REPORT

Savills Research

UK Residential – Spring 2019

Prime UK Residential

savills

Premium principles

During uncertain times, the fundamentals of prime are its strength

Adjusting to disruption

The prime UK housing market has faced its fair share of disruption over the past five years. Most of it has been politically induced: a combination of some things taxation and all things Brexit.

Throughout that period, the bulk of the market has been price sensitive. It has been dominated, but not confined to, needs-based movers, who can only put off life decisions for so long. They have been joined by those who have sensed an opportunity to adopt a long-term view of the situation and take advantage of a less competitive buying environment.

The latest figures from HMRC suggest that there were 3,600 sales of £1 million-plus property in the first three months of 2019. This is 14% down on the same period the previous year, but the same level as the first quarter of 2014. From this, we can infer that while some discretionary buyers and sellers are sitting on the sidelines, those who are in the market remain serious about it.

Understanding where this disruption has left pricing is crucial to trading sensibly in this environment. It is not a one-size-fits-all answer. A property's location, size, condition and likely exposure to tax all matter. Our Q&A on page 6 should help both buyers and sellers get a handle on the state of play across the country. Later in the report, we provide a salutary reminder of the fundamentals that underpin value in London and the country.

This reveals that a £5 million prime property in the central London market is 38% less expensive for those buying in US dollars than it was back in 2014. For those with an international horizon, prime property in New York is currently 41% more expensive than it is in London.

For others with a distinctly UK focus, average house prices in areas served by a rail commute of between 30 and 60 minutes to the capital are £350,000 less than in inner London (p8).

These are numbers that will not be lost on buyers with a keen eye on what constitutes good value.

Elsewhere, we take a look at what is going on in the most resilient markets, Scotland, prime lettings, and what broadband may, or may not, mean for house prices.

Had we confined our report to these topics, we would have left one significant issue unanswered. We are acutely aware that many will be looking for a perspective on what the protracted Brexit negotiations might mean for the market going forward. That seems as good a place to start as any.

Lucian Cook
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> **“While some discretionary buyers and sellers are sitting on the sidelines, those who are in the market remain serious about it”**

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Opinion

Where next for prime prices?

Lucian Cook, Head of Residential Research, considers how the Brexit pendulum will swing and takes comfort in the longer-term view

Over seven days in October 1971, the House of Commons debated whether the UK should join the European Community. Despite the polls showing more people were against membership than for, 356 MPs voted in favour of joining, with 244 voting against.

The 112 majority far exceeded most predictions. Although 39 Conservative MPs voted against the Government, 69 Labour MPs voted with it. *The New York Times* described it as a "tremendous victory" for the then prime minister Edward Heath and "the fulfilment of a long-standing vision of Britain in Europe".

Between the parliamentary decision to join the EU and formal accession in January 1973, the average price of the UK house rose by 50% in nominal terms (37% even after accounting for inflation), as 'The Barber Boom' took hold.

Fast forward more than 46 years and, as the UK seeks to disconnect itself from the EU, things could not be more different. The result of the political turmoil has been uncertainty. It's not something the UK housing market – prime or mainstream – much cares for.

Despite high employment and robust wage growth, UK house price indices are flat, with prices falling slightly in real terms.

Across the capital and its commuter zone, values in the prime housing markets are, to a greater or lesser degree, lower than at the time of the referendum. Even in the strongest part of the prime housing market, annual price growth is in low single digits.

High quality, appropriately priced properties continue to trade. But that has required buyers and sellers to be on the same page. It has called for a realignment of expectations and a level of pragmatism that is both unique to trading in a slow housing market and seemingly beyond the grasp of our politicians.

In the early to mid-1970s things changed quickly. The oil crisis of 1973 sparked uncertainty and, by June 1975, high inflation meant that house prices were falling at 14% per year in real terms. The Government had changed and membership of the European Community was being put to the public vote.

If we are now in a polar opposite situation, what are the chances of the reverse occurring? Whichever way the Brexit pendulum swings, and whatever the fundamentals of demand that underpin the prime housing markets, it will be some time before we have a clear understanding of what lies ahead.

On the plus side, few on either side of the negotiating table relish the prospect of a no-deal Brexit. The combination of an extension to Article 50 to 31 October, the stated desire of a majority in parliament to avoid a no-deal Brexit, and cross-party negotiations suggest that prospect has receded. But it does not necessarily mean we should expect a sustained bounce just yet.

Immediately after the EU voted to extend Article 50, Morgan Stanley put the risk of a no-deal Brexit at just 5%. That should encourage some of those who put decisions on hold. But we expect others to continue to adopt a wait-and-see approach. Morgan Stanley also equally weighted the prospects of a cross-party deal, second referendum and early election suggesting elements of political and economic uncertainty will remain.

Even if a deal is agreed to facilitate such an orderly Brexit, any new leader of the minority government who has to work through the two-year transition period will inherit a half-finished jigsaw. That suggests the expected improvement in buyer sentiment will be limited, that the housing market will remain price sensitive, and that those in the market will need to maintain that sense of pragmatism.

At some point, that uncertainty will pass, heralding a return to more normal market conditions when the fundamentals that underpin the prime property markets will come back into play. That should give comfort to those who are prepared to take a longer-term view, who we believe are likely to remain the backbone of the market until that point.

> **"After the EU voted to extend Article 50, Morgan Stanley put the risk of a no-deal Brexit at 5%"**

Market appraisal

Brexit, stamp duty, mortgage regulation. Our research team brings much-needed clarity to the key issues

Where are values now?

Frances Clacy Across London, prime property prices at the end of March were, on average, 2.5% below where they were a year ago. For a long time, we talked about the peak of the market being 2007. In the capital, we now refer to the peak as 2014. Since then, a combination of tax changes and political uncertainty have caused prime prices to fall by an average of 12%.

Outside of London, the picture varies by region and by type of property. Year-on-year, prices have fallen across the Wider South by an average of 1.4%, while across Scotland and the Midlands and North, they continued to rise slightly. Where they sit relative to 2014 or 2016 tends to reflect the extent to which they have been exposed to the weakness of the London market.

More expensive properties have tended to be the most price sensitive across the board, whether that is in central London, the £2 million-plus market elsewhere in the capital, the private estates of the Home Counties or the country house markets of rural England and Scotland.

