

New Homes: Which buyers remain active and why do they choose new build?



Key buyer groups still active despite market headwinds

The new homes market has seen a slowdown in buyer demand, like the wider housing market, as the new interest rate environment and removal of the Help to Buy (HtB) scheme take effect. Average sales rates as reported by two major housebuilders dropped to 0.3 sales per outlet per week in August 2023, down from 0.6 in September last year, despite many developers offering incentives to encourage sales.

The market is unlikely to become over-supplied however, as government data from DLUHC confirms that private new home starts and

completions are down 18% and 17% respectively in Q1 2023 vs 2022 levels. SME housebuilders cite rising materials costs and wage inflation in August's Federation of Master Builders survey, with almost half reporting that business profits are lower than expected or at a loss as a result.

But not all parts of the new homes market are in decline. Needs-based buyers, including first time buyers who are keen to get out of the undersupplied rental market, continue to transact. And a growing proportion of buyers are using cash, as revealed by Savills regional new

homes exchanges for H1 2023.

Additionally, purchasing new build as an investment property remains a popular choice for buyers, making up almost a quarter of exchanges in the first half of 2023.

Savills dealbook data shows there has been an adjustment in pricing, with the average £ per sq ft falling by -4.6% compared to 2022 values. This is in line with the falls seen in the wider UK market. The average achieved value has remained steady at 98.5% of asking price, demonstrating that there is still a strong market for correctly priced stock.

Market monitor
Key statistics for the new homes market



Of Savills new homes buyers used cash in H1 2023

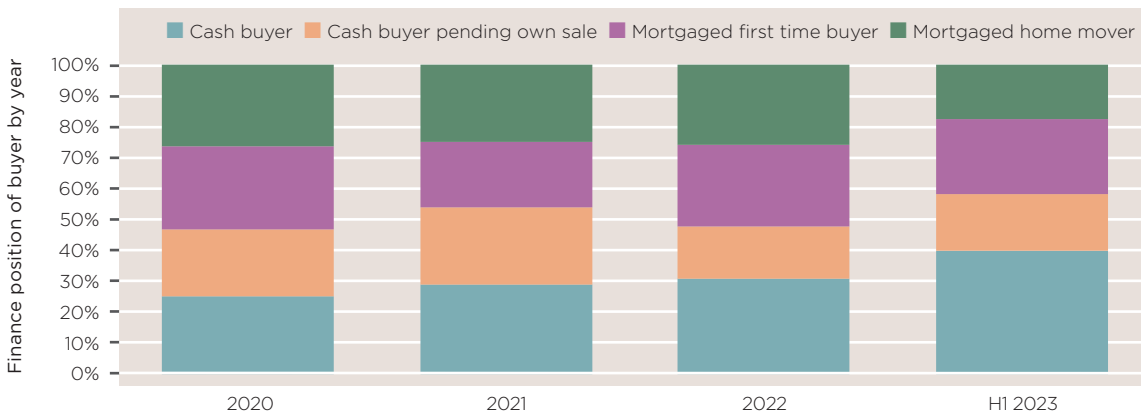


*Low maintenance & renovation costs
Top reason for choosing new build amongst all buyer types*



*Location
Most common compromise amongst first time buyers, ahead of size and spec*

Changing new build buyer type



Source: Savills regional new homes dealbooks

Who is buying new build in 2023 and why?

We surveyed over 200 Savills clients in August 2023, who had either recently bought a new build property or were researching their future new build house move. Comparing this with our own sales data reveals that there are two key buyer groups still active in the new homes market.

1. Cash-rich downsizers

A cash-rich, older group of buyers are taking up a larger share of the new homes market. 40% of exchanges by Savills regional new homes in H1 2023 were to cash purchasers, up from 29% in 2022. A further 18% plan to use cash specifically once their previous property sells. This is in line with a greater use of cash across the entire

market, as those who have the flexibility to avoid using costly debt do so. Downsizers are also an increasingly important part of the new build sales market, making up 15% of sales made in H1 2023, up from 10% in 2022. 70% of survey respondents whose motivation to be in the market was to downsize said that they would fund the purchase entirely by cash, with over three quarters of downsizers aged 60 and over.

Low maintenance

Ease and convenience are major drivers, with low maintenance the primary reason for choosing new build for over 80% of downsizers. The energy efficiency of the property was a key priority for 61% of buyers. This suggests that

opting for new build is an active decision for downsizers, rather than one born of necessity. However, if the second hand sales market continues to slow, the convenience of being chain free could become a growing attraction for new build; it is already cited as a benefit by 28% of the downsizer buyer group.

Family first

58% of downsizer respondents said that proximity to family was either their 1st or 2nd priority when considering the new home's locale, with proximity to local shops also scoring highly (53%). This contrasts to upsizer respondents, who placed proximity to a park or open space as one of their top requirements.

