



Prime Central London Report

Q1 2023



Introduction

How has the Prime Central London (PCL) housing market performed so far this year, and how much of an impact will the ongoing economic headwinds have on the sector?

Our Q1 2023 Prime Central London Index hones in on house price performance in the region between January and March 2023, taking a deeper look at how each property type has fared. We also analyse sales activity, including how much of a discount buyers have been able to negotiate from the initial asking price.

Likewise, in the lettings space, we uncover how rental stock levels performed during Q1 in relation to demand, along with rental price performance, and how these prices compared with the landlords' initial listings. Some of the trends we saw towards the end of last year have continued during the first three months of the year, while some new patterns of behaviour and performance have also been observed. It is interesting to note how, in many

ways, PCL follows its own rules in terms of the extent to which it is affected by external events. One reason for this is a greater preference for cash purchases among those who buy there, which means mortgage rate fluctuations have less of an impact on demand and pricing. This, alongside a sustained shortage of stock, can support property values through turbulent times.

However, buyers in PCL may be influenced to a greater extent by changes in market sentiment than in the mainstream housing market, and this could therefore have a bigger impact than any interest rate changes. It will be interesting to see how the rest of the year follows these first quarter results, and whether improvements to the UK's economic outlook will continue to boost the market.

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Sales market

Transaction volumes

Last year was always going to be a tough act to follow for the PCL housing market, with sales activity in 2022 being the strongest we had seen since 2015. In Q1 2023, the number of properties sold was down by -20.7% on Q1 2022 volumes. Quarter-on-quarter, sales volumes fell by -22.2% compared with Q4 2022. However, taking a longer-term view shows a different picture, with more sales recorded in Q1 2023 than any first quarter between 2017 and 2020.

House prices

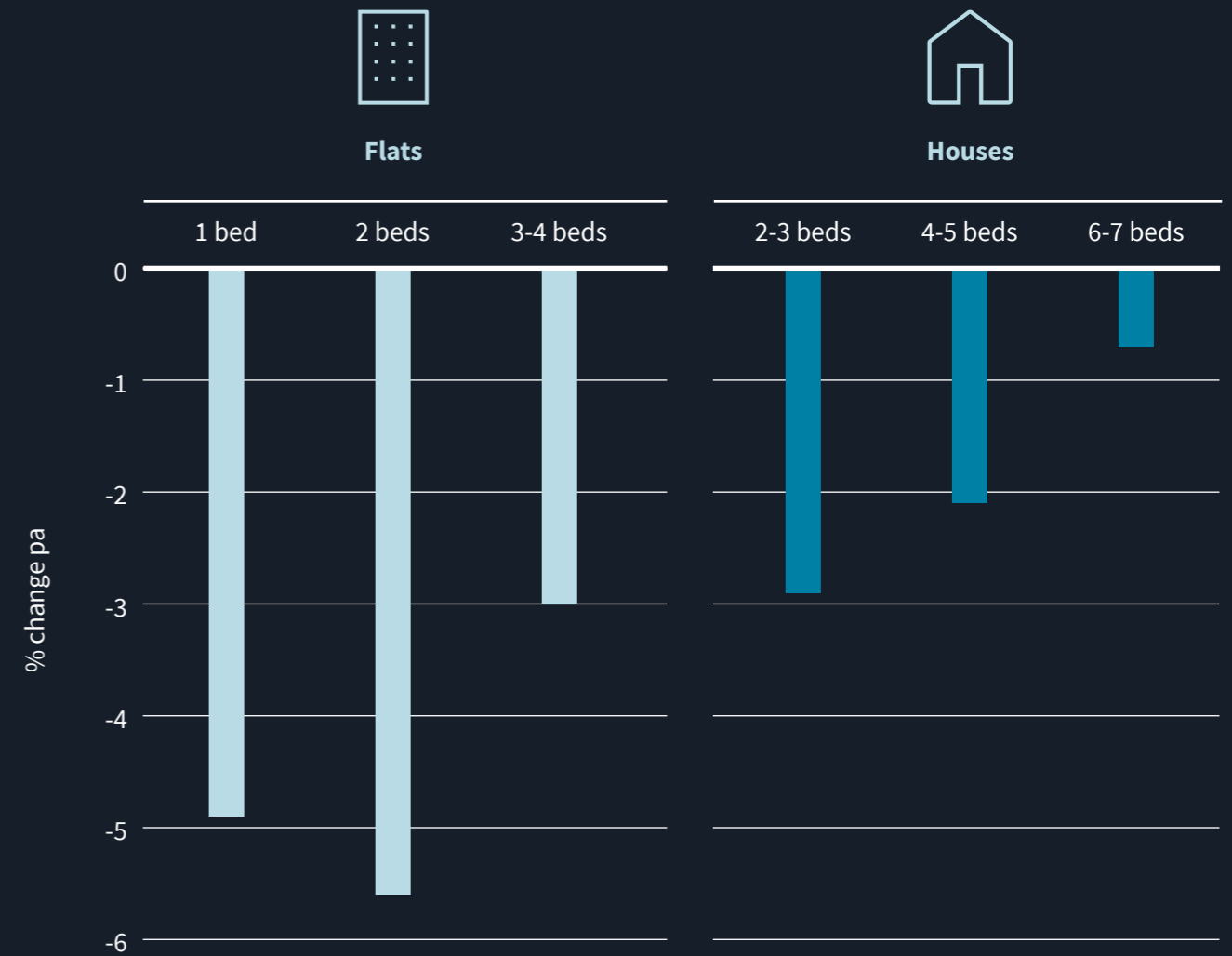
As we noted previously, PCL attracts a higher proportion of cash buyers than the mainstream housing market. As a result, rising interest rates that may affect the

