

Spotlight on...

Bristol and Bath Residential Development Sales



Strong demand underpins house price growth in Bristol and Bath, but volumes of future housing delivery remain uncertain

The residential property markets in both Bristol and Bath have recovered strongly following the market downturn in 2008/09. Prices in Bristol have recovered to a similar level below peak pricing as the national market and well above other urban markets in the South West. Bath has seen prices rebound to a similar level below peak as the Home Counties reflecting the strong influence of London demand on the market.

Transactions levels are high relative to other comparable markets in both

Bristol and Bath but are still well below historic levels due to the wider market constraints on mortgage lending and limited forced sales.

During 2007, as market sentiment weakened and amid tougher mortgage lending criteria, new build transactions as a proportion of the wider market fell both nationally and in Bristol (13.1% to 6.5%).

With a lack of second hand stock available on the market and various government schemes to encourage

SUMMARY

An overview of the market

- Bristol and Bath have seen house price growth outperforming the South West region, with strong demand placing both areas firmly as leaders in the house price recovery.
- Levels of new build completions in Bristol, which have remained strong due to large schemes started pre downturn, have now started to fall, raising questions over future housing delivery.
- Housing supply is forecast to increase in Bath & NES against a backdrop of strong demand in prime locations.

GRAPH 1
Pricing and transactions versus peak



Graph source: HM Land Registry

➔ first time buyers into the market, new build sales grew to a larger percentage of the market in Bristol during 2008 and 2009 but have since fallen back during 2010.

Meanwhile Bath has seen a consistently lower proportion of new build sales, averaging just 5.8% of total transactions across the twelve years, well below the national trend and with limited impact from the market downturn. This can be attributed to the acute lack of sites available within Bath and strict guidelines over the location and type of development.

Much of the ability of the Bristol new build market to capture market share from the second hand market during the downturn was due to the availability of stock on schemes that were under construction at the start of the housing market downturn.

Looking ahead, the number of identified units for delivery over the next five years in Bristol is forecast to drop substantially below historic delivery levels, from approximately 2,200 units per annum over the last five years to 1,500 per annum during the next five years. With many developments still proving difficult

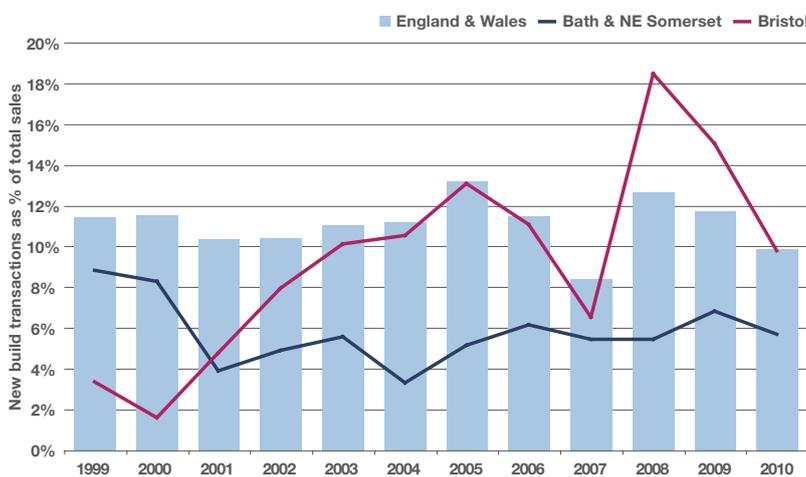
to finance in the current constrained lending environment, as well as changing demand and viability forcing some to be re-planned, there are opportunities for sites which can be built out into a relatively supply constrained new homes market.

New home completion levels in Bath & North East Somerset are forecast to more than double from an average of 382 units per annum during the last five years to 795 units per annum over the next five years. This would bring the delivery of new homes in line with historic delivery in Bristol with stock increasing an average 1.1% per annum compared to Bristol's historic rate of 1.3%.

