PRIME UK RESIDENTIAL

AUTUMN/WINTER 2023

savills

HEAD, HEART *AND* DECISION MAKING

Words by Andrew Perratt
Head of UK Residential

So much of our life happens in our homes. They're often the centre of changes in our lives and spaces where we watch our loved ones grow and thrive. If you're thinking about moving, we know how hard it can be to leave the place that has meant so much to you and your family.

Often, deciding on whether to move – whether downsizing, upsizing or renting – is a battle of heart versus head. If you're in the middle of making a decision, our latest research publication allows a closer look at the factors that will shape the upcoming months.

Timing and pricing are two of these factors. Autumn has traditionally been a popular time to put a home on the market. The rise of the cash rich buyer is a common theme across many markets, with buyers relying less on debt. Does this mean the prime market has continued to function better than expected? Lucian Cook explores in more depth on page 2.

This trend has also influenced the rental market. The demand for rental properties has increased, and constrained stock has resulted in rising rental prices. While rental returns may be more lucrative for certain property types and areas, rising mortgage costs and recent changes in legislation has led some landlords to reconsider whether it's worth it. Jess Tomlinson reviews the outlook on page 6.

And what of pricing? Our spring report addressed the need for realistic pricing, and this remains just as relevant today. Frances McDonald identifies the risks involved in overpricing your property and what this means for the potential success of selling on page 16 – along with what to do if you find yourself in this predicament.

Ultimately the head might say 'yes, it's the right time', but the heart can be harder to convince. Our latest Prime UK Residential report gives the data and perspectives that we hope helps you make an informed decision. Our local agents are here to support you on your journey with expert guidance, local insight and honest advice.

Contents

Prime insight and intelligence

PLAYING *THE* EQUITY CARD *IN THE* SALES MARKET

Words by Lucian Cook
Head of Residential Research

Morecambe & Wise. French & Saunders. A bit of Fry & Laurie. Arguably even Ant & Dec. British entertainment has a long and deep association with the comedy duo.

The state of the UK housing market has been no laughing matter over the past year or so. But still, it has been shaped by a powerful pairing. Though more bad cop, good cop than amusing double act, the respective parts played by Debt & Equity have taken centre stage, as rising interest rates and buyers' ability to tap into existing wealth have had an increasing impact on the extent and nature of demand.

Less use of Debt, more reliance on Equity

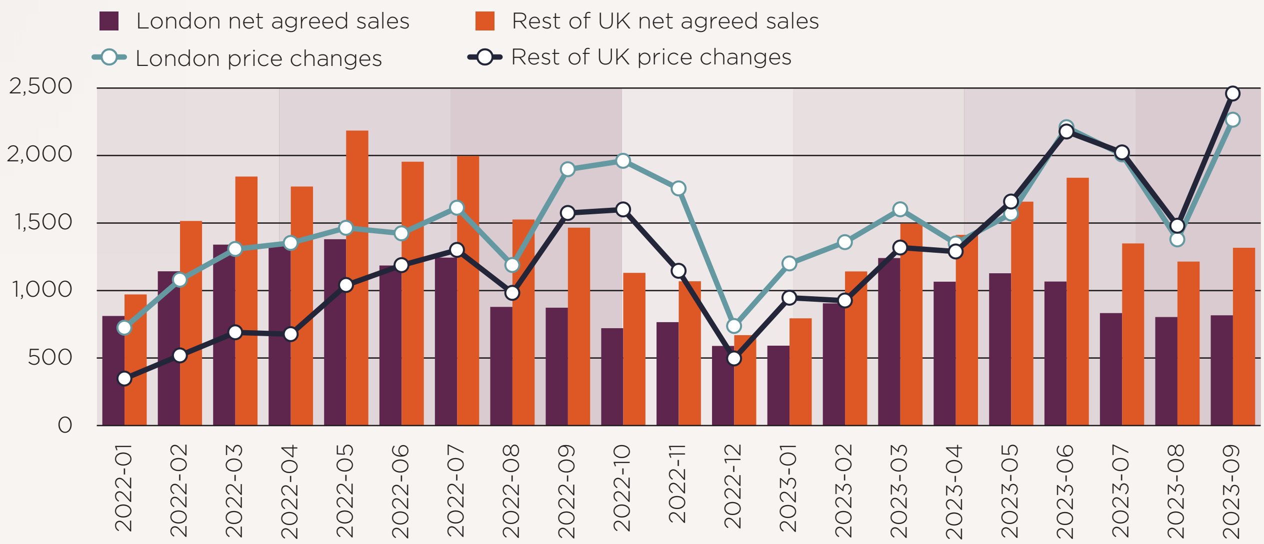
Of the two, the increased cost of debt has undoubtedly stolen the headlines, curtailing buyers' budgets and the scale of their property ambitions, across both the mainstream and prime markets.

But, as the cost of debt has risen and become much more sensitive to inflation indicators, so equity has had a greater share of the lines. This has been particularly evident at the top end. While the prime market has become much more price-sensitive, it has continued to function much better than many feared it might.

Still selling when the price is right

Homes have still been selling at the top end, albeit more regularly requiring an adjustment to sellers' price expectations.

AGREED SALES AND PRICE CHANGES IN THE MARKET OVER £1M



Source: Savills Research using TwentyCi*

In the first nine months of the year, over 16,800 sales were agreed for property at between £1m and £2m*. In addition, just over 3,800 sales were agreed for homes marketed at over £2m*. Those are 80% and 86% of levels seen in the same period of 2022. Pretty respectable, all things considered.

