

Market in Minutes

Prime regional residential markets

January 2012



SUMMARY

Weak economic environment leads to price falls over 2011

■ In contrast to the prime residential markets of London, the prime regional markets saw price falls over the course of 2011 averaging -3.3%.

■ Weak buyer sentiment and a lack of wealth migration from London were the main causes for a second slip in values that continued into the final quarter of the year.

■ Overall prime regional property prices in the South East proved to be the most robust with prices falling by a modest -2.0%.

TABLE 1
Price Movements to December 2011

	Prime South East	Prime East	Prime South West	Prime South West (excl Cornwall)	Prime Midlands & North	Prime Scotland	Prime London
Quarterly	-0.6%	-1.3%	-1.2%	-0.7%	-0.8%	-1.0%	+0.8%
Annual	-2.0%	-2.2%	-5.9%	-2.4%	-4.7%	-4.7%	+8.7%

Graph source: Savills Research

TABLE 2
PRIME MARKETS
Five-year forecast values

Forecasts	Change from peak to date	2012	2013	2014	2015	2016
Prime Regional	-17.1% 	-3.0% 	2.5% 	4.0% 	5.5% 	5.5% 

Data source: Savills Research

In contrast to the prime markets of London, the prime regional markets saw price falls over the course of 2011 averaging -3.3%.

Weak buyer sentiment and a lack of wealth migration from London were the main causes for a second slip in values that continued into the final quarter of the year.

While price movements have generally been negative, transaction levels in prime areas outside of London have been stronger than the remainder of the market.

This is demonstrated by looking at transactions in three relatively high value markets. Across England and Wales transactions in the 12 months to the end of September 2011 were 47% below the average for the five years prior to the onset of the credit crunch, yet in Bath and North East Somerset transaction were within 30% of their pre credit crunch norm, York 36% and Surrey 34%.

Very few areas ended 2011 with prices higher than 12 months previous. Only the likes of Sunningdale, Weybridge and Henley saw positive annual price growth and overall this was modest.

It was fuelled largely by the market for large country houses in the Home Counties and the South East. This submarket was the only one to buck the trend delivering annual price growth of 9.5%. This was the only market to show parallels with prime Central London by capturing wealthy overseas demand.

Overall, prime regional property prices in the South East proved to be the most robust with prices falling by a modest -2.0%.

Realistic pricing

At the other end of the scale, prime property prices in Cornwall saw significant price falls as London money failed to find its way in to the second homes markets.

This required prices to be re-pegged to the budgets of more local buyers looking to secure their main residence. However, there is evidence asking prices have been adjusted, which has stimulated demand to get the market moving.

The resulting falls in prices in this market distort the figures for the South West as a whole, where otherwise prices fell by -2.4% in the year, much less than in the markets of

OUTLOOK

The market in 2012

■ Over the period of the last six years the elastic between prices in London and the Country has been stretched considerably, leaving country property looking increasingly good value.

■ In due course we expect this will bring buyers out of London, though the weak economic environment is likely to limit this in 2012. Headlines regarding increased season ticket costs for commuters are also expected to do little to encourage buyers to relocate from London in the short term, though in reality these are not significant in comparison to house price differentials.

■ Against the backdrop of a weak and potentially volatile economic recovery we expect the prime regional markets as a whole to react to a softening of prices in the mainstream market, thereby falling by -3.0% this year.

■ Nonetheless, we expect price movements to outperform the mainstream over the course of the next five years given a lesser reliance on mortgage finance and a progressive flow of housing equity from the capital that we expect to deliver a ripple effect.

the Midlands, the North and Scotland. These areas bore the brunt of price falls as values fell by an average of -4.7%.

This leaves prime residential prices in the Midlands and the North 24% below their 2007 peak, meaning vendors need to price realistically to demonstrate the value of prime property stock in these areas relative to the rest of the country. ■

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