Savills World Research
UK Residential

RESIDENTIAL PROPERTY
FOCUS Q3 2013

Inside
What next for house prices

Back to health
Is the market showing signs of recovery?

Housebuilders set to deliver more

Prime time: London and beyond

Best locations for family homes

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This publication
This document was published in July 2013. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Glossary of terms

- **Mainstream**: mainstream property refers to the bulk of the UK housing market with, for example, price movements monitored by reference to national and regional average values.
- **Prime:** the prime market consists of the most desirable and aspirational property by reference to location, standards of accommodation, aesthetics and value. Typically it comprises properties in the top five per cent of the market by house price.

Abbreviations are:

- CML: Council of Mortgage Lenders
- FLS: Funding for Lending Scheme
- Peak: refers to the first half of 2007
- PCL: Prime central London
- PRS: Private rented sector

Foreword
LESSONS FOR THE FUTURE

Talk of a housing bubble is extremely premature. For the most of the country, mainstream markets are still a long way from boom conditions

Our synopsis of the housing market this quarter reads rather like an end of term school report. "Could do better" and "room for improvement" seem to be an underlying theme.

Despite the increasing signs of activity and positive price growth in the first half of 2013, the undeniable fact is that the housing market has not so much underperformed as simply not functioned for the last five years.

Full real estate cycles seem to take as long, trough to trough, as a child takes to reach adulthood (1958, 1977, 1996) so our underperforming infant is now moving from kindergarten to primary school. Despite all the talk of an artificially-induced housing boom, resulting from 'Help to Buy' and other government measures, this infant housing market is far from performing like the previous housing cycle did in its late teenage years of 2006 and 2007.

The details of each cycle are different, but in real – inflation-adjusted – terms, we are still in 1994 with this one. There are strong reasons to suspect significant, real growth is some way off. We are still far from a housing market boom – although the next three years may look like a mini boom in relation to the last five.

Although household debt is not rising as it was, further deleveraging is still needed. Low interest rates have meant that there is no mechanism, through repossession and oversupply for example, for house prices to fall further in nominal terms so inflation is doing the job of reducing real house prices to more accessible levels. This could be a long process. Household incomes will also need to rise significantly before purchase power is sufficiently strong to create anything like boom conditions. They will be further dampened by an eventual inevitable increase in interest rates, currently expected around 2017.

Meanwhile, one precocious pupil has been behaving differently to the rest of the UK. The prime central London market has been scoring consistent A's for growth over the last three years. Some teachers have complained that this is having a disruptive and negative effect on other UK and London markets. Rather, we think there is a case for considering this market is in a different school altogether; an international school of world cities with a very different curriculum majoring on world trade, flows of capital and economic activity.

If this is the case, it may well be the characteristics of the coming market cycle will be different again to the three we have seen since the 1970s. We have seen a growing divide, both sectoral and geographical, between the borrowing-reliant and the capital-rich markets over the years. It now seems likely the high-demand markets within the influence of London (which covers most of southern England) will behave differently to the rest of the UK.

Our two housing market schools will therefore respond to different stimuli and disciplines over the course of the next cycle. We anticipate it will be increasingly difficult for government to manage both of them with the same policies and we anticipate that more markets in the South of England will start getting the grades to enter the London school as its influence spreads to the commuter zones. We expect increasingly higher grades in these markets over the next three years.

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Executive summary

The key findings in this issue

■ Mortgage lending, house prices and transactions are all beginning to show signs of life, even outside the bright lights of London. This raises the question of whether this is the start of a meaningful recovery or a short-lived bounce similar to that seen in 2010? See pages 4/5

■ Beyond London there are only seven counties or unitary authorities (Bath & NE Somerset, Brighton & Hove, Hertfordshire, Oxfordshire, Surrey, Windsor & Maidenhead and Wokingham) where prices are within 5% of their pre-crunch level. See pages 6/7

■ Growth in high value property has defied expectations so far in 2013, as the gap between London and the rest of the country continues to widen. See page 8/9

■ According to our criteria, the best places to raise a family are mostly located in rural and semi rural areas. These places are often expensive, some way from major employment centres and dominated by retired households. See pages 10/11

■ Improved conditions are encouraging private house builders to increase production. But, ultimately, they are still not delivering enough homes. See pages 12/13

Contents

Market dynamics

ARE WE WITNESSING A RECOVERY?

The housing market has experienced increased activity over the past months, but recovery still remains fragile

Words by Neal Hudson
Twitter: @resi_analyst

"Annual mortgage approvals are at their highest since July 2010"

Neal Hudson, Savills Research

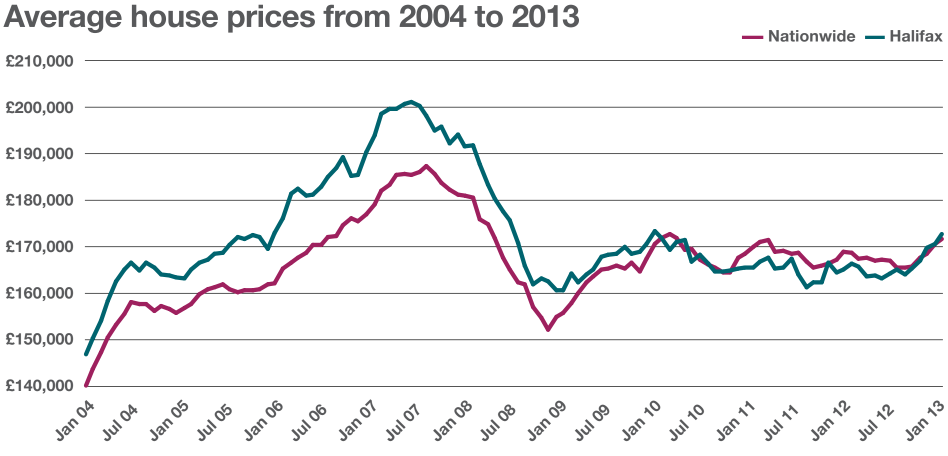
Housing market activity has picked up significantly this year with every month bringing a fresh batch of bullish data. Mortgage lending, house prices and transactions are all beginning to show signs of life, even outside the bright lights of London. This raises the question of whether this is the start of a meaningful recovery or a short-lived bounce similar to that seen in 2010?