In contrast, data from UK Finance tells us that in the first six months of the year, the number of mortgages taken out to fund purchases over £1.5m was down -41% on the same period in 2022.

As mortgaged buyers have been more cautious and use of debt for financial planning purposes has become less attractive, so the market has become more weighted to cash. And with a less deep and diverse pool of buyers, activity in the market has been facilitated by a 43% increase in the number of changes to asking price* to bridge the gap between their expectations and the loftier aspirations of sellers.

Managing the increase in mortgage costs

While cash buyers have taken advantage of a less competitive market, those with debt have often been more concerned about managing the increase in mortgage costs as their existing deal comes to an end.

However, importantly, we haven't seen a significant uptick in forced sales.

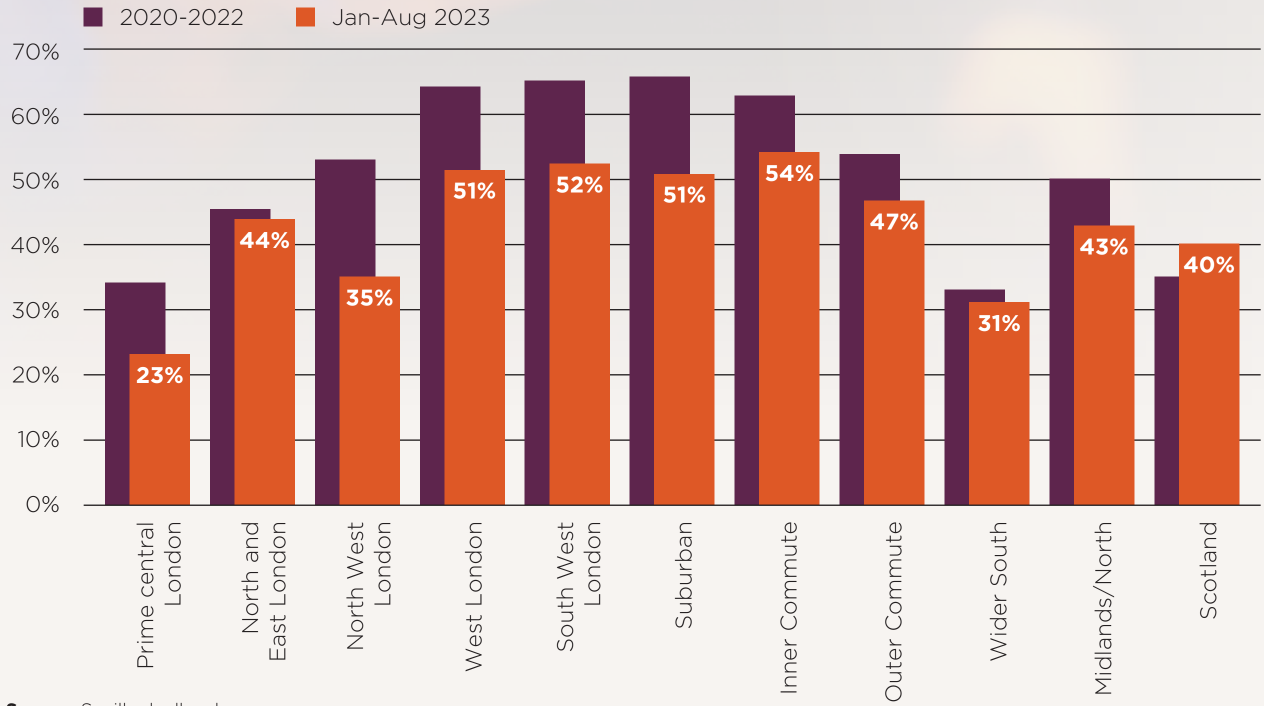
Some of this has been down to the level of stress testing of finances we saw in the mortgage markets until August 2022, which protected borrowers from taking on unsustainable levels of debt.

But it has also reflected the assistance offered by lenders to extend mortgage terms or provide a capital repayment holiday for those whose household finances become unduly stretched during a period of elevated debt costs.

As a result, the other two Ds (death and divorce) haven't had to share much of the stage usually reserved for needs-based sellers with debt.

*TwentyCi (publicly marketed stock net of fall throughs & changes to asking price)

% OF PRIME BUYERS USING A MORTGAGE SINCE 2020



Source: Savills dealbook

What then of pricing?

On average, values fell by -5.2% over the year to September across the prime regional housing markets, while in London, they have eased back by a more modest -2.1% as demand has refocussed back to the capital.

However, adjustments to asking price have often had to be greater than this in order to gee up a slightly more reserved audience and generate competitive bidding, when prospective buyers seek the security of knowing they are not the only show on the bill.

