



Prime Central London Report

Q3 2023



New Homes | Sales | Lettings



Introduction

While this year's British summer was a typical tale of contrasting conditions, the UK housing market experienced similar levels of changeability between July and September due to ongoing economic uncertainty. However, the property market in the heart of London continues to tread a slightly different path.

The third quarter of the year showed a lot of promise in Prime Central London (PCL), with interest from buyers remaining high as we move into the final months of the year. The fact that JLL recorded an 8% annual rise in the number of prospective buyers in its prime central London offices in Q3 is further confirmation that this segment of the housing market is still hugely appealing for those in a position to make a purchase.

Particularly for homes in the £5 million-plus price range, appetite was extremely strong during the summer months, with spending on properties in this bracket surging by more

than a third compared with a year ago. Prices in PCL have also remained relatively stable quarter-on-quarter, albeit with a slight slowdown in the number of sales being achieved - although this is largely to be expected amid ongoing economic uncertainty.

Looking at the broader economic landscape, revised figures on UK GDP have reshaped the narrative in recent months, placing the UK towards the middle of the G7 pack and boosting investor confidence. The latest Office for National Statistics (ONS) figures indicate a further increase of 0.2% to GDP in August, in line with expectations.

"The third quarter of the year showed a lot of promise in Prime Central London (PCL), with interest from buyers remaining high as we move into the final months of the year."

Meanwhile, there are indications that inflation levels have already reached their peak in the UK, and this combined with the Bank of England's decision to hold interest rates steady at 5.25% in September provide further cause for cautious optimism at the moment. We have already seen lenders competing to bring their mortgage rates down, with more and more sub-5% deals being offered up to borrowers, and this is likely to spur on movers and bring new buyers into the fold.

In this report, we analyse the whole spectrum of the PCL market, from prices and sales figures to prospective buyers and

asking price discounts, to give you a full picture of how the sector is performing as we move towards the winter months. We also break down the high-end lettings market in London, looking at whether anything has actually changed when it comes to the ongoing shortage of rental properties, and what influence this is having on prices and outcomes for landlords in PCL.

"JLL recorded an 8% annual rise in the number of prospective buyers in its prime central London offices in Q3."