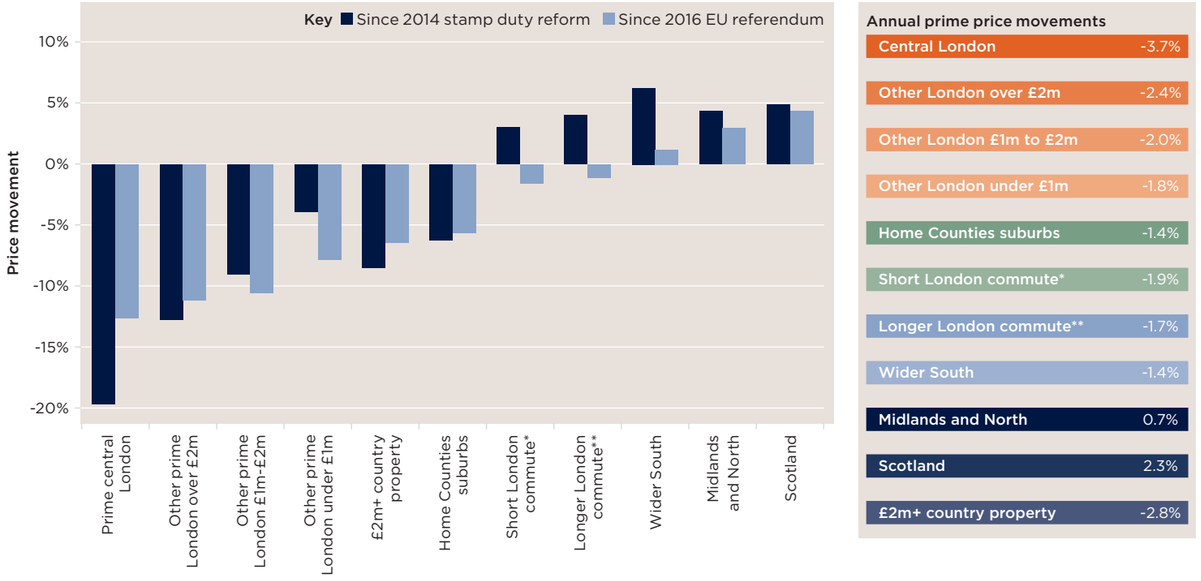
Brexit or stamp duty – what's having the biggest impact?

Lucian Cook In the first three months of 2019, we hit new heights of political uncertainty. Not surprisingly, concerns over Brexit were overwhelmingly regarded as the biggest constraint on the prime housing market.

While stamp duty continues to be an emotive issue among buyers, it was largely factored into prices before the EU referendum in mid-2016. And while stamp duty has made the market more sensitive to bouts of weak buyer sentiment, the bulk of the price adjustments in London and its surrounds have occurred since the electorate voted to leave the EU.

By contrast, the cost and availability of mortgage finance is much less of a constraint (below right).

Price movements in the prime market Where prices sit relative to 2014 or 2016 tends to reflect the extent to which they have been exposed to the weakness of the London market



Source Savills Research **Note** *Within a 30-minute commute **Within a one-hour commute

With lenders limited in their ability to compete on loan-to-incomes and loan-to-values, it has meant interest rates remain highly competitive, with the average five-year fixed rate standing at just 2.04% at the end of April.

How has that impacted on buyer and seller behaviour?

Kirsty Bennison The uncertainty about what life outside of the EU will mean for the wealth-generating parts of the economy has made discretionary movers cautious about doing so. In turn, that has fed into a relative lack of stock being brought to the market.

> "In London, we have seen price expectations of committed buyers and sellers come closer together"

In the country, agents report that price expectations between buyers and sellers have widened (below). The result is that chains are now more difficult to put together.

However, in London, we have seen price expectations of committed buyers and sellers brought closer together. In particular, there has been much more realism among sellers who have witnessed values adjust gradually over a period of almost five years.

Because of the price falls in central London, do buyers think the market is now good value?

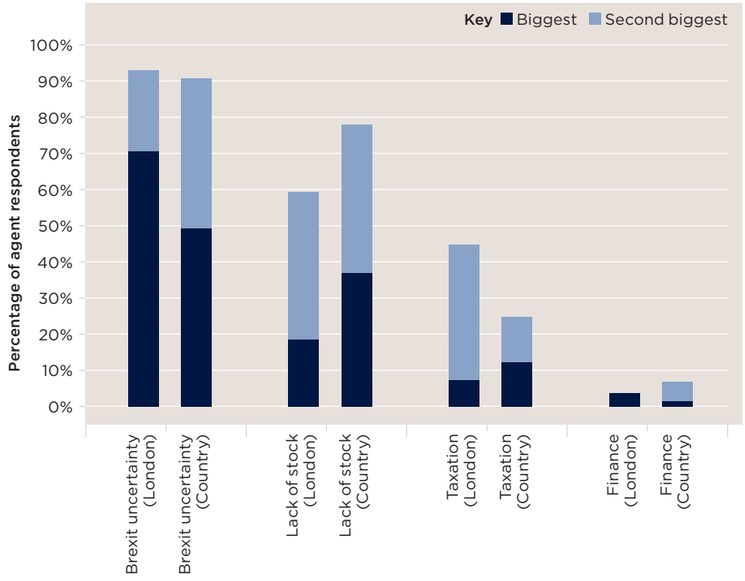
LC Prices in the prime central London market are almost 20% below their 2014 peak, with an even greater discount for those buying in other currencies. This has prompted a significant increase in new buyer registrations in all price brackets across prime central London. For properties worth more than £1 million, registrations were 36% higher in the first quarter of 2019 compared with a year earlier. That reflects a healthy latent pool of demand among those who are adopting a wait-and-see approach until the outcome of Brexit is clearer.

What about elsewhere in the UK?

KB The other prime markets have not seen the same level of price adjustment, so it isn't surprising that they haven't seen the same increase in buyer enquiries. In the market between £1 million and £2 million outside central London they have increased by 26%, while beyond the capital the increase in enquiries below £1 million has been 20%.

