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Spotlight | 2017

Prime London & Country

Mind the gap

How to match the expectations of buyers and sellers

Inside

The high premium for coastal living

Ranking the world's tech cities

The prospects for a stamp duty cut

Great (adjusted) expectations

"It's a rare moment when we can say that the prime housing markets beyond the capital have performed better than London. But that has been the case since the middle of 2014.

The introduction of higher rates of stamp duty and a 3% surcharge for additional homes have shaped the prime market. Increased exposure to capital gains tax for international buyers cooled the prime central London market, while Brexit uncertainty compounded this effect across the prime London market as a whole. The surprise UK election announcement will add to the uncertainty in the short term, but is unlikely to change the shape of our forecasts.

In the state of the market (p4), Katy Warrick looks at the situation for buyers and sellers in London, and at what the future holds. Kirsty Bennison takes up the story beyond London. Although not immune to tax pressures, the prime suburban markets have been less exposed, resulting in modest price growth and some interesting emerging trends.

Clearly, sellers have had to adjust their expectations. In prime central London, there is evidence that the market understands this. In the rest of prime London, the market seems further from acceptance, meaning the gap between buyers' and sellers' expectations is wider. That is contributing to a greater pool of overpriced stock. Even if values do not fall much further in this market, sellers' expectations of them will have to.

The resulting lack of liquidity in this market has had an impact on the flow of housing wealth leaving the capital for prime housing in the commuter zone. Lower price growth over the past dozen or more years in the prime housing markets of our regional cities and rural locations means the gap in buyers' and sellers' expectations is smaller and the market is more fluid.

Elsewhere in this issue, we look at property hotspots, identifying the high premiums that coastal (p19) and historic properties (p26) attract. We reveal London's position in Savills Tech Cities ranking (p10), and review the super-prime property market across central London, the Home Counties and private country estates (p22). I weigh up the evidence and prospects for a future cut in higher-rate stamp duty (p16).

The gap between buyers' and sellers' expectations is wider, contributing to a pool of overpriced stock

Looking ahead, the market will remain price sensitive during the next 18 to 24 months. Over time, political uncertainty will pass and the market will adjust to whatever tax environment it faces. That should set the platform for greater optimism and a return of more consistent price growth."

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Prime London and Country 2017

Prime under pressure

The prime housing markets outside London may have only experienced modest growth since mid-2014, but they have outperformed the capital. Katy Warrick examines the future of the prime London market, while Kirsty Bennison looks at trends in the prime markets beyond the capital

Brexit uncertainty has compounded the cooling effect of stamp duty across the London market

The prime market: a definition

This market consists of the most desirable and aspirational property by location, aesthetics, standards of accommodation and value. Typically, it comprises properties in the top 5% of the market by house price

Prime country markets have been less exposed to some of the factors that caused London to falter

WORDS KATY WARRICK

Prime London remains sensitive to change

By the end of March 2017, prices in the prime London market had fallen by an average of 6.1% from their 2014 peak. For the prime central London market, the price adjustment has been a fall of 13.2%. Much of the blame has been laid at the door of stamp duty. However, this is just one element of the story.

Not just about stamp duty
In the immediate aftermath of the December 2014 stamp duty changes, prices fell by 4.4% in the prime central London market. They fell by a further 3.6% following the announcement of the extra stamp duty levy on purchases of investment property and second homes in December 2015. The scale of these falls reflect that the central London market has also been affected by international buyers' increased exposure to capital gains tax and inheritance tax.

Together, these tax changes have served to make these buyers more reluctant to exploit the weakness of sterling. It also left the market more exposed to uncertainty following the vote to leave the EU, which triggered a further 4.8% fall in central London prices during the six months to the end of December 2016.

The other more domestic prime London markets, despite being rich in equity, have also been constrained by mortgage regulation. Buyers who need to borrow have begun to push against the limits of the loan-to-income ratios lenders are prepared to offer. Here, it was not until the Brexit vote that prices started to show some give, falling 4% in the second half of 2016.

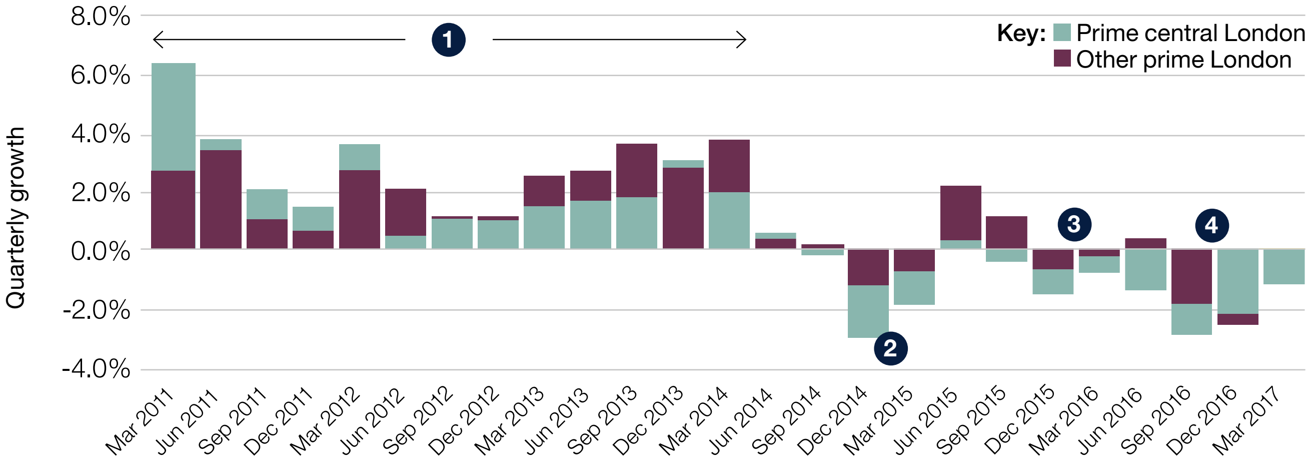
This indicates Brexit uncertainty has compounded the cooling effect of stamp duty in the prime London market. To date, this has been down to sentiment, driven by uncertainty over the future, rather than any identifiable weakening in the London economy.

But the impact has been real and sellers understand they have to adjust expectations – asking over the odds for your property is a passion-killer for buyers.

Is London bottoming out?
TwentyCi tracks market activity and its data shows that, relative to the number of sales, since April 2016 there have been 70% more cuts in asking prices of prime property in London than in the country. But there is evidence these cuts are coaxing buyers back.

Of course, the market remains price sensitive. In the first quarter of the year, prices in central London fell by a further 0.8%. Across the other London markets, they showed no movement. That suggests the market is finding its level. However, as the impact of serving Article 50 becomes clearer, it will be sensitive to the ebbs and flows of sentiment in uncertain times.

