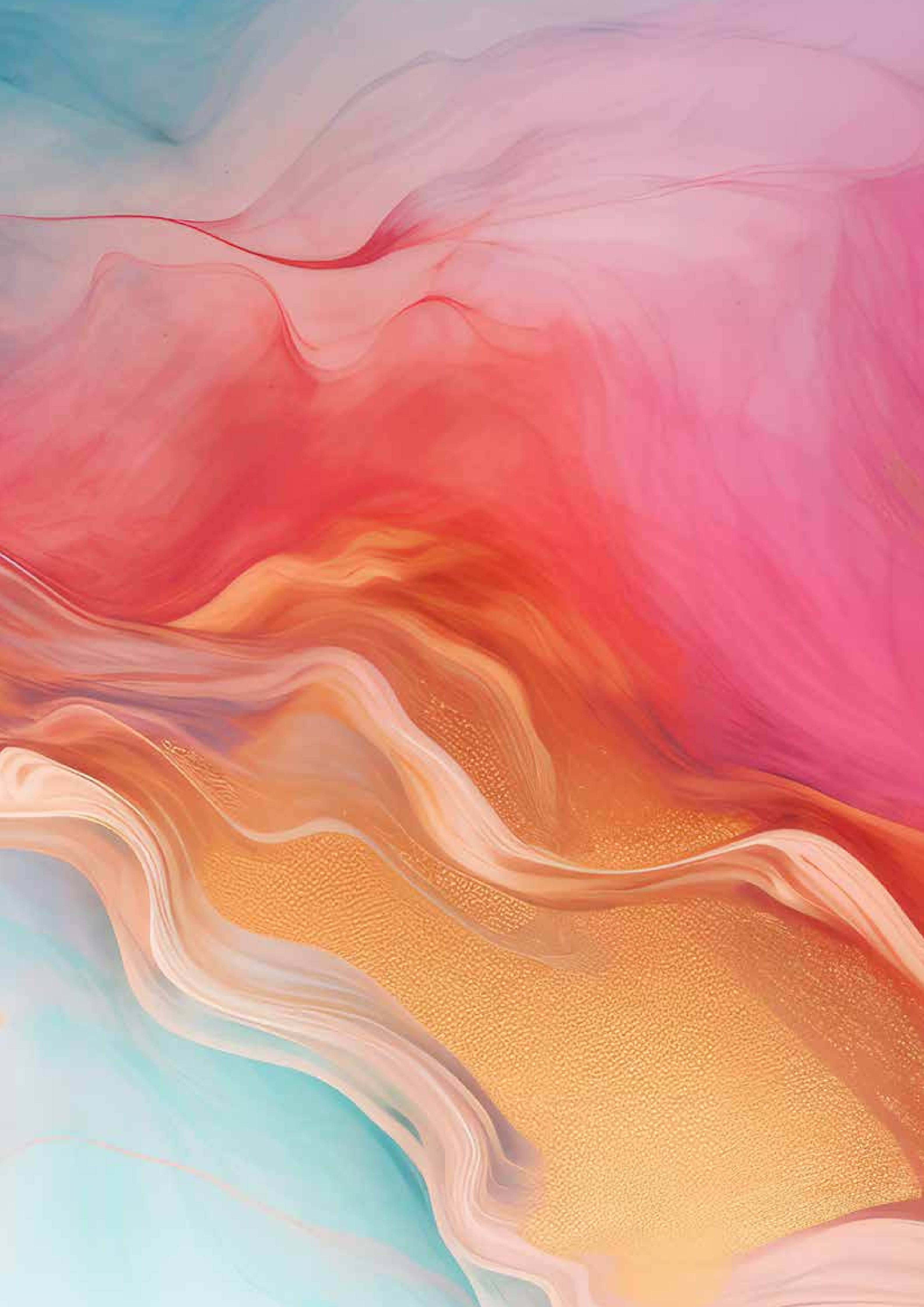
PRIME UK RESIDENTIAL

Spring / Summer 2024



THE START OF SOMETHING NEW

WORDS BY ANDREW PERRATT
Head of UK Residential

After what feels like a long winter, we're starting to see the housing market warm up again as we enter the most popular time of year to buy and sell a home.

If you're wondering whether it's the right time for you, our latest research report examines the factors that will influence the market in the months ahead – offering the kind of data and perspective that will help you make an informed decision.

After an unpredictable few years, partly down to high interest rates, we're seeing more and more buyers return to the market. The question is: will the looming general election slow this down? On page 2, Lucian Cook looks at how philosophy, politics and economics will make an impact.

Over in the rental market, demand has outweighed supply for the last three years – but we're seeing that gradually start to shift, along with a return to more seasonal patterns. On page 8, Jess Tomlinson examines how slowing wage growth has brought tenants' affordability more into focus and how landlord and tenant expectations have evolved.

If you're curious about the expectations of buyers and sellers in 2024, turn to page 6. We surveyed over 1,200 people to find out if buyer commitment had improved, whether budgets were picking up and which property attributes now rank as the most important.

Whether you'd like to upsize, downsize or settle into a new area, our latest Prime UK Residential report is packed full of expert analysis. Whenever you do feel ready to make a move, our local agents will be here to support you on your journey with dedicated guidance, local insight and honest advice.

