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UK Residential

Market in Minutes
Prime Country Residential Markets

January 2017

SENSE AND SENSITIVITY

Buyers more focused on value

SUMMARY

Slowing growth across the market means realistic pricing is key to success

■ Annual growth has slowed in the prime country markets to 1.8%, reflecting ongoing caution from buyers in the wake of the EU referendum result. However, market activity has been supported by increasingly realistic sellers' expectations on price.

■ The effect of stamp duty on higher value properties is continuing to be felt, with small annual falls for properties worth over £2 million. Lower value properties have fared better but have still seen fairly muted annual growth.

■ This trend has meant lower value locations further from London have performed better than higher value locations close to the capital, indicating buyers are more focused on finding value and are prepared to move further afield to get it.

■ Whilst prime properties in regional cities have continued to perform better than rural ones, growth has started to slow in these locations as they begin to look fully priced.

■ Although we expect buyers to remain cautious, there is still demand for good quality, well presented stock, especially for those that are close to good schools and transport links. Opportunities remain for properties that are appropriately priced and provide something for buyers with a medium term outlook on prices.

"Stamp duty continues to temper price growth for the top end of the market"

Savills Research

Slowing growth

In the prime country markets, annual growth slowed to 1.8% by the end of 2016, with growth of just 0.1% over the fourth quarter. This reflects caution on the part of buyers regarding the outcome of the EU referendum and subsequent economic uncertainty, as well as the effects of stamp duty on higher value properties.

It is clear now that demand is being driven much more by size and value than location, with buyers prepared to move further afield for a good deal.

Variation by price

Across the country market we are continuing to see the effects of the stamp duty reforms, with properties worth over £2 million experiencing small price falls over 2016. This being said, at the top end of the country house market, demand has been noticeably bolstered by international buyers taking advantage of the weakness of sterling.

Lower value stock has performed slightly better but still experienced only marginal annual growth. Likewise, lower value markets slightly further from London have fared better than their closer counterparts, with the strongest annual growth seen in the outer commute – areas typically 30–60 minutes travel time from the capital.

City vs Country

A general trend seen across the regional market over the last few years is the popularity of urban locations over rural ones. Prime properties in cities such as Bristol and Cambridge have seen annual growth of 3.8% over 2016, compared to just 0.9% for rural locations. However, the rate of growth in these cities appears to be slowing as previous growth that was driven by a flow of equity from London buyers has left them looking fully valued. Even in these popular urban locations values remained relatively flat over the fourth quarter of 2016.

Despite this, properties that are located close to good schools and transport links have remained popular with families and young professionals, especially if appropriately priced.

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FIGURE 1

Price movements by price bands to Q4 2016

	Under £500k	£500k to £1m	£1m to £2m	£2m+
Quarterly	0.5%	0.3%	0.2%	-0.6%
Annual	3.4%	2.7%	1.6%	-0.9%
5-year	14.9%	11.0%	7.8%	-0.5%

Source: Savills prime regional index

OUTLOOK

Buyer sentiment across the market is expected to remain sensitive over the next few years as the process to leave the EU unfolds and the effects of the changes to stamp duty are absorbed. As a result, we are forecasting there to be little growth across the prime country markets over 2017.

The slowing down of growth across these markets over the last year, and especially in key regional cities, suggests that sellers need to be responsive to current market conditions and the fluctuations in demand that are expected over the next two years.

We expect demand for good quality stock in areas with good schools and transport links to London to remain strong. More generally, properties that present opportunities for buyers willing to take a medium term view on pricing will remain popular.

FIGURE 2

Prime regional 5-year capital values forecast

	HISTORICAL ANNUAL			FORECAST ANNUAL					5-YEAR FORECAST
	2014	2015	2016	2017	2018	2019	2020	2021	2017–2021
Prime Regional Markets	3.2%	2.3%	1.8%	0.5%	1.0%	6.0%	3.5%	5.0%	17%

Source: Savills Research

NB: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate

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