Most indicators are now at or above the levels seen in 2010 during the early bounce back from the downturn. Average house prices are up 4.1% over the year according to the Nationwide index, while transaction levels are at their highest since October 2008. At 625,000 a year, annual mortgage approvals for house purchases are at their highest since July 2010.

Yet despite all the apparent record breaking, all three of these indicators are substantially below their longer-term pre-crunch averages. Behind the average statistics, the market remains fragmented with parts of the country still experiencing price falls.

GRAPH 1.1

Average house prices from 2004 to 2013



Source: Nationwide, Halifax

Debt and equity

The post-credit crunch housing market has been characterised by low mortgage rates and homebuyers' struggle to raise a deposit. Mortgages offering high loan-to-value ratios, popular in the noughties boom, are now scarce. Lenders' demand for bigger deposits coupled with high house prices, means buyers are now required to save at least 70% of their income (120% in London).

Affordability and mortgage constraints have pushed many into the housing market's overflow tank – the private rented sector. Although the private rented sector has been growing for the last decade, demand for rental homes has accelerated since 2009 and has been most acute in London where the economic recovery has been strongest.

In areas where house prices have fallen significantly, the scarcity of high loan-to-value mortgages have created a generation of mortgage prisoners who would be unable to buy or remortgage their existing home in the new lending environment.

But not everyone in the market has suffered. The substantial drop in base rates and hence mortgage repayments has allowed many existing homeowners to ride out the recession in relative comfort. Some have even taken advantage of low rates to pay off their debt. This has created a bigger split between equity rich homeowners, usually older generations, and those struggling to get a foot on the housing ladder.

Government intervention

The plight of first-time buyers has prompted the Government to launch a number of schemes over the years aimed at improving activity in the housing market. Most have focussed on the new build sector and have had a limited impact overall.

The latest scheme, Help to Buy, goes further than any of its predecessors and is aimed at all buyers, not just first timers.

Since it was announced in April this year, there has been a lot of debate over whether the measure may cause the market to overheat. So far it appears to have helped drive consumer confidence in expectation of stronger demand.

The equity loan element, which is targeted at new builds and aimed at encouraging house building, has already begun to increase new build reservations (as we report on p.12). Yet the mortgage guarantee element, arguably the bigger and more ambitious part of the scheme, does not come into effect until January 2014.

In fact, the main driver of the current improvement in activity this year has been the Bank of England's Funding for Lending Scheme (FLS). The primary purpose of FLS is to provide banks with below market rate funding while they restore their capital positions. The side effect of increased lending has fed through to the housing market rather than business lending.

The biggest effect of FLS has been to drive down mortgage rates across all product types, including mortgages at higher loan-to-value ratios. While overall, mortgage rates are not as cheap as the market leading deals that are advertised, actual borrowers' rates are down substantially.

There is also some evidence that lower rates at higher loan-to-value levels are encouraging some first-time buyers with limited deposits back into the market.

But those with less equity still pay higher mortgage rates, which means that the overall cost of home ownership for those borrowing at higher loan-to-value levels remains comparable or higher than renting.

Blowing a bubble?

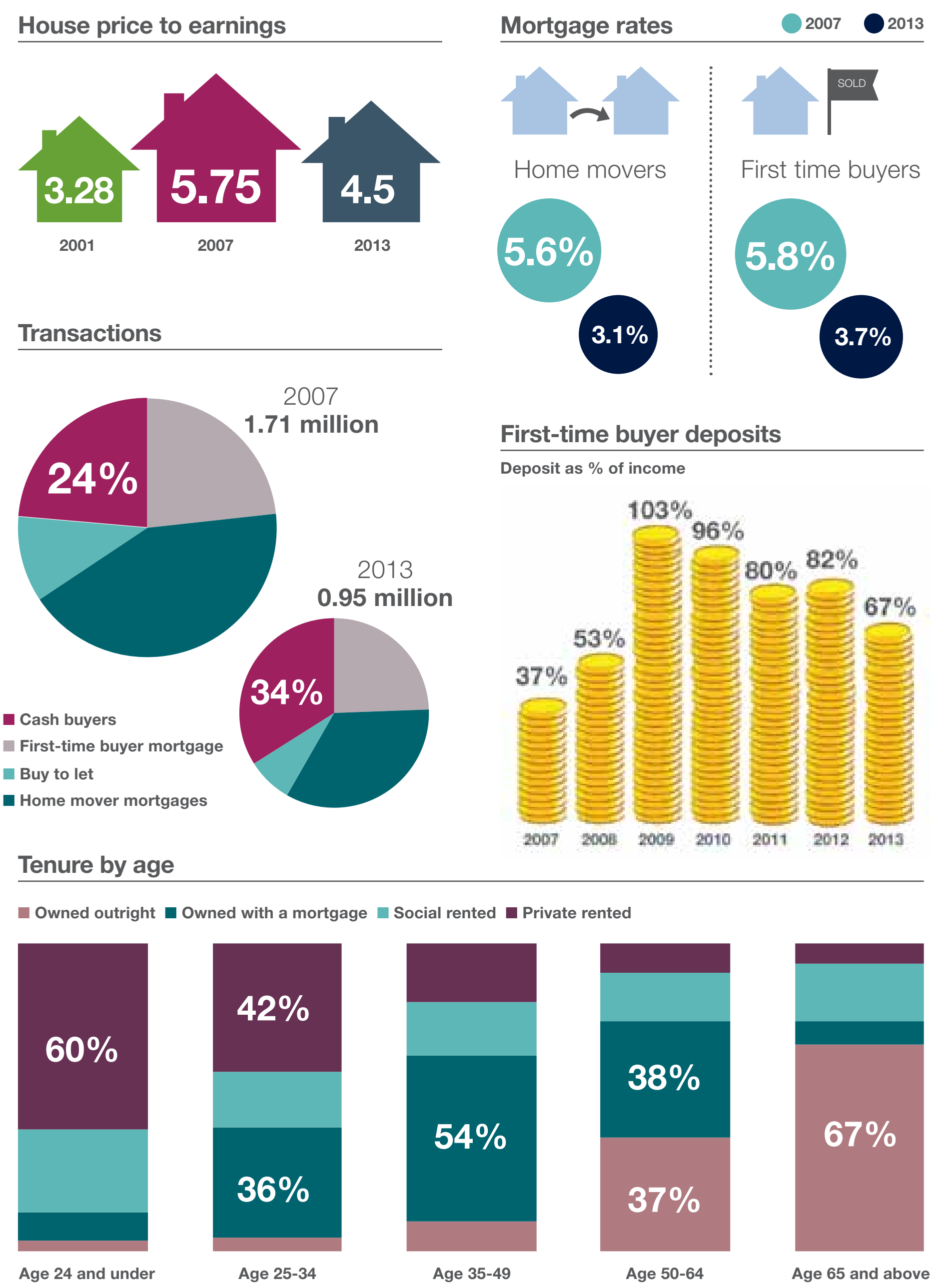
Inevitably the prospect of rising house prices has led people to question whether we are seeing the beginning of another bubble. But behind the headlines, the increase in market activity has been due to increased turnover of existing debt rather than the creation of new debt.