Contents

PHILOSOPHY, POLITICS, ECONOMICS AND THE PRIME HOUSING MARKET

WORDS BY LUCIAN COOK
Head of Residential Research

Rishi Sunak, Jeremy Hunt, David Cameron, Rachel Reeves, Yvette Cooper, Anneliese Dodds. All current members of either the Cabinet or Shadow Cabinet. All, too, studied Philosophy, Politics and Economics at Oxford University. And it doesn't stop there, Ed Miliband, David Miliband, Ed Balls, William Hague, Michael Hestletine and Liz Truss also studied the very same course at the same institution.

So what does this have to do with the property markets? Those working in the property sector are somewhat more likely to rely on life learnings in the three areas. But philosophy, politics and economics all have a bearing on the world in which they operate.

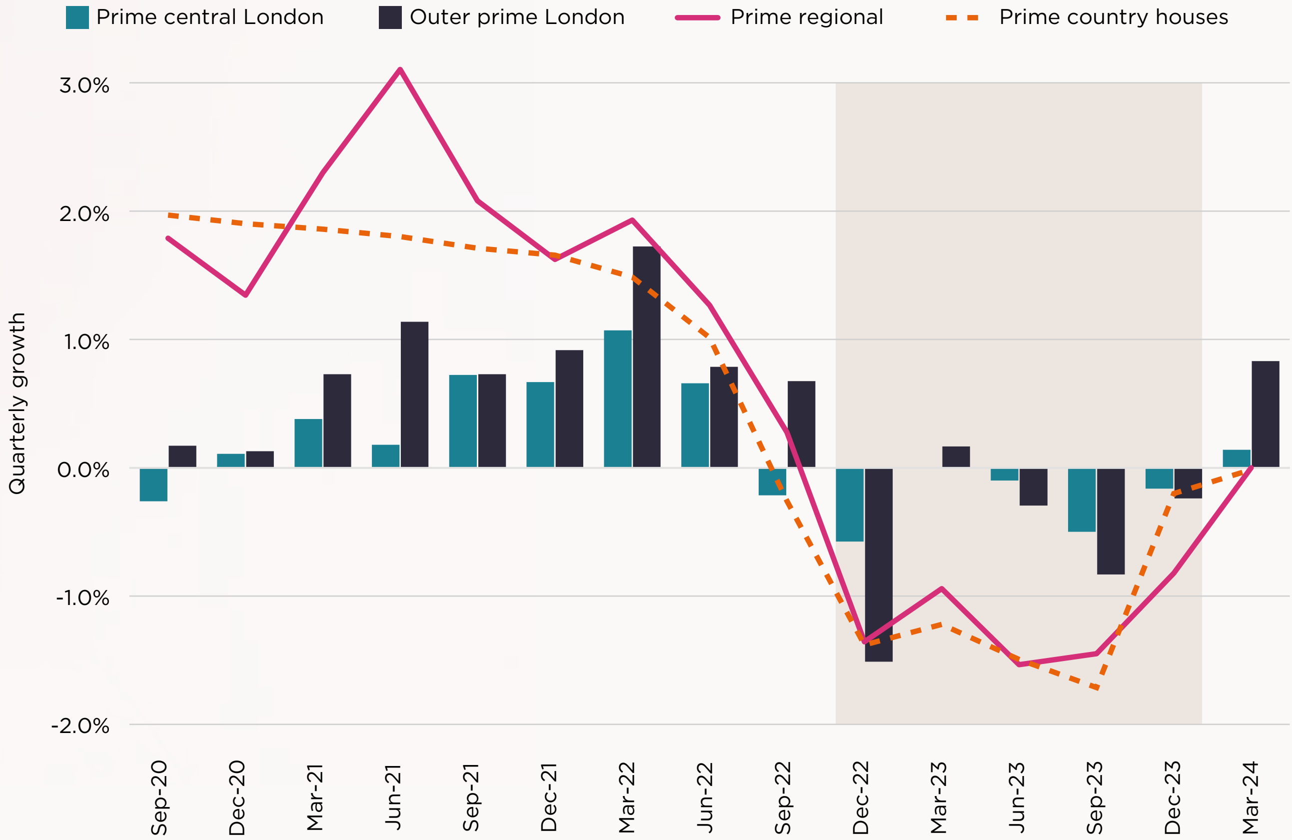
Certainly, the experience of Brexit, the lockdown-led race for space and, more latterly, the rapid spike in interest rates, has provided a salutary reminder that the political landscape, the way we think about the world around us and the economic environment are all crucial drivers of the housing market.

EARLY INDICATORS IN AN ELECTION YEAR

What does that mean for the prime housing markets in 2024, a general election year during which inflation is expected to fall substantially, paving the way for interest rate cuts?

Our latest prime house price index results suggest that, as greater stability has returned to the cost of mortgage debt, so greater security has returned to the value of homes at the top end of the housing market.

QUARTERLY PRICE MOVEMENTS OF PRIME RESIDENTIAL PROPERTIES



Source: Savills prime residential indices, Q1 2024

After six successive quarterly falls, the price of prime homes in central London levelled out in the first quarter of the year, albeit the only discernible increase in values was in the market between £3m and £5m.

Meanwhile, having fallen by -2.7% between the calamitous mini budget in the Autumn of 2022 and the end of last year, the value of prime homes elsewhere across London rose by 0.8% in the first three months of 2024 as domestic upsizers returned to the market.

Beyond London prices had fallen more significantly during the back end of 2022 and 2023 as buyers philosophised less about the joys of country living, focused more on the practicalities of commuting and put a lid on how much debt they were prepared to take on. And so an average -6.0% fall in prime regional property prices essentially undid around 40% of the price appreciation seen in the wake of the pandemic. But here, too, prices bottomed out in the first three months of the year as we approached the typically busier spring market.

