# Prime Central London

UK Residential Research | November 2018

*Despite several high-value transactions during Q3 2018, the Prime Central London sales market suffered a setback to its recovery during the quarter. On average, prices fell marginally during Q3, having increased in the preceding two quarters. Transaction volumes also slowed during Q3. The lettings market benefited from a strong quarter. Rental values increased across all price ranges while turnover experienced its usual Q3 boost. Looking forward, we see a brighter future for both Prime Central London sales prices and rental values. We believe that some kind of Brexit deal will be agreed in the coming months which will remove a degree of uncertainty and instil much needed confidence into the Prime Central London market.*


Neil Chegwidden
Residential Research

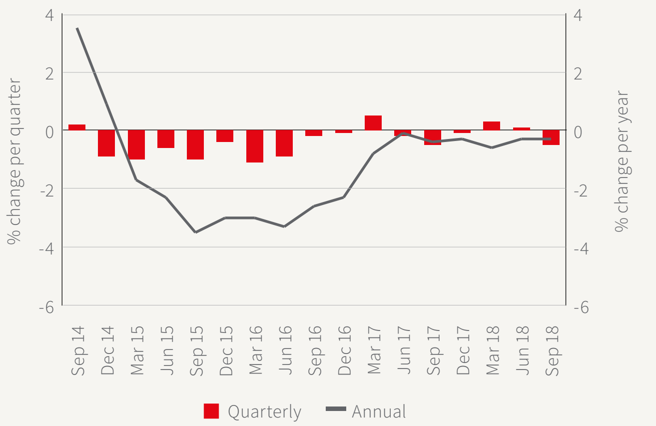

## *Sales market*

- Prices slipped again in Q3
- Prices fell across the board
- Transactions slowed further

## *Lettings market*

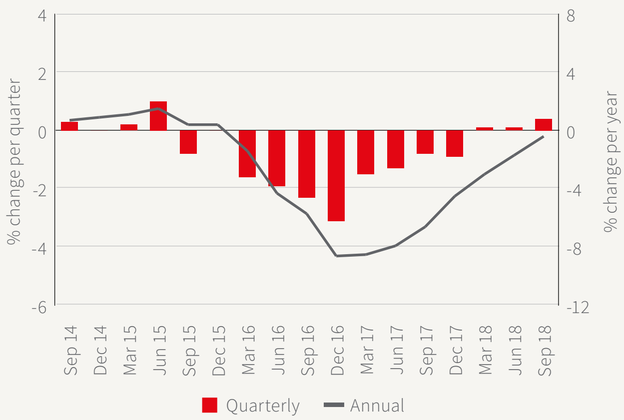
- Rents increased in Q3
- Demand and transactions rose in Q3
- Students bolstered the market

### Sales prices fall in Q3




*Source: JLL*

### Rents rise in Q3




*Source: JLL*

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

# Prime Central London
# *Sales market*

## *Uncertainty resolution*

The Prime Central London sales market is on a surer footing compared with much of the past three years. However, prices fell again in Q3 and turnover also slowed.

The ongoing uncertainty surrounding Brexit, as well as the possibility of a Labour Government or Conservative leader change, are all disrupting Prime Central London market confidence.

Furthermore, Theresa May has proposed a 1% overseas stamp duty charge. The Government will begin a consultation on this in January 2019.

The next few months should see greater clarity regarding Brexit issues. The increased certainty will be welcome relief, especially if all outcomes are favourable for Prime Central London residents.

## *Transactions – mixed results*

Encouragingly, there were several high-value deals during Q3 which buoyed the market to some extent. Unfortunately, however, even these transactions were at price levels well below those of 2-3 years ago.

These are indicative of a market still battling to bridge the gap between vendor expectations and buyer reality. Even several months and years beyond the peak, many vendors still expect to command premium prices for their most treasured possession.

Partly as a result of this, and also due to the general lack of urgency in the market, transactions are taking several months longer than usual to complete – pulling down transaction volumes.

Overall, the number of transactions in Q3 2018 was 5% lower than Q2. On an annual basis, transactions were 15% below a year earlier and 40% below the Q1 2016 peak.

Unfortunately, after seeming to stabilise six months ago, transaction levels have faltered again over the past two quarters.

## *Prices fall again*

Prime Central London sales prices declined by 0.5% during Q3, the largest quarterly drop since Q1 2017 and the first fall during 2018.

Prices fell across all price brackets and property types during Q3, the first time this has happened for more than two years. Price falls were again highest at the upper-end of the market, declining by 1.3% in the quarter, leaving them 4.8% down on a year earlier.

The lower-end of the market, below £2m, has been more stable and resilient over the past 2-3 years, but even this market experienced price declines in Q3, albeit down by just 0.2%. Over the past year, prices in this segment of the market are on a par with a year ago, emphasising the difference between the lower and upper-ends of the value range.

Overall, prices across Prime Central London were 0.3% lower than a year earlier.

