PRIME UK RESIDENTIAL

SPRING/SUMMER 2023

savills

A RETURN OF THE SEASONS

Spring is usually a time of new beginnings. For the property market, this time of year is traditionally when we see the market pick up, with gardens in bloom and good photography bringing out the best of homes.

Since 2020, the concept of seasonality has been in flux. Predictable it was not, however now we're starting to see the pace of the market return to something that resembles a post-pandemic norm – so, what does seasonality look like today?

There's definitely a better choice of properties for sale and more in some areas than others. With that, transactions may take longer to complete as buyers do not feel the same level of urgency as was felt during the previous couple of years. This means that realistic pricing will be key to driving activity in the market today; something for both sellers and buyers to keep in mind.

Borne out of the need to document the changing market, our team of researchers have monitored the views of more than 1,000 buyers and sellers continuously over the past three years. We conducted our twelfth survey in April. Frances McDonald has looked at the motivations of both buyers and sellers. Has their commitment to move strengthened? Read about it on page 6.

If you're considering letting or renting, Jessica Tomlinson has reviewed the prime rental market trends on page 12, and shows what higher inflation and the cost of living means for rental growth in a market that has been thriving.

In our Autumn 2022 edition, we reported on the flow of international wealth that was fuelling the prime central London market. Six months on, Sophie Tonge examines the impact of the return of the international buyer on the new-build market. If you're looking for something of a 'lock-up-and-leave' spec, turn to page 20 to find out what's available and currently in the pipeline.

In our latest **Prime UK Residential** report we hope to give you the data and perspectives that you will need to make an informed decision. Whether you're selling, buying, letting, renting, or investing we'd love to hear from you.

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Contents

THE MORNING AFTER THE NIGHT BEFORE

Words by Lucian Cook,
Head of Residential Research

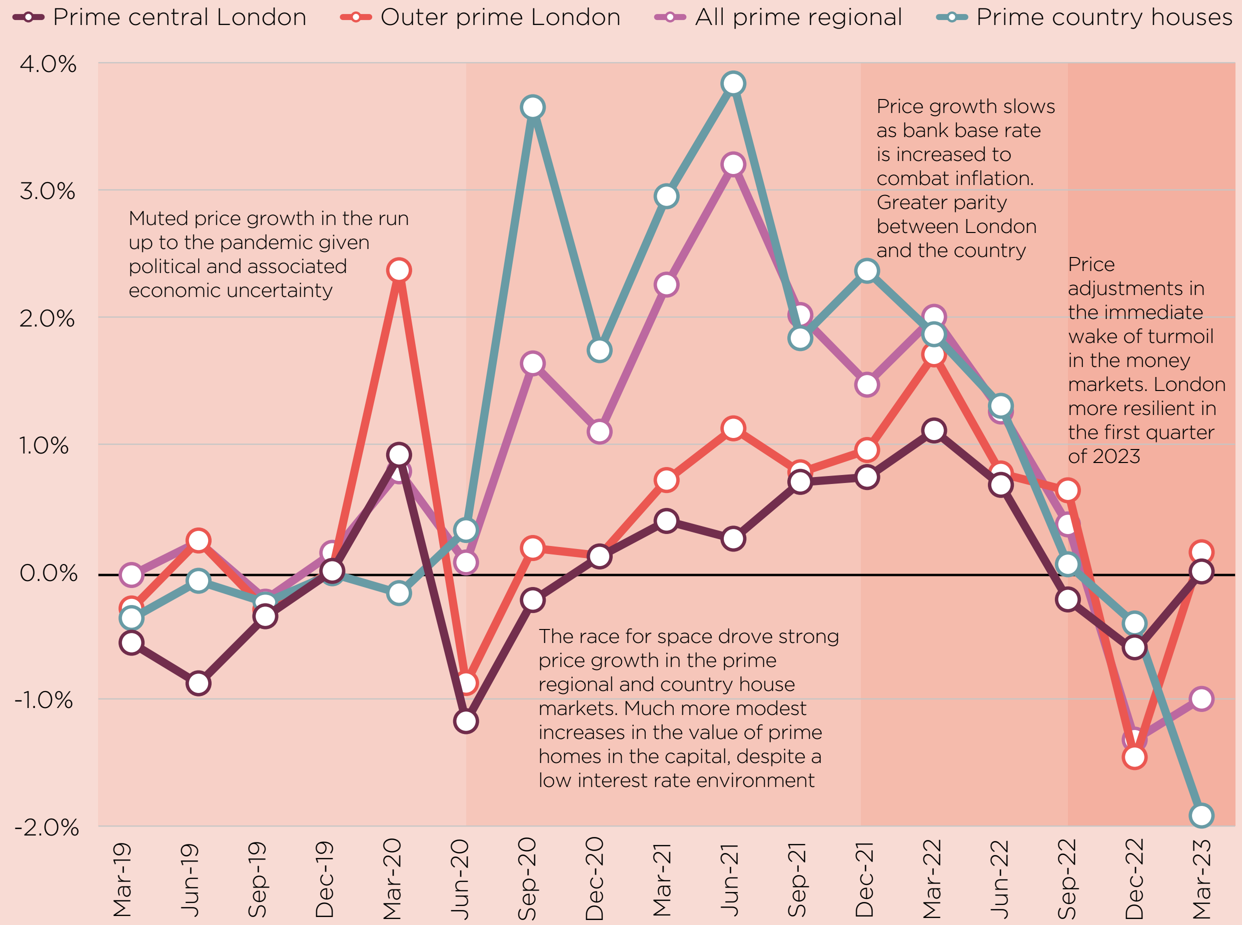
How resilient has the prime housing market been to a change in the cost of mortgage debt and other drivers of demand?

A night of excess is rarely without its consequences. But common wisdom is that the level and length of suffering the morning after depends on the quality and combination of what you had been drinking as well as the amount you consumed the night before.