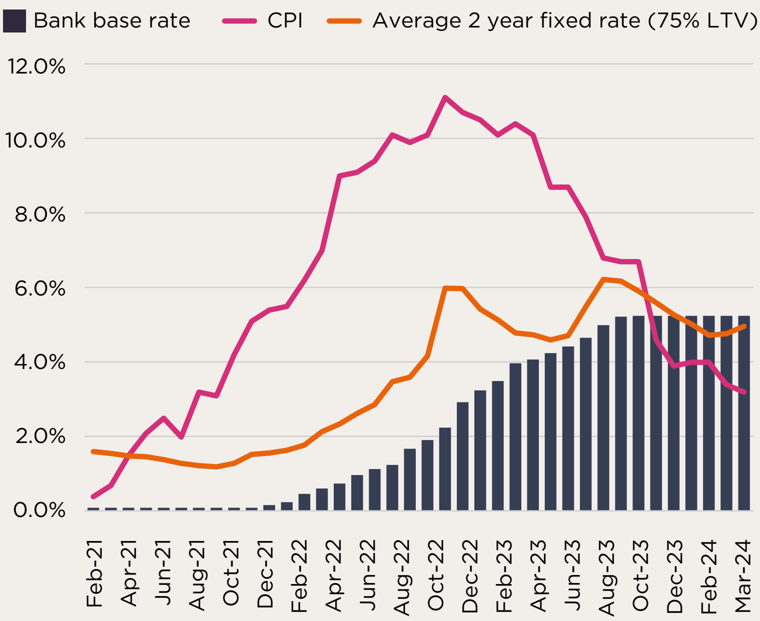
And although there was little continued downward pressure on prices of larger properties in more rural areas, the rate of price adjustments for the Manor Houses and Rectories (that take the top spots in our list of most valuable house names on pages 17 and 18) slowed significantly.

WHAT STRONG AND STABLE WAS MEANT TO LOOK LIKE

Certainly, from an economic perspective the outlook has improved. With inflation once more heading back towards the Bank of England target of 2.0% (coming down to 3.2% in the year to the end of March) the first rate cut is rapidly coming into view. At the same time, recessionary risks continue easing.

Against that backdrop, our March buyer and seller survey (further detail of which can be found on pages 6 and 7) showed a further pick up in prospective buyers' commitment to move. It also provided early signs that buyers' budgets are beginning to edge upwards, though that is fine balanced between those in their 30s and 40s, who have benefitted from more security over future mortgage costs, and older downsizers aged 60 and above who have had to rein in the price expectations of the home they are selling.

INFLATION AND DEBT COSTS



Source: Savills Research using Bank of England and ONS

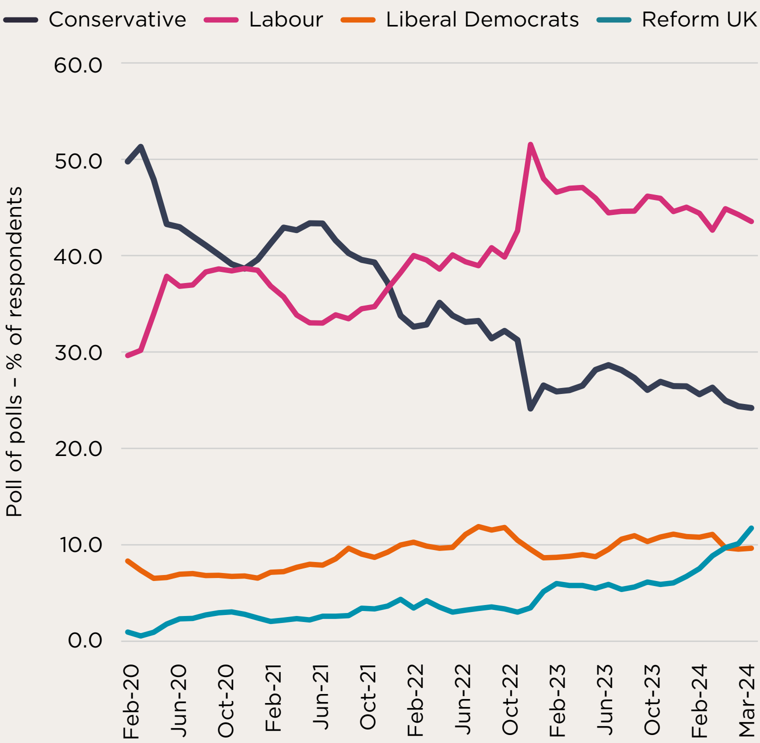
PUTTING IT TO THE POLLS

From a political standpoint, the same survey showed a surprising degree of ambivalence towards the prospect of a general election, with 79% of respondents saying it had no impact whatsoever on their commitment to move over the next 12 months.

That reflects the short odds on a change in government. At the end of March, YouGov gave Labour a 25 point lead in the polls, while Oddschecker put a Labour majority at 1 to 6 on.

That, in turn, suggests political change is already largely priced in to the market. And so, while prime property buyers may well have to contend with higher levels of underlying taxation, VAT on private school fees and targeted measures for, say, overseas buyers, there is a sense that they know what they are in for. Importantly, talk of more aggressive wealth taxes (think back to the ill-fated mansion tax proposals of the early 2010s) haven't surfaced.