PCL overview – Sales market Q3 2023

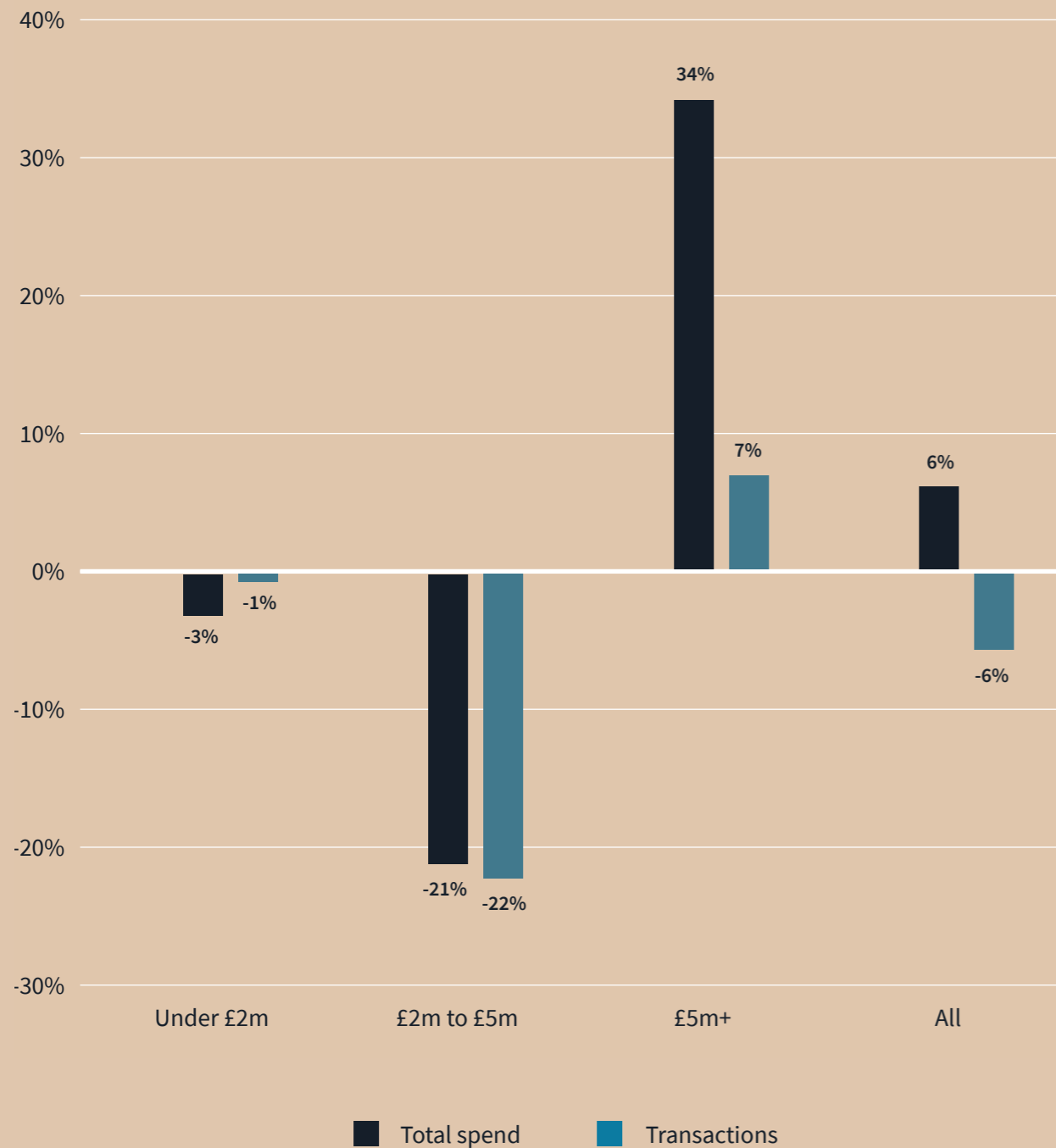
PCL Sales market	Quarterly change	Annual change
Achieved prices	-0.2%	-6.9%
Transactions	-2.9%	-5.5%
On market for sale	7.2%	11.8%

PCL overview – Lettings market Q3 2023

PCL Lettings market	Quarterly change	Annual change
Achieved rents	3.6%	5.5%
New lets	55%	1.5%
On market to let	13.1%	42.3%

Source: JLL, LonRes

Change Q3 2023 vs. Q3 2022



Source: JLL, LonRes

Prime Central London

Sales market

Property prices

Our Prime Central London Index for Q3 reveals that buyers spent a total of more than £1.3bn on property in the sector, which is 6% more than in Q3 2022. Looking at the 10-year Q3 average, this represents a huge 36% increase, although of course this is also a reflection of how prices have risen over the years.

As we've already noted, it is the big spenders in PCL that have come to the fore this quarter, as our Index shows a 34% annual increase in the amount that buyers are spending on homes worth £5 million and upwards. Spending on homes below the £5 million mark fell by 13%, though, with the biggest annual decline being seen in the £2 million to £5 million price bracket.

The average property in PCL sold for £2.8m in Q3, which is the highest quarterly figure we've seen since Q1 2020. However, this result is skewed by the heightened activity at the top end of the

market, which masks the fact that there have been price falls overall. Our Index shows that prices have declined by -6.9% since their peak in Q3 2022, although this past quarter showed just a minimal drop of -0.2%, indicating relative stability in PCL pricing.

"The average property in PCL sold for £2.8m in Q3, which is the highest quarterly figure we've seen since Q1 2020."

