Residential Property Focus

Marching on

Who's leading, who's lagging?

Savills Research

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This publication

This document was published in May 2011. It contains a review of all the key housing market indicators and news to the end of April 2011. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Glossary of terms

■ **Mainstream**: mainstream property refers to the bulk of the UK housing market with, for example, price movements monitored by reference to national and regional average values.

■ **Prime:** the prime market consists of the most desirable and aspirational property by reference to location, standards of accommodation, aesthetics and value. Typically it comprises properties in the top five per cent of the market by house price.

The most commonly used abbreviations are:

■ Q111: refers to the first quarter of 2011
■ Peak: refers to the first half of 2007
■ PCL: Prime Central London
■ RICS: Royal Institution of Chartered Surveyors
■ ONS: Office for National Statistics
■ HMRC: HM Revenue & Customs
■ CML: Council for Mortgage Lenders
■ CLG: Department for Communities and Local Government

Foreword

STRETCHING THE MARKET ELASTIC

While the usual cyclical forces of the housing market are still at work post-downturn, not all the old patterns of recovery are set to be repeated

Recent issues of this publication have focused on the changes being seen in the UK housing market. The inexorable shift away from owner occupation and the segmentation of residential property into different grades are good examples of this.

Meanwhile, the usual cyclical forces of the market are still at work. We have long argued that the UK housing market is not a single market but a series of sub-markets, which behave differently over time. Lucian Cook's work on the leaders and laggers among these sub-markets shows that many of the markets that led the recovery in the 1990s are doing so again.

The housing market downturn, caused by the financial crisis of 2007/8 was unusual compared to past downturns in that it struck all sectors and all grades at the same time.

It is in the recovery that we are seeing the biggest variations between regions and types of property.

That the leaders of the 1990s are once again leading in terms of value recovery is no surprise especially as overseas money is flowing into the capital and London real estate is behaving more like a global commodity. That certain properties are recovering against very low trading volumes generally is, however, different to any previous period.

Once again, the equity-rich prime markets, centred on London, are recovering first. The question is how far and how fast can this recovery spread to markets not soaked in equity, where in the face of frail mortgage lending, owners are reliant on income and borrowing rather than cash and a history of previous home ownership?

If our prognosis is correct, the lag this time around for some types of tertiary, grade C property could be a very long one indeed.

Add to the mix new government policies which have the potential to change the geography of renting, the nature of regeneration and the type and location of new supply, and we see that not all old patterns will necessarily be repeated.

History not repeating

One historic pattern which is not currently being repeated is the uplift of prime home counties' properties on the back of London's growth. There are shades of the 1970s here as buyers' fears over the economy and even the cost of fuel, and perhaps changed preferences for rural living, are stopping families making the lifestyle change from town to country.

As a consequence some properties, such as prime grade A in prosperous regions, look good value and poised for growth. Meanwhile others, such as low-yielding grade C stock in weak economies, do not.

It would seem the 'market elastic' that links leading houses in Westminster with lagging flats in Wigan is going to be stretched to an extent rarely, if ever, seen previously. The consequent impact on investment performance will be profound and has the potential to benefit those in the business who fully understand it. ■

Yolande Barnes
Head of Residential Research
020 7409 8899
ybarnes@savills.com

Executive summary

The key findings in this issue

■ According to Land Registry figures, values in the leading 10% of the country grew by 7.5% in 2010 and are now just a fraction from their peak, while the bottom 10% of areas saw prices fall by 3% and remain almost 20% off peak. See pages 4/5

■ There are indications that underlying demand for prime London property continues to build, particularly at the top end of the market. This signals that even if prices soften marginally in 2011 as the stamp duty boost wears off, the market still has the capacity to outperform the rest of the UK over the period of the next five years. See pages 6/7

■ The prime regional markets have largely avoided a secondary slip in values and have consistently been more active than their mainstream counterparts since the downturn. However, in direct contrast to prime London, they have seen little if any upward movement of prices in the first part of 2011. See pages 8/9

■ Further growth in demand for private rented sector accommodation is an inevitable consequence of falling transactional activity. The English Housing Survey recently reported the number of households in the private rented sector in England had increased by nearly one million since 2005 with a rise from 3.07 million to 3.36 million between 2008/09 and 2009/10. See pages 10/11

■ The coalition's new emphasis on achieving economic growth through the planning system, as announced in the Budget, is welcome news for the house building sector. See pages 12/13

Contents

Housing market cycle

THE LEADERS AND LAGGERS

A study of house price data reveals a significant divergence in performance between the equity-rich leaders and the mortgage-dependent laggers

Words by Lucian Cook

Behind the headline of a 'second slip'in the housing market, the experience of 2010 and early 2011 has highlighted a real divergence between the locations that have traditionally led a housing market recovery and those that have played catch up much later.

A study of Land Registry house price data over the past 15 years enables us to identify these leaders and laggers over the course of an entire housing cycle. This gives us a strong clue to the likely regional pattern of house price growth and transactional activity over the period of at least the next five years.

Ten year ripple effect

We have known for a long time that certain areas of the country, typically located in London and the South East, lead the recovery before the laggers, often the northern Metropolitan areas catch up. What our new analysis shows is that the recovery ripple effect can take as long as ten years to work through the country, with notable differences in the timing of a recovery both between and within regions.

Not surprisingly, this study shows that the ultimate market leaders are the equity magnets of central and south west London. There is further evidence that the ripple effect flows more quickly into Surrey and Berkshire than to other parts of the South East, East Kent and Essex.

Windsor and Maidenhead lead the market in much the same way as prime south west London, while the Medway towns take as long to recover as the West Midlands, and Brighton, some 50 miles from the capital, actually acts more like a London borough than a conurbation such as Portsmouth or Southampton.