WESTMINSTER VOTING INTENTIONS



Source: Savills Research using Macrobond

NON-DOMS

Less expected was the pre-emptive move by the incumbent government to do away with the non-doms tax regime, especially having already introduced measures to target those long-term resident in the UK.

This is of most relevance to the markets of central London and the private estates of the Home Counties where international, high and ultra-high net worth demand is most prevalent.

In these markets, the initial reaction from some in the midst of a potential purchase is likely to be followed by a period of more sober reflection, as those affected weigh up their revised tax position against other more practical consequences of changing their life plans.

In reality, such deliberations were inevitable at some point, given that non-dom taxation was firmly in the sights of the opposition. Essentially then, they have been brought forward and will take place with the benefit of a number of transitionary arrangements and concessions that might not otherwise have been made available.

No doubt it will mean these parts of the prime housing market will remain price sensitive for a little longer. Politics will mean they are slower than the more domestic, prime housing markets to feel the benefit of an improving economic environment. Philosophically speaking that is.

NON-DOM NUMBERS (AVERAGE FOR 3 YEARS TO APRIL 2021)

AVERAGE INCOME TAX, NIC AND CGT BILL

70,800

UK resident taxpayers domiciled outside of the UK

	£80K	£306K
42,500 non-doms taxed on a remittance basis	**18,500** non-doms taxed on an arising basis (their worldwide income)	**9,800** "deemed domicile" taxpayers paying tax on their worldwide income

£60K	£187K	£422K	£824K
17,700 non-doms remitting less than £2,000 per annum	**22,900** non-doms on a remittance basis who do not pay a non-doms levy	**1,500** non-doms on remittance basis paying the £30k levy	**500** non-doms taxed on a remittance basis paying the £50k levy

Source: Savills Research using HMRC

BUYER SENTIMENT

MARCH 2024

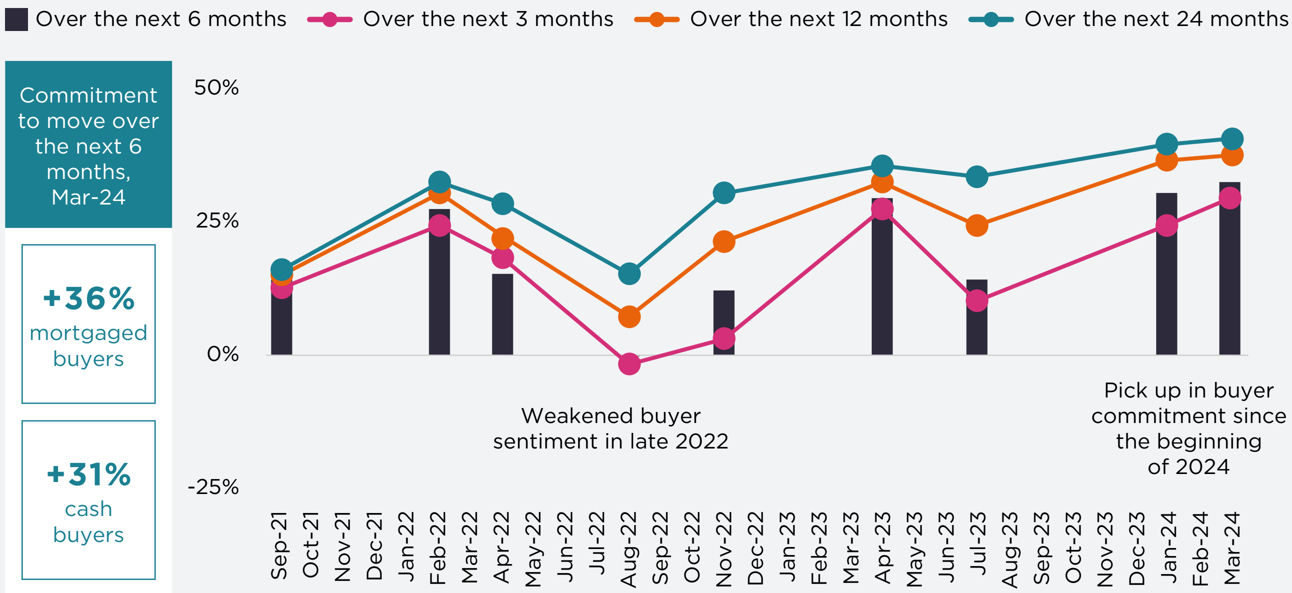
We had 1,200 responses to our latest buyer and seller survey. It suggested that buyer commitment had improved, buyers' budgets were showing signs of picking up, what people are looking for in a property has changed in the past two years and the general election wasn't a massive issue in the minds of buyers.

