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UK Residential

RESIDENTIAL PROPERTY FOCUS Q3 2012

Market forecasts
Five-year house price values

Part of the union

Is the UK housing market becoming increasingly European?

Prime London: Perception and reality

Prime Regional: A market of contrasts

Development: London's housing supply

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Foreword
WE'RE NOT SO DIFFERENT AFTER ALL

As the UK housing market reveals itself to have more in common with Europe than first thought, understanding regional complexities becomes key

It would appear the old European order in housing markets has changed quite substantially while we weren't looking. As housing markets become more similar at an international level, the local and sectoral differences within nations are becoming more important and more pronounced.

It is always a little bit shocking to find truths you have held dear for decades are actually wrong – so I have been shaken this quarter to find that not everything in the eurozone is as thought. Most media reports have for years painted a picture of very different markets across the continent. They usually suggest the UK is exceptional in the way it is structured and behaves. We have come to accept the popular wisdom that "an Englishman's home is his castle" and, unlike our European cousins, that we are a nation of homeowners.

Remarkably similar

Not so. It turns out the UK is much more like Europe than we thought. While the recent experience of boom-bust has differed between countries, owner-occupation rates and average house prices have converged. We are now remarkably similar to other countries in Europe in terms of typical house prices and rates of owner-occupation (which are now actually below the EU average).

As international markets adjust to the new realities of finance and affordability, it would seem that sub-regional geographies vary far more within nations than between nations. This means that average prices are becoming increasingly meaningless and conceal a huge range of different experiences.

Within Europe, the world cities of London and Paris have been behaving more like each other than like other regions in the same country. Prime international markets across the globe have more in common than those cities have with their provinces.

In the UK, we have long emphasised the likely different outcomes between northern regions and the London-dominated South.

Local diversity

All this has important implications for clients seeking to develop and invest under a wide range of different local circumstances. We have never had to look more closely at local demographics, economics and the migration of equity in order to assess future demand and viability.

All this local diversity means there never was a worse time to be looking at 'one size fits all' policies to stimulate housing construction, private renting or regeneration. The issues for Newcastle are very different to Newbury's and different again to Newham where even East London is proving a very different market to West London.

Government review bodies such as Montague are going to have to be well versed in the complexities of the market to make their informed recommendations. Lobby groups increasingly have to understand their position in a complex firmament of other interests in order to advocate effective interventions. And everyone interested in improving housing supply and affordability will need to be open to a wide variety of potential solutions to make this happen.

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Executive summary

The key findings in this issue

- The euro area overall has seen much more subdued housing market behaviour. Average house prices did not rise so high in the early noughties and have not fallen so much subsequently. See pages 4/5

- In the second quarter of this year there were more than 100 sales of £5 million+ property in London. Aggregate proceeds of these sales exceeded £1 billion for only the fourth time in the past five years. See pages 8/9

- The internationalisation of the country house market in the South East of England is still in its infancy, but is likely to be a factor that shapes the top end of the market over the next decade. See pages 10/11

- Infrastructure is key to unlocking the development pipeline of larger sites that tie up a substantial proportion of London's development potential. Areas that benefit from infrastructure led regeneration are among the most likely to be progressed. See page 12/13

Contents

Market dynamics

IS EUROPE'S HOUSING MARKET UNIFYING?

With the difference in average house price values narrowing, and levels of owner-occupation shifting, the housing markets in Europe are sharing more similarities than ever before

Words by Yolande Barnes

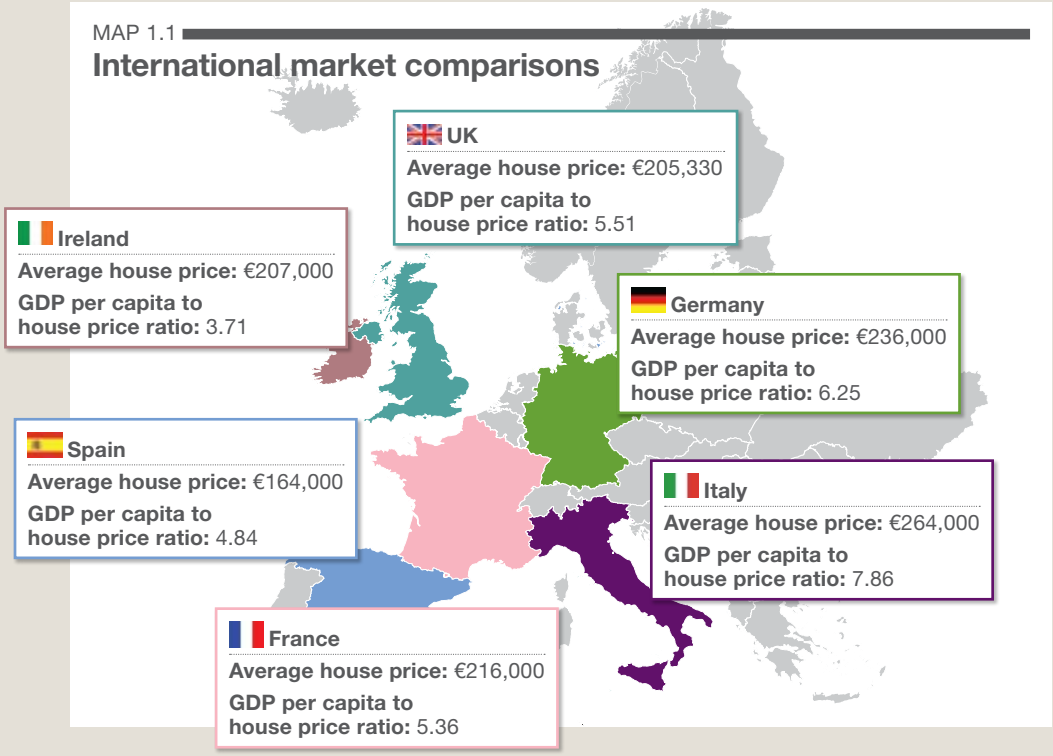
Not all housing markets are equal. The US papers are now full of stories of recovery but only after one of the biggest house price crashes in history. Meanwhile, there are some countries in Europe than have not seen any price falls at all. Austria, Belgium and Finland, for example, have seen steady price growth over the entire period of credit crunch and eurocrisis.

