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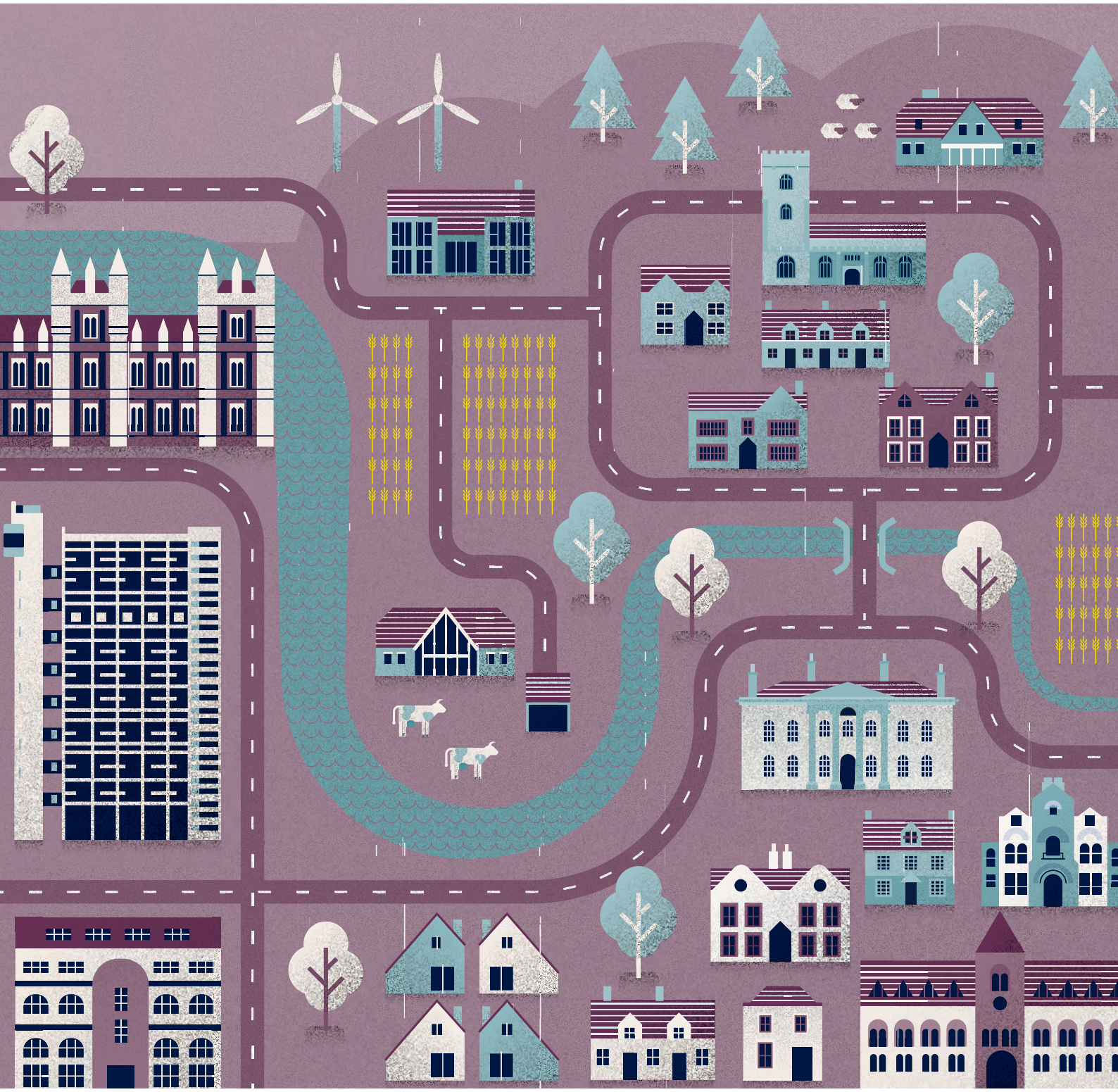
Spotlight | Spring 2018

Prime UK residential



Prime hotspots across Britain | Rental performance | Five-year forecasts

The market in five words

Lucian Cook summarises the UK's diversely performing prime market with notable brevity. The factors driving its future, however, take a bit more time

Taxation. Interest rates. Political uncertainty. Probably the three factors having the biggest impact on the UK's prime housing markets. The effect? That is more difficult to summarise in five words.

Speak to our agents about current market conditions and they would probably go no further than saying it is good in parts. Most likely they would refer to a lack of urgency.

This is reflected in our prime house price indices. Prices in London continue to decline, albeit gently. The weakness in that market has filtered into the commuter zone. Beyond that, prices have held up, though the rate of growth can hardly be described as electrifying. Let's settle on it being price sensitive.

And yet, HMRC and the Registers of Scotland recorded 19,300 sales of £1 million-plus properties in 2017. That is 1,000 more than in 2016, 1,400 more than in 2014 and 4,400 more than in 2007. It equates to one £1 million-plus sale every 27 minutes.

These figures suggest the prime market is far from dormant, and when property is priced according to market conditions it will trade. So, we can probably say with some confidence that it is more of a buyers' than a sellers' market.

But, as our indices and the distribution of £1 million-plus transactions show, it isn't uniform, with the markets of Scotland and the North of England gaining momentum at this point in the cycle. We look at five more specific locations bucking the trend later in this report.

