Market in minutes

Prime regional residential markets

Summary

Despite slight price falls over the second half of 2010 the Savills Prime Regional Index ends the year in positive territory. All prime regional property recorded a value rise of 1.0% during the year, however, regional differences have become more apparent during 2010. Those regions with closer ties to London, and within commutable distance have outperformed the prime northern regions of the UK.

The biggest growth has been in the South East and Eastern markets, as an improving London economy during the first half of 2010 created a ripple effect out to the surrounding commuter markets. As a result prices increased by 3.4% in the East of England and by 1.8% in the South East over the past 12 months.

Compared to the mainstream markets, the prime regional markets appear stronger, although not showing significant price out-performance, the higher-value, equity-rich markets have seen most of the trading activity since the credit crunch.

Positive price growth for the year

The prime regional residential market has acted in similar fashion to the mainstream residential markets over the past year. Values were boosted by strong growth at the beginning of the year, followed by a marginal softening in prices throughout the second half, with values falling by -0.4% in the final quarter. Despite a weakening of the market since September 2010 prime regional property recorded price growth of 1.0% during the course of 2010, which was only 0.5% lower than the growth seen during 2009, leaving residential values 14.6% below their 2007 peak.

The past 18 months have seen two reversals of fortune in the housing market following the crash of 2007/08. In the 12 months to the second quarter of 2010, the UK mainstream markets saw growth of 9.5% while values in the prime regional markets increased by 6.9%. During this period, both markets saw increased demand and transactional activity, as improved confidence among cash and equity rich buyers translated into price growth.

During the second half of 2010, the situation reversed. Both UK mainstream and prime regional residential market values stalled and then dipped into negative territory, although transactional levels in the prime markets have remained more robust. A combination of factors slowed the market including: tighter lending criteria, further economic and political uncertainty, announcement of public spending cuts (and the ensuing fear of redundancy), rising stock levels and reduced enthusiasm for residential property through the second half of the year.

Commuter markets outperform north

Within the prime UK markets, regional differences have intensified during 2010. Those regions with closer ties to London, and within commutable distance, have outperformed the prime northern regions of the UK.

Regionally the South East and East of England remain closest to their peak, with values averaging 11.0% and 11.9% from their 2007 peak respectively. An improving London economic outlook during the first half of 2010 created a ripple effect to the surrounding markets. As a result prices increased by 3.4% in the East of England and by 1.8% in the South East over the past 12 months. Across the South West values in Q410 recorded negative ▶

growth for the second consecutive quarter. Although the South West recorded growth of 0.1% over the year, values remain some 22.7% below peak. As with the first half of the year activity within the second homes market remains volatile and vulnerable to economic movements.

As the stock market rallied towards the back end of 2010 the top end of the second homes market strengthened, with greater demand compared to the previous 10 months. As values fell dramatically across the region during the downturn prospective buyers are now seeing properties attractively priced.

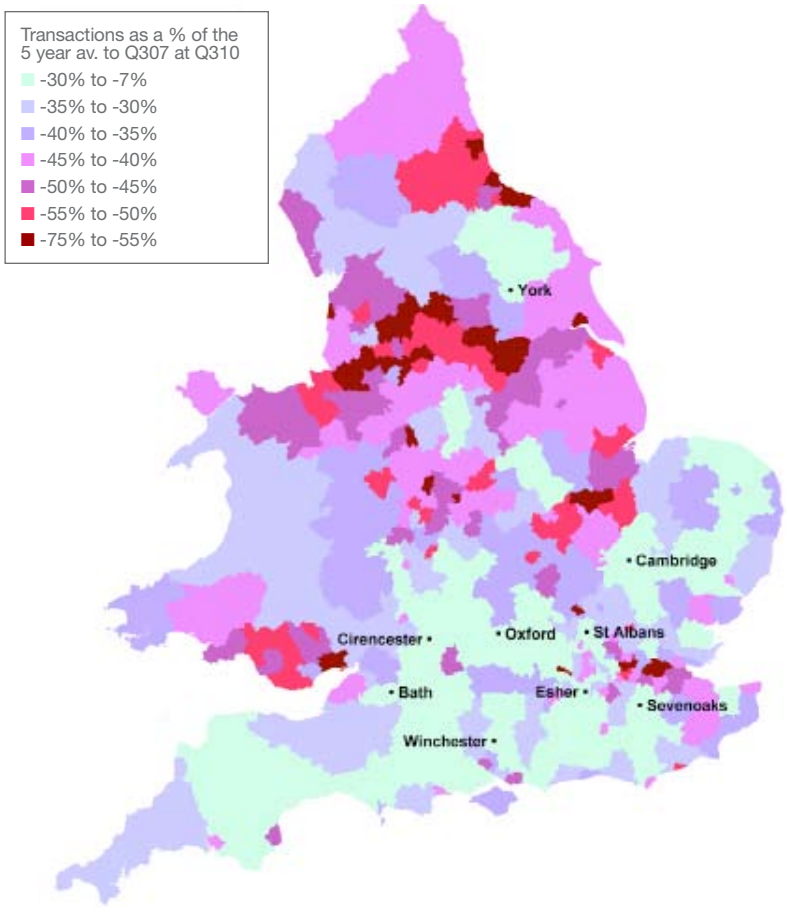
The slight ripple effect out of London, which has been seen in the South and East of England during 2010, has not yet reached the prime markets in the Midlands and North of England. The regional economy remains weak here and the imminent threat of public sector employment cuts affects these regions more than others. This has left values 1.2% lower than 12 months prior. The four consecutive months of negative house price growth has left values 20.4% below peak values.

Stock levels within the prime regional markets are in line with the long term average, so conditions are not like those preceding substantial price falls as seen in 2008 and early 2009.