The euro area overall has seen much more subdued housing market behaviour. Average house prices did not rise so high in the early noughties and have not fallen so much subsequently.

The price crash in the US seems to be commensurate with the extent of house price rises prior to the demise and has left median prices well below the eurozone and UK averages. The UK seems not to have overheated prior to the crash in the same way as the US but average house prices have now fallen to below the EU average, having been above in 2007. It is now inflation in both the eurozone and UK that is stripping out the value of housing rather than absolute price falls.

MAP 1.1

International market comparisons



Uniform returns

In this respect, the US has gone through a different housing market cycle to the UK and Europe. The forced sales and repossessions have meant that prices have adjusted as the UK did in the early 1990s: rapidly and steeply. With the notable exceptions of Ireland, Spain and Greece, the European adjustment has been different. Low interest rates, higher than expected rates of employment and low levels of repossessions have meant that house prices have lacked the mechanisms of market oversupply to precipitate steep falls. Europe's housing markets could be in for a long period of attrition.

A closer look at countries within Europe reveals a very direct relationship between the extent to which house prices grew prior to 2007/8 and the extent of price falls subsequently. By this measure, only Italy looks as if it should be in for further falls.

There has been a surprisingly uniform return to similar average house price levels across Europe in many countries. It would appear that localised differences, for example the differences between the Paris and London markets compared to the countries in which they sit, are coming to matter more than the differences between European countries. By European norms, Italy still looks possibly overvalued but other differences are largely explained by reference to economic performance.

Owner-occupier levels

The ratios of house prices to economic performance, measured by GDP per head of population, are remarkably consistent over the euro area, averaging just over five times GDP. Again, on this measure, Italy looks relatively overvalued, while subject to what happens to their economies going forward, the USA, Ireland and Greece look either as if they may have overcorrected or that the rest of Europe still has further downward correction to come to catch up with them. We think that the stronger European economies

will continue to see real, rather than nominal house price erosion – perhaps for some time, as a result. Further economic woes in the weakest economies, that adversely impact on GDP per capita, could trigger further associated price falls.

Dispelling old myths

This similarity between international housing markets perhaps comes as a surprise to those of us who are used to being told how different our housing market is to Europe's. Both the media and learned journals have often reported in the past that the UK is unusual in having such a high incidence of owner-occupation and low incidence of renting.

While this may have been more true 20 years ago, especially in comparison to pre-unification Germany, it is certainly not true now. According to Eurostat figures for 2009, the UK had lower rates of owner-occupation, at 70%, than the eurozone average of 72%. Since then, owner-occupation rates have slipped further, to 69% according to the latest survey of English Housing.

This leaves the UK ranked alongside countries with the lowest owner-occupation rates in Europe and on a similar level to France, Denmark and the Netherlands. Even Germany, since unification, has a higher level of owner-occupation than most people think. Though the lowest in the eurozone, it is still at 56% according to Eurostat.

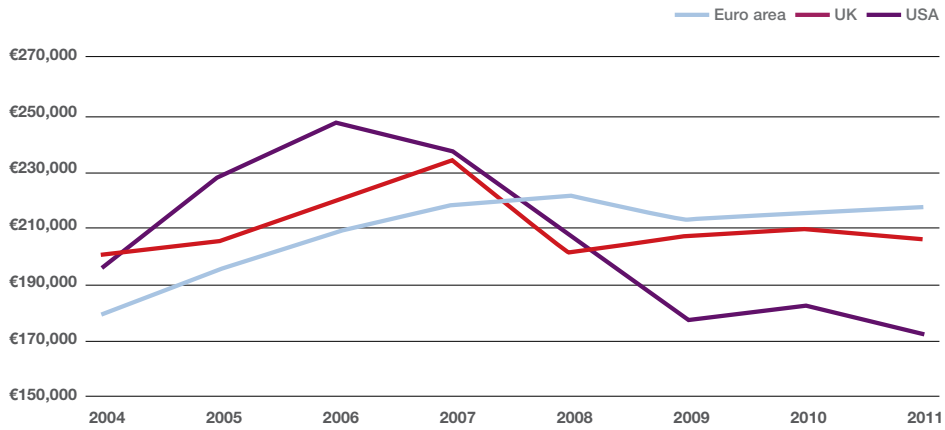
Market health check

So, other than illustrating the increasing similarities between Europe's housing markets and dispelling some old myths, does this tell us anything about the health of those markets or a country's economy? Our house price analysis would suggest that the relative health of housing markets has more to do with the extent of over-borrowing and price overheating than it does with the absolute levels of owner-occupation.

While there does appear to be something of a negative relationship between the size of a country's economy and levels of home ownership, there is nothing to suggest that home ownership levels per se make a housing market more volatile. Belgium and Finland, for example, have higher levels of owner-occupation than the UK but have simply continued to grow and have not seen price falls in recent years. It could be that higher levels of