Encouragingly, however, we expect prices to rise quite strongly over the next five years.

## *Modern preference*

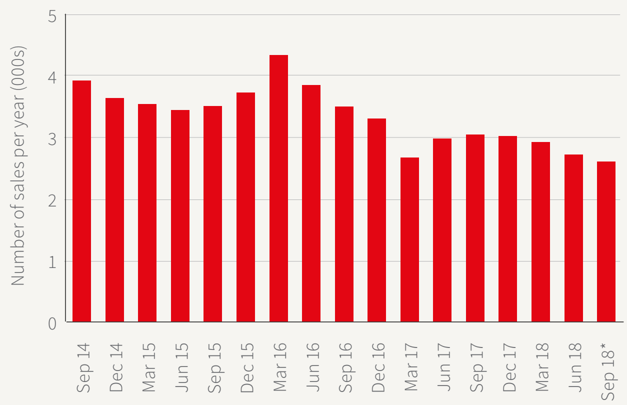
A recent trend has been the preference for new and modern properties. Even properties around ten years old are deemed too aged by many of the new cohort of buyers.

This has skewed demand, availability and pricing between modern and older properties. Any modern property, especially lateral apartments, will receive plenty of interest these days, with prices proving robust despite broader market softness.

However, this trend is putting a strain on the market for early-to-mid 20th century buildings in particular, as the depth of demand for such properties is not the same as 5-10 years ago. Even 10-20 year old developments, especially when un-modernised internally, are often bypassed by purchasers.

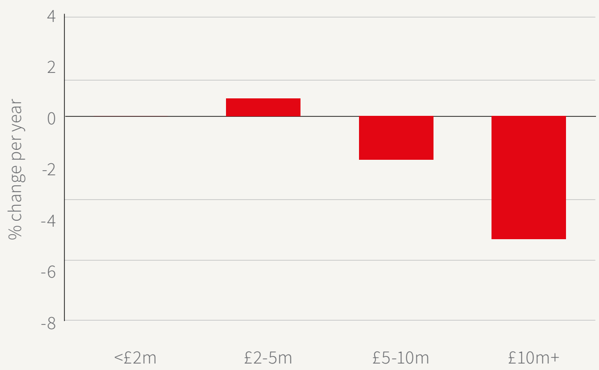
It seems increasingly the case that buyers do not want a building or modernisation project, or the expense and hassle which accompanies such projects, and would far rather buy a stress-free and modern property requiring little or no work.

### Annual sales transactions at lowest point since 2009




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

### Sales price growth more stable below £5m




*Source: JLL*

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# Lettings market

### *Positive Q3*

The Prime Central London lettings market experienced a positive Q3 with transactions up significantly compared with Q2 while rental values increased at their fastest rate in more than four years.

The High Net Worth student market was the primary driver of the stronger market conditions in Q3. Demand for modern one and two bedroom flats was particularly high, and with budgets to rival those of many London workers, the student market of today provides direct competition for the more traditional Prime Central London tenant.

Many High Net Worth international students can afford to pay between £500 and £800 pw for a one bedroom apartment or around £1,200 pw for a two bedroom flat.

### *Rents rise across the board*

The increased Q3 demand has led to rent rises across all areas and segments of the market. On average, rents increased by 0.4% in Q3, the highest quarterly uplift since Q2 2014.

Importantly, Q3 was the third consecutive quarter of rising average rents, a notable feat following two and a half years of falls.

Despite this, annual rental growth remained marginally negative at -0.3%.

### *Rental growth differences*

Rental growth was highest in the sub £1,000 pw market during the latest quarter. Rents increased by 0.7% on average, leaving them 0.4% higher during the year to Q3 2018. Demand has been particularly strong, with available supply quite tight.

The £1,000-2,000 pw sector was the next strongest during Q3. Rents increased by 0.4% but were still 0.3% lower than a year earlier.

Rental growth in the market above £2,000 pw was slightly lower on average. The exception was in the larger family house market of 4-5 bedrooms. With very little availability of such properties, rents were forced up by 0.6% during Q3.

In the larger flat market, there has been a shortage of lateral apartments on the market, although rental increases in Q3 have not exceeded the PCL average with landlords more intent on securing a tenant than achieving a rental increase.

A trend which has been exemplified during Q3 has been the attraction of new-build properties. Some new developments have rented out very quickly, sometimes even achieving values above asking rents.