Put simply, a couple of glasses of Picpoul de Pinet will have a very different outcome to a bottle and a half of cheap Shiraz followed by a not so cheeky Calvados.

There is little doubt that the intoxicating exuberance seen across large parts of the prime UK housing market through the second half of 2020, the whole of 2021 and the first nine months of 2022, have given way to a period of much greater sobriety when it comes to pricing. But, it has felt very different to both the early 1990s and 2008, not least because it follows a burst of price growth rather than a prolonged and pronounced upswing.

Quarterly price movements in the prime market



Source: Savills prime index, Q1 2023

Scan the QR code to hear Lucian Cook and Frances McDonald give an overview of how today's prime property market compares to the last few years.

Rude awakenings

The seeds for a change in market conditions were sown prior to the short-lived and ill-fated experiment with 'Trussonomics', as Bank base rates were increased to tackle growing inflationary pressures and the economic hangover of the pandemic was exacerbated by the war on Ukraine. But for the mortgage markets, the events of late autumn 2022 were the equivalent of a disgruntled neighbour pulling the plug on the music system, turning on all the lights and threatening to call the police.

And while the top end of the market was less exposed to disruption in the mortgage market than the UK housing market as a whole, it was not immune. As data from TwentyCI shows, the net number of agreed sales over £1 million fell by 35% in October of last year, as buyers became markedly more circumspect and recalibrated their budgets.

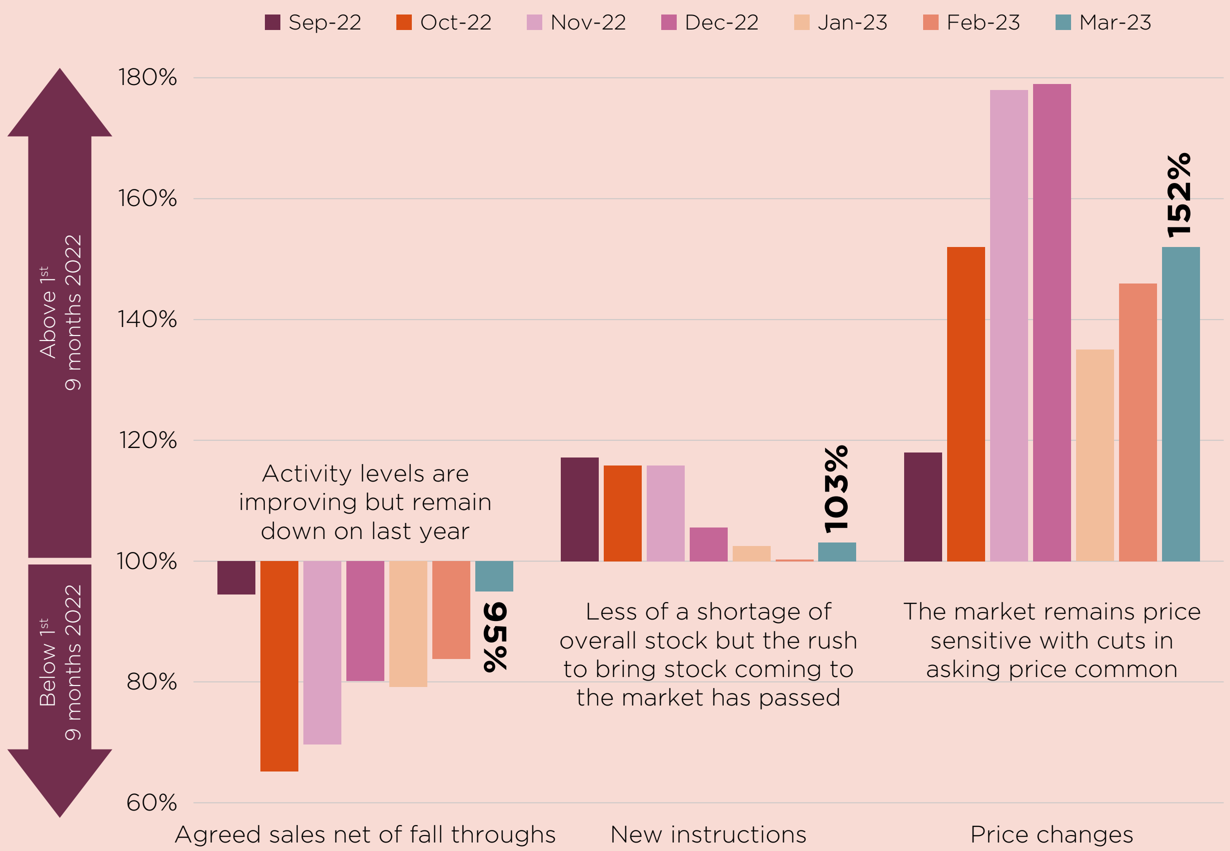
Activity returns

This continued into November but with each month that has followed there has been a gradual normalisation in activity levels.

That recovery in activity has been underpinned by sellers re-setting their price expectations. While at the height of the mini-housing market boom sellers could price high and wait for the market to catch up with their expectations, this is no longer an option, particularly given the reduced buying power of upsizers.

Our November client survey showed that 43% of these upsizers, who are the bedrock of demand across the bulk of the prime market, cut their budgets to reflect higher debt costs. By April that had fallen to 31%; though a further 11% were looking to use more equity than debt to fund their next purchase.

