

Market in minutes

Prime Regional residential markets

An analysis of how the prime markets are performing outside of London

Whilst the prime London residential markets have shown strong price growth in the past six months, the prime regional and country house markets are yet to benefit from any significant ripple effect out of the capital.

A noticeable lack of London relocators, together with subdued local buyer confidence, has meant prices have fallen by an average of -0.7% over the first half of the year, resulting in annual price falls of -1.9%.

By contrast, annual price growth in the prime London markets stands at 4.3%, rising to 9% for houses.

As a result, the gap between the prime markets of London and the rest of the country has widened.

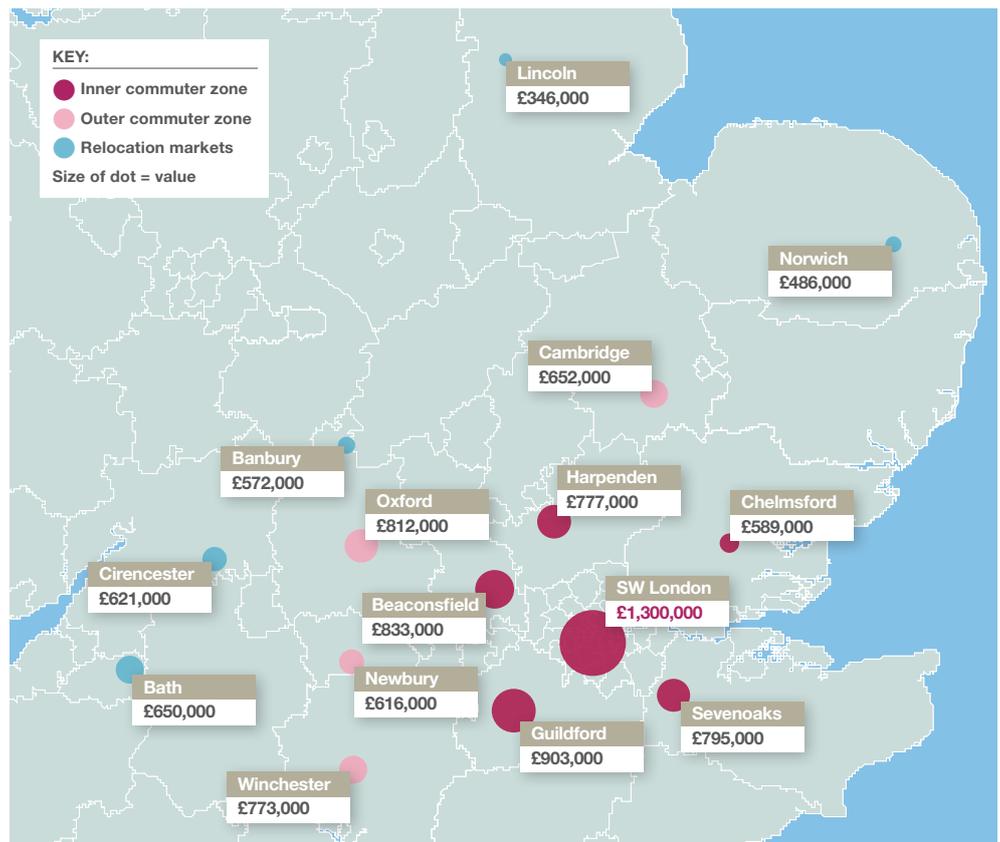
This gap is reflected in the difference between the constrained stock levels that still persist in London and the increase in the number of months stock on the market elsewhere.

With regard to stock levels and prevailing rates of sale, there was the equivalent of 11.4 months of unsold stock in the markets of the **South East** at the end of June. This is down from a peak of 12 months stock at the end of April, but up sharply from 7.5 a year earlier.

Outside the South East levels of unsold stock have risen to a greater degree. This will require vendors to price properties realistically in order to achieve sales in what has become a buyers market.

In **Scotland** the number of properties to purchase at or above £400,000 increased by 85% in two years.

