RESIDENTIAL

JLL

PRIME CENTRAL LONDON

OUTLOOK BRIGHTER FOLLOWING ELECTION

Prices have fallen marginally during Q2 in the Prime Central London sales market but there has been a real bounce in activity following the general election and recent budget, although transaction volumes are still lower than normal. The lettings market has improved since the election but with plenty of stock available rental values have only gingerly ticked upward during Q2. The second half of 2015 should prove better for both the sales and lettings markets in terms of value growth and activity.

UK Research, August 2015

#NewResidentialThinking

SALES MARKET

PRICE GROWTH

-0.6%

3 MONTHS TO Q2 2015

-2.3%

12 MONTHS TO Q2 2015

SALES TRANSACTIONS

+21%*

Q2 2015 v Q1 2015

-32%*

Q2 2015 v Q2 2014

LETTINGS MARKET

RENTAL GROWTH

+1.0%

3 MONTHS TO Q2 2015

+1.5%

12 MONTHS TO Q2 2015

LETTINGS TRANSACTIONS

+4%

Q2 2015 v Q1 2015

-8%

Q2 2015 v Q2 2014

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

JLL Prime Central London research covers mainly second-hand property in the prime postcodes of SW1, SW3, SW5, SW7, SW10, W1, W8 and W11.

SALES MARKET
STILL SUBDUED

The Prime Central London (PCL) sales market has picked up notably since the general election and the second half of the year is expected to be stronger than the first. Activity levels remain below normal while the stamp duty reforms from last December are still being absorbed. Overall, however, the sales market continues to show resilience with prices falling only marginally in recent quarters.

Transaction volumes still low

The number of home sales during Q2 was significantly higher than in Q1 but was still well below normal levels. The remnants of the election slowdown, coupled with lingering uncertainty surrounding the impact of the latest stamp duty reforms, have dampened buyer and vendor activity.

There were an estimated 730 transactions during Q2, below the 950 average second quarter total from the past three years, 32% below Q2 2014 but a notable 21% higher than Q1 2015.

21%

Estimated rise in transactions in Q2 relative to Q1 2015

Cautious rebound in demand

Demand has recovered somewhat post-election, particularly at the lower end of the market, but buyers seem more reticent and cautious following the sharp rise in stamp duty for most PCL properties, perhaps waiting to see what the medium-term impact might be on prices before committing to purchase.

More vendors needed

Available supply has increased since the election as vendors have become more certain of their pricing positions following the Mansion Tax distortion. However, there has not been a flood of properties onto the market and more vendors are needed otherwise there can be no meaningful pick up in transaction activity.

The lack of stock available is also creating problems for market fluidity as buyers are deterred by the restricted choice.

Price falls are marginal

With both demand and available supply increasing only marginally during May and June, there has been little to alter market dynamics. As a result, there has been a continuation of the price falls witnessed during the preceding two quarters.

0.6%

Decline in sales prices during Q2 2015

Prices fell by 0.6% on average during Q2, a smaller decline compared with the 1.0% fall in Q1, but prices over the past year have dropped by 2.3%.

However, it is important that the recent falls are put into context. Despite the latest declines and taxation issues, sales prices are still 59% higher than the 2009 low and 21% above their 2007 peak, reinforcing the strong performance and robust nature of the PCL sales market.

Sub £2m market resilience

Importantly, prices have not fallen in all parts of the market over the past year. The sub £2m market has been the strongest and least affected by the election, stamp duty and Mansion Tax influences. Demand has been more robust, both before and since the election, while more supply has also come onto the market. Despite this, prices have still slipped by 0.1% during Q2, but have risen by 2.2% over the 12 months to Q2 2015 (see chart).

The number of buyers in the £2-5m market has also recovered a little since the election but remains well below typical levels. Although there is a lack of properties on the market, prices have fallen in this price bracket for the third quarter in a row and have declined by 2.7% in the year to Q2.

The £5-10m market has not really accelerated since the election. Buyers and sellers are still trying to assess the impact of the stamp duty changes, which play a significant role in this segment of the market, but prices have fallen by 4.5% in the year to Q2.

Despite more transactions in the £10m+ market prices have still declined by 3.1% in the past 12 months (see chart).

More positive outlook

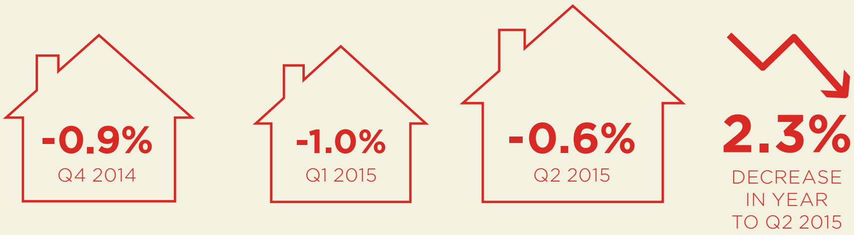
Looking forward, the prospects for the PCL sales market look more stable now that the general election is past, a Conservative Government is installed and that a raft of tax initiatives have been implemented.