So, there we have it, our summary of the impact in five words. Price sensitive. Buyers' market. Generally.

Whether that is good or bad depends on whether you are a buyer or seller in this market. As for the future, well, that really depends on our three key drivers.

It is more than three years since the overhaul of stamp duty, so the market has had plenty of time to adapt to the new environment. Current transaction levels suggest high rates of stamp duty are unlikely to change, unless we have a wider review of property taxes. But as a prime property owner, you need to be careful what you wish for.

Interest rates are expected to rise, but only gradually, and we will likely remain in a relatively low interest-rate environment for the mid term at least.

History tells us that as political uncertainty fades, so we can expect a recovery; though perhaps not one as dramatic as we have seen in the past. The question is: when will that be? That is rapidly becoming the most difficult thing of all to predict.

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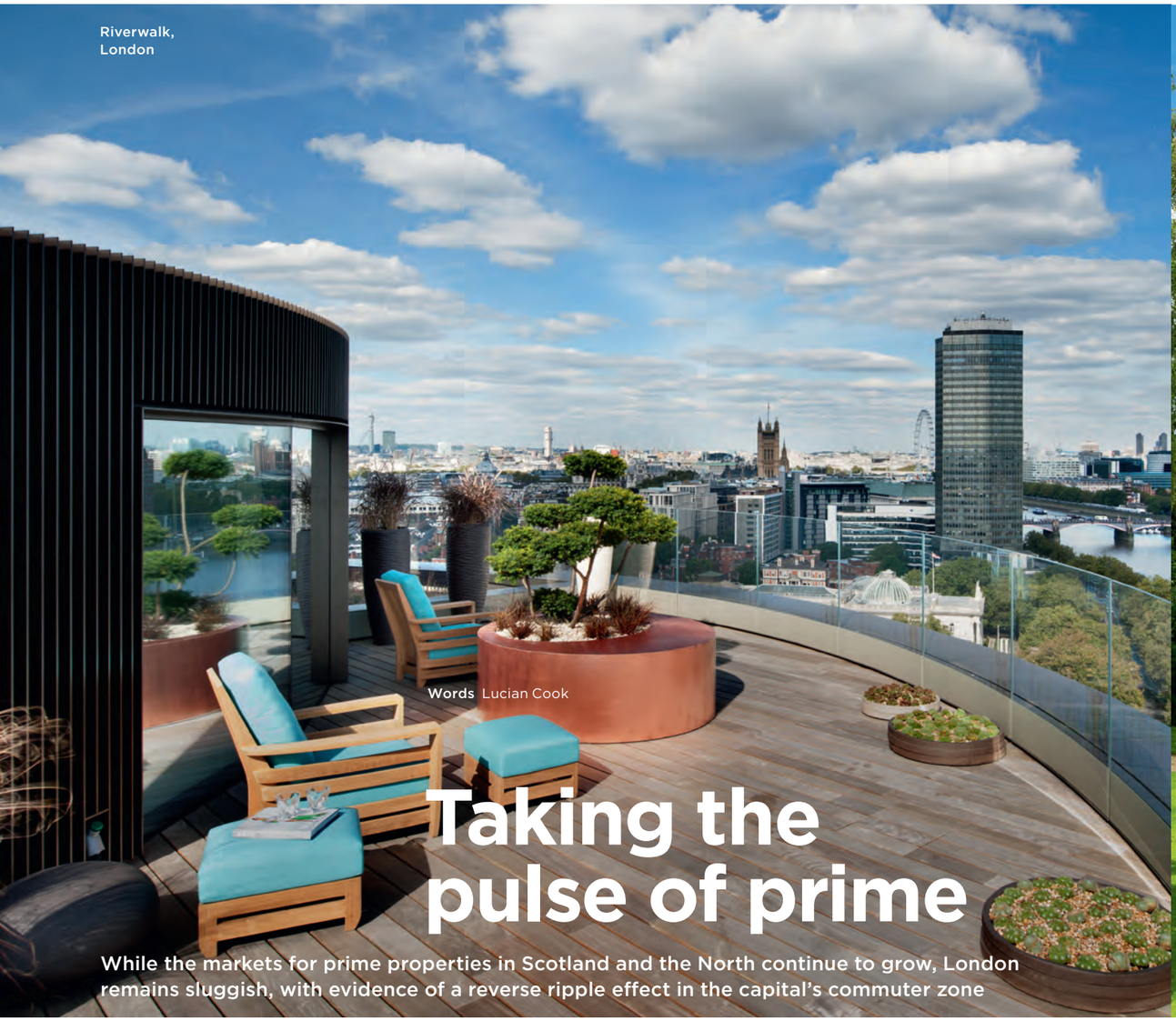


Riverwalk, London

Words Lucian Cook

Taking the pulse of prime

While the markets for prime properties in Scotland and the North continue to grow, London remains sluggish, with evidence of a reverse ripple effect in the capital's commuter zone

Broadway, Worcestershire

Central London

Values in the prime central London market are now 17% below their 2014 peak. This downturn has been different to previous ones, being more drawn out and less acute than, say, the early 1990s and post credit crunch. While it was sparked by the stamp duty changes of December 2014, values have been gradually eroded by wider changes in the tax regime and political uncertainty.

Historically, we have seen the central London market bounce back quickly, as overseas buyers took advantage of weaker sterling. However, the additional factors surrounding tax and uncertainty have made those buyers more cautious. Equally, there haven't been the unique safe haven drivers there were in, say, 2009, given the recovery in the global economy.