In Scotland, prime values had been rising gently since Summer 2009 but, prices softened throughout 2010, due to rising and high levels of stock on the market, leaving prices just 0.1% greater than at the end of December 2009. Prime values in Scotland are currently 15.5% below the peak reached at the beginning of 2008.

While high value homes in Scotland are proving to be difficult to sell, there was a rise in residential property sales valued at £1 million and above during the first 11 months of 2010. A total of 136 homes in this price range were sold between January and November 2010, compared to 97 during the previous period. Properties priced appropriately for the market and in key locations, close to amenities and with good communication links, are moving quickly.

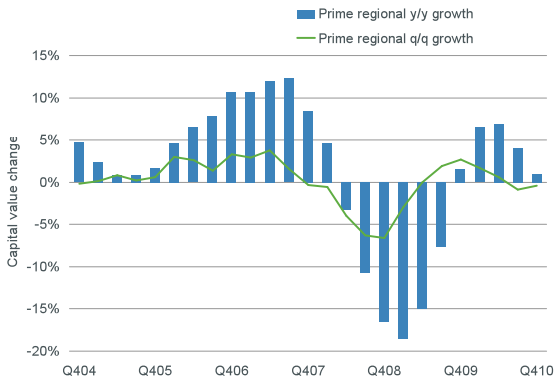
Map 1.
Recovery of transactions levels



Source: Savills Research, Land Registry

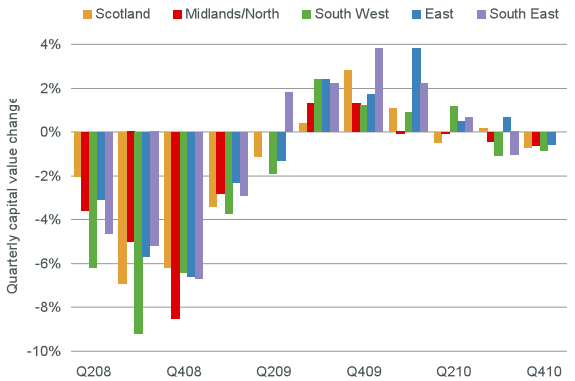
A major factor behind subdued price growth over the past six months within the prime regional markets has been an increase in stock on agents' books. Savills market strength indicator showed there was 6.5 months of available stock on the market at the end of December 2009 but over the course of 2010 this built up to 10 months of available stock. Although higher, this stock level is in line with the longer term average and still well below the February 2009 high of 20 months of available stock, so conditions are not like those preceding substantial price falls as seen throughout 2008 and early 2009.

Graph 1.
Price growth slows within the Prime Regional market



Source: Savills Research

Graph 2.
Regional differences across prime markets remain



Source: Savills Research

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- The North is the only region where excess stock, now recording 19 months of available supply on the market, is in danger of placing further downward pressure on values.

Prime markets appear stronger

Although not showing significant price out-performance, the higher-value, equity-rich markets, particularly across London and the South, have seen most of the trading activity since the credit crunch. This is in contrast to the more mortgage-reliant mainstream markets.

Across London, transaction levels generally have recovered to within 35% of their peak, with prime boroughs such as Islington, Camden, Richmond upon Thames, Hammersmith and Fulham, and Wandsworth even closer to their pre credit crunch levels.

Outside London, the prime regional markets, such as the 'uber towns' of St Albans, Sevenoaks and Bath, affluent rural areas such as the Chilterns and the Cotswolds have seen transaction volumes within 25% of their pre credit crunch levels. The prime markets of the North have not yet recovered to the levels seen across London and the South, although there are prime northern market towns and cities, such as York, which are within 30% of pre credit crunch levels.

Prime regional markets are appearing to be more resilient than mainstream markets across the UK. A lack of supply of suitable properties for sale, and stronger demand throughout 2010 from buyers who do not need a high loan to value mortgage, has been the foundation for the recent recovery. ■

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Savills Prime Regional Residential Index

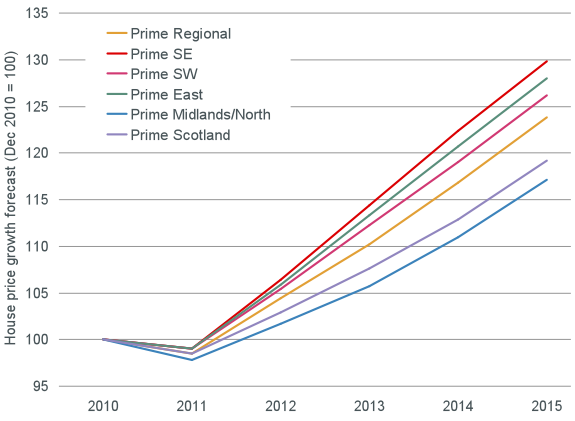
This Market in Minutes is derived from Savills Prime Regional Index. Published quarterly, the Index tracks price movements at a regional level. The index is long running, with historic data back to 1979. For further information on the Index, and the opportunity to subscribe to the detailed statistics,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

Outlook

Current market indications are that prices in the prime regions, like the mainstream markets, will soften over the course of 2011 (but not to quite the same extent) due to weakened buyer sentiment, increasing stock levels, the rising cost of living and accessibility to mortgage finance remaining tight. Prime regional markets are forecast to fall by 1.5%, whereas mainstream UK markets are likely to see price falls of 3%.

Unlike the mainstream markets though, our expectation is that the more equity rich prime markets will eventually lead the recovery in house prices. The earliest growth will be fuelled both by the continued introduction of overseas equity into prime markets and also the wealth generated from an improving financial and business services sector. Prime market growth over the next five years is expected to be much higher than that in the mainstream repeating the pattern witnessed in the mid to late 1990's.

Graph 3.
5-year house price forecasts indexed at end of 2010



Source: Savills Research

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