mortgaged property arena tend to have less of an impact. This has been particularly evident in the upper end of the prime market, with more expensive properties seeing lower annual price falls. However, the sector has not been completely unscathed by external factors and market sentiment.

“There have been more sales recorded in Q1 2023 than any first quarter between 2017 and 2020.”

Our index shows that house prices in PCL fell by -1.3%, compared with Q4 2022. Year-on-year, prices in the sector have dropped by -4.3%.

PCL Q1 2023 capital value growth by property type



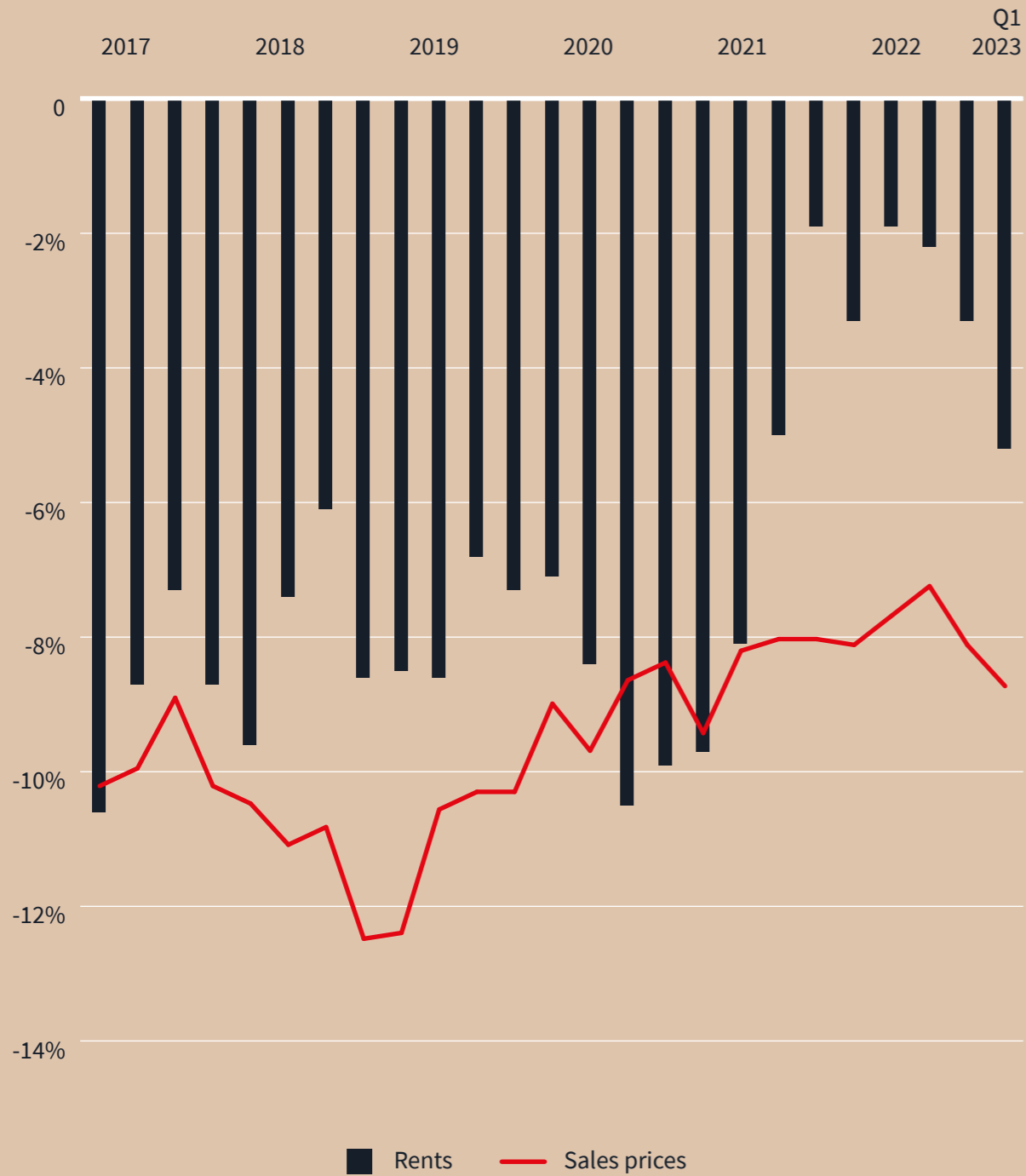
While all property types saw a softening of prices in the first quarter of this year, flats have been more affected than houses.