Delving deeper, one- and two-bedroom flats and small houses were the property types to suffer the largest annual price falls in Q3 in PCL, at -7.4% and -7.2%, respectively. On the other hand, larger homes with four or more bedrooms - which naturally tend to fall into the highest price brackets - saw more modest annual price drops. This is partly down to the fact that buyers at the top end of the market are less reliant on debt, making them much more resilient to interest rate fluctuations.

Sales volumes and stock levels

When it comes to sales volumes in PCL for Q3 2023, the picture is once again mixed, and it is important to be mindful of the long-term trends as well as the short-term. The number of homes changing hands in Q3 fell by -2.9% compared with Q2 levels, and sales volumes are down on an annual basis by -5%. However, panning out even further, the number of properties changing hands in PCL is up by 25% on the five-year Q3 average.

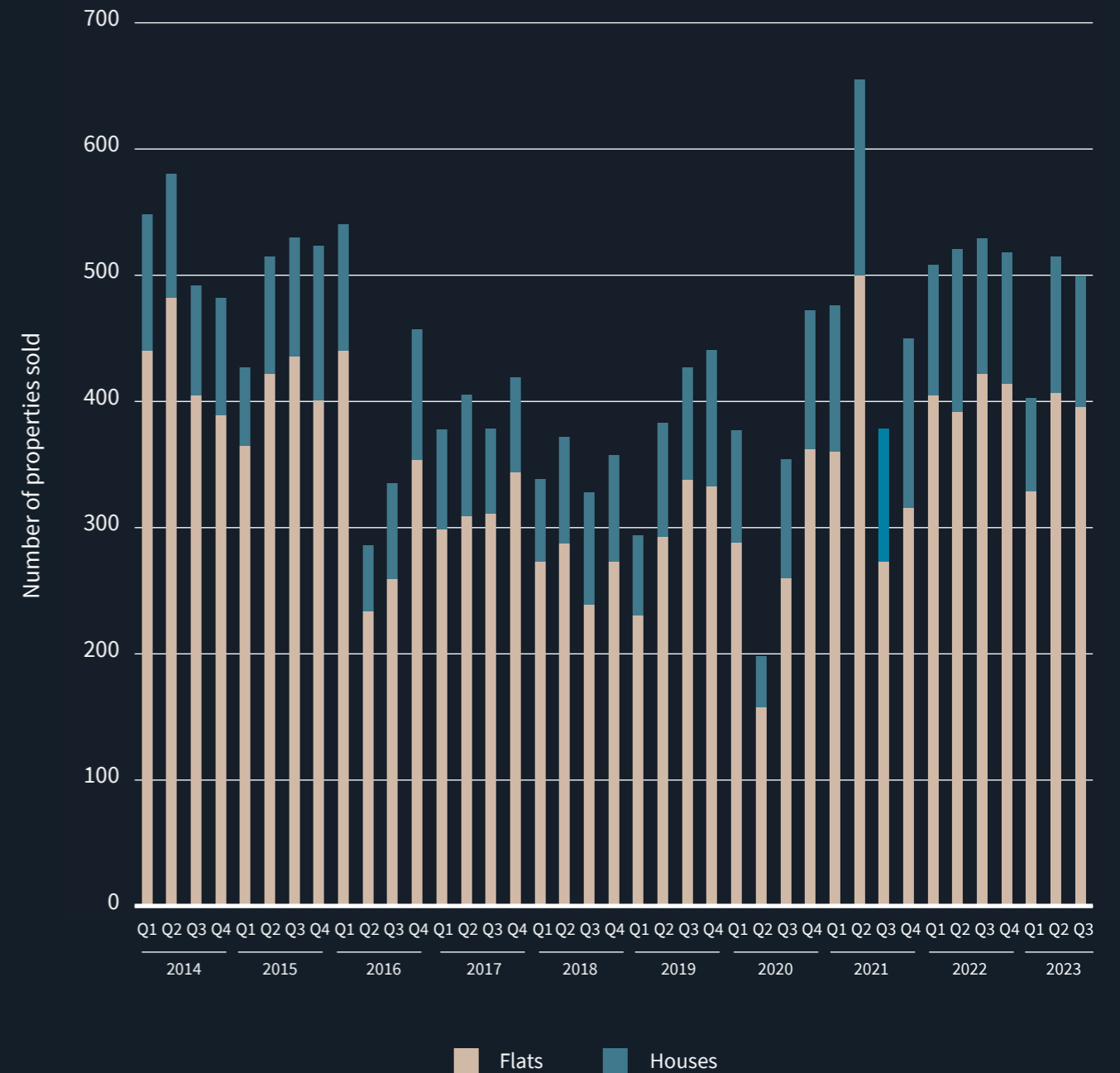
There are signs that the property supply and demand balance is