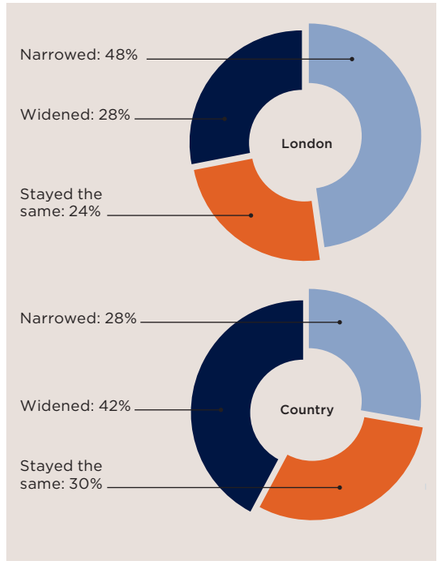
Whether those indicators of demand fuel more activity largely depends on whether the political and economic outlook becomes more certain over the coming months.

Constraints on the market Concerns over Brexit are regarded as the biggest constraint on the prime housing market



Source Savills Research

Buyer and seller expectations In the country, price expectations have widened



Source Savills Research

Too much to ask?

Good schools, a convenient commute and a quality environment are prime's fundamental pull factors. However, they come at a premium

Words Frances Clacy

While housing has been dominated by Brexit, it's easy to forget the fundamental reasons why buyers are drawn to the prime markets. Here are three...

1. Highly rated schools

For families, or those planning to start a family, the quality of local schools is often the most important factor when deciding where next to move. In the prime country markets, three-quarters of all buyers have children and half of them are upsizing. Indeed, many will pay over the odds to be within walking distance or the catchment area of the country's highest-regarded schools.

Across England, the average price of a home near a primary school rated 'outstanding' by Ofsted is 16%, or £37,000, higher than for one rated 'good'. That premium rises to 29%, or £61,000, when compared with a home near a school rated as 'inadequate' or one that 'requires improvement'. This price gap is most substantial in London and is at its smallest in the North East.

However, competition for school places is getting fiercer. This means parents need to be more savvy and look to areas with a high concentration of excellent schools, instead of pinning their hopes on just one.

Ofsted rates 19% of primary schools in England as outstanding, but this varies from 28% in London to only 15% in the East Midlands. Hotspots include East Dorset, which not only has the highest proportion of outstanding primary schools (60%), but also the advantage of containing no schools that are considered inadequate or require improvement. Kensington and Chelsea (54%), Epsom and Ewell (53%), and Trafford (46%) also rank highly.

2. Commuting convenience

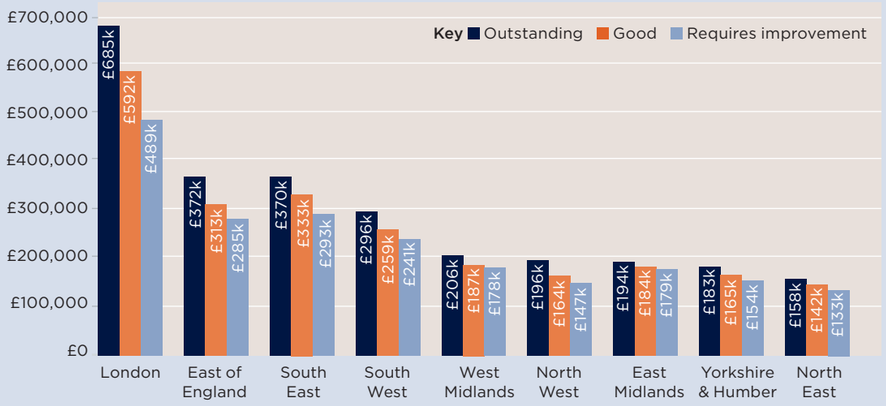
More than three-quarters of buyers who are relocating from London into the prime suburbs and commuter belt are still working in the capital.

Before making the move, these buyers will generally have a clear idea of several things: how long they're willing to travel for; the direction out of London they're happy to move in; and how much they're prepared to spend – on both housing and travel costs.

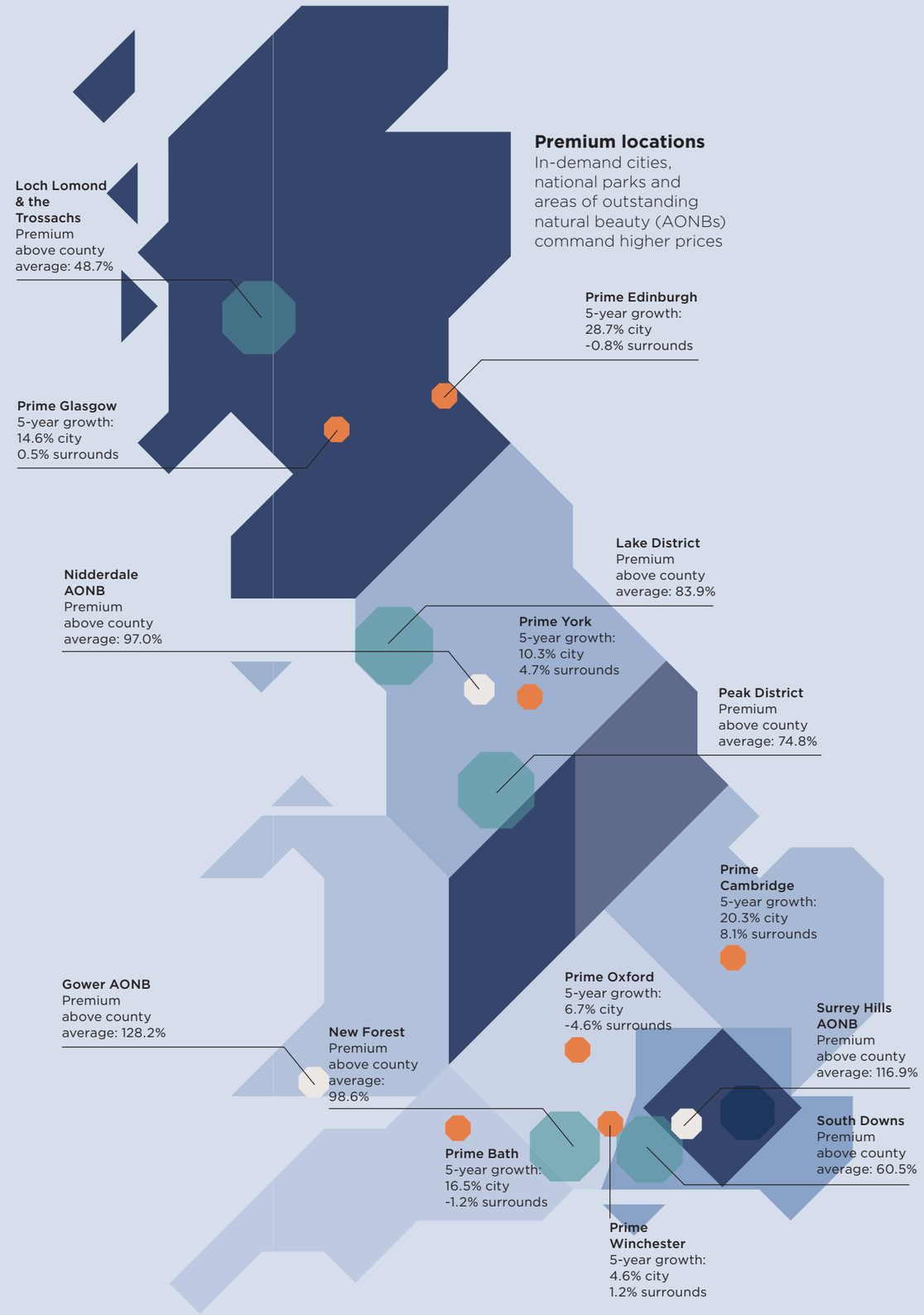
Unsurprisingly, the further from London and, therefore, the longer the journey time into the capital, the more affordable house prices are. However, this gap is closing. For commutes of up to 30 minutes, the average house price is £528,000. This represents a saving of £268,000 compared with inner London, down from £287,000 a year earlier. For a journey time of between 30 minutes and one hour, that saving is £351,000, compared with £377,000 previously.