Flats in PCL saw a **-4.8%** fall in value.
Small flats recorded the highest average annual price decrease at **-5.4%**.

Houses experienced fairly modest falls of **-2.4%** over the same period.

Source: JLL

Average discount off initial asking price



Source: JLL / Lonres

“At the end of Q1 2023, the number of properties listed for sale in PCL was 8.2% higher than at the same point a year ago, and 4.3% up on the 2022 year-end.”

Listings

As we proceed into the spring market, we are seeing a steady stream of new listings coming to the market. At the end of Q1 2023, the number of properties listed for sale in PCL was 8.2% higher than at the same point a year ago, and 4.3% up on the 2022 year-end.

However, sellers will need to be realistic on price to secure a sale. The average property sold for 8.3% below its initial asking price in Q1 2023, which is the highest discount recorded since early 2021.



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Lettings market

New lets

The imbalance between supply and demand in the rental market is an ongoing issue nationwide, and PCL also continues to be affected by a shortage of stock. Greater competition for rental homes means tenants are increasingly opting to renew their contracts rather than move, which is impacting the number of new lets.

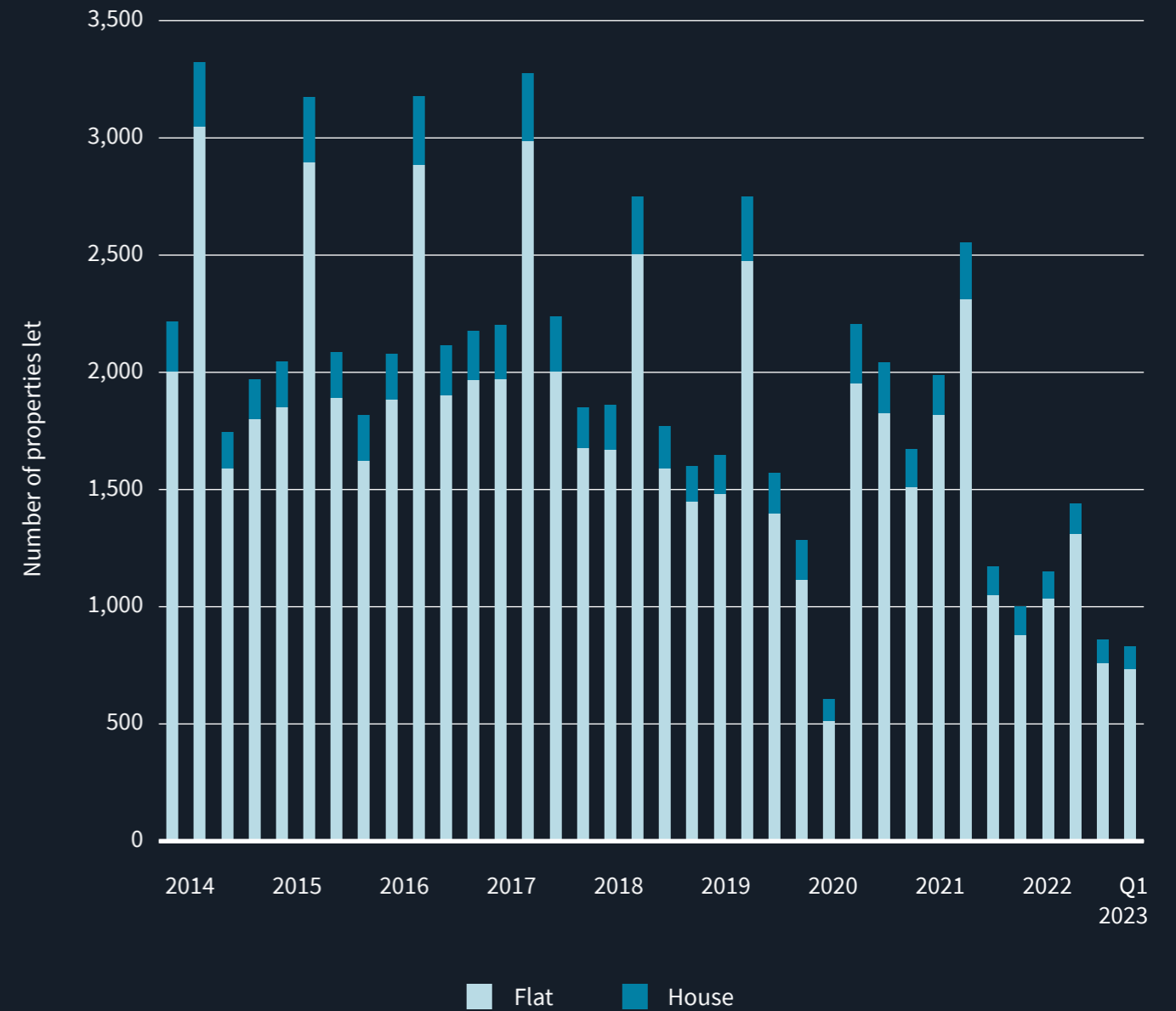
This was particularly evident in Q1 2023, as the number of new lets recorded was at its lowest point since the pandemic. New lets were -3.3% lower than a quiet Q4 2022, and -17.0% down on the first quarter of last year.

Rental stock

On a positive note, supply levels in PCL's rental market have begun to rise compared with the lows of 2022. The number of properties available to let by the end of Q1 2023 was 8.6% up on Q1 2022. This is certainly a step in the right direction, although it still represents supply levels that are -54% lower than the five-year Q1 average.

“Greater competition for rental homes means tenants are increasingly opting to renew their contracts rather than move, which is impacting the number of new lets.”