Overall, the improvement in market activity is a welcome sign as increasing turnover will contribute to economic growth and hopefully rising incomes will allow housing market affordability to rebalance over the medium to long term.

However, looking ahead, although we are unlikely to see any increase before 2015, interest rates rises could dampen the housing market recovery. After four years of official rates at the current unprecedented low of 0.5%, higher borrowing costs will place a heavy burden on homeowners who stretched themselves when rates were low. The affordability squeeze may act as a brake on future house price growth.

GRAPH 1.2

Market matrix



Source: Halifax, CML, HMRC, ONS

TABLE 1.1

Mainstream markets Five-year forecast values

	Forecast					
	2013	2014	2015	2016	2017	5 years to end
UK	3.5%	4.5%	5.0%	3.0%	1.0%	18.1%
London	6.5%	6.0%	4.0%	4.5%	2.0%	25.1%

Source: Savills Research

Mainstream markets

STILL ROOM FOR IMPROVEMENT

The mainstream markets across the UK are beginning to recover but transaction levels still remain low

Words by Lucian Cook
Twitter: @LucianCook

Q How strong is the evidence of an improvement in the UK housing market?

A The major house price indices all indicate a return to year-on-year house price growth at a national level. This varies from 0.5% according to the Land Registry to 4.1% according to the Nationwide house price index.

The RICS house price survey has shown a big increase in new buyer enquiries, someway ahead of properties brought to the market. Historically such a gap has been a strong indicator of future performance. This is supported by gradual increase in sales to stock ratios and a recent bounce in mortgage approvals.

But all of these measures are coming off the back of low market activity. Transaction levels remain around 40% below those of a fully functioning market.

Additionally those active in the market tend to be more affluent buyer groups. Our analysis of localised markets suggests that transaction levels in the most valuable 10% of wards, where average prices approach £580,000, run at two thirds of pre-crunch levels. In the least valuable 10% of wards, where prices average just over £90,000, they are just 36% of pre-crunch levels.

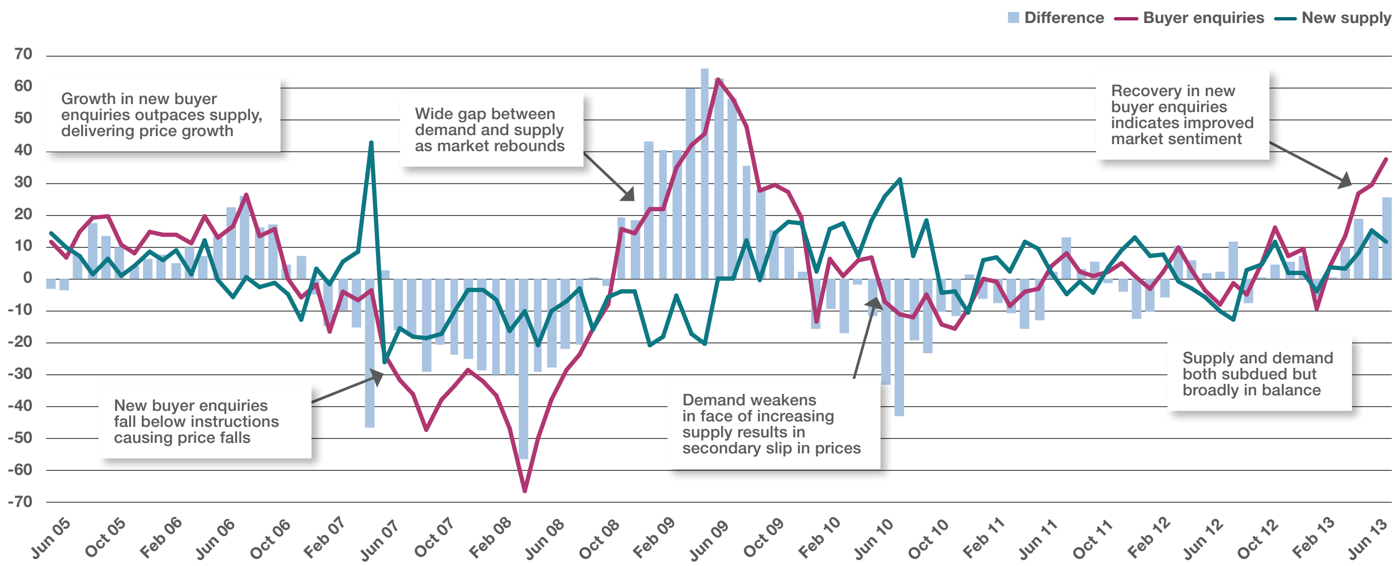
Q How widespread is the improvement in market conditions?

A Recent evidence suggests that London is continuing to outperform, with the Land Registry index showing house price growth of 5% in the past year. In the worst performing region, Yorkshire and the Humber, prices fell by just over 2% suggesting that, at a regional level at least, the markets have largely bottomed out. This said, in a property blackspot such as Blackpool, prices are 43% below their level five years ago in real (inflation adjusted) terms.

