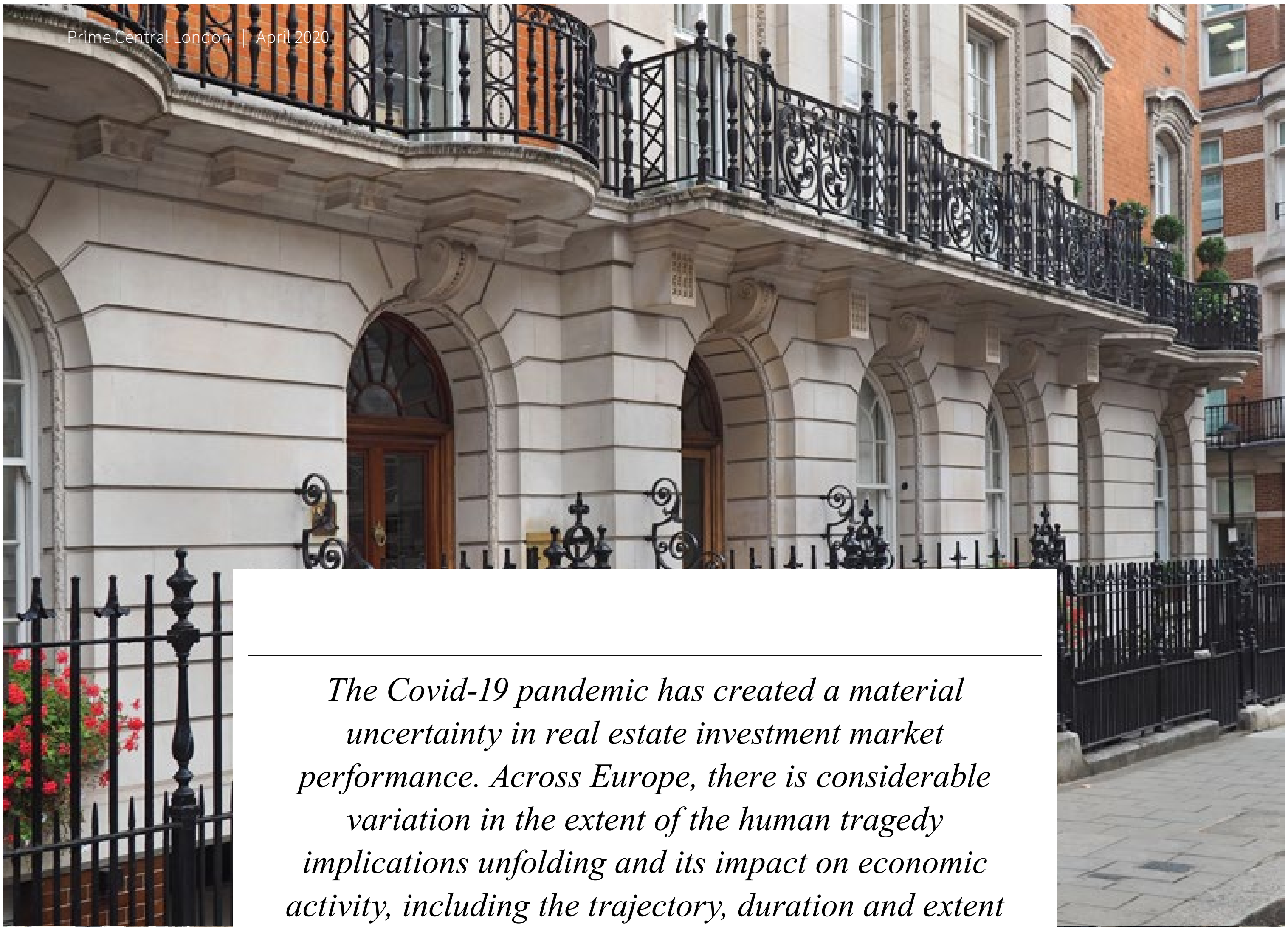
