Prime Central London Report

Q2 2023

New Homes | Sales | Lettings

Introduction

Our Q2 2023 Prime Central London Report uncovers how the market is performing in the face of the UK's ongoing stubborn inflation levels, rising interest rates and economic uncertainty.

While Prime Central London (PCL) is, in many ways, in a class of its own compared with the wider housing sector, uncertainty surrounding the short-term outlook is impacting prices.

We analyse both the sales and lettings market in PCL, offering insight into current buyer and tenant trends, as well as supply and demand in the market. Meanwhile, we also examine the differing performances of houses and flats, which have become more polarised when comparing property prices with rental prices.

That being said, with more than half of all owner-occupied homes in PCL having no mortgage secured against them, and cash purchases continuing to make up a large proportion of sales between April and June, it seems that the recent mortgage rate hikes will have less of an impact on this part of the housing market.

"Following the lows of 2022 in terms of stock levels, there has certainly been improvement, but the number of prospective tenants continues to outpace the number of homes available."

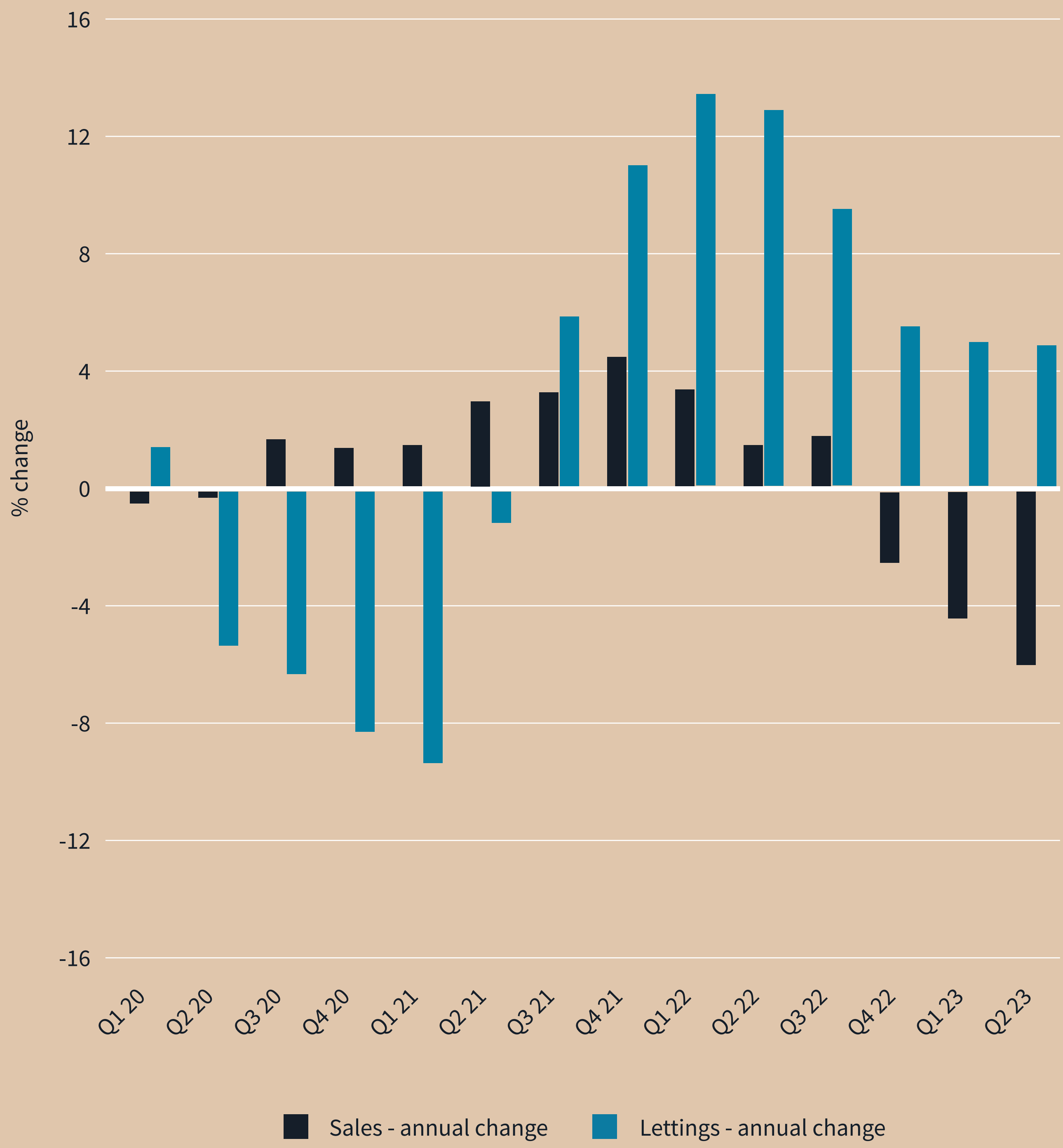
Likewise, sales volumes remain on a par with the high levels of activity seen last year.