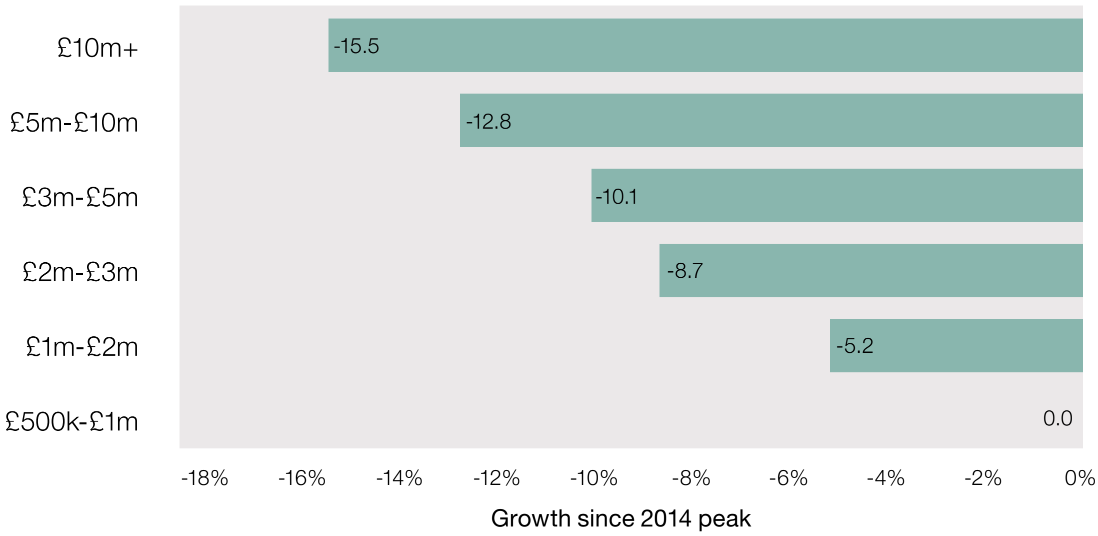
Price movements in prime London The prime market in the capital has remained sensitive in the wake of stamp duty changes and Brexit. Realistic pricing is key



1. Though slowed by successive stamp duty increases, prices in central London rise by 26% between March 2011 and September 2014
2. Prices in prime central London fall by 4.4% in the immediate aftermath of the December 2014 stamp duty reforms
3. Values in central London fall by a further 3.6% following the announcement of the 3% stamp duty surcharge on additional homes
4. In the six months after the EU referendum, prices adjust by 4.8% in central London and by 4% elsewhere

Source Savills Research

Market moves In the period following the 2014 stamp duty changes, prices in the prime London market have gone through large adjustments, particularly in the highest price sector



Source Savills Research

WORDS KIRSTY BENNISON

Stop-start in the town and country markets

Beyond London, the prime market has seen some marked changes compared to those in the capital. Prices fell by a similar amount post-credit crunch, bottoming out in March 2009 after dropping by an average of 20% over 18 months. They then recovered over half of these losses in the following year.

But between March 2010 and September 2014, there was little discernible growth. Modest increases in the commuter zone were offset by prices slipping back in the Midlands, the North and Scotland.

A market less exposed

By the time of the major overhaul in stamp duty, prices were 4% below their 2007 peak on average. Even in the prime suburban markets, they were just 8% above the previous high-water mark. That has meant they have been less exposed to some of the factors that have caused London to falter.

But they have not been immune to those pressures either. Total price growth since December 2014 has been confined to 4.4% on average, meaning that values are still only just back to their pre-credit crunch peak across the market as a whole.

However, this broad average disguises some trends in the market. Where people have made the move out of London, for example, they have increasingly opted for the buzz and convenience of urban life – one reason why the townhouse has outperformed the manor house.

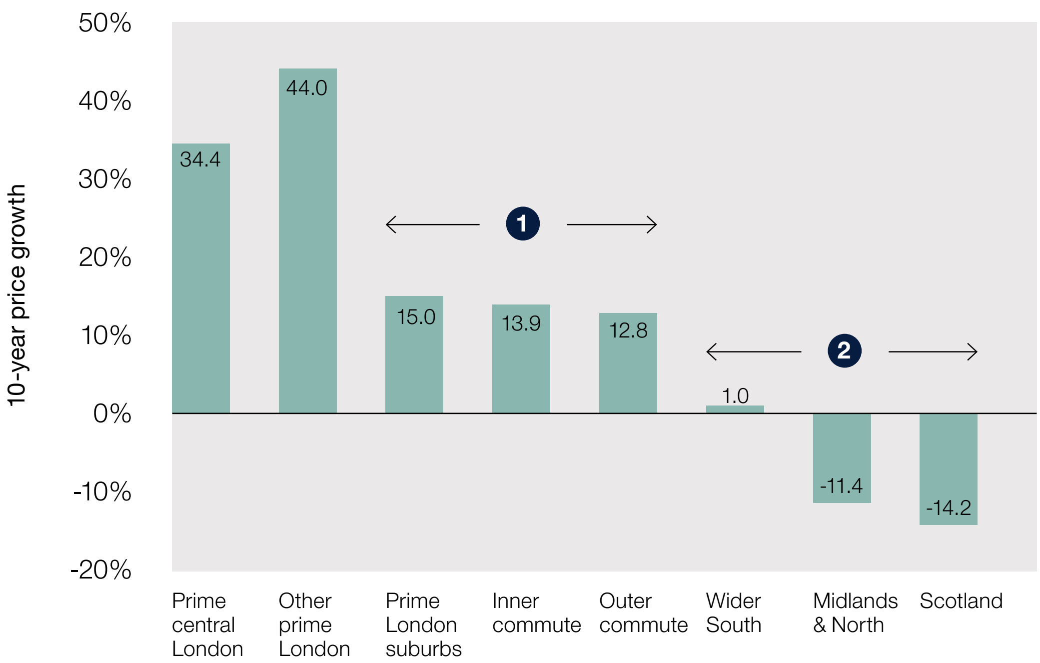
New trends in buyer preference

But that's not the only reason why prime urban property has outperformed its country counterpart, given the trend has extended well beyond London's commuter zone. The market for the best housing which the likes of York, Chester and Edinburgh has to offer has been more robust than for period country property. This suggests it is part of a wider change in preference.

For those who prefer rural life, it has been a case of small is beautiful, with a stronger market for cottages and farmhouses than grander, larger stock, which increasingly looks like good value.

Early evidence for 2017 is one of cautious optimism. Prices rose by 0.8% in the first quarter, but modest growth across all regions beyond London and in all price bands, reflects a more fluid market than London, which is more exposed to changes in sentiment.