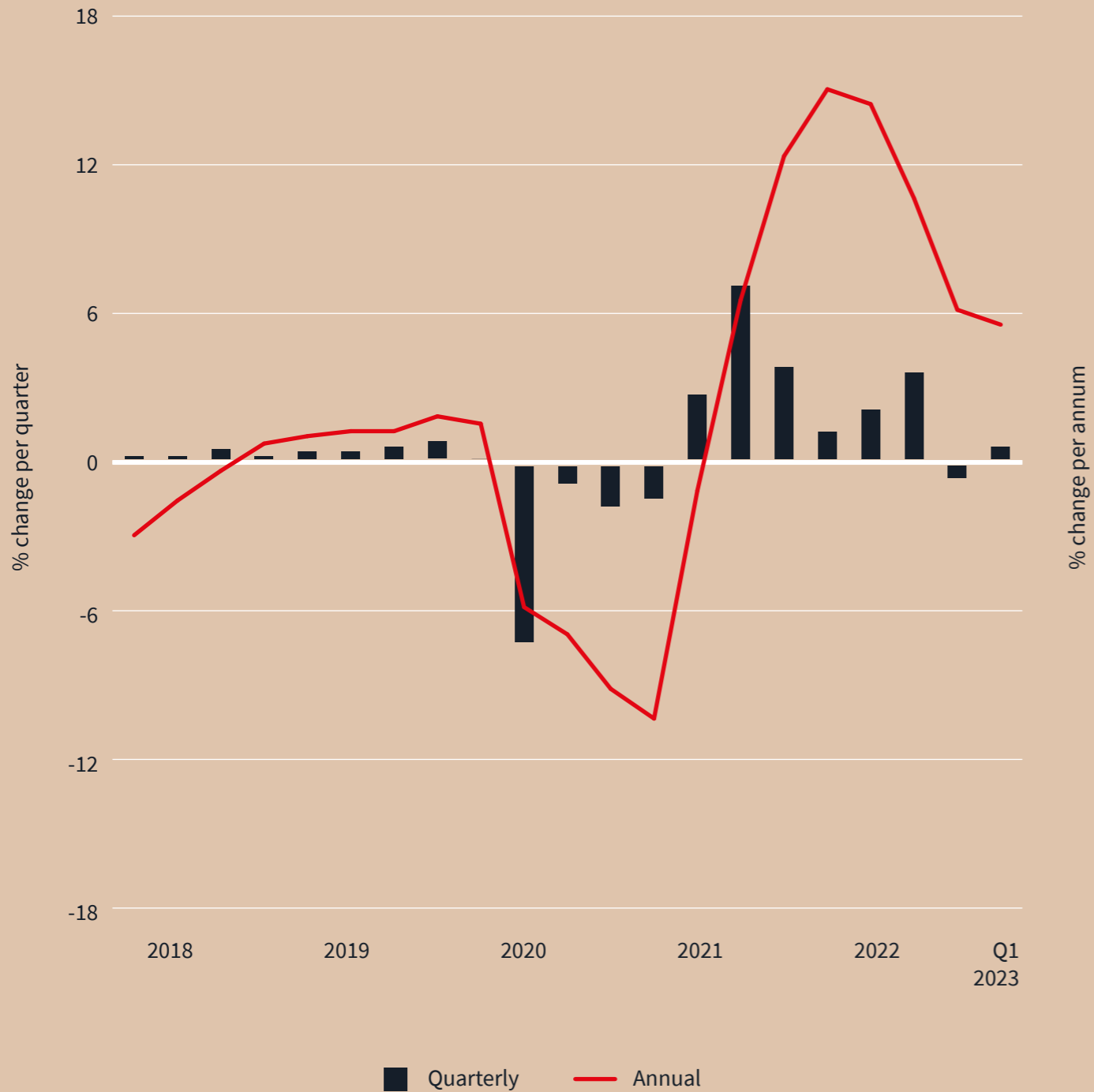
PCL new lets - quarterly



“The number of properties available to let by the end of Q1 2023 was 8.6% up on Q1 2022.”

Source: JLL / Lonres

PCL rents



Source: JLL



Rental prices

Rents rose by 0.5% quarter-on-quarter in Q1 2023, following a -0.5% fall in Q4 2022. The annual rate of growth has fallen back from the double-digit highs experienced earlier in 2022, due in part to a stronger market a year ago compared with a recovering market in 2021.

Our index recorded a 5.5% annual increase in achieved rents in Q1 2023, putting them 8.7% higher than they were pre-pandemic in Q1 2020. The highest annual growth in achieved rents is still

confined to the lower price bands. Properties with rental values of less than £1,000 per week have seen average prices rise by 9.3% annually, while those with rental values of more than £3,000 per week increased by 2.0%.

However, a more balanced market means that tenants are more likely to be able to negotiate on asking rents. The average discount off the initial asking rent was 5.2% in Q1 2023, which is the highest since Q2 2021, but still below the 2017-2020 average of 8.2%.

“Rents rose by 0.5% quarter-on-quarter in Q1 2023, following a -0.5% fall in Q4 2022.”

Outlook for PCL

Looking broadly at the UK economy, the latest news is certainly more positive than many would have expected in late 2022.

Inflation, while still significantly higher than the Bank of England’s target, looks to have topped out, and the prospect of a 2023 recession appears to have been avoided, too.

But the housing market at large will still have to adapt to higher interest rates, which is why JLL expects the PCL housing market to be one of the strongest performing sectors in 2023. We expect prices in this space to end the year up 2.5%, with rents up 6%.