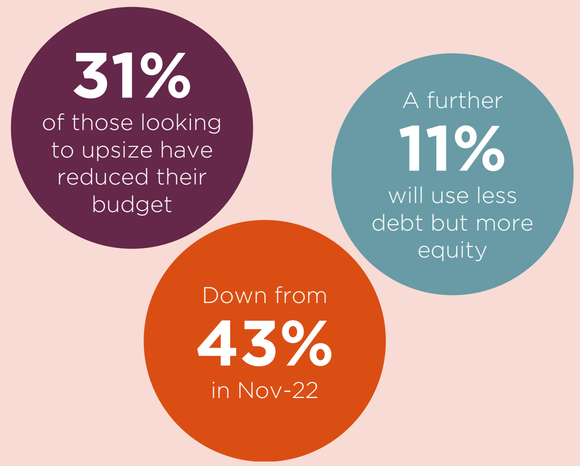
Key metrics in the £1 million+ housing market



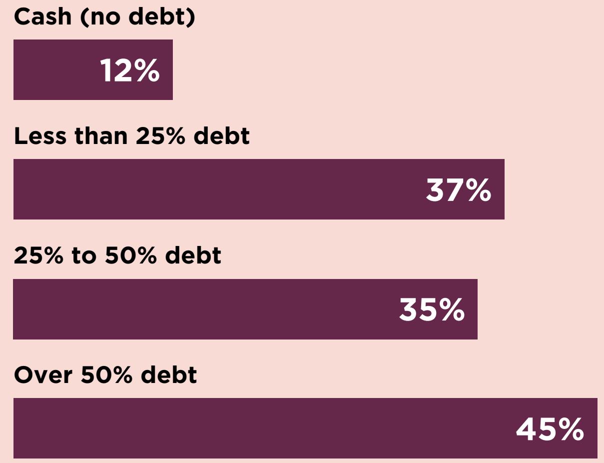
Source: Savills Research using TwentyCi

From our client survey

Impact of recent events on upsizers' budgets



% of respondents who have decreased their budget



Source: Savills Research buyer and seller survey, April 2023

Still feeling sensitive

As a consequence the market has become more price-sensitive, particularly in the prime regional markets where values softened by -2.3% on average in the six months to the end of March. The effect in the prime markets of London has been less pronounced, partly because prices rose less between June 2020 and September 2023 and partly because demand has refocused back towards the capital as day-to-day life has returned to normal.

But even here not all parts of the prime market have been affected in the same way. In prime central London, where the use of debt is often more of a convenience than a necessity, the effect has been muted. During the mini-housing boom it had essentially adopted the role of "designated driver", quietly watching as buyers fervently shifted their attention to the allure of country living. And so while it understandably lacked a sense of urgency over the past six months, demand has continued to gradually build from an increasingly wide range of international buyers, though their propensity to commit has been reined in by an increasingly tight regulatory environment.

Across the board, composition of the market has also changed, as cash buyers and those with the least reliance on debt have found themselves at a competitive advantage, not least because of their ability to act with greater speed.

When will the fog clear?

As sure as a good night's sleep does wonders for the process of recuperation, that will change as mortgaged buyers progressively return to the market. In all likelihood that will be a prerequisite for a market-wide return to price growth. In turn, this is heavily dependent on what happens to the cost of debt.

Yes, we have seen far greater stability and competition in the mortgage markets, given an expectation that in due course Bank base rate will be cut once inflation is tamed. But inflation remains stubbornly high. That means we can be reasonably certain that any fall in the cost of debt will be gradual, less so about when exactly we can pencil that in.

All of this suggests the market will be price-sensitive for some time to come, during which period its fortunes inevitably will ebb and flow. Certainly we cannot rule out further price adjustments, not least because of the impact of weak sentiment feeding up from the mainstream markets. Yet without the same pressures of previous downturns, we expect to see a more seasonal prime housing market continue to function, especially where needs-based buyers underpin demand and equity holds sway over debt as a source of funding.

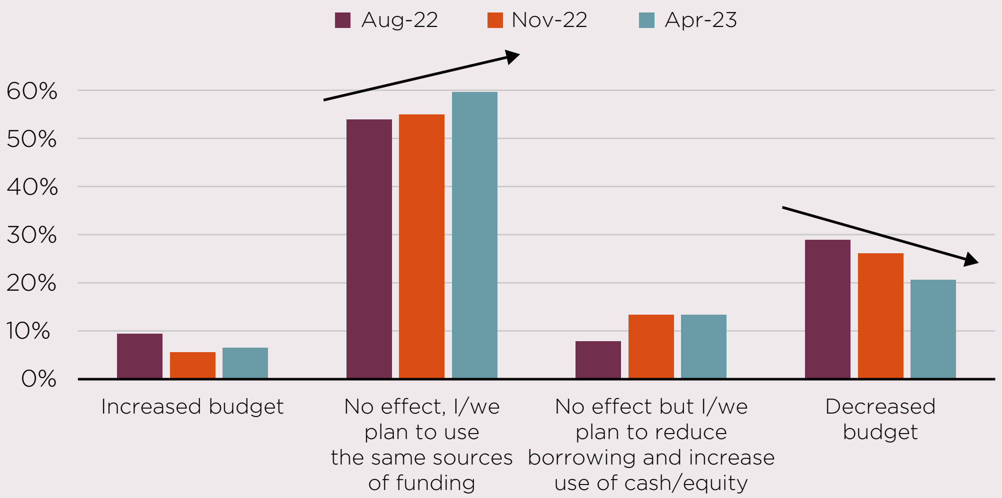
SAVILLS 12TH BUYER & SELLER SURVEY

KEY FINDINGS

Analysis by Frances McDonald,
Director, Residential Research

01 Financial factors

Buyer budgets remain resilient despite recent interest rate rises and increased cost of living.



