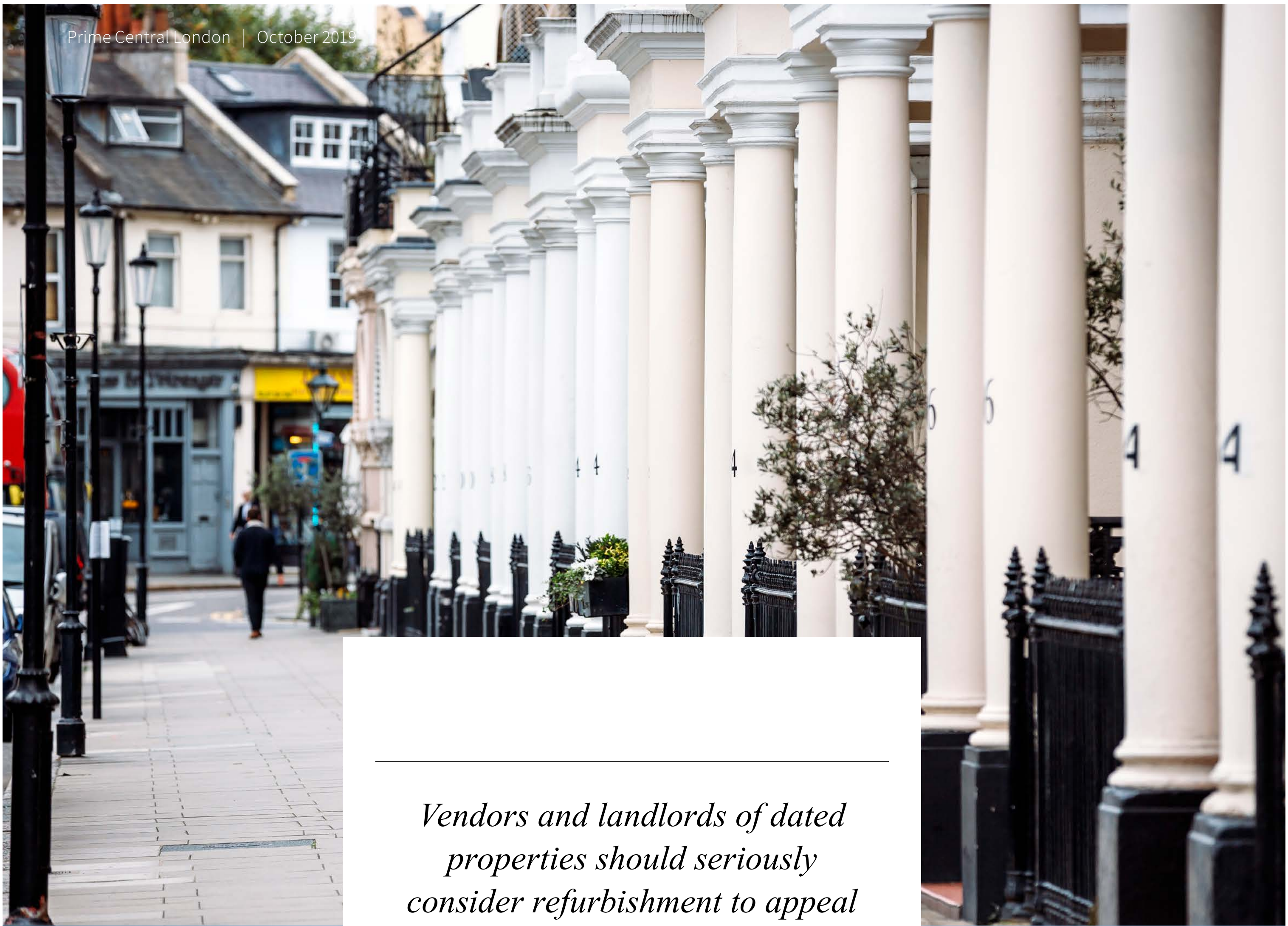
JLL | Achieve Ambitions

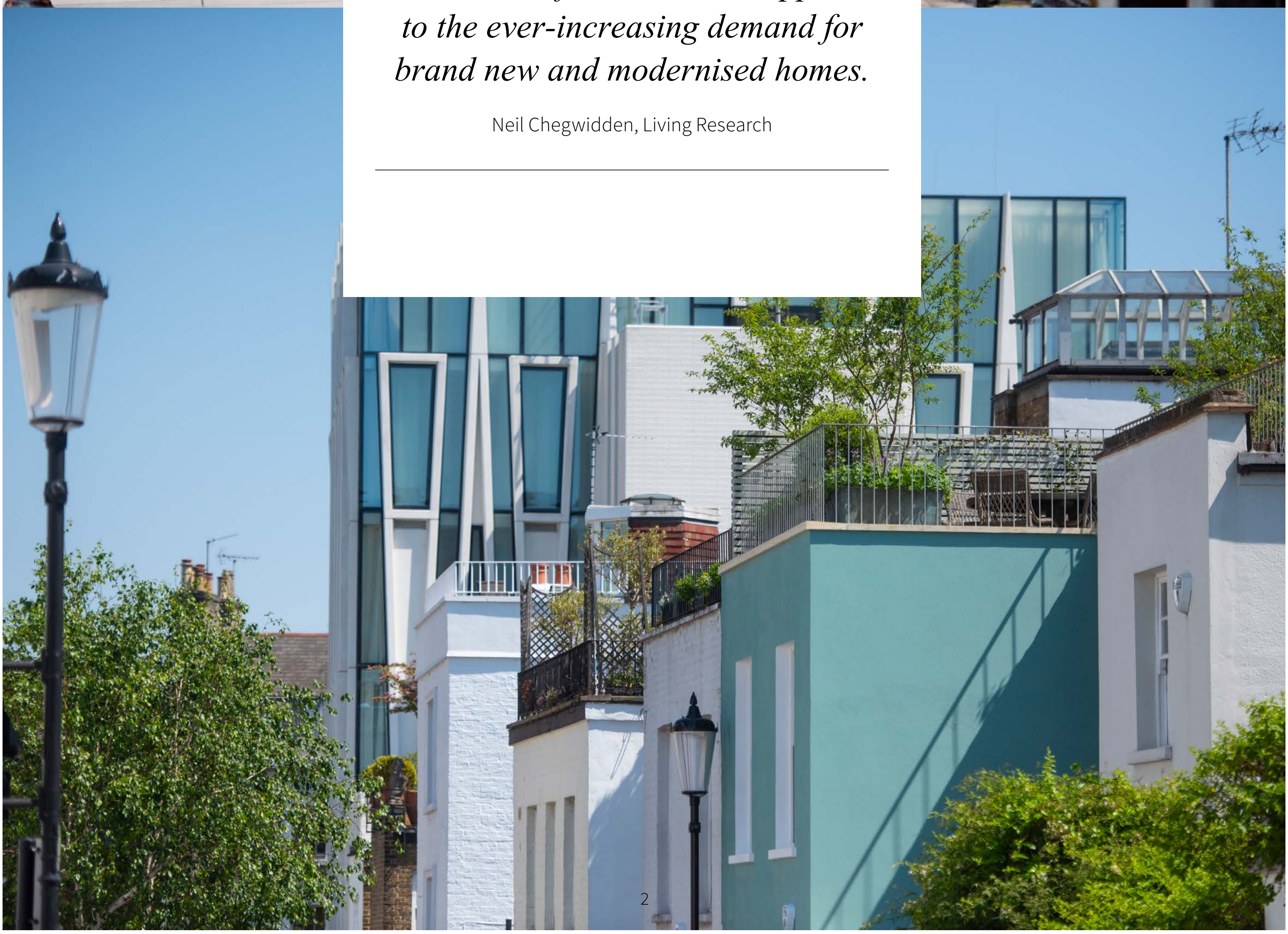
Prime Central London

UK Living Research | October 2019



Vendors and landlords of dated properties should seriously consider refurbishment to appeal to the ever-increasing demand for brand new and modernised homes.

Neil Chegwidden, Living Research



Our view

The typical Prime Central London buyer and renter is changing. A preference for new-build and modern property is increasingly impacting the market.

The preference for new or modern property in Prime Central London has accelerated over the past year. There is still demand for period properties, but the pool of potential buyers or renters is shrinking while prices and rents have become more sensitive. But what can owners of traditional Prime Central London property do to mitigate this trend?

There are several reasons behind this acceleration. The first is that there has been a marked increase in new developments in recent years, which has fuelled the appetite for new-build properties. The second is that many of these developments include hotel-like amenities such as attractive entrance halls, concierge, gyms and pools which has helped to make these must-haves rather than would-likes for many people.

