Market in Minutes

Prime Regional Residential Markets

October 2014

SUMMARY

Some loss of momentum in prime regions though prime urban markets continue to perform

■ A lack of urgency among buyers across the prime regional markets resulted in growth of just 0.5% in the third quarter, mirroring the UK mainstream market.

■ However, prime urban markets continue to perform relatively well and the prime Midlands and North have benefited from a delayed ripple effect.

■ Looking forward, we expect the spectre of interest rate rises and pre-election rhetoric around a mansion tax to suppress the short term potential for further price growth in the prime housing markets. Yet, in the absence of such a tax, the indicators for price growth in the prime regional markets remain positive.

TABLE 1

Price movements in the prime markets to Q3 2014

	Q on Q	Y on Y	Since 2007 Peak
London	0.5%	8.6%	38.6%
Suburbs	0.1%	7.6%	8.9%
Inner Commute	0.9%	5.5%	4.6%
Outer Commute	0.9%	5.8%	0.9%
Remainder of South	0.0%	5.2%	-10.3%
Midlands and North	1.6%	3.6%	-13.9%
Scotland	0.0%	2.6%	-21.9%

Source: Savills Research

The prime regional and country house markets lost some of the momentum seen in the first half of the year in the third quarter of 2014, as prices rose by just 0.5% to leave annual price growth at 5.2% on average.

This mirrors what has been occurring in the UK mainstream market. The Nationwide index showed its first monthly price fall for 18 months in September 2014 and three-month on three-month price growth fell by more than half the levels seen in March 2014.

Market forces

Though the factors driving the mainstream market slowdown – namely the emerging impact of mortgage regulation and threat of interest rate rises – are less relevant in the prime markets, they are not entirely irrelevant, having an influence on buyer sentiment.

Against this backdrop, the uncertainty surrounding the Scottish referendum and ongoing discussions around a mansion tax contributed to a general lack of urgency among buyers across the prime markets over the summer and early autumn.

In response the prime markets of London have delivered muted price growth in the past six months. This has stemmed some of the flow of wealth out into the other prime markets. Specifically, prime suburban markets, such as Cobham, Esher, Weybridge, Northwood and Loughton saw no material price growth in the quarter.

Bright spots

By contrast prime urban markets such as Oxford, Cambridge and Bath have continued to perform relatively well, as demand for prime urban living continues to spread beyond London. In these markets, prices rose by an average of 1.2% in the quarter, bringing annual price rises to 7.4%.

The prime markets of the Midlands and the North benefitted from a delayed ripple effect and saw their strongest quarterly price growth for four and half years, though prices here remain close to 14% below their pre crunch level.

Elsewhere annual price growth is much reduced, meaning that there remains a large gap in the recovery in prime property values in and beyond an hour's commute of the capital. In Scotland, values remained flat over the past three months as the Referendum approached and nervousness set in the market. However, since the 'No' vote, we have seen confidence return and expect to see a boost in activity for the remainder of this year.

In the country house market, increased stamp duty charges introduced in the spring of 2012 continue to have an impact, with an entrenched price threshold around £2m. On average prime properties above this value are still 6.2% below their pre credit crunch levels.

Market outlook

It now seems certain that the spectre of interest rate rises and pre-election rhetoric around a mansion tax will suppress the short term potential for further price growth in the prime housing markets.

However, in the press at least, there appears to be an increasing realisation that as tax loopholes have been closed and rates of tax increased, there is much less of a case for an unwieldy Mansion Tax.

In the absence of such a tax, the potential for price growth in the prime markets remains. The commuter zone offers good value relative to London for those reliant on the capital for employment. Beyond the commuter zone, where the price gap is even greater, we expect buyers to relocate for lifestyle reasons and the prospects for a wider improvement in regional economies.

TABLE 2

Price movement across price bands

	Under £500k	£500k to £1m	£1m to £2m	£2m+
Q3	1.1%	0.8%	0.3%	0.1%
Yr on Yr	6.2%	5.2%	5.6%	3.8%

Source: Savills Research

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