easing slightly, as we saw a 7% increase in the level of property stock available in Q3 compared with the second quarter, and a 12% rise from the same period last year. There were almost 3,500 homes on the market in Prime Central London by the end of September.

The section of the market that saw the biggest drop in total spend and transactions - properties within the £2 million to £5 million price bracket - also saw the largest annual boost in available stock, of 13%. In homes priced at less than £2 million, stock levels grew by 12% year-on-year.



PCL sales volumes



"The number of homes changing hands in Q3 fell by -2.9% compared with Q2 levels, and sales volumes are down on an annual basis by -5%."

Source: JLL, LonRes

"Across our JLL offices in Prime Central London, we have seen an 8% increase in the number of applicants registering their interest in property in the area."

Asking prices versus sold prices

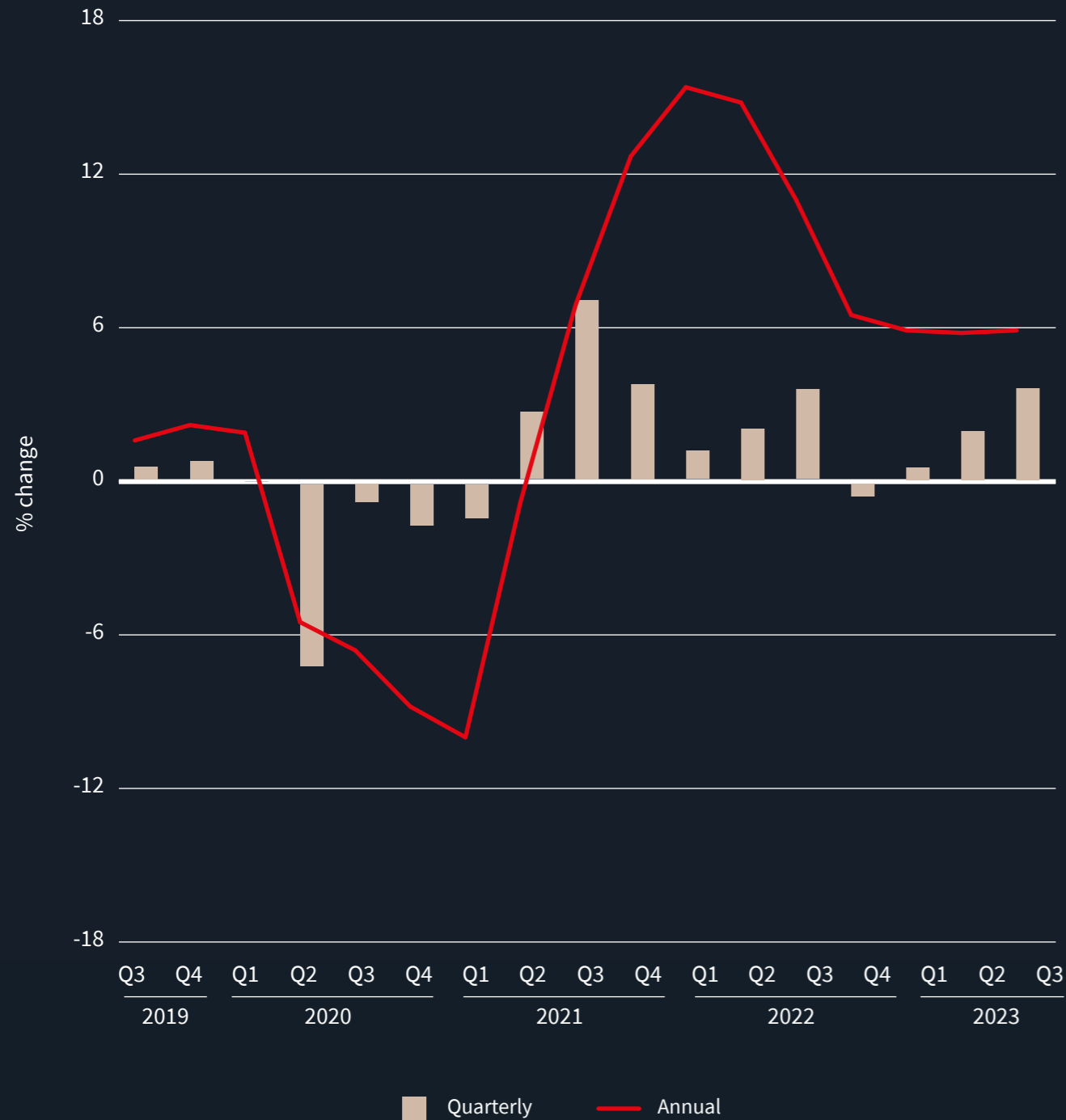
The average gap between asking price and sold price across PCL in the third quarter of the year was 8.2%. While this is a greater discount than we saw in Q3 2022, when buyers were shaving an average of just 6.6% off the asking price, it is smaller than the price gaps we had been experiencing in the previous two quarters of this

