

RESIDENTIAL PROPERTY FOCUS

2015 ISSUE 3

Five-year
forecast
issue

MAINTAINING BALANCE

The relationship between affordability and accessibility is key to the prospects for the housing market

Prime

Stamp duty charges hold back the ripple from London in the short term but for how long?

Mainstream

How will future house price growth vary across London? Classifying the boroughs by past performance

Homeownership

Reversing falls in homeownership will present a major challenge for the Government

This publication

This document was published in November 2015. 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.

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Foreword

DUSTING OFF THE CRYSTAL BALL



Interest rates and mortgage regulation will shape the UK housing market in the next five years

We have reached the time of year when we dust off our crystal ball to formulate our housing market forecasts. No longer is this just a case of saying we think UK house prices will go up or down by x% next year.

To provide a meaningful market forecast it is important to establish where different markets are in the cycle and what their capacity for growth is over the medium term.

It is also increasingly important to understand how prices interact with transactions and households' ability to get on or trade up the housing ladder in different parts of the country.

Twelve months on

Last year we were consumed by what the mortgage market review would mean. Twelve months on and its effect has become a little clearer.

Mortgage approvals and consequently transaction levels appear to have reached a plateau, as the affordability tests on borrowers and loan-to-income restrictions on lenders limit the amount home-buyers can borrow.

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“Over the next five years the economic recovery should spread geographically”
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Lucian Cook,
Savills Research
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Those seeking to get a new mortgage are being constrained by the higher interest rate assumptions adopted in the regulatory stress testing of affordability.

This means what happens to interest rates going forward is critical to our outlook for the market, a subject which we have addressed in our article on pages 4 & 5.

Mortgage regulation also means the cost of mortgage deposits will remain high with ongoing implications for levels of mortgaged home ownership and private renting, as discussed by Neal Hudson on pages 12 & 13.

Different submarkets

These issues are of acute importance in London, given the extent of price growth it has seen over the past 10 years. However, this does not mean that the London market will run out of steam completely.

A closer look at the capital gives an important reminder that the performance of each region is an amalgam of different submarkets across both the prime and mainstream sectors, each with different drivers.

This said, over the next five years the economic recovery should spread geographically. This is likely to result in much less London-centric price growth than we have become accustomed to, even if our crystal ball indicates that it will be tempered by the twin constraints of mortgage affordability and accessibility. ■



Lucian Cook
+44 (0) 20 7016 3837
lcook@savills.com
@Lucian_Cook

EXECUTIVE SUMMARY



The cost of servicing a mortgage will be an important factor in determining prospects for UK housing
See pages 04/05



Stamp duty will hold back the prime market in the short term
See pages 06/07



Five year house price forecasts for the prime and mainstream markets, 2016 – 2020
See pages 08/09



The prospects for price growth in London vary by location
See pages 10/11



Reversing falls in homeownership will present a major challenge for the Government
See pages 12/13

Mainstream market

MAINTAINING BALANCE

Affordability and accessibility are key to the prospects for the housing market

Words: Lucian Cook
Twitter: @LucianCook
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“There is a danger of too much price growth while interest rates stay low”

Lucian Cook, Savills Research
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Since the bank base rate fell to a record low of 0.5% just over six years ago, the affordability of monthly mortgage payments, historically the key driver of mainstream house prices, has been in a state of suspended animation.

Any price growth which has occurred since then has largely been absorbed by home buyers as mortgage rates have gradually but consistently fallen.

In this period the ability to accumulate the equity to obtain a mortgage has instead become the main consideration for the majority of buyers. However, as interest rates rise over the next five years, so the cost of servicing a mortgage will become an increasingly important factor in determining the prospects for the UK housing market.

Interest rates

The prospects for price growth are particularly sensitive to the timing and extent of interest rate rises, as is shown in our affordability matrix in Figure 1 below.

If rates rise quickly, which seems unlikely in the short term at least, prospects for price growth in certain parts of the market will be quickly curtailed. If they rise slowly, there is much more capacity for medium term price growth.

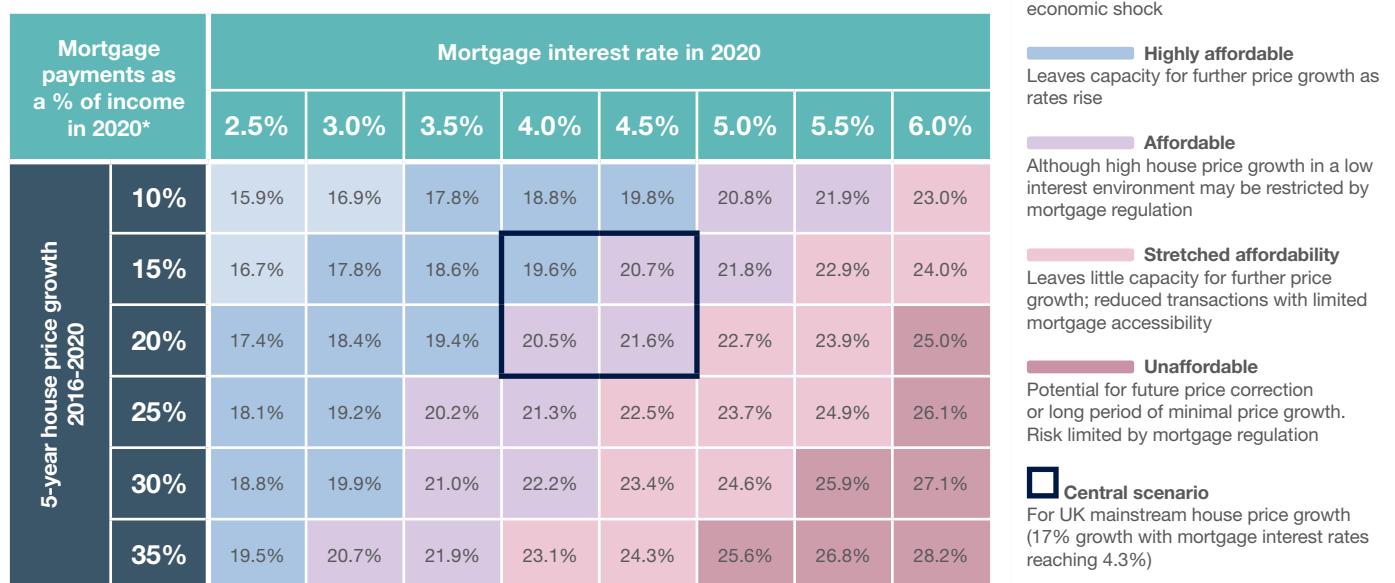
As appealing as that may sound to existing homeowners, there are risks if there is too much price growth while interest rates stay low, given the even tighter squeeze on affordability that would occur as and when rates move towards a new norm.