Other prime London

Elsewhere in London, price adjustments of prime property have been less pronounced. But without impetus from the centre, prices are, on average, 6.5% below where they were in September 2014, having declined 3.9% over the past 12 months.

This sits in context with a pretty sluggish mainstream market in the capital, which has gone from double-digit growth to little, if any.

However rich in equity, the cost and availability of debt is an important driver in domestic prime markets – typified by the belt running from Fulham to Wimbledon in South West London. So, much like the wider London mainstream market, these areas seem to have hit the limits of mortgage regulation. This has come at a time when the expectations for interest-rate rises are being brought forward rather than pushed back.

The suburbs

Beyond London, the market is not as stretched. With lower levels of price growth in the run up to 2014, it's been less exposed to these factors.

However, with less housing equity being exported out of the capital, there is evidence of a reverse ripple effect emanating from the subdued prime London market.

Though able to sustain modest house price growth in the immediate aftermath of the stamp duty changes of 2014, prime suburban markets within the M25, such as Cobham, Esher, Weybridge, Loughton, Northwood and Rickmansworth saw annual house price growth slip into negative territory in the autumn of 2016.

On average, prices have only fallen 1.8% in total since then. However, the top end of this market, where buyer profiles are most closely aligned to central London, has had much more of a reality check.

> There is evidence of a reverse ripple effect emanating from the subdued prime London market

In the market above £2 million (typified by properties on the private estates of the home counties), prices peaked at the same time as in London and are now 16% lower than they were five years ago.

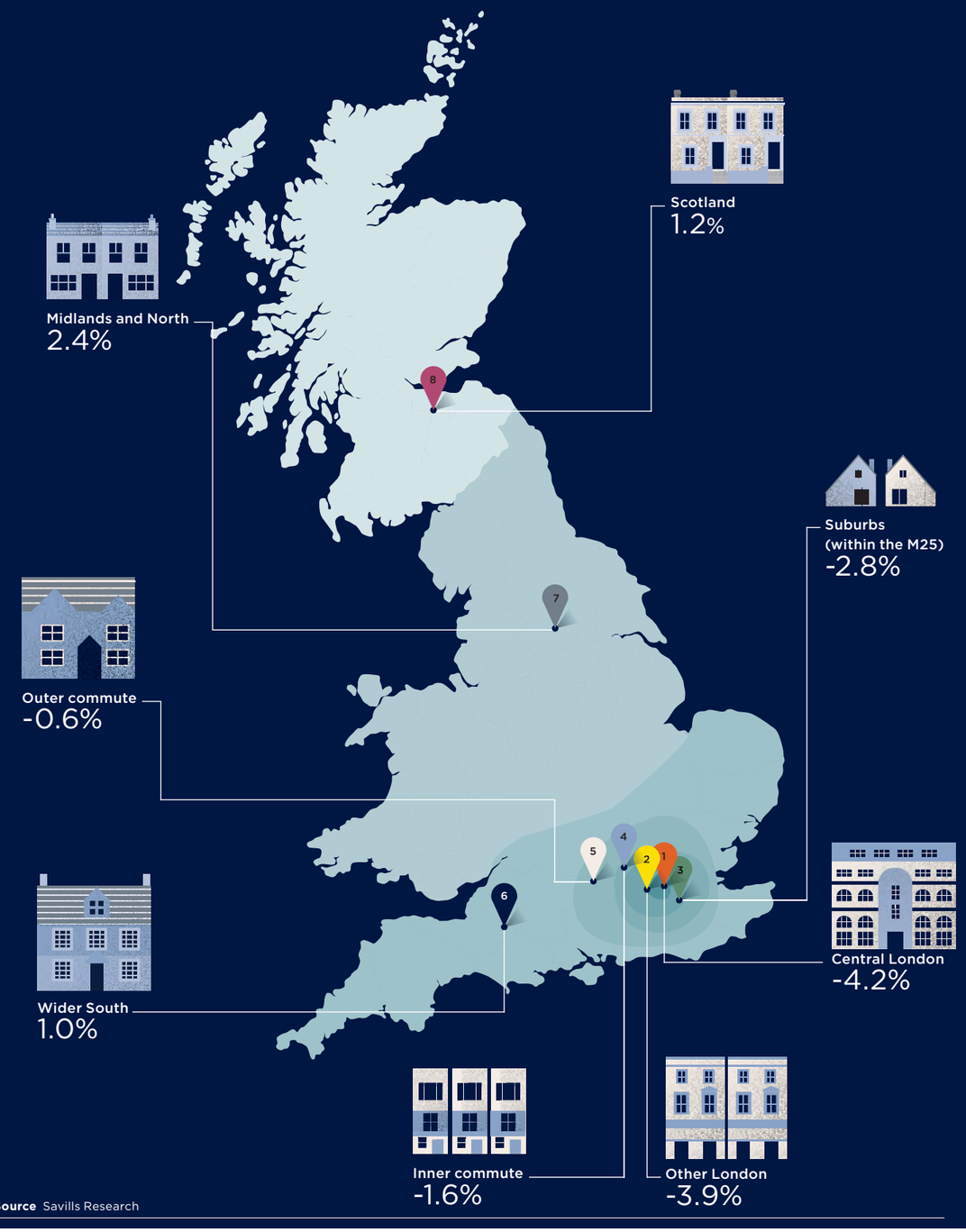
By contrast, prices in the £1 million to £2 million market have risen 16% over the same period. Between £500,000 and £1 million, they are up 26% over five years.

