Prime Central London

UK Residential Research | July 2018

The Prime Central London sales market is recovering some poise. The lower-end of the market is picking up and is seeing some price rises. The upper-end of the market, while some prices continue to adjust down, is seeing higher transaction volumes. The Prime Central London lettings market is also in recovery mode. Rental values have increased for two consecutive quarters and although poorly presented properties frequently struggle to let, there are increasing pockets of improvement. Transaction levels continue to disappoint.

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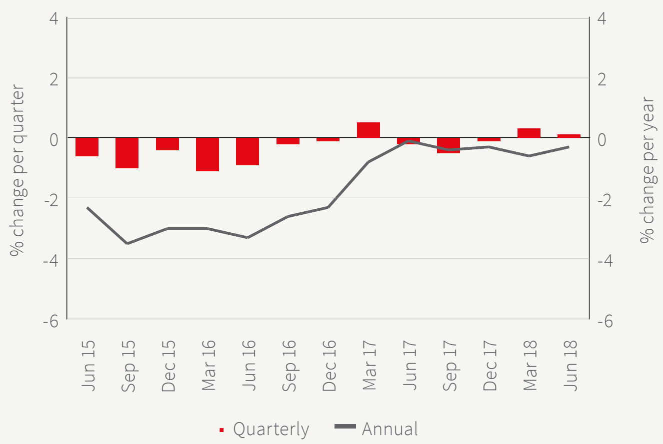
Sales market

- Prices up in Q2, but selectively
- Transactions increase marginally
- Lower-end strengthening

Lettings market

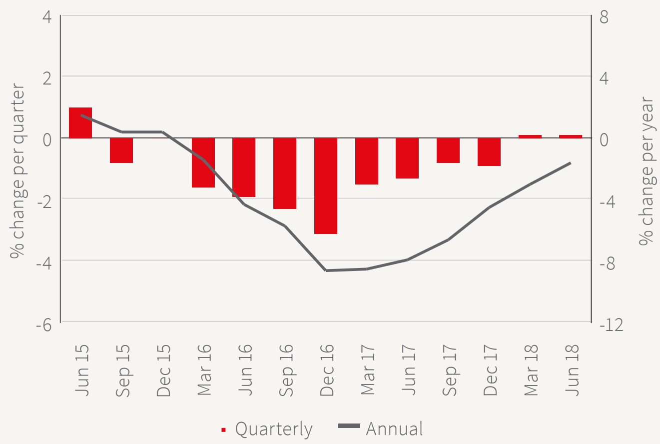
- Rents rise again in Q2
- Transactions down
- Lower-end stronger

Annual price growth set to turn positive in Q3 2018



Source: JLL

Rental growth heading upwards



Source: JLL

JLL Prime Central London research covers mainly second-hand property in the prime postcodes of SW1, SW3, SW5, SW7, SW10, W1, W8 and W11.

Prime Central London
Sales market

Slow improvement

The Prime Central London sales market continued to show signs of stabilisation during Q2 2018. On average, prices increased marginally while turnover also nudged up, albeit from its new lower base.

There are signs that some parts of the market are picking up. Prices are now rising at the lower-end of the market, while turnover at the upper-end of the market is rising. Prices above £5m are still falling.

Overshadowing these market vagaries remain the stamp duty pricing realignment, the gap between buyer and seller price expectations, Brexit and the prospect of a Labour Government.

All said, however, the Prime Central London sales market is slowly turning in the right direction.

Prices and turnover rise

Across Prime Central London average prices increased by 0.1% during Q2. Whilst not a huge rise, Q2 was the second consecutive quarterly increase – the first time this has happened in more than four years. In the year to Q2, average prices were 0.3% lower.

The number of transactions increased by 2% in Q2 but in the year to Q2 2018 was 7% lower than the preceding year.

Smaller-end resolve

The market at the lower-end of the price scale has been more robust for several quarters but Q2 2018 witnessed a marked improvement.

In the sub £2m price bracket, prices increased by 0.2% on average during Q2 while in the £2-5m price range prices rose by 0.4%.

Less onerous stamp duty is a clear differentiating factor. Another reason for the outperformance is the popularity of smaller houses, typically two-three bedrooms in the £2-5m price range. Prices for such properties have increased by 4.0% already during 2018 and by 1.0% in Q2. Prices for smaller flats have also increased during Q2, but by a more modest 0.2%.