This has led some to move out of the prime postcodes to elsewhere in London, prioritising the type of property over the location, something that would rarely have happened a decade ago.

A further reason is that fewer buyers are prepared to buy a property requiring significant modernisation or refurbishment. This is both because there are fewer specialist developers willing to buy, modernise and sell on and because so many more young buyers would far prefer to move into a turnkey modern property than to endure the hassle and cost of a refurbishment.

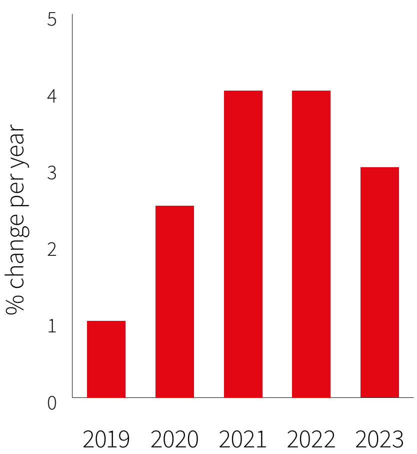
Furthermore, buyers and renters also want modern and stylish décor, furniture and accessories. Modern properties can far better cater for this increasingly important lifestyle choice.

So, owners of traditional properties in Prime Central London are now faced with a choice when it comes to selling or renting. To make full use of their location advantage, they can either accept a lower price or rent than they were perhaps previously expecting, as well as a smaller pot of potential buyers or renters, or they could undertake a modernisation project themselves.

By modernising themselves, they would greatly improve their chances of selling or renting quickly and significantly enhance the price or rent they are able to command.

Aside from the modernisation issue, the short-term outlook in both the Prime Central London sales and lettings markets will be impacted by the ongoing Brexit uncertainty. If a deal with the EU is secured, we expect both price growth and rental growth to rebound quite quickly.

Price growth to rise if positive Brexit deal is agreed



Source: JLL

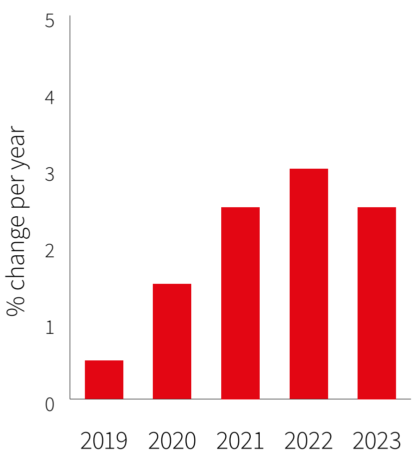
15%

Five year sales price forecast

10%

Five year rental growth forecast

Rental growth to increase if Brexit deal is agreed



Source: JLL

Sales market

The Prime Central London sales market is experiencing low turnover. This is contributing to a lack of suitable properties to buy.

There are several key themes trending in the Prime Central London sales market. There continues to be a lack of transactions and a scarcity of properties to buy, especially of good quality.

On average, prices are still declining, struggling to adjust to the right level within this difficult to gauge and low turnover market.

On a positive note, we estimate that turnover during Q3 2019 was similar to Q2. However, in the year to Q3 2019, the number of transactions was 12% lower than Q3 2018. This continues a gradual slowdown in activity since the stamp-duty-infused spike in 2016, and further back to 2014.

Annual transaction levels are now 46% below the 2014 peak and 33% below the ten year average.

Stamp duty changes and Brexit are undoubtedly the main protagonists in this slowdown. The impact on prices has also deterred owners from marketing their properties and from selling at reduced prices compared with the 2014 peak.

The lack of properties on the market is now a key constraining dynamic in the lower transaction environment.

On the demand side there are still a good deal of active buyers – of both new and traditional stock. However, there are fewer developers and investors compared with recent times. Owner-occupiers are the driving force in the market today, and because they tend to be more emotional and committed purchasers, this means that fewer sales are falling through than usual.

Some would-be buyers, especially at the super-prime level, are choosing to rent rather than buy at present.

The preference for new and modern properties is now having a greater bearing on the Prime Central London sales market.

