

Prime Central London

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There are signs that the Prime Central London sales market bear run is nearing an end. Transaction volumes increased in Q2 2019 while the number of properties being marketed also picked up. And although prices fell again, the decline in Q2 was lower than in recent quarters. In the Prime Central London lettings market, many tenants are opting to renew rather than move home, hoping that the UK's economic and political outlook will be clearer the next time their tenancies expire. Rental growth is now positive with the one bedroom, new property and High Net Worth (HNW) student markets strongest of all.



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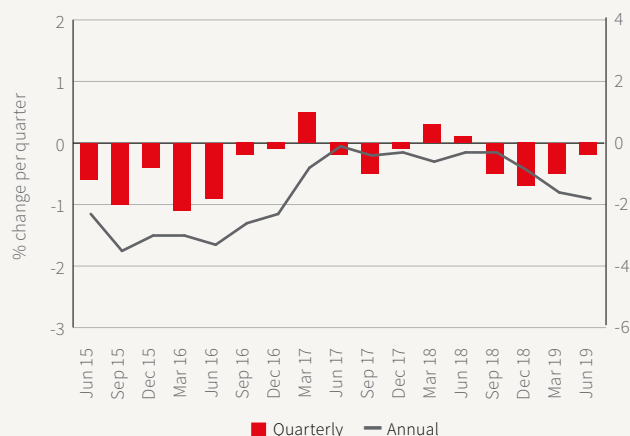
Sales market

- Transaction levels increased in Q2 2019
- Number of properties on market rose
- Prices declined marginally during Q2

Lettings market

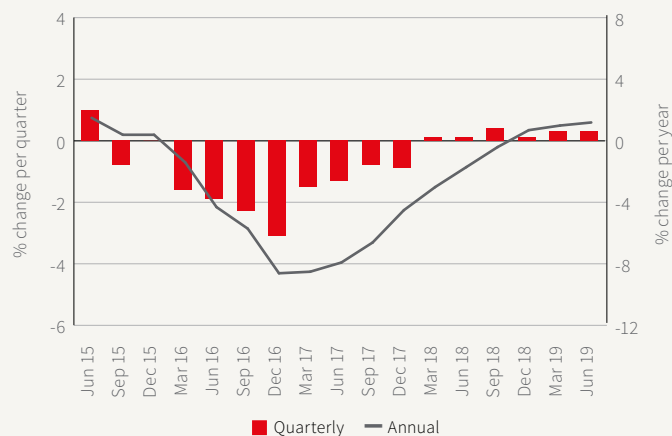
- More tenants opted to renew in Q2
- Rents increased in Q2 2019
- Turnover slowed again

Sales prices fall further



Source: JLL

Rental growth continues steady climb



Source: JLL

Prime Central London

Sales market

New signs of life

There are signs that the Prime Central London sales market is benefiting from a new lease of life. The market had been slowing in terms of transactions and price growth for the last five years.

But we are now sensing that both buyers and sellers are tiring of the Brexit saga and are keen to get on with their property decisions. The extension of the Brexit deadline and the decision to appoint a new Prime Minister seem to have been the final straws for a market that has been waiting for a clearer outlook for too long.

The number of properties coming onto the market increased during Q2, the first quarterly rise for a year, suggesting that homeowners are now happier to bring their properties to market. Meanwhile, the number of transactions has risen for the first time in almost two years, a further sign that the market is liberating.

Furthermore, price falls look as though they may be petering out, with price declines in Q2 lower than in the previous three quarters.

Transaction levels turn corner

Land Registry data on transaction volumes during Q2 2019 is not yet available, but we estimate that the number of transactions increased during Q2, pushing the annual total 4% higher compared to Q1 2019.

This is the first time since Q3 2017 that the annual transaction total has increased, perhaps marking a turning point for the Prime Central London sales market.

The number of transactions in the year to Q2 2019, however, was still 13% below a year earlier.

More property being marketed

A further sign that the market is beginning to liberate is that the number of properties on the market increased slightly during Q2. The number of properties on the market is still 15% lower than a year ago, but the 3% rise between Q1 and Q2 2019 reflects that more owners are disillusioned with waiting for a Brexit resolution and are now happier to market their homes.

Despite the increase in stock levels, the market is still short of quality properties. Many potential vendors have held onto their prized assets during the past few years in the hope that the market will improve.

With so few quality properties coming to market, these assets have often held their value and have sold quickly, reaffirming that there is still strong demand for the right product in the right location.