Thanks to a weaker prime London market, the amount of equity generated in the capital has been constrained, so those relocating to the commuter zone may have less spending power. However, the relative value and lifestyle on offer will still drive buyers to make the move.

Property prices near primary schools Average second-hand sale prices for homes near Ofsted-rated primary schools in England



Source Savills Research, Land Registry



Regional variation Travel costs versus house price savings in the commuter belt

Commute time (min)	Average secondhand sale price*	Difference vs inner London	Price of a season ticket**
19-29	£528k	-£268k	£4,177
30-59	£445k	-£351k	£4,941
60-89	£353k	-£443k	£6,705
90-119	£251k	-£545k	£8,994

Source Savills Research using Land Registry and National Rail
Notes *12 months to October 2018 **Average annual price for 2019

Of course, it's also important to factor in the ever-rising costs of season tickets, which can be as high as £9,000 per year for commutes of more than one and a half hours. In most cases, the house price savings will offset these expenses.

3. Quality environment

For many, an important factor when buying their first or next home is the surrounding environment and the lifestyle it offers.

In larger towns and cities, that may be the availability of both quality housing and retail, alongside architecture and heritage. Prices in the prime markets of historic cities such as Cambridge, Edinburgh, Oxford, Bath and York, for example, have all increased by more than their rural counterparts over the past five years.

Similarly, prices in market towns such as Sevenoaks, Beaconsfield and Wetherby are up to 2.5 times higher than the counties in which they sit.

For more rural areas, an idyllic green setting remains in high demand. The UK's 15 national parks and 46 areas of outstanding natural beauty (AONBs) are a huge draw. Indeed, homes within these spaces can command prices that are 1.5 times higher than areas close by.

Hitting the sweet spot

Where a location combines all three factors, the effect is multiplied. So, locations such as St Albans in Hertfordshire, Winchester in Hampshire and Epsom in Surrey become, and continue to be, magnets for wealthy buyers despite the prevailing political uncertainty.

Seer Green, Chiltern Hills, Buckinghamshire

Well off and well connected

Do areas with superfast broadband connectivity and high adoption command a premium when it comes to property values?

Words Lucian Cook

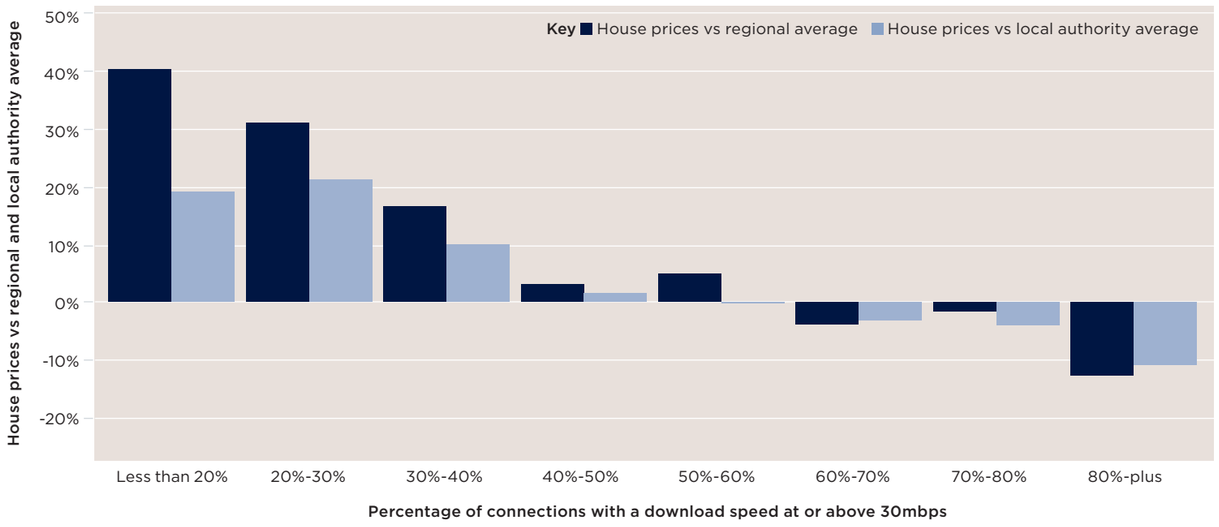
Whether logging on remotely for work or developing a deep and meaningful relationship with Alexa, the speed and availability of broadband is an increasing concern for most households. But how does it compare with the effect of good schools and a convenient commute in terms of influencing where we live and, in turn, the price of prime property?

Given the internet's pivotal role in our day-to-day activities, the results of our latest research are somewhat counter-intuitive. Our analysis of connectivity speeds and house prices across the 8,651 electoral wards in Britain suggests that house prices are highest in areas where the proportion of superfast-broadband subscribers is lower. In electoral wards where fewer than 20% of homes have download speeds of 30mbps or more, the average house price is 41% more than the regional average (see chart below).