The commuter zone

Further evidence of this reverse ripple came as growth slowly evaporated in the spring of 2017 in the parts of the commuter zone closest to London. In the autumn, that spread to the outer commuter zone, typically within one hour of London. >

UK PRIME OVERVIEW

Market summary Annual growth of prime prices across the UK's regions (to March 2018)



Source Savills Research

Across these two commuter zones, prime properties in the most desirable towns and cities have significantly outperformed their counterparts in village and rural locations over the past five years, as townhouses have risen in popularity relative to the traditional farmhouse, rectory or manor house.

However, muted annual price movements no longer show any significant variation across these locations. That means, for the moment at least, the average premium for space in a prime urban location has topped out at around 30% in the commuter zone.

The rest of the South

More widely across the South of England and South Wales, price growth remains in low, single-digit territory, much as it has done for the past three years.

Across this broad swathe of the country, the peak of the prime rural housing market was in 2007, though the extent to which that applies varies.

In the long-established prime markets of the Cotswolds, where demand is spread across full-time residents, part-time commuters, weekenders and second home owners, values are within 1% of that benchmark. By contrast, in more discretionary coastal markets of Cornwall, Devon, Suffolk and Norfolk, they sit 10% below their pre-credit crunch high.

The prime urban markets in cities such as Bath, Bristol and Cheltenham surpassed their previous peak in 2015 and, since then, have seen price growth of a further 6.5%, albeit that annual price growth remains a modest 0.7%.


Precentors Court, York

The North

The prime property market in the Midlands and the North of England has been price sensitive for most of the past decade, though it has sustained modest growth for the last four years as we have shifted to a new stage in the housing market cycle. >

Townhouses have risen in popularity relative to the farmhouse, rectory or manor house

Market in detail Prime urban markets perform strongly across the UK (to March 2018)

Region	Location	Quarterly growth	Annual growth	Growth since September 2014
1 Central London		-1.1%	-4.2%	-16.7%
2 Other London		-0.7%	-3.9%	-6.5%
3 Suburbs (within the M25)		-0.7%	-2.8%	-1.8%
4 Inner commute	Urban	-0.1%	-1.4%	5.0%
(up to 30 minute train	Village	-0.3%	-1.4%	1.1%
journey from London)	Rural	-0.9%	-2.2%	-5.1%
5 Outer commute	Urban	0.2%	0.1%	13.3%
(30–60 minute train	Village	0.2%	-0.3%	5.9%
journey from London)	Rural	-0.1%	-1.5%	1.9%
6 Wider South	Urban	-0.2%	0.7%	10.0%
	Village	0.1%	1.0%	7.9%
	Rural	0.2%	1.3%	6.6%
7 Midlands and North	Urban	0.9%	2.5%	8.9%
	Village	1.5%	3.2%	7.3%
	Rural	0.6%	1.5%	1.4%
8 Scotland	Urban	0.5%	3.0%	10.2%
	Village	0.2%	0.7%	0.7%
	Rural	0.2%	-0.4%	-4.1%
£2m+ private estates		-2.9%	-7.7%	-26.1%
£2m+ country houses		-0.7%	-1.5%	-6.2%

Source Savills Research

Wealth generated out of Manchester has driven price growth in the affluent suburbs and villages

Much like the rest of the country, demand has been strongest for townhouses in places such as York, Chester and Nottingham.

The best urban properties in the best addresses have risen by 17% during the past five years, while the wealth generated out of Manchester has driven price growth in the affluent suburbs and villages such as Wilmslow, West Didsbury and Alderley Edge.

By contrast, manor houses in village and rural locations across the wider region have struggled to show any consistent value growth during this period and are only just beginning to benefit from the wider pick-up in the region.

Scotland

During the past five years, the prime housing market north of the border has faced its own headwinds, albeit from familiar sources. Political uncertainty came in the form of the independence referendum some time before Brexit took centre stage.

Glebe House, Kirkoswald, Maybole, Scotland

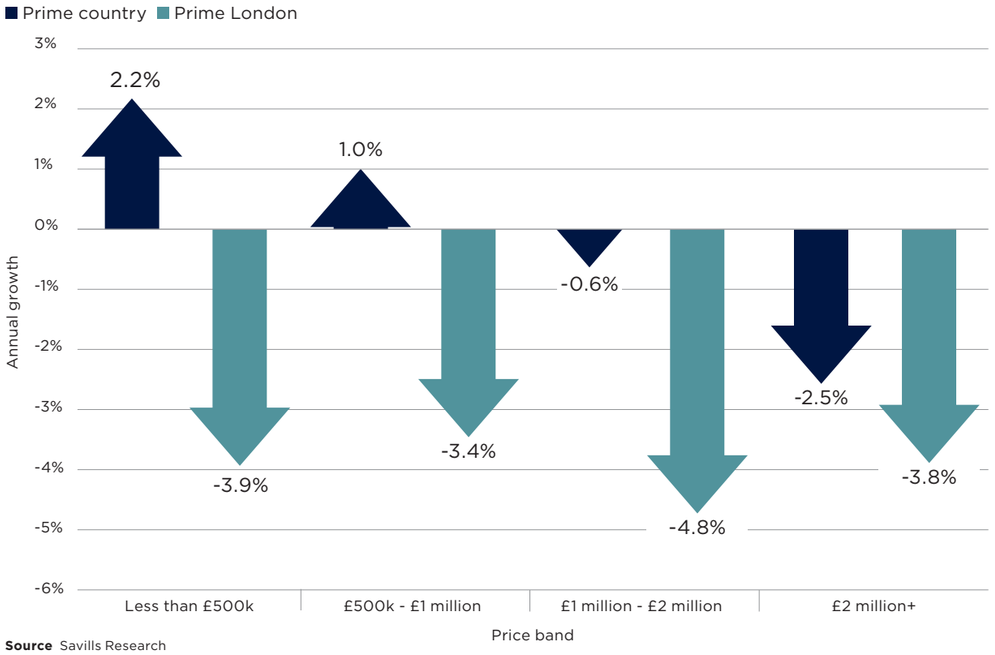
Greater exposure to taxation manifested itself in the punitive Land and Buildings Transaction Tax, which replaced stamp duty in April 2015.