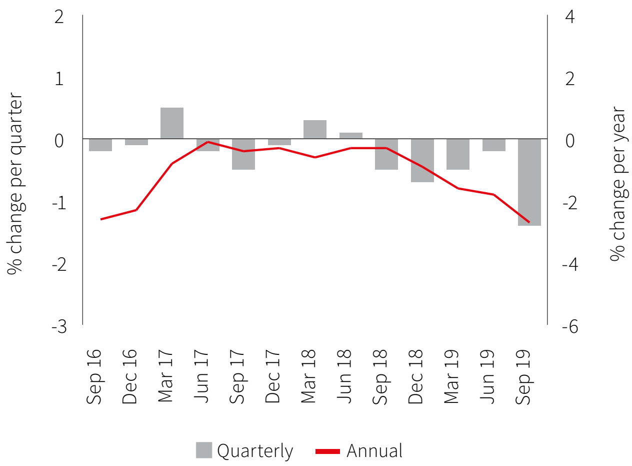
Owners of older properties should therefore consider the modernisation option. This may not require immediate action, unless they are looking to sell or rent, but this should be borne in mind for future action.

Owners of apartments also need to consider the modernisation of common parts, especially entrances. These provide a crucial initial impression and should not be overlooked – they can deter some prospective buyers or renters, irrespective of the modernised apartment they may find within.

"There are plenty of serious buyers out there but, with little quality property on the market at present, they are finding their options limited. We are eagerly awaiting the shackles being removed from this constricted market."

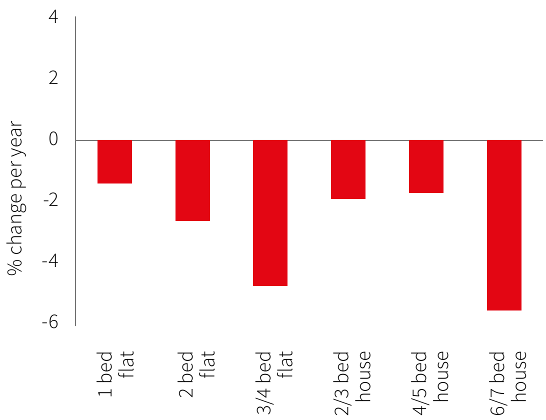
Richard Barber, Residential Sales

Sales prices continue to fall



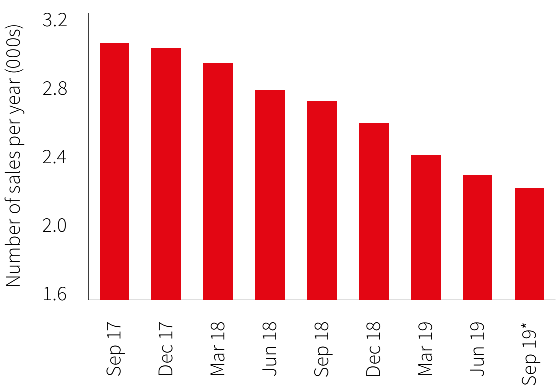
Source: JLL

Large apartments and houses see greatest price falls



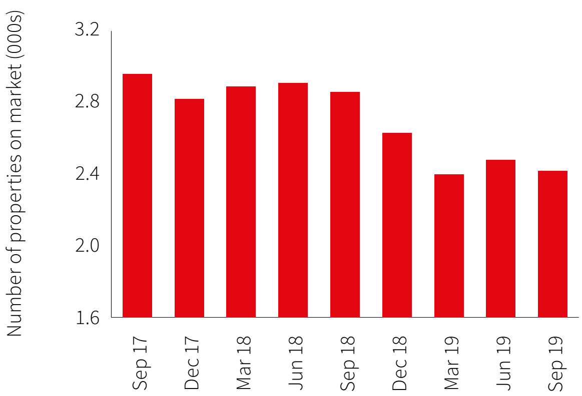
Source: JLL

Declining turnover is critical issue



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

Vendors deterred from marketing properties



Source: JLL, Lonres

Lettings market

HNW students contributed towards a very active Q3. The smaller-end of the market is strong, with rents rising as a result.

The Prime Central London lettings market experienced a very active Q3. This quarter is always the busiest of the year, with the student market boosting activity.

In total, the number of lettings in Q3 2019 was almost identical to Q3 2018. The key difference from last year, however, was the sheer volume of HNW students renting higher value properties. Their preference for brand new or very modern apartments was even more evident this year.

The trend for new or modern properties is now a striking theme in the Prime Central London lettings market, and something both individual private landlords and traditional institutional landlords should heed if they are to maintain high occupancy and rental levels.

The student market and the smaller-end private professional market were the most active segments of the market during Q3. Demand in the one bedroom market, typically priced between £500 and £800 pw, and in the two bedroom apartment sector, between £700 and £1,500 pw, has been very strong.