Yet the market is fragmented in other ways. Cash buyers account for around 35% of the market and mortgaged buyers tend to be higher earners. The average salary for a mortgaged first-time buyer is £42,000, whilst that of a homeowner is £63,000. These figures are 66% and 12% above the average UK household income.

GRAPH 2.1

RICS indicators of house price movements



Source: RICS

Q Is the recovery confined to the most valuable parts of London?

A To date, the recovery has been heavily driven by London although there has been a substantial divergence in performance across the capital.

According to the Land Registry index, prices across London have risen by 28% in nominal terms since the downturn, equating to a 9% increase in real terms. In 17 out of 32 boroughs prices are above their pre-crunch peak, though price movements are much more in line with the UK average in areas such as Newham and Barking & Dagenham.

Still, prices across London are higher relative to each of the remaining 10 regions of Great Britain, than at any point in the last 15 years. Beyond London there are only seven counties or unitary authorities (Bath & NE Somerset, Brighton & Hove, Hertfordshire, Oxfordshire, Surrey, Windsor & Maidenhead and Wokingham) where prices are within 5% of their pre-crunch level.

Q To what extent is an improvement reliant on low mortgage rates?

A Low base rates, a fall in lenders' margins and less lending at high loan-to-value ratios mean that mortgage interest payments are at a record low relative to homebuyers' income. However, when capital repayments are brought into account there is less of an affordability cushion.

As confirmed by the new Governor of the Bank of England, interest rates are not expected to rise before 2015. Subsequent rate rises are anticipated to be gradual and offset by increases in household incomes. As an average, base rates are expected to rise by 1.9% by 2017.

If that were to translate directly into an increase in mortgage costs, average interest payments would rise in the order of 16% of a borrowers income. This figure rises to 25% when capital repayments are added into the equation.

Though below historic highs, such figures would be 13% above the average of 22% over the past 15 years. This would act as a constraint on house price growth with a further knock on impact in later years.

GRAPH 2.2

Regional house price movements

	House price distance from 2007 peak (Jun-13)	House price growth, Dec-12 to Jun-13	House price growth forecast, 5 years to 2017
London	4.8%	5.9%	25.1%
South East	-6.1%	2.1%	24.0%
East of England	-6.1%	4.8%	22.2%
South West	-7.6%	2.3%	20.4%
East Midlands	-9.3%	2.8%	19.3%
West Midlands	-10.2%	2.2%	15.3%
Scotland	-11.7%	2.1%	14.2%
Wales	-13.9%	1.4%	16.5%
North East	-14.0%	1.3%	12.5%
Yorkshire and the Humber	-14.8%	1.7%	12.5%
North West	-15.0%	1.5%	13.6%

Source: Nationwide, Savills Research

Brighton & Hove is one of the few areas where house prices are within 5% of their pre-crunch level

Prime markets

LONDON'S WEALTH YET TO FLOW OUT

Growth in high value property has defied expectations so far in 2013, as the gap between London and the rest of the country continues to widen

Words by Lucian Cook
Twitter: @LucianCook

At the end of last year it was anticipated that 2013 would mark a turning point in the prime markets. On the one hand, price growth in the prime London markets was widely expected to slow in response to the changes in stamp duty and associated taxes. On the other, the gap between prices in London and the country, which has widened substantially since 2009, was expected to draw demand into, and consequently revive, the prime markets beyond the capital.

The experience of the first six months suggests that these expectations were premature. Despite political posturing regarding mansion taxes in February and March, prices for prime property in London have risen by an average of 4.8% in the first half of the year.

Over the same period £2.6 billion has been spent on £5 million+ properties in the capital, up by 23% on the same period last year.

By contrast, the prime regional markets have remained relatively subdued – overall prices have risen by just 0.3% on average in the past six months. Whilst transactions have been more buoyant than in the mainstream markets, there have been few signs of a discernible improvement.

London as an island

This is not to say that the tax changes for £2 million+ property have not had an impact. The total amount spent in the market on £2 million property fell by 15% between 2011 and 2012 to £16.7 billion. Indeed, we saw some evidence of small price falls in some of the most expensive properties in the central London markets in the three months to the end of June.

Overall, price growth has continued in prime central London but at half the levels in the prime South West London markets where prices have risen by 8.5% over the past year.

This has made some buyers, including non-UK buyers who nonetheless live and work full time in London, more cost conscious. Whilst prices in Knightsbridge are further above their pre-crunch levels than in any other area, the greatest annual price growth has been seen in Fulham (some 13%).

Here prices, at £980 per sq ft, are roughly half of the average for prime central London. Our analysis of prices at ward level suggest that the average price of all property sold in Knightsbridge and Belgravia in the past five years has been over £2.6 million, the highest of any of the 9,800 or so wards in Great Britain.

The equivalent figure in Parsons Green (Fulham), which at number 21 in the most expensive list, stands at £1.2 million. Such a flow of wealth has been similarly evident in similar markets such as Wandsworth, Richmond and Islington.

"Overall, price growth has continued in prime central London but at half the levels in the prime South West London markets"
Lucian Cook, Savills Research

TABLE 3.1

Prime markets Five-year forecast values

	Actual	Forecast					
	2012	2013	2014	2015	2016	2017	5yrs to end 2017
Prime Central London*	5.3%	6.0%	3.0%	-1.0%	8.0%	6.5%	24.3%
Prime Regional*	-2.1%	2.0%	4.5%	1.0%	5.5%	5.5%	19.8%

Source: Savills Research

*Assuming no further changes to the taxation of high value property

Stop-start in the country

However, evidence of a more widespread ripple effect has been sporadic, causing the gap between prime London prices and those for prime properties in and beyond the commuter zone to widen further.

The few exceptions are wealthy wards such as Oxshott & Stoke D'Abernon and Cobham Fairmile where prices are back to their pre crunch levels and over the £1 million mark.

Beyond London and the Home Counties, the highest value ward is St Margaret's sitting in central north Oxford, where over the past five years, prices across 497 sales that have been recorded by the Land Registry have averaged just over £700,000.