NET BALANCE OF RESPONDENTS MORE COMMITTED TO MOVE

Commitment to move over the next 6 months, Mar-24

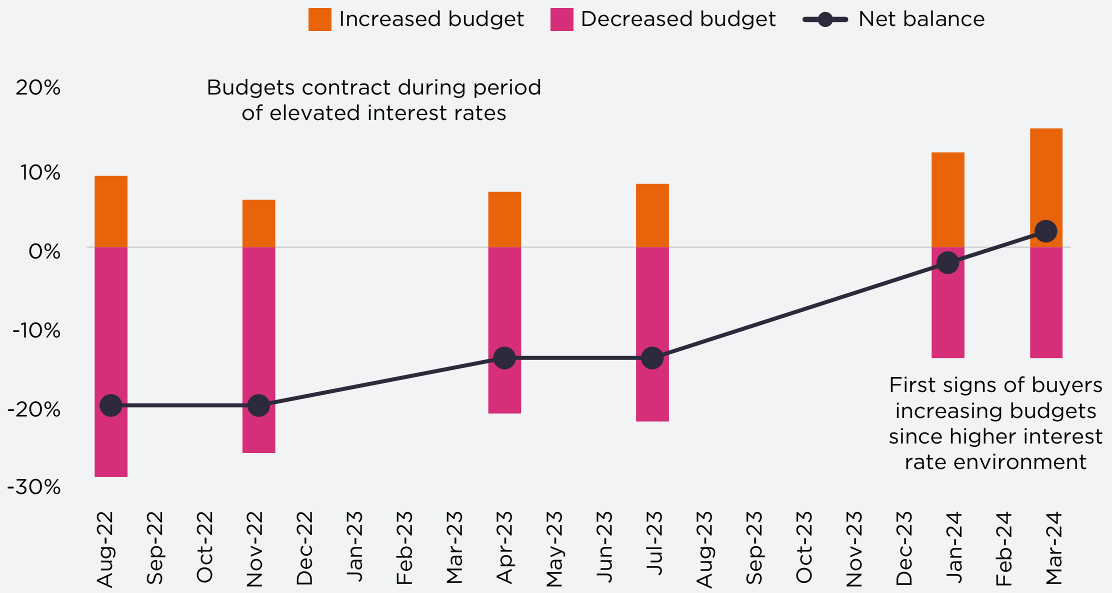
+36% mortgaged buyers

+31% cash buyers



Source: Savills buyer and seller survey

PERCENTAGE OF RESPONDENTS INCREASING OR DECREASING THEIR BUDGET



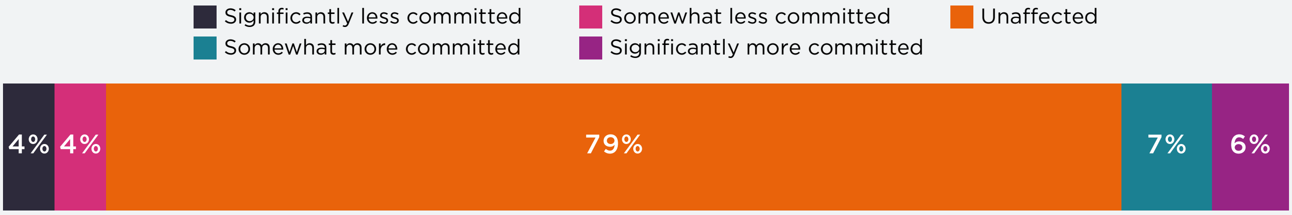
Net balance increasing or decreasing budget, Mar-24

+22% upsizers

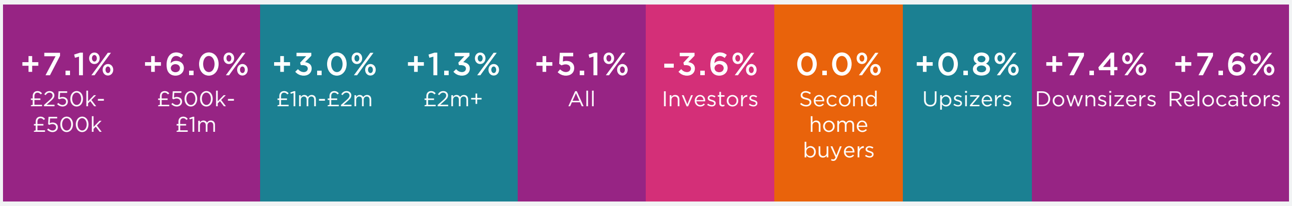
-5.5% downsizers

Source: Savills buyer and seller survey

TO WHAT EXTENT DOES THE PROSPECT OF A GENERAL ELECTION IMPACT ON YOUR COMMITMENT TO MOVE IN THE NEXT 12 MONTHS?



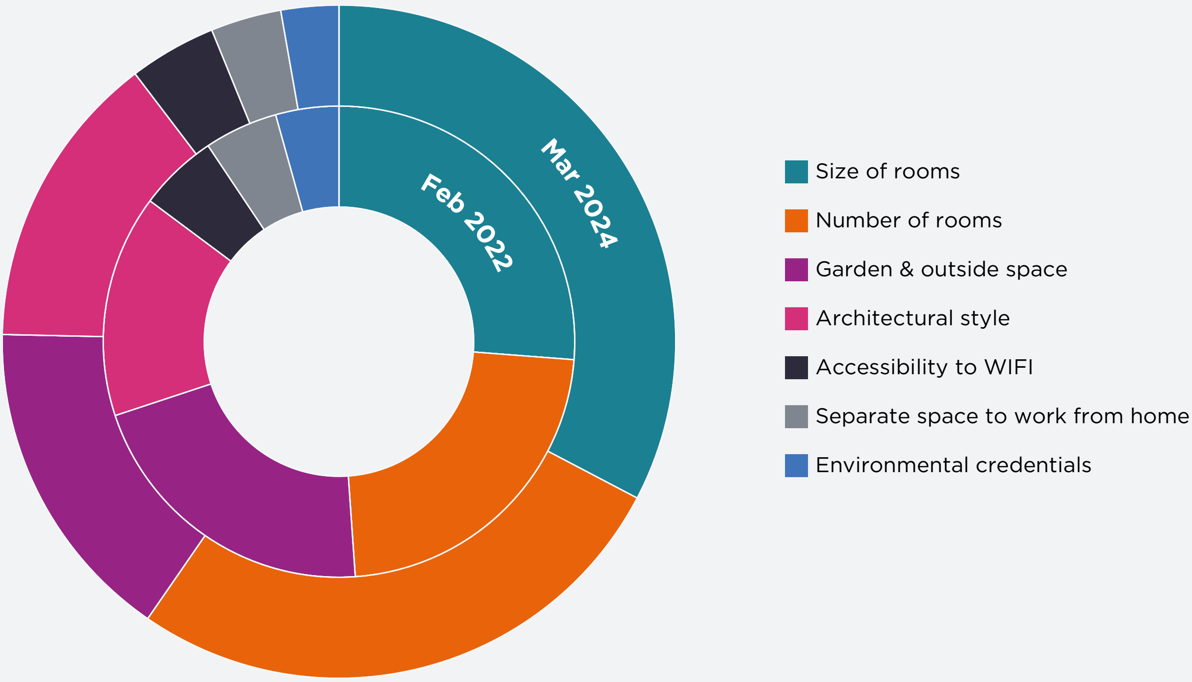
Impact of general election on commitment to move in next 12 months (net balance)