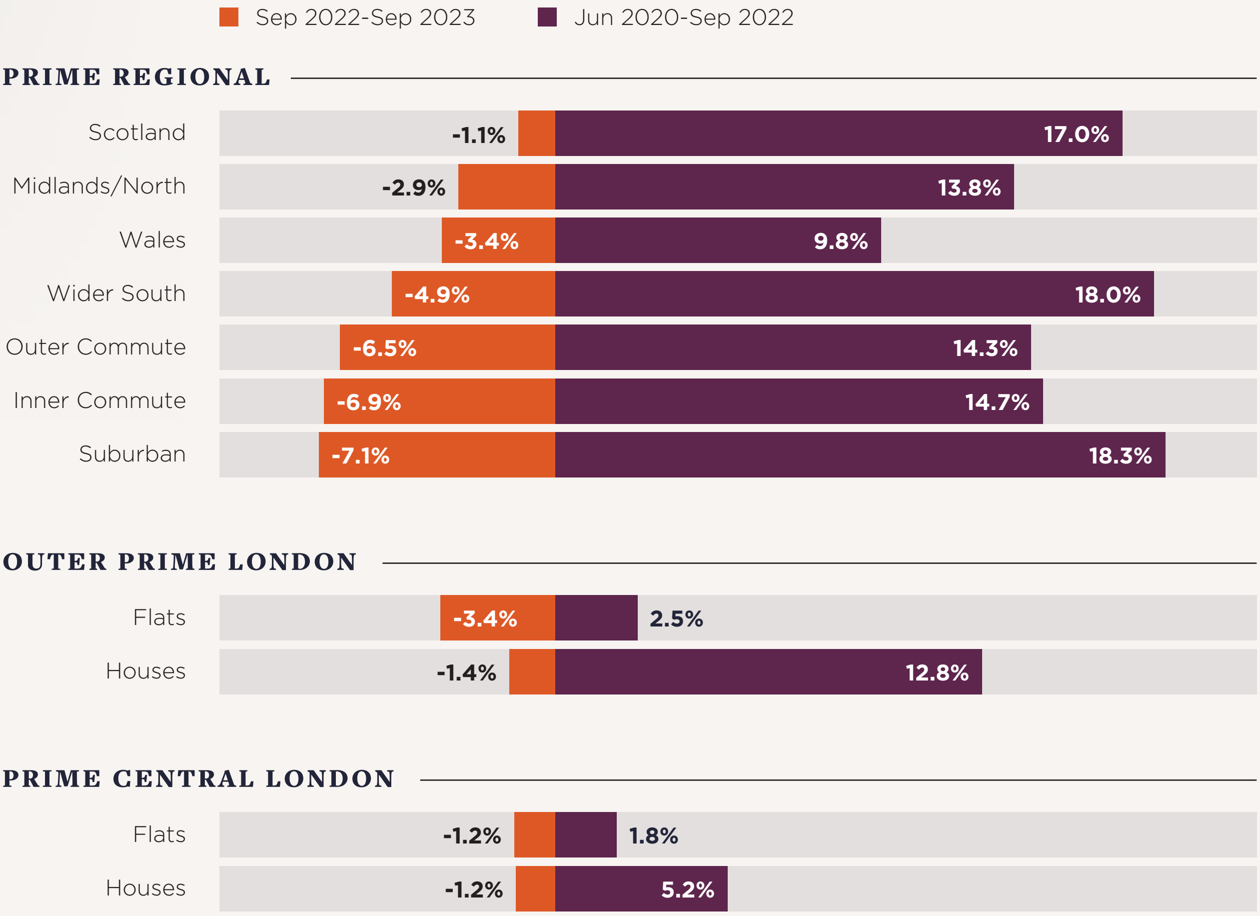
SUB-MARKET VARIATION

The impact on both prices and activity levels has varied in different sub-markets, depending on the relative balance of debt and equity used as a source of funding.

In London, this has meant a notable difference in the market for flats and houses. In the market over £1m, flats have accounted for just 29% of agreed sales across the capital so far this year, while making up a much greater 42% of stock brought to the market. More dependent on demand from those with a greater reliance on mortgage finance, finding a buyer has been a tougher gig for those looking to sell an apartment, whether it be central London or the wealth corridors heading out of the capital to the commuter belt.

Elsewhere, we have seen a much wider divergence in the marketability of properties that are truly best in class, more representative of the market as a whole or in some way compromised. Much more property-specific, this has been the major differentiator outside of the capital.

PRICE MOVEMENTS IN THE PRIME PROPERTY MARKET



Source: Savills prime indices, Q3 2023

Restoring the balance

Even though cash and equity-rich buyers have supported ongoing market activity, a change in market conditions is reliant on buyers seeing their buying power grow rather than contract.

After a summer which started with a secondary bout of turbulence in the mortgage markets, the prospect of steady falls in inflation over the next 18 months has reigned in expectations of further rate rises, with the Bank of England voting 5:4 to hold bank base rate at 5.25% in September. Welcomingly, that has caused some stability to return to the money markets and fixed-rate mortgage costs to ease back.

But, in all likelihood, a really meaningful change in debt costs relies on bank base rates being cut, rather than hitting a plateau. That seems unlikely before the second half of next year, indicating that prices – while most likely bottoming out over the next six months – are unlikely to start their gradual recovery until this autumn and next year’s spring markets have passed.

In the meantime, equity is likely to be delivering the majority of punchlines.

COMPETING FORCES *IN THE* RENTAL MARKET

Words by Jess Tomlinson
Associate, Residential Research

The relationship between debt and equity has had an obvious effect on the sales market over the past 12 months. But their forces have also been at work in shaping the rental market.

Increased mortgage costs and suppressed transaction levels have added to rental demand at a time when the regulatory and financial pressures faced by private landlords have further constrained the amount of stock available to rent.

5.4%

annual rental growth for prime London property to September 2023 (+13.6% a year previous)

4.7%

annual rental growth for prime property elsewhere (+8.3% a year previous)

Rental growth

The inevitable consequence of this has been strong rental growth. In part, this has been supported by wage growth, which had steadily increased to 8.2% in the year to the end of August. But on an annual basis, rental growth has consistently been in or close to double-digit territory since October last year according to HomeLet. It has been higher in London.

At the same time, the gap between readings for tenant demand and landlord supply has remained wide according to the RICS Residential Market Survey. And expectations for further rental growth remain high.