Most **(60%)** respondents said no affect & same funding

13% said same budget but more equity

21% said reduced budget

With some changes in spending by different buyer type

68% of **downsizers** still have the **same budget and funding**

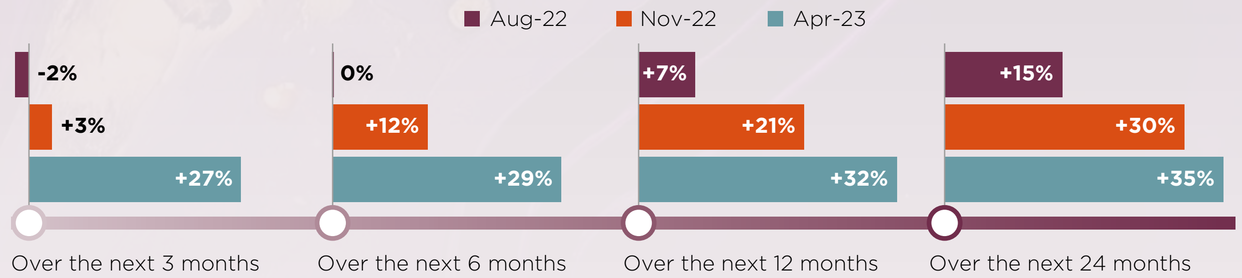
18% of those looking to **buy property as an investment** plan to use less debt but **more equity**

48% of those looking to get **onto the housing ladder have reduced their budgets**

17% of those buying at **the top end (£2m+)** have reduced their budget

02 Improved commitment to move

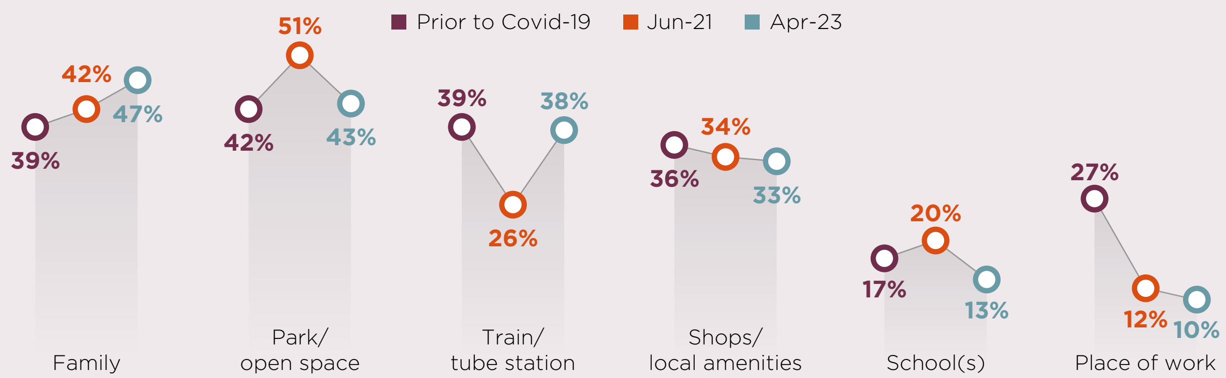
Commitment to move home has improved in both the short and long term.



03 Buyer priorities

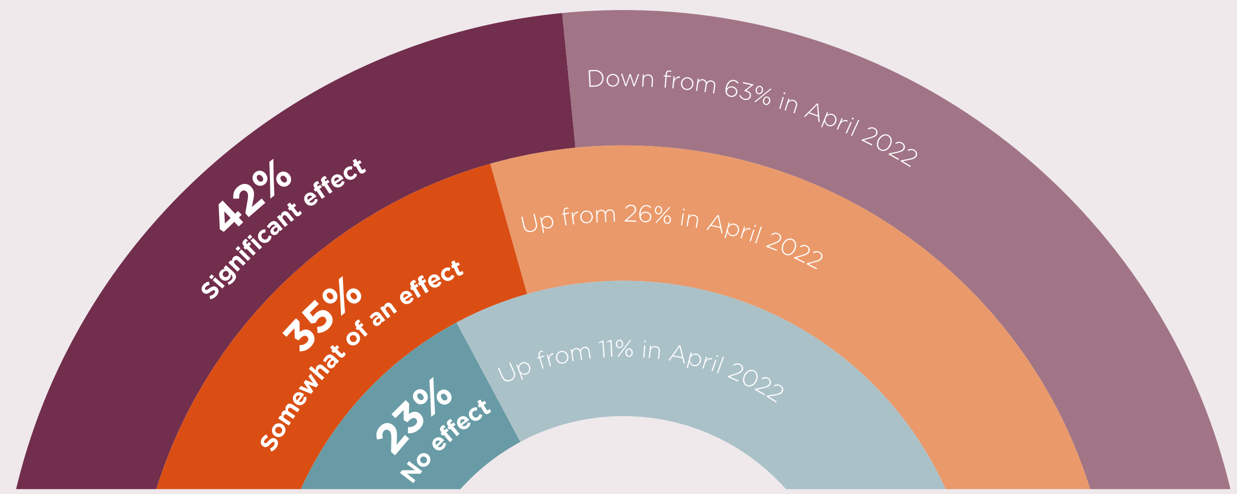
Proximity to family is now at the top of buyer wish lists with transport as important now as it was pre-Covid.

Proportion of respondents who ranked as 1 or 2



04 Lack of stock

Lack of property available for sale is much less of an issue now than at this point last year.



Source: all data from Savills buyer and seller surveys, Mar-20 to Apr-23

UP TOWN RANKING

Words by Lucian Cook,
Head of Residential Research

The release of the 2021 census data for England and Wales has caused great excitement in Savills research department.

Together with data from the Land Registry it has allowed us to rank towns and small cities based on the socio-economic, educational and health profile of their residents, as well as house prices relative to peers in the same region.

We used to call them 'Uber Towns' but in recent years that has taken on a new meaning. 'Prime Locations' maybe? Or 'Aspirational Commutes' perhaps.

Whatever, the list is dominated by South East England, with Harpenden topping the list as it did in 2011. This said, the North West also makes a good showing while Bath flies the flag for the South West. Deserving a special mention too is Penarth in Wales, which while sitting just outside the 50 came in at 51.