Even with higher levels of new build supply in Bath, we expect that the units will be absorbed into the market with limited impact on prices. The increase in supply is projected to be matched by a similar increase in the number of households in what is already a high demand market. In Bristol the total number of households is projected to grow by 2.0% per annum, well above the forecast for completion levels.

Student demand continues to be an important driver of the both the Bristol and Bath housing markets. Over the last ten years, the number of full time students in Bristol increased by 32% to 39,000 and in Bath increased by 73% to 17,000. It continues to support the private rented sector in both cities and provides strong equity rich demand for new build from buy to let landlords and the parents of children studying in the cities.

GRAPH 2
New build as % of total transactions



Graph source: HM Land Registry

Bristol

During the downturn there was a shift in the type of purchaser for new build property, from investors to owner occupiers, which created mixed fortunes for developers in Bristol. Those developers who were able to appeal to owner occupiers, often with more imaginatively designed schemes in more established locations, saw prices stabilise and sales rate increase as confidence returned to the market. Schemes which were designed to appeal to the purchasers of the boom years struggled to maintain sales rates, with buyers looking for larger,

more generous units, rather than the investor focussed smaller properties of the past.

More recent evidence suggests a return of investors to the market during the early part of 2011 but developers should remain cautious. Schemes should continue to cater for owner occupiers as investor sentiment, and hence demand, may prove more volatile over the life of a scheme.

New build prices have performed well in Bristol over the last four years, with the unit prices achieved on two bed units rising by 25% and pricing on three bed units flat.

Bath

With less than 400 new homes completing in Bath and North East Somerset (less than a quarter of these located in Bath itself), purchasers have little choice in terms of available new build property.

Even with scarce supply, buyers remain focussed on the best stock with those schemes offering prime locations, high levels of specification and well designed internal space achieving premium values.

In both the new and second hand markets of Bath, there is a divide opening up between the best and the rest, with city centre housing proving the most resilient and offering the best performance over the past two years.

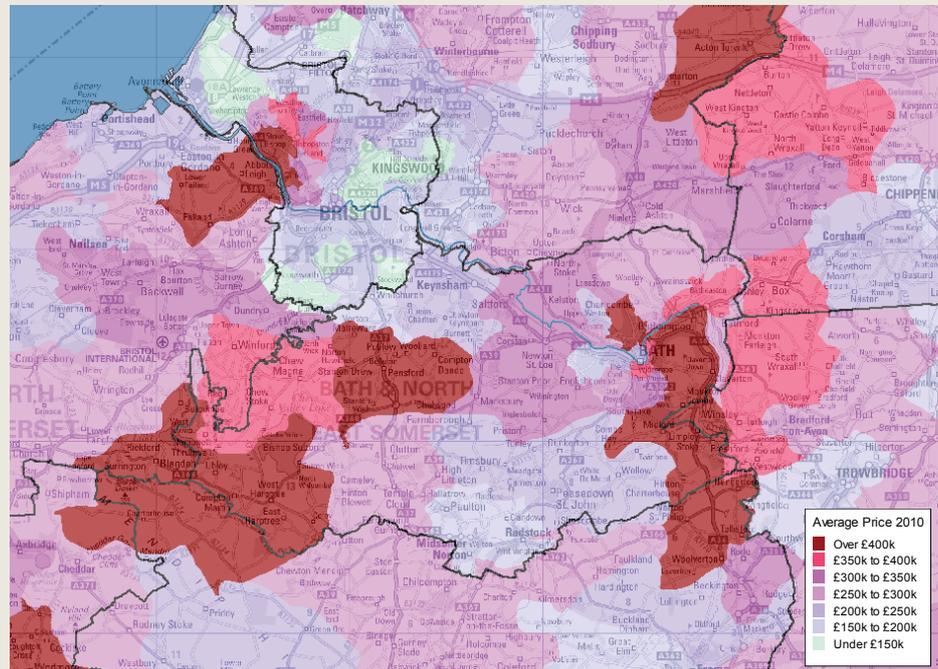
This sector of the market is attractive to downsizers, with both Bath residents and those moving to the city from other areas of the UK looking for larger units in the heart of the city. ■