For property investors and landlords keen to see how the lettings market is faring in PCL, it is notable that a high level of competition remains, resulting in further rent increases this quarter. Following the lows of 2022 in terms of stock levels, there has certainly been improvement, but the number of prospective tenants continues to outpace the number of homes available.

The fact that greater numbers of prospective buyers are putting plans on hold and remaining in rented accommodation for longer is also reflected in the figures seen this quarter. In particular, demand for smaller flats has surged, along with prices.

So what do the next few months hold for London's prime market? The economic climate is marred with uncertainty, but the PCL sector could be one of the best-placed to withstand turbulent conditions, and it has certainly proven to be resilient thus far. It is also a market that attracts a high proportion of overseas investors, who tend to become more active during the summer months, so this could buoy the sector as we pass into the second half of the year.

JLL PCL index - annual price change



Source: JLL

Annually, prices are now down by

5.9%

compared with Q2 2022, and are

6.8%

lower than they were at their peak in Q3 last year.

House prices were down by

4.3%

compared with Q2 2022, while flat prices fell

6.3%

on last year's figures.

Properties sold at £10 million or more are seeing just a

0.8%

decline in the year to June. Homes priced at less than £2 million saw a

6.7%

fall during the same period.

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Prime Central London

Sales market

Property prices

The JLL Q2 Prime Central London Index saw prices decline for the third consecutive quarter, with a fall of 2.1%. Annually, prices are now down by 5.9% compared with Q2 2022, and are 6.8% lower than they were at their peak in Q3 last year.

Both flats and houses recorded annual price falls, but to varying degrees. House prices were down by 4.3% compared with Q2 2022, while flats suffered a slightly more severe drop of 6.3% on last year's figures.

The upper echelons of London's prime market are proving the most resilient, with the prices of properties sold at £10 million or more seeing just a 0.8% decline in the year to June. By contrast, homes priced at less than £2 million have lost an average of 6.7% from their value during the same period. This is thought to be a result of buyers at the lower end being more impacted by rising interest rates, with more mortgage-free owners and cash buyers at the top end.

In fact, while less than a fifth (19%) of all sales made across London over the past 12 months were cash purchases, parts of PCL recorded significantly higher levels. For example, in the City of Westminster, 44% of all sales completed in the year to June were paid for in cash, alongside 49% of all sales completed in Kensington and Chelsea.

Sales volumes

Despite the challenging market conditions, the number of homes sold (as recorded on date of exchange) increased in Q2 by 27.8% compared with the previous quarter, meaning volumes were only 1.2% down on the levels recorded this time last year. With more sales completed than in any quarter between Q2 2016 and Q1 2021. Flats were a more active area of the market than houses during Q2, with growth of 4% in the number of flats transacted since Q2 last year. By contrast, the number of houses sold fell by 16% annually.