With the census in Scotland being conducted in 2022, we'll be able to add to the list and see whether the likes of Helensburgh, North Berwick and Linlithgow are able to knock Hitchin, Hurstpierpoint and Leatherhead out of the top 50.

The rankings

Our rankings show position in 2021 & 2011, as well as current median house price and population. Common features of our highly ranking towns and small cities include being near a racecourse, castle, cathedral or The Thames.

1	Harpenden	£766,000	#1 IN 2011	31,613 POP
2	Cobham	£1,170,000	#4 IN 2011	19,127 POP
3	Beaconsfield	£1,072,500	#5 IN 2011	14,667 POP
4	Chorleywood	£1,100,000	#3 IN 2011	13,434 POP
5	Amersham	£800,000	#7 IN 2011	24,808 POP
6	Hale	£699,000	#2 IN 2011	17,493 POP
7	Esher	£767,750	#11 IN 2011	52,286 POP
8	Gerrards Cross	£917,500	#6 IN 2011	21,405 POP
9	Berkhamsted	£630,000	#8 IN 2011	21,719 POP
10	St Albans	£570,000	#12 IN 2011	87,749 POP
11	Virginia Water	£750,000	#9 IN 2011	24,948 POP
12	Sevenoaks	£610,000	#10 IN 2011	32,120 POP
13	West Bridgford	£375,000	#15 IN 2011	48,856 POP
14	Ashtead	£675,250	#17 IN 2011	14,460 POP
15	Farnham	£618,750	#21 IN 2011	27,386 POP
16	Cambridge	£475,000	#30 IN 2011	148,861 POP
17	Henley-on-Thames	£600,000	#14 IN 2011	11,714 POP
18	North Ascot	£577,000	#16 IN 2011	10,403 POP
19	Altrincham	£425,250	#34 IN 2011	56,112 POP
20	Weybridge	£560,000	#19 IN 2011	30,305 POP
21	Reigate	£582,000	#27 IN 2011	23,649 POP
22	Lymm	£355,000	#13 IN 2013	11,908 POP
23	Wilmslow	£417,750	#31 IN 2011	37,670 POP
24	Marlow	£617,500	#23 IN 2011	14,908 POP
25	Wokingham	£497,475	#26 IN 2011	48,356 POP
26	Cheadle Hulme	£405,500	#43 IN 2011	25,394 POP
27	Rickmansworth	£607,500	#44 IN 2011	25,305 POP
28	Kenilworth	£390,000	#29 IN 2011	21,616 POP
29	Bramhall	£492,500	#18 IN 2011	17,254 POP
30	Crowthorne	£535,000	#22 IN 2011	14,790 POP
31	Haslemere	£568,000	#24 IN 2011	13,203 POP
32	Chigwell	£790,000	#69 IN 2011	11,025 POP
33	Ilkley	£413,750	#20 IN 2011	14,811 POP
34	Ponteland	£500,000	#37 IN 2011	10,465 POP
35	Knutsford	£415,000	#45 IN 2011	13,095 POP
36	Windsor	£530,000	#36 IN 2011	32,640 POP
37	Guildford	£485,000	#33 IN 2011	86,611 POP
38	Godalming	£475,000	#35 IN 2011	23,687 POP
39	Oxted	£575,000	#28 IN 2011	13,840 POP
40	Epsom	£485,000	#32 IN 2011	35,314 POP
41	Maidenhead	£493,000	#40 IN 2011	68,117 POP
42	Horsforth	£301,000	#46 IN 2011	19,766 POP
43	Fleet	£460,000	#25 IN 2011	42,262 POP
44	Bath	£435,000	#60 IN 2011	103,614 POP
45	Winchester	£531,000	#42 IN 2011	48,603 POP
46	Poynton	£429,750	#51 IN 2011	15,407 POP
47	Oxford	£450,000	#48 IN 2011	162,291 POP
48	Hitchin	£450,000	#66 IN 2011	36,551 POP
49	Hurstpierpoint	£532,500	#63 IN 2011	13,926 POP
50	Leatherhead	£583,500	#41 IN 2011	33,355 POP

East of England · South East · North West · East Midlands · West Midlands · North East · South West
Yorkshire and The Humber · South West · Racecourse · Cathedral/Abbey · Castle · Rowing on the Thames

