savills

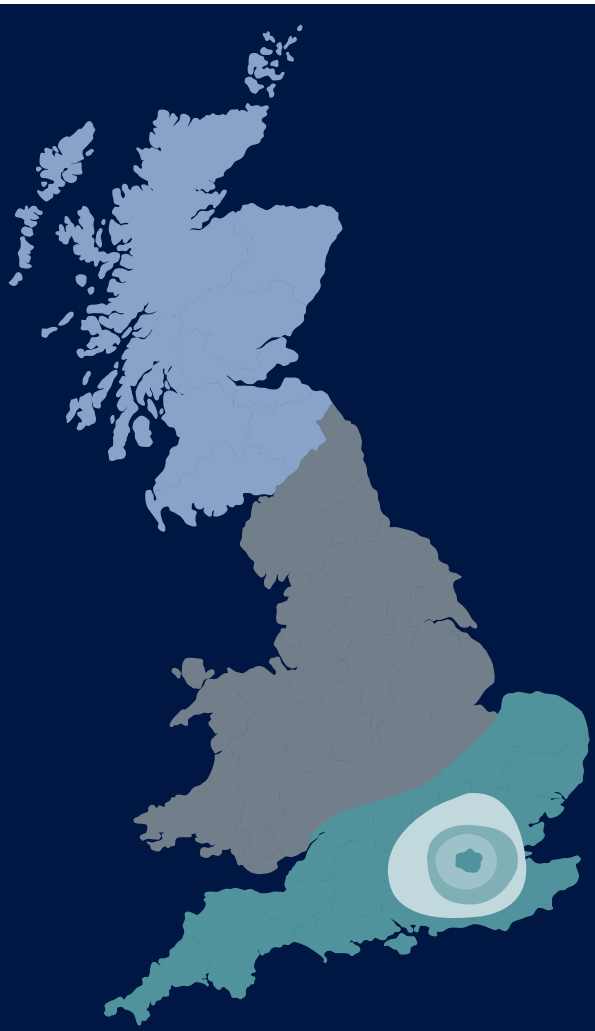
Prime country residential markets

Prime regional house price movements

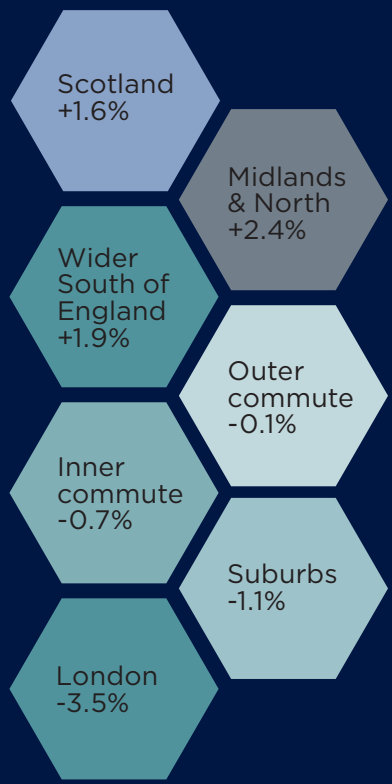
-0.2%
in the past quarter

+0.7%
in the past year

+11.5%
in the past 5 years



Annual house price movements



Source Savills Research

Realistic pricing supports sales demand

Prices in the prime regional and country house markets rose by just 0.7% during 2017, the lowest figure since mid-2013. By contrast, prime London saw further price falls over the same period.

In common with the wider UK housing market, political and economic uncertainty has translated into buyer caution. This has been compounded by the ongoing high costs of stamp duty, particularly at the top end of the market and for those buying an investment property or second home.

The influence of a weak London market

The impact of taxation may have been most acute in the prime markets of London, where prices fell by an average of 3.5% in 2017, but there has been a wider knock-on effect. This has been most noticeable in the commuter zone, not least because London buyers, an important component of demand, have lowered their budgets in line with falling receipts from the sale of homes in the capital.

By contrast, the prime markets of the Midlands and North of England continued to show modest price growth of 2.4%, albeit that values remain 9% down on 10 years ago when the effects of the credit crunch were beginning to show their hand.

Temporarily at least, delicate buyer sentiment appears to have halted the outperformance of prime housing in urban locations as opposed to neighbouring rural areas across most of the UK. In Cambridge, prices have risen 37.4% in the past five years, but softened 1.9% in the year to the end of December.