Despite that, the prime market in Scotland in 2017 was the best for a decade – though the difference between town and country markets is more marked than anywhere else across Great Britain.

Prices in the rural markets are, on average, still 29% below their 2007 peak, having slipped marginally in the past year. So, on average, £1 million would buy you 5,500 sq ft of living space in the Scottish countryside – three times the space that £1 million would buy in the suburban market of Esher in Surrey.

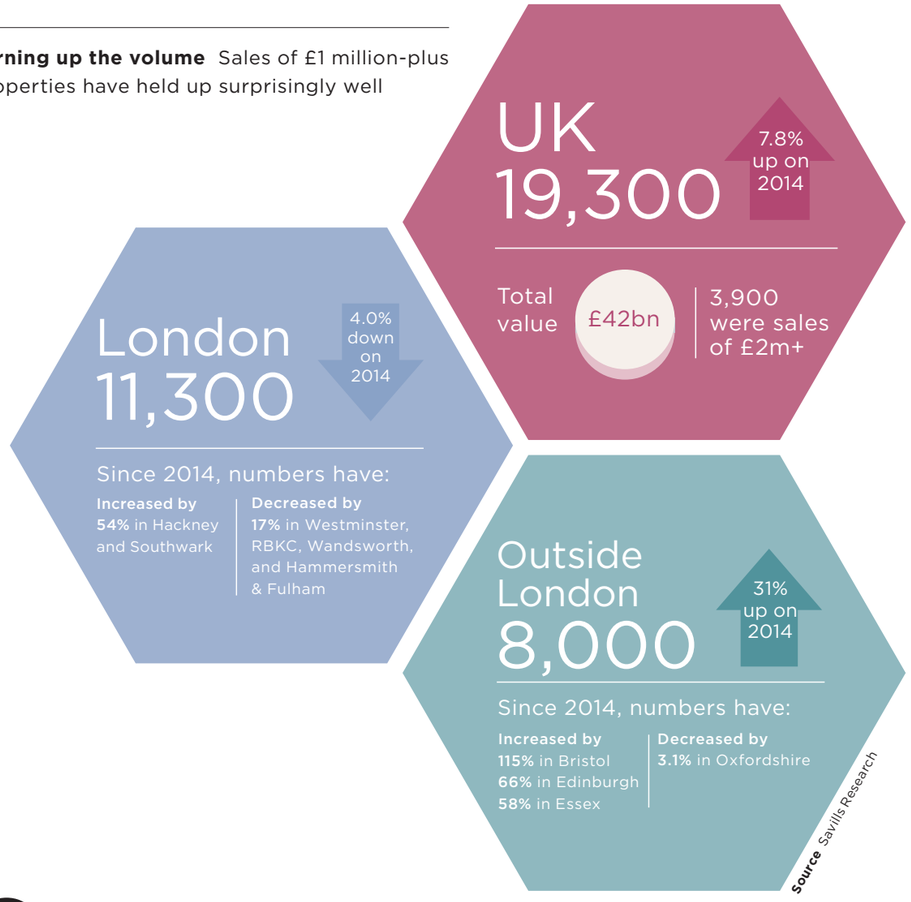
By contrast, the prime markets of Edinburgh and Glasgow are respectively within 3% and 10% of that highwater mark. Prices of townhouses in Scotland's capital city have increased by just over a quarter in the past five years, with annual price growth still coming out at 4.5%. ■

Contrasting fortunes Prime country properties outperform London at all price points



Source Savills Research

Turning up the volume Sales of £1 million-plus properties have held up surprisingly well



One every 27 minutes

Sales of £1 million-plus properties in the UK rose to 19,300 in 2017, with high-value markets outside London being particularly active

Words Katy Warrick

Whereas the prime housing market has been price sensitive during the past three years, the number of sales across the country of more than £1 million has proved surprisingly robust.

The volume of sales is a reflection of the growth in London prices over the past decade rather than the past 12 months.

It particularly reflects the strong growth in the number of sales passing the £1 million barrier in boroughs such as Hackney, Lambeth and Southwark, locations where they would have been thinner on the ground five years ago and regarded as something of an anomaly 10 years ago.

