

Prime Central London

UK Residential Research | April 2019

Both the Prime Central London sales and lettings markets are suffering from lower turnover due the ongoing Brexit uncertainty. Sales market transaction volumes have fallen by 18% and lettings transactions by 17% during the year to Q1 2019. Sales prices continue to soften but some pockets of the market are proving more robust than others, while the weak pound is boosting international demand. Rents are now rising but conditions remain sensitive in certain parts of the lettings market. The Prime Central London sales and lettings markets are now eagerly awaiting a positive Brexit resolution to allow them to return to some degree of normality.



Neil Chegwiddden
Residential Research

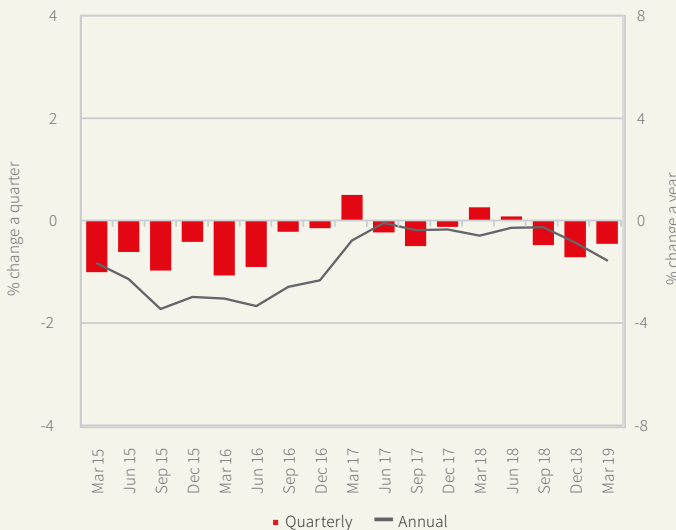
Sales market

- Prices fell during Q1 2019
- Transactions slowed again
- The weak pound is encouraging overseas demand

Lettings market

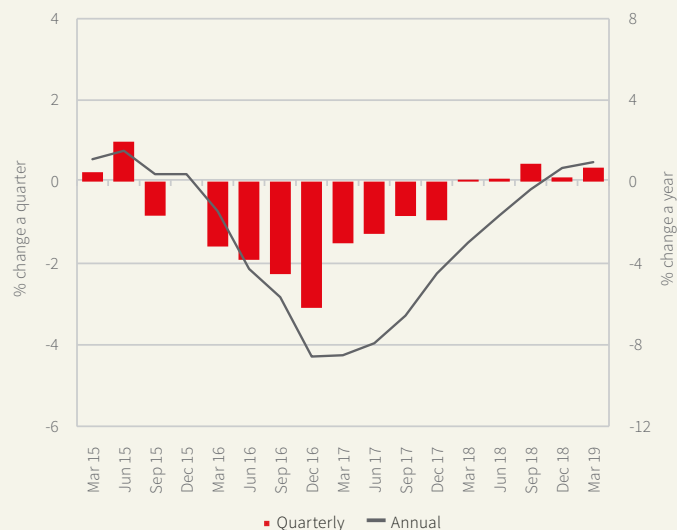
- Rents increased in Q1 2019
- Turnover is down further
- Low availability is supporting rents

Sales prices continue to fall in 2019



Source: JLL

Rental growth is recovering into positive territory



Source: JLL

Prime Central London

Sales market

Market continues to slow

The Prime Central London sales market continues to struggle under the cloud of Brexit. Transactional activity is the main casualty but there is also little urgency and subdued demand while prices have continued to ease down.

The sales market had begun to acclimatise to Brexit during the second half of 2018 with many buyers and sellers adjusting their expectations and mindsets. However, the heightened political turbulence that resurfaced shortly before Christmas has dented confidence once again.

The positive news is that we believe the market will bounce back quite quickly when the political backdrop becomes more certain, assuming a 'no-deal' Brexit is avoided – particularly given the pent-up demand and the lack of prime stock on the market.

Transactions down further

Land Registry data on transaction volumes during Q1 2019 is not yet available, but we estimate that the number of transactions fell by a further 3% during the first quarter of the year.