In light of this it is little wonder that the Bank of England has been so alive to the risk that a debt-driven housing market boom occurs before the brakes of affordability are applied to the market.

The Bank's response has been the introduction of mortgage regulation, through capping the amount of lending at high loan-to-income ratios and requiring lenders to stress test borrowers' affordability at higher interest rates. This has had the effect of limiting the amount they can borrow, while keeping mortgage deposits high in the absence of any drivers for prices to fall.

FIGURE 1

Affordability matrix Assessing mortgage affordability at a national level based on potential house price growth and mortgage rate shifts by 2020



Source: Savills Research

*Assumes a 25 year capital repayment mortgage. Currently stands at 17.5% at an effective interest rate of 2.9%

Regulation implications

In itself this is likely to act as a drag on house price growth, limiting the prospect that prices will be forced into the danger zone of affordability but, as a side effect, also restricting market activity, as households enter the market later and move less frequently. This is expected to mean that mortgaged home ownership will continue to fall, whatever the stated ambitions of government to reverse the prevailing trend.

This adds another layer of complexity and is likely to mean a continuation of the trend most noticeable in the south of England, whereby prices become less and less dictated by what someone on the average salary can afford but instead what wealthier buyers and those on a good dual income are able to. Consequently, the earnings base on which house prices are supported increases faster than the underlying rate of salary growth.

Regional variation

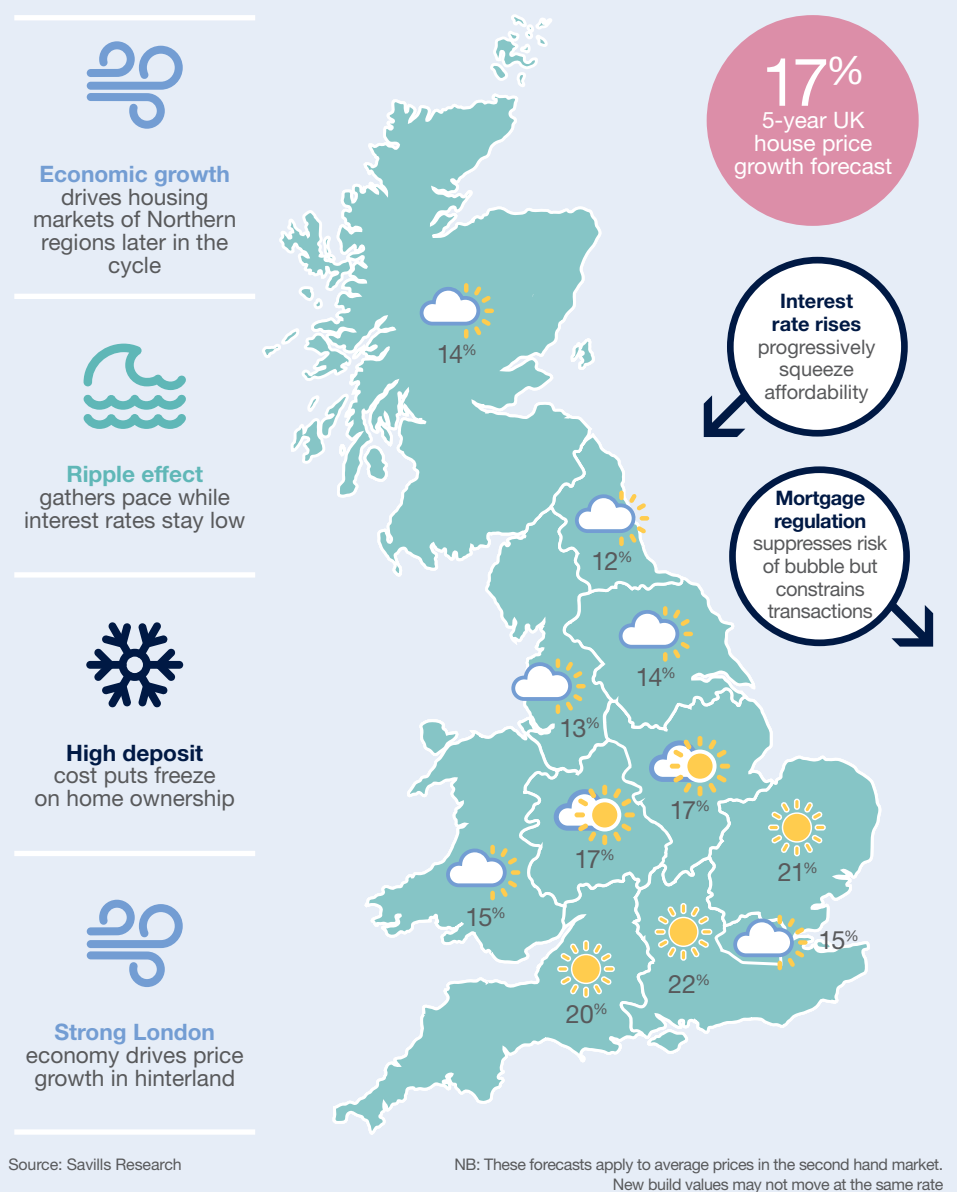
This has been most evident in London, where price growth over the past 10 years and the extent to which even these more wealthy buyers have increased their borrowing relative to earnings leaves much less capacity for price growth generally. This outperformance of London has been much more marked than we have seen at similar stages in previous housing market cycles. This is partly because demand from relatively affluent aspiring homeowners has focused on emerging parts of the capital rather than the surrounding commuter zone.

