

Prime Central London

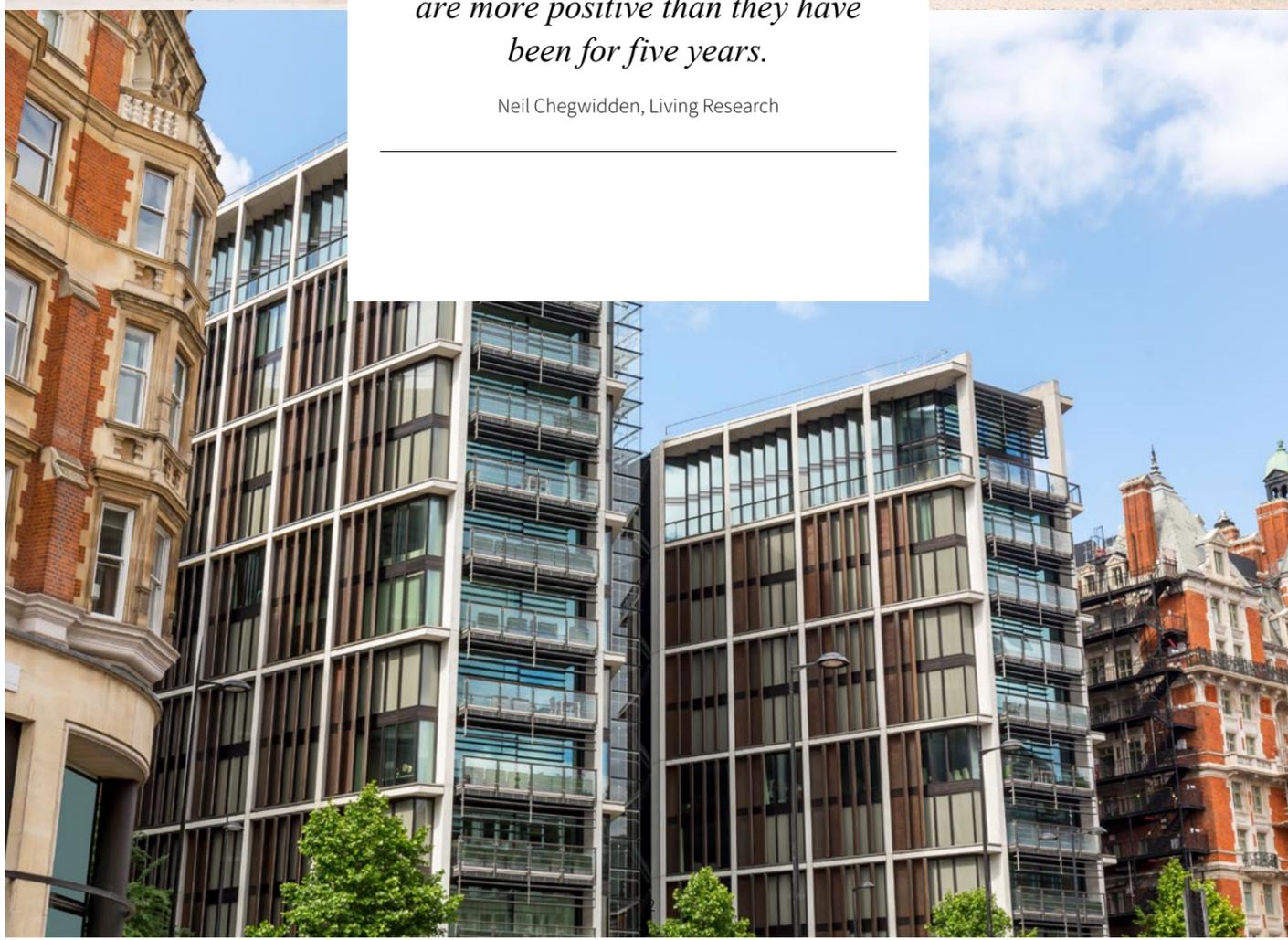
UK Living Research | January 2020





The prospects for the Prime Central London sales market are more positive than they have been for five years.

Neil Chegwiddden, Living Research



Our view

2020 should be a year of recovery for the Prime Central London sales market following five years in the wilderness. But it will not be all plain sailing.

We expect the Prime Central London sales market to revive during 2020. The announcement in November 2019 that a General Election was to be held in December led to a flurry of sales being agreed. The news that the Conservatives won a strong majority meant that many buyers were happy to proceed with their agreed purchases.

Sales market sentiment improved notably as soon as Boris Johnson was returned to office and, more importantly, as soon as the spectre of a Jeremy Corbyn government was eliminated.

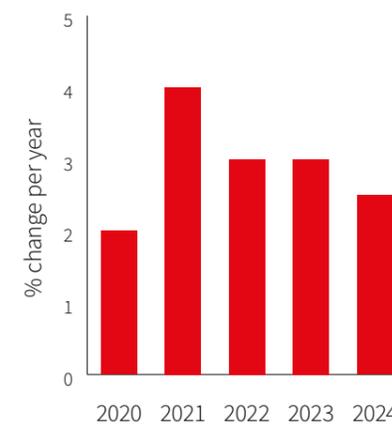
Crucially, the improved sentiment should lead to a stronger rally in transactions during Q1 with more buyers and sellers returning to a more liberated market. We also expect the first price rise in over five years during Q1.