year; and pre-2020, the average asking price to sale price discount regularly exceeded 10%.

Across our JLL offices in Prime Central London, we have seen an 8% increase in the number of applicants registering their interest in property in the area, which is evidence that PCL is still a much sought after location for homebuyers and investors alike.



JLL PCL rental index



Source: JLL

Prime Central London

Lettings market

Rental prices

The PCL lettings market experienced its highest quarterly increase in rental prices since Q4 2021 in the third quarter of this year, with average rents climbing by 3.6% from Q2. Rents in PCL are now 5.5% higher than they were a year ago, and 15% up when we look back to Q1 2020, which is a huge shift in a relatively short space of time. This is down to a number of factors, from a reduction in rental housing stock available to a rise in the number of tenants putting off homeownership in the current economic climate, as well as landlords trying to recoup their rising costs through rent hikes.

Drilling down into rental price trends by property type, we can see that smaller, more affordable homes in PCL are driving the

highest annual growth in rental values. Specifically, rental prices on smaller flats increased by 6.4% in Q3 compared with a year ago, while small houses recorded a 5.5% increase. The highest rental growth was seen in properties priced at less than £1,000 per week, which experienced an average rent rise of 7.8% annually.

"Rents in PCL are now 5.5% higher than they were a year ago, and 15% up when we look back to Q1 2020."

We believe this is partly down to the increased pressure on mortgaged households in the current climate, leading many prospective buyers to choose to remain in rented properties.