Price declines diminish

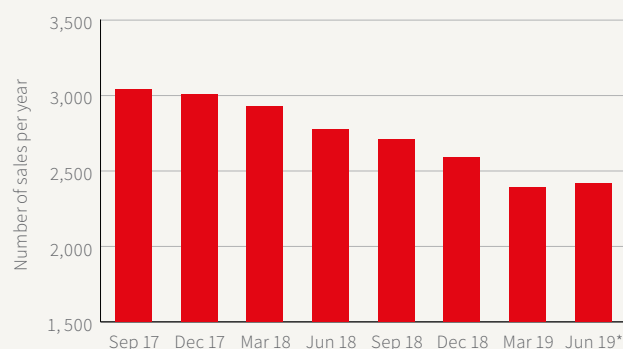
Prices fell for the fourth quarter in a row during Q2 2019. However, the 0.2% fall was the smallest drop for a year, reiterating that the market has become more stable in recent quarters.

On an annual basis, price growth has been negative for more than four years with prices now 1.8% lower than a year ago.

Price falls continue to be greatest at the upper-end of the value curve. In the £10m+ market prices fell by 4.0% in the year to Q2 2019, slightly below the 3.1% decline seen in the £5–10m market. At the lower-end of the spectrum, prices were only 0.9% down in the sub £2m sector and 1.5% lower in the £2–5m market.

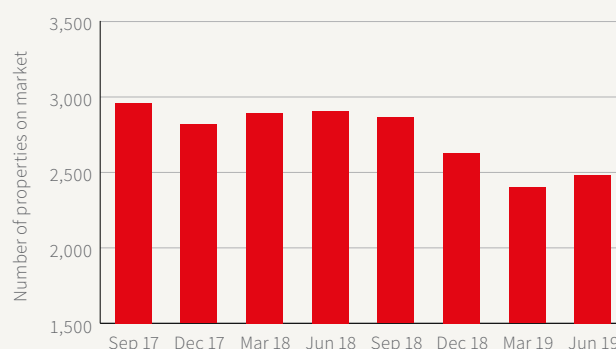
The strongest segment is the small house market. With high demand and low available supply for 2–3 bedroom houses, prices increased during Q2 and are only 0.7% down in the year to Q2 2019.

Number of transactions ticks up



Source: JLL, Land Registry * JLL estimate

Number of properties on the market rises



Source: JLL, Lonres

Prime Central London

Lettings market

Tenants staying put

The key trend in the Prime Central London lettings market is the number of tenants renewing rather than moving. This trait has strengthened during recent quarters as tenants favour the ease of staying put rather than enduring the hassle and expense of moving during these uncertain economic and political times. In most cases rents are increasing on renewal.

As a result, the volume of new tenancies has continued to fall, while rents have inched upwards.

Transactions lower again

The trend in higher renewal rates has been evident for the past two and a half years but there are some tentative signs that this may now be slowing down.

For example, the 16% decline in transactions in the year to Q2 2019 was lower than either of the previous two quarters while the number of transactions during Q2 was 3% higher than Q1.

We expect Q3 to be the strongest quarter again this year as the student market kicks in ahead of the next academic year. And with the HNW student market expanding in recent years, Q3 2019 is likely to be stronger still.

Rents rise marginally

Rents in Prime Central London have now risen in each of the past six quarters. While rental growth is only meagre at 1.2% pa, this is the highest rate of growth since Q2 2015 and is most welcome following two and a half years of falls.

Rental growth remains highest at lower price points. Reflecting a shortage of available property and stronger demand, rents have increased most in the sub £1,000 pw market both during Q2 and in the year to Q2. Rents have increased by 3.2% in the year to Q2, notably higher than the 1.2% market average.

Rents have increased by 0.8% over the last year in the £1,000–2,000 pw sector. The lower rental growth reflects both a higher level of available properties in the two bedroom apartment and 2-3 bedroom house markets as well as lower levels of demand.

Rents in the £2,000–3,000 pw market have increased by 0.4% in the year to Q2 2019 while average rents are unchanged in the sector above £3,000 pw.

Available supply is key

Supply levels are proving a key differentiator between segments of the market.