As we have explored later in the publication, we expect this to continue though perhaps less aggressively. Instead we think that over the next five years London's hinterland will benefit more strongly as the ripple effect gains greater traction.

In the areas beyond, much will depend on the degree to which regional economic growth and the performance of cities such as Birmingham and Manchester act as catalysts to reinvigorate their housing markets. Their prospects will be determined by the extent to which political talk of a Northern Powerhouse becomes a reality, taking advantage of their comparatively lower housing costs versus London, even as rates rise. ■

MAINSTREAM HOUSING OUTLOOK

5-year regional house price forecasts and key drivers



CASH BUYERS & BUY TO LET INVESTORS

While not currently subject to the same level of mortgage regulation, the combination of increased costs of borrowing and reduced tax relief on those costs is also likely to temper the fervour of buy-to-let investors, who have a requirement for debt to retain or build up their portfolios.

For cash buyers, who continue to make up a much higher proportion of the market than was the case pre-credit crunch, these interest rate rises are not a constraint. Yet returns on cash and investments outside of property are expected to increase so the options available to them will widen.

Prime markets

A PERIOD OF ADJUSTMENT

The prime regions are poised for the ripple effect once stamp duty changes are absorbed

Words: Sophie Chick
Twitter: @SophieChick
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“We expect the trend for prime urban living to continue, fuelled by London buyers”
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Sophie Chick, Savills Research
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Understanding what is happening in the prime housing market at the moment is not easy. On the one hand, the economy is improving, wages are increasing, interest rates are still low and there is political certainty for the next five years. On the flipside, mortgage regulation limits the amount buyers can borrow and the new stamp duty rates are weighing down the top end of the market.

The capital

Across prime London, prices rose by just 2.3% in the six months to the end of September 2015, leaving them effectively the same as a year ago. This was largely due to the price falls that were triggered immediately after the new stamp duty rates were announced in December 2014.

However, performance is not uniform across London. Properties at the top end of the market, which saw the biggest increases in stamp duty, have seen falls over the past year of a similar scale to the increased transaction costs. For example, properties priced over £5m have seen

annual falls of -4.7% compared to an additional stamp duty rate of +4.1%.

At the lower end of the prime London market, prices are still increasing albeit at a slower rate than last year. For these properties, the increased mortgage regulation is a key consideration.

For those moving up the housing ladder in the middle tiers of the prime London market, higher levels of stamp duty over £1m will have eroded the equity built up in a previous home making them more reliant on mortgage borrowing. This is at a time when mortgage regulation reduces high loan-to-income lending and makes it difficult to borrow against bonuses.

Importantly, the slowing price growth across the prime London market also reflects a market that had seen five and a half years of sustained growth prior to the tax changes, which leaves little capacity for prime growth in the short term.

Ripple effect

In the London suburbs and its commuter belt, the summer of 2013 marked a turning point as price growth returned to the area, following two



and a half years of very little price movement. It seemed as though it was finally the time for the much anticipated ripple of wealth to leave the capital and flow to the regions.

Price growth increased and by June 2014 annual growth had reached 7.1%. However, since then the rate of growth has slowed, partly due to the uncertainty surrounding the election but also because of the stamp duty changes referred to before.

This leaves prime property prices in the London commuter belt just 6.6% above their 2007 levels compared to 36.8% in London. Theoretically, this indicates that there is potential for significant price growth once the ripple effect is restored. However, this is unlikely to occur until the London market is moving again.