10-year price growth in the prime housing markets Lower growth outside prime London means surburban markets have been less exposed to stamp duty factors

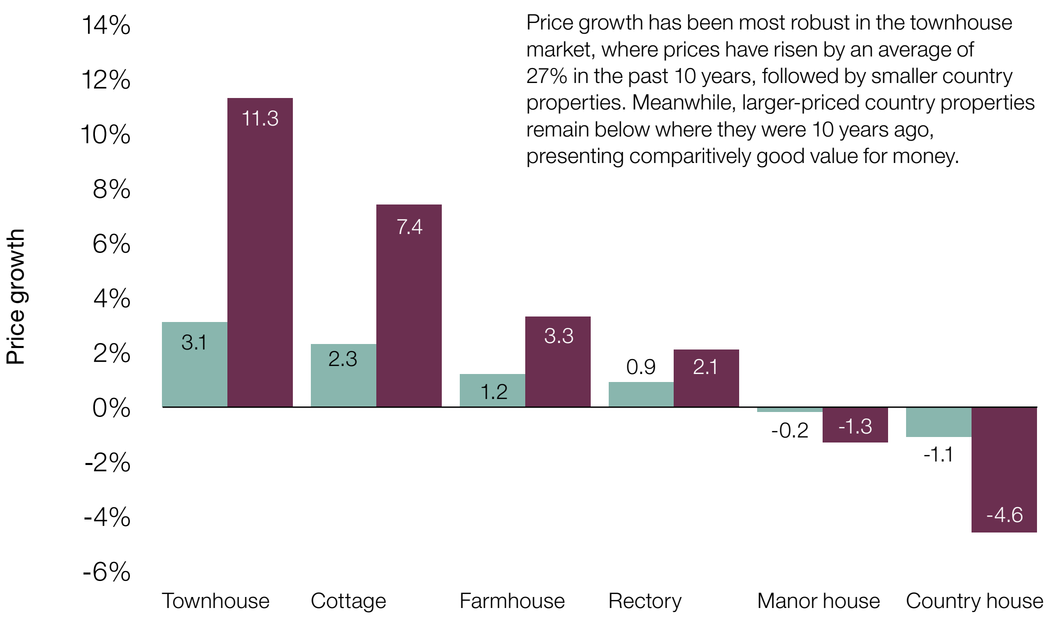


1 Strong historic price growth means there is a significant price gap between London and the commuter zone. It also means factors such as stamp duty are now having a greater impact in the capital.

2 Due to a slower recovery, prices in the wider south of England are only just back to their levels of 10 years ago and are lower than 10 years ago in the Midlands, the North and Scotland.

Source Savills Research

Prime regional price movements by property type People are increasingly opting for the buzz of urban life, one reason why the townhouse is outperforming the manor house



Key: Annual growth (Q1 2016-Q1 2017) Price movement since stamp duty changes (2014)

Source Savills Research

Digital dilemma

London's status is a big draw for tech start-ups and multinationals. But could the capital's high cost of living and property undermine its future position in Savills Tech Cities ranking?

WORDS PAUL TOSTEVIN

Each year, Savills compiles a ranking of the 22 global centres at the forefront of tech, all of which have thriving and growing tech industries. The report, Savills Tech Cities, aims to understand the diverse factors that make a location a desirable choice for the tech sector.

Assessment for each city comprises more than 100 metrics, ranging from the number of days needed to start a business through to the cost of a flat white. These metrics are grouped into five categories: business environment, tech environment, city buzz & wellness, talent pool and real-estate costs.

While the top three positions in the 2017 programme are occupied by the US cities of Austin, San Francisco and New York, London scores strongly to take fourth spot – it's the top-placed city outside the US and the highest-ranked in Europe.

London receives more venture capital and is home to more start-ups than any other European city. From fintech to artificial intelligence, London performs well across a wide range of tech subsectors and its world-city status provides growing tech companies with a platform for global expansion.

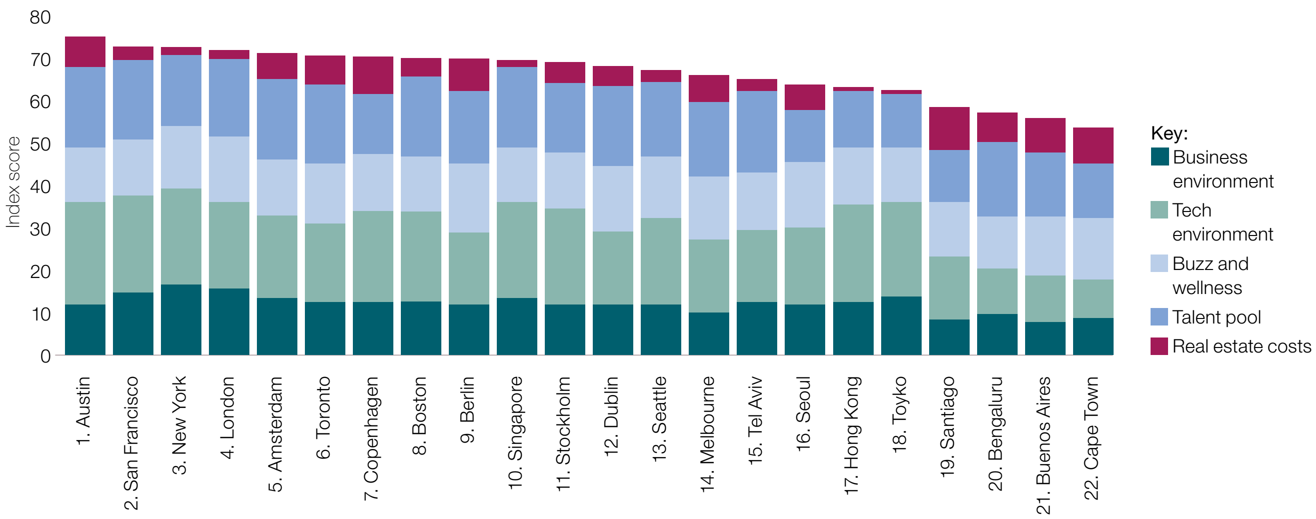
One of London's biggest advantages lies in its ability to attract skilled workers – essential to any successful tech company. London scored top in our measure of 'city buzz' for its depth and breadth of restaurants, nightlife, concerts, retail, museums and café culture, making it attractive to talent from across the globe.

It's also home to more top-rated universities than any other city, supplying a steady stream of skilled workers to the sector. Plus, London is youthful – there are 1.3 millennials for every one boomer – and total population is forecast to grow by a further 11% over the next decade.

But London does face challenges, particularly when it comes to property prices and the high cost of living. Austin (the number one Tech City), Amsterdam and Dublin have emerged as successful tech centres in part because they offer city living on a smaller footprint with lower costs. For employees, this means more disposable income, shorter commutes, easier access to amenities and a better work-life balance. For tech businesses, it means lower rents.

As long as London's tech companies are able to continue to recruit talent from across the globe, the city's Tech City status would seem assured. Cost pressures, however, mean that the biggest challenges might come from smaller cities such as Amsterdam and Berlin, where property is significantly cheaper.