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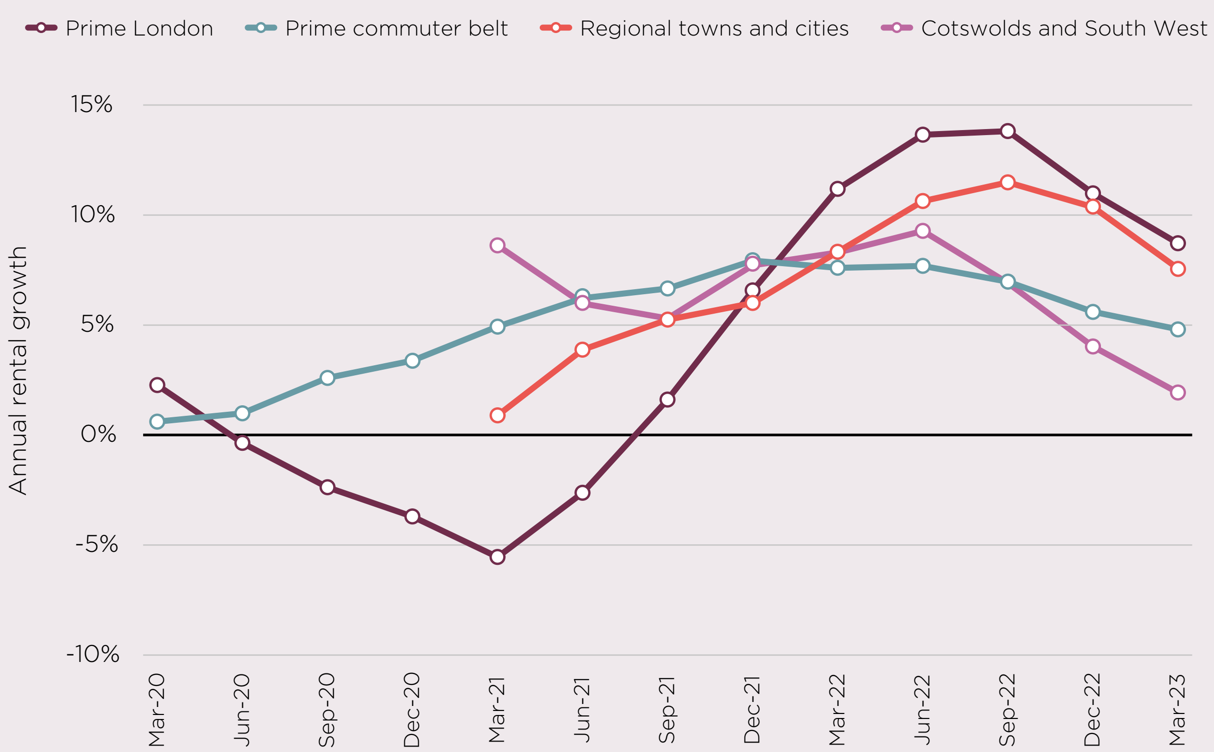
COST CONSCIOUS TENANTS SLOW RENTAL GROWTH

Words by Jessica Tomlinson,
Analyst, Residential Research

Across the prime rental market, there have been significant levels of growth over the past three years. But, higher inflation and the cost of living have taken some of the heat out of the market. We look at four areas, how they have performed and the trends driving their individual markets.

Annual rental growth in the prime property markets



Source: Savills prime lettings index, Q1 2023

01 London

Savills prime London region stretches from central locations in Mayfair and Kensington, to Hampstead in the North, Richmond in the South West, Ealing in the West and Canary Wharf in the East.

Across the capital, tenant demand has remained strong compared to previous years. But the number of prospective renters registering with Savills in March was broadly on par with March last year and -10% below the same month in 2021.

As a result, average prime rents increased by 1.4% during the first three months of 2023, a significant slowdown from the 3.5% in Q1 2022. Annual growth eased across all London regions, totalling 8.7% on average. Again, notably below the 13.8% peak in Q3 2022, when the balance between supply and demand was at its worst.

Smaller, lower value properties have performed the strongest over the start of 2023. In this part of the market, needs-based, domestic tenants, including young professionals and families, have continued to drive competition for a limited supply of properties. However, at these price points, some tenants budgets' are under pressure from higher inflation and the cost of living, which will limit capacity for further growth.

At the top end of London's rental market, demand is typically more discretionary and rental growth has eased. But across specific locations, a lack of suitable prime houses means there is still some upward pressure on rents.

QUARTERLY GROWTH	GROWTH SINCE MAR-20
+1.4%	+14.2%

02 Commuter belt

The prime commuter belt ranges from Elmbridge in London's suburbs, to Guildford and Tunbridge Wells up to a 30 minute commute to London, within the inner commute. In the outer commute, up to an hour from London, locations include Winchester and Henley.

Here, rents are up by an average of 1.1% during the first quarter, lower than the 2.1% recorded at the same point last year. Annual growth averaged at 4.8%, suggesting it is levelling out following three years of rental increases which now total 18.7%.

Across the commuter belt the number of new applicants registering has continued to rise in March, with levels higher than the same month over the past five years. Despite demand remaining strong, tenants have become more aware of pricing, as budgets have been squeezed by wider financial pressures. Therefore, realistic asking rents will be key to maintaining interest moving forward.

QUARTERLY GROWTH	GROWTH SINCE MAR-20
+1.1%	+18.7%

03 Regional towns and cities

Regional towns and cities cover urban locations across the UK, from Edinburgh in Scotland, Manchester in the North and Reading and Cambridge closer to the capital. These markets are typically characterised by a higher proportion of city centre locations and strong demand from young professionals and corporate relocators.

Across these markets, average rents increased by 0.4% over the first three months of 2023. This is the slowest rate of quarterly growth since Q2 2020 and a significant slowdown from the peak of 3.5% during the second quarter of 2022. Over the past 12 months, rents are up 7.6% and are 17.6% higher than March 2020.

But, there has been some variation. Northern cities experienced rental falls over the start of this year as tenants have become more aware of changes in the market. However, locations closer to London including Cambridge and Reading, still saw rents rise, as demand remained strong and supply continued to be limited, especially across lower price bands.

Elsewhere, Edinburgh faces a unique set of drivers. Current legislation imposes temporary rent caps and restricts evictions but only for existing tenancies. While changes to the Scottish Additional Dwelling Supplement at the end of last year could limit supply levels moving forward.

QUARTERLY GROWTH	GROWTH SINCE MAR-20
+0.4%	+17.6%

04 Cotswolds and South West

This region covers the Cotswolds Area of Outstanding Natural Beauty but also the surrounding towns and cities of Oxford, Cheltenham and Bristol and includes a range of prime properties from smaller urban flats to large detached farmhouses.

On average, prime rents are up 0.7% during Q1 this year, with annual growth totalling 1.9%, after four consecutive quarters of subdued growth. However, rents are up 19.9% over the three years since March 2020, driven by the flight to country locations over much of 2020 and 2021.

Despite a strong performance over previous years, there has been a recent shift in market dynamics. As tenants have become more considered on pricing, the gap between tenant and landlord expectations has widened. Moving forward, those landlords who choose to price sensibly will attract the most interest.