Lets agreed

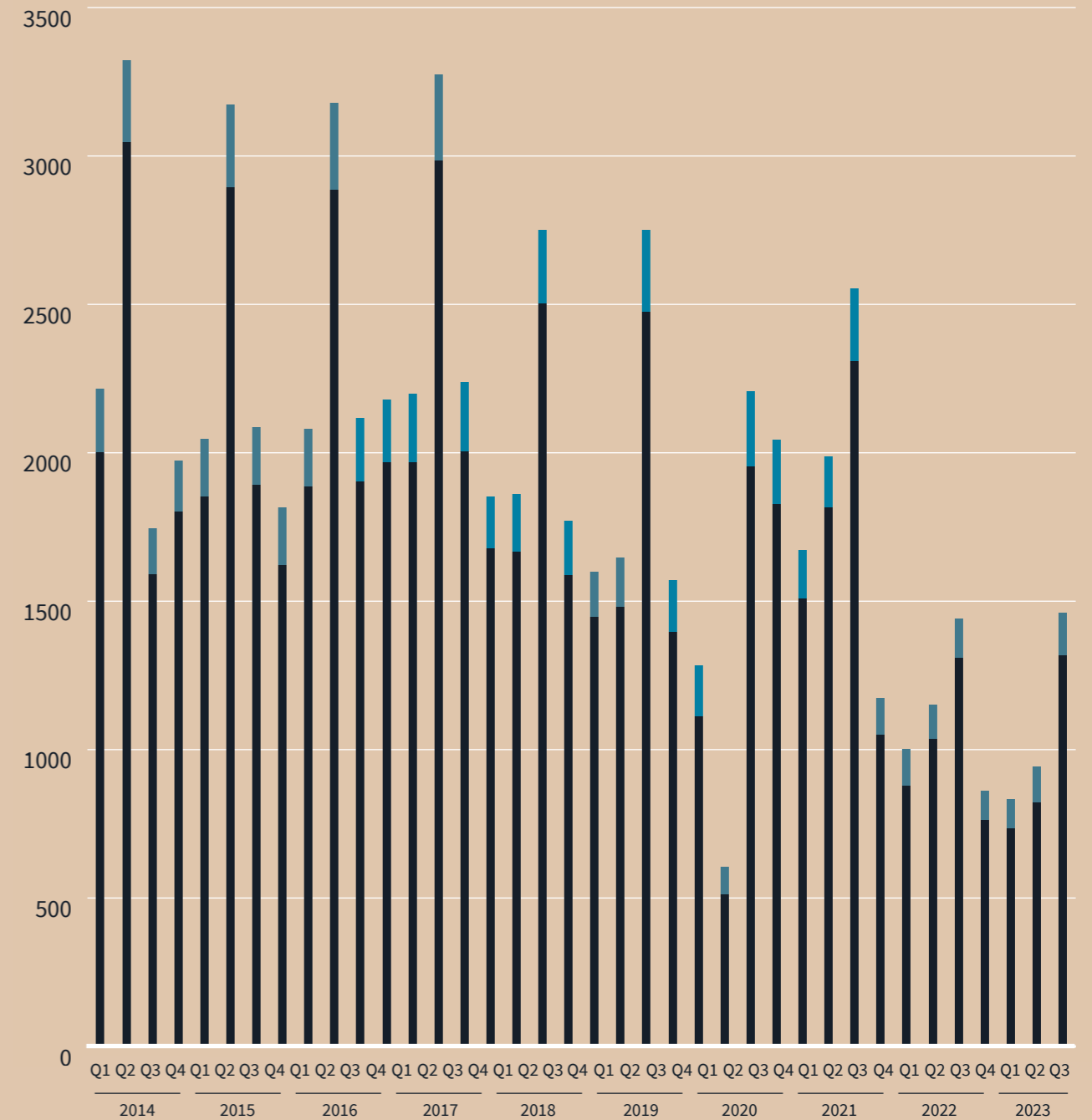
Traditionally, the third quarter tends to be the busiest for lettings in Prime Central London, and Q3 2023 followed this trend, with the number of new lets agreed rising to 67% higher than the average over the previous three quarters (Q4 2022 to Q2 2023). In fact, the number of new lets in Q3 2023 reached its highest level since Q3 2021, with a 1.5% increase compared to Q3 2022. As a result, new lets in Q3 were 55% higher than they were a year ago.

Renewals continue to be relatively high in the PCL lettings space,

with a large number of tenants still reluctant to re-enter the market and look for a new rental home, which could be down to lower stock levels and higher rents for new lets compared with renewals. However, our Index shows that the proportion of new lets to renewals increased in Q3, with 40% of all lettings being made up of renewals compared with 51% in Q2.