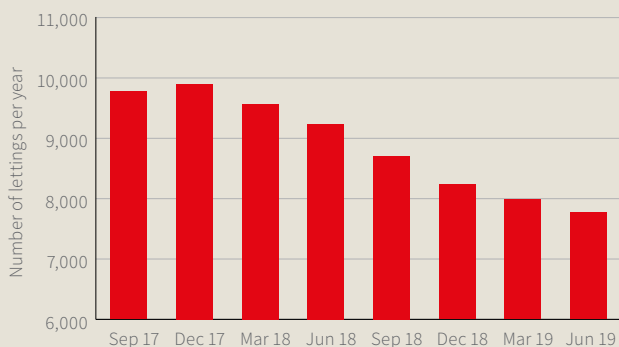
Available supply in the one bedroom apartment sector is very low. Even when properties do come to market they are let quickly, leaving little choice for prospective tenants and creating urgency in the market. And although more supply will come to market as the academic year comes to an end, the supply situation is likely to tighten further during Q3 when the new cohort of HNW students lifts demand.

Often, professional workers are beaten to the mark or are priced out of this market by the expanding HNW student sector. One bedroom apartments in newer built properties are especially favoured by HNW students while Marylebone, Fitzrovia and Chelsea areas are proving particularly popular.

In the larger house market, available supply is also tight. Four and five bedroom houses are difficult to source, especially good quality properties in prime locations. There is particularly strong demand in the super prime lettings market above £10,000 pw.

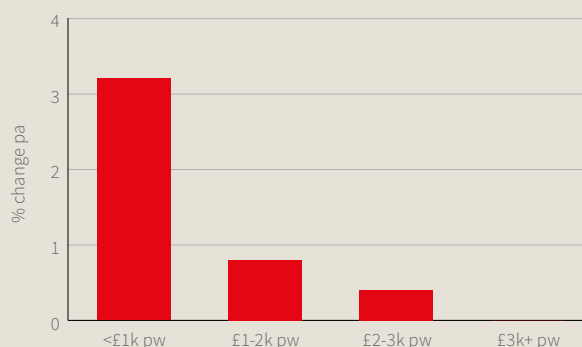
In contrast, there is greater availability and less urgency in the 3–4 bedroom apartment and 2–3 bedroom house markets. This has led to lower rental growth in these sectors.

Lettings transactions lower still



Source: JLL, Lonres

Rental growth greatest in sub £1,000 pw market



Source: JLL

Outlook

There are signs that the Prime Central London sales market is entering a new phase. Transaction volumes are up, more properties have come to market and price falls may now be over.

The outlook for Brexit is still a huge determinant for the future of the Prime Central London sales market but, assuming a positive resolution we expect price growth,

transaction volumes and the availability of properties to increase.

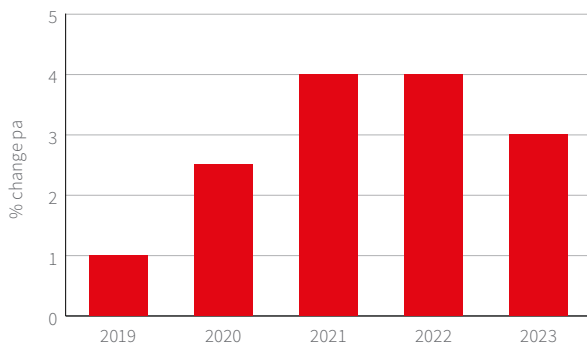
Greater urgency and willingness to transact are likely to happen quite quickly if a positive Brexit roadmap becomes clearer.

The Prime Central London lettings market is presently in a steady state. Renewals are the order of the day as tenants choose to stay put awaiting the Brexit outcome.

We expect new tenancy transactions to increase and rental growth to accelerate if a good Brexit outcome is achieved. The pace of rental growth rises, however, is likely to be more sedate in the lettings market.

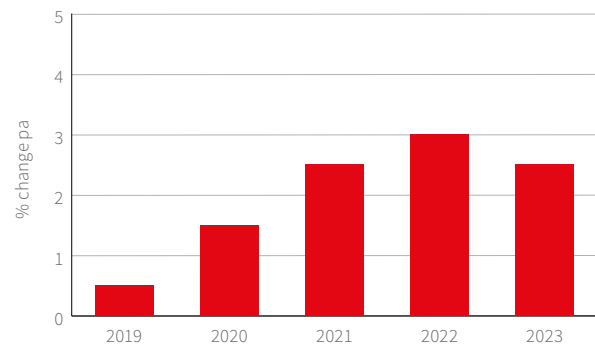
The outlook for the next quarter in both the Prime Central London sales and lettings markets is looking brighter than it has done for some time.

Price growth to accelerate if positive Brexit deal agreed



Source: JLL

Rental growth set to increase assuming good Brexit deal



Source: JLL

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