World's top Tech Cities Savills research uses metrics in five categories to assess each city. Here are the top 22 along with how the cities rank in those categories



Source Savills Research

1. Austin
Austin ranks as our number one Tech City. It's favourable real-estate costs and a strong entrepreneurial culture, mean the Texan capital maintains a thriving and innovative start-up scene, with access to some of the world's top talent.

2. San Francisco
San Francisco's tech credentials are almost too numerous to mention: Twitter, Airbnb, and Uber are just a few of the city's success stories. A wide array of talent and a rich business ecosystem makes San Francisco a start-up magnet.

3. New York
As a major world centre, prices may be high, but opportunities are great. Renowned universities, a business-focused culture and global links make New York attractive for tech start-ups and multinationals alike.

4. London
As a global economic powerhouse, it's no surprise that London is one of the world's technology capitals. Excellent universities, proximity to Europe's busiest airport and a vibrant entertainment and cultural lifestyle cement its position.

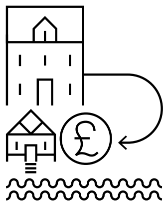
5. Amsterdam
The famously bohemian capital is also home to a thriving tech scene. Scoring highly for wellness and city buzz, Amsterdam has the advantage of an almost completely bilingual culture (around 90% speak English and Dutch).

For an interactive view of the data for Tech Cities, visit savills.co.uk/tech-cities

Movers and shakers

Buying and selling property means different challenges for different people. We profile five influential types of buyer whose decisions will shape the future market

WORDS GABY DAY

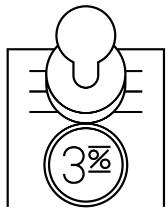


Downsizers

These buyers have accumulated significant equity during the last 15 to 20 years and, with the ability to release funds from their pensions, have more capacity than ever to downsize. Our analysis shows that owner-occupiers over the age of 65 hold more than £1.5 trillion of net housing wealth.

With affordability limiting the younger generation, we expect to see an increase in the number of downsizers releasing this equity to help family members get on the ladder – even in prime markets.

Many will be in search of a quieter life, making the move from town to village or to picturesque coastal retreats. However, there is also increasing demand for older buyers to live in vibrant urban locations. Both groups of buyers will be in search of prime locations that offer a high quality of life.

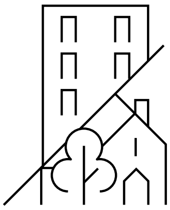


Investors

Stamp duty has been of significant importance for the buy-to-let investor. The 3% surcharge on additional homes has somewhat dampened activity and, coupled with increasing mortgage regulation and reduced tax relief, investors are feeling the pinch.

Capturing demand will be key and these increased tax costs will make investors particularly selective in what and where they buy.

In the country markets, locations that can provide quality schools for families and good transport links to the capital will remain in demand. Edinburgh, Cambridge and Bath have also consistently been popular locations for investors over the past five years.

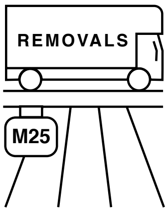


Second-home buyers

This group includes the 'weekend warriors' looking for a flat for the working week alongside a country house for the weekend that's in commutable distance to London, as well as those searching for a coastal or Cotswolds hideaway. In 2016, 22% of second-home buyers bought in the south west, with Cornwall and Poole consistently popular locations.

As is the case with buy-to-let investors, second-home buyers will have to consider their purchases more carefully in this less hospitable tax environment.

Buyers will be looking for popular locations that will retain their value, while providing the amenities they enjoy from a second home.



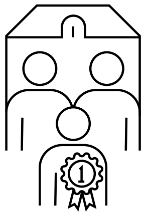
Upsizers

Families looking for more space and more value for money will be making the move outwards from London.

The proportion of Savills buyers moving from London to the country has been steadily increasing over the last five years. In 2011, these buyers accounted for 37% of London movers. By 2016, it had increased to 46%. The most popular locations have consistently been the Home Counties, Surrey, Berkshire and the South East.

These buyers will be challenged by mortgage regulations as they try to take on more debt to move up the ladder, leading them to look for more for their money.

Hesitation in the market may also contribute to fewer transactions in the short term, slowing down the market for those keen to sell. But while the value gap between London and the country has fallen a little, there is still a significant saving to be made by moving out, which we expect to be a major driver of the market as confidence improves.



Affluent first-time buyers

With taxes limiting buy-to-let investors, first-time buyers are experiencing less competition in the market. This, teamed with low interest rates, presents a good opportunity for those looking to get their foot on the ladder. Affordability remains the biggest hurdle, with many reliant on the bank of mum and dad, and this has become more challenging with stress-tested mortgages.

The more affluent of these first-time buyers will be looking to London's prime fringe markets. Those who have been priced out of the capital will be seeking urban centres with good transport links or strong employment markets.

46%

Proportion of Savills buyers moving out of London in 2016. In 2011, it was 37%

£1.5 trillion

The net housing wealth of owner-occupiers over the age of 65

Ripple effect hints at brighter outlook

Stamp duty and Brexit uncertainty have both cooled the prime market, but there are optimistic signs of a longer-term recovery

WORDS LUCIAN COOK

The pressures of taxation and uncertainty over Brexit are expected to continue to weigh on the market over the next two years, with the general election on 8 June compounding the uncertainty in the short term. However, as the prime markets adjust to the changed tax environment and benefit from greater certainty over the political and economic outlook, we expect a return to price growth.

As discussed on page 16, a cut in stamp duty at the top end of the market is less a probability than a possibility over the short to medium term. There is little doubt that a cut would act as a boost to the prime housing market, but it cannot be relied upon.

We have seen prices adjust to these increases, but we now expect a period of broadly static prices as the market becomes more accustomed to higher transactional costs. During this period, overseas buyers' greater exposure to capital gains tax and inheritance tax is likely to temper the effect of weak sterling in the central London market.

Despite low interest rates, general uncertainty around the impact of Brexit is expected to mean the market is exposed to short-term fluctuations in sentiment. These will be affected by the relative success of negotiations to leave the EU now that Article 50 has been triggered.

More specifically, the position of London as a global financial centre is critical to longer-term growth prospects in the capital and its hinterland.

In the absence of firm evidence to the contrary, we are assuming that while some city job losses

The position of London as a global financial centre is critical to longer-term growth prospects

Prime
Central London
Other London
Suburban
Inner commute
Outer commute
Wider South
Midlands/North
Scotland

Source Savills Research **Note** These forecasts apply to average will result from institutions relocating some of their activities to other European centres, London will retain its position as a key financial centre. Added to this, London's evolution as a Tech City is likely to support longer-term growth prospects.

Longer-term return to growth

In due course, a little bit of certainty is likely to go a long way as negotiations proceed, bringing a greater sense of urgency to the market. After such a long period of adjustment, particularly in inflation-adjusted terms, prime property across the country will increasingly look like good value.

Parts of the prime market will be affected by specific factors. History tells us a second referendum in Scotland would temporarily see the return of a needs-based market, while the additional stamp duty in the second home and coastal markets are likely to leave them more exposed to shifts in sentiment.