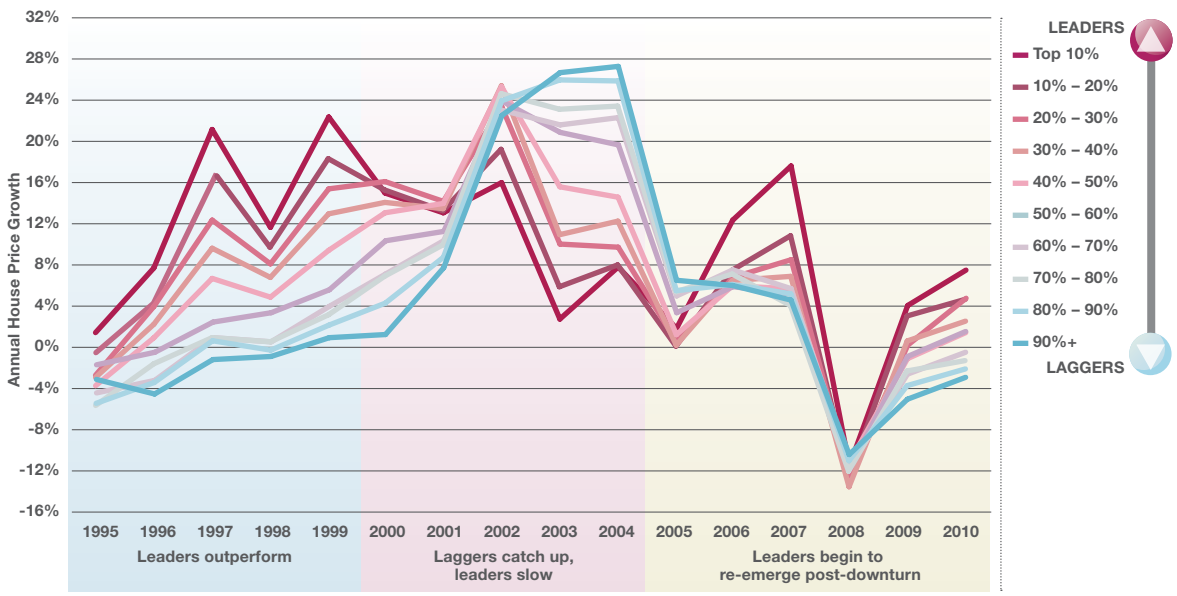
Similarly, locations such Bath & North East Somerset, Cambridgeshire and affluent parts of Cheshire lead the market as if they were located in the South East, in contrast to say Plymouth, Peterborough and Manchester.

Replaying history

Since the bottom of the market, through the very early stages of the recovery and recent second

GRAPH 1.1

Annual house price growth Leaders and laggers through the market cycle



Graph source: Savills Research/Land Registry

slip in prices, we have seen a clear divergence in performance between these equity-rich market-leading locations and the mortgage-dependent laggers.

According to Land Registry figures, values in the leading 10% of the country grew by 7.5% in 2010 and are now just a fraction from their peak, while in the bottom 10% of areas they dropped by 3% and remain almost 20% off peak.

Leaders grow lead

This schism between the tiers of the market is expected to continue to grow as the gradual, yet potentially volatile recovery progresses.

In our view the market will continue to be led by the most affluent areas. These may be the least affordable, in theory at least, but in a market dominated by cash and equity they will prove the most resilient.

Although we do not anticipate a repeat of the extraordinary levels of price growth seen in these locations between 2000 to 2005, our forecasts anticipate they will see prices rise by a third over the next five years. By contrast, the bottom end of the market will struggle to see any nominal price growth and continued falls in real house prices are forecast.

As a result, regional market leaders such as Solihull in the Midlands, York in the North, and the Cotswolds and the City of Bristol in the South West, will stand out from their regions over the first half of this decade.

Laggers flagging

The key question is whether the traditional laggers – the likes of Blaneau Gwent, Doncaster and Sunderland – can catch up to the same degree as they did in the period from 2000 to 2005.

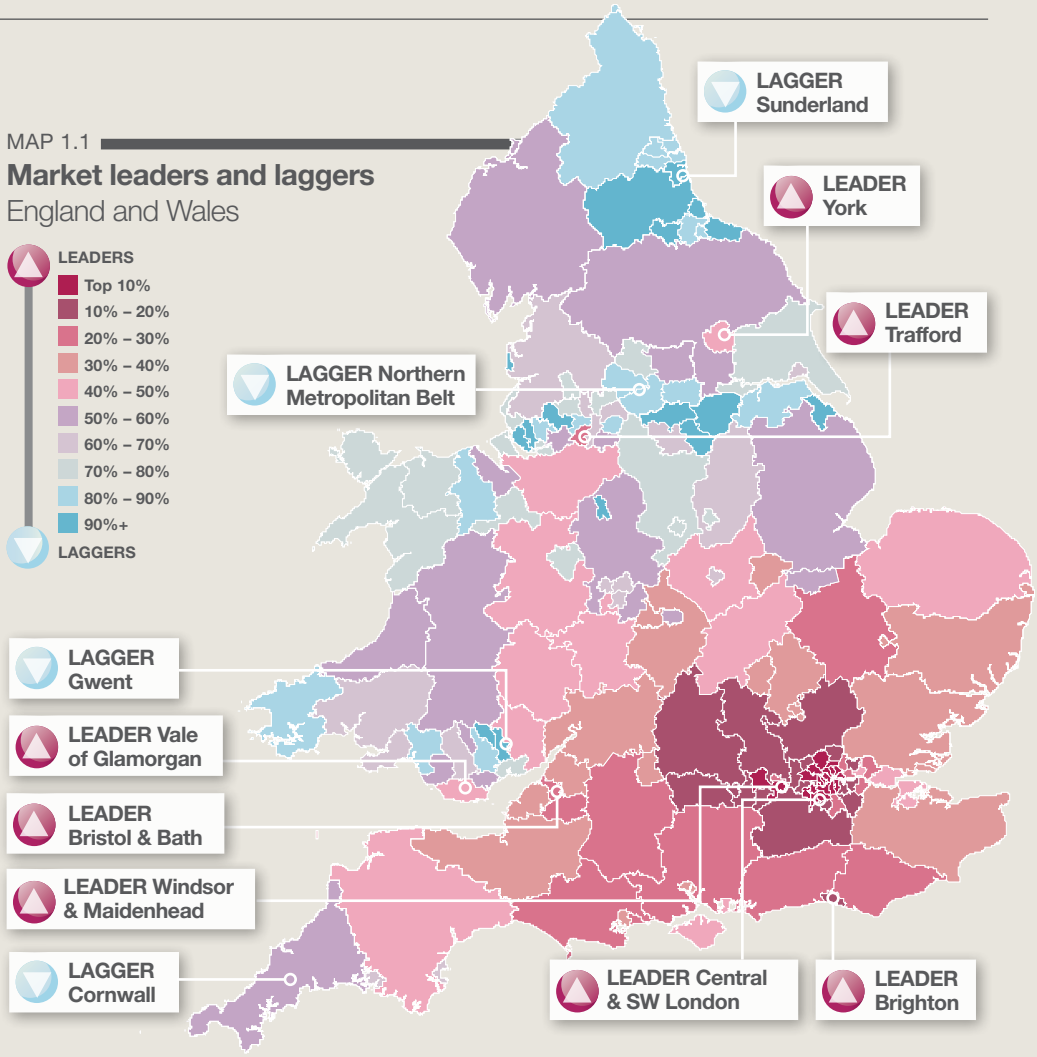
If greater mortgage regulation takes effect, and different lending criteria continue to be applied to equity rich and equity poor borrowers, a significant upturn for the laggers seems inconceivable.