Inevitably, available supply for these types of property has diminished during Q3. The combination of high demand and restricted supply has meant that asking rents have been achieved in many instances – a notable change from recent quarters. It has also allowed some landlords to demand a full year's rent upfront rather than an academic year's rent paid on a monthly basis.

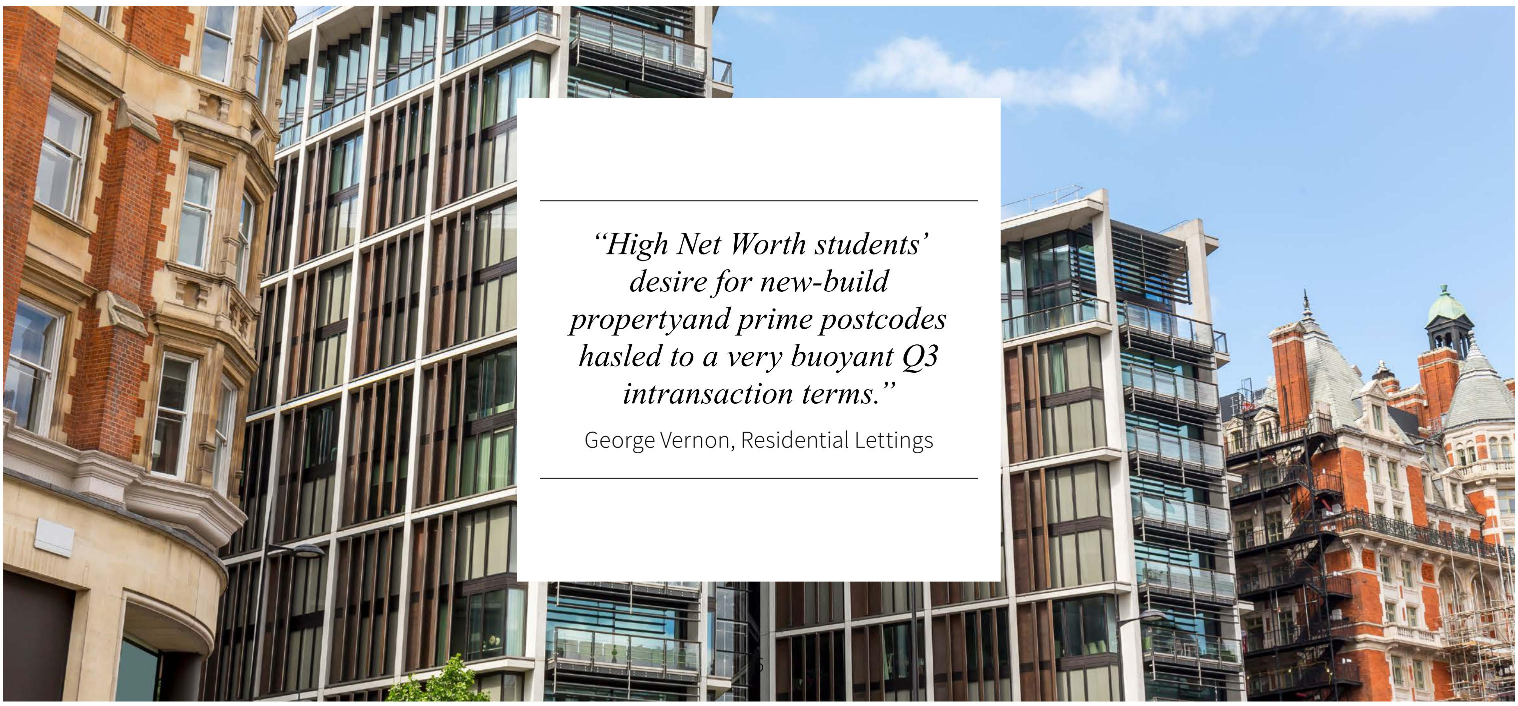
The other difference in this segment of the market has been the preference for furnished properties with new tenants preferring the flexibility and smaller initial financial outlay. The uncertainties surrounding Brexit have contributed to this trend.

On average, rents have increased by 3.1% in the sub £1,000 pw market, notably higher than any other segment.

Higher up the value curve, markets are not as buoyant or active. Demand in the mid-market, typically between £1,000 and £1,800 pw, is quite weak. This has left a number of properties on the market awaiting tenants. Rental growth has inevitably been lower over the past year.