Transaction levels in both the sub £2m and the £2-5m price ranges have also been robust in the two years to Q1 2018. Around 460 sub £2m transactions per quarter has been the norm during this time. Although this is 35% below the 700 transactions per quarter during the preceding two years, a reasonable level of turnover has been maintained.

In the £2-5m price range, transaction levels have averaged 170 per quarter and have again been pretty robust during the past two years. This is 15% below the 200 transactions per quarter seen in the preceding two years.

Upper-end transaction boost

At the upper-end of the market, above £5m, prices are still adjusting downwards but transaction levels are now recovering to some extent. This market has been hardest hit by the stamp duty changes.

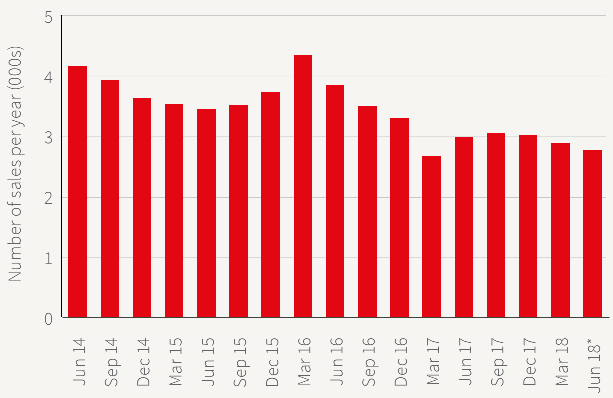
In the two years to Q1 2018 there has been an average of 41 transactions per quarter in the £5-10m price range which is down by 29% compared with the preceding two years. Importantly, however, transaction levels have picked up to average 48 per quarter in the latest two quarters.

Pricing in the £5-10m market has been declining for almost four years but the rate of decline has slowed over the past year. Prices are down just 1.8% in the year to Q2 2018, a marked improvement from the 5.9% pa decline in Q3 2015.

In the £10m+ market, where the stamp duty changes have been most notable, transaction levels did decline significantly but, encouragingly, they have recovered in recent quarters.

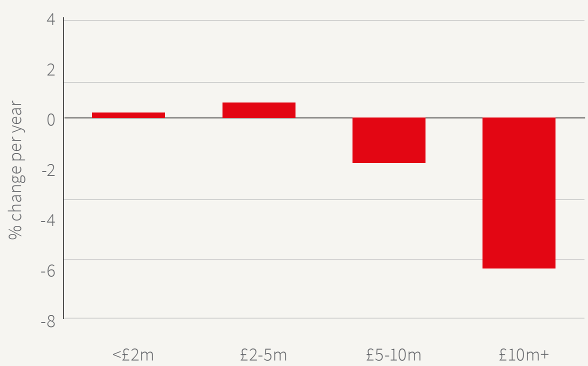
In the two years to Q1 2018 the average number of £10m+ transactions has been 15 per quarter. This compares with an average of 19 per quarter in the preceding two years. However, the number of transactions dropped to 7-8 per quarter in the middle of 2016 but has rebounded strongly to circa 23 per quarter by Q1 2018.

Transaction levels steady at lower base



*Source: JLL, Land Registry, *JLL estimate*

Prices up below £5m



Source: JLL

Prime Central London

Lettings market

Market sensitivities

The Prime Central London lettings market has turned a corner in 2018. Rents have now risen for two consecutive quarters for the first time since 2015.

The strengthening lower-end of the market is the principal reason for recovery. However, the key message is that the market is sensitive with some sectors performing better than others.

Rents higher, turnover down

Across Prime Central London average rents increased by 0.1% in Q2 2018. This follows a 0.1% rise in Q1. Prior to this, rents had declined by 13% over two and a half years. But successive quarters of positive rental growth are a step in the right direction.

The number of transactions in Q2, at 1,860, was 15% lower compared with Q2 2017 and has led to a fall in the volume of transactions in the year to Q2 2018. The annual number of transactions has now slipped below the 9,500-10,000 level seen during 2017, but at least the total of 9,220 transactions is higher than the 9,190 seen in 2016. Q3 2018, however, will see the usual seasonal increase in activity.

Mixed performance

The key story is the mixed performance of different segments of the market.

In broad terms, the lower-end of the market is outperforming in rental growth terms. Indeed, it is the one and two bedroom flat markets where rents have increased in Q2.