GRAPH 1.1

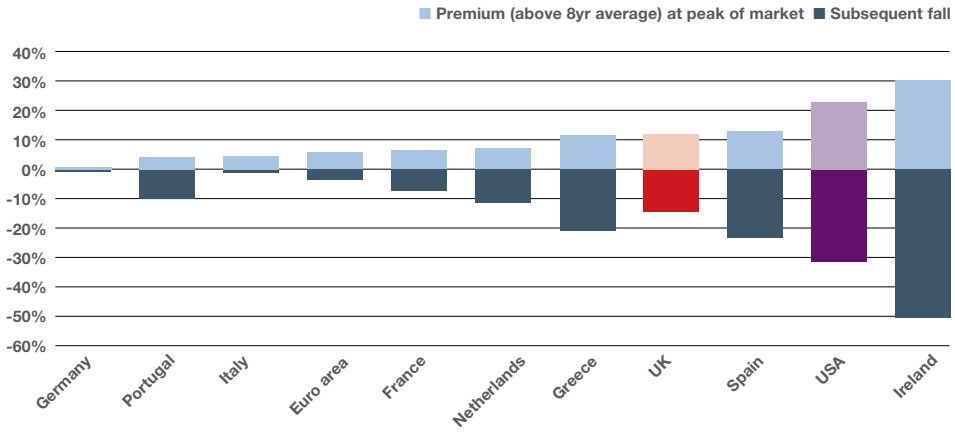
UK, Eurozone and USA – Average House Prices 2004-2011



Graph source: Savills Research, Eurostat

GRAPH 1.2

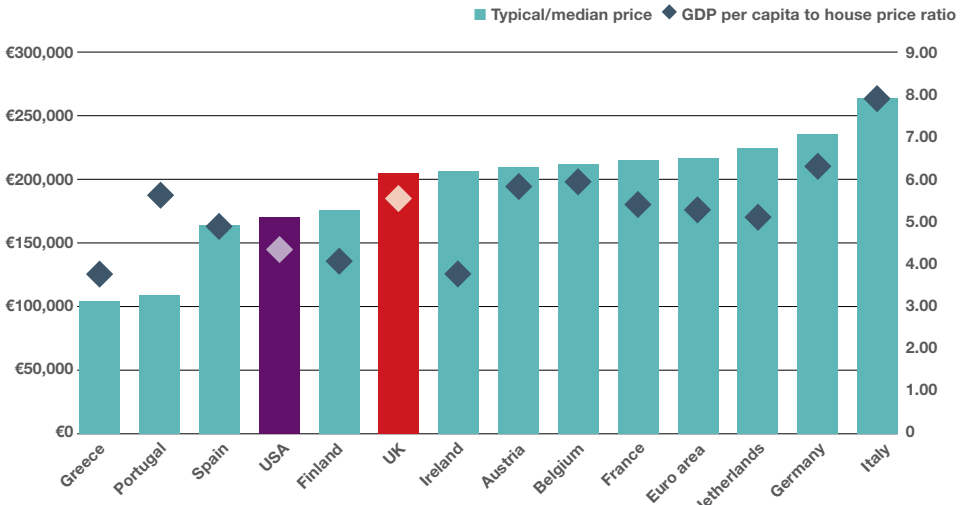
International house price movements



Graph source: Savills Research, Eurostat

GRAPH 1.3

International house price comparison



Graph source: Savills Research, Eurostat

GRAPH 1.4

Owner-occupation as % of stock

Country	% owner-occupied stock 2009
Austria	57.5
Belgium	72.7
Bulgaria	86.8
Cyprus	73.8
Czech Republic	76.6
Denmark	66.3
Estonia	87.1
Finland	74.1
France	63
Germany	56.2
Greece	76.4
Hungary	89.8
Ireland	73.7
Italy	72.5

Country	% owner-occupied stock 2009
Latvia	87.1
Lithuania	91
Luxembourg	70.4
Malta	79.2
Netherlands	68.4
Poland	68.7
Portugal	74.6
Romania	96.5
Slovakia	89.5
Slovenia	81.3
Spain	83.2
Sweden	69.7
UK	69.9
EU 27	73.5

Graph source: Eurostat, ONS

owner-occupation are more indicative of a lack of rental alternatives. It is noticeable that the old communist bloc countries, such as Hungary, Lithuania and Romania, for example, have the highest levels of owner-occupation and the least developed private or public sector property investment markets.

Countries with larger and more mature economies seem to have developed a larger and more diverse rental stock – in a wide variety of ways, driven by both private and public sector landlords. The UK is increasingly in this club – and it seems certain that other Eastern European economies will join as they develop.

Market fundamentals

To understand the differences in house price performance then, we have to look at a range of different factors and are better looking at the fundamentals of housing finance and household finances in assessing whether a market is overheated rather than at the structure of home ownership.

Meanwhile, whether closer political and economic union is achieved or not, average European house price levels seem to bear an increasing similarity at a national level. It is the local and sectoral variations between regions and cities that, we suspect, will start to matter much more.

UK growth forecasts

National house prices to fall slightly as rental levels increase

In mid-July the International Monetary Fund projected that UK house prices would inevitably decline by 10% to 15% relative to income, given that house price to income ratios (HPHI) remain 30% above their historical average.

The HPHI ratio does not necessitate a fall in nominal house prices. Areas of the UK with the highest HPHI ratios are currently some of the most robust in the country, whether that is measured by reference to annual house price movements, transactions levels or rates of repossessions. This reflects the fact we have shifted to a market that is dominated by equity rather than debt, one that favours more established prime locations.

The funding of the debt element has benefited from current low interest rates which are offsetting the weak economic outlook and the lack of access to mortgage debt. Combined with lower transaction levels and increased levels of renting, these factors have resulted in an abnormal equilibrium in prices at a national level. Against this context we expect national house prices to fall slightly this year and remain broadly flat over the next three years. This would cause average mainstream market house prices to fall in real terms, such that any correction over the medium-term occurs because of inflation rather than by way of a fall in nominal terms.

On this basis we can see a return of inflation-adjusted house price growth from 2016, earlier in London and the South East, as economic growth acts as a trigger to improve buyer sentiment. Our forecasts are therefore for average prices to rise by a nominal 6.0% over the next five years, falling by 11% in real terms. For London we forecast a nominal rise of 19% with growth from 2014 as housing wealth is redistributed across the country and between different generations.