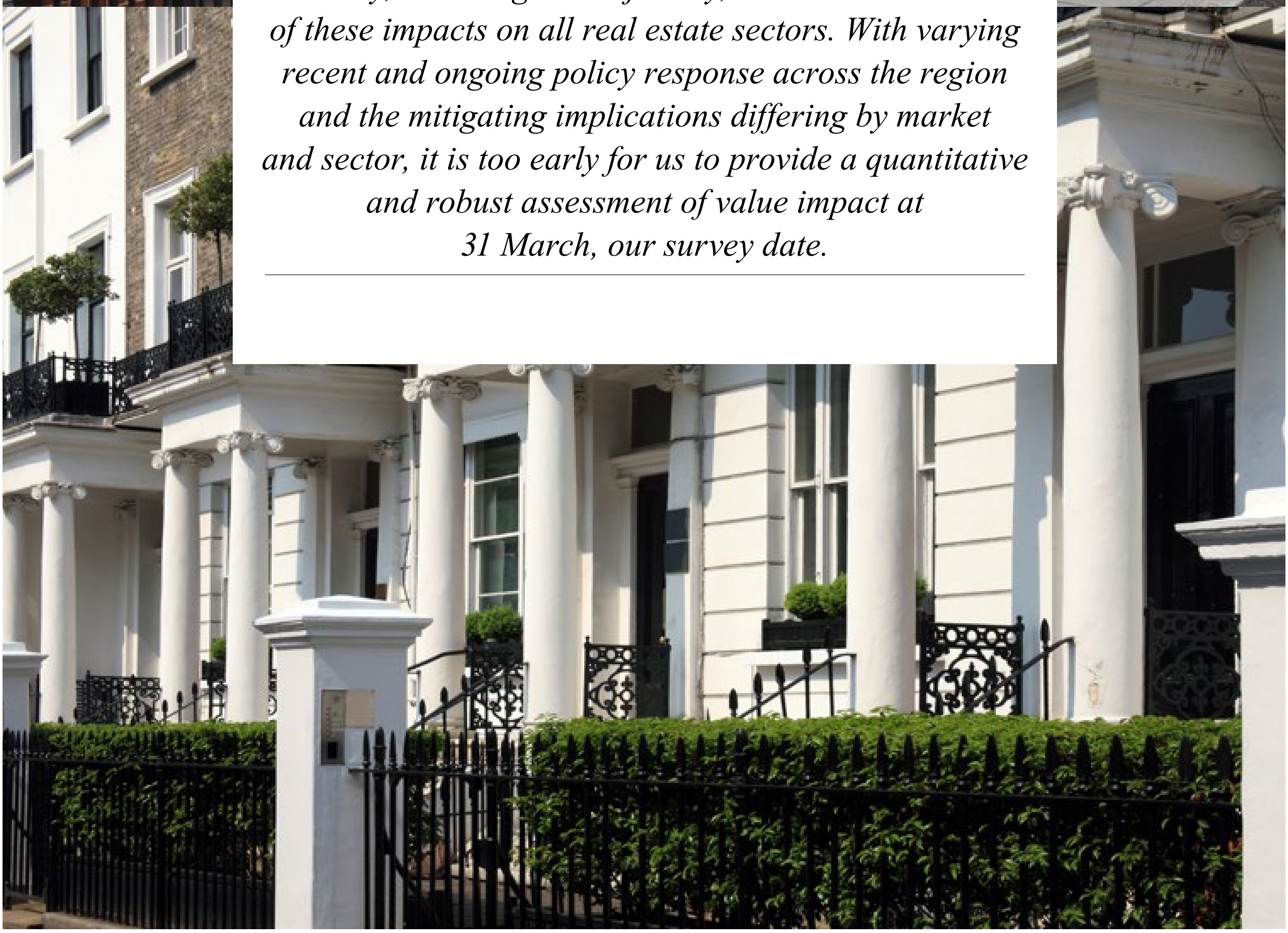
Prime Central London

