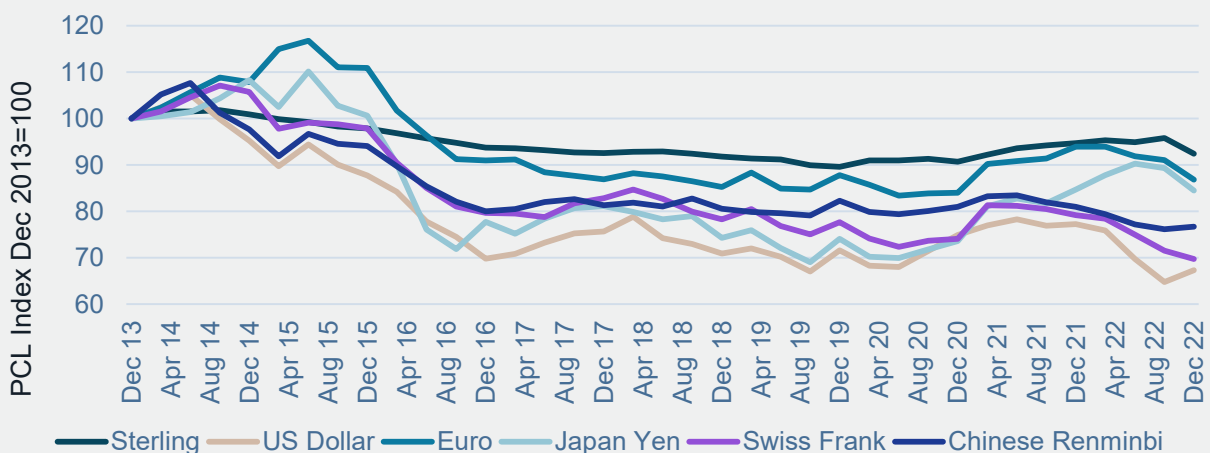
Political and economic uncertainty, exacerbated by the September 'mini-budget', impacted both the prime and mainstream markets in the fourth quarter. According to the Nationwide Index, nationally prices fell for the fourth consecutive month in December. Now 2.5% lower than they were in August.

Economically there has been much to contend with in recent months. Inflation remains far higher than the Bank of England's 2% target, meaning the base rate rose eight times last year, ending 2022 at 3.5%.

Yet there are reasons to be optimistic. The latest inflation figures suggest that annual increases may have peaked, in line with forecast, and look set to fall back in 2023. Fixed rates have also become more competitive, suggesting base rate rises over and above those we have experienced to date had already been priced in.



Foreign exchange adjusted PCL capital values



Source: JLL PCL Index/ Bank of England

Prime Central London Report | Q4 2022 | Market outlook

For overseas buyers exchanges rates are not quite as attractive as they were in September, when Sterling and the US dollar reached near parity at a 37-year low. But for those buying homes in US dollars there are still significant savings to be made. With prices in Q4 2022 12.8% lower than they were a year ago in US dollars and 35.9% lower than at the peak in 2014.

Despite the JLL Prime Central London Index recording falls in Q4, we still expect the underlying fundamentals of the prime market will stand it in good stead over 2023. With high levels of equity and cash purchase alongside sustained levels of domestic and international demand.

We expect central London will be our best performing market in 2023. Forecasting prices will rise 2.5% in 2023, with values 19% higher by 2027. Rents are expected to perform strongly too, underpinned by sustained stock constraints, with a 6% increase forecast in 2023 and growth of almost 20% by the end of 2027.

JLL residential market forecasts

| Sales price growth (% pa) | 2023 | 2024 | 2025 | 2026 | 2027 | Cumulative 2023-27 | Average pa 2023-27 |
|---------------------------|------|------|------|------|------|--------------------|--------------------|
| UK | -6.0 | 1.0 | 4.0 | 5.0 | 5.0 | 8.9 | 1.7 |
| Central London | 2.5 | 3.0 | 3.5 | 4.0 | 5.0 | 19.3 | 3.6 |
| Greater London | -4.0 | 2.5 | 4.0 | 5.0 | 6.0 | 13.9 | 2.6 |

| Rental growth (% pa) | 2023 | 2024 | 2025 | 2026 | 2027 | Cumulative 2023-27 | Average pa 2023-27 |
|----------------------|------|------|------|------|------|--------------------|--------------------|
| UK | 4.0 | 3.5 | 2.5 | 2.5 | 2.5 | 15.9 | 3.0 |
| Central London | 6.0 | 4.5 | 3.0 | 2.5 | 2.5 | 19.9 | 3.7 |
| Greater London | 4.5 | 4.0 | 3.0 | 2.5 | 2.5 | 17.6 | 3.3 |

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