QUARTERLY GROWTH	GROWTH SINCE MAR-20
+0.7%	+19.9%

Source: all data used within the prime rental market article is from Savills prime lettings index, Q1 2023

Outlook:

What we think 2023 and beyond holds for the prime rental markets

In the short term, we expect the imbalance between supply and demand to continue to drive rental growth. But, with higher levels of inflation and increased cost of living, we anticipate the rate of rental growth will slow over the rest of this year and into 2024. Significant growth over the past three years also limits the capacity for further substantial growth. As a result, sensible pricing will be key to attracting tenants and securing tenancies moving forward.

Stock shortages are also likely to ease gradually as additional supply comes to the market from cash investors looking to take advantage of higher rents as well as accidental landlords, as the sales market cools. We are therefore forecasting rates of rental growth will return to more historic norms over the longer term.

CENTRAL LONDON'S RARE GEMS

Words by Sophie Tonge,
Analyst, Residential Research

As international buyers have returned to the prime central London market, sales of homes worth over £5 million in London have remained strong; even in the wake of recent financial events.

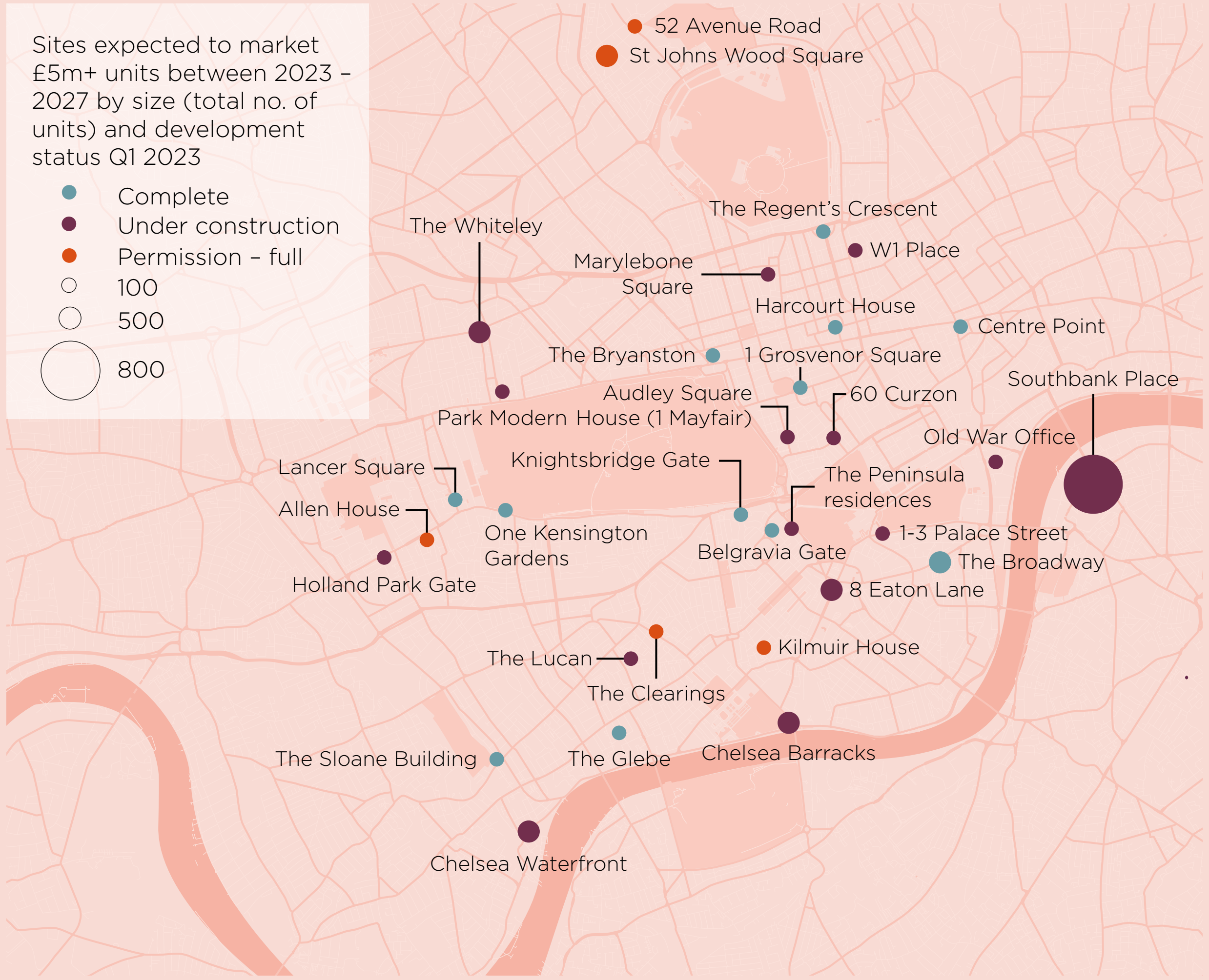
And with a number of high profile schemes reaching completion, new build properties have been taking a larger share of this particular market. A record 21% of all £5 million+ sales in 2022 were new build, with this trend continuing in Q1 2023 as 1 in 5 £5 million+ property sales sold as new.

Schemes such as The OWO, Chelsea Barracks and The Whiteley have met an increasing requirement for turnkey properties from a discerning group of ultra-high-net-worth individuals who are drawn to properties that are demonstrably best in class.

These buyers are also increasingly aware that with a diminishing pipeline of new schemes that meet their requirements for space, convenience and luxury amenities, the opportunity to secure such properties in the future may be limited.

Our analysis of the pipeline for homes above £5 million identifies that there are now just 15 schemes currently under construction. And consents for such schemes are limited – only a further four schemes have planning but are yet to start on site.