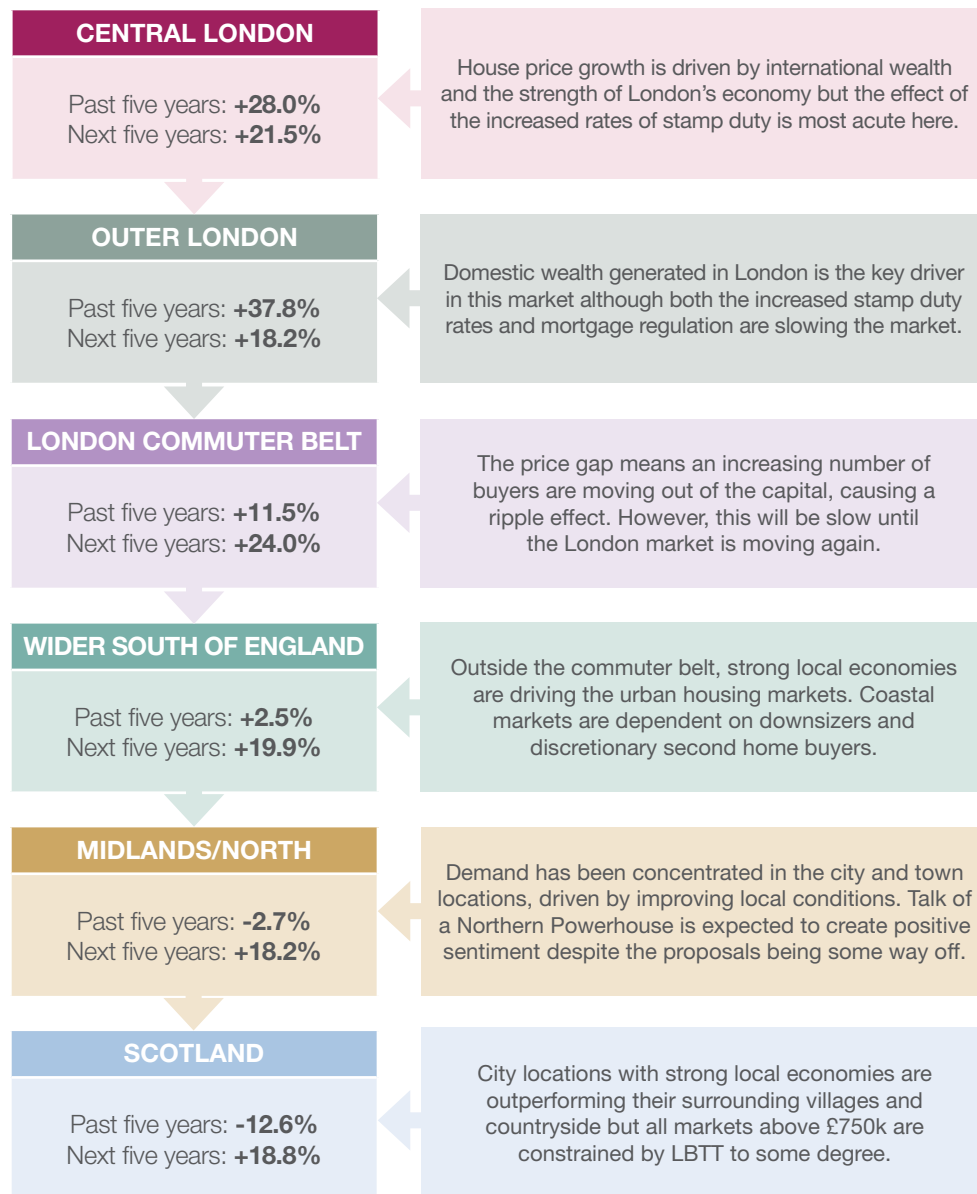
Regional economies

Beyond the London commuter belt, the prime property market is not as reliant on London and instead depends on the wealth generated in the local economy and in some cases second home buyers. It is also less affected by the SDLT changes as prices on the whole are lower. Prime property values in these regions are still significantly below where they were in 2007, ranging from -8.0% below in the remainder of the south of England to -22.3% below in Scotland.

Economic growth over the past 10 years has been largely dominated by London. Although over the next 10 years London is still forecast to outperform, all regions are set to see significantly stronger economic growth, particularly in the South East, East and North West.

THE PRIME MARKETPLACE

Following the flow of prime housing wealth



Source: Savills Research

Looking ahead

Although there are early indicators that sentiment is beginning to pick up across all the prime regions, there remains a lack of urgency among buyers. In part, this stems from a relatively sluggish market in the capital, which is creating a lack of upward pressure on prices.

In London, the fundamentals of wealth generation support medium term price growth. However, this is likely to be muted in the short term as the market, which currently looks fully

valued and fully taxed, adjusts to a new fiscal and regulatory backdrop.

Beyond London, the relative value offered in most prime regional markets compared to the capital is likely to underpin price growth. However, sellers need to remain realistic in terms of pricing. We expect the trend for urban living to continue as this is where London buyers are likely to move to in the capital's surrounding commuter belt and where the wealth will be created further afield. ■



Forecasts

MARKET PREDICTIONS

PRIME MARKETS Five-year forecast values

	2016	2017	2018	2019	2020	5-year
Central London	0.0%	2.0%	5.0%	6.5%	6.5%	21.5%
Outer London	2.0%	2.0%	4.0%	4.0%	5.0%	18.2%
Suburban	2.0%	4.0%	7.0%	5.5%	4.0%	24.5%
Inner Commute	3.0%	4.0%	6.0%	4.5%	4.5%	24.0%
Outer Commute	3.0%	4.0%	6.0%	4.0%	4.5%	23.4%
Wider South England	2.0%	3.0%	5.5%	4.0%	4.0%	19.9%
Midlands/North	2.0%	2.0%	5.0%	4.0%	4.0%	18.2%
Scotland	2.0%	3.5%	4.0%	4.0%	4.0%	18.8%

Source: Savills Research

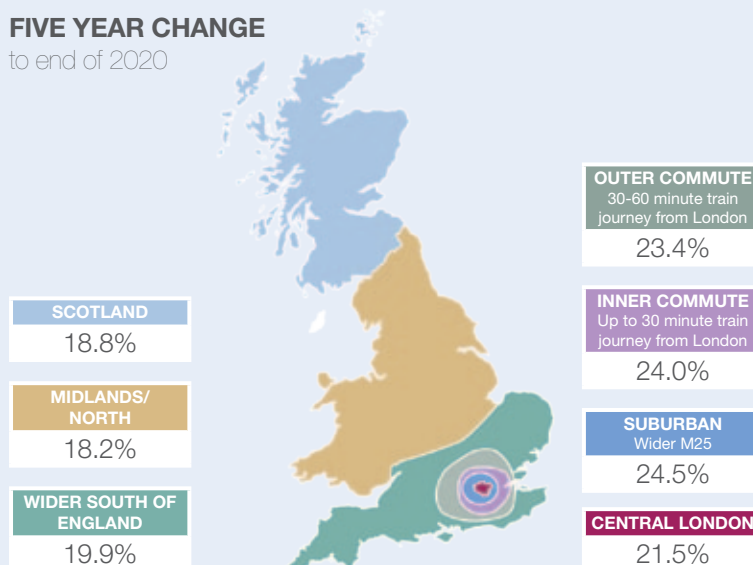
NB: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate