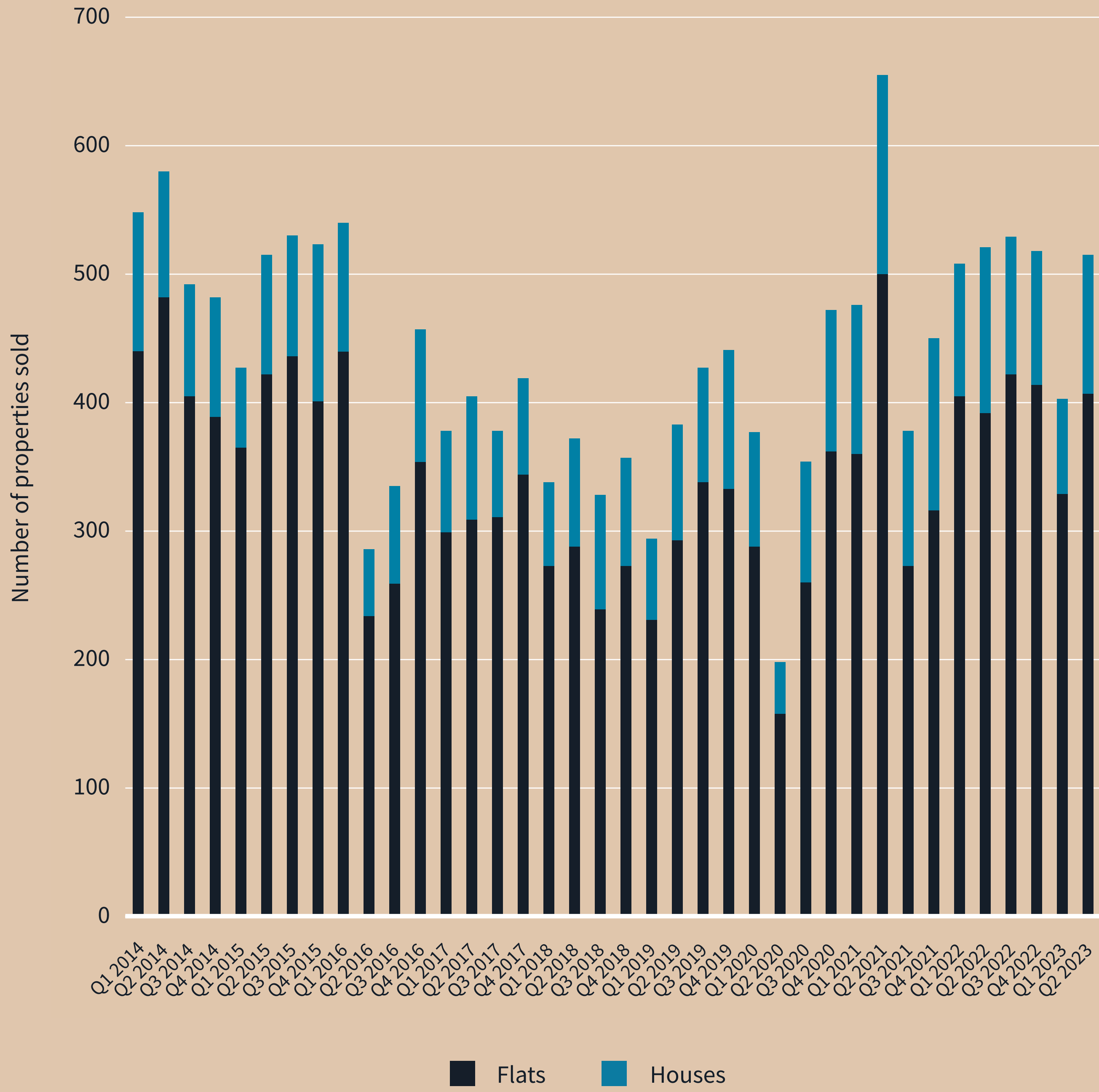
Stock levels are continuing to recover in PCL, with Q2 recording an increase of 8.3% in the number of homes listed on the market compared with last year. This represents a quarter-on-quarter rise of 9.7%, bringing the level of available housing stock to the highest level seen since the end of Q2 2020.

