

Spotlight Guildford and Sunningdale Residential Development Sales

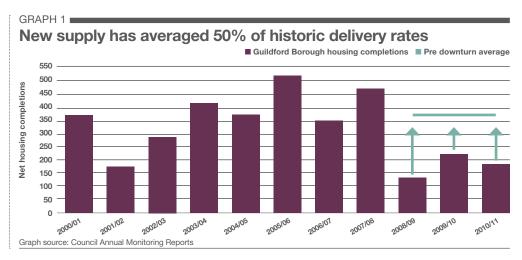
February 2012



SUMMARY

Recent undersupply of new homes, as projected demand for new product increases

- Housing transactions are currently around 30% below their 2007/08 peak across the metropolitan areas in which Guildford and Sunningdale are located, whilst values are around 5% from their 2007 peak; both market indicators are outperforming the regional South East benchmark.
- Recent undersupply of new homes across both Guildford and Sunningdale, through planning regulations and the economic downturn, has increased the opportunity to deliver new product across all market sectors, providing that pricing and tenure are appropriate.

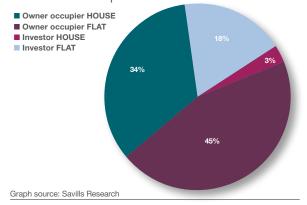


The residential property markets across Guildford and Sunningdale have outperformed their local and regional and markets since the economic downturn in 2008. Values are around 5% off their 2007 peak levels across the Metropolitan areas of Surrey and Windsor and Maidenhead, according to the Land Registry.

Since the onset of the housing market downturn transaction levels across England and Wales have suffered largely, as mortgage finance became tighter and deposit levels increased. While these circumstances remain, it is difficult to see transactions increasing.

However, high demand, equity richer markets across London and the South East, including Guildford and Sunningdale have seen higher than average transactions relative to other comparable markets, although still some 30% from peak levels.

GRAPH 2 Savills purchasers Predominant appeal to owner occupiers since 2010



■ Thirdly, low numbers of housing completions, both historically and into

Housing delivery

Another factor influencing the below historic transaction figures has been the reduction of new residential development completions filtering through the system. Guildford, Sunningdale and neighbouring towns have suffered three fold:

- One being associated with the financial economic downturn since 2008, the resulting lack of development finance, poor sentiment and limited financial viability;
- The second being the result of the government designating areas of heathland within the Thames Valley as the Thames Basin Heaths Special Protection Area (TBH SPA) under the EC Birds Directive.

The TBH SPA includes areas of heathland covering 11 different local authorities. The TBH SPA has been identified as an internationally important habitat for three rare species of bird. As a result, all housing developments within 5km of a SPA were subject to stringent tests and impact assessments.

This reduced the number of dwellings filtering through the planning system and entering the market. As pressure for housing grew within the Thames Basin, the existing guidance has been reconsidered, with the emergence of a tariff system to contribute towards environmental improvements.

the future will continue until the Local Development Framework is progressed (in particular the Strategic Housing Land Availability Assessment, Green Belt and Countryside Study and Core Strategy) and land is identified for development and allocated (through the Site Allocations and Development Control Policies Development Plan Document).

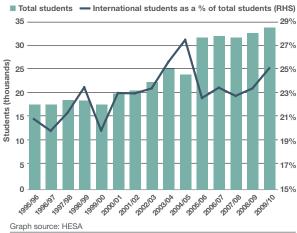
Low housing completions across Guildford, Sunningdale and other commuter towns have the potential to negatively impact the local area; including contributing to increasing house prices beyond the reach of the majority, restricting economic growth and increasing commuting to work leading to increased traffic congestion.

Current market conditions are allowing higher priced, equity rich sub-sectors of the new build sales market to function routinely, if development funding and planning regulations allow, compared to the retraction of lower priced, more mortgage reliant new build sub-markets, within the same local authorities.

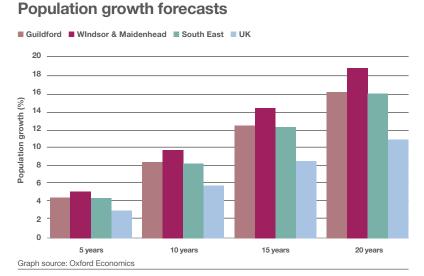
This reduced level of housebuilding has averaged around 190 units per year across Guildford Borough for the past three years, a circa 50% reduction from historic delivery rates. Since 2008 product has proportionally been delivered and targeted towards the more affluent, equity rich purchasers, rather than the mortgage reliant sector of the market across the region.

This has helped to insulate average residential new build values and premiums across Guildford as sales

GRAPH 3 Student numbers Guildford & surrounding towns



GRAPH 4



rates across the upper spectrum of the development scale have not been so severely impacted by mortgage rationing.

The same constraints to housebuilding have affected surrounding towns like Sunningdale in the same way, where average pound per square foot values can range from £400 to £600 depending on location and product.

Current estimates suggest that there are over 1,400 homes across Guildford Borough with planning permission, which are yet to be built, while work is progressing on the Town Centre masterplan.

