Residential update
Prime Central London

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The pricing adjustments in the Prime Central London sales and lettings markets are now diminishing. The sales market continues to absorb the stamp duty reforms which have impacted the market above £3m in particular but, with price falls slowing and greater activity at the top-end of the market, there is now light at the end of the tunnel. The lettings market is facing a more fundamental change with lower corporate demand in core Prime Central London areas, while new developments and more affordable locations further afield see increased interest. These challenges are being hampered by Brexit and slowing economic growth although the weak pound is an attractive aspect for overseas buyers.

Neil Chegwidden
Residential Research

Sales market
Price growth

-0.1%
Q4 2017 **v** Q3 2017

-0.1%
Q4 2017 **v** Q4 2016

Lettings market
Rental growth

-0.9%
Q4 2017 **v** Q3 2017

-4.5%
Q4 2017 **v** Q4 2016

Sales market
Transactions

+11%
Q4 2017 **v** Q3 2017

-15%
Year to Q4 2017 **v** Year to Q4 2016

Lettings market
Transactions

+6%
Q4 2017 **v** Q4 2016

+8%
Year to Q4 2017 **v** Year to Q4 2016

*Source: JLL, Land Registry, Lonres. *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

- *Transactions rise encouragingly*
- *Prices beginning to stabilise*
- *Outlook more positive*

Improved mood

The Prime Central London sales market has picked up during Q4 with a number of notable sales that are beginning to improve sentiment.

The acceleration in activity was clearly evident in December in particular but has affected the whole market across all value bands in Q4. This follows a sparse trading period for this end of the market.

Prices during Q4 weakened only marginally and remained firm across large parts of the market including the sub £5m sector.

Turnover lifts

Encouragingly, turnover increased slightly during the final quarter of 2017 but remained significantly below longer-term trends. There was an estimated 11% pick-up to 630 transactions in Prime Central London during Q4 compared with Q3.

Unfortunately, however, the 2017 Q4 total was 13% below the 2016 Q4 volume while the 2,800 sales throughout 2017 was 15% below the 2016 total.

The average number of sales per year during the 2003-2007 period was 5,487 so the 2017 total was around a half this level.

Notably, the upper-end of the market showed signs of recovery during Q4. The number of sales in the £5m+ market increased by 31% between Q4 and Q3, although still from quite a low base, while turnover below £5m increased by only 9%.

Lower-end stability

Although the whole market stabilised in pricing terms during Q4, the lower-end of the market continued to outperform. Perhaps most noteworthy during Q4, however, was that prices in the £10m+ market remained stable for the first time in three years.

The no change in £10m+ prices reflected a quarter of greater activity and, although prices remained notably lower than three years ago, Q4 may mark the end of price falls at higher price points.

Prices in the sub £2m market remained stable in Q4 - the third consecutive quarter of no change - and were 1.8% higher compared with a year earlier.

The only segment of the market to witness price falls in Q4 was the £5-10m market. But even here the 0.4% decline was only modest.

By the end of 2017 average prices in Prime Central London were just 0.1% lower than a year earlier.

Demand and supply

The demand and supply picture improved across all price ranges in Q4 2017.

Demand continues to be robust below £2m where there is a steady stream of properties coming onto the market, a higher volume of transactions and where pricing is firmer.

At the upper end of the market demand has remained stable but buyers seem to be more comfortable about trading now that pricing has readjusted and seems to be on a surer footing. There are still vendors with overly optimistic expectations, but sellers who have adjusted their asking prices are now reaping some reward as the market breaks from its shackles.

Importantly, and despite the current muted demand, available supply has not escalated significantly. This is largely because many vendors, especially in the higher price brackets, are not forced sellers and are simply sitting tight for the moment. At the lower-end of the market turnover is better, with no build-up of excess supply.

Outlook

The Prime Central London sales market is beginning to see light at the end of the tunnel. The mood certainly picked up at the end of 2017 but the real litmus test will be whether this momentum continues into the first 2-3 months of 2018.

We expect prices to remain broadly stable in 2018, but with buyers and sellers becoming more accustomed to the new market landscape we anticipate any price falls to be only minor while turnover will begin to gather pace.

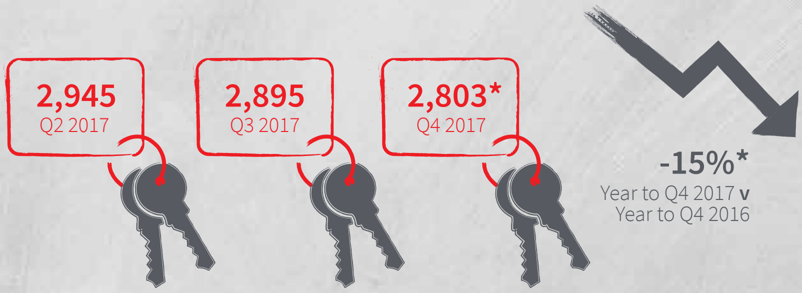
Sales price declines diminishing

Price growth in quarter

Source: JLL

Annual sales transactions on steady decline

Number of transactions during year



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

Price falls diminishing at upper-end

Price growth in year to Q4 2017

Source: JLL

Richard Barber
Residential Sales

It is very positive that a number of high value sales have taken place during the final few months of 2017. More encouraging is that these have included four and five storey houses in the core areas of Knightsbridge, Belgravia, Chelsea and Kensington and that buyers have been a mix of domestic and international.