UK Living Research | April 2020



The Covid-19 pandemic has created a material uncertainty in real estate investment market performance. Across Europe, there is considerable variation in the extent of the human tragedy implications unfolding and its impact on economic activity, including the trajectory, duration and extent of these impacts on all real estate sectors. With varying recent and ongoing policy response across the region and the mitigating implications differing by market and sector, it is too early for us to provide a quantitative and robust assessment of value impact at 31 March, our survey date.



Our view

A very positive start to 2020 was stopped in its tracks by the global coronavirus pandemic. At present the impact is short-term with a V-shaped recovery currently predicted.

The global coronavirus pandemic had an instant impact on the Prime Central London sales and lettings markets.

With the UK in virtual lockdown, all physical property viewings, inspections and valuations were halted in March although much of this is being conducted virtually.

This means that many lettings and sales will be postponed while some will fall through. The constrained conditions will also mean that agreed sales and lettings will be significantly lower during Q2.

Prior to this, conditions in both the sales and lettings markets in Prime Central London had notably improved during the first half of Q1.

Sales market sentiment improved significantly as soon the prospect of a Labour government was eliminated following the General Election in December.

This led to a flurry of purchases being agreed in late-2019 and early-2020. Prices rose as a result, especially at the top-end.

During the second half of the first quarter, however, the market slowed as a result of Covid-19. Even the Budget and the additional 2% stamp duty tax for overseas buyers have passed rather inconspicuously.

Activity in the lettings market also halted following a far more active start to the year. The recent trend towards renewals rather than new tenancies reversed for much of Q1 but has now reverted back.

At present, we are assuming that the most significant impact of Covid-19 will be short-term and the economic and housing markets will experience a V-shaped recovery.

We expect the main impact to be on transactions in the short-term but prices and rents, as well as medium-term market conditions, are more likely to be affected the longer the effects of the pandemic are felt. For now, we are sticking with our cumulative five-year price and rental growth forecasts, but these will be reviewed as conditions dictate.

15%

Five year sales price forecast

11%

Five year rental growth forecast

Sales market

Sales market activity accelerated into early 2020 following the General Election in late-2019, but the coronavirus pandemic slowed activity in March and will significantly impact Q2 2020.

The Prime Central London sales market improved significantly in the immediate aftermath of the General Election in mid-December 2019. The heightened sentiment continued into Q1 with the first 6-8 weeks particularly busy.

Many properties that had been on the market for months began to sell while new properties coming onto the market also sold.

As a result, transaction volumes increased during Q1. A number of purchases were also agreed during the first two months of the year which would ordinarily have led to more completions during Q2, had the coronavirus not impacted moving in practicalities.

We estimate that the number of completed transactions during Q1 2020 was 21% higher than in Q4 2019. Importantly, the increase in Q1 meant that the number of annual transactions increased for the first time in two and a half years (see chart).

Demand in Q1 was broad-based with several domestic buyers returning to the market. International buyers were also active, with Chinese interest particularly prominent.

The fact that a Labour Government was not voted in was a real fillip to UK and overseas buyers, sellers and owners, despite the later news of the international buyer stamp duty tax.

The improved sentiment encouraged some vendors back to the market and we were expecting even more properties to come onto the market as conditions improved further during 2020.

By the end of Q1 there were 8% more properties on the market compared to Q4 2019. Despite this recent increase, the number of properties on the market was still 20% lower than two and half years ago and was very low compared to the heightened demand (see chart).

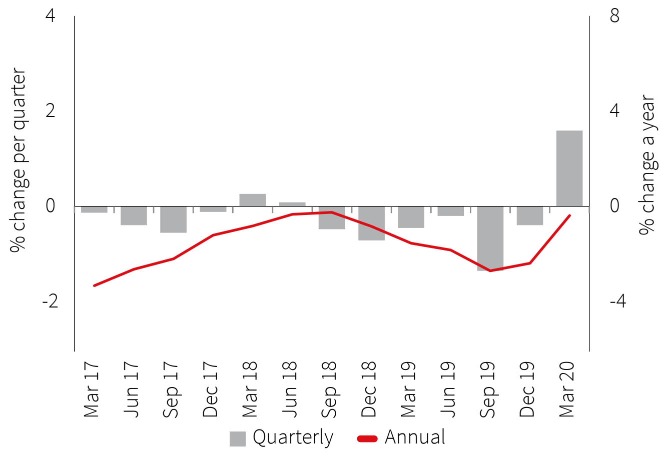
The improved trading conditions led to an increase in prices during Q1. JLL figures suggest prices rose by 1.6% during the first three months of the year. Large houses saw the greatest rise, up more than 4% while all price ranges witnessed an increase of more than 1% (see chart).