However, as has become accepted in recent years, the roadmap going forward is not obstacle-free. Attention will turn to trade talks and also to the next UK Budget.

With a No-deal Brexit still a possibility, and with potential knocks from trade talks, the market will not be able to rally unencumbered. Further stamp duty changes, for both overseas and domestic buyers, are also possible disruptors.

Overall, however, the Prime Central London sales market has more reason to be optimistic than at any time in the past five years.

Positive price growth expected to resume in 2020

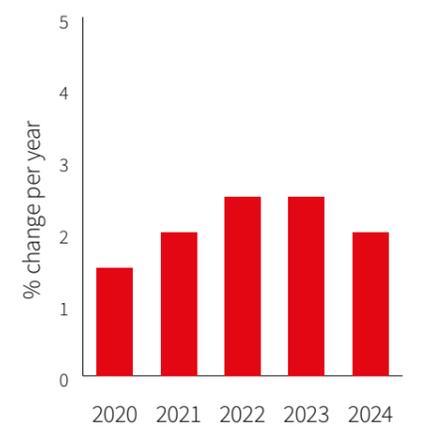


Source: JLL

15%
Five year sales price forecast

11%
Five year rental growth forecast

Rental growth will improve but at a steady pace



Source: JLL

Sales market

The sales market picked up in late-2019 as the General Election result injected positivity and a more certain outlook.

Sentiment in the Prime Central London sales market improved markedly during Q4 2019 as the announcement of the General Election and the subsequent Conservative victory delivered some Christmas cheer to a market that had been in the doldrums for much of the preceding five years.

The turnaround in sentiment and demand led to a rise in turnover during Q4. The number of transactions per year increased for the first time in over two years during the final quarter. However, at circa 2,400 in the year to Q4, transactions during 2019 were still 7% lower than in 2018.

Importantly, the increased market activity and fervour during Q4, which led to a

number of high-value purchases being agreed, should lead to an even stronger increase in turnover in the first quarter of the new decade, helping to reverse the 44% decline in annual transactions since peaking in 2014.

The renewed level of demand has come from domestic and overseas buyers and from owner-occupiers, pied-à-terre buyers and some investors. Overseas buyers have been encouraged by the weak pound, which strengthened following the election.

Vendors have been happy to agree a sale, but some discretionary sellers are now questioning whether they should wait to see if prices increase significantly before selling.

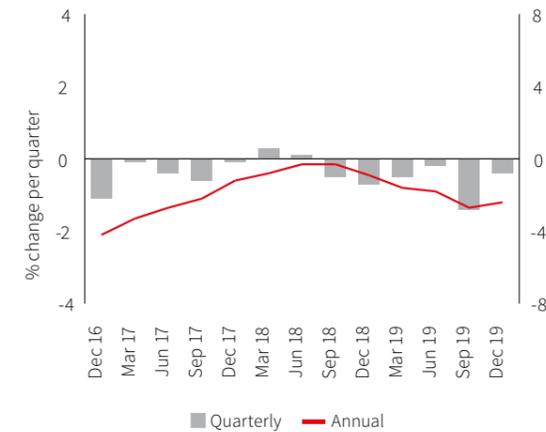
Despite the uptick in activity late in the year, prices still fell slightly during Q4. The decline of 0.4%, however, was markedly lower than the 1.4% fall during Q3.

On average, prices fell by 2.4% during 2019. Over the past five years prices have fallen by 11.2% across all property types and market areas.

The smaller-end of the market continued to hold-up best during 2019. Prices fell by 1.5% in the sub £2m market, 2.1% in the £2-5m sector and by 3.3% in the £5-10m price bracket. The £10m+ market suffered the greatest fall, down by 5.1%.

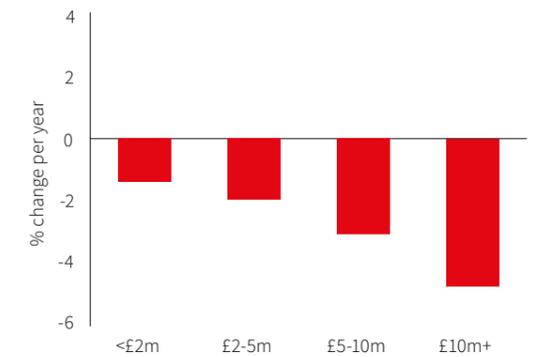


The next move in sales prices should be up



Source: JLL

Smaller-end of market still the most resilient



Source: JLL

First rise in annual transactions in over two years



Source: JLL, Land Registry, *JLL estimate

Slowdown in properties on market expected to reverse



Source: JLL, Lonres



“A flurry of transactions towards the end of 2019, following the election, have breathed fresh life into the sales market. The prospects for 2020 now look far brighter.”

Richard Barber, Residential Sales

Lettings market

An acute shortage of properties on the market has led to the highest rate of annual rental growth for over seven years.