FIGURE 1
Average value of a 2,000 sq ft 4 bed family house in Q1 2011



Graph source: Savills Research

The **prime second homes markets**, where the decision to buy is essentially discretionary, have been particularly affected. This means in the **South West** prices are 24.3% off peak, having fallen 3.9% over the past 12 months.

Stronger price growth in 2009, particularly in the prime townhouse market, means that prices in the **South East and Eastern** regions are closest to their peak, though these

“The prime regional markets are yet to see any ripple out of London in 2011.”

Lucian Cook, Savills Research

markets have been broadly static over the past 12 months.

The subdued level of market activity means it is likely that agents will go →

→ into the autumn market carrying relatively high levels of stock. This is likely to dampen price expectations over the remainder of the year. As a consequence, we believe prices will fall by -3.0% over the course of 2011.

However, with the average price of a 2,000 sq ft 4-bed family house in prime SW London being £1.325 million, compared to £805,000 in the inner commuter zone and £770,000 in the outer commuter zone, regional property is looking to be increasingly good value.

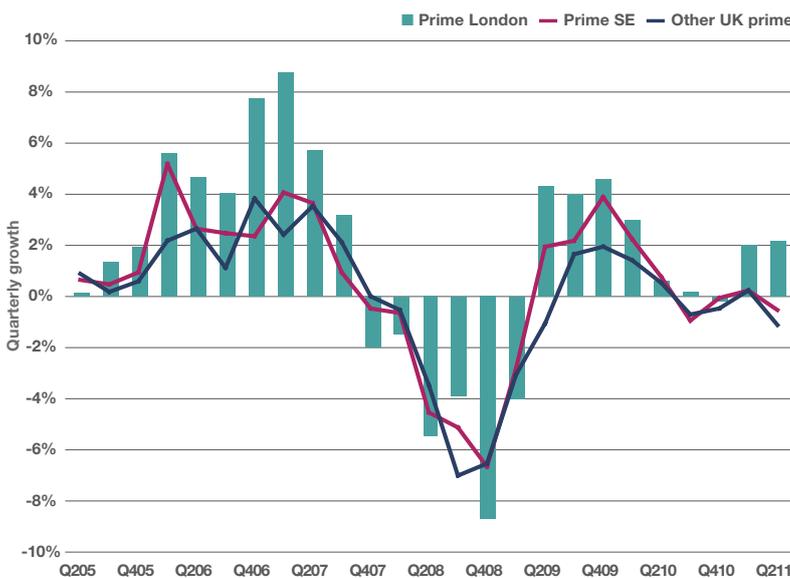
The resulting price differential is at its highest point in the past five years. This, combined with a gradual

improvement in economic conditions, is expected to result in a greater flow of housing equity out of the capital during 2012 and 2013. This should bring with it some stronger market conditions.

As a result, over the next five years we are expecting the prime regional markets to outperform the mainstream, which is likely to remain constrained by an ongoing lack of mortgage finance and greater exposure to a slow economic recovery.

We expect the South East to benefit first, with the markets of the Midlands, North of England and Scotland taking longer to see the ripple effect. ■

FIGURE 3 Quarterly price movements in UK Prime areas



Graph source: Savills Research

OUTLOOK

Overview of the market

■ Forecasting the short term is risky and volatility cannot be discounted. However, the big question is when the ripple will kick in regionally. There are just the earliest signs of this happening on the outskirts of London.

■ The elastic linking the London and regional markets is being stretched, but it will only stretch so far. Sooner or later a tipping point will be reached as buyers respond to the regions looking increasingly good value compared to London.

■ As such, our five-year regional forecast remains unchanged, even though in the short term prices may soften a little further.

“The elastic linking the London and regional markets is being stretched, but it will only stretch so far...” Yolande Barnes, Savills Research

Savills Prime Regional Residential Index

This Market in Minutes is derived from Savills Prime Regional Index. Published quarterly, the index tracks price movements at a regional level. The index is long running, with historic data back to 1979. For further information on the index, and the opportunity to subscribe to the detailed statistics, please contact Sophie Chick (schick@savills.com)

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