So, although households may be increasingly aware of their digital needs, it doesn't necessarily follow that there will be high levels of broadband availability or adoption in the most valuable areas.

> **Counter-intuitively, house prices are highest in areas where the proportion of superfast-broadband subscribers is lower**

Property price and connectivity In general, house prices are higher in areas where the proportion of superfast-broadband connections is lower



Source Savills Research, Ofcom, Land Registry, Registers of Scotland

45%
Proportion of homes subscribing to superfast broadband, even though 94% of UK homes and businesses are in areas where it is available

Some of this will be down to the demographic profile of households in the most expensive parts of the country. Wealthy, older households may be increasingly tech savvy, but they are typically less demanding of broadband than younger households on the lower rungs of the housing ladder. Equally, they will be more willing (or, in some cases, more keen) to spend their time off-grid in locations such as the South Downs and the Lake District. A case in point is the Brendon Hills in Somerset. It's one of just seven wards in the country that has no superfast connectivity, yet the average property value is £661,000.

That said, there are a number of areas, such as Cambridge, Guildford and Brighton, that buck this trend. In each, the tech sector has played an important role in the local economy and has been a driver of wealth generation. This has resulted in affluent hotspots of digital connectivity.

In Cambridge, 72% of residents have superfast broadband and the average house price is £530,815. This is 60% above the regional average. For Guildford, with 69% adoption of superfast connectivity, average prices are £556,198 – 46% above regional average.

So, what of the future? As more wealth is generated from the tech sector, so demand for prime property will rise among buyers who are both acutely aware of download speeds available and more demanding of what is on offer. For the moment, such buyers are fairly tightly clustered around certain locations, most notably around the superfast performers in the table below. But we would expect digital connectivity to become an increasingly important factor for home buyers.

Superfast superstars Wards with the highest value relative to its region and at least 75% superfast connections

Ward name	Local authority	Region	% adoption of superfast broadband	Average house price in ward	Premium over regional average
Chelsea Riverside	Kensington and Chelsea	London	77%	£1,683,582	169%
Harpenden North	St Albans	East of England	75%	£813,691	145%
Seer Green	Chiltern	South East	76%	£877,669	130%
North Jesmond	Newcastle upon Tyne	North East	79%	£333,321	104%
St Mary's	Trafford	North West	75%	£352,417	82%
Redland	Bristol, City of	South West	78%	£526,181	82%
Penylan	Cardiff	Wales	76%	£309,099	70%
Lady Bay	Rushcliffe	East Midlands	80%	£332,544	54%
South Hunsley	East Riding of Yorkshire	Yorkshire and The Humber	78%	£277,072	45%
Whitnash	Warwick	West Midlands	79%	£288,937	28%
Cumbernauld North	North Lanarkshire	Scotland	79%	£207,962	16%

Source Savills Research, Ofcom, Land Registry, Registers of Scotland

Uncertainty. What uncertainty?

While prime residential property markets slow in other regions of the UK, Scotland is bucking the trend with positive price growth

Words Faisal Choudhry

Having experienced its own referendum and taxation challenges, Scotland's residential property market appears unaffected by the political uncertainty impacting London and the South East.

The official UK House Price Index for Scotland has shown positive annual growth for 34 consecutive months, while annual price growth of 2.3% in the prime market was the highest of any UK region. Last year, the prime market above £400,000 recorded its highest-ever number of transactions, and the £1 million-plus market its highest since 2008.

Urban attraction

The Scottish market is structured across three main city hubs – Edinburgh, Glasgow and Aberdeen – with the remainder comprising commuter and country locations. Edinburgh remains the jewel in Scotland's crown, making up 34% of prime and 61% of £1 million-plus activity. At 7.4%, annual price growth in the capital's prime market at the beginning of this year was the highest of anywhere in the country. A recovery in prime supply has enabled growth in transactions. Despite an increase in the number of sellers, there remains a surplus of motivated buyers.

In the west, housing supply remains intermittent across Glasgow, despite growing demand. Current availability is 8% lower than last year, which explains the lack of movement in transaction numbers between 2017 and 2018. Meanwhile, the Savills Prime Regional Index for the city area of Glasgow showed an annual increase in values of 3.5% at the beginning of this year. As we enter summer, we anticipate more stock coming on to the market, but a significant spike in registered buyers and viewing activity will continue to put upward pressure on values.

In the north east, Aberdeen's oil- and gas-dependent economy is beginning to stabilise, which is being reflected in the local residential property market. Residential activity recovered during the second half of 2018, led by the prime market. Average prices have continued to remain steady in recent months.

Despite stock levels reducing recently, the number of homes for sale in Aberdeen remains high, which is a key barrier to the city's long-term market recovery. House prices in the area ended 2018 approximately 4% lower than 2017. We expect price drops to ease in 2019, subject to a further reduction in stock, which will enable a recovery from 2020.

Country life

Outside the three city hubs, Scotland's prime country market continues to grow, thanks to realistic pricing and good value compared with urban properties. Scotland's heartland of Fife, Perthshire and Stirlingshire is now the third-largest prime market outside Edinburgh and Glasgow. Argyll and Bute was the top-performing country location in 2018 in terms of prime transactional growth, attracting lifestyle buyers, many of whom came from outside Scotland.

In the south of the country, improved activity in Peebles and Melrose boosted the prime market in the Scottish Borders.

Increased prosperity in Dundee has led to prime growth in Angus. Meanwhile, Dumfries and Galloway was one of a few parts of Scotland that witnessed a rise in transactions during 2018 as a whole.

Looking ahead, we expect a more considered prime market in 2019, driven by realistic pricing. Despite the wider uncertainty, Scotland still has room for growth, particularly in popular, well-connected neighbourhoods. In many of these markets, supply falls well short of demand, so competition will drive up values.

Edinburgh accounts for a third of Scotland's prime market activity

Five stars of the Scottish property market

Standout performers and ones to watch

1. Strong foundations

The housing markets in Edinburgh and Glasgow are underpinned by strong economies. Edinburgh's economy has grown more over the past five years than most UK cities, with a large proportion of workers in highly-skilled occupations. Glasgow's economy is being bolstered by a young and growing population, and business growth in high-tech and service sectors.

2. Edinburgh's inner suburbs

Ravelston was Edinburgh's standout inner suburb in 2018, with an annual increase in prime transactions of 44%. Other star performers in the Scottish capital are The Grange, Morningside and Merchiston areas, south of the city centre, where a record level of prime activity took place in 2018.