But as the economy starts to pick up and consumer confidence improves, we expect this to provide the platform for a recovery in prices. Discretionary buyers will be increasingly willing to exploit the price gap between London and the commuter zone, driving a flow of wealth from one to the other and restarting a wider ripple effect previously held on pause.

Five-year forecast As the economy starts to pick up, we expect this to provide the platform for a recovery in prices, which will kickstart a wider ripple effect

2017	2018	2019	2020	2021	5-year compound growth
0.0%	0.0%	8.0%	5.0%	6.5%	21%
-1.0%	**0.0%**	**6.0%**	**4.0%**	**5.0%**	**15%**
-1.0%	1.0%	5.5%	4.0%	6.0%	16%
1.0%	**1.5%**	**6.5%**	**4.0%**	**6.0%**	**20%**
1.0%	1.5%	6.5%	4.0%	5.0%	19%
1.0%	**1.0%**	**5.5%**	**3.5%**	**5.0%**	**17%**
0.0%	1.0%	5.0%	3.0%	4.0%	14%
0.0%	**0.0%**	**4.5%**	**3.0%**	**4.0%**	**12%**

prices in the secondhand market. New-build values may not move at the same rate

"Hello. I'm Stamp Duty. I've taken my fair share of the blame for the lack of urgency in the prime housing market. How about a cut to help stimulate the market?"

WORDS LUCIAN COOK

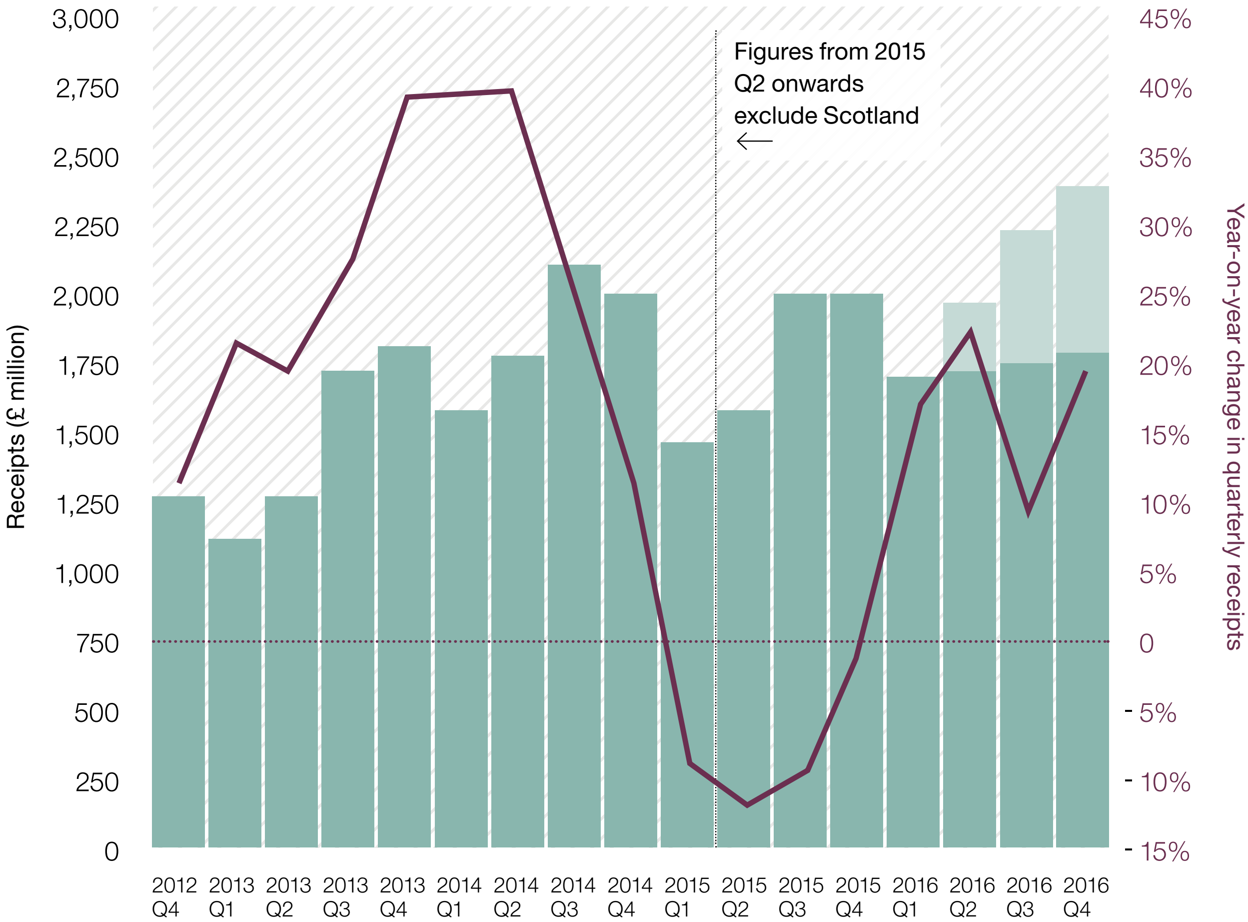
Stamp duty has been blamed for a cooling in the prime housing markets ever since the changes were announced in December 2014. Is there a chance of a cut to bring fresh market vigour?

First, how did the market arrive at this position?
In December 2014, the government scrapped the old structure of stamp duty land tax (SDLT) and introduced a new banding system. The changes were largely considered a political move, coming prior to a general election and at a time when the opposition was advocating a mansion tax.

What affect did this taxation have on prime property prices?
Even before December 2014, successive increases in stamp duty had substantially increased the tax burden at the top end of the market and made prospective buyers more cautious. In the 2013-14 tax year (before the stamp duty overhaul), sales of homes worth more than £1 million accounted for just 1.4% of all transactions and 13% of their aggregate value. Yet they accounted for more than a quarter of all stamp duty receipts – contributing £1.9 billion to the Treasury. In the following tax year, that sum went up to £2.2 billion, reflecting higher transactions in the first nine months before rates increased again in the 2014 Autumn Statement.

Surely the tax take from the top end had to fall in 2015-16?
Contrary to many people's expectations, sales of property worth more than £1million went up again. Stamp duty receipts from this part of the

Quarterly residential stamp duty receipts Increases in stamp duty taxation do not appear to have lowered revenues for the Treasury from the top end of the market



Key: Pre additional 3% receipts (£m) Additional 3% receipts (£m) Year-on-year change in receipts (%)

Source Savills Research using HMRC

market rose by 18%. In part, this reflected a surge in transactions in March 2016, as investors and second-home buyers brought forward their decision to buy in order to avoid yet more tax in the form of the 3% surcharge on additional homes. But still, this increase in tax take from the top end of the market dashed hopes of an early cut in stamp duty.