Prospects for the development and sale of new build residential units aimed towards the middle to lower range of the development scale have been enhanced with the introduction of the government's NewBuy Guarantee scheme from March 2012.

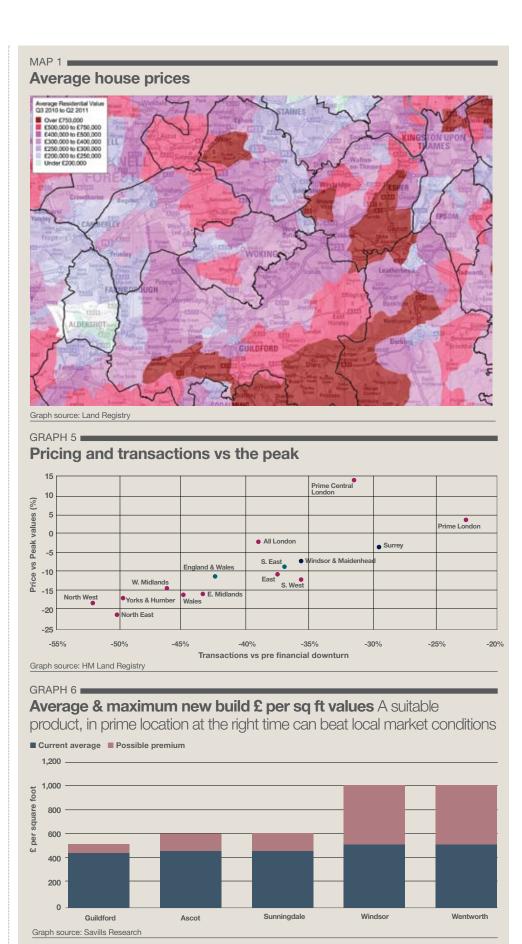
The scheme will see the government, developers and lenders share the risk on 95% loan to value mortgages on new build property, with a view to facilitate up to 33,000 new home purchases each year until the end of parliament. This policy opens up assisted purchase of new build houses and flats with a value of up to £500,000 to all qualifying purchasers, not only first time buyers.

Even with anticipated higher supply levels of new build residential units across the whole market spectrum within Guildford and Sunningdale over the next 18 months, we expect that demand, which has increased as a result of deficient supply, will absorb the additional units into the market, with limited impact on pricing or sales rates.

Type of buyers

Since the downturn the number of flats being approved has been decreasing. Developers across Guildford and Sunningdale have preferred to finance housing led schemes, favoured by equity rich owner occupiers, wealthy downsizers, mature first time buyers and young professionals moving out of London.

This approach subsequently decreases the overall affordability of local residential markets and restricts the ability to purchase for mortgage reliant buyers as deposit levels rise.



HOUSE PRICES Five-year forecast values

Forecasts	2012	2013	2014	2015	2016	2012 - 2016
South East Mainstream	-1.0%	1.0%	4.0%	5.0%	6.0%	15.7% ***
UK Mainstream	-2.0%	0.5%	1.0%	2.0%	4.5% ————————————————————————————————————	6.0%

Data source: Savills Research

Novestors have been active across Guildford, Sunningdale, Windsor and Ascot as they partly have global appeal. Savills data suggests international investors have accounted for around 5% of all purchasers in these areas over the past three years. These towns are attracting foreign equity from mainly South East Asian and American investors, purchasing as a result of close links to educational facilities and higher education institutions within the region.

University student numbers across the region have increased by around 90% over the past 10 years assisted by the University for Creative Arts being granted full university status in 2008. Students have been a continued important driver of both sales and rental demand, especially for new build flatted developments in and around Guildford and Sunningdale.

Both domestic and international students at both Royal Holloway

University and The University of Surrey continue to support the private rented sector and provide investors with assets yielding in the environs of 5.5%.

Future economic prospects for the South East and in particular the more affluent towns surrounding London are set to rebound faster than the UK average. Economic forecasters believe that the local authorities in which Guildford and Sunningdale sit will outperform the regional and national trends, with local employment and economic growth to be around 2% higher during 2012.

Population projections provide further evidence that demand for housing is set to remain, provided that pricing and tenure is appropriate. Approximate increases of around 5% and 9% over the next 5 and 10 years are forecast for both Guildford and Windsor and Maidenhead.

OUTLOOK

The market in 2012

- The weak economic environment and decreasing employment sentiment within the financial and business services sector, is likely to limit value and transactional growth in 2012.
- A shortage of new build residential supply has insulated values across Guildford and Sunningdale.
- Completions are forecast to increase over the next 18 months as SPA restrictions are reconsidered and developers concentrate on high demand locations driven by existing equity and the introduction of NewBuy.
- Over the next five years we forecast house price growth in London and the South East of England to lead the rest of the UK. The South East is forecast to see five year house price growth of 15% between 2012 and 2016, with the potential for outperformance in high demand markets such as Guildford, Sunningdale and surrounding commuter towns.
- This outperformance is attributable to a lesser reliance on mortgage finance and a progressive flow of housing equity from the capital.
- Rental values across the South East are forecast to continue to increase by 23% over the next five years, improving investment yields by 50 basis points in the short term.

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