These are traits that have been lacking for much of 2017, and whilst these do not imply the market is set to return to more acceptable trading levels, they do at least signal a step in the right direction.

The continued low pound may encourage more overseas buyers to consider re-entering the market now that the main phase of pricing realignment has past. The New Year market will be crucial in setting the tone for the year ahead and whilst we are not expecting anywhere near the boom conditions of 2014, we do expect to see an acceleration in transaction volume.

Prime Central London

Lettings market

- *Turnover on steady incline*
- *Rents continue to fall*
- *Tenants hold the upper hand*

Challenging conditions prevail

The Prime Central London lettings market continues to be challenging. Turnover slowed as usual in Q4 compared with the seasonal boost provided by students in Q3 and returned to the more subdued and difficult conditions experienced in Q1 and Q2 2017.

Demand levels are reasonable but not at the level they were 3-5 years ago, while the lack of activity and the slower sales market have left a slight surplus of properties on the market relative to demand.

The upshot is that prospective tenants have plenty of choice, are under no pressure to pay the asking rent and, in the majority of cases, are able to make opportunistic bids.

Landlords, on the other hand, are rather at the mercy of tenant's dominance and are frequently having to accept below-asking rent offers to secure a letting.

Demand steady

There is a steady stream of demand across all areas of Prime Central London but demand has not returned to the level it once was.

This has resulted in too much available supply relative to demand and has left tenants with plenty of options and a lack of market urgency.

The lower demand level compared with a few years ago is an ongoing trend with tenants considering locations right across London. High-end demand is no longer solely focused on Prime Central London. The emergence of locations such as Shoreditch, the City and Canary Wharf as potential alternatives has diverted some demand away from more established and traditional destinations.

The completion of new developments and premium Build to Rent developments providing exceptional amenities, finishes and technology are also creating a drain from Prime Central London.

Availability still too high

The seasonally higher Q3 turnover reduced available supply to some extent, but the market is still suffering from an excess of supply relative to demand.

This issue exists across the value and size spectrum but is more of a problem in the mid and upper ends of the market where turnover is always lower. Some notable rent discounts have had to be accepted by landlords in order to secure a letting, such is the balance of power afforded by tenants.

At the lower end of the market there is still a reasonable amount of choice for tenants but the excess of available supply relative to demand is less acute.

Rents under pressure

The downward pressure on rents continued during the final quarter of 2017. However, the rate of decline was lower during the second half of 2017 compared with the first half. Quarterly declines of 0.8% in Q3 and 0.9% in Q4 were more modest than the 1.5% fall in Q1 and the 1.3% decline in Q2.

The difficult trading conditions have prevailed for over two years now. This has meant that Prime Central London rents have fallen in each of the last 8 quarters, aggregating to a total decline of 12.7%.

Over the course of 2017 Prime Central London rents fell by an average of 4.5%. Encouragingly, this is the lowest annual rate of decline for more than a year.

Rental value declines continue to be greatest at the upper-end of the market. Rents fell by 3.8% during 2017 in both the small flat and small house markets while rents for larger flats slipped by 6.2% and for larger houses dropped 6.1%.

Turnover rising nicely

Turnover in the Prime Central London lettings market improved during the course of 2017. The Q4 total was the highest of the year with the exception of the seasonally strong Q3 market, resulting in the annual total rising to 9,980, its highest level for over three years.

This bodes well for 2018 signalling that increased turnover could make inroads into available supply.

Outlook

We believe that the realignment of the Prime Central London lettings market still has some time to run. There has already been a structural lowering in rent levels but we anticipate this may continue for a further 6-12 months.

The escalating attraction and appeal of many locations outside of Prime Central London is the principal cause of the realignment but Brexit and a relatively weak economic performance are also contributing.

We are therefore forecasting further small declines in rental values over the next few quarters before the Prime Central London lettings market realignment is complete.

Rental value declines slowing

Rental growth in quarter

-1.3% Q2 2017

-0.8% Q3 2017

-0.9% Q4 2017

-4.5% Q4 2017 v Q4 2016

Source: JLL

Lettings market transactions on gradual incline

Number of transactions during year

9,672 Q2 2017

9,769 Q3 2017

9,891 Q4 2017

+8% Year to Q4 2017 v Year to Q4 2016

Source: JLL, Lonres

Rental value falls diminishing at lower-end

Rental value growth in year to Q4 2017

sub £1,000 pw -3.8%

£1 - 2,000 pw -3.8%

£2 - 3,000 pw -6.2%

£3,000+ pw -5.6%

Source: JLL

Lucy Morton

Residential Lettings

Rental value falls continued during the tail end of 2017 and although these have moderated we still anticipate high levels of stock during the first half of 2018 will suppress rental prices.

Higher inflation could help to push rents up in the short-term but we expect the supply situation and Brexit uncertainty to outweigh this effect especially given that a number of top city companies are still not committing to long term plans in the wake of Brexit.

The student market though, has gone from strength to strength over the last few years and 2017 was no exception with wealthy international students bolstering the central London market during the last part of 2017. However, the core area of the Prime Central London rental market has definitely changed with companies relocating businesses out of the traditional central area which has led to the emergence of new residential hubs for commuters.

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