This is representative of a number of prime urban markets, including the likes of Newnham in Cambridge, Lansdown in Bath and Murrayfield in Edinburgh, that have outperformed their prime rural counterparts.

However, there has not been great evidence of price increases in 2013 beyond London. Equally neither has there been much evidence of price falls (with the exception of country houses in Scotland and some coastal properties for which second home buyers have been scarce). In the important second quarter, price movements in the prime regions have averaged between +1% and -1%.

Delayed triggers

Could it be that the turning points in the prime markets have simply taken longer to materialise than expected? In London, there is certainly evidence that the anticipated slowdown has been less dramatic than envisaged.

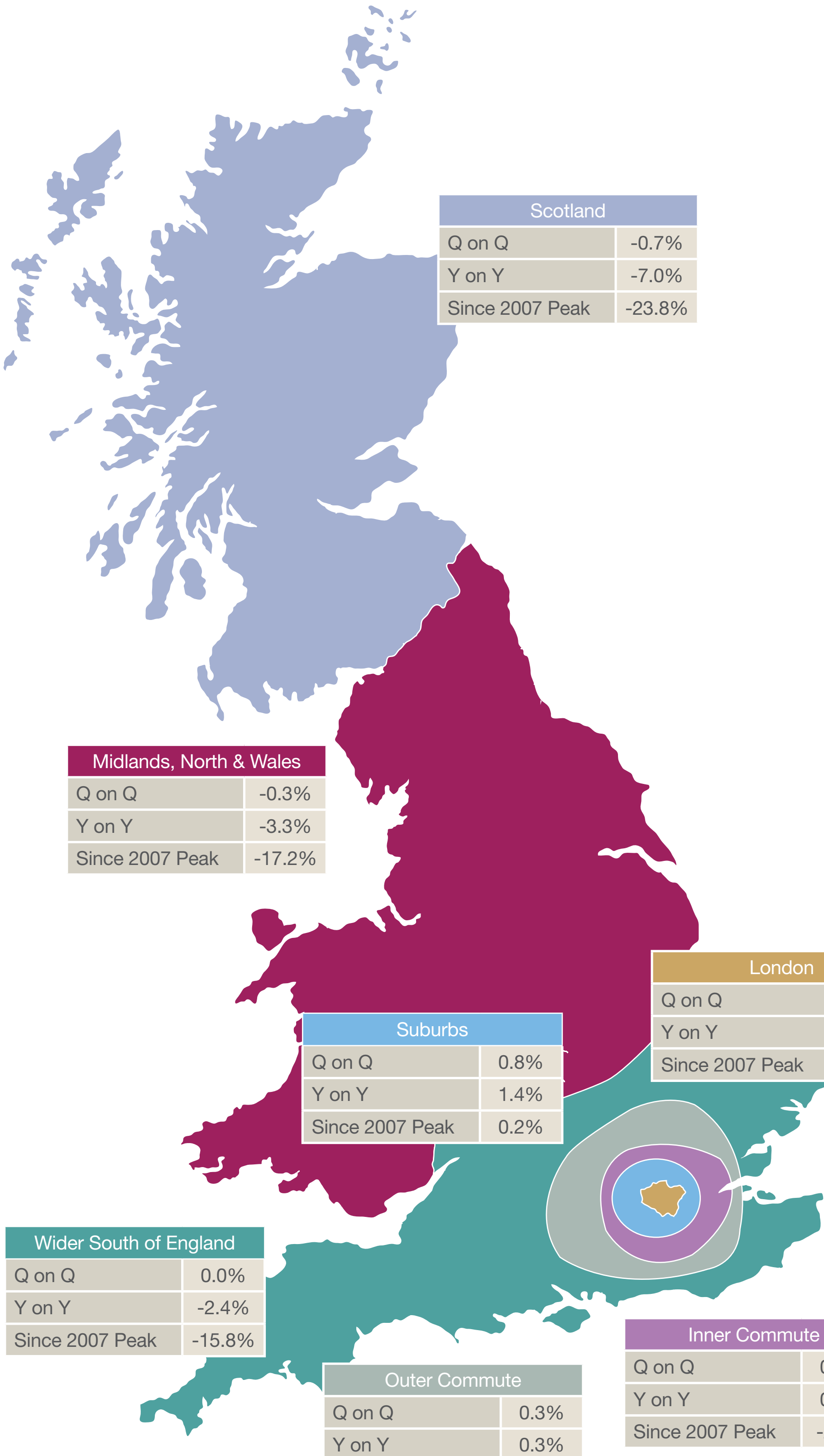
But equally the first six months have confirmed that the taxation of prime property has become a political bargaining chip, one that is likely to rear its head again as the election approaches.

This leads us to expect that price growth will slow significantly pre election. What happens to prices after that will be largely down to the outcome of the election.

Beyond London, a hitherto much more surpassed housing market is likely to feed off of an improvement in the mainstream market but without the same mortgage constraints. This may well be the catalyst for London buyers to rediscover the joys of a world beyond the capital at a time when the differential in prices is compelling.

MAP 3.1

Prime markets to Q2 2013



Scotland	
Q on Q	-0.7%
Y on Y	-7.0%
Since 2007 Peak	-23.8%

Midlands, North & Wales	
Q on Q	-0.3%
Y on Y	-3.3%
Since 2007 Peak	-17.2%

London	
Q on Q	2.5%
Y on Y	6.6%
Since 2007 Peak	22.9%

Suburbs	
Q on Q	0.8%
Y on Y	1.4%
Since 2007 Peak	0.2%

Wider South of England	
Q on Q	0.0%
Y on Y	-2.4%
Since 2007 Peak	-15.8%

Inner Commute	
Q on Q	0.5%
Y on Y	0.9%
Since 2007 Peak	-2.7%

Outer Commute	
Q on Q	0.3%
Y on Y	0.3%
Since 2007 Peak	-6.7%

Source: Savills Research

Family housing

WHERE IS THE BEST PLACE FOR FAMILIES?