A far more likely outcome is that the structure of these lagging markets will change the most, with the march towards private renting strongest in these areas. ■

MAP 1.1

Market leaders and laggers

England and Wales



FOCUS ON SCOTLAND

Edinburgh, the hub of the Scottish property market, is seen as the market most likely to lead the recovery

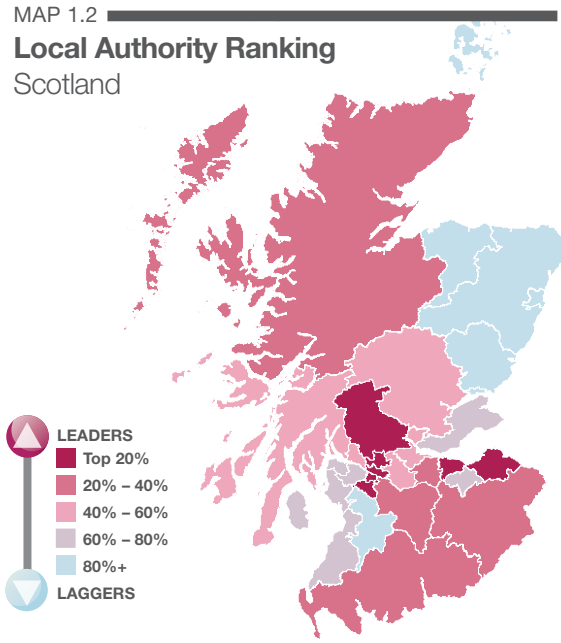
Taken as a whole the housing markets of Scotland have traditionally lagged those of England and Wales. However, markets north of the border show their own leading and lagging tendencies, according to Faisal Choudry, Savills head of residential research in Scotland. Edinburgh, Glasgow and their respective commuter belts led the surge in house prices in the period 1999 to 2004, while peak levels of growth occurred in the following five years.

Edinburgh, in particular, is seen as the market most likely to lead the Scottish recovery during the next housing market cycle given its wealth of period housing stock, relatively strong employment base and increasing political influence.

MAP 1.2

Local Authority Ranking

Scotland



Graph source: Savills Research/Land Registry

Prime London

LONDON'S VALUE AS A GLOBAL CITY

As a trusted market, London compares favourably with other leading global cities as a safe deposit for international wealth

Words by Yolande Barnes and Paul Tostevin

DOMESTIC WEALTH

Demand for family homes in equity-rich markets fuels prices

Market-leading boroughs such as Islington. Hammersmith & Fulham, Wandsworth and Richmond upon Thames are usually less directly affected by overseas money than the central boroughs of Kensington & Chelsea and Westminster.

Our latest indices show that prices in the predominantly domestic prime south west London are, on average, within just 0.5% of their peak, while family houses in these areas had reached new highs by the end of March 2011. The equity-rich nature of these locations has undoubtedly separated them from the rest of London's domestic housing markets since the downturn.

Their recent outperformance over central London reflects the fact that needs-driven buyers came back to these markets after the downturn more quickly than the discretionary overseas buyers.

To date, price growth has occured because of accumulated, rather than newly-generated, wealth. A relative lack of new bonus money flowing into these markets over the past three and a half years suggests that they are more likely to mark time this year rather than show further price growth in the aftermath of the stamp duty boost of the first quarter. However, we expect to see a more significant flow of bonus money into the market in 2012, at which point new wealth generation should further boost property values in this area.

History dictates that the prime markets of London lead the UK's housing market into recovery and this current cycle is no exception. Prime London residential property has continued to show growth this year, with house prices increasing by 2.0% in the first quarter. By contrast, the mainstream market remains sluggish.

There is some evidence that prime London's price growth reflects a rush to beat the increase in stamp duty for £1 million plus property traded after 5th April 2011, with transactions being pulled into the first quarter at a time of comparatively low stock levels.

There are also indications that underlying demand for prime London property continues to build, particularly at the top end of the market. This indicates that even if prices do soften marginally over the course of 2011 as the stamp duty boost wears off, the market still has the capacity to outperform the rest of the UK over the period of the next five years.

Global wealth

The prime London markets need to be viewed in a global context, where wealth is funnelled through a finite supply of the best properties in the best locations.

In central London in particular, the housing market continues to benefit from wealth generated from across the globe. This effect has been strongest at the top end of the market, particularly as occupier demand from Russia and the Middle East has replaced investor demand from Europe over the past year.

Forbes recently reported that the number of US$ billionaires increased by 20% between 2009/10 and 2010/11 with both the number of billionaires and the wealth they hold exceeding the levels seen in 2007/08. Wealth generated in the Asia-Pacific region and the former Soviet Union has been a major driver of this growth. Over the past five years, the number of billionaires has increased by 269% in Asia-Pacific and 245% in the ex USSR, and their wealth by 245% and 383% respectively.

Not surprisingly, it is the markets most closely associated with the major wealth-generating regions that have seen the biggest price growth.

Four world cities

Savills recent analysis of the prime markets in four world cities found that in Hong Kong and Moscow respectively the value of a 'typical' billionaire residence increased by 82% and 109% over the last five years.