"Countries with larger and more mature economies seem to have developed a larger and more diverse rental stock"

Yolande Barnes, Savills Research

House price values
MARKET FORECASTS

PRIME MARKETS
Five-year forecast values, 2012-2016

	Change from peak to date	2012	2013	2014	2015	2016	5 years to 2016
Prime Central London	20.9%	3.0%	0.0%	5.0%	6.5%	6.5%	22.7%
Prime Regional	-17.4%	-3.0%	2.5%	4.0%	5.5%	5.5%	15.1%
Prime South East	-12.2%	-2.5%	3.0%	6.5%	6.5%	6.5%	21.3%
Prime South West	-28.6%	-3.5%	2.0%	4.0%	4.5%	5.5%	12.9%
Prime East	-14.5%	-2.5%	2.5%	4.0%	4.5%	6.0%	15.1%
Prime Midlands/North	-25.1%	-6.0%	2.0%	2.0%	4.5%	5.0%	7.3%
Prime Scotland	-19.5%	-4.0%	1.0%	2.0%	3.0%	5.0%	7.0%

Source: Savills Research

MAINSTREAM MARKETS
Five-year forecast values, 2012-2016

	Change from peak to date	2012	2013	2014	2015	2016	5 years to 2016
UK	-10.4%	-2.0%	0.5%	1.0%	2.0%	4.5%	6.0%
London	-0.4%	-0.5%	1.0%	5.0%	6.0%	6.5%	19.1%
South East	-5.9%	-1.0%	1.0%	4.0%	5.0%	6.0%	15.7%
South West	-8.9%	-1.5%	0.5%	2.5%	3.5%	5.0%	10.3%
East	-9.4%	-1.0%	1.0%	3.5%	4.5%	5.5%	14.1%
East Midlands	-10.6%	-1.5%	0.5%	2.0%	3.0%	5.0%	9.2%
West Midlands	-10.9%	-2.0%	-1.0%	0.0%	0.0%	3.5%	0.4%
North East	-14.6%	-2.5%	-1.5%	-1.5%	-0.5%	3.0%	-3.1%
North West	-15.2%	-2.0%	-1.0%	-1.0%	0.0%	3.5%	-0.6%
Yorks & Humber	-14.1%	-2.0%	-1.5%	-1.0%	-1.0%	3.0%	-2.6%
Wales	-14.9%	-2.0%	0.5%	0.5%	1.5%	4.5%	5.0%
Scotland	-10.7%	-4.0%	0.0%	0.0%	0.5%	2.0%	-1.6%

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

Source: Savills Research forecasts based on Nationwide actuals

Prime London
PERCEPTION AND REALITY

While the cultural, economic and political 'pull' factors of London remain fundamentally sound, 'push' factors, such as a higher tax burden, are also influencing the market

Words by Lucian Cook

It is over three years since prices in the prime London market bottomed out. Over this period there has been a strong rebound in prices such that on average they are 21% above their 2007 peak in central London.

However, there are signs that price growth is starting to level off in the face of renewed economic uncertainty and the changed tax environment that we looked at in our last edition of this publication.

In the core areas of central London prices continued to rise in the second quarter of the year with values in locations such as Chelsea, Mayfair, Belgravia and Knightsbridge up by over 1%. However, in Marylebone, Notting Hill, Kensington and Holland Park they fell marginally.

The wider benefits

While international buyers have been a familiar feature of the prime London markets over the 30 years that we have been monitoring them, they have been particularly crucial to the market over the recent past. By contrast, there has been precious little sign of domestic bonus money since the downturn.

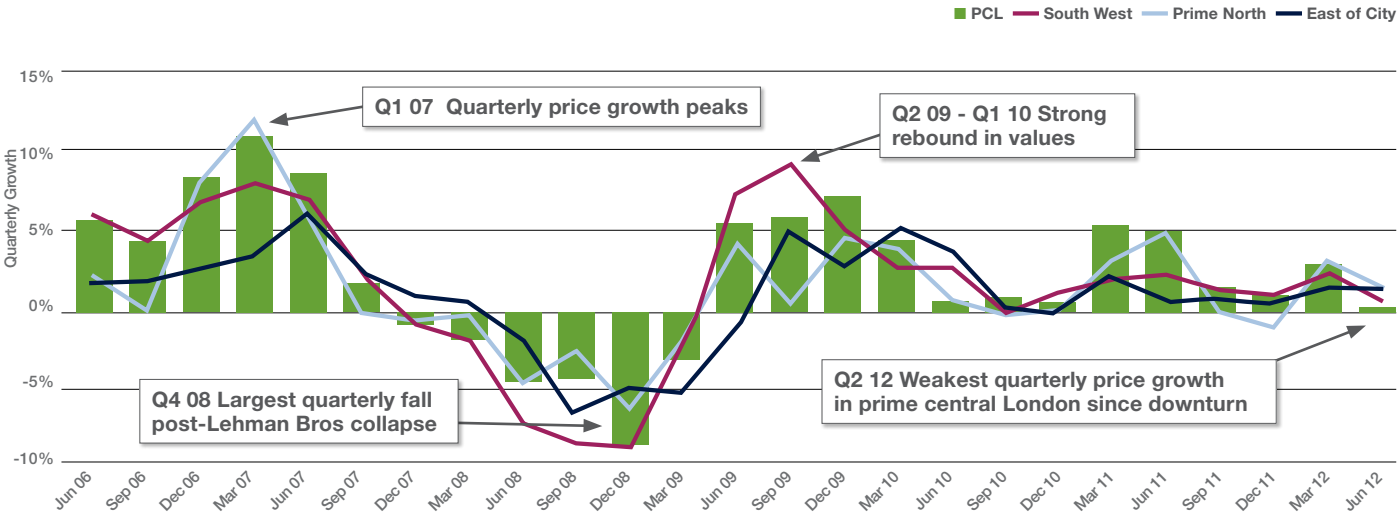
In 2011 and 2012 overseas buyers accounted for one third of buyers of all prime London property and 59% in central London (78% in the new build markets over £5 million).