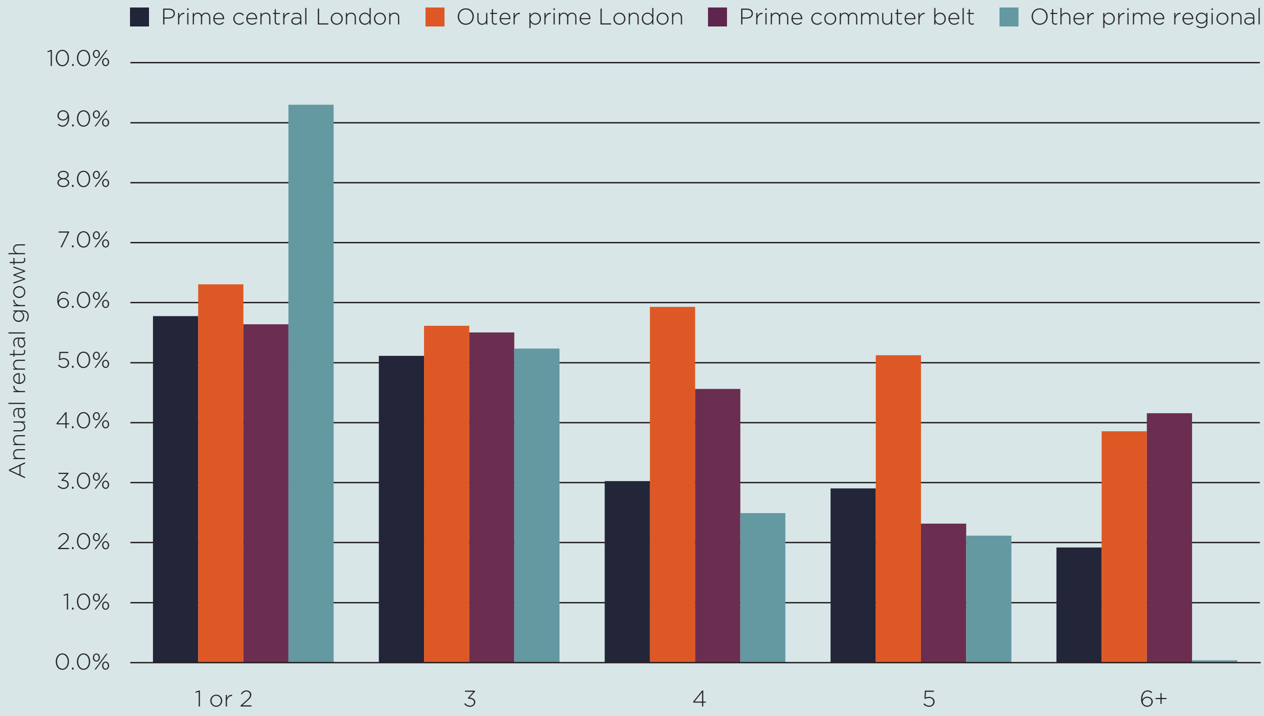
Prime perceptions

In the prime market, the picture is a little more nuanced.

Though rental growth has slowed, in the prime markets of London, rents have risen by an average of 17.9% over the past three and a half years. In the commuter belt and beyond, they have risen by 22.7%.

Over the past year, annual rental growth of prime homes has slowed to 5.4% in London and 4.7% elsewhere. However, it has generally been strongest for smaller properties where demand has been driven by needs-based tenants; those whose prospects of getting on the housing ladder have become even more dependent on the Bank of Mum and Dad. In these markets, there has been little let-up in the scramble to secure a rental property.

PRIME RENTAL GROWTH BY BEDROOM NUMBER



Source: Savills prime lettings index, Q3 2023

By contrast in the more discretionary markets where renting is often more a life choice, the gap between demand and supply has been less intense.

This has been notably so in the market for larger properties whether they be in London, other urban centres such as Bristol, Birmingham, Manchester and Edinburgh, or the commuter belt. Here, rental demand has been supplemented by those taking some time out of home ownership, but the effect has been more muted.

Landlord experiences of rental growth

From a landlord perspective, the ability to benefit from this rental growth has been similarly uneven, as the divide between equity-rich and mortgage-laden private investors has been exacerbated by the current tax system.

Equity-rich landlords with modest debt costs or no debt at all have seen profits and rents rise in unison, their improved finances offsetting any concerns around tenancy reform and additional landlord obligations.

But more indebted landlords (often with smaller portfolios which have not warranted the use of a corporate ownership structure) have seen their increased rental income swallowed up by both increased costs of debt and, in many cases, the restricted tax relief on higher costs.

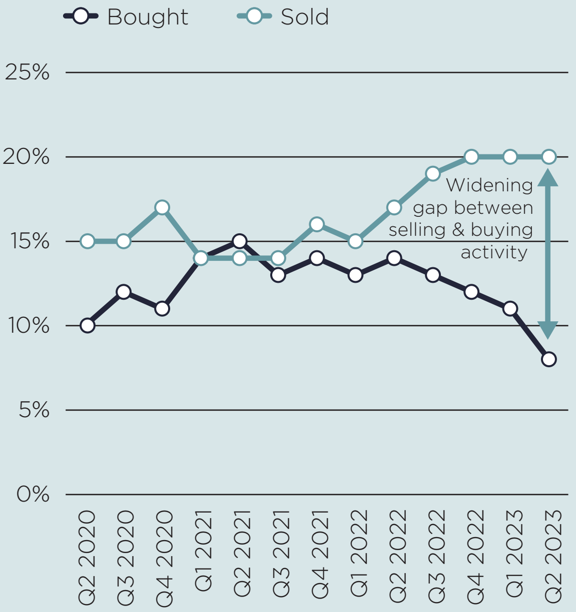
Stick, twist or fold

As a consequence, we have seen both a decrease in new investment activity and an increase in landlords selling property, resulting in an acute shortage of available stock to rent across most parts of the market.