The Prime Central London lettings market is facing a severe shortage of properties to let. During the course of 2019 the number of properties on the market declined by 18% leaving less than 1,400 properties available for rent at the end of the year.

The supply shortage is giving prospective tenants little choice – a situation that deteriorated notably during the final quarter of the year.

This has contributed to both the slowdown in new tenancies and an increase in rents during Q4 2019.

Despite this, the market experienced a reasonably active final quarter of 2019. However, the number of transactions per year has been trending downwards for two

years now, slowing further during Q4 2019. Transaction levels were 8% lower during 2019 compared with 2018.

The other main reason for the slowdown in activity has been the increase in renewals rather than new lettings during the recent period of uncertainty, primarily around Brexit. Despite this, demand remained strong during 2019.

The lack of supply and the solid level of demand have led to increases in rents during Q4 and over the past year. On average, rents increased by 0.7% in Q4, up from a rise of 0.5% in Q3. Rents rose by 1.8% during the course of 2019. This was the highest rate of annual growth in Prime Central London for seven and a half years.

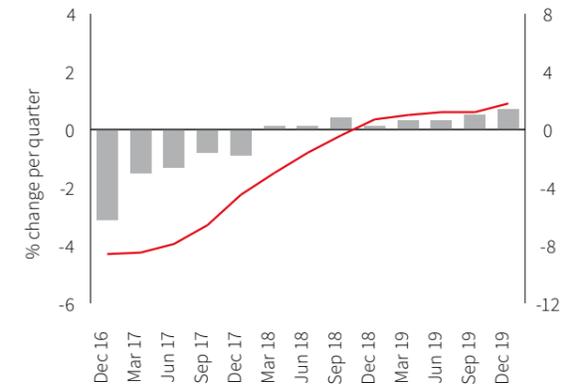
The lower-end of the market continues to see the highest rate of rental growth. Rents of one bedroom apartments have risen by 3.2% while at the other end of the scale large houses have witnessed only a 0.3% annual increase.

Looking forward, 2020 could be a year of mixed fortunes for the Prime Central London lettings market. On the one hand, the greater political certainty should lead to increased employment activity which will bolster rental demand. More tenants are also expected to move rather than renew.

On the other hand, we expect an improved sales market to draw away some lettings demand, except in the super prime market.

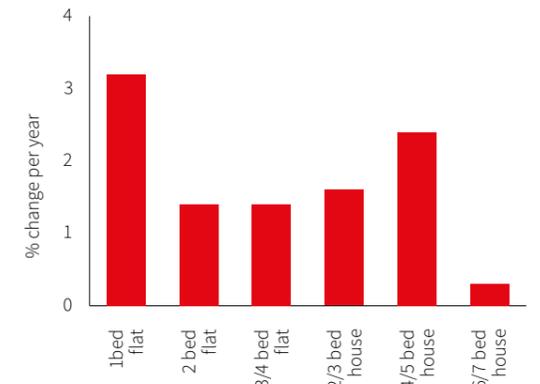


Rental growth continues its steady acceleration



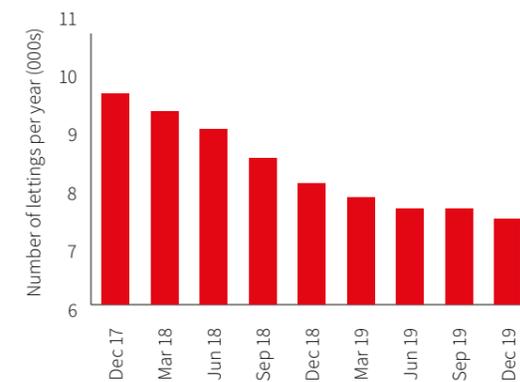
Source: JLL

One bedroom apartment market is strongest



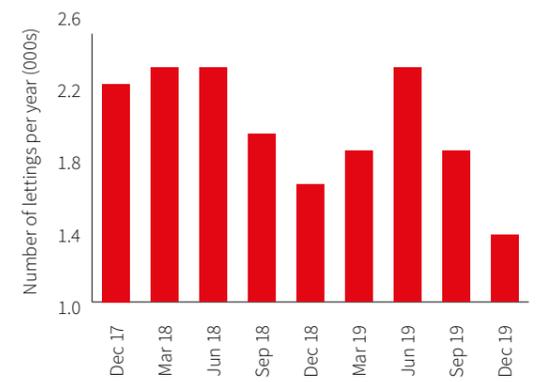
Source: JLL

Lettings transactions continue to slow



Source: JLL, Lonres

Shortage of properties to rent escalates

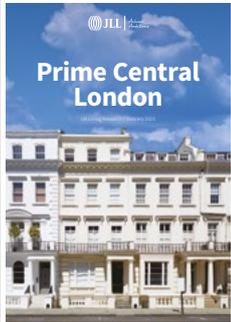


Source: JLL, Lonres

The lack of properties available to rent is already leading to higher rents, both of which could escalate during 2020 if more landlords decide to sell into the improved sales market.

Nick Walters, Residential Lettings





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



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