There is a common perception that the majority of such buyers flit in and out of London, avoiding spending 90 days in the country and thereby remaining non-resident for tax purposes. But our latest analysis shows that two thirds of overseas buyers across prime London are purchasing their main residence. In central London the figure is just under half. For these buyers, it has not just been about a safe haven purchase or an exchange rate play, although both have clearly played their part in initiating and sustaining the recovery.

The wider benefits of London as a place to live and work are just

GRAPH 2.1

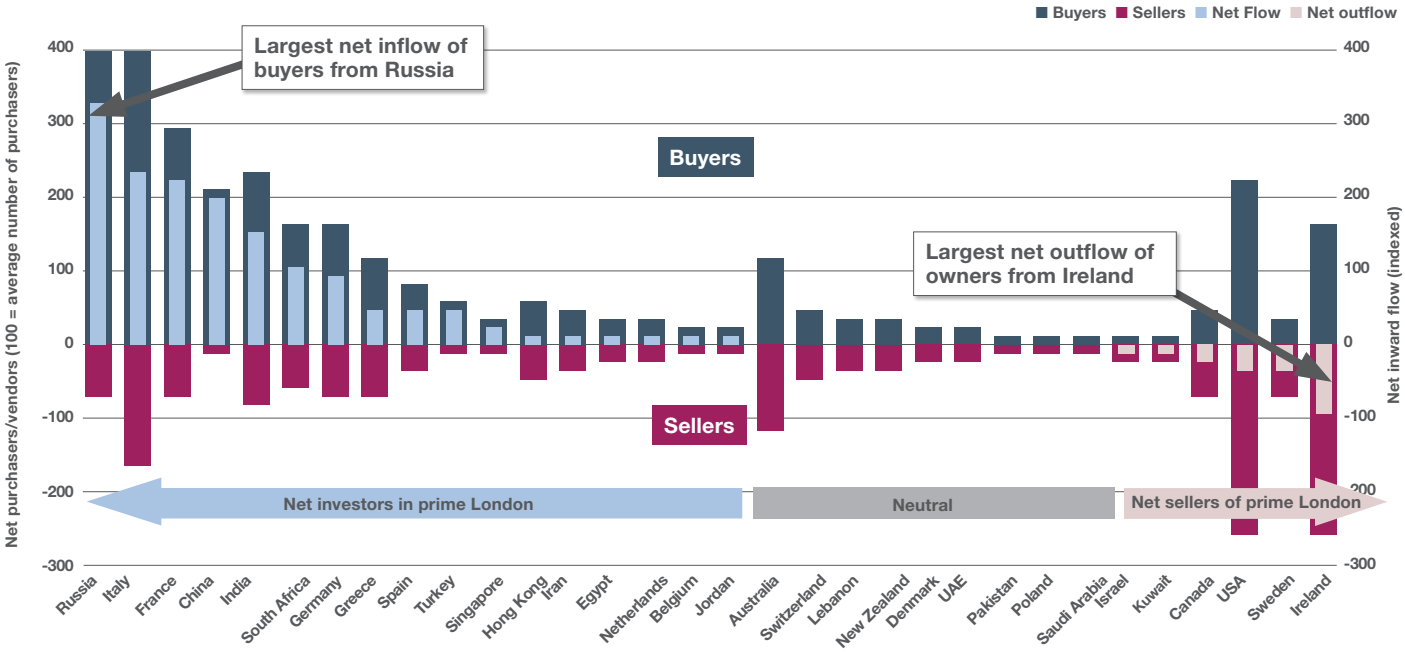
Prime London Capital Values Quarterly Growth



Graph source: Savills Research

GRAPH 2.2

The most active countries, net inward flow, 2011/12



Graph source: Savills Research

as important. This is influenced by, though not entirely dependent on the UK tax environment which has been favourable. Yet there is little doubt that the stamp duty and associated tax changes for properties worth over £2 million have made it more difficult to structure transactions in a way that protects the occupier's tax position.

Push and pull factors

It is also clear tax changes have contributed to a slowdown in activity, and that it will take time for the market to absorb the higher tax burden associated with the ownership of prime London property. This indicates a lull in the market that we built into our forecasts for 2012 and 2013 published back in November last year.

But this does not indicate that the market will be destabilised. The strong cultural, economic and political 'pull' factors of London remain unaffected.

Education is also an important pull factor that can impact on the nature of international demand in a specific location. For example, it accounts for strong demand among French buyers around the lycées of Kensington and Fulham.

The 'push' factors driving buyers to London change, affecting who is buying, where and what. In the 1970's demand was dominated by Middle Eastern oil money before the arrival of US bankers and brokers in the early 1980's.

In the early nineties money from the Asia Pacific region took advantage of a weak sterling while in the mid-noughties wealth generated across Western and Eastern Europe flowed into the prime markets of London.

Currently the biggest net inflows of international buyers are from Russia, Italy, France, China and India.

Pausing for breath

The very wealthy from these countries have ensured that sales of £5 million+ property have remained strong despite a recent lack of urgency among buyers in other parts of the prime market.

In the second quarter of this year there were more than 100 sales of £5 million+ property in London. Aggregate proceeds of these sales exceeded £1 billion for only the fourth time in the past five years. New build stock tailored to the needs of these buyers has fared particularly well, accounting for 15% of such sales.

This high end activity indicates that the fundamentals of the prime London markets look sound. This should underpin medium-term price forecasts. However, lead indicators of demand, such as applicant registrations, suggest a cooling in demand and a period where the market as a whole pauses for breath.

As PCL cools...

How will the rest of the market fare?

Other prime London markets have benefited from the injection of housing equity from overseas buyers both directly and indirectly through the displacement of domestic buyers out along London's wealth corridors.

A lull in prime central London is therefore likely to have a knock on effect as such markets fall back on existing equity accumulated through historic house price growth.

This means there is the ability for the market to remain fluid, though it requires buyer and seller expectations on price to be matched, with both parties acknowledging weakened drivers for house price growth.

