Market in minutes

Prime Regional Residential Markets

A slow start to 2011 across prime regional markets, however, medium term prospects remain promising.

Normally at this stage of the housing market cycle, prime London leads the recovery and prime regional follows immediately. The early spring market saw prime London bounce, driven by overseas buyers with equity and a rush to beat the stamp duty rise. The surprise has been that this has not been replicated in the prime regional markets.

There may appear to be similarities with what happened in the 1970s when economic austerity and high fuel prices impacted the country house market and prices lagged London for some time. But we do not expect the current lag to be pronounced in 2011.

Economic uncertainty has encouraged some buyers to stay put or trade up in London, but signs are that equity is once again starting to migrate out of the capital with viewings picking up substantially in April.

Commuter effect

Even in the market leading prime South East, where the affluent London commuter is 'king' values grew by just 0.1% during the first three months of 2011, leaving values 11% from their peak.

During the first quarter of 2011 London purchasers did not filter out to the prime South East markets in the numbers normally expected, and there has been little sign of bonus money. The return of this London money to the prime regional markets will be critical to future performance.

This marginal price growth in the prime markets of the South East →

SUMMARY

An overview of the market

- While prime London residential markets recorded growth of 2.8% in the first quarter of 2011, values across the prime regional and country house markets increased on average by just 0.2% during the same period.
- In contrast to the prime London markets there was little noticeable increase in demand prior to the rise in stamp duty for properties worth over £1 million.
- Even though the second price slip that has afflicted the mainstream markets has largely been avoided in the prime regional markets, in contrast to prime London they have seen little if any upward movement in values during the past 12 months.
- The prime residential markets across the East of England is the only region to return annual price growth, recording an increase of 2.5% at Q1 2011.

has meant that there has been no significant stimulus for growth in the prime markets further afield.

It is therefore no surprise the prime markets across the Midlands and the North have failed to record price growth over the past three months such that prices remain some 20% from peak, although transaction levels indicate that prime markets remain more buoyant than the mainstream even in these parts of the country.

Further north, excess prime stock across Scotland is suppressing values which fell by a marginal 0.6% during the quarter leaving values 16% off peak. This is despite an increase of 39% in prime transactions in Scotland (£400,000 and above) in 2010 compared to 2009, with transactions in the first quarter of 2011 almost on par with the first quarter of 2010.

Increasing stock levels

A reflection of the balance between supply and demand is the increase in the number of months' stock available on the market, having regard to prevailing rates of sale. At the end of March there was the equivalent of 15.4 months of available stock, a figure 40% higher than March 2010 but 14% lower than March 2009 when the market bottomed out. ■

OUTLOOK

■ For now prime regional values show no signs of rapidly improving and much will depend on the extent to which wealth and equity flows out of London, that itself will be dependent on market sentiment.

■ Meanwhile the buying power of London home owners continues to increase. Family house values in prime South West London have risen by 49% over the past five years while values for prime regional property are no different to where they were at the end of the first quarter of 2006.

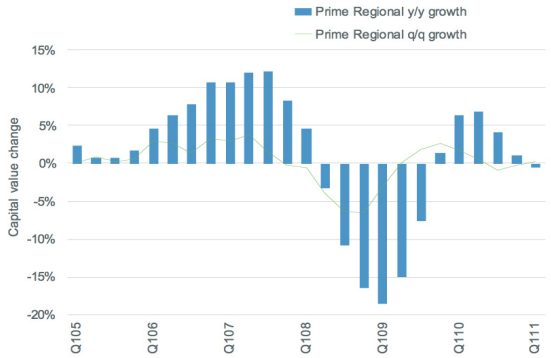
■ As economic growth gathers momentum we expect prime regional values to rise as equity flows out of London, which will initially feed into the markets of the South East and thereafter into other regional markets. Therefore despite a relatively subdued outlook for 2011 we forecast five-year growth of 23.8% for all prime regional markets and 29.8% growth in the South East. ■

Savills Prime Regional Residential Index

This Market in Minutes is derived from Savills Prime Regional Index. Published quarterly, the index tracks price movements at a regional level. The index is long running, with historic data back to 1979. For further information on the index, and the opportunity to subscribe to the detailed statistics, please contact Sophie Chick (schick@savills.com)

GRAPH 1

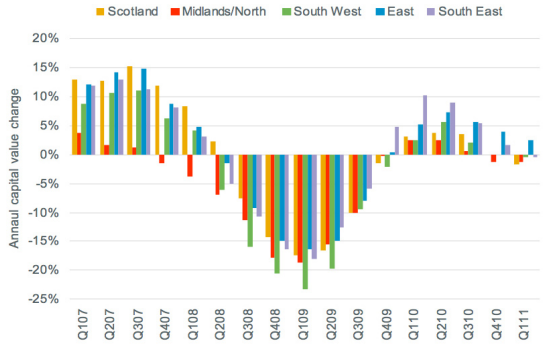
Quarterly values return positive



Graph source: Savills Research

GRAPH 2

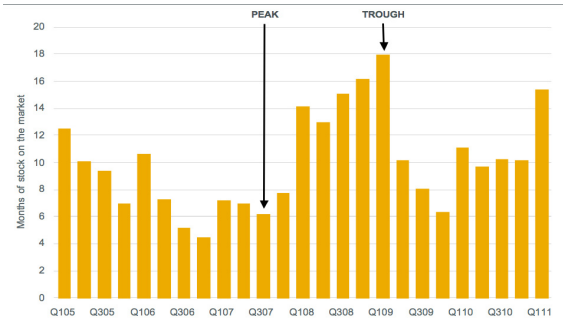
Geographical performance



Graph source: Savills Research

GRAPH 3

Prime stock levels increase



Graph source: Savills Research

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