However, in some of the more established high-value locations, numbers have fallen. We estimate they are down by 34% over the past three years in the Royal Borough of Kensington and Chelsea (RBKC), mirroring the period of price falls referred to on pages 4-8. That compares with a 4% fall over the same period across London as whole.

Across the rest of the country, though the market has hardly been roaring, it has been more fluid. Beyond the capital, the market was slow out of the blocks in the wake of the recession. So, buying in, and beyond, the commuter zone offers a lot more value, particularly when transaction costs are factored in.

Initially, places such as Oxford and Cambridge fed off this momentum, but it has now spread more widely across the Home Counties and into cities such as Bristol and Edinburgh.

In 2017, the high-value markets in the Midlands and the North also picked up, as prices continued to rise modestly.

STRONG PERFORMERS

Under the radar

Hidden within the wider price trends of the market, and often bucking the performance of their neighbours, here are five of the best-performing prime locations in the UK

Words Frances Clacy

1. Marylebone, London

This village-like neighbourhood has certainly bucked the trend. Sandwiched between two of London's most popular parks, Marylebone has seen prices rise by 16% over the past five years, while values across prime central London are down 9% on average.

Indeed, Marylebone is the only central London market to see prices increase over the past year, setting new records in terms of prices achieved.

Despite strong levels of growth, Marylebone still offers value compared with its neighbours. Prime secondhand prices average around £1,700 per sq ft, almost 30% lower than nearby Mayfair.

Extensive regeneration over the past 20 years by Howard De Walden Estate and The Portman Estate, the area's two major landlords, means a previously rundown neighbourhood has been transformed into a sought-after retail and leisure destination, offering a mix of boutiques, retail brands and restaurants. Luxury new developments have also supported growing demand.

Interest in property here comes from a variety of sources. Just over half of all prime buyers are international, on par with the average across prime central London.

Domestic buyers play an important role in the market, with the majority of prime buyers moving within the local area, highlighting Marylebone's staying power.

Families and young professionals alike are drawn to the area due to its excellent schools and impressive transport links, which are set to improve further with the opening of the Elizabeth line.

Five-year growth for Marylebone

16%

2. Cornwall

Over the past 30 years, Cornwall has made a dramatic transformation from a bucket-and-spade holiday destination to one which includes boutique hotels, high-end restaurants and an array of prime property.

Indeed, the prime housing markets of Cornwall have outperformed the wider South of England during the past five years, with values increasing by just shy of 30%, double the average for the region.

While established coastal hotspots such as Rock, Padstow and St Ives command a premium, it is the increase in demand for emerging areas such as Falmouth, Mawgan Porth and Mousehole which has bolstered these price rises. Buyers are looking to these locations to get more for their money.

There remains strong demand for second-home purchases, despite the introduction of the stamp duty surcharge for additional homes two years ago. Since 2016, more than half of prime buyers in Cornwall were buying a second home.

Similarly, more than one-third of prime buyers work in London, pointing to the trend of part-time commuting, particularly given improved travel links. The overnight sleeper train from Penzance runs six times a week, while there are three return flights a day to London from Newquay airport. So, living in Cornwall and working in London is definitely feasible.

And for those wanting to leave the city completely, the rising popularity of Cornwall as the UK's next tech centre means there is scope for more locally based employment.

Five-year growth for Cornwall

28%

3. Chelmsford, Essex

During the past five years, house prices in prime Chelmsford and its surrounding areas have increased by 18%, almost double the average for similar commuter markets, typically those with a journey time into London of up to half an hour.

Chelmsford gained city status in 2012 and, since then, there has been substantial investment into enhancing the city centre.

One-quarter of prime buyers in the Chelmsford market work in the financial and insurance services sector. So, with train journey times of around 30 minutes into the City of London, it's a popular destination for commuters. This trend is expected to continue, particularly with the opening of the Elizabeth line in nearby Shenfield.

The housing stock available varies from Victorian terraces in the central markets, new developments on the fringes and around the station, and larger detached homes in the many surrounding villages. This attracts a range of purchasers, from first-time buyers in search of value and links to the capital, to families looking for more space and access to Chelmsford's top-quality grammar schools.

Most prime buyers in Chelmsford are upsizing as it offers value in comparison with London and other commuter hotspots. Here, £1 million buys around 2,500 sq ft. In London, it buys less than 1,400 sq ft.

Five-year growth for Chelmsford

18%

4. Edinburgh, Scotland

Scotland's star performer over the past five years has, by a long way, been its capital. Prime prices in Edinburgh have risen by 26%, compared with 4.3% for the other prime markets north of the border. In terms of house price growth, Edinburgh has been the strongest-performing prime city market in the UK during the past year.

This, in part, has led to the value of Edinburgh's housing stock increasing by more than any other UK district over 2017 in terms of total value growth, rising from £61.4 billion in 2016 to £68.9 billion in 2017.

Edinburgh's lifestyle attracts a steady stream of buyers from London and the South, but most demand comes from those nearby. Since 2016, almost three-quarters of prime buyers have moved from within the city itself, and a further 17% have come from other parts of Scotland. Similarly, 42% of the university's graduates remain in the city after graduation, highlighting the city's talent pool to global employers.

Indeed, Edinburgh is home to more FTSE 100 companies than any other UK city apart from London.

Families are also an important source of demand for the city. With its excellent schools, little wonder that more than 70% of prime buyers have one or more children. The continually improving connectivity of Edinburgh to London, the UK and the rest of the world, also drives demand for prime property.