Source: Savills buyer and seller survey

RELATIVE IMPORTANCE OF DIFFERENT PROPERTY ATTRIBUTES

(based on number of times features were ranked the first or second most important feature)



Source: Savills buyer and seller survey

WHAT'S HAPPENING TO RENTAL VALUES?

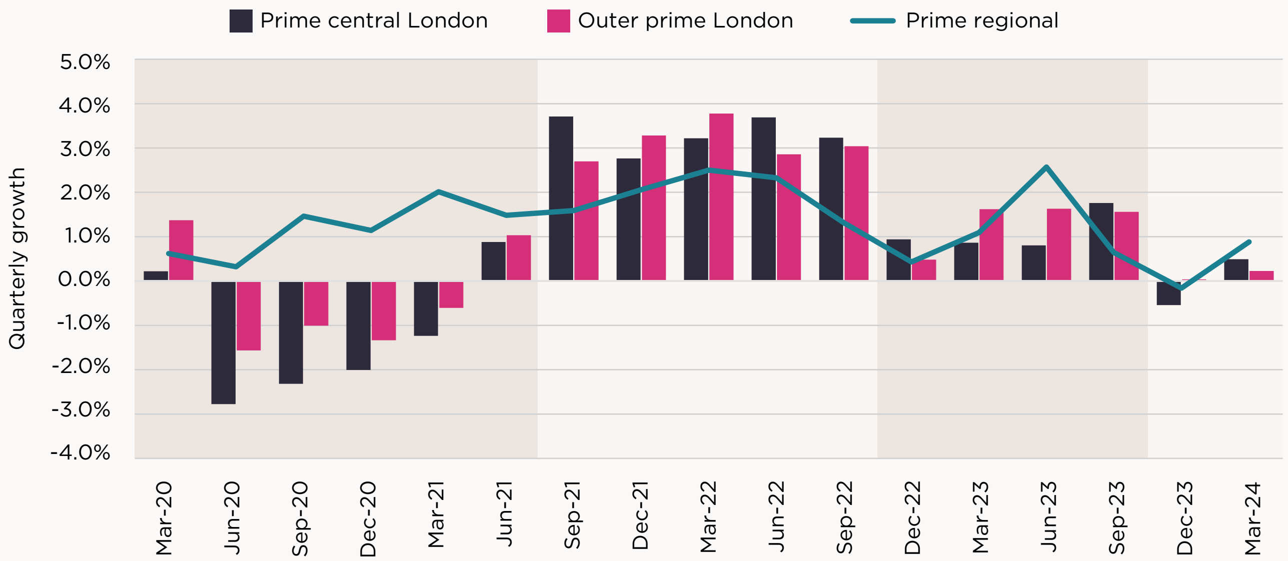
WORDS BY JESS TOMLINSON
Associate Director, Residential Research

Over the course of 2021, 2022 and 2023 rental values of prime residential property in London rose by an eye-watering average of 23.1%. To put this in context, it was the strongest three-year period of growth in rents for a quarter of a century.

And similarly outside of the capital, in the most affluent urban neighbourhoods and rural idylls, rents of prime properties increased by more than 20% over this period.

But over the last six months, we have seen a pronounced change in market conditions, with annual rental growth slowing and an increasingly wide divergence in landlord and tenant rent expectations.

QUARTERLY MOVEMENTS IN RENTAL VALUE OF PRIME RESIDENTIAL PROPERTIES



Source: Savills prime lettings indices, Q1 2024

THEN…

For the best part of the past three years, rents were propelled by a powerful combination of an acute imbalance between demand and supply and high levels of underlying earnings growth. At times the market was frenetic, with even the most experienced agents claiming they hadn't seen anything like it in their careers.

At some point, the imbalance was going to ease. However, it was always unlikely to completely unwind given both the financial pressures faced by mortgaged landlords and the prospect that landlord and tenant reform will limit stock brought to the rental market.

And as we are beginning to see, wage growth would slowly bring rental affordability more sharply into focus, much as in the wider mainstream market.

