savills

Market in Minutes
Prime Country Residential Markets

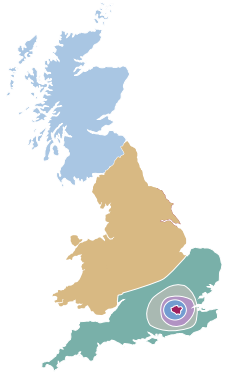
Q1 2016

SUMMARY

Across all regions the strongest markets continue to be in affluent urban locations

FIGURE 1

Price movements in the prime markets to Q1 2016



	Q on Q	Y on Y	Past 5 Years	Since 2007 Peak	5 year forecast to end 2020
All prime London	-0.3%	1.1%	28.8%	35.2%	20.4%
Suburbs	0.9%	3.1%	15.8%	12.1%	24.5%
Inner Commute	1.4%	3.3%	11.4%	8.4%	24.0%
Outer Commute	1.6%	3.3%	11.4%	5.3%	23.4%
Rest of South	1.4%	2.8%	4.5%	-6.6%	19.9%
Midlands and North	1.4%	1.5%	-0.9%	-12.5%	18.2%
Scotland	0.3%	0.4%	-10.7%	-21.9%	18.8%

Source: Savills prime London and regional indices (to end Q1 2016)

The prime regional housing markets continued to see modest price growth in the first quarter of 2016, despite a more uncertain economic and political backdrop.

Prices rose by an average of 1.2% in the first quarter, leaving annual price growth at 2.6% and ahead of prime London annual house price growth of 1.1%.

There has been remarkably little variation in market performance regionally over the past year. The only exception is the prime housing markets of Scotland where less traction in the prime markets reflects the ongoing impact of the introduction of the Land and Building Transaction Tax north of the border.

Across all regions the strongest markets continue to be in affluent urban locations, which have outperformed their rural and village counterparts.

As a result, the gap between prices in London and the likes of Beaconsfield, Guildford, Winchester, Bath, Cheltenham, York and Edinburgh has started to narrow, albeit the gap still remains wide in historic terms.

This has not gone unnoticed by buyers from London who accounted for 30% of all buyers in the prime suburban and commuter markets in the first three months of this year, compared to just 23% in the first quarter of 2015.

Such buyers had previously been reluctant to trade out of the London market given the extent of house price growth post down turn. This is much less of a concern now.

The stamp duty costs associated with upsizing in the capital and limits on what can be borrowed are acting as a brake on London house price growth and a catalyst for a greater flow of wealth into the prime regional housing markets.

Accordingly, we have seen regional town houses rise in value by more than other property types over the past five years with prices increasing by 20.6%.

By contrast, large country properties have remained much more price sensitive, in part because of successive increases in stamp duty at the very top end of the market, but also reflecting a wider change in the nature of demand for prime property. Over the past year prices of manor houses have remained flat on average, having fallen by 5.1% over the past five years.

30%

Buyers of prime property in suburban and commuter markets from London

OUTLOOK

While there are signs that historic stamp duty increases have now been priced into the market, taxation is likely to continue to shape it in future. The 3% surcharge for additional homes is likely to mean that second homes and coastal markets remain price sensitive.

We would also expect London buyers to be less inclined to keep a foothold in the London market when moving out of the capital. This may focus buyer activity in key commuter towns and, if buyers reinvest all their London equity, mean more demand for higher value property in these locations. However, bridging is likely to become both more difficult and more expensive.

More generally, the relative value offered by prime housing in the commuter zone compared to London, and between homes beyond the commuter zone compared to those within it, is likely to underpin a more sustained ripple effect as sentiment improves.

A weaker economic outlook and uncertainty around our relationship with the EU indicates that it will take time for that sentiment to build. Consequently, we are forecasting that prices in the prime regional markets will only increase by an average of 2.5% across 2016. On the flipside, it appears that this will be against the context of interest rates staying lower for longer. This will allow the ripple effect to spread more widely as confidence picks up, meaning that over five years we are forecasting average price growth of 22%.

This overview of the market is taken from our publication Spotlight: Prime Country Residential Markets *which contains more details on the performance of different submarkets and a comparison of established and emerging prime housing locations.*

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