Five-year growth for Edinburgh

26%

5. Wilmslow, Cheshire

In comparison with their counterparts in the south of the UK, the prime markets of the Midlands and the North have, until recently, been slower to recover from the global financial crisis.

Yet, some areas have performed well. Prime prices in Wilmslow and the markets of Cheshire's Golden Triangle have risen by 17% over the past five years, almost double the average for the region.

The dominance of large estates until the 19th century means there is a varied selection of housing stock. Cottages and country houses can be found in most of rural Cheshire, while contemporary mansions are in places such as Alderley Edge and Prestbury. As such, demand for prime property is from numerous sources.

Wilmslow is well-known for its popularity with Premier League footballers, which has led to an abundance of high-quality dining, retail and leisure facilities. But the area retains a rural feel and families provide high levels of demand and more than 60% of prime buyers have one or more children. For those buying here, upsizing is the most dominant reason, the factor for almost two-thirds of prime buyers.

Strong transport links to Manchester city centre, the south and internationally (through Manchester's nearby airport) support the area's success. And connectivity is set to improve further with the opening of HS2.

Five-year growth for Wilmslow

17%

PRIME RENTS

Richmond, Surrey

Gaining an edge

High supply may be limiting growth, but the rental market provides opportunities for a variety of investors

Words Gaby Day

Over the year to March 2018, prime rents across London fell by 3.1%, with a fall of 2.3% across markets in its commuter belt. High stock levels are continuing to provide more choice for tenants, limiting rental growth.

Yet, rents are falling at a slower rate than in previous quarters, which suggests the market is finding a balance, and despite these falls the levels of new tenancies and re-lets remains strong.

With stock still working its way through the market, pricing is absolutely key to retaining demand.

Demand remains stronger for properties of the best condition, especially in central markets. Properties in prime central London classed as immaculate saw rents fall by 4.8% over the past year, compared with a fall of 6.0% for properties in poorer condition.

With immaculate new build stock coming to the market, investing in condition is a way to retain an edge. Here, we assess three other strategies for landlords to stay competitive.

The accidental landlord

Subdued buyer sentiment has resulted in properties taking longer to sell. Across prime London, we have seen this rise from 5.7 months at the peak of the market in 2014, to 8.1 months in 2017.

Unable to sell their property, there has been an increase in the number of accidental landlords who rent it out instead. But being in this position is not necessarily a bad thing.

Bayswater, London

It's often much quicker to let a property than to sell, and a successful tenancy can sometimes lead to a sale.

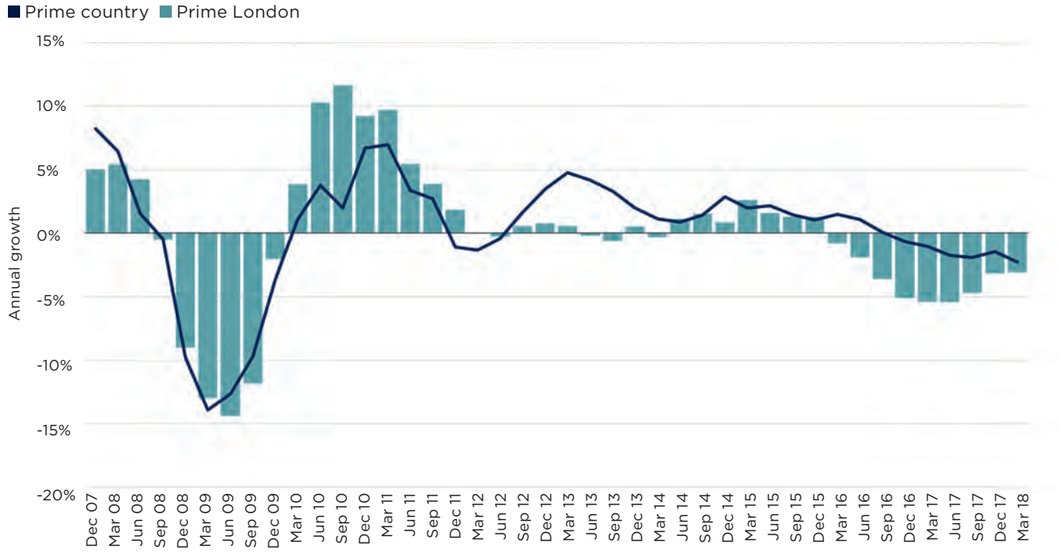
As owners tend to invest more into their own properties, stock from accidental landlords is often of higher specification. And in a market driven by quality, these properties can often command higher rents.

The cash investor landlord

Across the prime markets, the levels of buying for investment are decreasing as a result of pressure on the buy to let sector, especially in London. The number of new buy to let mortgages has fallen by 36% since 2015, as landlords start to rationalise their portfolios.

However, the proportion of investors buying with cash has been steadily growing – from 59% of buyers in 2014 up to 67% in 2017. They are not impacted by mortgage regulation or the cut in interest tax relief.

Contrasting fortunes Rents are falling in London, but at a slower rate than previously



Source Savills Research

Instead, these landlords are seeing current conditions as an opportunity to invest. This is particularly the case for international investors who can still make a currency play. International landlords have increased their share of the prime London market from 22% in 2014 to 28% in 2017.