Asking prices versus sold prices

Our figures also demonstrate how the market is slowly putting buyers back in the driver's seat when it comes to discounts, with the average property in Q2 selling for 8.5% less than the initial listing price. This time last year, buyers achieved an average discount of 7.1%, but sellers are generally still achieving closer to asking price now than they were between 2018 and 2020.

The volume of properties that sold for less than asking price during the second quarter of this year was 45%, which remains relatively unchanged from Q1's levels, and only marginally higher than the 40% recorded for Q2 2022.

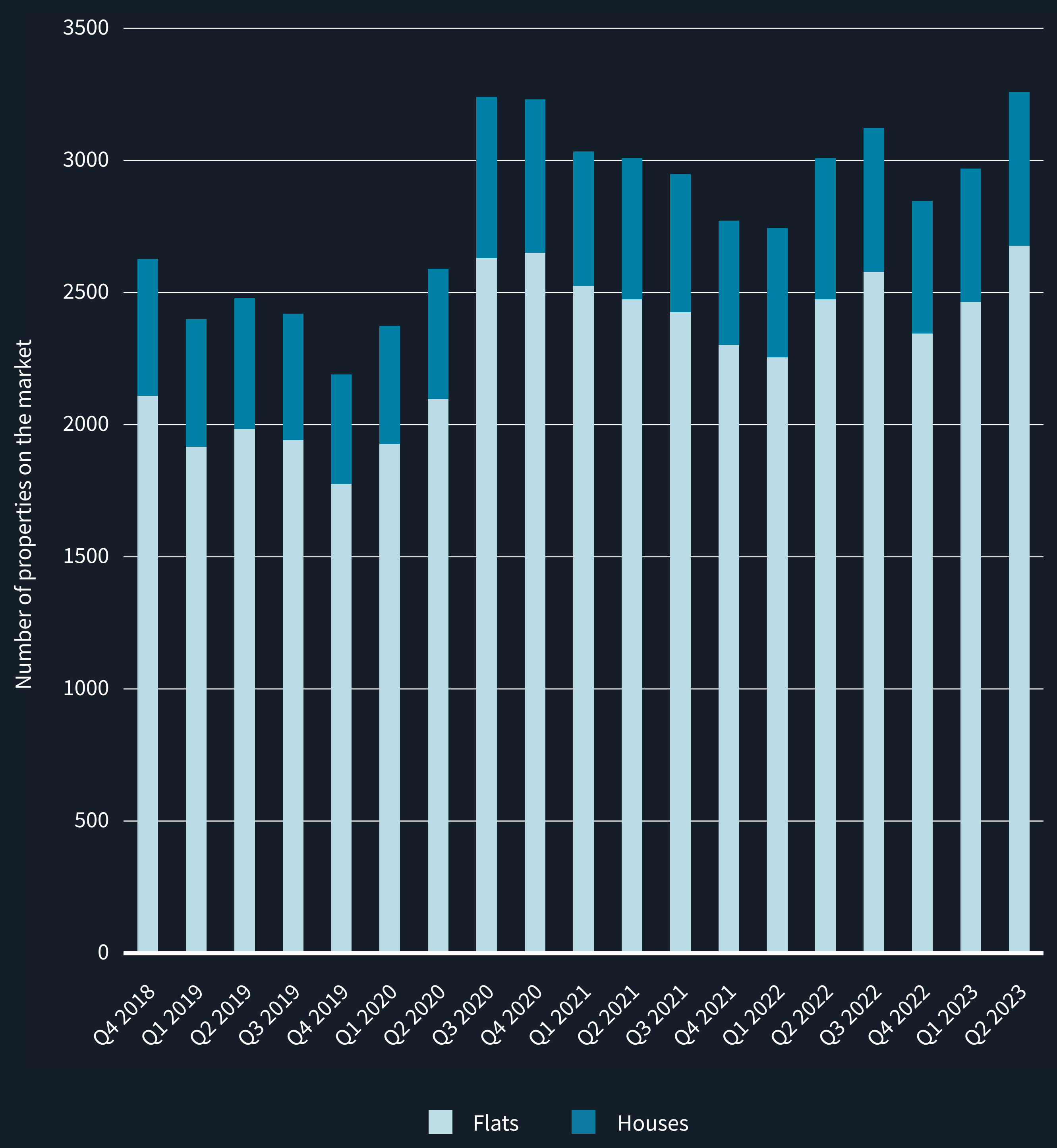
PCL sales volumes



"The number of homes sold (as recorded on date of exchange) increased in Q2 by 27.8% compared with the previous quarter."