The market above £2,000 pw is more active. There is a good level of available supply and demand is being boosted, especially at higher price points, by people choosing to rent rather than buy. Due to a similar balance between demand and available supply, rents have not really changed over the past year.

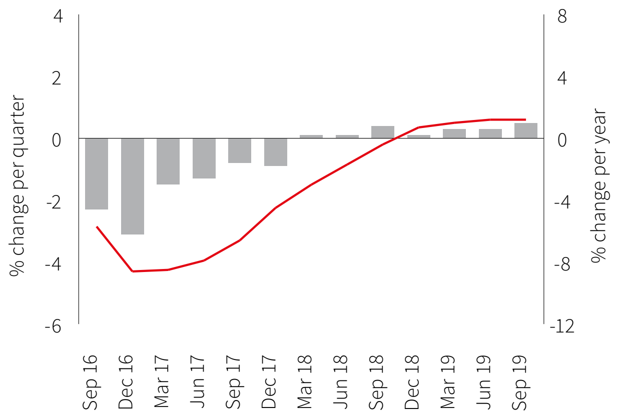
For the whole of Prime Central London, the number of transactions during the year to Q3 2019 was 10.7% lower than a year earlier – largely the result of fewer transactions in Q4 2018 and Q1 2019. Overall, rental growth averaged 1.2% across Prime Central London in the year to Q3 2019, a marked improvement from the 0.4% decline of a year earlier.



"High Net Worth students' desire for new-build propertyand prime postcodes hasled to a very buoyant Q3 intransaction terms."

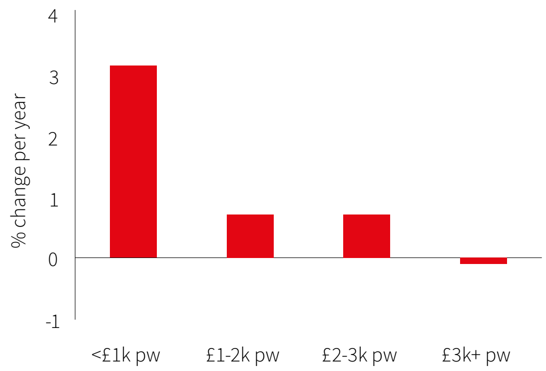
George Vernon, Residential Lettings

Rents now edging upwards



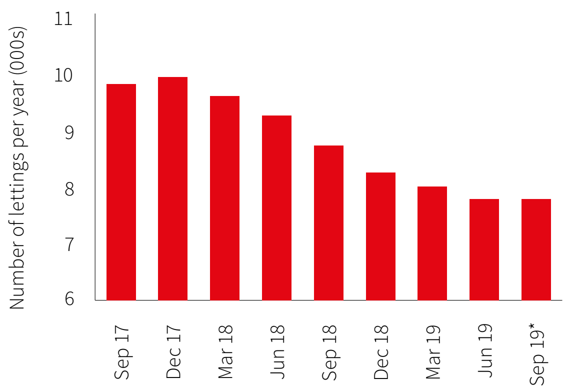
Source: JLL

Rental growth strongest at lower-end



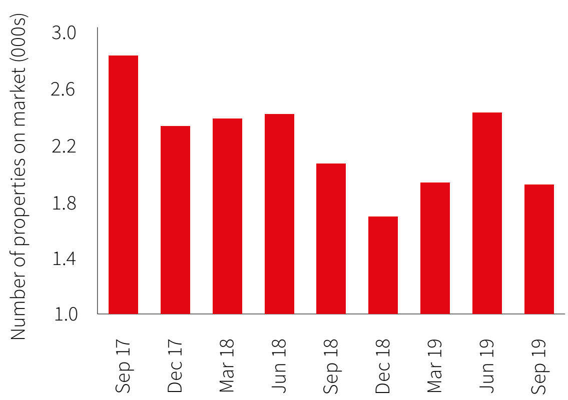
Source: JLL

Lettings transaction slowdown eases



Source: JLL, Lonres

Number of properties on market remains low



Source: JLL, Lonres

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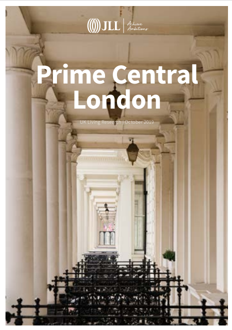

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JLL Prime Central London covers the postcodes SW1, SW3, SW5, SW7, SW10, W1, W8 and W11.

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