The estate landlord

We have seen in the past how estate landlords leading on the regeneration of an area can fuel demand in the capital – with examples such as Cadogan's work on the King's Road and Sloane Street, Howard de Walden and Marylebone High Street and Grosvenor's regeneration of Mount Street.

Adapting to a market where tenants are able to be picky, placemaking and investing in the condition of both the property and its surrounding area can be a lucrative way to attract tenants.

Just under one-third of tenants across the prime London market rent because they are relocating for lifestyle reasons. This proportion is even higher for those areas of London that retain a village-like feel, such as Fulham, Marylebone and Notting Hill.

Forecasts

Though rental falls are slowing, there is still a high supply of stock, which is limiting growth. Prime rents are likely to continue to fall during 2018 – by 3.0% in prime London and 1.0% across the prime commuter belt.

By 2019, we expect an increase in confidence across the market as our position over leaving the EU becomes clearer.

This is when rents are likely to stabilise, but there is also a new build pipeline coming forward, some of which will become rental stock. The completion of some schemes was delayed by the uncertainty following Brexit, and we believe the level of completed units across London is likely to peak in 2019. This will limit huge rental growth as more stock is added to the market.

Over the next five-year period, we are forecasting prime rents will grow by 7% in prime London, and 8.2% in the commuter belt. Recovery is expected to be stronger here as there is less of a new build pipeline and the rental falls to date have been lower.

Landlords will need to price their stock appropriately and ensure their property is of the best possible condition to remain competitive with new build stock.

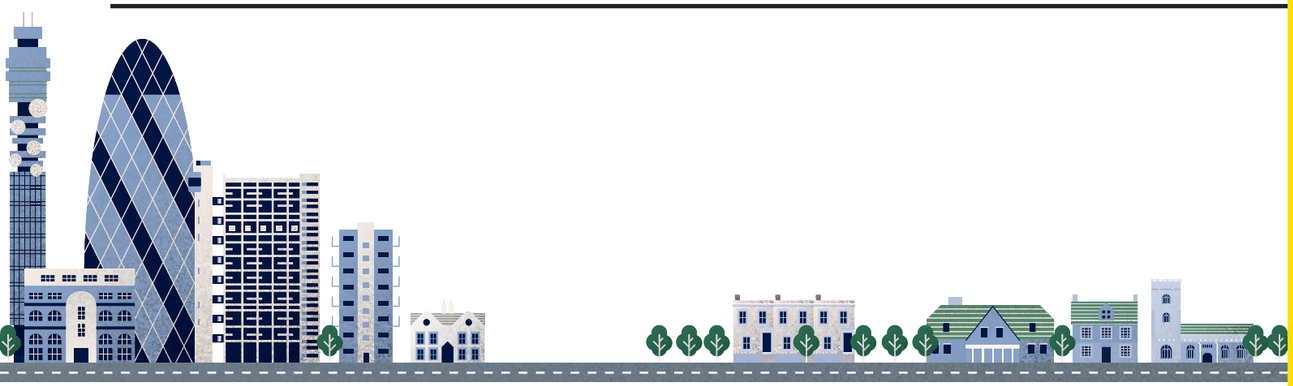
The next few years should be viewed as an opportunity for asset wealth generation.

> Though rental falls are slowing, there is still a high supply of stock on the market, which is limiting growth

Prime rental forecast We expect rental falls to continue in the short term

Prime	2018	2019	2020	2021	2022	5-year compound growth
Prime London	-3.0%	1.0%	2.0%	4.0%	3.0%	7.0%
Prime commuter zone	-1.0%	1.0%	2.0%	3.0%	3.0%	8.2%

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



Positive prospects

Buyer sentiment across the prime markets is expected to remain sensitive for the next few years, but long-term prospects appear favourable

Words Kirsty Bennison

The prime central London market is not expected to see further significant falls in value, but we don't expect a return to growth until there's greater Brexit clarity. Economic uncertainty means the market will remain discretionary, while international buyers will be reluctant to take advantage of the currency play given the high tax environment.

Our forecasts anticipate it will be two years before we see a bounce in values, though this increasingly depends on the political environment.

Continued weakness is expected in other prime London markets that are more dependent on access to domestic wealth generation and borrowing than prime central London. As such, we forecast small falls this year.

Political and economic uncertainty has also translated into buyer caution in the prime country market. This is compounded by the costs of stamp duty, particularly at the top end of the market and for those buying an investment property or second home.

The price gap between London and the rest of the country remains, and committed buyers are likely to take advantage of this. This will drive a flow of wealth into the commuter belt and beyond, so the prospects for house price growth over the next five years remain positive.

Prime property prices We anticipate it will be two years before there is a bounce in values

Prime	2018	2019	2020	2021	2022	5-year compound growth
Central London	0.0%	2.0%	8.0%	5.5%	3.5%	20.3%
Other London	-2.0%	0.0%	5.0%	4.5%	2.5%	10.2%
Suburban	0.0%	0.0%	4.5%	4.5%	3.0%	12.5%
Inner commute	0.0%	2.0%	4.0%	4.0%	4.0%	14.7%
Outer commute	0.0%	1.0%	5.0%	4.5%	4.0%	15.3%
South England and Wales	1.0%	1.5%	3.5%	3.5%	4.0%	14.2%
Midlands and North	1.5%	1.0%	3.0%	3.0%	3.5%	12.6%
Scotland	1.5%	1.5%	3.5%	3.5%	3.5%	13.7%

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