"In the second quarter of this year there were more than 100 sales of £5 million plus property in London"

Lucian Cook, Savills Research

Prime Regional
A MARKET OF CONTRASTS

With relatively low levels of wealth flowing out of London, the UK's prime regional markets have witnessed a markedly differing set of results

Words by Sophie Chick

TABLE 3.1
Five year growth in Estate Assets

	% growth from H1 07 to H1 12
Main House	-12.2%
Cottages	-10.6%
Farmland & Farm Buildings	66.6%
Woodland, Sporting and Misc Land	36.0%
Commercial & Development	-14.5%
Marriage Value	-50.6%
Total Growth	-1.6%

Table source: Savills Research

In contrast to the markets of London, the performance of prime regional property has been patchy since the market downturn.

In the last 12 months, prices in this market have fallen by 3%, constrained by caution among predominantly domestic buyers, in much the same way as the mainstream markets.

Behind this general trend, different property types and locations have reacted differently to changing market conditions.

Within the core, prime regional markets townhouses have held up well across all regions, but particularly the South East. These markets tend to benefit from an element of stock scarcity, particularly for traditional family houses, which has helped to temper major price fluctuations in locations such as Tunbridge Wells and Cambridge and districts such as Clifton in Bristol and Mount in York.

Differing fortunes

The variation in performance is also evident within the top end of the prime regional market. This is demonstrated by the very different fortunes (see opposite) of four properties that were all worth £3 million pounds in June 2005.

This shows big variation in the performance of, say, mansions in the most exclusive private estates of the suburban South East, where buyer profiles are similar to those of central London, and prime coastal property in Cornwall, where prices were inflated by bonus money in the boom years of the market.

Both provide evidence of how prices with sub-markets can be re-pegged, either upwards or downwards, because of a change in the buyer profile.

In St George's Hill, the arrival of international wealth, particularly from the CIS, has reignited the market with 18 sales in the first six months of 2012 generating aggregate sale proceeds of just under £90 million,

"In St George's Hill, the arrival of international wealth has totally reignited the market"
Sophie Chick, Savills Research

GRAPH 3.1
Private Estate v Rural Estate, Price Index from December 2005 – Jun 2012

Graph source: Savills Research

a figure only previously exceeded in the second half of 2005.

By contrast, in Cornwall, the absence of 30 and 40 something buyers, has caused prices to become re-pegged to the purchasing power of the grey pound. That has played an important part in freeing up the market but has suppressed prices.

Though these examples highlight the extremes, they have some relevance for the wider market.

Shaping the top end

The internationalisation of the country house market in the South East is still in its infancy, but is likely to be a factor that shapes the top end of the market over the next decade.

In the shorter term, the rest of the prime regional market is likely to see only relatively low levels of wealth flowing out of London. This will not change significantly until economic growth gives potential buyers the confidence to cut ties with the capital and exploit the wide price differential that has built up over the past seven years between London and the country.

The uber towns of the South East will give the earliest indication of the speed and strength of this change.

Estate assets

Across the private estates of Wentworth and St George's Hill average values are now 19.3% above their previous peak in 2007. By contrast, across the wider country house market where values across England and Wales values are 9.6% below their peak, and much further adrift in Scotland.

However, the dramatic rise in agricultural and woodland values mean that for the rural equivalent of the suburban private estate house, namely the mixed rural Estate values (see table 3.1), prices are broadly in line with five years ago. Over this period the agricultural component of the estate has risen from £4,100 to £7,300 per acre.

Similarly the increase in woodland and amenity land has offset the fall in marriage value between the assets (see table 3.1)

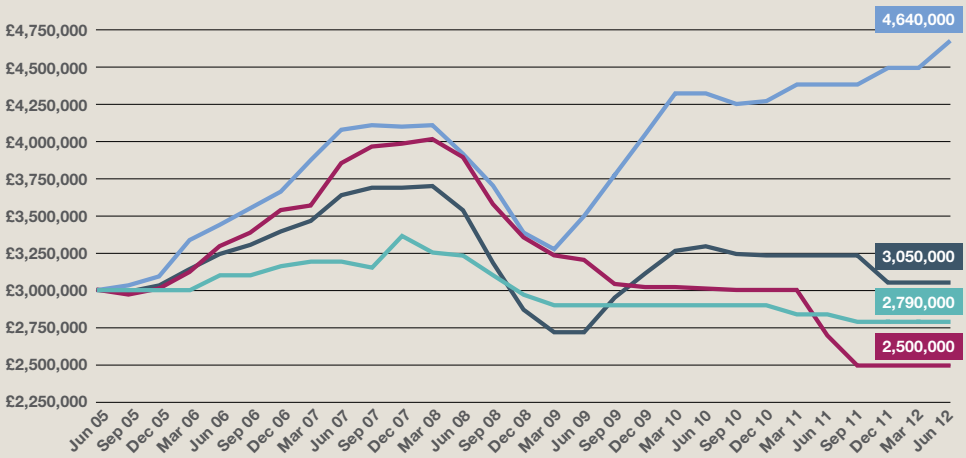
A TALE OF FOUR PROPERTIES

Valued £3 million in 2005, what is their value today?

Over the period since the middle of 2005, prices within the country house market have varied significantly according to market conditions. Figures from Savills Research department track values for four different country houses in four different locations whose fortunes have varied.

KEY
Property 1: Cotswolds
Property 2: North Yorkshire
Property 3: Coastal Cornwall
Property 4: Wentworth Estate

GRAPH 3.2



Graph source: Savills Research

1 **7,000 sq ft, 7 bed country house, set in 50 acres, near Painswick in the Cotswolds.**

Price growth of 12% since the bottom of the market reflects the enduring appeal of the area. Whilst prices are marginally above levels seen at the beginning of the period, the slow return of London money means the current value remains 17% below peak

2 **9 bedroom Edwardian property set in 20 acres on the southern fringes in North Yorks National Park.**

Slow to catch the ripple of positive sentiment from London and the South East, price growth was limited in 2006 and 2007. Broadly static prices since 2009 means the current value is 7% below its June 2005 level.