Source: JLL, Lonres

PCL stock levels



Source: JLL, Lonres

Prime Central London

Lettings market

Lets agreed

The uncertainty that can hamper activity and prices in the sales market often has the opposite effect on lettings. With households more likely to stay in rented accommodation for longer due to affordability constraints, or choosing to rent while they adopt a "wait and see" approach to the sales market, the rental market has accelerated during Q2.

Just over half (51%) of all JLL's agreed lets in Q2 2023 were renewals, up from 45% a year ago and 24% in Q2 2021. This was the highest rate of renewals since Q2 2020, indicating larger numbers of existing tenants choosing to commit to their properties for longer, which tends to be positive news for landlords.

"Just over half (51%) of all JLL's lettings agreed in Q2 2023 were renewals, up from 45% a year ago and 24% in Q2 2021."

Excluding the boost in renewals, the number of new lets agreed was also up by 13% for the quarter, although on an annual basis deal numbers are still down by 18%, and by 35% when compared with the Q2 five-year average.

Rental prices

Rental prices continued on their upwards trajectory during the quarter, increasing by 1.9% compared with Q1, and by 5.4% on last year's figures. However, there are some wide variations in performance when honing in on particular property types, with smaller homes experiencing the largest rent hikes compared to top-end properties. Rents on one- and two-bedroom flats, for example, increased by 6.7% annually, while homes let at £3,000 per week or more – which tend to be larger properties – saw a more modest 2.9% annual increase.

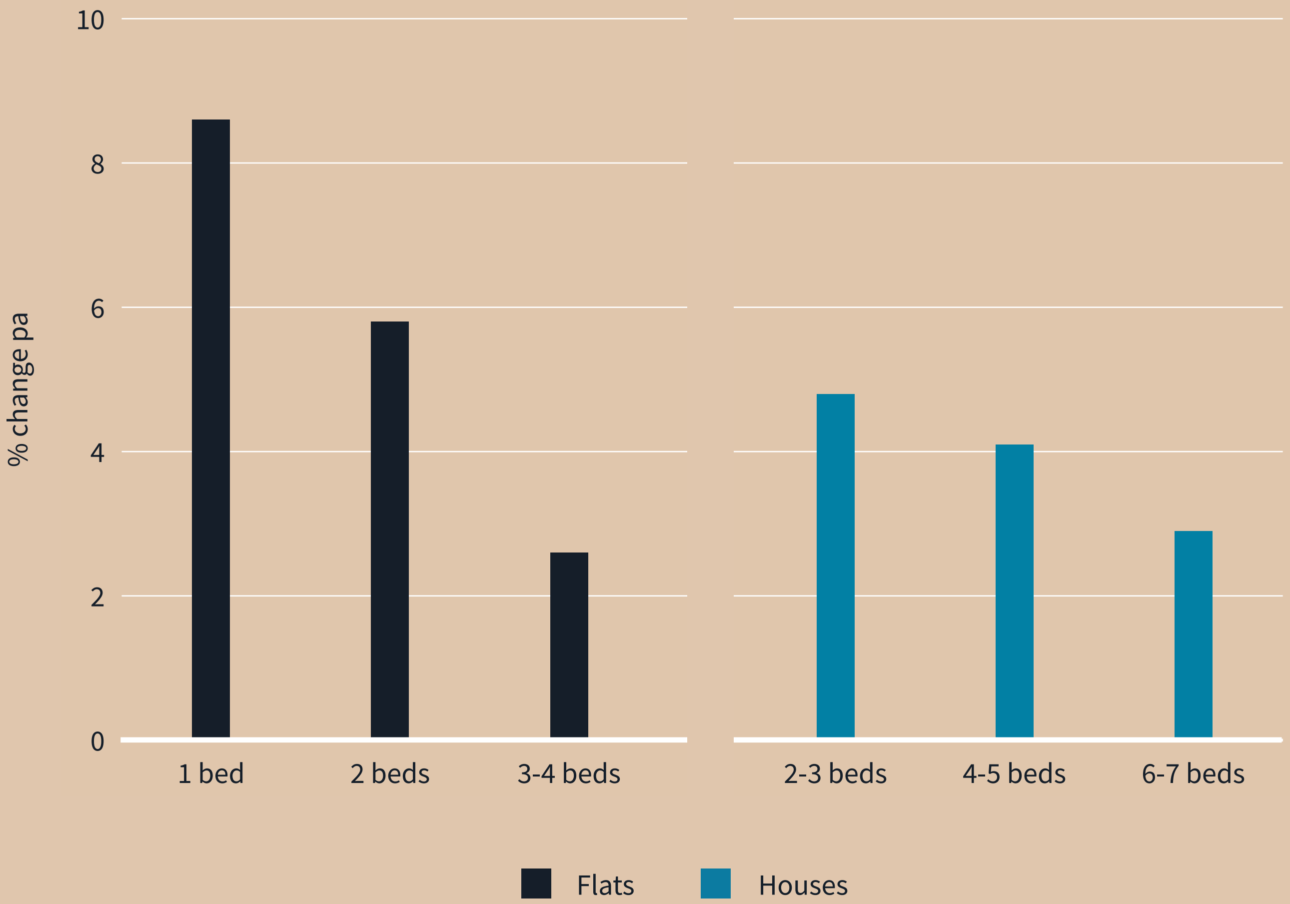
Looking at longer-term trends gives these figures more perspective, with rents on one-bedroom flats in PCL now 26% higher than they were three years ago. Across central London's prime lettings market as a whole, rental prices are now 19.2% up on Q2 2020.