3. University challenge

Despite recent growth, prime values in Edinburgh are only 4% above the 2008 peak. In Glasgow, values are 6% below the peak. In comparison, values in Cambridge are currently 43% higher than the peak of the market. This suggests there is room for further growth in Edinburgh and Glasgow's markets, given the value gap compared with other university cities.

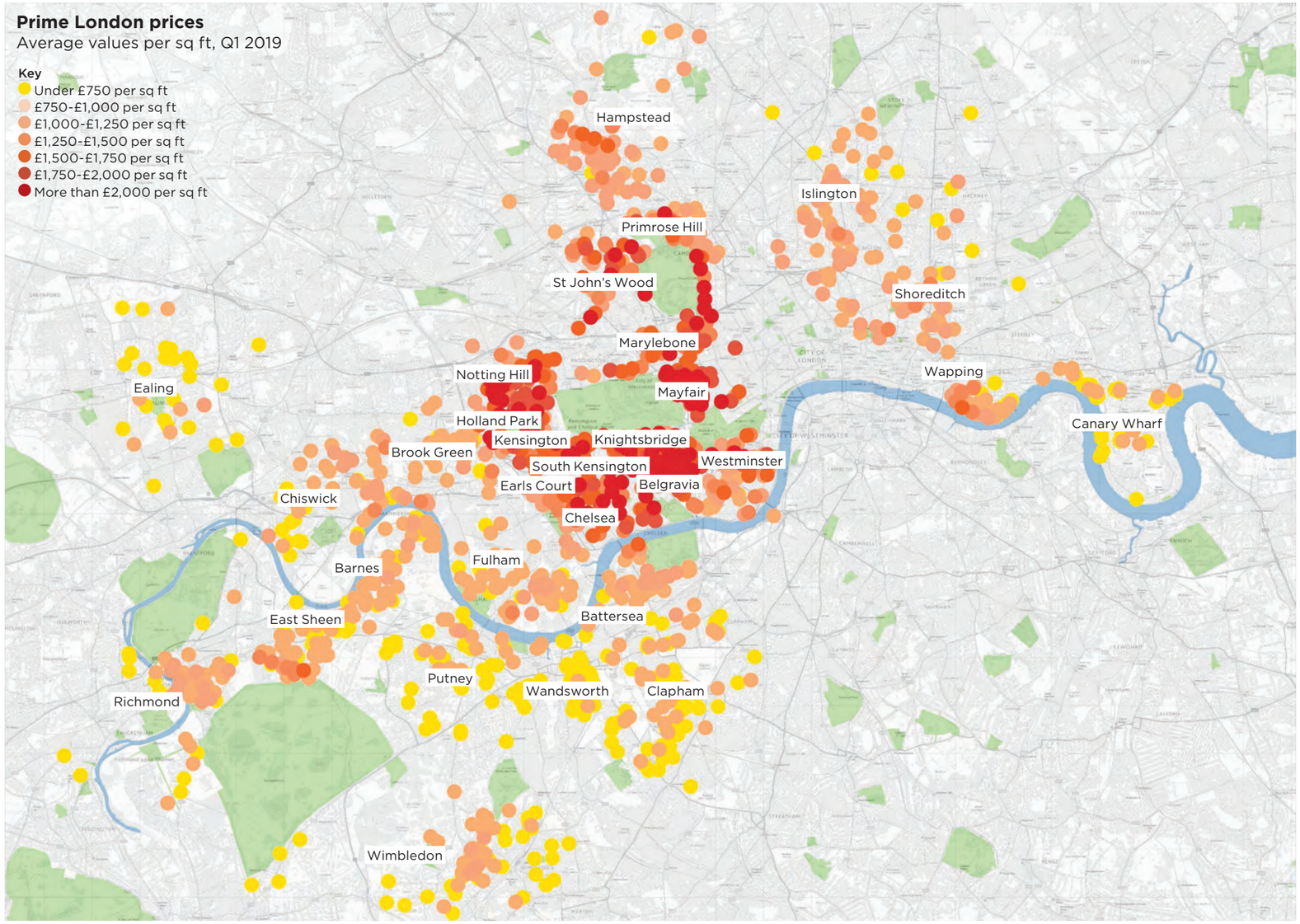
4. The £1 million market

With 128 of a total 211 transactions in 2018, Edinburgh dominates Scotland's £1 million market. Interestingly, only 26 of the 211 transactions can be classified as country houses. With an average of 64 acres per country house, privacy is one of the main drivers of demand, especially for buyers from outside Scotland.

5. Small town, big name

Over the past 10 years, the small seaside town of St Andrews has established itself as the most expensive location for homes in Scotland. While prices per square foot in Edinburgh are close to £800, 18 transactions in St Andrews exceeded this level in recent years, including 12 at £1,000 per sq ft and above.

London



Source Savills Research

Capital values

As the prime London market shows signs of stabilising, new areas of value are emerging while traditional enclaves retain their premiums

Words Gaby Foord

During the first quarter of 2019, the prime London market recorded its 14th consecutive quarter of price falls, albeit with a marginal drop of 0.3%. Over the past year, prices have fallen by 2.5%, the smallest annual fall since the EU referendum. This suggests the market is beginning to find its level, despite the ongoing uncertainty.

In prime central London, the 19th consecutive quarter of price falls signals the market's longest-running downturn. Since the June 2014 peak, prices in the capital's most expensive markets have fallen by 19.4%. For the £10 million-plus market, prices are down by 21.3%. This points to a different environment than that experienced in the early 1990s recession and the global financial crisis. Both saw greater price falls, but over a shorter period of time.

While previous downturns have predominantly had a single trigger, the combination of tax changes and Brexit has provided a significant opportunity for buyers. A US dollar buyer purchasing a £5 million property in central London in June 2014 would pay 38% less today.

We've highlighted where, on a £ per sq ft basis, areas of value in prime London are becoming apparent.

Areas of value

Across prime central London, the stalwarts of Mayfair and Knightsbridge still command the highest premiums. Here, the best properties average more than £2,000 per sq ft, with super prime new build schemes well in excess of this given their high quality and associated amenities. Make the short journey across Oxford Street into Marylebone, however, and the average value drops to £1,600 per sq ft. Although Marylebone has benefited from significant investment in placemaking over the past few years, this has yet to be reflected in the value of second-hand residential property.