3 **6,500 sq ft, 6 bed Georgian rectory, near the River Fowey in Cornwall.**

Strong price growth in 2006 and 2007 was fuelled by city bonuses and other London wealth as Cornwall joined the 'it' crowd. Post-recession prices fell significantly until reaching a point where they can be supported by different types of buyers with lower budgets.

4 **8,000 sq ft, 5 bed modern mansion on the Wentworth Estate.**

Strong international demand means that price movements show parallels with Prime Central London. Despite price falls of 20% during the downturn, strong price growth prior to the credit crunch subsequent the recovery mean prices are over 50% above those in June 2005.

In Scotland the top end (£2m+) country house market saw values double at the peak, but they have now fallen back to 2005 levels. See forthcoming Spotlight: Scotland's Prime Residential Property Market for detailed analysis.

Development

LONDON'S HOUSING IN SHORT SUPPLY

Recent population figures have only served to highlight the existing shortfalls in housing supply and nowhere more so than in the capital, where the undersupply gap continues to grow

Words by
Jim Ward and
Katy Warrick

The release of the first set of 2011 census data in July contained valuable indicators for the housing market. In particular, the fact that the UK population was bigger than previous government estimates added further weight to the argument that current levels of house building are inadequate in the context of a growing population.

Housing shortfalls

Further interrogation of the data makes clear that this is not simply a story of undersupply at a national level, but much more one of insufficient product of the right type being built in the right location.

Of all of the regions, London saw the highest percentage increase in population over the 10 years to 2011 as it grew from 7.17 million to 8.17 million. Over that period the number of new households rose by 22,000 more than the increase in housing stock.

Perhaps more pertinently, the number of people per dwelling rose from 2.38 to 2.50, as a lack of house building forced increased levels of occupancy. This occurred despite the fact that the lowest growth in London's populations was amongst those of school age, suggesting more sharing among those of working age.

This can be used to estimate the housing shortfall that was built in London in the past decade. Our calculations suggest that a further 193,000 units would need to have been delivered to provide sufficient housing stock to maintain 2001 levels of occupation in the capital.

By contrast, applying the same measure to the North East of England suggests that increases to the housing stock exceeded the theoretical increased demand by 15,000, meaning fewer occupants per dwelling.

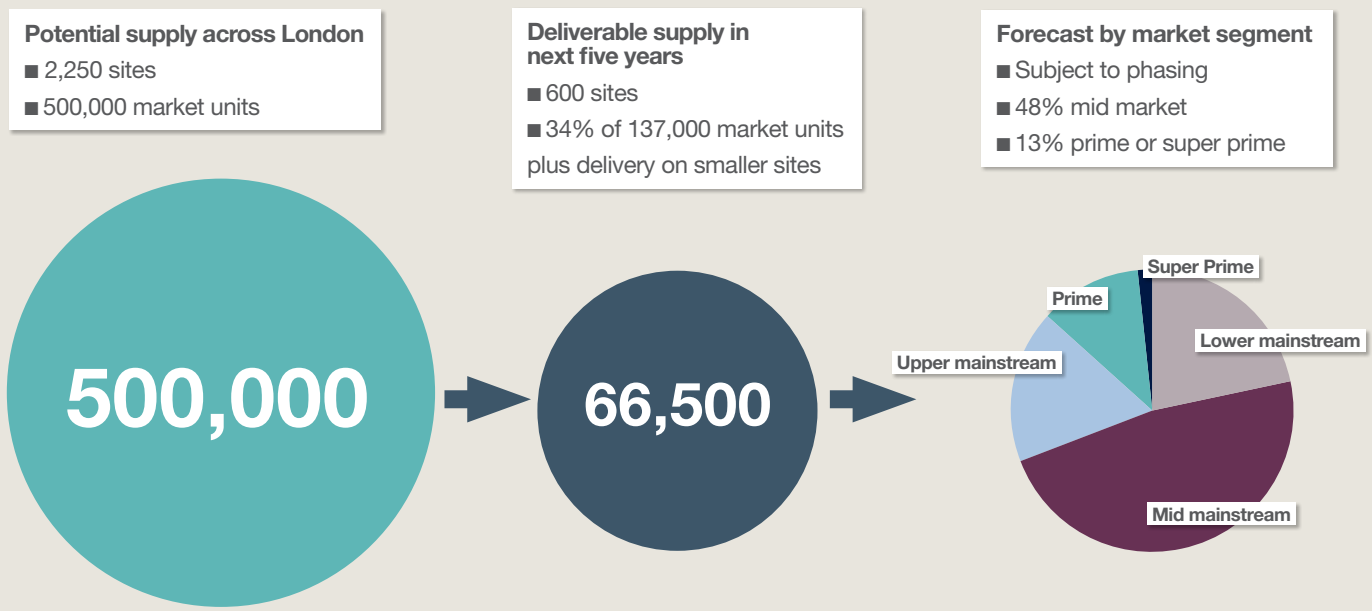
Focus on London

Our recent work reported in our *Spotlight on London's Housing Supply* suggests that shortfalls in housing delivery in the capital are likely to be exacerbated in the next five years due to the constraints of developing into a low transaction market, at a time when development finance is scarce.

The work identified 2,250 potential development sites across London with the capacity to provide over half a million new 'market' homes, but

GRAPH 4.1

London's potential and deliverable private housing supply



Graph source: Savills Research

only 600 of those sites are expected to deliver even part of their housing potential over the next five years.

We therefore believe that only 66,500 private market units are likely to be delivered over the next five years. Together with a shortfall in affordable housing provision, this means that the total new home provision will fall some 50,000 short of the Mayor's minimum housing target and around 79,000 short of household projections.

But the shortfall will not affect all London boroughs and sectors of the market equally.