This continues a steady decline in activity over the past few years. The most recent slowdown, primarily Brexit related, has led to an 18% fall in turnover in the year to Q1 2019 (see chart).

The decline in transaction volumes is even more marked over the longer-term following a series of tax changes. Current transaction levels are 40% lower than five years ago and 63% below the peak in 2007.

Prices fall

The tepid market conditions and low transaction volumes have meant that Prime Central London sales prices have continued to fall during Q1 2019. Prices declined by 0.5%, the third consecutive quarter of decline. In the year to Q1 2019 prices were 1.6% down.

Prices fell across all price ranges and property types during Q1 and during the year to Q1 2019. The family-sized apartment market (3+ bedrooms) has been the hardest hit with prices down 3.4% in the year to Q1 2019. The large family-sized house market (4+ bedrooms) saw a 2.5% decline.

The small apartment market (1–2 bedrooms) experienced a 0.9% fall while the small house market (2–3 bedrooms) saw a 1.0% decline.

Lack of quality property

Both the lack of properties on the market and the lack of quality properties on agent's books are impacting conditions. The number of properties on the market has fallen by 17% in the year to Q1 2019, and this has helped support prices.

Meanwhile, owners with quality and sought-after homes are reluctant to market their properties while market conditions are sensitive and unfavourable. The result is fewer quality homes to buy and an inevitable slowdown in transactions.

Pockets of positivity

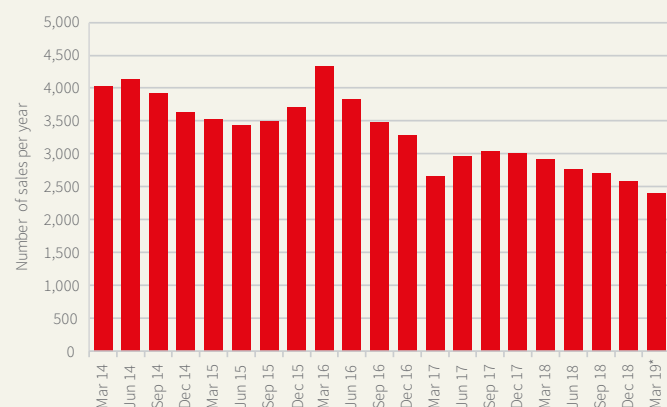
Despite the slowdown in turnover, a number of high-value purchases were made during the first quarter of the year, providing at least some comfort to the market.

Furthermore, some pockets of the market are still proving positive. Realistic pricing is key throughout. The owner-occupier market above £1.5m, is still robust, as too is the £750,000–£1.5m market where mortgage borrowing at low rates of interest is supporting demand. The smaller house market and the one and two bedroom apartment markets are also stronger.

The investor market is being supported by the weak pound, especially over the past year, and has led to increased demand from dollar buyers. And whilst they have not significantly bolstered turnover, their willingness to trade and to take advantage of the currency changes and the market uncertainty, has lifted the mood of the market.

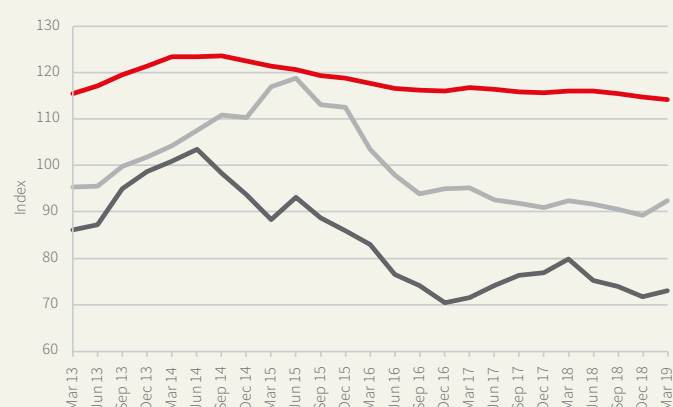
In US\$ terms, Prime Central London prices have declined by 9% in the year to Q1 2019 and are 29% below their peak in 2014 (see chart).

Transaction volumes continue to slide



Source: JLL, Land Registry, *JLL estimate

Currency advantage is boosting demand



Source: JLL

Prime Central London

Lettings market

Brexit exerting influence

The Prime Central London lettings market is under the influence of Brexit at present. The main implication is reduced turnover, as tenants opt to extend their current tenancies rather than sign up to new agreements or to move home.