The same goes for Westminster. Here, the average property is £1,400 per sq ft, compared with £2,100 per sq ft in Belgravia. Nearby Pimlico is £1,100 per sq ft. The regeneration around Victoria has transformed the area. It is now far more than just a destination for work, but the residential market still provides significant value for its central location.

Transport improvements are also likely to have an impact on values in Ealing with the arrival of the Elizabeth line. The average value of £670 per sq ft is 22% lower than the rest of the prime West London market.

In the prime South West market, Fulham hit its peak much earlier than other areas, influenced by mortgage restrictions in a market that had previously seen exceptionally strong growth. Prices have fallen by 15.4% since its peak in March 2014, leaving the average value at £880 per sq ft. This provides a stark contrast with neighbouring Chelsea, which averages £1,600 per sq ft.

Premium locations

It is apparent that people will still pay a large premium for certain locations. Regent's Park commands a premium that is 24% above the average for prime North West London at £1,600 per sq ft. Yet the market around Primrose Hill offers value at £1,300 per sq ft. Likewise, a property on Hyde Park will cost 28% above the average for prime central London.

This is also reflected throughout the south-west corridor. Properties close to Richmond Park have a premium of 11% above the average £ per sq ft for the region. And a property on the Thames throughout South West London will cost 15% above the average at more than £900 per sq ft.

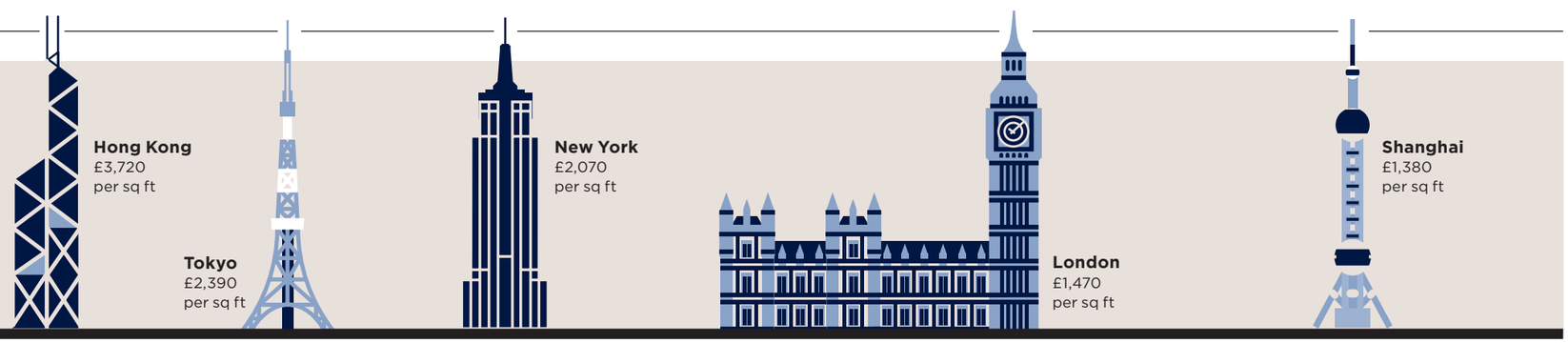
There is also a clear link to town centres and retail, with properties commanding a higher price in hotspots such as Upper Street in Angel and Old Street in Shoreditch.

Global appeal

On a global scale, the difficulties London has faced again provide an opportunity for buyers looking at multiple markets around the world.

New York, London's traditional competitor, has an average prime value 41% above London, at £2,070 per sq ft. And with New York's mansion tax for $2 million-plus properties increasing incrementally from April this year, the relative cost of buying, holding and selling is higher as well.

But global wealth is changing, with new competitors emerging. Hong Kong now has the highest average £ per sq ft value at £3,720 per sq ft, 153% above London, with Tokyo 63% higher at £2,390 per sq ft.



Source Savills Research

Tenants take control

High levels of supply and Brexit's influence on employment will shape rental recovery in London and its commuter belt over the next five years

Words Kirsty Bennison

The prime rental markets remain active, with demand continuing to be most robust for smaller properties. However, against a backdrop of Brexit uncertainty, the ongoing supply imbalance and changes to taxation have translated into lower rents and greater choice for tenants.

Landlords continue to face challenges. The 3% stamp duty surcharge for additional homes and cuts to tax relief for interest payments mean that mortgaged investors are re-evaluating their portfolios, whether de-leveraging or taking advantage of the current competitive lending market to remortgage.

These market drivers have resulted in the rental value of prime London property falling over the past year, although the rate of annual falls continues to slow. Over the past year to March 2019, rents fell by a further 0.9%, leaving values 7.1% lower than they were five years ago. For the commuter markets within an hour's travel time into the capital, values fell by 1.3% during the past year. However, over the past five years, these areas have seen falls of 1.1%, much smaller than in the London market.

This five-year average masks variation by property size, with growth of 8.5% for properties of one or two bedrooms compared with larger family homes, of which stock levels have been higher, seeing falls of 6.3%.

Across both the prime rental markets of London and its commuter belt, there are three key trends.

1. Location

Tenants have become increasingly footloose in their choice of location, prioritising the specification and price of the property over where it is.

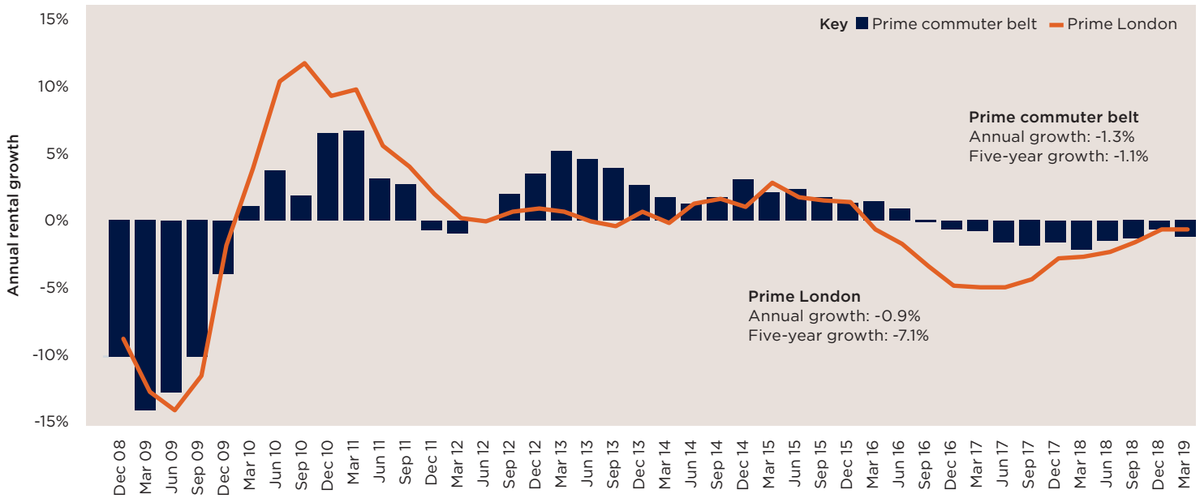
In 2018, the main reason tenants across prime London were renting was due to lifestyle relocation, although this is only marginally above employment relocation at 38%.