Over the course of the last year, however, average Prime Central London prices were 0.4% lower.

"The start of Q1 was extremely positive and busy. The market for now, however, is largely on hold. But agents are adapting, and helping to keep the market moving, ready for a post-Covid world."

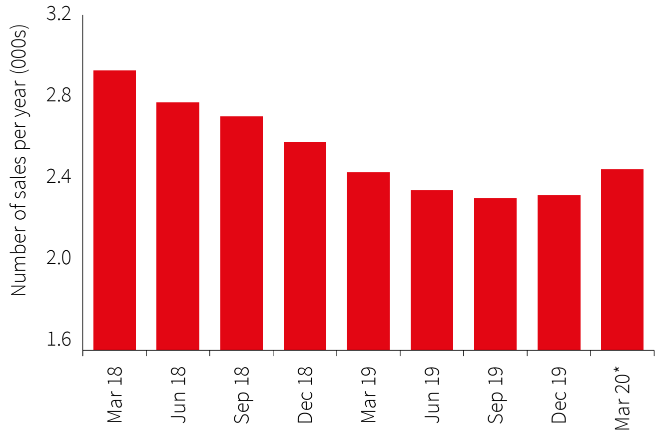
Richard Barber, Residential Sales

Sales prices increased sharply in Q1 2020



Source: JLL

Annual transactions rebounded strongly in early 2020

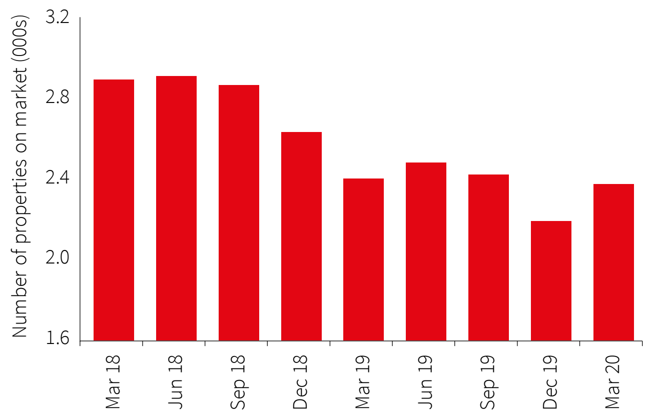


*Source: JLL, Land Registry, *JLL estimate*

Price growth in Q1 was highest at the top-end

Source: JLL

The number of properties on the market jumped in Q1



Source: JLL, Lonres

Lettings market

A strong start to the 2020 Prime Central London lettings market was curtailed abruptly by the impact of the coronavirus.

The Prime Central London lettings market had a mixed Q1. The market was initially buoyed in the first half of the quarter following the General Election.

We saw many more renters deciding to move home rather than renew their tenancies, which had become prevalent over the past couple of years, driven by the uncertainty of Brexit.

The adoption of isolation and social distancing measures as a result of the coronavirus then caused the market to slow during the second half of Q1.

Market activity varied from month to month. January was very busy while the start of February was also active. March was slower again. Transactions were 15% lower in February compared to January and a further 25% lower in March.

For the first quarter as a whole, there was a slowdown in new tenancies, which continued a decline that has been evident over the past two years (see chart). The number of tenancies in the year to Q1 2020 was 21% lower than two years previously.

During the stronger market at the beginning of the quarter we believe that rents increased slightly but by the end of the quarter we estimate that rents were back to end-Q4 2019 levels.

Although it was very difficult to gauge the change in rents during this time, we are aware of instances where landlords agreed lower rents in order to secure a tenant and to avoid a void for the lockdown period, or longer.