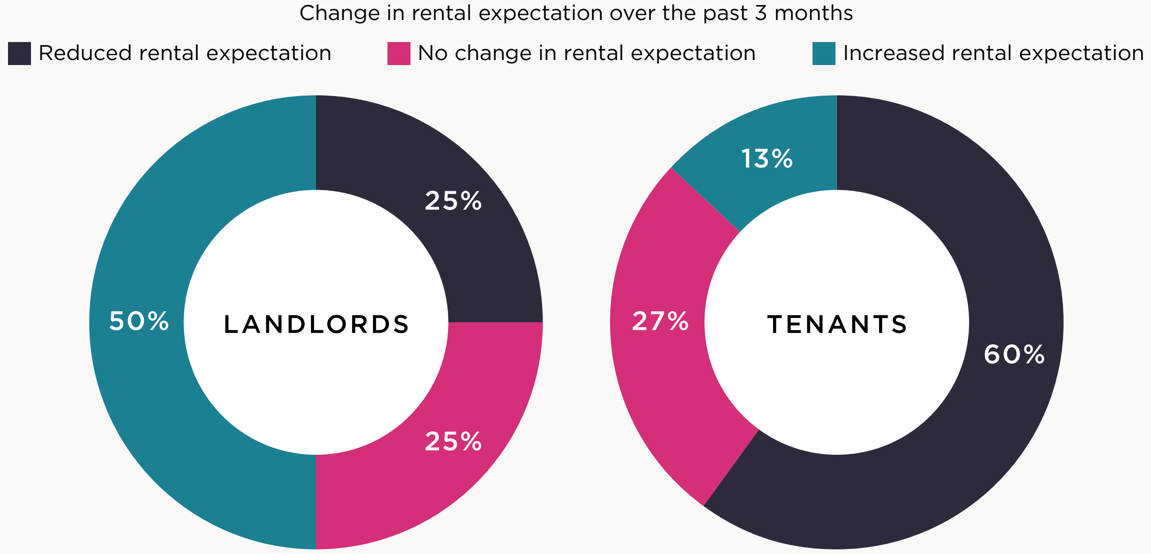
…AND NOW

So as we entered 2024, we sensed the return to a more seasonal rental market; one where rents rise in the first half of the year but typically struggle to maintain that momentum in the third and fourth quarters.

Our prime indices tell us that rents of prime properties did indeed rise in the first three months of the year. But in London the growth, of 0.3%, was less than a third of that seen a year earlier. In the regional markets, while higher (at 0.9%), it was also much closer to what might loosely be considered normal.

As a consequence, annual rental growth of prime London properties has fallen to 3.2%, while beyond the capital it now stands at 4.0%, someway below the double-digit annual rental growth making the headlines at times in the recent past.

MISALIGNED RENTAL EXPECTATIONS IN Q1 2024



Source: Savills agent survey (48 responses), Q1 2024

Q WHAT'S THE STORY WITH LANDLORDS SELLING UP?

Firstly it is worth saying we have not seen the exodus of private investors that some envisaged when interest rates started to rise and Government moved through the gears, shifting from talking about rental reform, to issuing a White Paper, to laying the Renters (Reform) Bill before Parliament.

Yes, we have seen some landlords rationalise their property holdings and in some cases head for exit, but the sale of properties bearing Capital Gains Tax has remained remarkably consistent, with no discernible upward trend. And while the pool of outstanding buy-to-let mortgages has eased back to below two million for the first time since October 2020, the falls are marginal – if anything suggesting a rebalancing of the sector towards fewer, larger, wealthier landlords.

Bringing Capital Gains Tax rates back in line with other assets from April this year could encourage a few more landlords to cash in their chips, especially if they believe there is a risk tax rates will rise under a change in government.

But at the same time, the prospect of falling mortgage rates will ease some of the financial burden on landlords, especially given improved yields will support continued investment in the sector.

On that basis, the prospect of a further surge in rental values, on the back of a pronounced shortage of properties available to rent, is limited. However, significant downward pressure on rents is equally unlikely, as there are few signs that investor landlords will pile back into the market.

So it would seem a sensible time for landlords to benchmark their existing rents against open market levels to capitalise on the recent burst of rental growth, without fear of missing out on what might be around the corner.

Q WHERE HAVE WE GOT TO WITH THE ABOLITION OF THE ASSURED SHORTHOLD TENANCY AGREEMENT?

The enaction of the Renters (Reform) Bill would see the end of the Assured Shorthold Tenancy Agreement, removing the automatic right for landlords to bring such a tenancy to an end on the service of two months' notice.

While therefore giving the majority of tenants substantially more security, at the same time it would give landlords to right to recover possession of the property where they had a genuine intention to sell it or required it for their own occupation or that of a close family member. And, as drafted, rents would be reviewed to open market levels once a year.

However, the progress of the Bill has been somewhat tortuous. Having had its first reading as long ago as May last year, the Bill was still at report stage in the House of Commons at the time of writing. However, with the Government offering some concessions to landlords its third and final reading in the House of Commons seems likely in the near term, (before it is passed through the House of Lords for further scrutiny).

Those concessions would mean tenants would only be able to serve two months' notice to vacate a property after four months in occupation (thereby creating a six-month minimum term) and delay the abolition of the Assured Shorthold Tenancy until the judicial machinery is in place to cope with any increased court workload.

Still, it will represent the biggest change in landlord and tenant legislation in over 30 years.

LONDON'S
MOST DESIRABLE NEIGHBOURHOODS

WORDS BY FRANCES MCDONALD
Director, Residential Research

London's most prestigious enclaves have long been evidenced by high house prices, accessibility and a strong sense of community.

To establish the capital's most desirable locations, we have used the 2021 Census and latest Land Registry sold price data to establish the neighbourhoods across central, inner and outer London that rank highest in terms of the socio-economic and health profile of their residents and house prices relative to the inner or outer London averages.