Indeed, despite a net balance of 70% of respondents to the National Residential Landlords Association's Confidence Index seeing an increase in tenant demand, 20% have sold one or more properties in the year to June 2023 (up from 14% two years previous).

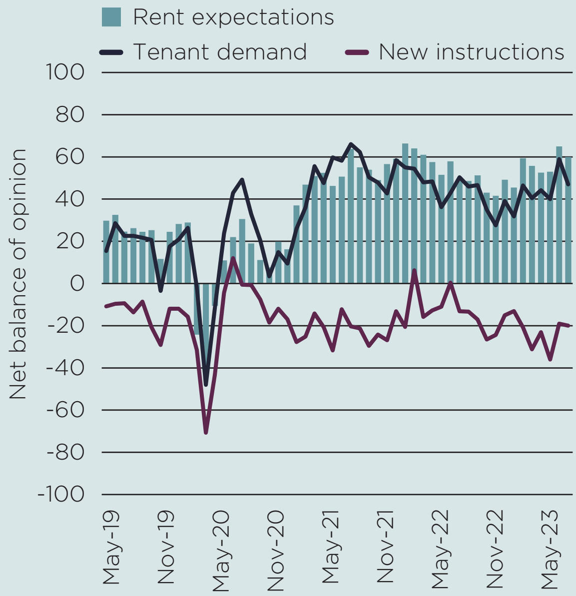
MAINSTREAM RENTAL MARKET INDICATORS

Private Landlord Activity



Source: National Residential Landlords Association

RICS Housing Market Survey



Source: RICS

Meanwhile, just 8% had acquired property over the same period, down from 15% in the 12 months to June 2021. And with an even wider gap between landlords' intentions for sale and acquisition over the next 12 months, there seems little chance of a let-up in these trends.

The prime markets have not been immune to these pressures, despite having a core of wealthy long-term landlords with a strong affinity to bricks-and-mortar investment. Results from our agents survey suggest concerns are greatest among those with debt who are struggling to make the finances add up, with regulatory reform a lesser concern.

Preparing for the future

That means the equity-rich landlords and others who are willing and able to ride out a period of elevated interest rates should continue to benefit from a secure income stream underpinned by an inherent imbalance between supply and demand. The recent decision by the government to shelve plans to tighten minimum energy efficiency standards means the short-term focus will be far more concentrated on getting ready for the demise of the Assured Shorthold Tenancy.

Draft legislation is slowly working its way through parliament, as the government wrestles with the practical implications of the proposals it has laid out in the Renters (Reform) Bill. However, even if changes are made, it would be a brave person to bet against it receiving Royal Assent at some point and in some form.

And so those who continue to buy into the long-term credentials of residential property investment will be working hard to make sure their rents reflect current market conditions and they have financially secure tenants.

KEY FEATURES OF THE RENTERS (REFORM) BILL

The end of the right for landlords to recover possession on two months' notice at the end of a fixed-term tenancy

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New grounds for landlords to recover possession where there is either:

- a genuine intention to sell or
- a genuine intention for them (or their close relatives) to occupy the property

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Strengthened powers to recover possession on non-payment of rent or a persistent delay in paying rent

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Introduction of a minimum Decent Homes Standard

Outlawing blanket bans on renting to tenants with children or in receipt of housing benefit

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Increased rights for tenants to keep pets

EDUCATION, *EDUCATION,* EDUCATION

Words by
Frances McDonald
Director, Residential Research

Good schooling has long been a key driver of demand across the prime housing markets of the UK, particularly amongst growing families. We look at locations that offer the best in schooling across the UK.

The Covid-19 pandemic caused some shifts in buyer priorities; living close to family and green spaces became more important than proximity to work and train or tube stations. But one aspect that hasn't faltered is being near to good schools.

When asked to name their priorities in choosing a new home, 55% of respondents to our July buyer and seller survey who had pre-school or school-aged children put proximity to schools in their top two.

Families often decide to move home when their children are approaching primary school age with the view of choosing somewhere they can stay for the long term. Ofsted ratings and Key Stage 4 results for nearby secondary schools heavily influence their choice of location. This means they are also likely to pay a premium for homes within close proximity to these highly regarded schools.

The quality of a single favoured school is important to many. But the availability of a variety of good state, independent, primary and secondary schools provides a wider range of options for parents who are concerned about whether their child will get a place, often supporting demand for homes beyond a single school catchment.

92.5% of children received an offer from their first choice state primary school for entry in September 2023. That fell to 82.6% for secondary school applicants. And these figures vary significantly between individual schools and across different regions. Generally, the North and South West of England see a higher proportion of applicants receiving an offer from their first choice school. Meanwhile, in London, the pressure on school places is intense.

