

PRIME REGIONAL HOUSE PRICES Q2 2022

Following two years of unprecedented growth in the UK's prime regional markets, the market has started to readjust and price growth is softening. However, the slowdown is driven by lower levels of price growth in markets which saw the highest level of buyer demand over the course of the pandemic, rather than price falls.

Frances McDonald

Regional markets begin to steady



16% house price growth since the start of the pandemic

However, in the prime regional markets growth is starting to slow as the market adjusts

House price growth in the UK's prime country and coastal markets is starting to steady after two years of strong growth. On average, values continued to rise by 1.2% during Q2 2022, slightly down from the 2.0% growth seen over the first quarter of the year.

This follows growth of 16% since the start of the pandemic. For a property worth £1,000,000 in March 2020 that equates to a value increase of £160,000 or £80,000 and

£319,000 for homes worth £500,000 and £2,000,000, respectively.

Following two years of unprecedented growth, the prime regional markets have started to readjust and price growth is slowing. However, this slowdown is driven by lower levels of price growth in markets which saw the greatest buyer demand over the course of the pandemic, as opposed to any significant price falls.

Indeed, activity at the top end of the market continues to be strong. Agreed sales in Q2 for property worth £1,000,000 or more across the UK were 86% higher than the average for Q2 2017-19, according to data provider TwentyCi. For all price bands, that figure was just 11% - highlighting that top end sales are continuing to hold up more strongly than the wider market.

Stock shortage overhang remains an issue



62% of agents say a lack of stock is the biggest issue

Though the cost of living squeeze is starting to make impact

Despite slowing price growth, a lack of stock remains an issue and is continuing to sustain prices in some locations. Three in five agents (62%) cited lack of stock as the biggest issue impacting their market, followed by increasing interest rates

(21%) and the rising cost of living (17%).

Growing concerns for the country's economic outlook has seen the gap between seller expectations and buyer budgets narrow and they are now more aligned on price point. Demand is still strong but buyers are acting with

more caution and are less willing to bid over the asking price to secure the right property. Sales continue to be strong where sellers are responding to the change in market conditions.



Urban markets outperform



4.2% price growth for Tunbridge Wells

As well-connected urban markets bounce back with the return to office working

The distribution of price growth is also beginning to change. After two years of the pandemic-fuelled race for space, price growth in urban markets is surpassing growth in surrounding areas, as the market rebalances in response to employees returning to offices.

For the first time since December 2020, annual growth in prime towns and cities has exceeded that for surrounding villages and rural areas. Well-connected urban markets such as Tunbridge Wells (4.2%), York (3.1%) and Loughton (3.1%) recorded some of the strongest levels of price growth this quarter.

The lure of urban living is also becoming more attractive with downsizers. Those who have recognised the opportunity to sell into a market where demand hugely exceeds supply, and are keen to trade in country property in exchange for smaller homes in cities such as Bristol, Winchester or York.