Similar price growth differentials were seen in the markets below this rarefied tier. An 'executive business unit' comprising seven households, ranging from a regional CEO to an administrative worker, was valued and compared in this study.

London's price growth is dwarfed by that seen in Hong Kong and Moscow, but London gains significant advantage over New York because of greater international demand. London offers not only economic and political stability but lower price volatility too. In the immediate aftermath of the credit crunch, prices across the prime housing markets of London fell by 13%, whereas those in Hong Kong and Moscow fell by 35% and 40% respectively.

"While offering huge capital growth potential, the volatility associated with 'new world' markets will not suit all investors."

Paul Tostevin, Savills Research

PRIME MARKETS
Five-year forecast values

Forecasts	2010	2011	2012	2013	2014	2015	5 years to end 2015
Prime Central London	2.0%	-1.0%	10.0%	8.0%	6.5%	6.5%	33.4%

Data source: Savills Research

Although offering huge capital growth potential, the volatility associated with the 'new world' markets will not suit all investors. Consequently it is London, a more mature market, that continues to attract international equity seeking stability and security of investment. We are yet to see the extent to which the new wealth generated in the Asia-Pacific and ex USSR regions will follow the path of Europeans and Middle Easterners.

It is likely that the capital's strong reputation as a safe deposit for international wealth, reinforced by favourable exchange rates, has made central London an increasingly appealing investment proposition. This is set to underpin values in the short term and deliver leading price growth over the medium term as new sources of international demand gain a foothold in the market. ■

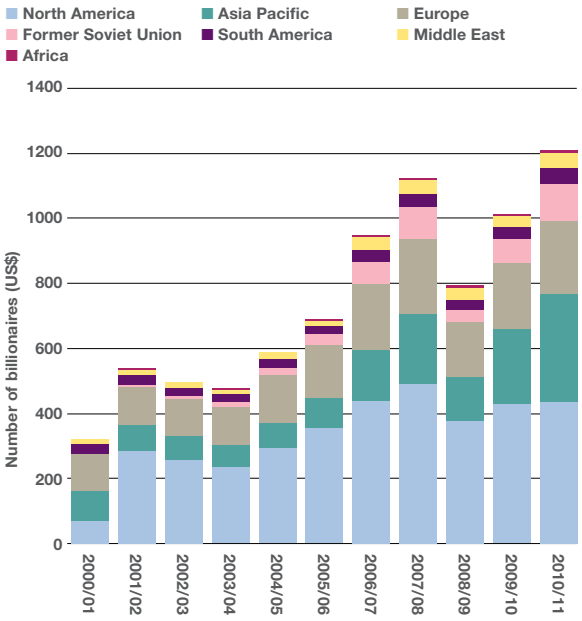
"London, as a more mature market, continues to attract international equity because it is seen to provide both security and stability of investment."
Savills Research

TOWERING ACHIEVEMENTS

5-year price growth across the "executive unit"

GRAPH 2.1

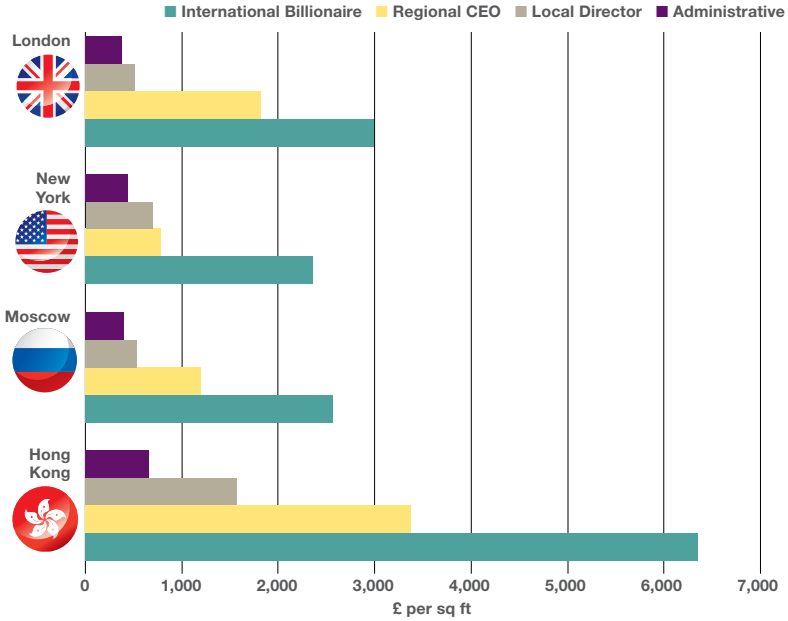
The pool of international billionaires
Numbers exceed previous peak



Graph source: Forbes

GRAPH 2.2

Global value comparison Hong Kong highest £ per sq ft equivalent



Graph source: Savills Research

Prime regional

REGIONS LOOKING FOR A KICK START

With the trigger they require for growth currently lacking, what are the prospects for the prime regional markets?

Words by Marcus Dixon

The prime regional markets have largely avoided a secondary slip in values and have consistently been more active than their mainstream counterparts since the downturn.

However, in direct contrast to prime London, they have seen little if any upward movement on prices in the first part of 2011. This has coincided with a marked fall in the number of buyers coming out of the capital and buying in the prime housing markets of South East England.

In turn, a relatively flat South East market has meant that in the past six months there has been little or no significant trigger for growth in the prime markets further afield.

Within the markets of the South East the affluent London commuter is a vital market driver. He or she brings a combination of a relatively high London salary and, in many cases, a chunk of equity earned in the prime housing markets of London and exported into the commuter belt.

To put this in context, our analysis suggests that nearly one in four buyers of prime property within the South East emigrates from London. And importantly, because the markets of the South East often set the tone for prime markets in the rest of the country, the actions of London buyers are felt well beyond the markets in which they are most active.

What then are the prospects for London money to kick start the prime regional market?

London ripple

To date the locations to which London-generated wealth migrates have performed ahead of the average. In the townhouse market of Cambridge, for example, it has helped prices to return to their peak levels, although in the six months to March this price growth stalled. A similar story has been seen in other markets that had been performing strongly such as those in and around Beaconsfield and Winchester.