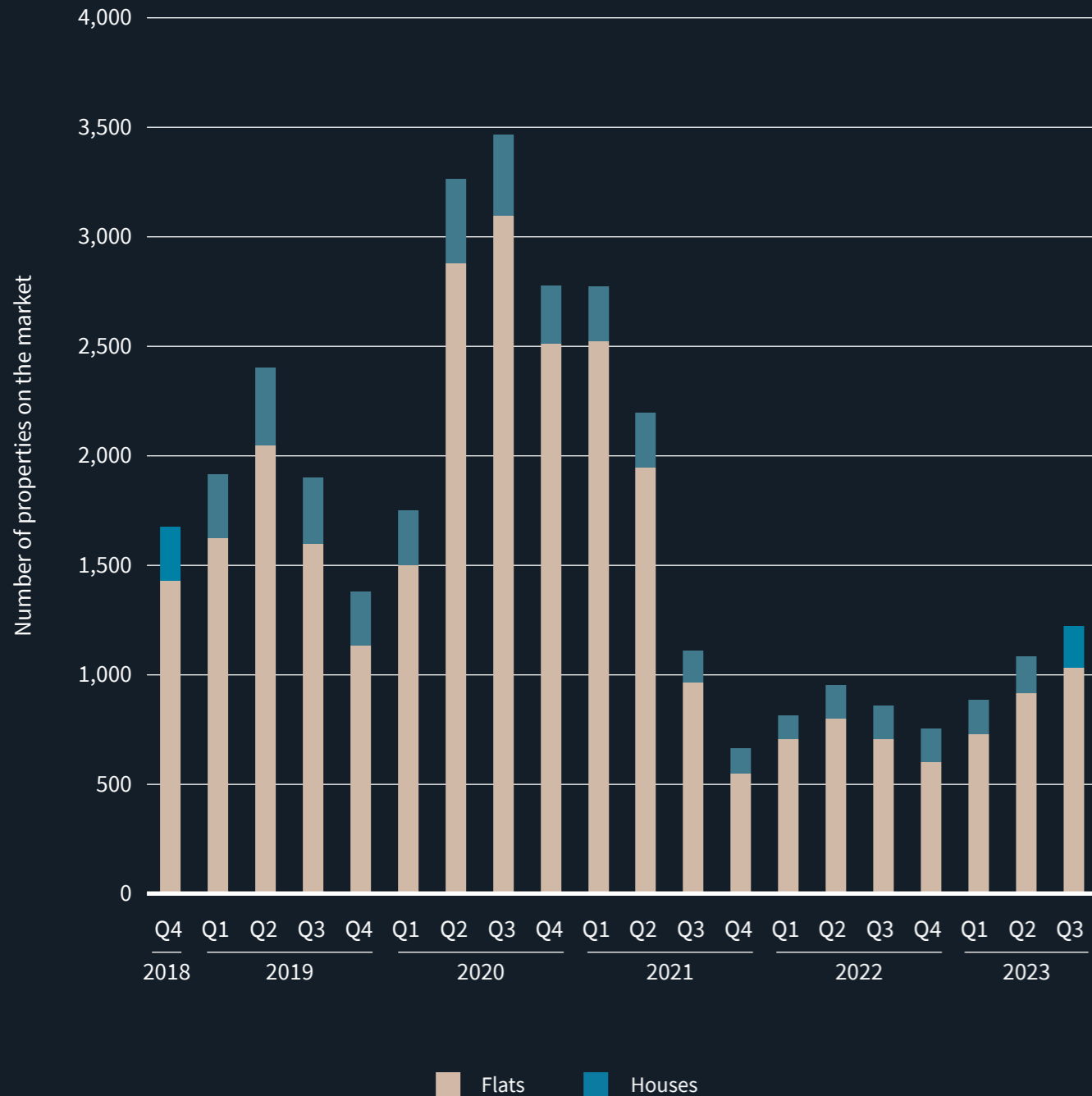
"The number of new lets in Q3 2023 reached the highest level since Q3 2021, with a 1.5% increase compared to Q3 2022."