However, the picture was very different five years ago. Then, tenants moving for employment relocation dominated the market (at 48%) while lifestyle relocation accounted for just under one-third.

This shift points to the changing profile of corporate tenants as the number of those people working in the finance sector contracts. During 2018/2019, one-third of tenants in London worked in financial and insurance activities, down from 36% in 2014 and 46% in 2008. At the same time, there has been a rise in the number of tenants working in tech industries.

> **"Tenants have become increasingly footloose, prioritising specification and price over location"**

Prime rental growth Over the past five years, commuter belt areas have seen smaller falls than in the London market. However, in London, the rate of annual falls continues to slow



Source Savills Research

In the commuter belt, properties in urban areas have seen stronger rental growth than those in rural locations over the past five years. This has been driven by demand from young professionals or families new to an area looking for easy access to local amenities such as shops, good schools and transport links to the capital.

2. Price

There continues to be high levels of supply across large sections of the market. This sits against rising new build completions in the capital, many of which will be offered on the rental market. As such, existing landlords of prime property will be competing for tenants. Increased choice means tenants are focused on finding value as they continue to be cost-conscious in this economic climate.

As a result, the prime rental market will remain price sensitive with a widening gap between landlord and tenant expectations in a number of locations. Realistic pricing, particularly at renewals or re-lets, is key.

3. Quality

The prime rental markets continue to be driven by quality. Indeed, the standard of property is becoming more important than the location or prestige of a well-known address. Tenants prefer high-specification properties in immaculate condition, with the best new build properties setting the bar in terms of amenities, specification and connectivity.

To remain competitive, landlords are having to invest in the condition of their properties. In central London, the large landowning estates have continued their programme of stock upgrades and public-realm improvements to retain a rental premium and minimise voids.

This has presented further challenges for the private landlord, who often has a shorter-term investment horizon. Faced with potentially significant refurbishment costs and increased regulation, some have chosen to bring their property to the sales market.

The Penthouse, Mayfair, London

Outlook

Supply and Brexit's influence on employment will shape the rate of rental recovery over the next five years. The status of London as a global commercial centre and the resilience of its economy remains fundamental to the strength of rental demand across the market.

Assuming a no-deal Brexit is avoided, we are forecasting a gradual recovery in rental values across the prime London markets, with rents growing by 11.5% over the next five years. The amount of new build stock brought to the rental market is expected to peak over the next two years. This will likely limit rental growth, but provide more choice for tenants.

Across the prime commuter belt markets, we expect rents to rise by 12.6% over the next five years, marginally outperforming the prime London market. In the short term, rental growth will be curtailed by the continuing imbalance between demand and supply.

During a period of ongoing Brexit uncertainty, we expect stock to continue to be driven by accidental landlords who are unable to sell their homes, particularly at the top end of the market.

Across both markets, landlords will not only need to remain competitive on asking rent but also flexible on terms to ensure they attract tenants, minimise voids and benefit from the best returns.

Prime rental forecasts Supply and Brexit's influence on employment will shape the rate of rental recovery

	Past 5 years	2019	2020	2021	2022	2023	5-year growth
London	-6.7%	0.5%	1.0%	3.5%	3.0%	3.0%	**11.5%**
Commuter belt	0.8%	1.0%	2.0%	3.0%	3.0%	3.0%	**12.6%**

Source Savills Research **Note** These forecasts apply to average rents in the second-hand market. New build values may not move at the same rate.

The path to price growth

The regional prime markets will underpin growth in the short term before clarity over the UK's position post Brexit feeds consumer confidence

Even in periods of relative political and economic certainty, forecasting is a difficult exercise. Given the current climate, it is essential to understand the assumptions on which our forecasts have been based.

2019 A deal to leave the EU is struck within the extension period, which brings an improvement in sentiment in the latter part of the year. This partially offsets the muted market conditions through the spring market.

2020 During the transition, uncertainty over the precise impact of an agreed deal continues to hold back activity among discretionary buyers and sellers, as the complexity of the remaining negotiations becomes apparent. The market continues to be price sensitive, although Scotland and the North have the best of the market conditions.

2021 There is a return to more widespread house price growth as greater clarity emerges over the UK's position post Brexit. This feeds into improved consumer confidence. Price growth is strongest in central London, given the value on offer to overseas buyers who are now prepared to exploit a currency advantage.

2022 A general election interrupts the recovery. In the absence of evidence to the contrary, post-election forecasts are based on the assumption that there continues to be a minority Conservative government.

2023 A return to more normal market conditions supported by underlying economic drivers, including wealth creation and costs of borrowing.

Five-year forecast The value offered in regional prime markets will underpin growth

	2019	2020	2021	2022	2023	5-year
Prime central London	-1.0%	0.0%	6.0%	2.0%	5.0%	**12.4%**
Other London	-1.0%	0.0%	3.5%	1.0%	3.5%	**7.1%**
Suburban	-1.0%	0.0%	3.5%	1.5%	4.0%	**8.2%**
Inner commute	0.0%	0.0%	3.0%	2.0%	4.0%	**9.3%**
Outer commute	0.0%	0.0%	3.0%	3.0%	4.5%	**10.9%**
Wider South	1.0%	2.0%	3.0%	3.5%	4.5%	**14.8%**
Midlands/North	2.0%	2.0%	3.0%	3.5%	4.0%	**15.3%**
Scotland	2.0%	2.0%	3.0%	3.0%	3.5%	**14.2%**

Source Savills Research **Note** 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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