While rural and semi-rural locations provide the most family-friendly locations, the highest concentrations of families are found in urban areas

Words by Sophie Chick
Twitter @SophieChick

If good schools, low crime rates and a broad selection of family housing were the only considerations in choosing where to live, then families would clamour to move to Rushcliffe in Nottinghamshire. The Midlands district, which includes West Bridgford, Bingham and Tollerton, ranked top in our analysis that rated places according to GCSE results, crime levels and the availability of three bedroom houses.

Yet in the country's supposedly most family-friendly location, less than one in three households has dependent children. Instead, the three local authorities most densely occupied by families – Barking and Dagenham, Newham and Slough – are among the least desirable areas to raise a family on the criteria we have measured. This suggests that affordability and employment inevitably take precedence when families choose where to set up home.

According to our criteria, the best places to raise a family are mostly located in rural and semi rural areas. These places are often expensive, some way from major employment centres and dominated by retired households.

The areas where high concentrations of families converge with good housing stock, decent schools and accessibility to employment, are predominantly urban.

A price premium

Of the 25% of local authorities with the highest proportion of family households, the best ranked location to raise a family is Chiltern in Buckinghamshire. Here the average price of a three bedroom house is £392,000. This is over twice the price of a similar home in Rushcliffe.

Others in the top 10 command even greater price premiums – particularly St Albans and Three Rivers where the average three bedroom house costs more than £400,000.

Indeed, areas which scored well in our ranking and already attract a high proportion of families command a substantial price premium. The average price of a three bedroom home in these areas is 38% above the average for all areas with a high proportion of families.

Many families will be priced out of these markets. Some will look to other areas with good education, low crime levels and a more diverse supply of family housing but don't offer the same access to employment markets. Others will be forced to accept a lower quality of family living, particularly in London where lack of accessible family housing is acute.

Intrinsic undersupply

London boroughs make up 80% of the 20 worst locations for families to live, driven particularly by the lack of three bed plus properties. This suggests the provision of more family housing across a range of tenures, is critical to addressing the intrinsic undersupply of housing in London and the South East.

"Affordability and employment inevitably take precedence when families choose where to set up home"
Sophie Chick, Savills Research

High Wycombe in Chiltern (Bucks) is one of the most family-friendly locations in the UK

TABLE 4.1

Top Local Authorities for family living

Rank	Local Authority	Average 3 Bed House Price	% of dependent families
1	Rushcliffe (Notts)	175,386	29%
2	South Northamptonshire	238,198	31%
3	Chiltern (Bucks)	391,803	32%
4	Wokingham (Berks)	303,733	33%
5	Ribble Valley (Lancs)	231,388	28%
6	Eden (Cumbria)	220,841	24%
7	Broadland (Norfolk)	187,276	26%
8	Wirral (Merseyside)	159,697	28%
9	Hart (Hants)	289,258	33%
10	North Kesteven (Lincs)	158,539	28%

TABLE 4.2

Top Local Authorities for family living with a high proportion of families

Rank	Local Authority	Average 3 Bed House Price	% of dependent families
3	Chiltern (Bucks)	391,803	32%
4	Wokingham (Berks)	303,733	33%
9	Hart (Hants)	289,258	33%
11	St Albans (Herts)	422,914	33%
17	Three Rivers (Herts)	410,902	32%
19	South Cambridgeshire	278,908	31%
21	Uttlesford (Essex)	303,510	32%
31	Trafford (Greater Manchester)	222,208	31%
44	East Hertfordshire	342,525	31%
51	Epsom and Ewell (Surrey)	376,739	32%

Source: Savills Research

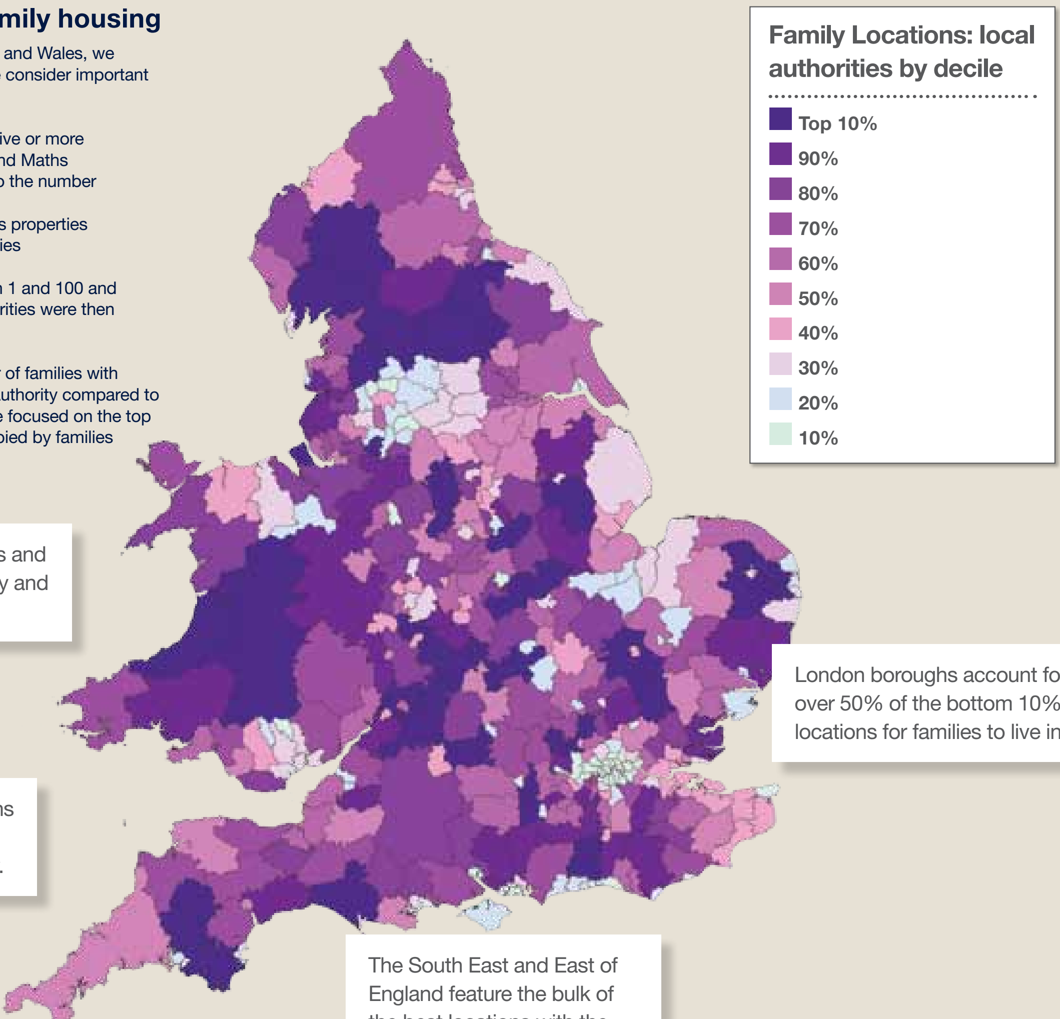
How we assessed family housing

For every local authority in England and Wales, we looked at three measures which we consider important to families:

- The number of Pupils achieving five or more A*-C GCSE's including English and Maths
- Crime levels (crimes compared to the number of households)
- The supply of three bedroom plus properties compared to the number of families

Each measure was scored between 1 and 100 and added together and the local authorities were then ranked by this total score.

Secondly, we looked at the number of families with dependent children in each Local Authority compared to the total number of households. We focused on the top 25% of areas mostly densely occupied by families with dependent children.



Trafford, Stockton-on-Tees and Knowsley also score highly and are popular with families.

The top 10% best locations for families to live in are spread across the country.

The South East and East of England feature the bulk of the best locations with the highest proportion of families.

London boroughs account for over 50% of the bottom 10% of locations for families to live in.

Development

RECOVERY GIVES BUILDERS A BOOST

Improved conditions are encouraging private housebuilders to increase production. But, ultimately, they are still not delivering enough homes

Words by Susan Emmett
Twitter: @saemmett

"Statistics show building work started on just over 23,000 private homes in England during the first three months of this year"

Susan Emmett, Savills Research

Housebuilders are benefitting from the gathering pace of housing market recovery and the revival is already showing signs of boosting construction levels. As builders reported growing company profits over the summer, some of the bigger players voiced their intention to increase production following a surge in buyer demand prompted by Help to Buy, the Government incentive scheme. For many, this means building on an already busy spring.

Government statistics show that building work started on just over 23,000 private homes in England during the first three months of this year. This represents an increase of 18% on the same period last year.

The rise in construction predates the launch of £130 billion Help to Buy in April aimed at stimulating house building by helping buyers on and up the property ladder. Under the first part of the scheme, buyers of new build homes can borrow an equity loan worth up to 20% of the value of a property priced up to £600,000. The second and more radical part of the measure which offers a mortgage guarantee to buyers of all properties comes into play in January 2014.

The Government says that the Help to Buy equity loan encouraged almost 7,000 reservations in the first three months. There are now more than 400 builders across the country registered for Help to Buy – some of them smaller developers that would have been kept out of previous schemes.

These figures dwarf earlier incentive measures such as New Buy that has attracted some 4,500 reservations since its launch in 2012. Together with First Buy these incentives have accounted for between 20% and 25% of sales among major volume housebuilders.

Critics of Help to Buy, which include the IMF, the previous Governor of the Bank of England and the Office for Budget Responsibility, fear that the scheme will simply stoke up property prices rather than encourage housebuilders to build.

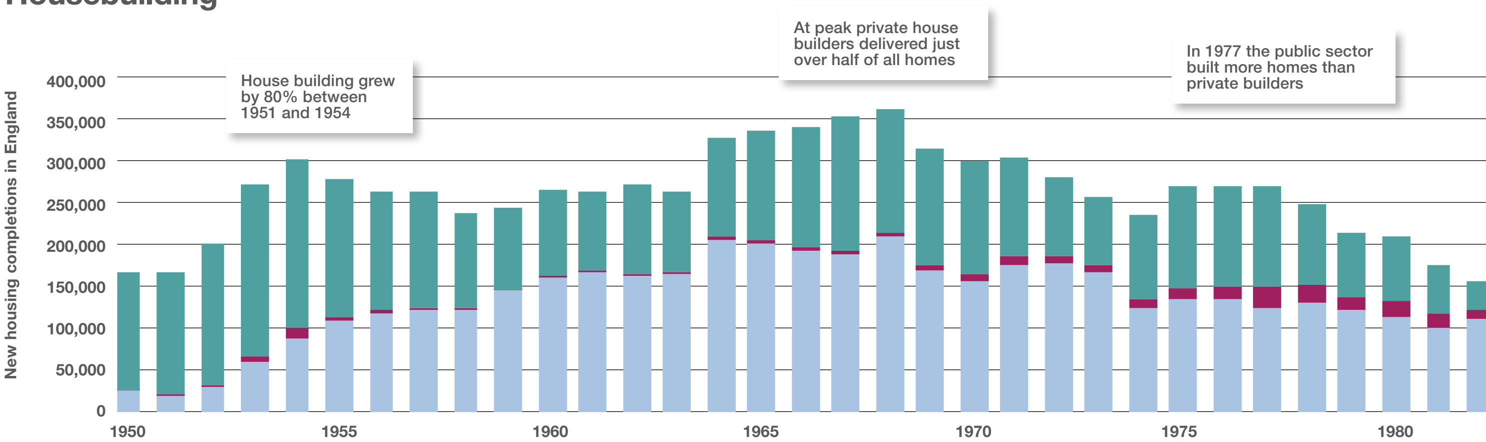
It is not the only Government measure helping to buoy the property market. Funding for Lending, designed to provide banks with cheap money, has had a greater impact on the mortgage lending than it has on lending to small businesses. Growing demand from homebuyers with access to an improved mortgage market has in turn served to boost sales.

Can they build enough?

Barratt has indicated that their completions of new homes would rise by 20% compared with two years ago. The Help to Buy initiative will be particularly beneficial in areas

GRAPH 5.1

Housebuilding



Source: Savills Research, DCLG

where the property market has been more subdued, as building sites which may not have previously delivered the necessary sales volumes, become commercially viable.