New listings

For prospective tenants contending with low stock levels, there appears to be some respite as we move into the summer. Rental property listings are starting to increase, albeit off a low base, with the number of homes on the market in Q2 2023 up by 13.8% on last year's figures. However, stock levels are still 55% down on the pre-pandemic levels of Q2 2019.

PCL Q2 2023 annual rental price growth by property type

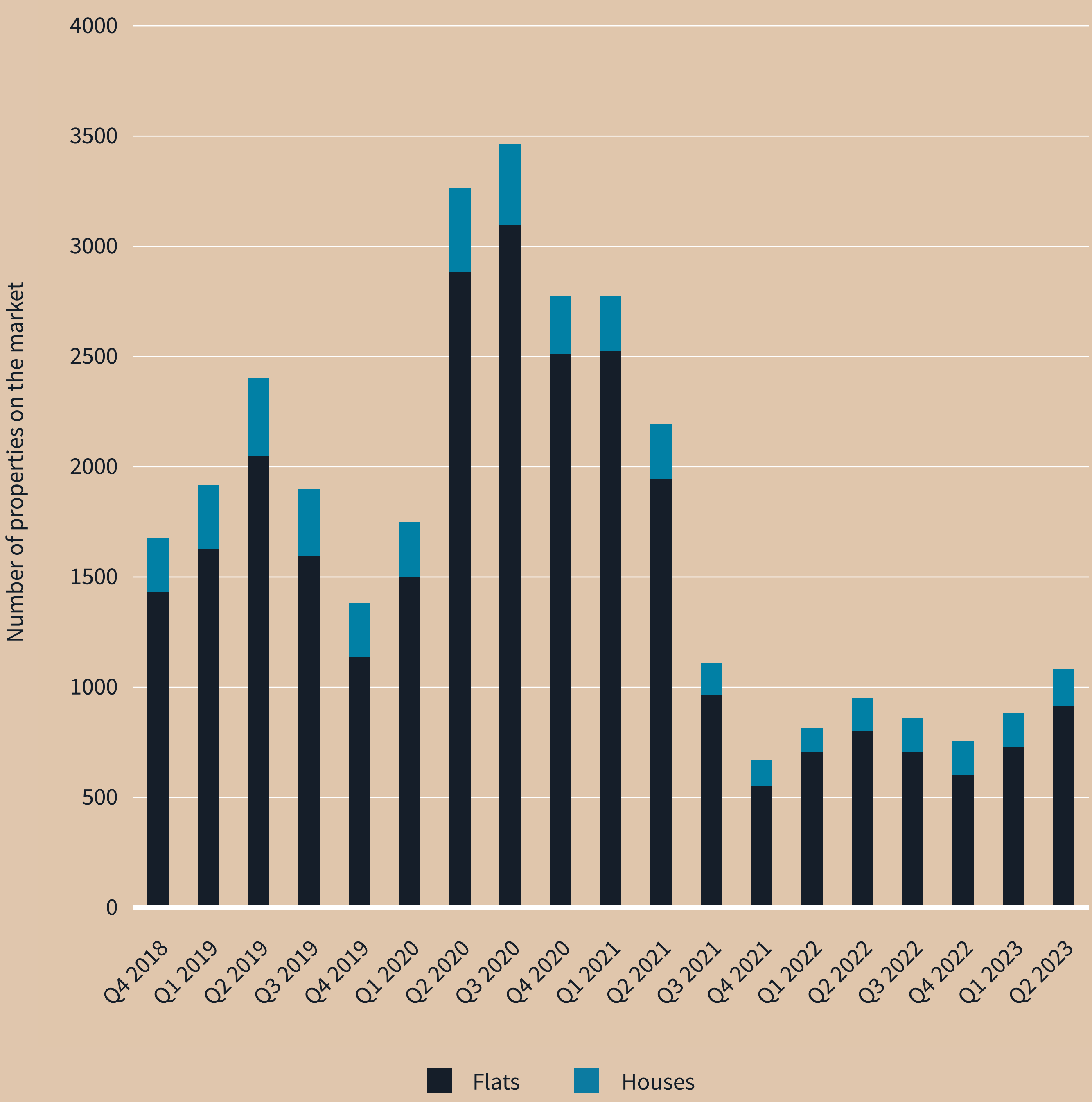
"Across central London's prime lettings market as a whole, rental prices are now 19.2% up on Q2 2020."



"During the quarter, smaller homes experienced the largest rent hikes compared to top-end properties"