TABLE 1
**Achieved pricing
Bristol 2010/11**

	Average price	Average price per sq ft	Average size (sq ft)
1 bed	£157,000	£310	506
2 beds	£269,000	£330	815
3 beds	£286,000	£250	1,144

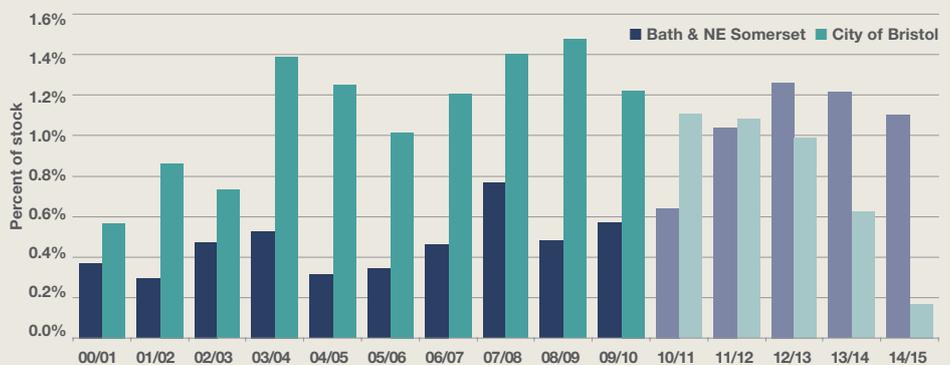
Data source: Savills Research

MAP 1
Average house prices



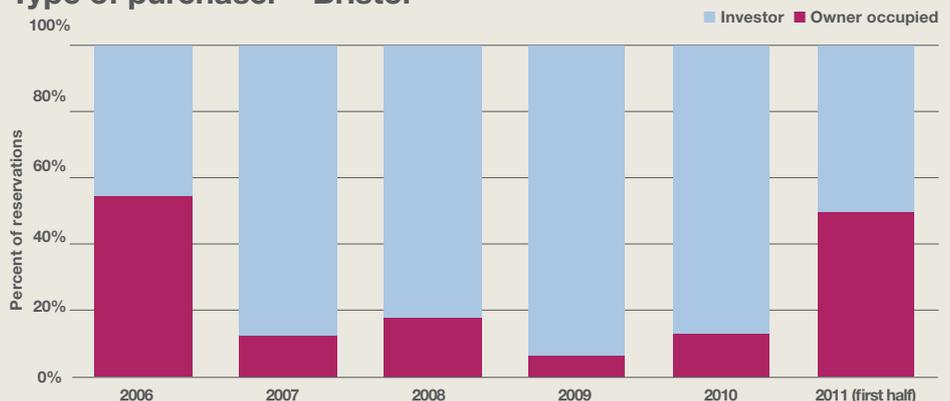
Data source: HM Land Registry

GRAPH 3
Housing completions, historic and forecast



Graph source: Council Annual Monitoring Reports

GRAPH 4
Type of purchaser – Bristol



Graph source: Savills Research

OUTLOOK

Key findings in this document

■ Bristol and Bath are expected to lead the house price recovery in the South West. Levels of development, which had remained strong, are now falling in Bristol, with the outlook for development in the short to medium term less certain and demand for housing remains strong in Bath despite rising new build delivery.

■ Over the next five years we expect growth in the South of England to outperform the rest of the UK. The South West is forecast to see house price growth of 21.5% between 2011 and 2015, with the potential for outperformance in high demand markets such as Bath and higher value areas of Bristol. This outperformance could well add an additional 5% to house prices over the five year period.

TABLE 1

House price forecasts The South West is set to outperform the UK mainstream over the next five years

Forecasts	2011	2012	2013	2014	2015	2011 – 2015
UK	-1.5% 	2.0% 	3.0% 	5.0% 	5.0% 	14.1%
South West	-1.0% 	3.0% 	4.0% 	5.5% 	5.5% 	18%

Graph source: Savills Research

“Bristol and Bath are expected to lead the house price recovery in the South West”

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