PRIME MARKETS































































▲ In London the fundamentals of wealth generation support medium term growth

FIVE YEAR CHANGE to end of 2020



MAINSTREAM MARKETS Five-year forecast values

	2016	2017	2018	2019	2020	5-year
UK	 5.0%	 3.0%	 3.0%	 2.5%	 2.5%	17.0%
London	 5.5%	 2.0%	 2.0%	 2.5%	 2.5%	15.3%
South East	 7.0%	 4.0%	 4.0%	 3.0%	 2.0%	21.6%
South West	 6.0%	 3.5%	 3.5%	 3.0%	 2.5%	19.9%
East of England	 6.5%	 4.0%	 4.0%	 3.0%	 2.0%	21.0%
East Midlands	 5.0%	 3.0%	 3.0%	 2.5%	 2.5%	17.0%
West Midlands	 4.5%	 3.0%	 3.0%	 2.5%	 2.5%	16.5%
North East	 2.5%	 2.0%	 2.0%	 2.0%	 3.0%	12.0%
North West	 3.0%	 2.5%	 2.5%	 2.0%	 3.0%	13.7%
Yorks & Humber	 3.5%	 2.5%	 2.5%	 2.0%	 3.0%	14.2%
Wales	 4.0%	 2.5%	 2.5%	 2.0%	 3.0%	14.8%
Scotland	 3.0%	 3.0%	 2.5%	 2.5%	 2.5%	14.2%

Source: Savills Research

NB: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate

MAINSTREAM MARKETS



▲ Prospects for price growth are sensitive to the timing of interest rate rises

FIVE YEAR CHANGE to end of 2020

SCOTLAND
14.2%
NORTH WEST
13.7%
WALES
14.8%
WEST MIDLANDS
16.5%
SOUTH WEST
19.9%



NORTH EAST
12.0%
YORKSHIRE & HUMBER
14.2%
EAST MIDLANDS
17.0%
EAST
21.0%
LONDON
15.3%
SOUTH EAST
21.6%

London mainstream

THE PROBLEM WITH AVERAGES

Overall averages disguise significant differences between submarkets across the capital

Words: Nick Gregori

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“Annual growth has generally been strongest in lower value locations”

Nick Gregori, Savills Research

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After a prolonged period of outperformance, our new five-year forecast for mainstream London house prices is growth of 15.3%, sitting below that of the UK average and generally reflecting less capacity for further growth.

As of September, values sit 46.0% above the previous peak and are up 10.6% annually according to the Nationwide. The average sale price over the past 12 months was £485,000 and 1 in 12 transactions were over £1m.

But the overall averages hide significant differences between distinct submarkets across the capital. This explains why that price growth will continue to be unevenly distributed across the capital.

A borough by borough review of house price growth shows that the best performers over the current cycle have slowed more recently, and that annual growth has generally been strongest in lower value locations. Annual growth in the four highest value

boroughs averaged 0.6% in the 12 months to August; in the four lowest value boroughs the corresponding figure was 12.4%. What clues does this give for the future?

Life at the top

Where boroughs have strongly outperformed the London average over the course of the upswing in prices, we might expect that the scope for further growth is lower.

In prime Central London growth has been very strong since 2005, but recent tax changes have stifled market activity and limited price growth. Looking forward growth may remain muted in the short term as the market continues to adjust to the new tax regime. However the fundamentals of wealth generation are sound, such that prime Central London is expected to perform better than the London average over a five-year period.

Bottoms up?

By contrast, in the outer London boroughs such as Bexley, Havering and Barking & Dagenham, values over the cycle have risen far less, so in simple terms we might expect the scope for future growth to be high. Early signals are bearing this out; annual growth in these outer locations is already higher than central areas. We may therefore be reaching the turning point where the lower value areas are set to outperform.

Analysis of past performance shows that the markets of many outer boroughs move more in line with the regions of South East and Eastern England than London. In our regional forecast we predict that these regions will have the most growth over the next five years (21.6% and 21.0% respectively) and expect that price growth in the outer boroughs will be more similar to these regions than the London average over the next part of the cycle.

Stuck in the middle

So where does all this leave the areas in between? Values in boroughs such as Camden, Islington, Wandsworth and Hammersmith & Fulham have grown very strongly over the past five years, all now sitting at over 50% above their 2008 peak. But their annual growth is currently well below the London average, with small falls recorded in two of these boroughs.

The potential for further growth in these boroughs is tempered

EAST LONDON BUCKS THE TRENDS

Four boroughs beat the London average for price growth

Only four boroughs are above the London average both in terms of their annual price growth and where they sit versus their pre-downturn peak: Hackney, Southwark, Waltham Forest and Lewisham. What characteristics do they share that could help explain this? Most obviously they are all situated to the east of the traditional prime locations.

Hackney is often held up as the classic example of gentrification and house price growth occurring in tandem. In the 2015 Indices of Deprivation statistics, Hackney

recorded the largest reduction in deprivation (relative to the 2010 results) of any local authority in England, with Waltham Forest also in the top 10.

As prices have risen and made Hackney less accessible to first time buyers – the average house price is £640,000 – Waltham Forest at £389,000 has emerged as a more affordable alternative with similar appeal to young professionals. South of the river a similar trend of priced-out buyers seeking value has seen a shift eastwards from Clapham and Brixton to Peckham and Catford.

by affordability and accessibility considerations for those heavily reliant on mortgage debt.

The deposits and loan-to-income ratios required for first time buyers and, to a lesser extent, buyers trading up the ladder are very high. Mortgage market regulation and Bank of England lending guidelines have limited access to mortgage finance and left the market

increasingly reliant on equity-rich purchasers.

This has subdued transaction levels and we fully expect value increases in the mainstream markets of these locations to be limited in the short term.