The abolition of non-dom status is expected to have only minimal impact and transaction levels should increase during the second half of the year. However, a sizeable surge in vendors seems unlikely, implying that any uptick in activity will be quite muted.

The waters ahead may not be totally untroubled, especially as the stamp duty reforms are still being absorbed, but the outlook certainly looks clearer.

SALES PRICES CONTINUE TO FALL

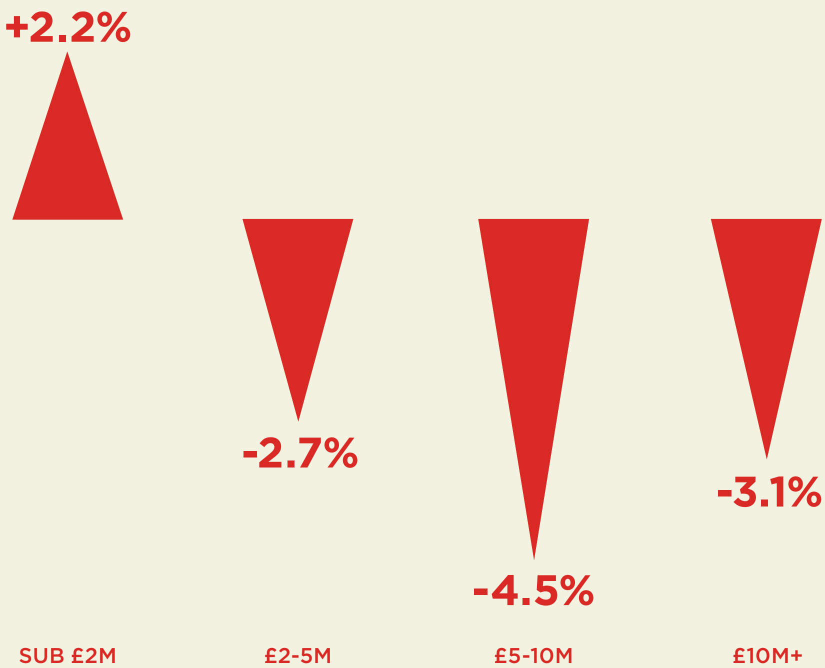
Price growth in quarter



Source: JLL

ONLY SUB £2M MARKET SEES PRICE RISE

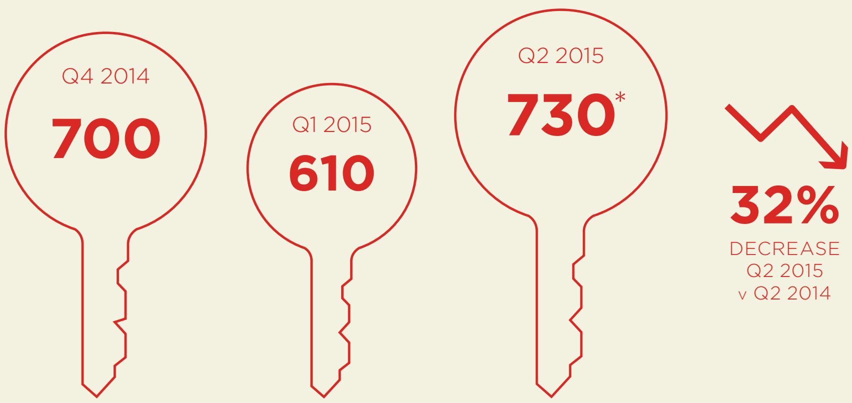
Price growth in year to Q2 2015



Source: JLL

SALES TRANSACTIONS UP AFTER ELECTION

Number of transactions during quarter



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

W.A.ELLIS SALES

RICHARD BARBER

While transaction levels remain low, particularly in the £3-7m sector of the PCL market, there is undoubtedly a noticeable flight to quality. Affordability issues, in the face of increased stamp duty costs, have affected purchaser confidence, but high prices per sq ft are still being achieved for trophy properties.

Activity levels and confidence have increased at the top end of the market and overseas interest remains strong.

There is still no pressure on vendors as interest rates and borrowing rates remain low, however, discretionary sellers will, in some cases, need to revise their expectations if their properties do not tick all the boxes.

The general outlook is one of confidence especially given the stable government and low interest rates.

LETTINGS MARKET
OVERSUPPLY

There is an oversupply of available stock in the Prime Central London (PCL) lettings market and the lack of pressure between landlords and prospective tenants is leading to muted upward pressure on rents. There has been a small rise in the number of applicants since May's election but this has not been sufficient to meaningfully reduce the amount of stock on the market.