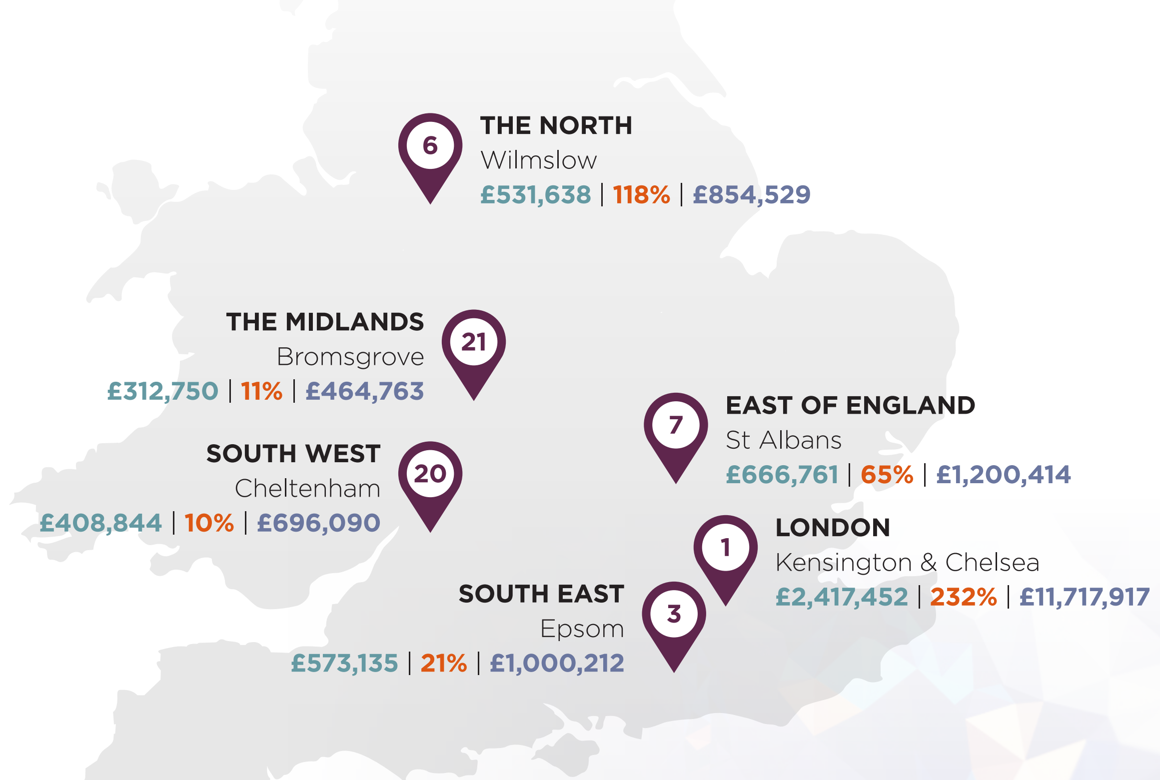
Grammar and high-performing comprehensives often top the list of 'most wanted' schools for parents, but such is the competition for these schools, parents often look for a range of options across both the independent and state sectors.

Our analysis of locations with at least 5,000 school pupils looks to do just that. Taking into account three key metrics: the proportion of primary school pupils who are attending an outstanding school, the average points score per pupil at Key Stage 4 for secondary schools and the proportion of secondary school pupils who are attending an independent school.

Unsurprisingly, locations which have come out on top command significant price premiums. Homes located in areas in the top percentile in terms of school rankings have an average house price of more than £800,000, 56% higher than the regional average for these locations. For detached homes that premium is even higher, at 69%, and prices exceed £1,200,000.

London and the South East dominate the top 10 list but Wilmslow in the North West, which scores top for outstanding primary schools, also features. Our lists below rank the top 5 locations across each English region in respect of our three school metrics.

TOP EDUCATION HOTSPOTS BY REGION



- Average second hand sale price, 12 months to May-23
- Average second hand sale price vs regional average
- Average second hand detached sale price, 12 months to May-23
- Overall education ranking

Source: Savills Research using Land Registry, Ofsted and ONS

	Average second hand sale price, 12 months to May-23	Average second hand sale price vs regional average	Average second hand detached sale price, 12 months to May-23	Overall education ranking
THE NORTH				
Wilmslow	£531,638	118%	£854,529	6
Cheadle Hulme	£444,295	82%	£600,886	24
West Kirby	£465,591	91%	£882,677	28
Altrincham	£521,011	114%	£993,649	32
Harrogate	£391,452	67%	£715,882	38
THE MIDLANDS				
Bromsgrove	£312,750	11%	£464,763	21
Worcester	£271,600	-3%	£410,149	33
Warwick	£354,766	26%	£534,193	36
Sutton Coldfield	£413,565	47%	£638,394	43
Loughborough	£271,351	0%	£424,235	47
EAST OF ENGLAND				
St Albans	£666,761	65%	£1,200,414	7
Brentwood	£548,250	36%	£988,951	11
Bishop's Stortford	£507,041	25%	£773,560	14
Bushey	£660,216	63%	£1,109,349	19
Harpenden	£963,397	138%	£1,482,179	23
LONDON				
Kensington & Chelsea	£2,417,452	232%	£11,717,917	1
Richmond	£964,216	32%	£2,057,889	2
H'smith and Fulham	£1,034,840	42%	£2,195,833	4
Westminster	£1,650,291	127%	£8,368,983	5
Camden	£1,260,891	73%	£6,217,036	8
SOUTH EAST				
Epsom	£573,135	21%	£1,000,212	3
Winchester	£640,181	35%	£980,326	17
Guildford	£605,397	28%	£1,068,522	18
Ewell	£692,732	46%	£1,057,171	21
Tunbridge Wells	£543,734	15%	£1,067,680	25
SOUTH WEST				
Cheltenham	£408,844	10%	£696,090	20
Bath	£577,064	55%	£1,125,062	27
Salisbury	£336,462	-10%	£511,533	38
Exeter	£337,390	-10%	£548,018	53
Truro	£338,050	-9%	£472,796	65