It will generally be much easier for the market to sustain planned development in the more affluent upper mainstream and prime markets, on the back of wealth generated in London and the wider global economies.

Elsewhere, infrastructure is key to unlocking the development pipeline of larger sites that tie up a substantial proportion of London's development potential. Areas that benefit from infrastructure led regeneration are amongst the most likely to be progressed.

For example, improved connectivity around Crossrail stations at Hayes, Ealing, Whitechapel and the Royal Docks will bring forward substantial supply in conjunction, while the Nine Elms regeneration scheme will benefit from the extension of the Northern line.

"It will be much easier for the market to sustain planned development in the more affluent upper mainstream and prime markets"

Katy Warrick, Savills Research

Nonetheless, we expect only 9 out of 33 of London's boroughs to meet their housing delivery targets.

We forecast that the greatest volume of demand for housing will come in the lower mainstream market with values typically up to £450 per sq ft. This links to the fact that the highest population growth in the last five years was seen amongst London's 20 to 35 year olds, whose numbers increased by some 340,000.

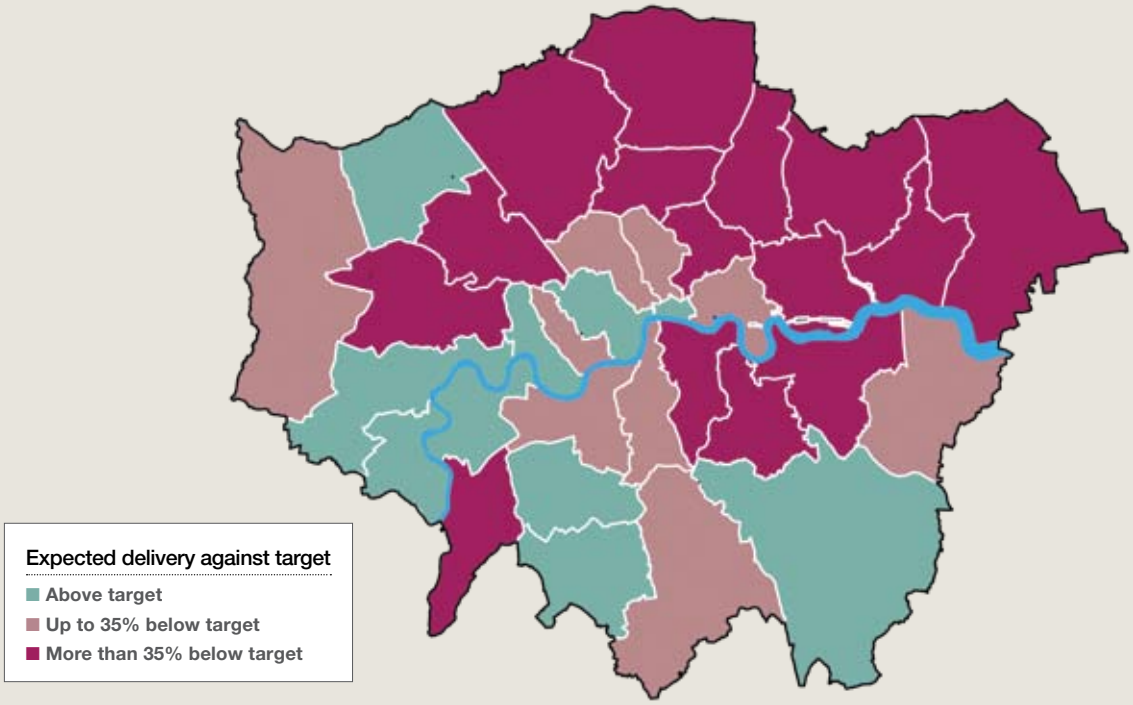
By contrast, there has been precious little growth in the pensioner population of London. This has increased by just 13,000 over the past 10 years, and owner occupiers within this group have proved to be more mobile by virtue of the housing wealth generated during their lifetime.

Despite schemes such as NewBuy and FirstBuy, mortgage constraints continue to limit the ability of the young to gain access to the housing market. This will drive more singles, sharers and young couples into the rental sector, where rising demand has resulted in the disproportionately high rental growth seen in the London markets.

For investors to tap into this demand will require the development of a workable build to let model, the proceeds of which could have the added benefit of pump priming the development of currently undeliverable larger sites. To this end, all eyes will be on the details of Sir Adrian Montague's report on institutional investment into the private rented sector.

MAP 4.1

More delivery needed to hit targets in all but 9 out of 33 boroughs



Map source: Savills Research

Market dynamics

NUMBER CRUNCHING

The highlights of the recently published English Housing Survey

3.617 million households in the private rented sector in England having risen by 260,000 in 2010-11. The comparable figure in 2005-06 was 2.445 million.

68% of all newly formed households entered the private rented sector. In 2005-6 that figure was 55%. It has become more difficult both for new households to buy their own property and for existing households to graduate out of private renting and into home ownership.

27,000 was the net movement of existing households out of owner-occupation into private renting. Five years ago the net movement between these tenures was 26,000 but the shift was out of renting into ownership.

59% of private renters expect to buy a property at some point in the future.

16% is the percentage of those with aspirations to buy who considered applying for a mortgage in 2010-11, but only one quarter actually did so.

47% of those who did not do so believed they did not have a large enough deposit, whilst 20% felt the cost of a mortgage would be too high.

43% is the average share of gross weekly income that those in private rented accommodation were spending on rent. 25% were in receipt of housing benefit.

19% by contrast owner occupiers were spending 19% of their income on mortgage payments.

Savills research team

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"As housing markets become more similar at an international level, the local and sectoral differences within nations are becoming more important and more pronounced."
Yolande Barnes

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"Our analysis shows that two-thirds of overseas buyers across prime London are purchasing their main residence. In central London the figure is just under half."
Lucian Cook

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"The release of the first set of 2011 census data in July contained some interesting indicators for the housing market."
Jim Ward

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