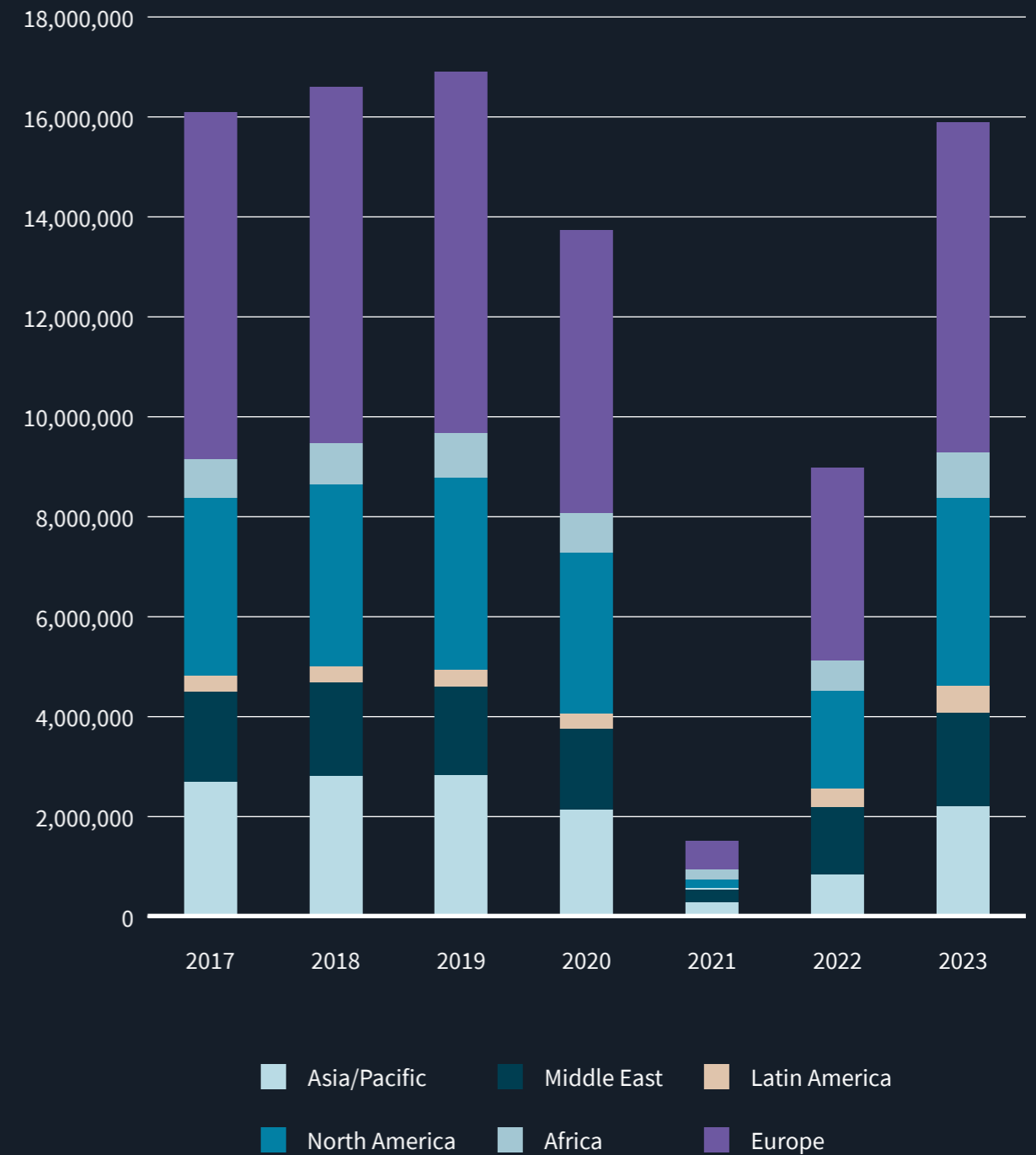
We also anticipate high demand from overseas buyers this year.

The latest travel figures from Heathrow suggest overseas travel to London has returned to pre-pandemic highs, with the number of visitors from the Middle East up by 7%, North America by 5% and Africa by 12% compared with the Q1 2017-2020 average.

“JLL anticipates high demand from overseas buyers this year.”

Sterling has rallied since its September 2022 lows, but exchange rates remain attractive for those looking to invest from overseas.

Passengers arriving to Heathrow - Q1 2023



Source: Heathrow Airport

Prime Central London Report

**We can support you with expert
advice that reflects your business
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