Achieve Ambitions

Residential update

Prime Central London

UK Residential Research | *August 2017*

The Prime Central London sales market stabilised to some extent during the first half of 2017. Transaction levels increased during Q2 2017 and pricing at the lower-end of the market held firm. The market above £5m is more sensitive but we expect the sales market to continue its acclimatisation during the remainder of this year and to be on a firmer footing by the start of 2018. Activity has also picked up in the lettings market during Q2 but rental values continue to decline as oversupply issues persist. Stronger transaction activity in Q3 will provide some respite and we expect the market to have rebalanced by the end of this year.

Neil Chegwidden
Residential Research

Sales market
Price growth

-0.2%
Q2 2017 **v** Q1 2017

+0.1%
Q2 2017 **v** Q2 2016

Lettings market
Rental growth

-1.3%
Q2 2017 **v** Q1 2017

-7.9%
Q2 2017 **v** Q2 2016

Sales market
Sales transactions

+7%*
Q2 2017 **v** Q1 2017

-29%*
Year to Q2 2017 **v** Year to Q2 2016

Lettings market
Lettings transactions

+1%
Q2 2017 **v** Q1 2017

+6%
Year to Q2 2017 **v** Year to Q2 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 in Q2*
- *Prices down, but stable below £2m*
- *Sentiment subdued*

A market divided

Sentiment and pricing in the sub £2m Prime Central London sales market has firmed up during Q2 2017, but the market higher up the value curve remains subdued.

The market below £2m, which represents about two-thirds of transactions in Prime Central London, proved less vulnerable during the recent price correction phase and has also been the most robust segment of the market in the past year as conditions have stabilised, with prices actually higher compared with 12 months ago.

The market below £2m is certainly more free flowing with buyers and sellers eager and willing to trade.

However, this is in stark contrast to the upper-end of the market which is stifled through inactivity, a lack of committed demand and insecurity about pricing. This uncertainty has led to price falls, especially in the £10m+ market.

Transaction levels stabilise

Encouragingly, activity in the Prime Central London sales market has stabilised during the last three quarters and on an annual basis has ticked up slightly during Q2 2017.

The number of transactions over the nine months to end-June 2017 has averaged just over 700 sales per quarter, which is a vast improvement on the 500 purchases in Q2 2016 and the 620 in Q3 2016.

These figures mean that the annual total increased from 2,520 sales in the year to Q1 2017 to 2,730 sales in the year to Q2 2017, a 7% uplift.

↑ 7%

Increase in transactions in year to Q2 2017 compared with a year earlier

However, while these latest figures are encouraging, current transaction volumes are low by recent and historic standards.

The latest annual total is 29% lower than a year earlier and is 28% lower than the average of the past three years, highlighting the slowdown in the market which has taken place since the EU referendum.

Looking further back, transaction levels averaged a little under 5,500 a year during the five years 2003-2007. So current transaction volumes are half their level of a decade ago.

Price change differences

On average Prime Central London sales prices have fallen during Q2 2017, but this masks a difference between property types and values.

Overall, prices have fallen by 0.2% during Q2 which follows a mini-rebound in Q1 when prices increased by 0.7% on average.

↑ 0.1%

Increase in sales prices in year to Q2 2017

Notably, in the year to Q2 2017 prices increased by 0.1%. This is the first quarter that annual price growth has moved into positive territory since Q4 2014, the quarter that higher rates of marginal stamp duty were announced.

Prices in the sub £2m and the £2-5m markets have remained stable during Q2 2017 and, following marginal increases in the preceding quarters, prices are 1.8% and 0.6% higher respectively over the past year.

The picture is not as positive above £5m. Prices in the £5-10m and the £10m+ markets have fallen both over the past quarter and the past year. In the £5-10m market prices have slipped by 1.6% on average in the year to Q2 2017 while they have declined by 4.6% in the £10m+ market.

Supply steady

The number of properties on the market has not escalated notably during this period of lower activity.