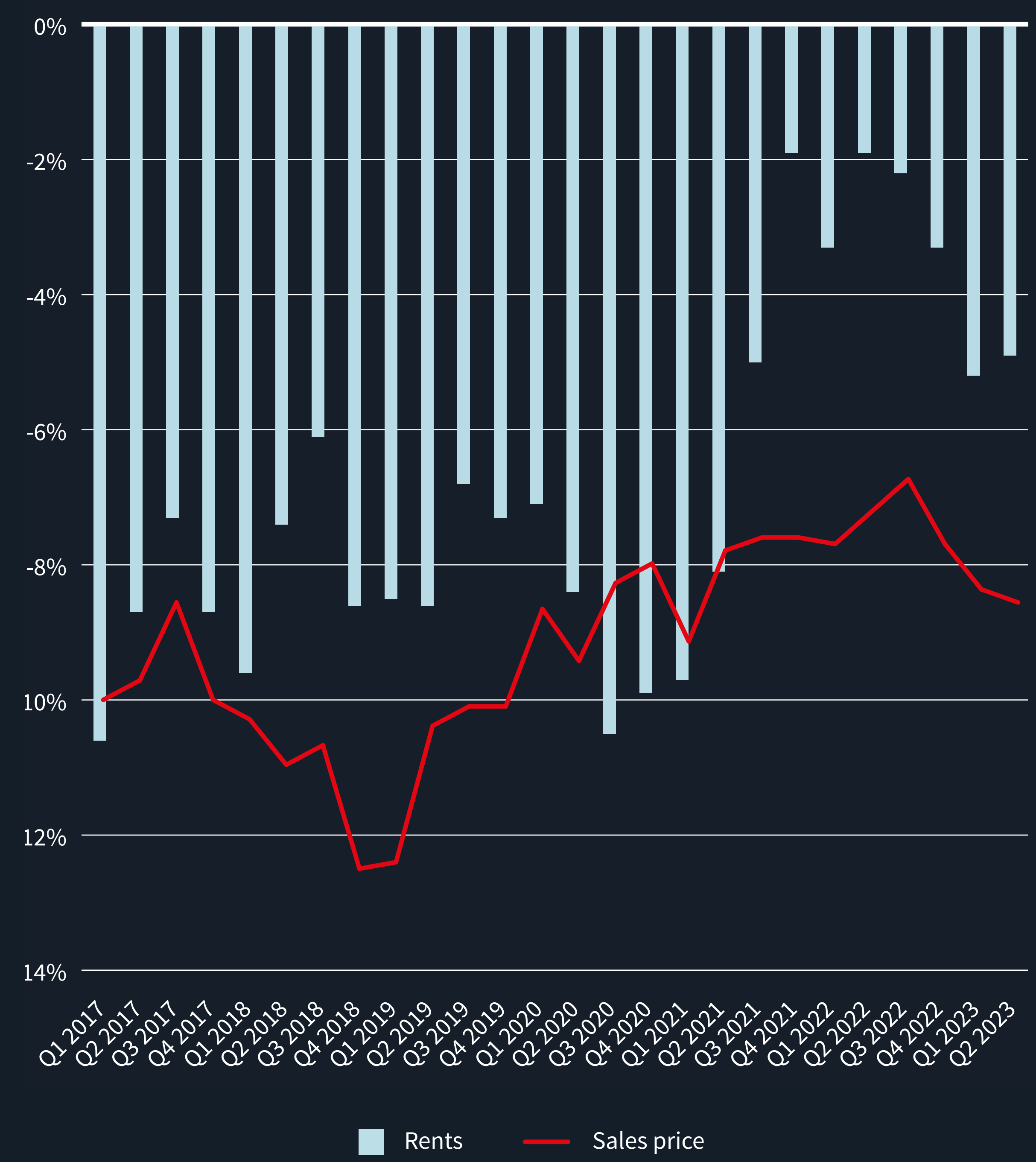
Source: JLL

Rental properties on the market to let



Source: JLL, Lonres

Average discount off initial asking price



As stock constraints have eased slightly, average discounts have increased a little, with tenants negotiating an average of 4.9% off asking rents in Q2 2023. This was up on the 1.9% average a year ago, but remains lower than the 8% average pre-2020.

Source: JLL

Outlook for PCL

Central London's prime housing market is well placed to weather the current economic storm.

As well as being less reliant on debt to fund purchases, the market benefits from the fact that it appeals to both a domestic and an international audience.

The summer market usually sees a boost in the number of overseas buyers visiting the city, with data from Heathrow already suggesting that London could be in for a busy summer. The figures show that the number of people arriving at the airport increased by 24% in the second quarter of this year compared with Q2 2022, which is 3% higher than pre-pandemic levels.

Specifically, the number of travellers from the Middle East was 8% up on the five-year pre-pandemic average, with 17% more travellers from North America and 14% more from Africa. Those arriving from Asia are still 14% down compared to pre-pandemic levels, but are up by 96% compared with Q2 2022.

Sterling continues to strengthen and recover from the lows of 2022, but it still offers good value for overseas buyers using non-sterling currencies for their purchases. Dollar-based investors are now paying 35% less than they were in 2014, due to both recent property price falls and favourable exchange rates, while Chinese investors are paying 24% less.

Therefore, JLL still expects that the PCL market will outperform both the UK and Greater London averages over the next five years, with our forecast pointing towards a 19.3% price rise between 2023 and 2027. On the lettings side, we expect prices to increase by 19.9% over the same period.

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Prime Central London Report

We can support you with expert advice that reflects your needs and priorities

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