Demand improves

Demand has picked up since the general election and even more so during June. However demand levels have been below normal over the past couple of years as more and more typical PCL tenants opt for cheaper or larger accommodation outside of traditional PCL areas.

The recent rise in demand has been broad based although there has already been an increase in international student enquiries ahead of the next academic year, which is impacting the sub £1,000 per week market in particular.

There has additionally been a greater number of tenants at the upper end of the market above £3,000 per week, especially during the early part of Q2, as the higher stamp duty regime affecting the super-prime sales market continues to divert some potential buyers into the rental sector. However, demand has tailed off to some extent towards the end of the quarter.

Rental stock levels an issue

The number of rental properties on the market has remained quite high throughout Q2 and has not really diminished despite slightly greater demand.

A reasonable stock of available rental properties has been a feature of the market for the past couple of years and continues to overhang the market.

There is a particular abundance of one and two bedroom apartments and also a surplus in the larger house market. Quality properties are still letting quickly across all price bands but those which do not tick all the right boxes are now often taking some time to let.

Rents up marginally

Overall there is a little more supply available relative to demand but London's improved economic and employment conditions are helping to push rental values up slightly, despite annual CPI inflation being close to zero.

1.5%

Rise in rental values in year to Q2 2015

On average across PCL, rental values increased by 1.0% during Q2 but, with minimal rental movement in previous quarters, annual rental growth has now only pushed up to 1.5%.

Lower end stronger

The one and two bedroom flat markets have been both the most active and the most resilient in recent times and this continued into Q2. Demand has been buoyed by employment gains which has helped push rental values 1.7% higher over the past year and by 1.0% in Q2 alone.

Similar dynamics are evident in the two to three bedroom house market where rents have increased by 1.5% over the last year (see chart).

Activity increases

Demand has certainly picked up since the election but with activity levels subdued in the run up to the vote the full Q2 lettings market transaction volume was only slightly higher than Q1.

Overall, around 2,050 lettings transactions occurred during Q2, a 4% rise relative to Q1 but perhaps more notably some 8% below the Q2 2014 total.

Transaction volumes in the year to Q2 2015 were 9.8% lower than in the preceding year (see chart).

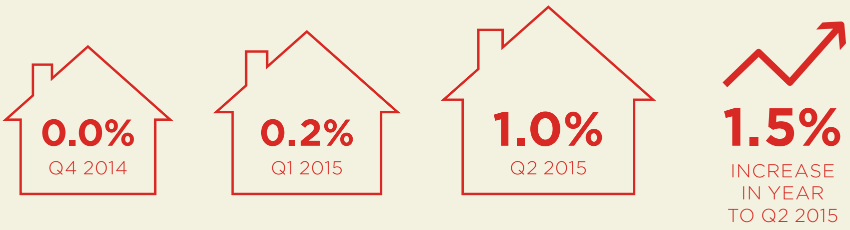
Stock issues to remain

Demand in Q3 will be boosted by student numbers as usual, which may reduce available supply to some extent. However, the real litmus test will come in early Q4 when more normal trading conditions resume and there can be a better assessment of whether stronger underlying demand is emerging.

A surplus of available property looks likely to be with us for the remainder of 2015 with rental growth expected to rise only marginally towards 2-3% pa by the year end.