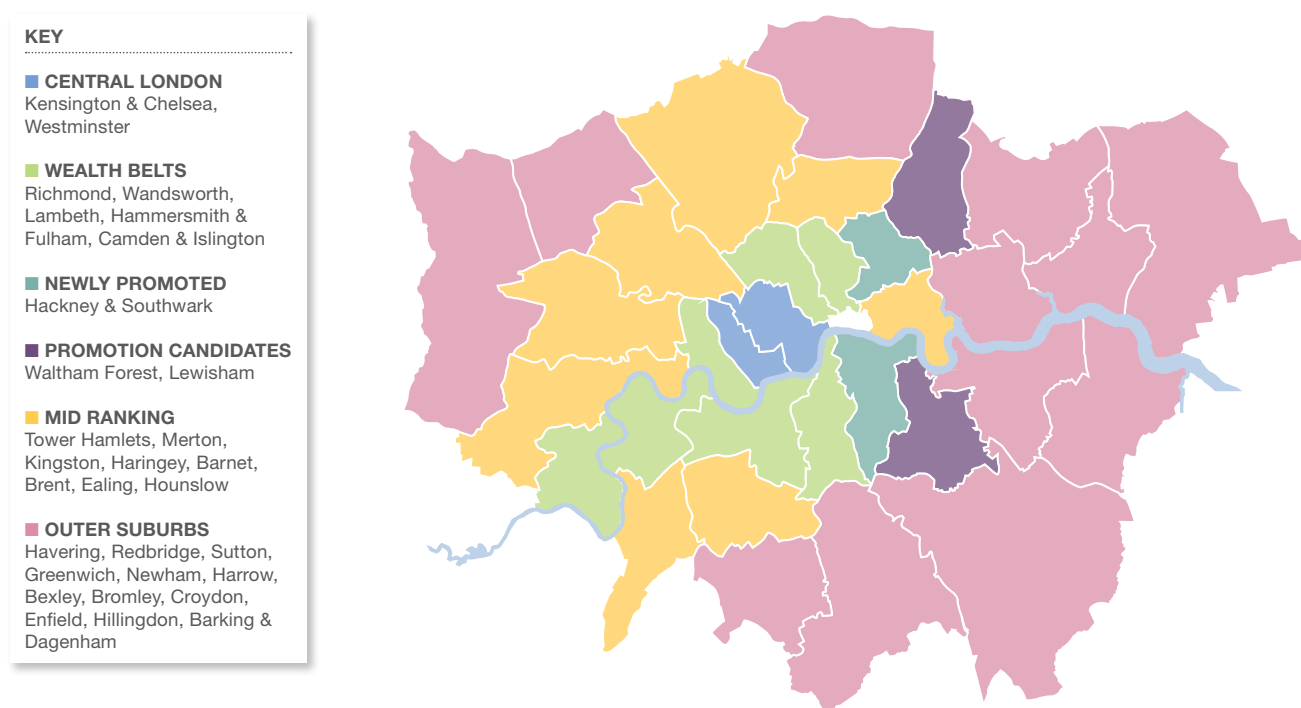
Despite lower historical price growth, similar considerations apply in boroughs such as Brent, Haringey, Hounslow, Merton and, further in

to the suburban areas, Barnet and Kingston upon Thames.

Particular hotspots may emerge in areas of major regeneration and infrastructure improvements. This may support higher growth in say Ealing, but overall the picture is one of slowing growth. Cash buyers and the continuing supply-demand imbalance will maintain some level of price rises. ■

FIGURE 2

London mainstream market forecasts (see pages 8 and 9 for prime forecasts)



Group	Average values	Price growth (since 2008 peak)	Annual price growth (year to Aug 15)	Average 5-year forecast	Comments
CENTRAL LONDON	£1.0m to £1.3m	60% to 65%	1% to 3%	+15%	Price movements in these boroughs are heavily influenced by the drivers in the prime Central London market, including stamp duty in the short term and international flows of wealth in the medium term.
EXISTING WEALTH BELTS	£565k to £835k	46% to 59%	-1% to 7%	+10%	Strong historical growth fed by the performance of prime property in these markets results in affordability constraints in the mainstream sector. Gap between prime and mainstream values expected to widen.
NEWLY PROMOTED	£585k to £640k	58% to 63%	8% to 10%	+15%	Markets expected to continue to benefit from demand from young affluent households no longer able to buy in the wealth belts. Partly offset by affordability issues for the resident population.
PROMOTION CANDIDATES	£390k to £410k	44% to 45%	9% to 11%	+20%	Having become more attractive to a wider socio-economic profile of buyers, these boroughs have outperformed London as a whole but retain more capacity for growth than the likes of Hackney & Southwark.
MID RANKING	£380k to £525k	27% to 48%	6% to 8%	+12%	'Typical' London boroughs where prospects for growth are constrained by the impact of mortgage regulation and prospective interest rate rises.
OUTER SUBURBS	£290k to £400k	14% to 33%	8% to 16%	+17%	Generally lowest levels of growth post-credit crunch leaves capacity for further price growth, with boroughs such as Newham and Greenwich showing potential for regeneration gains.

Source: Land Registry, Savills Research (all ranges given are for borough level averages)

NB: These forecasts apply to average prices in the second hand market.
New build values may not move at the same rate

Homeownership

SWIMMING AGAINST THE TIDE

Reversing falls in homeownership will present a major challenge for the Government

Words: Neal Hudson
Twitter: @resi_analyst



“Rather than creating a nation of homeownership, it appears we have created a generation (or two) of homeowners”

Neal Hudson, Savills Research

Homeownership may be in decline but the majority of households in the UK still own their own home. The Government is now focused on reversing the decline through policies such as Right to Buy and Starter Homes. However, this will require balancing the interests of existing homeowners against those of prospective buyers. The result of this balancing act will determine the future shape of the housing market.