But even within the one and two bedroom markets there are pockets of under and out performance. The sub £600 pw one bedroom sector, where young professionals and international students are active, is the most robust. Demand levels are good, and although there is a reasonable volume of available supply, rents are rising under the pressures of competition. However, more expensive one bedroom flats are in some cases struggling to let.

The picture is similar in the two bedroom flat market. Smaller and lower value properties are letting well and achieving rental increases. However, there are many larger and higher value properties available, presenting tenants with plenty of choice and, consequently values are slipping.

In contrast, the larger family house market is starved of available properties. Many tenants who are waiting to move often end up renting short-term or extending their tenancies while they wait for the right property to come onto the market. Rents in this segment are holding firm.

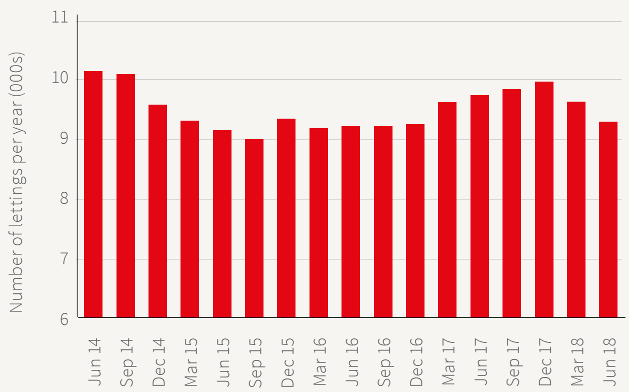
Presentation and specification

While the vagaries of specific segments of the market are generating differing market dynamics, two related factors are increasingly influential.

The first is that specification rather than location has become a dominating influence. Ten years ago a prized postcode would trump a new building elsewhere in Prime Central London. But now, more often than not, tenants would prefer a new, purpose built block with modern specification, technology and amenities.

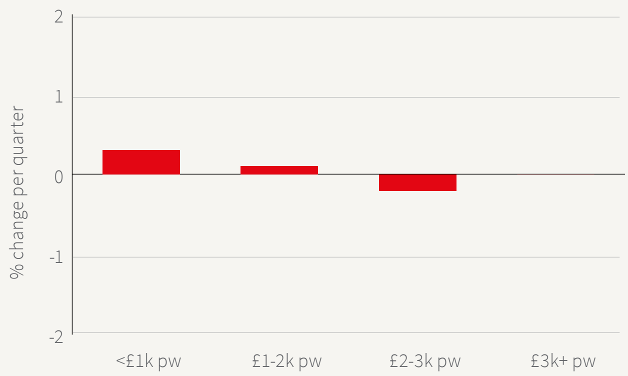
The second determinant is presentation. And with plenty of choice, tenants will wait for the better presented properties. As a result, many poorly presented properties have been on the market for some time. It has also increased the need for landlords to refurbish their properties, not necessarily to attain a higher rent, but more to secure a tenant and to reduce voids.

Lettings transactions down again in year to Q2 2018



Source: JLL, Lonres

Rents rise at lower-end in Q2 2018



Source: JLL

Outlook

The outlook for the Prime Central London sales market is cautiously optimistic. The large price falls are now behind us but transaction levels remain low and small price declines persist at the upper-end of the market.

Economic and political factors continue to overhang the market, preventing a meaningful recovery from the troubled market conditions of the past 3-4 years.

We still expect transaction levels to pick up moderately over the next 12-18 months as more vendors market their properties and, importantly, at realistic prices. This should help liberate the market to some extent at least.

We expect continued but minor price rises at the lower-end of the value curve for the remainder of 2018.

In the lettings market, turnover should improve notably during the seasonally strong Q3.

Quarterly rental value growth is expected to rise steadily and could surprise on the upside by pushing annual rental growth into positive territory by the end of 2018.

House price growth (% pa)	2018	2019	2020	2021	2022	2018-22*
Prime Central London	-1	½	2	3	4	8.7
Greater London	0	1½	2	3½	4	11.4
UK	1	2	2½	3	3½	12.6

Rental growth (% pa)	2018	2019	2020	2021	2022	2018-22*
Prime Central London	-2	-½	1½	2	2	3.0
Greater London	1½	2	2	2½	2½	10.9
UK	2	2½	2½	2½	2½	12.6

*Source: JLL *cumulative growth*

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