Bonus money is an important consideration. Just over half of purchasers of prime property in the South East work in London and a high proportion are employed in the financial and business services sector. So far in 2011 there has been little sign of that bonus money, and there is evidence this has compounded a 6% fall in South East commuter numbers in 2009/10.

Lifestyle relocation

Beyond the South East commuting becomes much less of a driver. Some 7% of buyer demand comes from those who work predominantly from home, a figure that can rise to 15%-20% in lifestyle relocation markets such as Devon and Dorset. In uncertain economic times a lifestyle relocation can be considered too risky and such concerns have doubtless contributed to much lower price recovery in these locations.

These trends suggest that the market in 2011 will remain particularly sensitive to price and quality, a pattern typical of this stage in the housing market recovery. But looking beyond the immediate future, it is important to consider that London émigrés will remain in a powerful buying position.

Regions offer value

Within the essentially domestic markets of prime south west London prices of family houses have risen by 49% over the past five years, even taking into account the downturn of 2008. By contrast prime regional prices are at the same level they were at the end of the first quarter of 2006.

Not only does this differential in price growth give those thinking of relocating from London a strong pot of equity to bring to the country, it also makes prime property outside of the capital begin to look like increasingly good value.

As the economy gradually recovers, bonuses accumulate and commuter numbers start to rebuild, we expect the London buyers to drive the recovery in the prime regional markets, starting inevitably in the South East and thereafter flowing steadily out beyond the confines of the London hinterland. ■

"The residential market in 2011 will remain sensitive to price and quality, a pattern typical of this stage in the housing market recovery."

Marcus Dixon, Savills Research

PRIME MARKETS

Five-year forecast values

Forecasts	2010	2011	2012	2013	2014	2015	5 years to end 2015
Prime Regional	1.0%	-1.5%	6.0%	5.5%	6.0%	6.0%	23.8%

Data source: Savills Research

Five-year values
MARKET FORECASTS

FORECAST HIGHLIGHTS

Biggest single rise PCL in 2012

Strongest year for Prime South East 2013

Strongest year for North and Scotland 2015

PRIME MARKETS:
Five-year forecast values

Forecasts	2010	2011	2012	2013	2014	2015	5 years to end 2015
Prime Central London	2.0%	-1.0%	10.0%	8.0%	6.5%	6.5%	33.4%
Prime Regional	1.0%	-1.5%	6.0%	5.5%	6.0%	6.0%	23.8%
Prime South East	2.0%	-1.0%	7.5%	7.6%	7.0%	6.0%	29.8%
Prime South West	1.5%	-1.0%	6.5%	6.5%	6.0%	6.0%	26.2%
Prime East	2.0%	-1.0%	7.0%	7.0%	6.5%	6.0%	28.0%
Prime Midlands/ North	-0.5%	-2.2%	4.0%	4.0%	5.0%	5.5%	17.2%
Scotland	0.0%	-1.5%	4.5%	4.5%	5.0%	5.5%	19.2%

MAINSTREAM MARKETS:
Five-year forecast values

Forecasts	2010 Actual	2011	2012	2013	2014	2015	2011-2015 inclusive
UK	0.7%	-3.0%	1.5%	3.0%	5.0%	5.0%	11.8%
London	2.7%	-1.0%	6.0%	8.0%	7.5%	6.0%	29.1%
South East	2.5%	-1.5%	5.0%	7.0%	7.0%	6.0%	25.5%
South West	2.1%	-2.5%	3.0%	5.0%	6.0%	5.5%	17.9%
East of England	3.8%	-2.0%	4.0%	6.0%	6.5%	5.5%	21.4%
The Midlands	1.8%	-2.5%	2.5%	4.0%	5.5%	5.0%	15.1%
West Midlands	0.7%	-4.5%	-0.5%	1.0%	4.0%	4.5%	4.8%
North East	0.8%	-4.5%	-2.0%	0.0%	3.0%	4.5%	0.7%
North West	-1.3%	-4.0%	-1.0%	0.5%	3.5%	4.5%	3.3%
Yorkshire & Humber	-3.4%	-4.5%	-1.5%	0.0%	3.5%	4.5%	1.7%
Wales	-1.5%	-3.0%	0.0%	2.5%	4.0%	4.5%	8.1%
Scotland	-2.0%	-2.5%	0.0%	1.0%	3.5%	4.5%	6.5%

Annual house price growth key:
8% and over | 6% to 8% | 4% to 6% | 2% to 4% | 0% to 2% | Below 0%

Source: Savills Research

Making the grade
The impact of grading on residential values

Deviation from forecast
(end of 2010 – end of 2015)

The new Savills model for evaluating UK residential property anticipates grade A properties exceeding their local mainstream market five-year average house price growth by 5%, while grade C properties will underperform by 5%.

Grade A +5%

Grade B 0%

Grade C -5%

Mainstream market

THE NEW MARKET PROFILE

House prices are now only a part of the story for the mainstream market, as prevailing economic and lending conditions are forcing a major structural change

Words by Lucian Cook

By the end of March, the major UK house price indicators were suggesting that the average UK house price was beginning to stabilise.

Three month on three month price movements had shifted from negative to more or less neutral territory, while the balance of opinion among chartered surveyors, though still negative, was much improved.

Such signs of a stabilising market have confounded those who believe that impending interest rate rises and public sector spending cuts make dramatic price falls inevitable.

What is clear is that the nature of the market is changing in response to the prevailing economic and lending environment. House prices are only part of the story and as a consequence are not expected to fall significantly further.

1. A smaller market

The first and arguably most significant change is that the housing market has shrunk. Transaction levels have been at less than 55% of their pre crunch levels for the past three years and figures in the opening months of 2011 suggest little change in the short term.

2. Different type of buyer

The type of buyer has also changed. In the last three months of 2010, cash buyers increased to 36% of all house buyers in the UK with figures for the first quarter expected to settle at around 34%. And those buying with a mortgage are borrowing less heavily. The average loan to value ratio for buyers is now running at 73% rather than the 80% typical of 2006/07 and the average 85% seen in the 20 years prior to that.

Together these two factors have changed the nature of the property that is transacting, with significant differences depending on the region and type of property.

