

Prime Central London Residential Prices Fell Again In Q1, But Transaction Levels Increased Marginally

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The Prime Central London sales market was notably quieter during Q2 as a combination of the uncertainty surrounding the EU referendum, a slowdown following a Q1 boosted by people buying ahead of the stamp duty surcharge on second homes, as well as the continued influence of higher stamp duty for high value properties all impacted on the market.

Demand eased during Q2 2016 as potential buyers adopted a wait and see attitude in view of the EU referendum. Since the vote to leave the EU, and the subsequent weakening of sterling, several international buyers have been more active although a good deal of uncertainty remains, especially in terms of the medium-term PCL outlook. The fact that the vote is now in the past also seems to have encouraged a few more domestic buyers back into the market.

The number of properties on the market has increased again during Q2 as vendors fail to sell or elect not to sell at prices unacceptable to them. This additional choice and bargaining power for purchasers is contributing to both the scale of price falls and the slowdown in transactions.

Neil Chegwidien, Residential Research Director at JLL reflects on the impact for prices, "Given recent uncertainty it is unsurprising that prices have weakened again during Q2. On average prices have fallen by 3.3% in the year to Q2, but they have also declined in every quarter since Q1 2015 as a variety of influences have impacted on confidence and switched the balance of power in favour of buyers."

Prices slipped by 0.9% in Q2 having fallen by 1.1% in Q1. Price falls over the past year have been greater for higher value properties although large lateral flats continue to hold their value better than other large apartments or houses. On average prices have declined by 6% over the 18 months to Q2 2016 with higher value property prices down by an average 10%.

Prices have fallen across all price ranges during Q2 and over the last year. The sub £2m market continues to be the most resilient. However, prices have fallen in each quarter since Q1 2015. On average prices in the sub £2m bracket have fallen by 2.6% over the 12 months to Q2 2016. Prices in the £2-5m market have been declining for 18 months now, with prices down 2.9% during the year to Q2. Prices in the £5-10m price bracket and the £10m+ market have been impacted most notably by the stamp duty changes. Prices have dropped by 4.4% in the year to Q2 in the £5-10m market and by 7.1% in the £10m+ market.

The uncertainty surrounding the EU referendum together with a quieter trading quarter following the surge in activity ahead of the 1 April stamp duty surcharge on second home purchases were the main reasons behind a sharp drop in transactions during Q2. Prior to this, transaction volumes were being detrimentally influenced by the stamp duty reforms over the preceding 18 months including the December 2014 and November 2015 / April 2016 changes.

On an annual basis estimated* transaction levels decreased during Q2 2016 compared with Q1. In the year to Q2 2016 the number of sales increased by 13% compared with the year to Q2 2015.

Richard Barber, Director, Residential Agency at JLL, based in Knightsbridge, believes that "we have seen perhaps the most turbulent changes to the Prime Central London market since 1991 with increases in SDLT, additional levies for second home owners and huge political uncertainty both post and pre "Brexit". In spite of these influences the market has shown considerable resilience in terms of capital values although naturally transactional volumes have diminished. Whilst we have seen values dropping by at least 10% in some cases, London's attraction as the world's premier destination remains undimmed and sellers are now beginning to adjust their expectations to the more stringent tax regime and are being more realistic in terms of pricing."

Notes

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

Price data is from JLL indices. Sales transactions are sourced from Land Registry with the latest quarter estimated using Lonres data.

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