Homeowners and housebuilding

Large numbers of older households have benefited from over two decades of house price growth and many now hold substantial amounts of housing equity. This creates an incentive to preserve house prices at existing levels

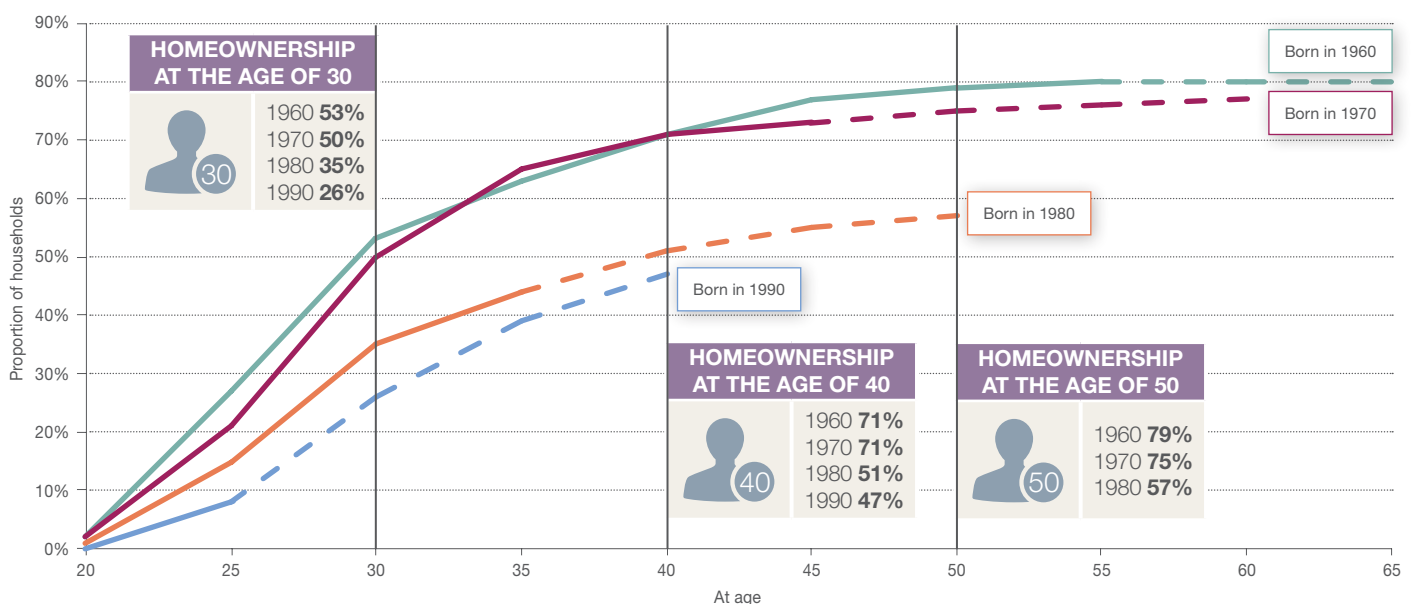
or higher. Unfortunately, those high house prices also create a barrier to new buyers, particularly through the size of deposit they need to obtain.

Meanwhile, housebuilding is below the levels required to meet housing need, putting further pressure on existing homes and affordability. Private sector housebuilding is constrained by capacity in the sector, the availability of land and the scale of demand at current price levels. The Government's policies should go some way to resolving these issues but substantially increasing delivery to a level that reverses the decline in homeownership will be a significant challenge for the Government.

Scale of the challenge

Recent work by the Council of Mortgage Lenders shows the scale of the challenge the Government faces. Analysis of homeownership

FIGURE 3
Homeownership by age cohort



Source: Council of Mortgage Lenders

Projections based on 2014 buyer propensities

by age cohort shows that around 64% of households born in either 1960 or 1970 owned their own home by the age of 35. For those born in 1980, the figure falls to 44% and they predict that only 39% of those born in 1990 will own their home by the time they reach 35 years old. Rather than creating a nation of homeownership, it appears we have only created a generation (or two) of homeowners.

However, the financial realities of the housing market mean that many will be unable to take advantage, reflecting the fact that the housing market is closely interlinked with our low inflation and high debt economy. Tackling just one or two parts of the housing market is unlikely to be sufficient and may even end up in worse outcomes for some people. Even with Starter Homes contributing to higher private sector new build supply, house prices are likely to remain high relative to incomes. This means deposit requirements will remain a substantial barrier to prospective first-time buyers in many parts of the market.

Implications

Under this scenario, housing market turnover will remain constrained by mortgage availability with cash-only buyers a significant proportion of the market (currently 36% of transactions). We therefore forecast turnover to be constrained to around 1.3 million transactions per year by 2020.

Meanwhile, the social rented sector is coming under renewed pressure and looks set to shrink further as people transfer into owner-occupation. This suggests the private rented sector will continue to grow in coming years as it remains the only option for those priced out of homeownership but not qualifying to live in the shrinking affordable housing sector.

This presents a continued opportunity for investors. However, the ability of debt-laden, buy to let investors to take advantage of it will be limited by a combination of increased interest rates and reduced tax relief on the resulting costs of servicing a mortgage.

This means we need to both continue building new homes across the full spectrum of housing tenures and encourage large-scale institutional investment. Ultimately that would help to ensure that all people have somewhere affordable to live and give them a better chance to save a deposit that may one day turn them into homeowners. ■

FIGURE 4

Forecasts for change in transaction numbers over five years and distribution in 2020 in the UK

	Forecast 5-year change	Forecast in 2020
Mortgaged first time buyers	+7%	325,000
Mortgaged home movers	+14%	410,000
Buy to let and cash buyers	+4%	570,000

	2015	2016	2017	2018	2019	2020
Total (m)	1.215	1.245	1.280	1.300	1.300	1.305

Source: Savills Research

1.687m

Average annual UK housing transactions pre-credit crunch

1.305m

Forecast number of UK housing transactions in 2020

FORECASTING RENTS

Traditional rental demographic will continue to grow

Rental affordability is already very stretched for many households and so the prospects for rental growth are largely limited to underlying wage growth. Households living in the private rented sector already pay more as a percentage of their income than those living in other tenures. Many are reliant on housing benefit or live in larger household groups to make the tenure more affordable.