3. A new market profile

Transaction levels of detached properties in South East England were within 70% of their 2007 level in 2010, but turnover of flats in North East England were just one third of their 2007 amount.

Average house prices are being dictated by those priced into the housing market rather than those priced out by constraints on mortgage finance or an unwillingness to transact in the current economic climate. Correspondingly, the market has not been flooded with property, largely because interest rates and repossessions have remained low and new housing completions have fallen. This has allowed supply and demand to remain largely in balance since early 2010, despite demand remaining muted across the mainstream market.

There is little doubt the more mature equity rich markets are simultaneously leading the market and underpinning national house prices. The equity starved (both by geography and property type) are lagging but without having a substantial negative drag on house prices.

What then are the implications of low activity in the lower tiers of the housing market?

4. Rise in private renting

Further growth in demand for private rented sector accommodation is an inevitable consequence of falling transactional activity. The English Housing Survey recently reported that the number of households in the private rented sector in England had increased by nearly one million since 2005, with an increase from 3.07 million to 3.36 million between 2008/09 and 2009/10.

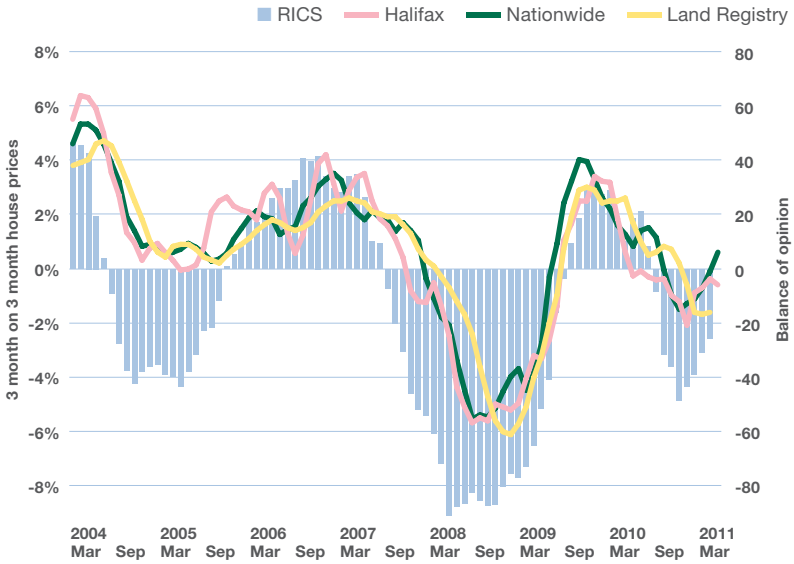
5. Implications for prices

Suppressed owner occupier demand at the lower end of the market and its ultimate replacement with investor demand (that is sensitive to income

GRAPH 3.1

Three month on three month price movements

Evidence of a shallow second slip



Graph source: Nationwide, Halifax, Land Registry, RICS

yield) is likely to stifle price growth. Even if it does not lead directly to further price falls this could act as a drag on the average UK house value in the longer term.

By contrast, rental growth is likely to be underpinned by increased tenant demand from those who cannot raise the deposit to enter the housing market, or who find the additional cost of mortgage interest at high loan to value ratios (on what is probably a capital repayment mortgage) unmanageable. ■

"Average house prices are being dictated by those priced into the housing market rather than those priced out." Lucian Cook, Savills Research

MAINSTREAM MARKETS

Five-year forecast values

Forecasts	2010 Actual	2011	2012	2013	2014	2015	2011-2015 inclusive
UK	0.7%	-3.0%	1.5%	3.0%	5.0%	5.0%	11.8%

Graph source: Savills Research

A MARKET DIVIDED

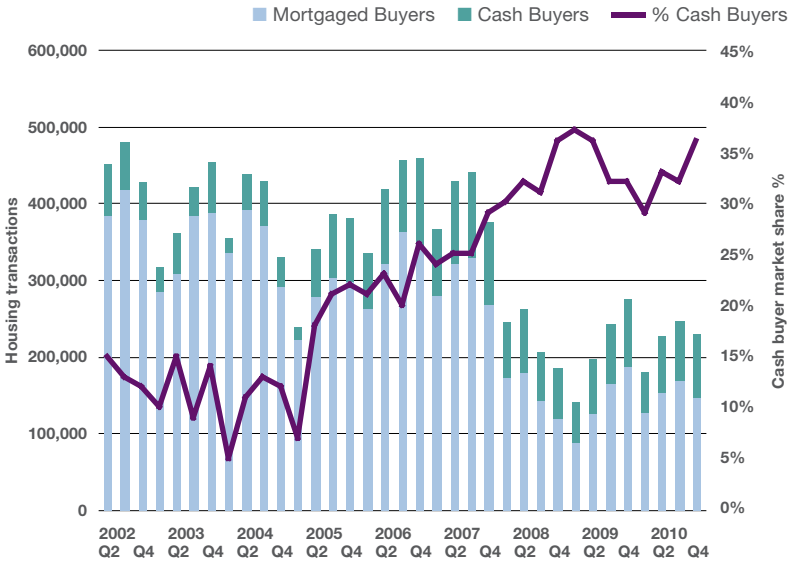
2010 vs 2007 transactions

	Region	Flat	Terraced	Semi-Detached	Detached	
QUADRANT 1 Low tier southern markets	South West	54%	59%	62%	70%	QUADRANT 3 High tier southern markets
	London	58%	57%	62%	67%	
	South East	49%	55%	62%	70%	
	East of England	48%	53%	60%	68%	
	Wales	52%	51%	57%	64%	
QUADRANT 2 Low tier northern markets	East Midlands	44%	47%	53%	64%	QUADRANT 4 High tier northern markets
	West Midlands	48%	46%	52%	65%	
	Yorkshire & Humber	41%	43%	50%	59%	
	North West	41%	40%	50%	59%	
	North East	33%	40%	48%	53%	

