MARKET IN MINUTES

Prime country residential markets

Summary

In the third quarter of 2017, the prime country markets remained subdued, with house price growth of just 0.1% seen over the summer months. The capital's suburbs and commuter zones recorded small price falls over the three months as they continued to feel the effects of a weaker prime London market.

Price sensitivity has been apparent across the prime country markets since the EU referendum in 2016 and the general election earlier this year.

The stamp duty changes of almost three years ago remain a burden at the top end of the market.

Prime growth The prime country market remains subdued, while London's suburbs and commuter zones feel the effects of a weaker London market

Q3 2017	Quarterly growth	Annual growth	5-year growth	10-year growth
London	-1.2%	-4.6%	7.7%	25.7%
Suburbs	-1.0%	-1.1%	12.0%	12.2%
Inner commute	-0.2%	-0.5%	12.5%	7.9%
Outer commute	-0.1%	0.5%	15.4%	7.2%
Wider South of England & Wales	0.7%	2.8%	14.1%	-3.0%
Midlands and North	0.4%	2.0%	6.0%	-10.1%
Scotland	0.4%	1.4%	-0.6%	-19.3%

Source Savills Research

Transactions

Despite some caution, transactions at the top end of the market have held up well. There have been 17,700 £1m+ sales across the UK in the year to the end of June, according to official figures from HMRC. Although this is lower than the 19,500 seen over the same period in 2016, it represents a 6.6% increase on the 16,600 seen in the 12 months to June 2014.

Sensitive market remains active

Prime markets across the UK have become noticeably more needs-based, reflected by lower levels of new stock. During the first six months of 2017, 8% fewer £1m+ properties outside of London were brought to the market than over the same period in 2016.

Another feature of the prime markets at the moment is the level of price cutting, which has become increasingly common. In the first six months of 2017, the asking price of 10,604 £1m+ properties across the UK was reduced; a 90% increase on the 5,585 seen over the same period last year.

These cuts have been less apparent beyond London. Over the 12 months to June 2017, there were 76 price reductions for every 100 £1m+ properties sold outside the capital. But where these price cuts have been happening, deals continue to take place, suggesting that while prime markets may be price sensitive, they remain reasonably active.

Size impacts growth

Since the stamp duty reform of 2014, larger and grander properties like country houses and manor houses, as well as those on the private estates of St George's Hill and Wentworth, have suffered as the extra tax burden means buyers are far more cautious.

Three-year growth to September 2017 Larger, grander properties suffer

Townhouse	Cottage	Farmhouse	Rectory	Manor house	Country house	Private estate
12.7%	8.8%	3.7%	2.6%	-0.6%	-5.2%	-23.8%
2,500 (average sq ft)	2,100 (average sq ft)	3,400 (average sq ft)	4,400 (average sq ft)	6,600 (average sq ft)	10,800 (average sq ft)	9,000 (average sq ft)

Source Savills Research

Outlook

The prime country markets are expected to continue to follow the pattern of the past three years by showing little growth. However, while London's suburbs and commuter zone will wait until 2019 or beyond to see a return to price growth, other regional markets are expected to see marginal price rises next year.

While factors such as the availability and cost of mortgage finance are relevant to all of the prime country markets, the flow of equity out of London plays a significant part in the future of the prime housing markets of the commuter zone.

Another year of negotiations, followed by post-Brexit uncertainty throughout 2019, means these markets will be slow to see a return to price growth. But, over the next five years, as the capital's prime housing market ticks up, they are likely to be the strongest regional performers, with growth peaking at 15.3% in the outer commuter zone.

Here, the price gap is key, particularly for Londoners looking for more space, and should help reduce price sensitivity in these markets.

Further from the UK capital, the prime country markets are more dependent on general economic drivers and the extent to which they support a wider ripple effect. The wider South of England, Midlands, North of England and Scotland have all seen small average price increases so far this year and that will continue into 2018.

All of these regions will underperform London's commuter belt over the five-year period, but see marginally stronger growth than outer prime London, suggesting that the value gap is stretched to its maximum.

Rural recovery

Over the past 10 years, towns and cities have been more popular than rural locations, leading to stronger levels of house price growth.

However, house price growth of village and rural locations now appears to be converging with the urban markets.

Of those urban locations, Edinburgh and Glasgow have been the strongest performing more recently, with house price growth of 2.2% and 0.9% respectively over the three months to September.

15.3%
Five-year compound growth in the outer commute zone

Prime	2018	2019	2020	2021	2022	5-year compound growth
Central London	0.0%	2.0%	8.0%	5.5%	3.5%	20.3%
Other London	-2.0%	0.0%	5.0%	4.5%	2.5%	10.2%
Suburban	0.0%	0.0%	4.5%	4.5%	3.0%	12.5%
Inner commute	0.0%	2.0%	4.0%	4.0%	4.0%	14.7%
Outer commute	0.0%	1.0%	5.0%	4.5%	4.0%	15.3%
Wider South of England & Wales	1.0%	1.5%	3.5%	3.5%	4.0%	14.2%
Midlands/North	1.5%	1.0%	3.0%	3.0%	3.5%	12.6%
Scotland	1.5%	1.5%	3.0%	3.5%	3.5%	13.7%

Source Savills Research **Note** These forecasts apply to average prices in the secondhand market. New build values may not move at the same rate

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