Price growth for flats and houses converges



6.9% annual growth for houses

A slow down from 2021, as the race for space tempers

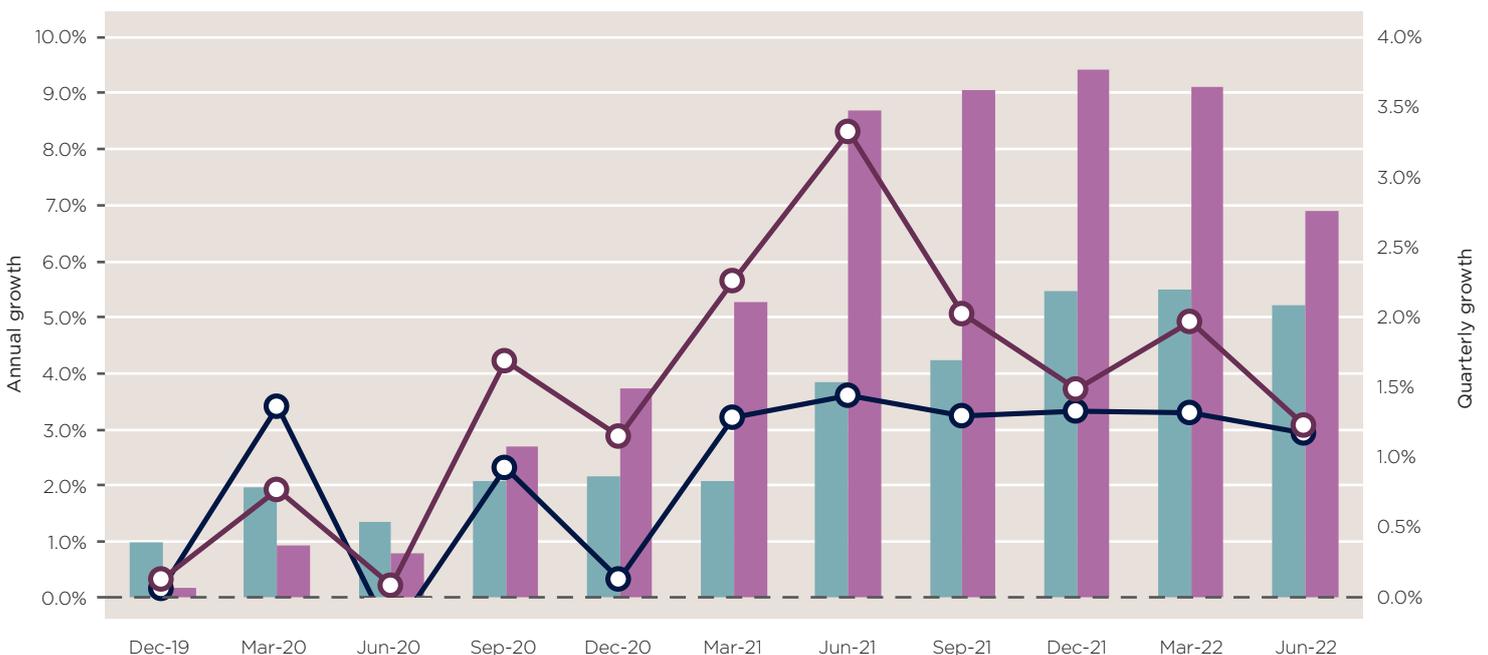
As a result, the rate of price growth for larger houses has also slowed. Average values increased by 1.2% during Q2, down from 2.0% in the first

quarter, while price rises for flats have held steady at 1.2% in response to a gradual return to towns and cities.

But on an annual basis, houses continue to outperform with growth of 6.9%, though this has slowed from a high of 9.4% at the end of 2021.

Houses continue to outperform but both are slowing

■ Flats annual ■ Houses annual ○ Flats quarterly ○ Houses quarterly



Source Savills prime regional index, Q2 2022



Savills team

Please contact us for further information

Residential

Frances McDonald

Associate Director
Residential Researcher
+44 (0)207 409 5905
frances.mcdonald@savills.com

Andrew Perratt

Head of Country
Residential
National Residential
Division Management
+44 (0) 20 7016 3823
aperratt@savills.com

Outlook for the UK's prime regional markets

There remains a supply and demand imbalance across much of the prime regional market and this will continue to support price growth. But increasing interest rates, the rising cost of living, and geopolitical uncertainty are beginning to impact buyers' confidence and spending power.

How much buyer budgets change

over the remainder of this year will largely depend on further interest rate rises. This will have a more significant impact on markets which typically take on more debt. While the prime markets are less reliant on mortgage finance, and higher levels of disposable income means buyers are more insulated against economic pressures, any change in

sentiment across the wider housing market does have capacity to feed up into higher price bands too.

As a result we are likely to see a continued slowdown in growth towards the back end of this year and realistic pricing will become key to securing a sale, once that price sensitivity creeps into the market.

Prime Price Forecasts

	2022	2023	2024	2025	2026	5-year
London suburbs*	3.5%	3.0%	2.0%	3.0%	3.0%	15.4%
London's inner commute**	3.5%	3.0%	2.5%	3.0%	3.0%	15.9%
London's outer commute†	3.5%	3.0%	2.5%	3.5%	3.5%	17.1%
Wider South	4.0%	4.0%	3.0%	3.5%	3.5%	19.3%
Midlands/North	4.0%	4.0%	3.5%	4.0%	5.0%	22.2%
Scotland	4.0%	4.0%	3.5%	4.5%	5.0%	22.8%
All prime regional	4.0%	3.5%	3.0%	3.5%	4.0%	19.3%

Note *Within the M25 **Within a 30-minute commute †Within a one-hour commute. These forecasts apply to average prices in the second-hand market. New build values may not move at the same rate.

Source Savills Research

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