Source: Savills Research

GRAPH 3.2

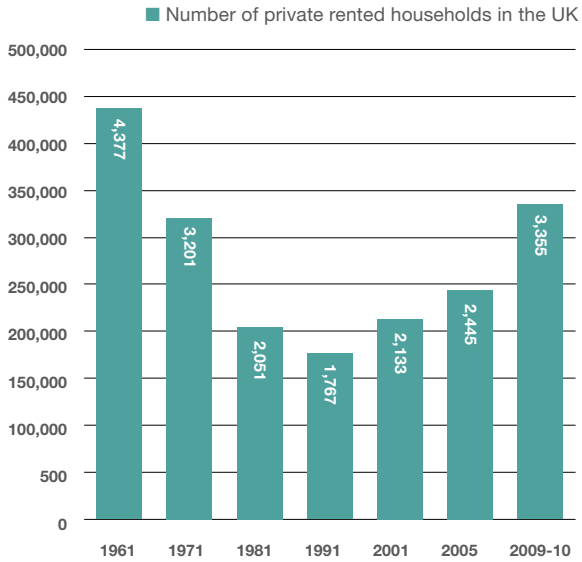
Housing transactions in the UK The increased influence of the cash buyer



Graph source: HMRC, CML

GRAPH 3.3

Growth in the private rented sector 900,000 more renters since 2005



Graph source: CLG

Development

BACK FROM THE BRINK

The coalition's new emphasis on achieving economic growth through the planning system is very welcome news for the house building sector

Words by Jim Ward

Government policy has taken a decisive step towards higher levels of house building since the Budget on March 23. Granted, this is from an extremely low level. In 2010 levels of house building in England fell to their lowest level since the introduction of the Town and Country Planning Act 1947.

At just over 100,000 new units the housing stock of England was increased by less than half of one per cent. This reflects the underlying economic conditions, the difficulty in selling high volumes of new stock in a low transaction market and the time it takes to shift the location and type of development to match a different demand profile.

Development is further constrained by the availability of development finance and the viability of sites that are subject to planning obligations that were agreed in more buoyant market conditions.

Looking further ahead, there will be a shortage of land that can be developed unless there is a pick up in the volume of new planning consents, which have fallen to little more than half the levels seen in 2006 and 2007.

The Coalition's new emphasis on achieving economic growth through the planning system, as announced in the Budget, is welcome news for the house building sector.

So too is the new £250 million of funding for FirstBuy, which will replace Homebuy Direct, helping first time buyers to buy a new home without the abnormally large deposit that they would otherwise need.

This will ease cashflow pressures on house builders and help to bring forward construction of new homes. With regard to viability, the Government has directed local authorities to reconsider, at developers' request, existing section 106 agreements that currently render schemes unviable.

Promoting growth

The key point in all of this is the contribution that the construction of new homes makes to economic growth, local jobs, tax receipts and the Government's overriding aim of eliminating its budget deficit.

Construction has been a significant contributor to the UK economy in recent times, accounting for more than 35% of growth since March 2010 (as shown in Graph 4.2). The downturn in constrction during the last six months (albeit that other surveys suggest more strength since the turn of the year) highlights the risk that weakness in construction could lead to a return to recession.

This is why coalition policy has turned so dramatically in favour of promoting growth through the planning system. The strength of government statements on this point is remarkable, signalling that many of the previously flagged features of localism will play a secondary role in how planning operates. All of this means the new planning system is heading away from the NIMBY's charter that had been emerging through the early stages of the Localism Bill.

The key message from the ministerial statement, which is now a material consideration in planning, is that: "Government's top priority in reforming the planning system is to promote sustainable economic growth and jobs. The Government's clear expectation is that the answer to development and growth should wherever possible be 'yes', except where this would compromise the key sustainable development principles set out in national planning policy."

Wider opportunities

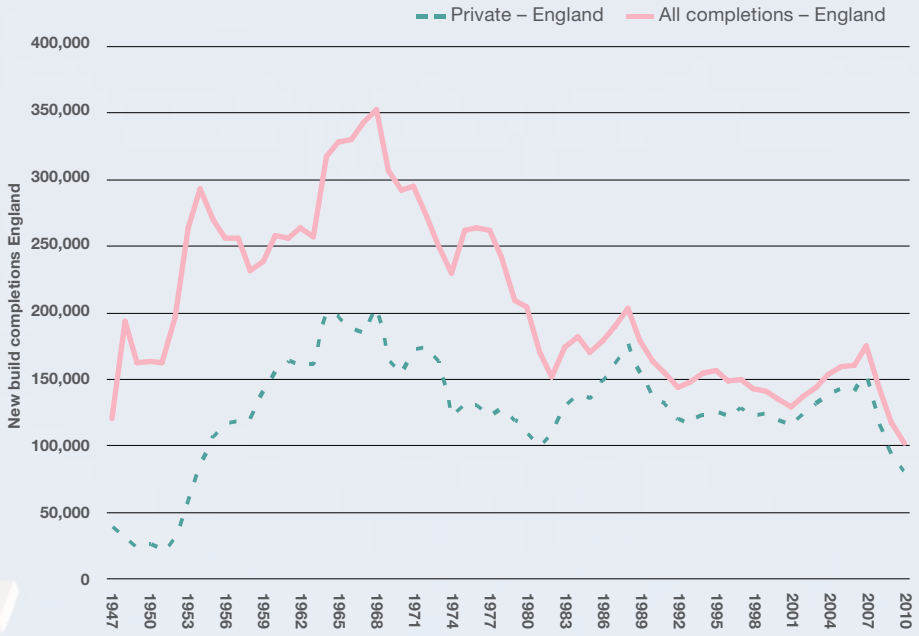
This message applies both to planning applications and the preparation of local development plans, which should be completed without delay to drive and support growth. Local planning authorities should: "make every effort to identify and meet the housing, business and other development needs of their areas, and respond positively to wider opportunities for growth, taking full account of relevant

"The new planning system is heading away from the NIMBY's charter that had been emerging in the early stages of the Bill."

Jim Ward, Savills Research

GRAPH 4.1

New build completion lowest since 1947 English completions fall to 100,000 in 2010



Graph source: CLG

economic signals such as land prices." Authorities should also work together to respond to needs and opportunities that are not contained within single local authority boundaries.

Defining need

Local planning authorities have to set local housing targets, quickly to promote sustainable growth in their area and, where relevant, other areas. They also have to identify a deliverable five year land supply to achieve that growth. Both have to be done for the local authority to remain in control of planning decisions.

