Market in minutes

Prime regional residential markets

Some markets, such as the prime town of Cambridge (pictured), have seen prices close to peak value.

Prime regional market remains static

The second half of 2009 and beginning of 2010 saw increased demand and transactional activity within the prime residential markets of the UK, as improved confidence among cash and equity rich buyers translated into price growth. However, in the second and third quarters of this year the recovery has stalled somewhat, causing prices to remain broadly static across the prime London, country house and other prime regional markets.

The prime regional housing market is far less reliant upon debt finance and is less affected by tighter constraints on lending, unlike the mainstream markets. However, current economic and political uncertainty have been compounded by speculation over public spending policy, a combination which has impacted upon buyer appetite even in more equity reliant markets.

The prime regional housing market saw growth of 0.5% in the second quarter of 2010 but this has been followed by a marginal softening in prices, which fell 0.1% in the third quarter. Nonetheless, year on year growth for prime regional property averages 4.9%, because of the recovery in prices over the latter part of 2009 and the first quarter of 2010. This leaves values on average 13.6% off their 2007 peak.

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The South East and East of England remain closest to their peak values, averaging 11% and 11.4% off peak respectively. Here the changes in London's market conditions have been quick to filter out into the surrounding commuter markets. This meant strong price growth in 2009 and 2010, but much more subdued demand over the last two quarters. As a result, prices have increased by just 1.7% in the East and have fallen by 0.4% in the South East over the past six months.

This close link with London is reflected in similar buyer profiles. For example, while buyers of prime regional properties continue to be dominated by domestic purchasers, of the 7% of purchasers who come from overseas 48% have bought within the Home Counties.

In the South West values remain 22.1% off peak. In particular, activity in the second homes markets has been volatile and sensitive to changes in buyer sentiment.

The prime markets of the Midlands and North of England remain 19.3% off peak, having generally seen a less pronounced recovery than in markets further south, reflecting less depth of demand. Here buyers tend to be more dominated by those whose wealth is generated in industry and commerce within the region and is therefore heavily dependent on the strength of the regional economy. As a result annual price growth remains relatively low at 0.7%.

Traditionally, Scotland has been one of the last regions to benefit from the ripple effect in the prime housing markets. Subdued sales activity has caused stock levels of prime property to build, with sales dependent on ▶

vendors retaining realistic price expectations. Prices rose a marginal 0.15% in the quarter, leaving them 3.7% up year on year, but still -13.6% off peak.

Underneath these regional trends there are distinct localised variations. Some markets, such as the prime town market of Cambridge, are seeing prices much closer to, and on occasion above, peak values.

As a property type, townhouses have outperformed the rest of the prime regional index, recording growth of 8.7% year on year. While growth has slowed over the last quarter (1.1%) it is the only property type to have recorded positive growth in the quarter.

Across all regional markets the best located and appointed property continues to trade, however pricing is increasingly key, with an emerging gap between buyer and vendor expectations. ■

Savills Prime Regional Residential Index

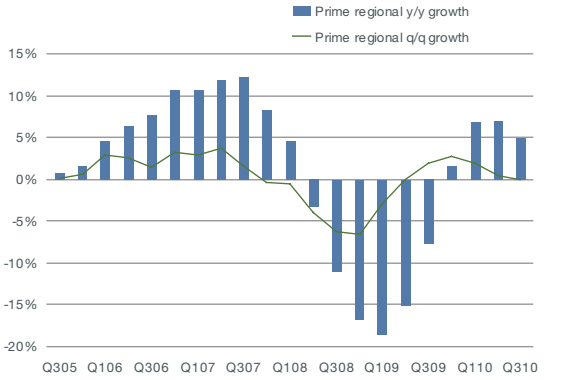
This Market in Minutes is derived from Savills Prime Regional Index. Published quarterly, the index tracks price movements at a regional level. The index is long running, with historic data back to 1979. For further information on the index, please contact Sophie Chick on 020 7016 3786.

Outlook

■ Looking forward to the final quarter of 2010, we expect that weaker demand will remain a key factor in the residential market as economic uncertainty prevails and the implications of the austerity budget become more apparent. At the same time, stock levels are unlikely to drop significantly and, as such, we expect that prime regional values will continue to soften.

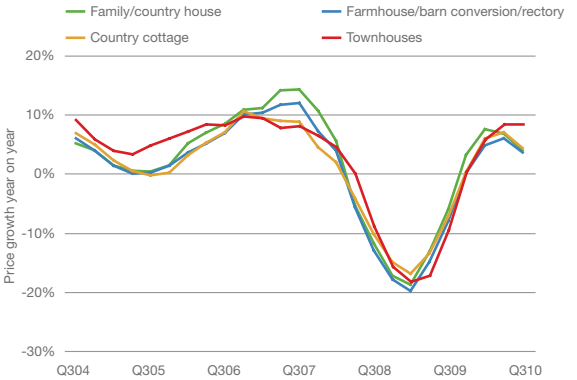
■ We are forecasting that values in the prime regional market will begin to soften in the latter part of 2010 and into 2011. In a continued low interest rate environment these price falls are expected to be relatively short-lived. The fundamentals of the prime markets, particularly those close to London, remain sound. Prime regional residential property is an equity-rich market that is less affected by mortgage constraints than the mainstream and our mid-term prognosis remains positive. However, it still remains a market which is heavily influenced by sentiment, suggesting further volatility in prices in the short term.

Graph 1.
Price growth slows within the Prime Regional market



Source: Savills Research

Graph 2.
Property Type Performance



Source: Savills Research

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