Following the rush of transactions to beat the 3% surcharge, have prime sales since dropped? Figures for the year to 5 April 2016 remain the most up-to-date official figures for stamp duty receipts at the top end of the market. There have been reports suggesting receipts from prime property have subsequently fallen as a result of the tax rises. However, no one has been able to prove conclusively that the tax take is down. This reflects a lack of

The increase in tax take from the top end of the market dashed hopes of an early cut in stamp duty

reliable, up-to-date information and the difficulties in adjusting for the March 2016 surge.

Meanwhile, stamp duty receipts across the housing market as a whole (reported by HMRC on a quarterly basis) continue to rise, having been boosted by higher than expected revenues from the additional 3%.

What is the Treasury's view on reducing higher-rate SDLT?

Prior to the 2017 spring budget, Chancellor Philip Hammond said he needed to see more evidence of any negative impact of the high rates of duty before making a change. He will be particularly vigilant given the extent to which SDLT revenues have become dependent on the top end of the market. Much is at stake, with the Office for Budgetary Responsibility forecasting a 57% (or £4.8 billion) increase in total residential SDLT receipts between 2016-17 and 2021-22.

Is there a strong argument to reduce SDLT rates at the top end of the market?

Currently, data which the Treasury makes available shows that sales of property worth more than £500,000 fell back a little over the last quarter of 2016 – as they have done across the market as a whole. Frustratingly, there is no breakdown for higher price bands. Using the available data, it looks as if receipts from property worth more than £1 million in the second half of 2016 are likely to be down on the same period in 2015, but are less likely to be below those in 2014. So, any case to have underlying stamp duty rates reduced at the top end of the market will have to be supported by evidence of the knock-on consequences, possibly unintended, of the tax. The strength of this argument will become clearer as the effects on prices, transactions, housing delivery and the wider economy are better established.

So, the verdict is...

However highly taxed the top end of the market is, and whatever the undoubted economic inefficiencies this creates, a rate cut in the short term remains only a possibility rather than a probability.

Stamp duty changes do not appear to have resulted in lower revenues for the Treasury as some argued

To buy or to rent?

Stamp duty has contributed to a weakening of buyers' appetites and a lower transaction market, where renting looks comparatively more attractive for occupiers and where investors will take longer to recover their costs of acquisition.

We have looked at the cost of stamp duty for different property values compared to the number of days' rent this equates to for both occupiers and investors.

For a buyer of a £2 million property, the stamp duty costs of more than £150,000 equals 935 days' rent – two and a half years' worth. For an investor buying a property of the same value, they would need to put aside 1,300 days rental income to cover their stamp duty bill.

Rental recovery Cost of stamp duty in terms of days' rent for occupier and investor

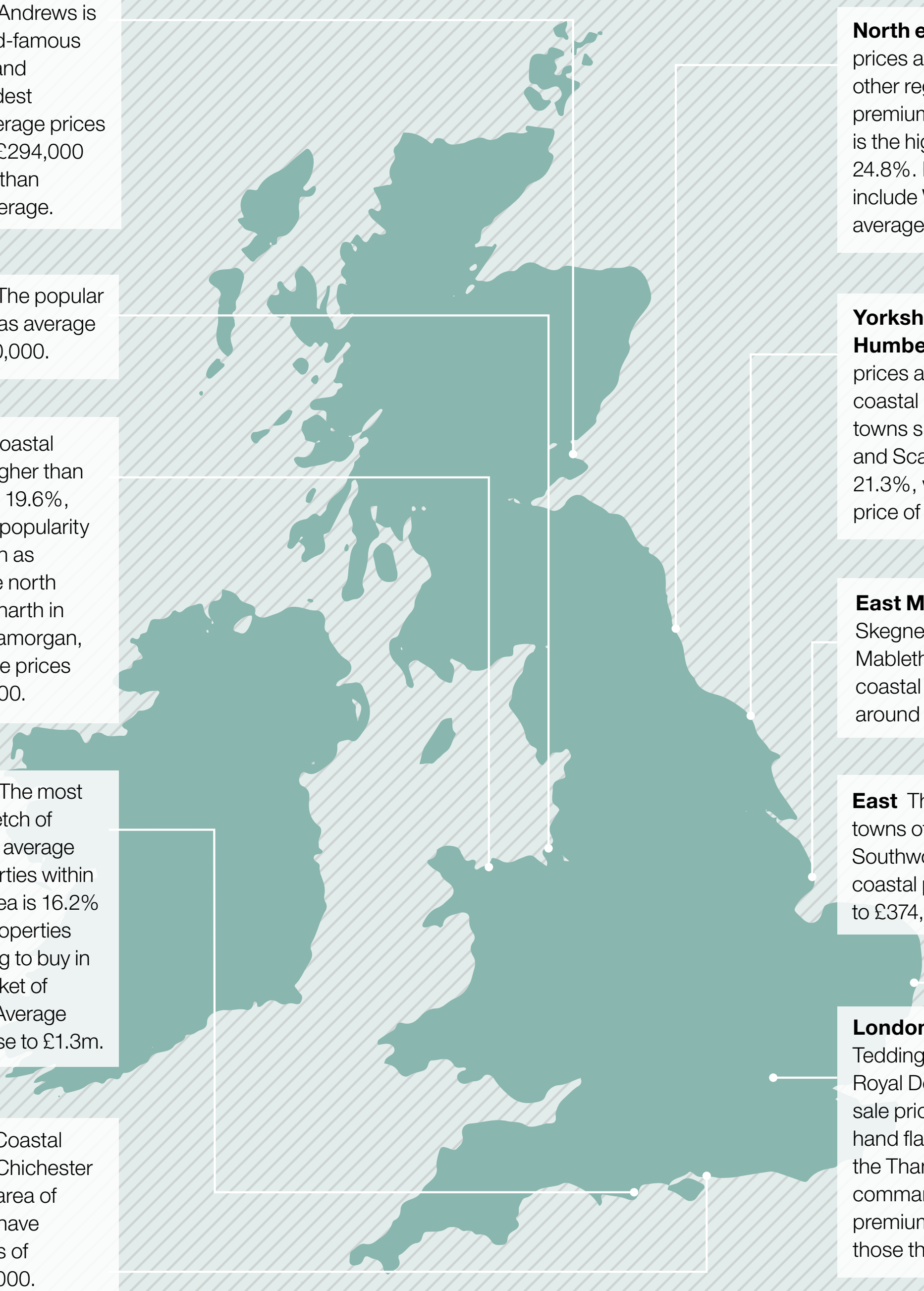
Property Value	Occupier	Investor
£500,000	274	547
£1,000,000	**456**	**769**
£1,500,000	702	1,039
£2,000,000	**935**	**1,300**
£2,500,000	1,040	1,405
£3,500,000	**1,266**	**1,664**
£5,000,000	1,500	1,938

Source Savills Research

The water margins

The idea of owning a property on a waterfront is many people's idea of a dream purchase. But it'll cost you. Properties within 100m of the British coast are, on average, 10.5% more expensive than those located further inland. In some prime markets, coastal properties command a premium approaching 25%. Here are the UK's hotspots

WORDS FRANCES CLACY



Scotland The coastal hotspot of St Andrews is home to world-famous golf courses and Scotland's oldest university. Average prices in 2016 were £294,000 – 77% higher than Scotland's average.