Edinburgh's townhouse market was the star performer of 2017, with price growth of 5.3%. This supported average price growth of 1.6% across Scotland, despite the dampening effect of the aggressive Land and Buildings Transaction Tax on the traditional manor house market.

Variations by price band

There continues to be variation in performance across different price bands and for different types of property. Whereas homes worth between £500,000 and £1 million have seen marginal price growth of 1.4% over the past year, those in the £2 million-plus bracket have seen falls of 1.2%. During the past five years, the value of properties in the £500,000 to £1 million price bracket have grown by 14.7%. Those worth £2 million-plus have shown no value growth.

In the £2 million-plus market, suburban areas have been most affected, with prices falling by 4.3% over the course of 2017. Elmbridge in Surrey is typical of such markets. Historically, it has had high levels of redevelopment, meaning that fluctuations in the underlying plot value makes this part of the market more exposed to changes in sentiment.

Transactions supported by seller realism

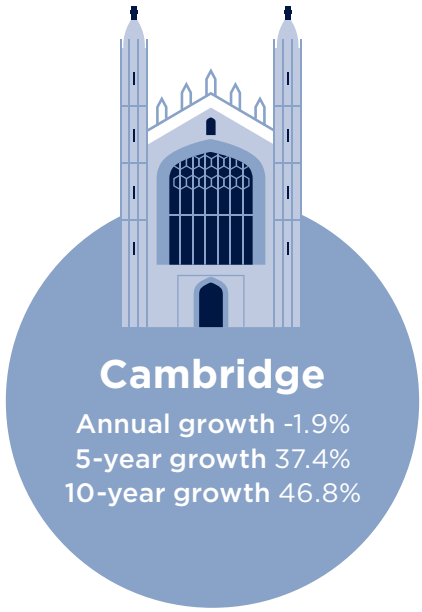
While the market has been price sensitive, transaction levels have remained surprisingly robust.

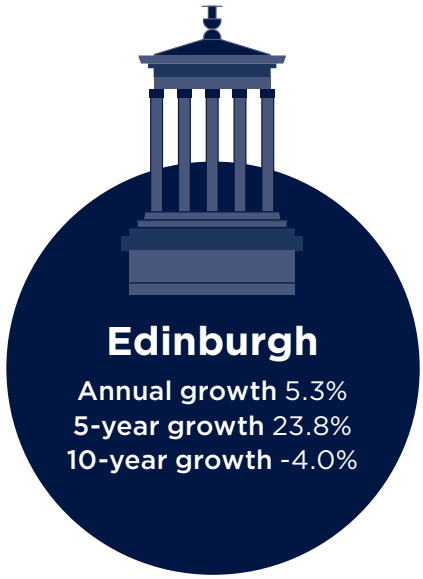
Revenue Scotland reported 560 sales of homes worth more than £750,000 in the year to November 2017, a 10% increase on the preceding 12 months. Across the rest of the UK, HMRC recorded 18,900 sales of £1 million-plus properties in the year to the end of September. This compares well with 18,500 a year earlier and 14,400 prior to the overhaul of stamp duty in December 2014.

Overall, this analysis reinforces the case that there is demand for appropriately priced stock.

A tale of two cities

Prime Cambridge has seen fast price growth in the past five years, but values have started to soften. Edinburgh's growth has been slower, but this steady rate has been maintained.





Source Savills Research

Outlook

There is little to indicate that the price-sensitive nature of the market will change greatly over the next two years.

Despite progress in negotiations to leave the EU, uncertainty over the economic repercussions remain. This will not have been helped by the first interest rate rise in 10 years and the increasingly likely prospect of further – albeit modest – rate rises to follow.

Any prospect of a stamp duty cut for high-value homes seems remote. The government is keen to protect tax revenues and is more focused on getting people on to the housing market than relieving pressure at the top end.

Sellers will need to stay grounded. Buyers looking to lock into the low interest rate environment and with an eye to longer term price growth, will sense more of an opportunity.

Cautious market Our forecast is for modest price growth over the next two years

	2018	2019	2020	2021	2022	5-year compound growth
Prime country	0.5%	1.0%	4.0%	4.0%	3.5%	13.6%

Source Savills Research **Note** These forecasts apply to average prices in the secondhand market. New build values may not move at the same rate

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