The other implications are a sensitive market and a divide in conditions between various sectors of the market.

Transactions heading down

The Brexit influence is not only responsible for the sharp fall in transactions over the past 15 months but, conversely, was also responsible for the increase in turnover during 2017.

Initially, the uncertainty of Brexit prompted many people to rent rather than buy – boosting the lettings market at the expense of the sales market. Many of those who opted to rent then are still in rental accommodation but, given the prolonged and painful Brexit events, they are continuing to rent pending a decisive outcome.

Many are extending their tenancies in the hope of greater clarity over the coming weeks and months rather than signing up to another full-term lease. Others are postponing moves into new accommodation, preferring to make any changes with a fuller knowledge of the Brexit roadmap.

However, as political delays continue, this uncertainty is draining demand, turnover and urgency from the Prime Central London lettings market.

The recent decline has been stark. The number of transactions has declined by 17% over the year to Q1 2019 (see chart).

Available supply is tight

Available supply has also been on a downward trajectory over the past year, which has been beneficial for market conditions during the recent period of subdued demand.

The number of properties on the market in Prime Central London has declined by 19% over the year to Q1 2019.

Rents rise marginally

The slower demand and lower availability has left the balance between demand and supply broadly unchanged.

The upshot for rents has been a gradual increase over the past year, following three years of falls. On average, rents in Prime Central London increased by 0.3% during Q1, meaning that the average rise over the year to Q1 has been 1.0%.

Sector sensitivities

The lower volume market has left all sectors of the market more sensitive than usual.

At the lower-end of the market, the more affordable one bedroom apartment sector is strong with rents rising faster than elsewhere (see chart). A healthy level of demand from professional workers is being supported by HNW students in this sector of the market.

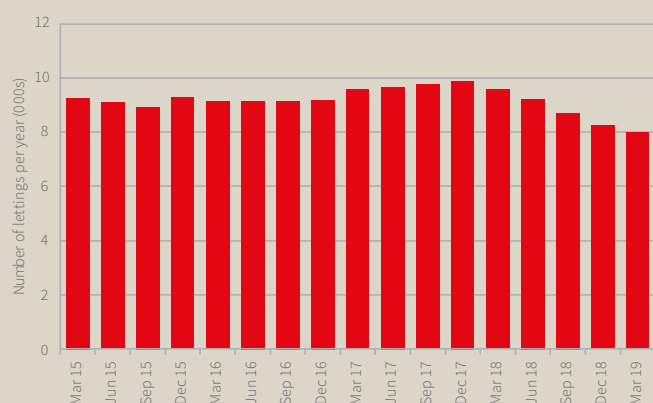
However, the higher-priced one bedroom apartment market is less robust, with rents falling in some areas and for some larger apartments.

The same is true of the two bedroom market, which is struggling with lower demand, especially at the upper and larger ends of the market. Consequently, rents are stagnant at best.

The market is also sensitive in the three-or-more bedroom apartment market. In some areas demand is strong while availability is low, which has resulted in upward price movements, while in other areas there is an abundance of available apartments where rents are under downward pressure.

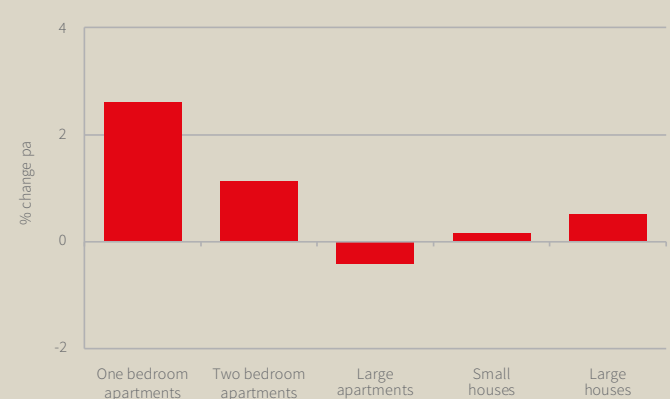
The new-build market continues to be the shining beacon of light, with renters increasingly keen on new property relative to older stock.