This said, housebuilders are starting from a very low level. At an average rate of 115,000 new homes a year, house building levels in England are currently half of those needed to meet the formation of new households which is expected to rise by 220,000 a year.

Last year, private builders delivered just 88,000 homes. Since 2007, building levels have dipped to rates not seen since the 1920s.

Moreover, although the number of starts rose in the first quarter this year, the number of completions fell over the same period. That means the recent increases in house building will take time to feed through to sales.

Yet even with a Government boost, there are constraints to the number of homes private house builders can physically deliver. Some cite difficulties in recruiting a large enough workforce as a current barrier to building more. Others blame a slow planning system as another frustrating hurdle.

It is questionable whether private house building for sale can ever provide the volumes necessary to meet demands of the growing population.

At its highest in the 1960s, private house building delivered about 200,000 homes a year. We are unlikely to return to those levels in today's market. Government incentives schemes do not alter the fact that demand for homes remains constrained by property prices that are high relative to income.

Land banks

Property developers' supply of land is falling

Low levels of house building have prompted critics to accuse property developers of hoarding sites in anticipation of higher land values. Savills analysis of land banks with planning permission held by the top eight listed housebuilders shows that the supply of land held by builders is in fact, falling.

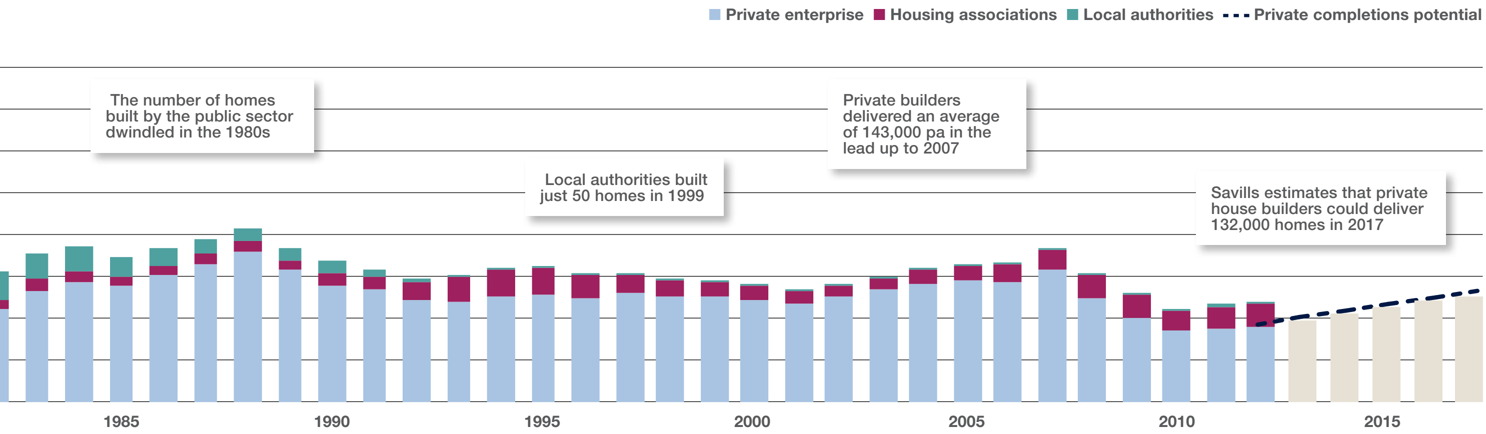
Between 2007 and 2012, the number of house plots with permission held by the top eight (which includes Barratt, Persimmon and Taylor Wimpey) dropped by 105,000 to 268,000. Slowing rates of house building during the economic downturn resulted in a peak in the volume of land held by builders in 2009. That year, the eight held enough land to keep building for another 7.5 years. As the market improved, that figure declined to 5.3 years in 2012. However, it is still higher than it was at the start of the century when when developers held enough land to keep building for just over three years.

Sites with planning permission are not necessarily commercially viable. These land banks include sites in weaker markets as well as those that are currently being built out in phases. Crucially, not all sites with permission belongs to housebuilders and developers. Some 45% of permitted sites in London are, in fact, in the hands of land owners such as public bodies, local authorities and industry. Bringing these sites forward will help deliver more homes. Improved market conditions can only help.

GRAPH 5.2

Plots of land with planning permission

Source: Savills Research, House builder annual reports (top eight)



PRIME NUMBERS

The prime residential property market… statistically speaking

13% The year-on-year growth in Fulham compared to 6.6% for all prime London

2.1% The quarterly growth in the Cotswolds, outperforming the wider south of England where prices remained flat

-26% The average fall in value of prime coastal property since the pre-downturn peak of 2007

38% The percentage of international buyers of prime London property in 2012

43.3% The average increase in the value of Knightsbridge property compared to the peak of 2007

9% The increase in transactions of prime second-hand Scotland properties in the first four months of 2013 compared to the first four months of 2012

£2.6bn The amount spent on £5 million+ properties in London in the first half of 2013, up 23% on the same period last year

0.2% The average extent to which prices in the prime suburbs of London are now above their 2007 peak, compared to -10.9% below for all prime UK

£37bn The estimated amount of money that has flowed into London property from international buyers since 2006

19.8% The growth forecast for prime regional property to the end of 2017

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"Behind the average statistics, the market remains fragmented with parts of the country still experiencing price falls"
Neal Hudson

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"Despite political posturing regarding mansion taxes in February and March, prices for prime property in London have risen by an average of 4.8% in the first half of the year"
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"Government incentives schemes do not alter the fact that demand for homes remains constrained by property prices that are high relative to income"
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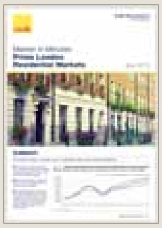
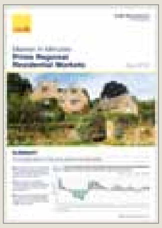
Adding value to your property interests

The Savills UK Research team was founded in the 1980s and currently operates in every area of real estate. We work with many clients providing them with bespoke research to meet their exact requirements. Our clients come from all segments of the public and private sector.

We provide reports, information and presentations that directly assist our clients to save or make money from real estate projects and which have also actively help to inform policy and shape strategies. ■



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