New build schemes above £5 million



Source: Savills Research using Molior

In the future, the delivery of new homes targeted at this part of the market will be subject to increasingly strict planning policy. Already Westminster City Council's Local Plan, that was adopted in April 2021, prevents consent being granted for new homes that are in excess of 200 sqm. And it appears the Royal Borough of Kensington and Chelsea is set to follow suit in resisting what have been dubbed 'over-sized units' (albeit it has been less prescriptive on precisely what this means).

To date these restrictions have been stringently implemented. With just 35% of £5 million+ new build sales since 2021 coming in below this size threshold, this could severely curtail future supply.

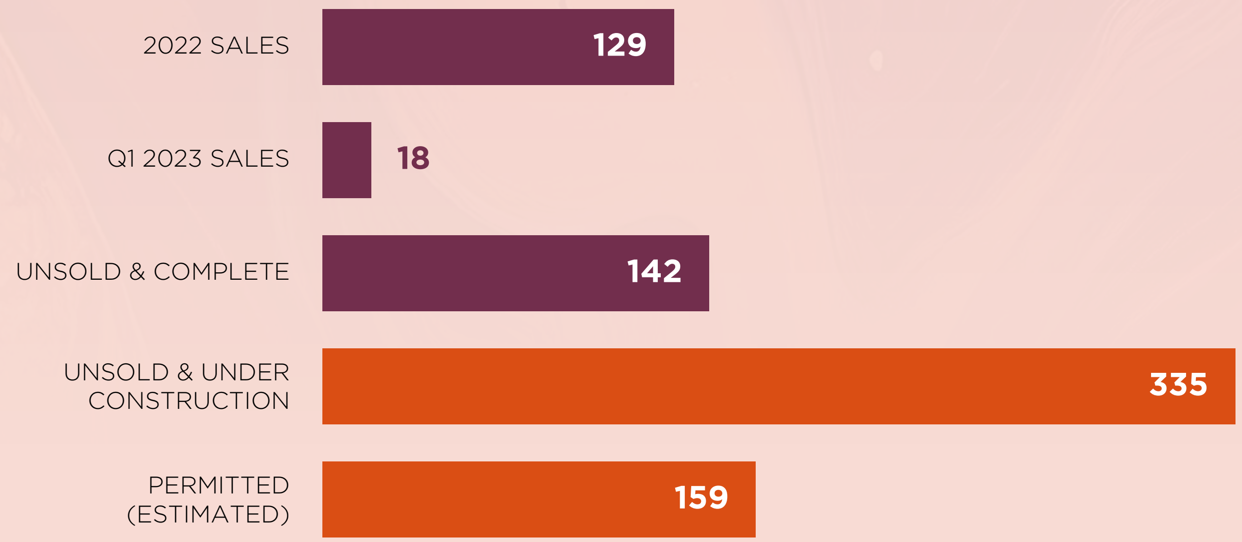
That means at the end of March there were an estimated 450 £5 million+ homes in the new build pipeline which offer accommodation in excess of 200 sq m. And based on current sales rates, in five years these schemes will be sold out.

Based on current sales rates, in **five years** these schemes will be **sold out**

Other policy changes are likely to mean opportunities for redevelopment will also be harder to come by. For example a retrofit first policy in Westminster requires developers to extensively prove that it is not feasible to retrofit a building rather than demolish and rebuild it. And, furthermore, while permitted development rights technically allow developers to convert offices to residential use without going through the planning system, both Westminster and Kensington and Chelsea have applied for exemptions to this.

So there is a sense that substantially fewer new "super prime units" will hit the market in the future, meaning the most desirable homes in central London which have been developed over the past 20 years will continue to carry a substantial price premium.

Number of £5 million+ units in the pipeline



Interested to know how the market is performing for **second-hand homes** above £5 million? Scan the QR code to read our latest update.

A DEEP DIVE INTO THE SAVILLS PRIME INDEX

There has been significant variation in performance across the prime property markets of the UK since the beginning of the pandemic.

Our prime index showcases quarterly, annual and three year price movements by property type and location.

We hope that by breaking down the data for you, you're able to make an informed decision when planning your next move.

REGION	LOCATION/ PROPERTY TYPE	QUARTERLY GROWTH	ANNUAL GROWTH	3 YEAR GROWTH
Central London	Flats	0.0%	-0.6%	0.2%
	Houses	0.0%	0.3%	3.6%
Outer London	Flats	-0.1%	-1.0%	-1.0%
	Houses	0.4%	1.2%	11.8%
Prime London Suburbs	Urban	-1.8%	-1.8%	14.2%
	Village/ Rural	-2.2%	-3.8%	14.8%
Inner Commute	Urban	-1.4%	-1.3%	10.6%
	Village	-2.2%	-2.8%	11.0%
	Rural	-2.8%	-3.4%	9.5%
Outer Commute	Urban	-0.3%	-0.7%	12.0%
	Village	-0.9%	-1.5%	12.7%
	Rural	-1.0%	-1.8%	12.5%
Wider South	Urban	-0.6%	0.6%	17.3%
	Village	-0.5%	0.3%	16.9%
	Rural	-0.8%	-1.3%	17.6%
	Cotswolds	0.0%	2.3%	17.3%
	Coastal	-1.1%	-0.7%	22.6%
Midlands & North	Urban	-0.2%	2.1%	13.3%
	Village	-1.1%	0.2%	10.9%
	Rural	-0.7%	0.8%	14.9%
Scotland	Urban	-0.3%	1.1%	15.0%
	Village	0.2%	1.0%	16.4%
	Rural	-0.1%	0.9%	17.1%
Wales	Urban	-0.2%	1.1%	9.0%
	Village	-0.3%	1.8%	7.9%
	Rural	-1.6%	-0.1%	9.1%
Country Houses	Private Estates	-1.3%	2.0%	23.3%
	Country Houses	-1.9%	-1.0%	18.9%

Source: Savills prime index, Q1 2023

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