RENTAL VALUES NUDGE UPWARD

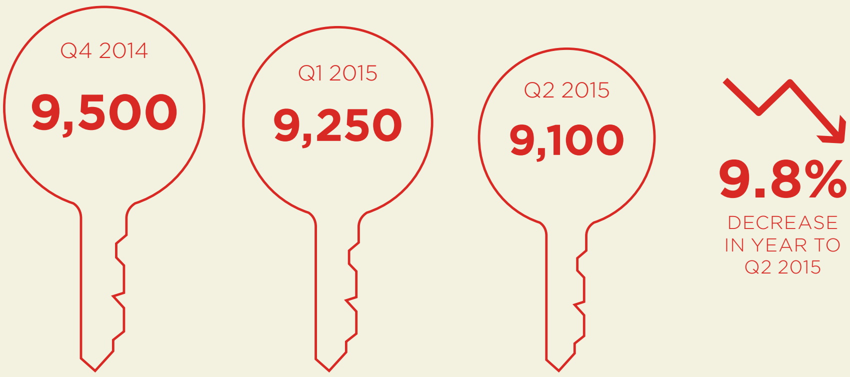
Rental growth in quarter



Source: JLL

LETTING TRANSACTIONS MARGINALLY DOWN

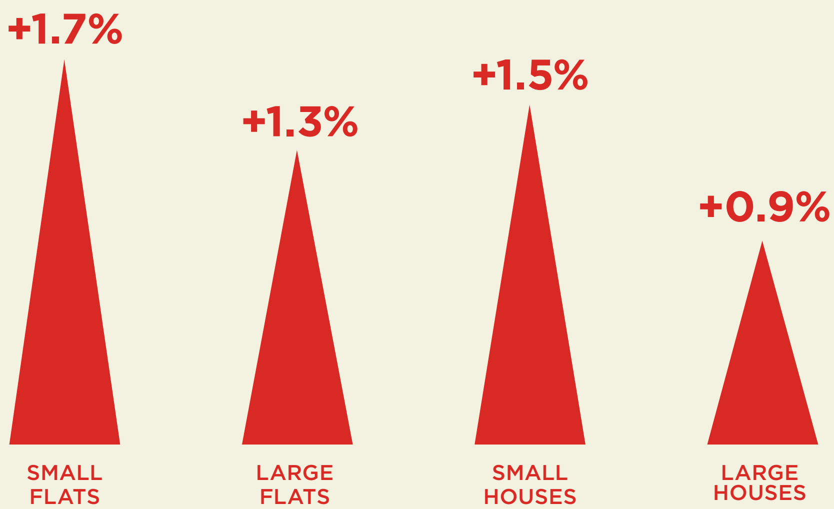
Transactions in year



Source: JLL, Lonres

SMALLER PROPERTIES SEE GREATER RENTAL GROWTH

Rental value growth in year to Q2 2015



Source: JLL

W.A.ELLIS LETTINGS

LUCY MORTON

The lettings market can fluctuate from week to week and the second quarter has had to cope with the impact of the general election at the beginning but it ended with a flying start to the summer in June.

However, there has been an increase in rental stock available, mainly as a result of landlords awaiting the outcome of the general election and deciding now to let instead of sell. Higher stock levels have meant that competition between landlords has increased with properties in optimal condition letting first as tenants shop around. This has also meant that the market has become very price sensitive.

International students are back in force, making up the majority of one and two bedroom lets in June as they rush to secure flats before the summer break.

The corporate family market has been extremely active, particularly in the super prime sector, with the savvy families settling before the summer rush. There have also been more families arriving in London than leaving as the economy picks up and there is increased confidence in the City.

It is interesting to see more people coming to us with an open mind on whether to rent or buy as well as more people turning to the rental sector after being unable to secure finance or find the right property to buy.

The outlook is positive with more and more people preferring the flexibility of renting.

THE FINAL WORD

Both the Prime Central London sales and lettings markets have been troubled over the past couple of years. The sales market has operated under the cloud of government tax intervention while rental growth in the lettings market has been subdued as tenants increasingly look for value elsewhere in London.

Both markets will feel more liberated post-election, and should see higher levels of trading over the next six months. However, a return to particularly strong sales price and rental growth, or to significantly greater transaction volumes, is unlikely, although modest improvements are predicted.

The sales market needs to absorb and move forward from the higher burden of stamp duty. The higher rates are now so onerous that they will undoubtedly have a lasting impact. The unfortunate consequence is likely to be reduced turnover and less choice for buyers, which usually leads to higher prices. It will take time to adjust, but the market has proved remarkably resilient over the long term despite various headwinds. Transaction activity will increase modestly in the second half of this year and prices should rebound and rise in the order of 1.5% during 2015.

Oversupply is the principal protagonist in the lettings market. With many tenants looking for either smaller or cheaper accommodation outside of PCL, the market has been left with too many landlords and listings. Although employment prospects will continue to improve, there will not be a rush in demand to overturn current dynamics. Rental values and letting volumes will increase modestly during the remainder of the year with rental values rising by around 3% in 2015.

—

Neil Chegwidden
JLL Residential Research

KEY CONTACTS

With over 300 professional operating from a comprehensive network of UK regional offices, the Residential team at JLL is the most comprehensive full service advisor in the market. W.A.Ellis is a trading name of Jones Lang LaSalle Ltd and offers exceptional service across all aspects of residential property in Prime Central London.

This is our #NewResidentialThinking
Join the discussion on twitter @JLLUKResi

RESIDENTIAL RESEARCH
ADAM CHALLIS

T +44(0)20 7399 5324
adam.challis@eu.jll.com
@Adam_Challis

RESIDENTIAL RESEARCH
NEIL CHEGWIDDEN

T +44(0)20 7087 5507
neil.chegwidden@eu.jll.com
@NeilChegwidden

RESIDENTIAL VALUATION
TOM BARTON

T +44(0)20 7087 5078
tom.barton@eu.jll.com

RESIDENTIAL AGENCY
LUCY MORTON

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

HEAD OF RESIDENTIAL
ANDREW FROST

T +44(0)20 7087 5566
andrew.frost@eu.jll.com
@JLL_Andrew

jll.co.uk/residential