Overall, we believe that average rents weakened a little towards the end of Q1, reversing the gains earlier in the quarter.

Before the slowdown, the increase in demand, which was principally from professionals, helped to mop up some of the stock which had been on the market for a while. The improved market conditions encouraged renters to move rather than renew which led to an increase in properties coming to market.

The number of properties on the market at the end of Q1 was 27% higher than at end Q4 2019 but was still 9% lower than a year earlier (see chart). The number of sub £1,000 pw properties on the market increased by 53% while above £1,000 pw the number rose by just 2%.

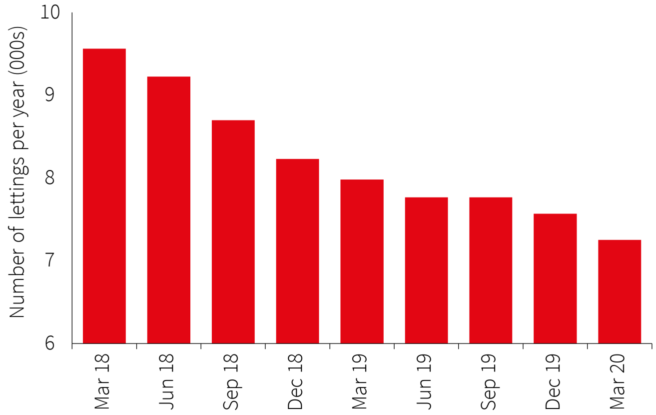
We are also conscious that some properties coming back to the lettings market were also put up for sale as landlords explored both agency routes as the sales market improved.

Some landlords are also using the break in the market to undertake refurbishment if they were unable to secure a tenant before the lockdown began.

"A resurgent lettings market during the early part of 2020 is now largely forgotten as we all learn to cope with unprecedented times. We are maintaining regular contact with tenants and teeing-up new tenancies ready for when lockdown conditions are relaxed."

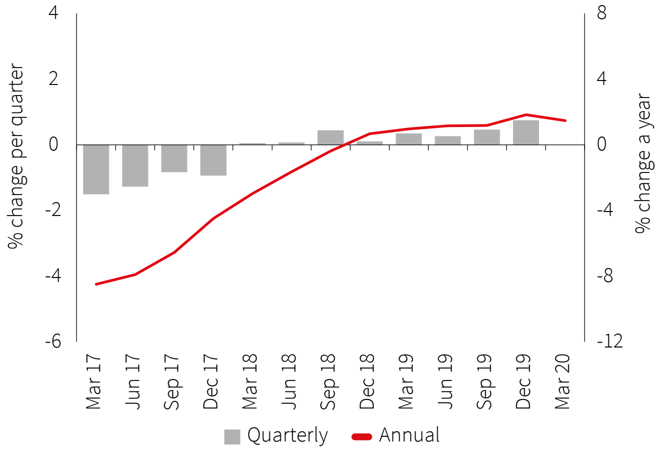
Kate Flynn, Residential Lettings

Lettings transactions slowed after promising start to Q1



Source: JLL, Lonres

No change in rents during unprecedented first quarter

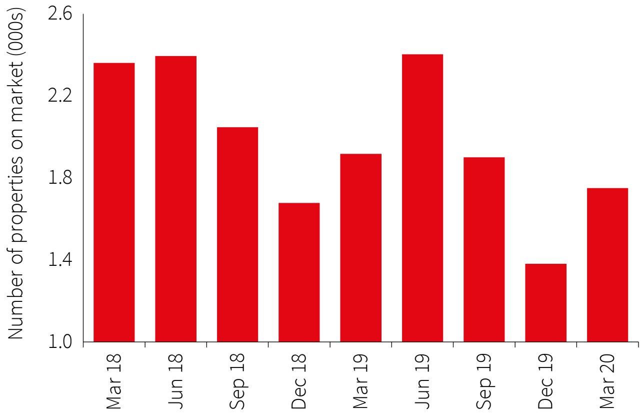


Source: JLL

Rental growth in last year stronger at lower-end

Source: JLL

More properties came to market as renewals slowed



Source: JLL, Lonres

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

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