PCL new lets – quarterly



Source: JLL, LonRes

Rental properties on the market to let



"After three consecutive quarter-on-quarter rises, the number of rental homes on the market was up by 42.3% in Q3 2023 compared with a year ago."

Rental stock

Despite an overall rise in the number of rental homes available, scarcity remains a challenge for the lettings sector in Prime Central London. After three consecutive quarter-on-quarter rises, the number of rental homes on the market was up by 42.3% in Q3 2023 compared with a year ago, which will certainly go some way towards easing competition for tenants. However, stock levels remain 36% below where they were pre-pandemic in Q3 2019.

As a result of this overall lack of available properties in the PCL lettings market, there is less room

for negotiation on asking rents. On average, tenants in Q3 secured a discount of just 1.8% off the original asking price. A year ago, this was slightly higher at 2.2%, while the five-year Q3 average is 5.6%. This is a clear indication that tenants are still having to compete to win property, while landlords are holding firm with asking prices in the current market.

"On average, tenants in Q3 secured a discount of just 1.8% off the original asking price. A year ago, this was slightly higher at 2.2%, while the five-year Q3 average is 5.6%."

Outlook for PCL

So what's next for Prime Central London's property scene? So far this year, the sector has demonstrated its resilience, with only modest falls in activity in Q3, and a step-up in transaction levels at the upper end of the market.

However, the sub-£5 million market on the sales side has been subdued, and those looking to try and sell their properties in the coming months should ensure they price their homes competitively yet realistically from the outset to attract potential buyers. This is particularly important in a market where buyers are exercising caution and where the number of competing properties is on the rise.

Looking ahead, interest rates are widely anticipated to remain stable, which should encourage more buyers to enter the market. However, forecasters are not expecting rate reductions from the Bank of England until at least the second half of 2024, so the market must adapt to higher rates in the meantime.

Cash buyers continue to be extremely important in Prime Central London, and we expect them to continue to drive a significant portion of market activity for the foreseeable future. This is one reason

why interest rates are arguably less worrisome for PCL than for the wider market, although the situation certainly presents challenges, particularly for lower price brackets where cash buyers are typically less active. While some price reductions may be necessary to stimulate activity, we expect this to be modest in PCL due to the relatively low level of pressure faced by vendors to sell.

Meanwhile, the supply and demand imbalance continues to weigh on the lettings sector in PCL, with stock levels increasing slowly yet continuing to lag behind pre-pandemic levels. This is likely to continue to support further rental value increases in the coming months. However, as we move towards the end of 2023 and into 2024, we anticipate a return to more typical seasonal patterns, meaning rates of rental price growth could fall back during the winter period.

Sales market: key stats for Q3 2023

£3.5 billion

spent by PCL buyers so far this year.

-5.5%

annual change in transactions in Q3 2023.

8.2%

average discount achieved off asking prices in Q3 2023.

Lettings market: key stats for Q3 2023

3.6%

quarterly change in JLL PCL Rental Index.

1.5%

annual change in new lets Q3 2023.

1.8%

average discount achieved off asking rents in Q3 2023.

Prime Central London Report

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

Marcus Dixon

Director – UK
Residential Research
Marcus.Dixon@jll.com
+44 (0)16 1238 6256

Neil Short

Lettings Area Director
– Prime Central London
Neil.Short@jll.com
+44 (0)20 7337 4005

Lucy Morton

Director – Head of
Residential UK Agency
Lucy.Morton@jll.com
+44 (0)20 7306 1610

Daniel Wiggin

Director – Residential
Agency Sales
Daniel.Wiggin@jll.com
+44 (0)20 7306 1615

About JLL

JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. JLL shapes the future of real estate for a better world by using the most advanced technology to create rewarding opportunities, amazing spaces and sustainable real estate solutions for our clients, our people and our communities. JLL is a Fortune 500 company with annual revenue of \$16.6 billion in 2020, operations in over 80 countries and a global workforce of more than 91,000 as of March 31, 2021. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated.