North west The popular Wirral coast has average prices of £280,000.

Wales The coastal premium is higher than in England, at 19.6%, thanks to the popularity of places such as Conwy on the north coast and Penarth in the Vale of Glamorgan, where average prices reach £276,000.

South west The most expensive stretch of coastline. The average price of properties within 100m of the sea is 16.2% higher than properties inland. Looking to buy in the prime market of Sandbanks? Average prices there rise to £1.3m.

South east Coastal homes in the Chichester and Bosham area of West Sussex have average prices of around £575,000.

North east Average prices are lower than other regions, but the premium for coastal living is the highest – up to 24.8%. Popular areas include Whitley Bay (price average, £262,000).

Yorkshire and the Humber Average sales prices are low here, but coastal premiums in towns such as Whitby and Scarborough are 21.3%, with an average price of £208,000.

East Midlands Skegness and Mablethorpe have coastal averages of around £112,000.

East The popular Suffolk towns of Aldeburgh and Southwold boost average coastal property prices to £374,000.

London Between Teddington Lock and the Royal Docks, the average sale price of second-hand flats within 100m of the Thames is £595,000, commanding an average premium of 19.0% over those that are 1km away.

Source Savills Research using Land Registry

High supply, small growth

London's prime rental market remains active, but supply imbalance and uncertainty in corporate rentals means that the most robust demand is for smaller properties

WORDS KIRSTY BENNISON

Over the past year, the prime London lettings market has felt the impact of growing stock levels and weaker corporate demand against the backdrop of Brexit uncertainty. This is translating into lower rents and greater choice for tenants.

At the same time, rental growth across the capital's extended commuter belt and wider south of England has been suppressed by weaker sentiment.

For landlords already facing changes to the taxation of investment properties, this means further pressure on net yields, and will require properties to be very well maintained to ensure they remain fully let.

So, what has this meant for rents across the prime lettings markets of London and its commuter belt?

In the 12 months to March 2017, average rents across prime London fell 5.4%. Further marginal softening (-0.4%) in the first quarter of this year suggests they are still finding a level. The most significant falls were seen in the highest-value prime central London markets, which were down 8% in the year.

Newly completed homes coming to the rental market, investors rushing to beat the introduction of the 3% stamp duty surcharge for investment properties in March 2016, and weakening demand from corporate tenants have combined to inflate the amount of stock being added to the market.

However, despite being price sensitive, the prime rental market has remained relatively active. London still retains its reputation as a global city, so demand remains strong. However, increased choice means tenants are focused on finding value and 'best-in-class' properties. Tenants are favouring new and newly refurbished stock over tired stock, so landlords need to invest to prevent voids.

The outlook for the London market sees a series of challenges. While we expect strong continued demand from young, affluent households facing a significant deposit hurdle to buy their first home, the strength of rental demand from other tenant groups will be more dependent on the outcome of EU negotiations and London's ability to remain a global financial centre.

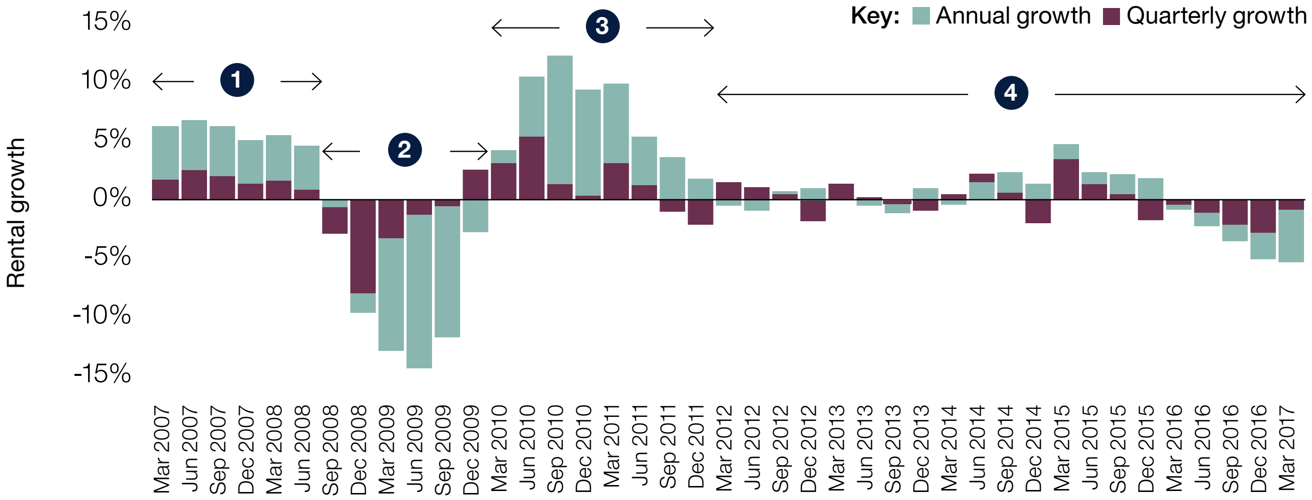
In addition, the current supply imbalance is likely to suppress rental growth in the mid-term. As such, we are forecasting small rental falls in prime London in 2017, with marginal price growth in the following two years. With this in mind, landlords will need to remain realistic in their price expectations, while offering stock of the best quality to capture demand.

Prime rental markets The current supply imbalance is likely to suppress rental growth in the mid-term. As such, we are forecasting small rental falls with marginal price growth in the following years

	Historical annual			Forecast annual					5-year compound growth
	2014	2015	2016	2017	2018	2019	2020	2021	
Prime London	0.8%	1.3%	-5.1%	-3.0%	0.0%	1.0%	3.0%	3.0%	4%
Prime commuter zone	2.9%	1.0%	-0.7%	-1.0%	0.0%	1.5%	2.5%	2.5%	6%

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

Prime London rental growth In the 12 months to March 2017, average rents fell 5.4%. Marginal softening (-0.4%) in Q1 of 2017 suggests they are still finding a level



1. Growth over the period March 2007 to June 2008 was 6%
2. Growth over the period September 2008 to December 2009 was -9.8%
3. Growth over the period March 2010 to December 2011 was 8.3%
4. Growth over the period March 2012 to March 2017 was -3.5%

Source Savills Research

Size is key for commuters

The prime rental markets within an hour of London include some of the most desirable areas for families and young professionals to set up home.