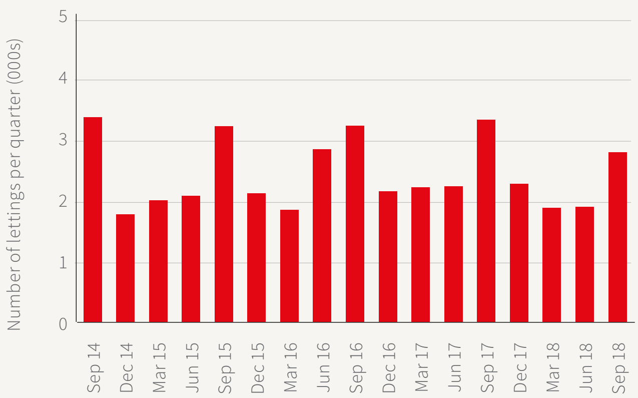
### *Transactions rise in Q3*

The number of lettings transactions increased notably during Q3. This is usually the case with students boosting demand in preparation of the start of the new academic year.

This year, transactions increased by 48% between Q2 and Q3 – broadly in-line with 2017 but down compared with the previous three years.

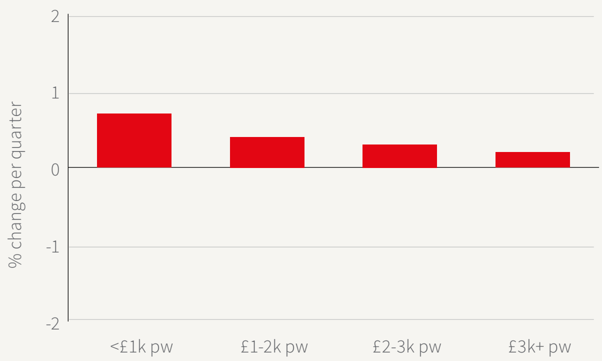
Despite the boost in Q3, the number of transactions during the year to Q3 2018 was 11% lower when compared with the preceding year. Furthermore, the latest annual total is the lowest for at least five years. It also continues the downward trend in activity seen since Q4 2017.

**Lettings transactions receive seasonal Q3 boost**




*Source: JLL, Lonres*

**Rents rise across the board in Q3**




*Source: JLL*

# Outlook

We expect the outlook for both the Prime Central London sales and lettings markets to improve over the next year. We believe that some kind of Brexit deal will be agreed and that this will inject greater confidence into these markets.

We expect this to feed through to both increased transactions and pricing – but it may be a gradual and steady recovery.

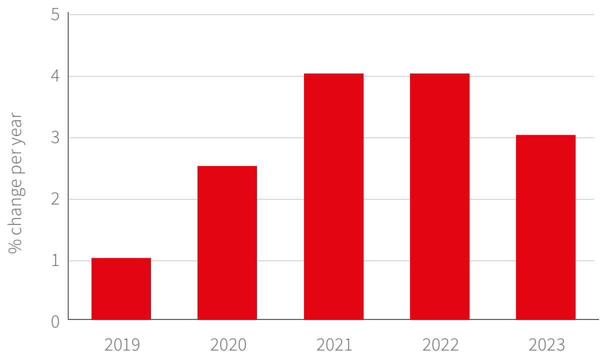
A weak pound may also encourage international buyers, while the market will have to wait until well after January 2019 to learn of the consultation regarding a new 1% overseas stamp duty tax.

Even if this tax was introduced, London would still rank below many other global cities in terms of overall tax imposition.

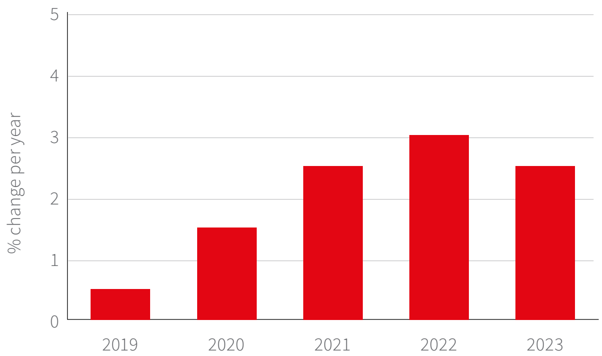
We forecast that sales prices will rise marginally in 2019 before pushing towards 4% pa by 2021.

In the lettings market we expect rental value growth to be robust over the next five years.

## Price growth forecast to accelerate




## Rental growth expected to strengthen





Vanessa Chan
International Residential (SG)
CEA Reg no. R016993I
+65 8125 7636
Vanessa.Chan@ap.jll.com

Widya Lesta
International Residential (SG)
CEA Reg no. R016997A
+65 8282 3473
Widya.Lesta@ap.jll.com

Nicholas Keong
International Residential (SG)
CEA Reg no. R048783C
+65 9839 9361
Nicholas.Keong@ap.jll.com

Marilyn Tan
International Residential (SG)
CEA Reg no. R031122J
+65 8812 9298
Marilyn.Tan@ap.jll.com

Clarice Lau
International Residential (SG)
CEA Reg no. R058170H
+65 8586 1987
Clarice.Lau@ap.jll.com

JLL

**Jones Lang LaSalle Property Consultants Pte Ltd**
CEA Licence No. L3007326E
9 Raffles Place #39-00 Republic Plaza Singapore 048619
Tel: +65 6220 3888
**internationalresidential.jll.com.sg**