The top 5 is unsurprisingly dominated by prime central London locations, including central and south Kensington, Hampstead Town and Frognal. The most expensive of which is central Kensington where average sold prices in the past year were almost £2.7 million, more than three times the average for inner London. Marylebone offers the best value in central London, (£1.8 million) but ranks highly on other measures, particularly socio-economic classification.

Across the rest of inner London, the south west dominates. The neighbourhood between Clapham and Wandsworth commons, locally coined as "between the commons", comes out on top for the region and ranks highest across the whole capital in terms of health of its residents. Parsons Green, Dulwich Village and the relatively new prime hotspot of Nine Elms also feature in the top 5 for inner London.

The leafy locations of South Richmond, East Sheen and Wimbledon Village rank highest across outer London and house prices in these neighbourhoods are at least double the average for the region.

Homes in these areas have become increasingly popular since the beginning of the pandemic as families, in particular, looking for more space also value the lifestyle on offer in these areas.

Our 'super prime' list simply comprises neighbourhoods across London with the highest average house prices. It happens to feature the only four local areas where average prices are above £3 million and it's of no surprise that the long-established hotspots of Notting Hill, Knightsbridge, Belgravia, Mayfair and the edges of Holland Park make up this list.

SUPER PRIME LONDON

PRIME LONDON LIVING

- Super prime London
- Central London
- Inner London (excl. central)
- Outer London

£ – Average second hand sale price, 12 months to Nov-23 | % – premium vs inner / outer London average | # – Ranking

Source: Savills Research using Land Registry and 2021 Census

MANORS, MALLARDS AND MILL HOUSES;

WHAT'S IN A NAME?

WORDS BY LUCIAN COOK

Head of Residential Research

Some house names instantly conjure an image, whether it's the distinctive roof line of an Oast House, the grandeur of a Manor House or the wondrous timbers within a Tithe Barn. With this in mind, we've scoured Land Registry sales over the past five years to find which house name has commanded the highest value.

By only looking at names associated with at least 30 sales and confining our list to those where at least one in five sales is at £1 million or over, we sought to find consistent premiums.

And a little literary research has added a bit of colour to the story. So read on to see how the ancient feudal system, religion, mythology, beer and our nation's flora still affect what we consider to be prime as well as how a simple three letters T, H and E can add a sense of provenance.

1

The Manor, Market Rasen

The Manor House

Sales: 56

Average Value: £1,423,128

% over £1m: 43%

The main house of the Lord of the Manor in Anglo Saxon and Norman England and, as a consequence, often the grandest house in the locality. Penelope Keith would approve.

2

The Old Rectory, Dorchester

(The) Old Rectory

Sales: 355

Average Value: £1,301,424

% over £1m: 50%

A rectory is distinct from a vicarage, by virtue of the fact that Rectors collected both the greater and lesser tithes of the parish. Greater tithes were 10% of the cereal crops produced in the village while lesser tithes were 10% of the parishes other produce and livestock.

Linked to Lords and Landowners | Linked to the Church | Linked to Brewing | Linked to Flora

3

Mallards

Sales: 38

Average Value: £1,164,150

% over £1m: 24%

On the face of it, there is no reason for Mallards to make the list. But without wishing to duck the issue, three houses of this name sold for over £4m in our five year period. Even excluding these, the average was £722,000.

4

The Old Vicarage, Rudgwick

(The) Old Vicarage

Sales: 325

Average Value: £1,086,887

% over £1m: 39%

Why £200k below the Old Rectory average? Well a vicar only collected the lesser tithes, suggesting these properties will be slightly less grandiose, despite being one of the 5 property names carrying an average price tag over the magic million.

5

The Oast House

Sales: 31

Average Value: £1,038,774

% over £1m: 45%

Identifiable by their distinctive conical or pyramidal roofs, it is the name most commonly associated with the hop kilns of Kent and Sussex. Historically used for the drying of hops, on which brewers relied to give their ales a distinctive taste.

6

Lime Tree House

Sales: 33

Average Value: £981,121

% over £1m: 21%

One £9.5m transaction on the prestigious Coombe Hill estate in London, helps to get it on the list. Even ignoring that the average is £714,000. As well as making a welcome addition to a gin and tonic, limes are historically associated with fertility. A perfect family home?

Lime Tree House, Shropshire

Linked to Lords and Landowners | Linked to the Church | Linked to Brewing | Linked to Flora

7

Manor House / The Manor

Sales: 204

Average Value: £967,117

% over £1m: 29%

Lower down the list than "The Manor House", these other derivations of the name still make the top ten. Sometimes a three letter word can make all the difference.

8

Manor Farm House

Sales: 41

Average Value: £966,235

% over £1m: 32%

The most prestigious of farm houses according to our research. Manor Farms historically sat at the top of the agricultural hierarchy, surrounded by the most productive land and able to yield a significant income.

9

Grove House, Hampton

Grove House

Sales: 68

Average Value: £962,904

% over £1m: 25%

A house historically associated with a small wooded area (or grove), often reflecting these properties historical relationship with a wider landholding.

10

Glebe House

Sales: 86

Average Value: £940,814

% over £1m: 31%

Another type of house originally provided to a member of the clergy. Historically supported by a "church furlong" (land serving a clergyman's benefice).

Read the full list here

- Linked to Lords and Landowners
- Linked to the Church
- Linked to Brewing
- Linked to Flora

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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