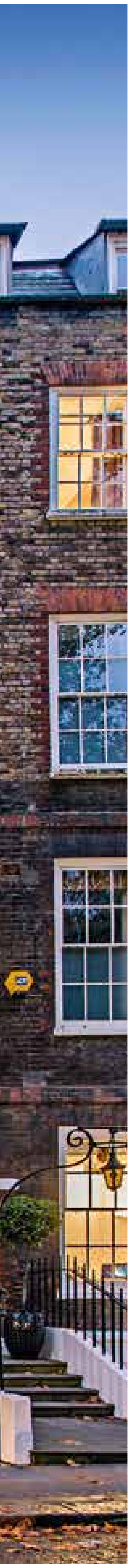
Within this market, a trend during the past few years has been for properties in cities to see stronger rental growth than those in rural locations. This has been particularly driven by demand from young professionals looking for smaller properties with easy access to transport and local amenities.

During the past year, rents for one- and two-bedroom flats have risen 2.1%, compared to falls of 4.1% for properties with six or more bedrooms.

Weaker demand from corporate tenants has been a significant factor in the price falls for these larger properties.

We expect demand for prime rental properties in the capital's key commuter locations to continue, driven by increasing numbers of people following the traditional relocation routes out of London.

However, accidental landlords – owners who are unable to sell their homes – adding rental stock, as well as weak demand from corporate tenants, is likely to curtail rental growth over the next five years.



Life at the top

We investigate the performance and outlook of the £10 million-plus market in Central London, the private estates of the Home Counties, and the country estate

WORDS FRANCES CLACY

Central London

The top end of the prime London market is one of the most exclusive in the world. Like much of the rest of the prime market, it has seen prices adjust to a new environment. Properties worth more than £10 million have seen prices fall by a little over 15% since the 2014 peak of the market. But it continues to attract significant investment.

Our analysis shows there were around 120 sales of property worth more than £10 million in London in 2016. While transactions were a little down on the previous year, slightly more was spent on these properties. In fact, some £2.5 billion of property worth more than £10 million sold last year, of which £1.5 billion was invested in properties worth more than £20 million, where each square foot of living accommodation costs more than £3,600 on average.

During the past five years, almost £14 billion has been spent in the £10 million-plus market, across a combination of established addresses and new-build developments, such as One Hyde Park, Holland Green and Cornwall Terrace.

In that period, more than £500 million was spent on properties worth more than £10 million in Eaton Square. In addition, there were four other addresses (Avenue Road, Chester Square, Belgrave Square and Tregunter Road), where investment at this end of the market was more than £200 million, contributing to a spend of more than £1.5 billion in super prime property at just five addresses. A further £650 million was invested by buyers of super prime housing at Cadogan Square, Chesham Place, Lowndes Square, Ilchester Place and Princes Gate.

This reflects the ongoing appeal of trophy homes in central London's most exclusive locations. But it's not the only show in town.

Private estates of the Home Counties

The private estate markets of the Home Counties, epitomised by the neighbourhoods of St Georges Hill and Wentworth, in Surrey, have similar characteristics to prime central London. The stock is rarefied and the buyer profiles have strong likenesses. But their housing markets have their own microclimate. When it is hot, it is hot. And when it is cold, it can be pretty chilly.

Part of that volatility is because the value of many properties is dictated by their value as a development plot. Indeed, over the past five years, of the 116 sales in St Georges Hill, 45 were sold as development plots.

Like London, the private estates of the Home Counties have been more exposed to a much less welcoming tax environment. That has meant prices have seen much bigger adjustments than elsewhere in the country market.

As a consequence, prices have fallen by 20% since the stamp duty changes of December 2014 were announced, meaning they are now back to just 3.8% above the level they were in 2007.

That period of adjustment has resulted in relatively low transaction levels, which is typified by the experience of St Georges Hill. Whereas more than £160 million of property was transacted in both 2012 and 2013, that fell to £71 million in 2014 and £67 million in 2015.

In 2016, that figure increased to more than £110 million as the market continued to adjust to the new realities. Despite this improvement, underlying caution meant that the market for redevelopment remained subdued and quality became all-important. As always, the best property continued to sell. There were four sales of more than £10 million last year, of which one was the highest-ever price achieved on the Hill. Yet, on average, final sales prices were 14% below their guide.

The country estate

Even compared to the ultra-prime flats and houses of central London, the market for private country estates would be considered specialised. The assets are a unique combination of some of the country's finest country houses, accompanying cottages, and a sizeable acreage of farmland and woodland, together with associated sporting rights.

They come to the market infrequently, while buyers are hard to categorise – domestic and international, old and new wealth. All of them are incredibly discerning.

Value is largely determined by how each of the separate asset classes have performed, but the total value is usually more than the sum of its parts.

During the past 10 years, land has been the key driver of price growth, having risen in value by more than 150%, far outstripping the growth in the residential component, which has risen by just 7%. That has meant values have risen, on average, by 34% over this period.

However, with evidence that commercial farmland values have peaked, growth is being driven by scarcity and amenity. Those factors tend to be reflected in the marriage value between the assets – the sum to own the whole package rather than just its components.

While that sum will vary depending on the attributes of each estate, in the bull markets of late 2006 and early 2007 it added an average of 19% to the total value. Since the market bottomed out in the first quarter of 2009, it has fluctuated between 9% and 12%.

In the past five years, by slightly outpacing growth in the value of the underlying assets, it has risen by 39%, with 15% growth over the course of 2016. That reflects a market where demand has picked up, but which is relatively scarce of stock.

In 2016, there were 29 £5 million-plus estate sales where the land area was at least 200 acres. Together, those assets had an aggregate value of £331,585,000.

Homes with history

Historic houses are some of the most sought-after properties on the market. Our research shows the sizeable premium buyers must pay to live in our built heritage

WORDS GABY DAY

The Riversmeet ward in the Cotswolds is home to some of the country's prettiest villages, such as Sherborne and the Barringtons. Our analysis shows that it also contains the highest proportion of listed buildings – 25.6 per 100 people. The average property price in the ward during 2016 was 91% above the average for Gloucestershire. In the neighbouring ward of Ampney-Coln, where there are 18.9 protected buildings per 100 people, the premium above the county average was 176%.

By studying more than 350,000 listed buildings across England, across 7,000 electoral wards, we have pinpointed those areas with a high concentration of listed properties per head of population. Homes located in areas where the number of listed buildings is greatest are worth, on average, 44% more than others in the same county. By contrast, those with few listed buildings are almost 20% cheaper.

With this direct correlation between heritage and house price, we can see how highly valued our history is, and the high level of demand to live in historic areas. And it's not just rural locations that include these premiums. In the central ward of Lansdown in Bath, the average sale price of £797,000 in 2016 was 196% above its county average.

While we can see where buyers will pay a premium for historic surroundings, this analysis also shows where buyers seeking history can find relative value. Chester, for example, has 13.9 listed buildings per 100 people, yet its average sale price of £198,000 in 2016 was 13.4% lower than the average for Cheshire, a high-value but comparatively 'new' county.

Savills Residential Research We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, property research and commentary on all sectors of the UK's housing market. Established prime residential markets make the UK a global centre. Savills Residential Research understands the reasons why

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