Country escape

42% of downsizer respondents said their location of interest was a rural or coastal area while a further 36% were opting for a town location. 60% said they were specifically after a house rather than a flat, with the majority with a minimum outside space expectation for a private garden (63%). This corresponded with larger budgets to play with - 62% of downsizers were looking at new build homes from £500,000 upwards.

2. Budget conscious first time buyers

Perhaps more surprising is the resilience of the first time buyer (FTB) in the new homes market. 24% of exchanges by Savills regional new homes in H1 2023 were to FTBs, in line with the average since 2020. Despite rising mortgage rates, first time buyers have been able to adapt to the new conditions by compromising on property or location, or asking for support, as revealed by our survey.

Location, location

First time buyers have had to forego their desired postcodes in light of recent interest rate rises. 75% of first time buyer respondents said recent market conditions created some compromise on location, 45% of which said significantly. 70% of our first time buyer respondents said they were looking for a city-based location, with 17% looking in the capital.

Connectivity to a train or tube stop was most important when considering a new build's location, followed by proximity to place of work as these younger buyers establish their careers.

Quality over size

First time buyers were less likely to say that they had compromised on the specification of the property than the size, in light of recent interest rates. 41% of first time buyers said they had made a significant compromise on size, much higher than any other buyer type. This suggests that FTBs are willing to consider smaller sized properties but are perhaps actively choosing new build over second hand for the superior specification often available. Over half of first time buyers are looking for a flat, with 94% of budgets under £500,000. This group will continue to be very price sensitive, although the cuts in mortgage rates in August from the major lenders will have provided some relief.

A helping hand

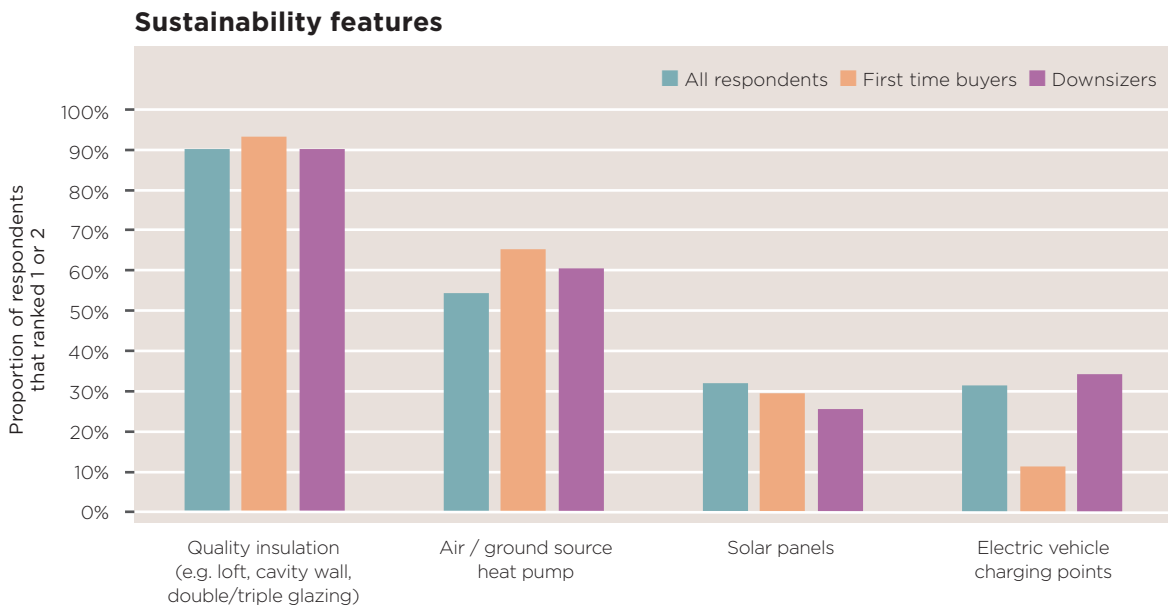
57% of first time buyer respondents said that increased interest rates and cost of living has had an impact on asking for financial support from family or clubbing together to buy. This is in stark comparison to just 3% of our downsizers. Almost a third of first time buyers ranked developer incentives or the Help to Buy scheme in Wales as one of their main reasons for choosing new build.

👉 **First time buyers are more willing to compromise on size or location to get on the housing ladder, but are still looking for high specification finishes** 👈

Preference for green features

Across all respondents, a high EPC rating and saving on energy bills was the second most popular reason for choosing new build, behind low maintenance and renovation costs. Quality insulation and air or

ground source heat pumps were the priority green features amongst downsizers and first time buyers, with less interest in solar panels or electric vehicle charging points.



Source: Savills regional new homes dealbooks

Savills team

Please contact us for further information

Sophie Tonge
Associate
Residential Research
020 3618 3528
sophie.tonge@savills.com

Alistair Walters
Analyst
Residential Research
07890982718
alistair.walters@savills.com

George Cardale FRICS
Head of Residential Development Sales
01179 100 351
gcardale@savills.com

Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, UK, Europe, Asia-Pacific, Africa, India and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted, in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