This means assessment of local housing targets will come right to the forefront of development strategies. It will be crucial that the evidence behind these targets is robust, making use of reliable data and research on unmet housing demand, housing need and paths to economic growth.

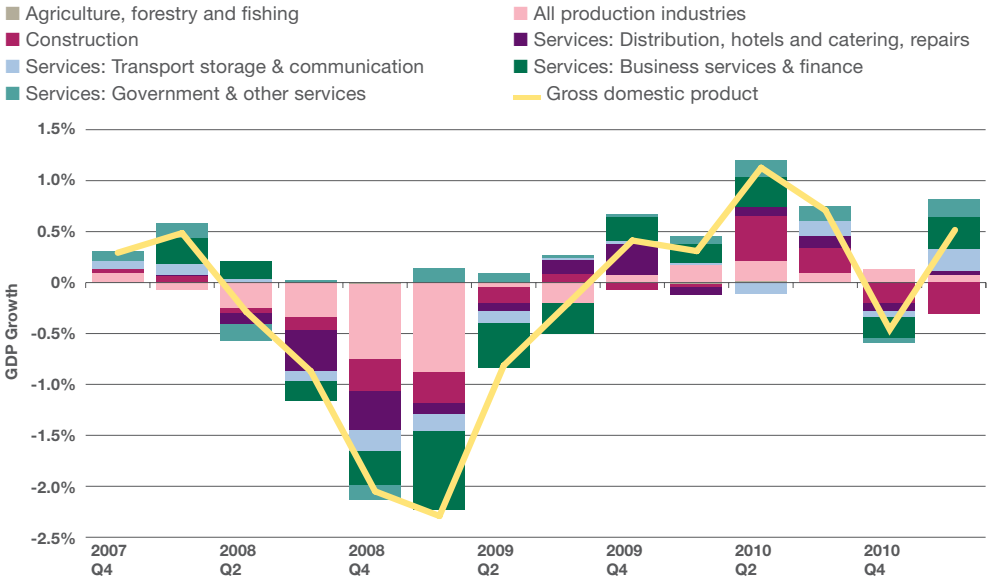
This will need a mix of evidence gathering and analysis from people with experience in housing markets, assessment of sub-market housing need and the links between skills, employment, travel to work and also a range of housing types and price levels.

These studies of local housing requirements are likely to differ from the evidence base that supported the old regional targets, partly as markets have changed. There is also a different policy context because of the opportunities to enhance local places by using the financial incentives to develop.

Potentially, these go beyond the New Homes Bonus that provides a financial incentive to local authorities to deliver new homes. It will include the way in which the new Community Infrastructure Levy is spent and therefore the way in which it enhances communities. As communities buy into development as a good news story, these incentives have the potential to change migration patterns across local authority boundaries, to meet real housing and business need. ■

GRAPH 4.2

Construction vital to GDP growth 2010 highlighted the importance of construction to the economy



Graph source: ONS

Insight

PROPERTY RADAR

An early look at the hot property topics you'll be reading about over the next three months

BEST VS THE REST

One of the consequences of current market conditions is that buyers of prime property are increasingly discerning. This is reflected in the differences in prices being achieved for property which is best in class compared to that which is broadly average for its type or, indeed, blighted by factors such as road noise.

In April values for the best in class property were on average -1.6% below their peak, compared to a figure of -6.4% for the average property and -15.6% for blighted stock. Over the past six months this divergence between best in class and blighted has increased having narrowed in the period from April 2009 to October 2010.

INTEREST RATES

At the end of March the average interest rate for a 75% loan to value tracker mortgage was 3.51% according the Bank of England. This figure has essentially remained unchanged for six months.

The low interest rate environment has helped equity withdrawal give way to mortgage reduction. This amounted to £7.5 billion in the final quarter of 2010, the highest figure on record.

Five year fixed rates have moved from 4.86% to 5.11% over the same six month period reflecting an expectation of rate rises in the medium term.

MORTGAGE LENDING

The Bank of England Credit Conditions survey suggested the availability of mortgage finance for those with a low loan to value requirement improved in the first quarter of 2011.

Key to the change in the profile of the UK housing market has been this restricted availability of mortgage finance at higher loan to value ratios (LTVs). Just 2.2% of gross mortgage lending occurred at LTVs of in excess of 90% in 2010. This type of lending was 17 times higher prior to the credit crunch.

Much of this has been put down to the unwillingness of banks to lend at such high LTVs. Notwithstanding the threat of mortgage regulation, the risks associated with such lending already set out under the Basel II banking regulations, and the amounts of capital which lenders need to hold against it, will doubtless restrict its availability and lead to its increased cost becoming entrenched in the mortgage market. ■

Savills research team

Please contact us for further information

Yolande Barnes
Head of Research
020 7409 8899
ybarnes@savills.com

"In central London the housing market continues to benefit from wealth generated from across the globe. This international demand has been strongest at the top end of the market, particularly as occupier demand from Russia and the Middle East." Yolande Barnes

Lucian Cook
Director
020 7016 3837
lcook@savills.com

"In our view the housing market will continue to be led by the most affluent areas. These may be the least affordable (in theory at least) but in a market dominated by cash and equity they will prove the most resilient." Lucian Cook

Jim Ward
Director
020 7049 8841
jward@savills.com

"The government's clear expectation is that the answer to development and growth should be wherever possible 'yes', except where this would compromise the key sustainable development principles set out in national planning policy." Jim Ward

Marcus Dixon
Associate Director
020 7409 5930
mdixon@savills.com

Neal Hudson
Associate Director
020 7409 8865
nhudson@savills.com

Faisal Choudhry
Associate Director
0141 222 5880
fchoudhry@savills.com

Paul Tostevin
Associate
020 7016 3883
ptostevin@savills.com

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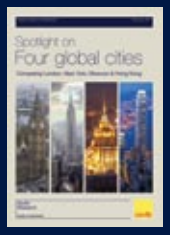
We have provided reports, information and presentations that help our clients to save or make money from real estate projects and which have also helped to inform policy and shape strategies. ■



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Lansdowne House
57 Berkeley Square
London W1J 6ER
020 7499 8644

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