Source: Savills Research using Land Registry, Ofsted and ONS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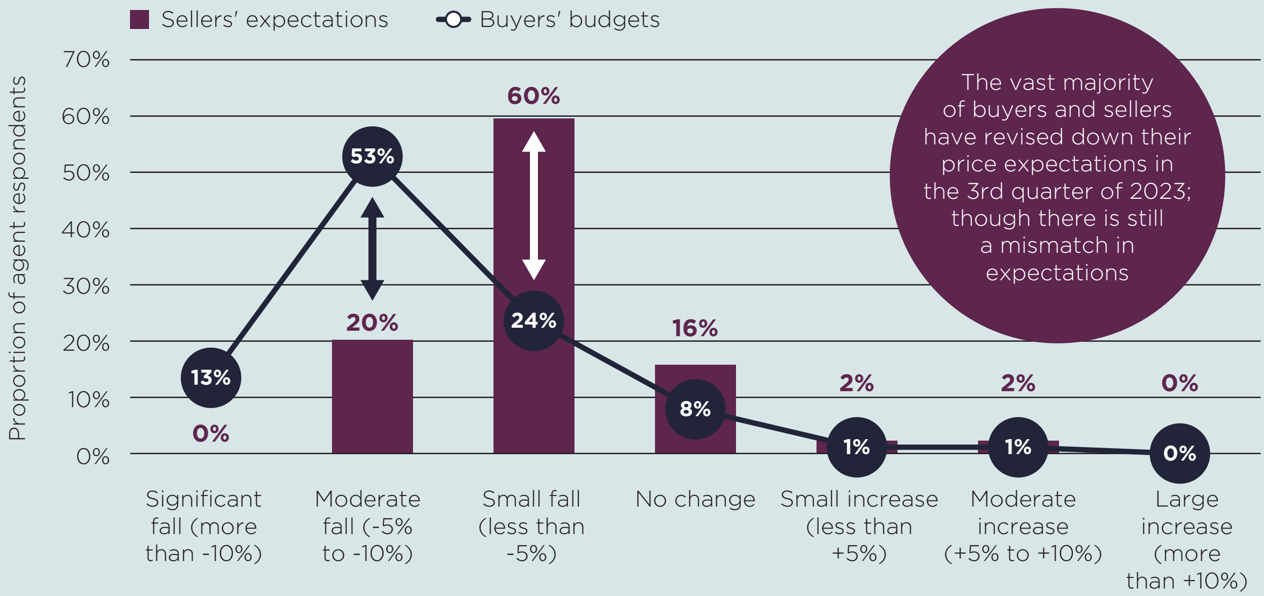
AGENT SURVEY