Indeed, there is a shortage of two bedroom, two bathroom apartments in particular and a lack of available properties in the £2-3m price bracket.

By contrast, in the house rather than the flat market and particularly for houses of more than two stories above £7m, there is an excess of available supply.

A key reason why availability has not risen faster across the market is because many vendors have taken their properties off the market while others have opted to rent out their homes instead.

Outlook

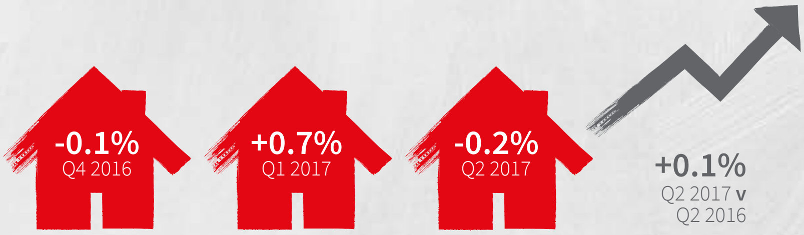
Political uncertainty and a lack of clear and positive direction with regard to Brexit are preventing the Prime Central London sales market from breaking the shackles of this current market malaise.

The market is in need of a catalyst to get it kick-started. There are plenty of vendors ready to sell once the conditions turn more favourable but both domestic and international buyers are biding their time until an upturn is in clearer sight. In dollar-denominated currencies, Prime Central London prices look remarkably attractive compared with two years ago.

We expect the number of transactions to rise through the remainder of 2017, albeit only marginally, and we forecast that price falls at the top end of the market will peter out before the end of the year. The market is steadily rebalancing and should be on a firmer footing come the start of 2018.

Sales price recovery suffers setback

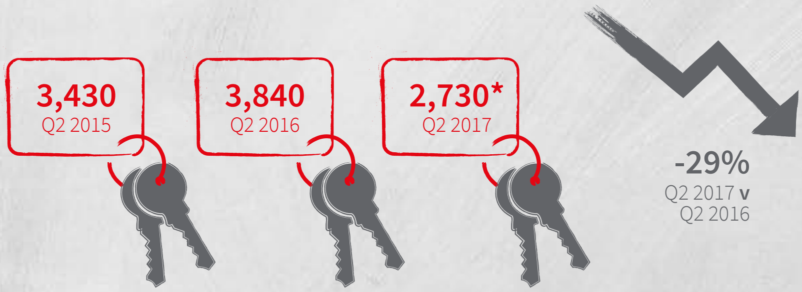
Price growth in quarter



Source: JLL

Subdued turnover

Number of transactions during quarter



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

Price growth differences persist

Price growth in year to Q2 2017

Source: JLL

Richard Barber

Residential Sales

In spite of recent political turmoil and the uncertain direction of Brexit negotiations, it is heartening to see the uplift in transactional volumes.

Whilst much is made of the scarcity of transactions at the top of the market, it is actually the case that sales volumes have increased marginally in the first half of 2017 compared with 2016 for properties between £5m and £10m and stayed broadly the same above £10m.

Despite current conditions, it is still quality that counts and the best presented properties in superior locations are still outperforming.

Applicants, whilst continuing to seek value, are also demanding low-rise houses with lifts as well as apartments with in excess of 2,000 square feet of lateral space all of which need to have high quality finishes and good levels of security.

The scarcity of this type of property within PCL is supporting values at the very top of the market but is also driving applicants towards the new build sector and fast developing areas within London.

Prime Central London

Lettings market

- *Lettings transactions rise*
- *Oversupply problems linger*
- *Rents still falling*

Signs of recovery

Overall, the Prime Central London lettings market continues to be plagued by oversupply and falling rental values.

However, there are some signs that the market is bottoming out and that a recovery is on its way. This is certainly the case at the lower-end of the market where transaction levels have increased and rental value falls are diminishing.

Transactions boost

Encouragingly, activity has improved gradually during the first two quarters of 2017. Importantly too, this has been across all property types and value bands.