Lettings transactions continue to fall



Source: JLL, Lonres

Rental growth largely positive



Source: JLL

Outlook

The Brexit saga continues to affect the Prime Central London sales market. With the outlook for Brexit still uncertain, this will remain the dominating factor during Q2 2019. It is also possible that uncertainty will remain beyond Q2.

This is likely to mean a further slowdown in transactions in the immediate future. However, we are conscious that many buyers and sellers are waiting in the wings ready to move if the Brexit uncertainty ends

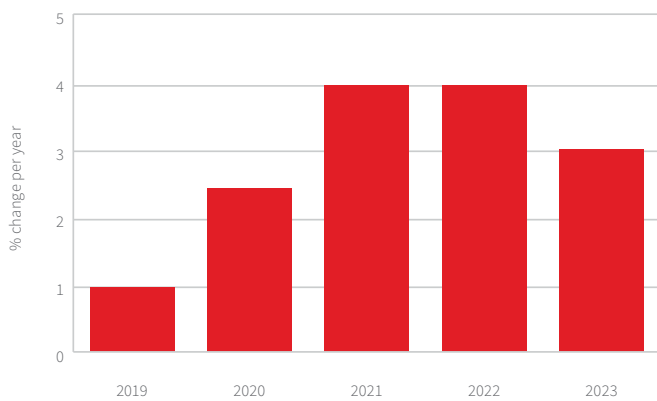
with a positive outcome. If this transpires over the next few months, we expect Prime Central London sales prices to rise during the second half of 2019. If Brexit is delayed, this will extend the uncertainty for the market, pushing out our price growth forecasts in-line with the delay period.

The Prime Central London lettings market is also suffering from the Brexit affect. With many tenants extending their leases or renewing existing tenancies to get them

through the political uncertainty, the market is likely to become far more active if a positive resolution is reached.

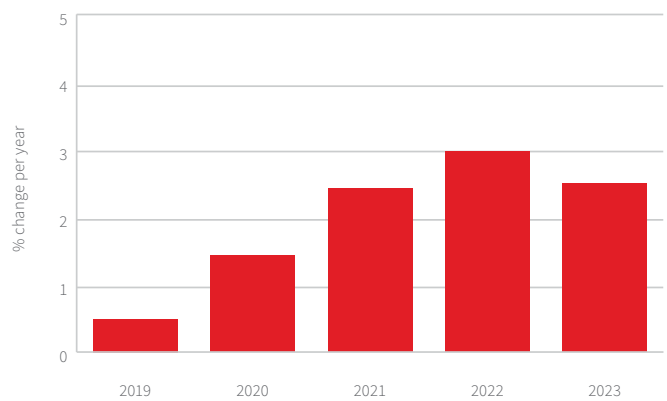
The lettings market is unlikely to rebound at the same pace or to the same extent as the sales market once greater certainty is restored, but we do expect both turnover and rents to rise steadily in the medium-term.

Prices forecast to rise if Brexit fears ease



Source: JLL

Rental growth predicted to rise



Source: JLL

Insight | Agency | Advisory | Investment & Development

Urban living, your way.



@JLLUKResi



JLL Residential



JLL



JLL Residential



Adam Challis
Residential Research

adam.challis@eu.jll.com
+44 (0)78 4119 9056



Neil Chegwiddden
Residential Research

neil.chegwiddden@eu.jll.com
+44 (0)20 7087 5507



Lucy Morton
Residential Agency

lucy.morton@eu.jll.com
+44 (0)20 7306 1631



Richard Barber
Residential Sales

richard.barber@eu.jll.com
+44 (0)20 7306 1624



Lauren Hunt
Residential Advisory

lauren.hunt@eu.jll.com
+44 (0)20 3147 1174

jll.co.uk/residential

© 2019 Jones Lang LaSalle IP, Inc. All rights reserved. The information contained in this document is proprietary to JLL and shall be used solely for the purposes of evaluating this proposal. All such documentation and information remains the property of JLL and shall be kept confidential. Reproduction of any part of this document is authorized only to the extent necessary for its evaluation. It is not to be shown to any third party without the prior written authorization of JLL. All information contained herein is from sources deemed reliable; however, no representation or warranty is made as to the accuracy thereof.