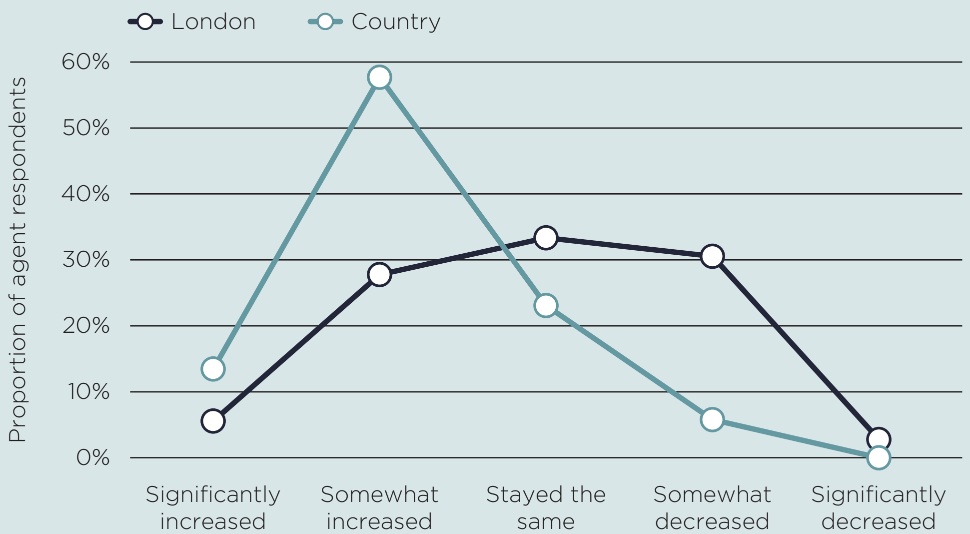
CHANGE IN BUYER AND SELLER PRICE EXPECTATIONS IN THE THIRD QUARTER OF 2023



Source: Savills Agent Survey Q3 2023

THE AMOUNT OF STOCK ON THE MARKET HAS RISEN IN THE COUNTRY

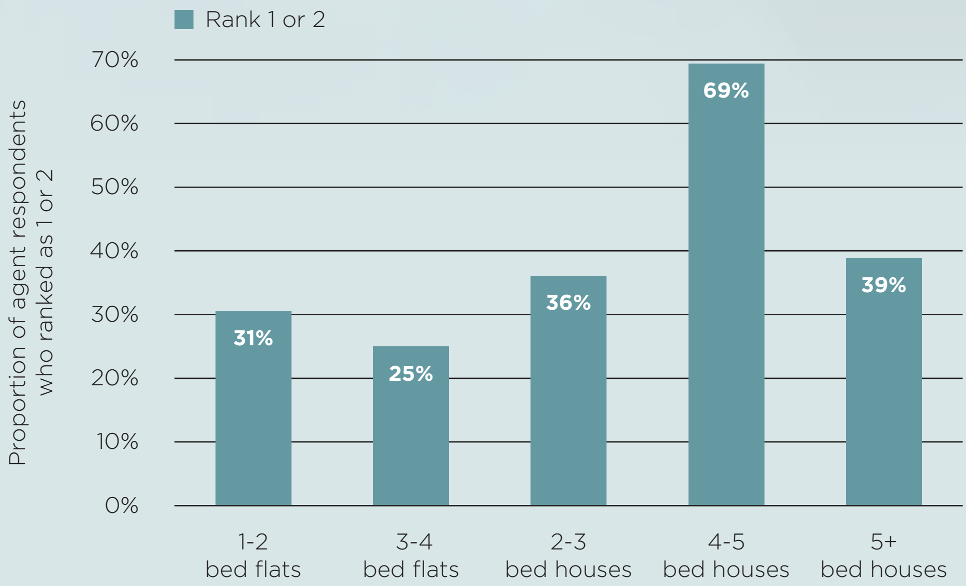
What has happened to available stock levels over the past 3 months



A net balance of **65%** of agents outside of London have seen an **increase in stock levels on the sales market**, though more typically moderate than significant

Source: Savills Agent Survey Q3 2023

WHAT'S IN DEMAND ACROSS PRIME LONDON



LONDON

39% of agents ranked **4-5 bed houses** as being in the **most demand**

47% of agents ranked **1-2 bed flats** as being in the **least demand**

Source: Savills Agent Survey Q3 2023

STRENGTH OF DEMAND BY CONDITION OF PROPERTY

96% of our agents gave properties which were best in class a **#1** ranking for demand

77% of our agents gave properties in need of minor refurbishment a **#2** ranking for demand

79% of our agents gave properties in need of considerable work a **#3** ranking for demand

96% of our agents gave properties in need of complete refurbishment a **#4** ranking for demand

Source: Savills Agent Survey Q3 2023

IF THE PRICE *IS* RIGHT

Words by Frances McDonald
Director, Residential Research

There's been a lot of recent noise about the risks of overpricing in the current housing market. But what evidence is there of the impact it actually has? Do homes take longer to sell if they're priced too high initially, even if subsequent price reductions take place? And is the resulting price achieved actually lower than homes marketed according to prevailing market conditions from the start?

Our analysis of Savills sales highlights that pricing correctly from the offset not only leads to less time on the market but also a greater prospect of achieving true market value. A win-win all round.

Properties that achieve above their initial guide price typically take -25% less time before an offer is accepted, compared to average time on the market. But those that achieve less than 80% of the initial asking price spend almost double the average time on the market.

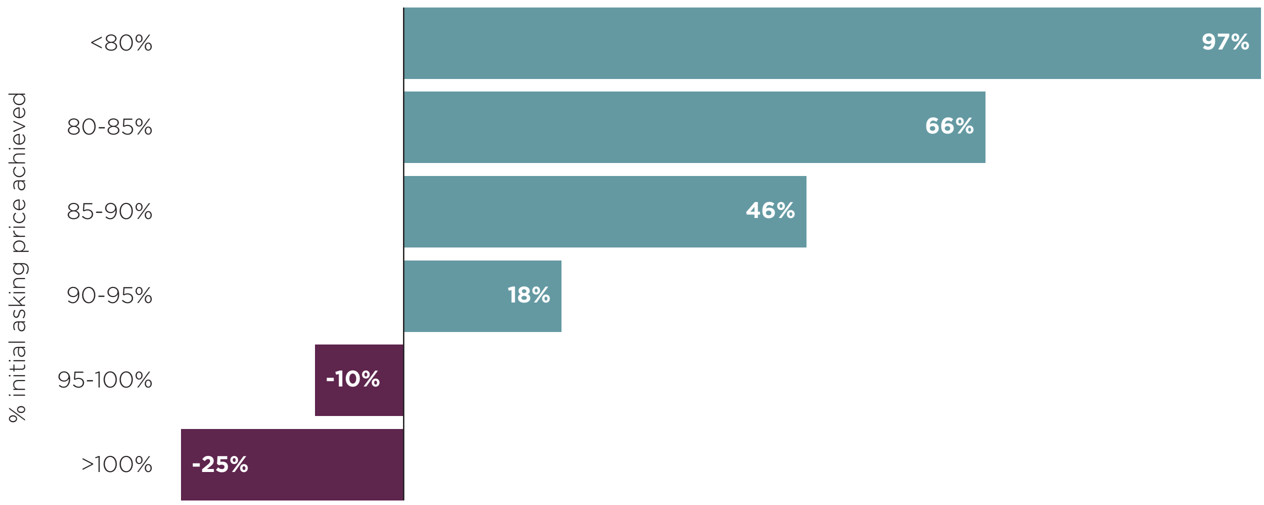
Pricing high doesn't just make buyers more cautious from the start, it can also taint a property during its marketing period, even if the asking price is reduced later down the line.

In this regard, whole market data from TwentyCi reveals that a period of increased price cuts (such as after last year's mini-budget) is soon followed by a rise in agreed sales as buyer and seller expectations become more aligned and activity is facilitated by lower prices.

For example, in December of last year there were 40% more price changes across the UK than during a typical pre-pandemic December. At the same time, net agreed sales were -22% below their pre-pandemic average but in February of this year they'd recovered to be within -10% of that benchmark and by March they were just -1% below.

So if homes are launched at a high price with no success, the next best thing is to reduce the price to generate competitive bidding.

AVERAGE TIME ON MARKET TO OFFER ACCEPTED VS AVERAGE



Source: Savills Research

SAVILLS RESEARCH

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

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