Transaction levels increased by 3% in Q1 and by a further 1% in Q2 which has boosted the annual total to over 9,670, the highest level in almost three years. Over the past year transaction levels have risen by 6%.

6%

Increase in transactions in year to Q2 2017 compared with a year earlier

The activity recovery has been led by the more robust lower-end of the market. The number of lettings in the sub £500 pw market, which accounts for around 30% of all transactions in Prime Central London, has increased by 16% in the year to Q2 2017.

By contrast, the volume of new tenancies agreed in higher price brackets was just 1.9% up in the year to Q2 2017.

Tenant demand up

Tenant demand has increased slightly during Q2 and has helped lift turnover.

Overall, however, demand remains lower than 2-3 years ago. Students and families looking for accommodation ahead of the next academic year have been conspicuous by their absence during Q2. Their numbers will undoubtedly grow through the letting market's busiest quarter in Q3 but these early signs are indicative of a lower demand environment.

The reasons behind the subdued demand are undoubtedly Brexit, which has reduced the number of overseas secondments and relocations to London, while the trend of renters to look at more affordable locations across Central and Inner London has also diverted demand elsewhere. This is particularly the case for younger renters lured by lower rental costs, good connectivity, vibrant neighbourhoods and availability in new or nearly new developments.

The fact that corporate budgets are weighted heavily towards the lower-end of the rent spectrum is not aiding Prime Central London demand while the bargaining tool that tenants are wielding as a result of greater choice is leading to more fall-throughs than normal.

Oversupply lingers

The key issue for the Prime Central London lettings market is an oversupply of available properties, which is evident across all price ranges with many properties sitting on the market unable to let.

Subdued turnover over the past two years, weaker demand and several owners renting out their property having been unable or unwilling to sell, have all contributed to raised supply levels.

The gradual increase in transactions witnessed during the course of the past two quarters will help to lower available supply in the coming quarters, but the very steady increase will take some time to have a meaningful impact.

Rental falls slowing

Despite increased turnover, the oversupply of property on the market has led to further rental value falls during Q2.

Rents declined by 1.3% on average during Q2 meaning that they have fallen by 7.9% on average during the course of the past year.

7.9%

Fall in rental values in year to Q2 2017

Rents have now fallen for six consecutive quarters and are 11.9% lower than in Q3 2015.

The lower-end of the market has been far more robust than the upper-end during the past 1-2 years. Price falls for rentals below £1,000 pw have averaged just 0.9% during Q2, notably below the 1.3% market average fall. Over the past year, the rental decline of 5.9% in this price bracket is also below the 7.9% Prime Central London average.

These figures are in contrast to the upper-end of the market where rents have fallen by around 10% in the year to Q2 2017.

Outlook

The lower-end of the Prime Central London lettings market is showing signs of stabilisation and we expect the rest of the market to follow suit gradually during the remainder of 2017. However, the current fragility is forecast to hang over the market during this time.

The seasonally more active Q3 will come as a welcome relief and will rebalance the oversupply problem to some extent, but we expect further, albeit more minor, rental value falls during the rest of this year with greater stability returning in readiness for 2018.

Rental values continue to fall

Rental growth in quarter

Source: JLL

Transaction uplift is positive for lettings market

Number of transactions during year

Source: JLL, Lonres

Rent weakness greater at upper-end

Rental value growth in year to Q2 2017

Source: JLL

Lucy Morton

Residential Lettings

Following the June General Election we anticipated that the lettings market would stabilise after a very unsettled period. It is therefore encouraging that transactions for Q2 are up on this time last year and that the market is now gaining decent momentum.

Although stock levels are still high, well-presented and well-priced properties are letting. However, tenants are still in the position of having a lot of choice and can pick and choose, looking for value and premium product.

Demand will remain strong for smaller properties from international students and younger professional renters not able to get a step onto the Central London housing ladder. This will keep prices at this end of the market firm whilst rents for larger family homes may continue to soften a little due to fewer expat families coming to London.

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