Rental markets that are heavily dependent on housing benefit tenants such as some of the seaside towns along the south coast and parts of the northern urban belt will come under renewed pressure due to Government policy (our rental forecasts are for non-housing benefit dependent tenancies).

The traditional rental demographic of sharers and young professionals looks set to continue growing as the cost of buying limits the number able to make the move into homeownership. These groups are likely to benefit most from the forecast wage recovery and this will drive the majority of rental growth in coming years.

However, in some high demand – low supply rental markets, we may see more people living in larger household groups and this could contribute to higher rental growth, albeit for properties that have the flexibility to allow for this.

FIGURE 5

Mainstream rental growth forecasts

	2016	2017	2018	2019	2020	5 years
UK	3.0%	3.0%	3.0%	3.0%	3.5%	16.5%
London	4.0%	4.0%	4.0%	4.5%	4.5%	22.8%

Source: Savills Research

NB: These forecasts do not apply to housing benefit dependent tenancies. They also only apply to average rents in the second hand market. New build rental values may not move at the same rate

Market snapshot

RESEARCH SNIPPETS



www.savills.co.uk/PrimeLondon

Prime London | *Spotlight: Prime London Residential Markets*

At the top end of the London housing market, the number of wards with an average sale price of over £1m has risen from 17 to 50 in five years. The boroughs of Kensington & Chelsea and Westminster account for the vast majority of £1m+ wards, while this year locations including Earls Court, North Kensington, Bayswater and Victoria joined the more established markets such as Chelsea and Mayfair. Beyond central London, the £1m+ market has expanded to include more of Fulham, Highgate, Chiswick, East Sheen and Dulwich.

The fundamentals of wealth generation support medium term price growth in the prime London markets. However, this is likely to be muted in the short term as the market, which currently looks fully valued and fully taxed, adjusts to a new fiscal and regulatory backdrop.



www.savills.co.uk/ScotlandResidential

North of the Border | *Spotlight: Scotland's Residential Property Market*

One year on from the Referendum on Scottish Independence, there has been a notable transfer in balance within the residential property market north of the border, with a shift to bottom-up growth. Buyers of homes below £400,000 are now receiving further assistance in the form of favourable rates of LBTT. Meanwhile, buyers of more expensive homes are taking on the burden of the new progressive taxation in Scotland.

There were 639 prime sales which registered in Scotland at £400,000 or above between May and July this year. This compares to 925 sales in the same period last year, representing a drop of 31%.



www.savills.co.uk/BuytoLet

Buy to Let | *Policy Response: Buy to Let Tax Relief*

A combination of increasing interest rates and a capping of the tax relief on interest payments will significantly reduce the profitability of mortgaged buy to let investments. Over five years we expect the cash surplus on the average buy to let investment to fall from over £2,500 to under £950.

This will cause some highly geared buy-to-let investors to rationalise their portfolios and limit the ability of a larger number of others to expand, which is likely to maintain upward pressure on private sector rents.



www.savills.co.uk/InheritanceTaxThresholds

Inheritance Tax and Downsizing | *Policy Response: Inheritance Tax Thresholds*

Our analysis suggests that the over 65s hold roughly 44% (or £1.2tn) of the equity held in owner occupied housing.

Increasing the inheritance tax thresholds will allow homeowners to retain more of that housing wealth but is likely to discourage downsizing meaning younger generations have to wait longer to trade up the housing ladder.



www.savills.co.uk/AgeingPopulation

Housing an Ageing Population | *Spotlight: Housing an Ageing Population*

Increasing the provision of Retirement Housing from 4.8% of older people to 10% would require an additional 500,000 new homes, while a relatively unambitious target of increasing the provision of Extra Care Housing from 0.6% of older people to 2% would require an additional 130,000 homes.

Research publications

Our latest reports

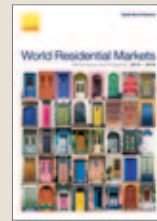
Residential Research

[savills.co.uk/research/uk/residential-research](https://www.savills.co.uk/research/uk/residential-research)

Spotlight | Prime London Residential Markets

Spotlight | World Residential Markets

Spotlight | Housing an Ageing Population



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Savills research team

Please contact us for further information



Lucian Cook
UK Residential
+44 (0) 20 7016 3837
lcook@savills.com
[@LucianCook](https://twitter.com/LucianCook)



Susan Emmett
UK Residential
+44 (0) 20 3107 5460
semmett@savills.com
[@saemmett](https://twitter.com/saemmett)



Yolande Barnes
World Residential
+44 (0) 20 7409 8899
ybarnes@savills.com
[@Yolande_Barnes](https://twitter.com/Yolande_Barnes)



Jim Ward
Development
+44 (0)20 7409 8841
jward@savills.com



Jacqui Daly
Investment
+44 (0) 20 7016 3779
jdaly@savills.com
[@jacquidaly](https://twitter.com/jacquidaly)



Sophie Chick
UK Residential
+44 (0) 20 7016 3786
schick@savills.com
[@SophieChick](https://twitter.com/SophieChick)



Neal Hudson
UK Residential
+44 (0) 20 7409 8865
nhudson@savills.com
[@resi_analyst](https://twitter.com/resi_analyst)



Chris Buckle
Development
+44 (0) 20 7016 3881
cbuckle@savills.com



Nick Gregori
Development
+44 (0) 20 7409 5907
ngregori@savills.com



Faisal Choudhry
Scotland Residential
+44 (0)141 222 5880
fchoudhry@savills.com
[@fesmanfaisal](https://twitter.com/fesmanfaisal)

33 Margaret Street
London W1G 0JD
020 7499 8644

savills.co.uk

