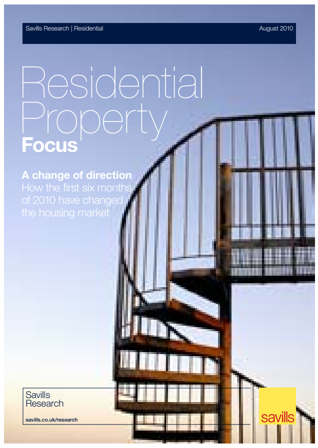
Residential Property Focus



Foreword

The dead cat stops bouncing this year

With the market reaching a tipping point short-term price falls are inevitable, however, as **Yolande Barnes** explains, the doom merchants are not having it all their own way

Sometimes, certain events in life look almost inevitable: a May 2010 election for example; England being knocked out of the World Cup; a second slip in the housing market. It's only the details that surprise us: a Lib-Con coalition result and some house prices continuing to rise this spring.

The robustness of some housing markets in the first part of 2010 may have caught us unawares but our expectation of future falls has not diminished. Our prognosis that average values would fall by -6.5% over 12 months looked rather bearish when we started to talk about it this time last year but the expectation is still that it will happen – it's just the details vary.

Short-term readjustment

We believe the mainstream housing market is at a tipping point and currently faces the prospect of short-term price falls followed by a period of low/zero growth; with some regions having already seen prices falls.

This 'second slip' will be relatively mild and short-lived if the economy continues to recover as consensus economics currently predicts – slowly but surely.

Our revised forecasts (see page 8), given in this publication, are that the falls we had pencilled in for 2010 will straddle the last six months of 2010 and the first half of 2011 instead. Small falls will then continue throughout 2011 to leave the UK housing market, by the end of that year, on average, where it was at the end of 2008.

There are, of course, the usual caveats regarding regional variations and differences between prime, secondary and tertiary property and between north and south.

The widening divide between different locations and different types of property and even between different generations is a theme in this publication and one on which our researchers' attention has been heavily focussed. It is also a theme on which we expect to say much more in coming months.

In the shorter term, our rationale for immediate price adjustments remains unchanged since this time last year. It is still evident that price rises to date have been the outcome of a supply/demand imbalance and a very thin market rather than any sustainable forces for growth at this stage. This has resulted in price rises that some in the stock market might call a 'sucker's rally' or 'dead cat bounce'.

We foresee that demand-side constraints will make most of these gains short-lived – even under moderately benign economic conditions.

Although we think then that we will be proved right on the second slip, it will not be a repeat of 2008 – as some doom merchants have suggested. We are not waiting for the other shoe to fall. Barring a second global financial crisis or other world disaster we believe the 'second slip' will prove relatively short lived too.

Our mid-year review anticipates average UK house prices returning to end of 2008 levels by the end of 2011 and returning back to peak of 2007 levels by the third quarter of 2014.

Our mantra remains…

Looking beyond the immediate issues, the trajectory of house prices when the adjustment is complete will, we think, be upward due to the underlying inflationary pressures created by an undersupply of the homes people want in the places people want them.

There may be significant changes in the way this demand is met and also between different locations and types of property but the overall effect has to be continuing upward price pressure for significant portions of privately owned housing stock.

These medium to long-term prospects for house prices are looking increasingly assured of late as the shortfall in housing output has accelerated through the recession. Our mantra remains that residential investment should be for the longer term and in quality property. ■

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Mainstream residential

A change of direction

After much upheaval in the first six months of this year, the long-term forecasts for the housing market have altered. **Lucian Cook** appraises the reasons for change

Last November we published our forecasts for the mainstream UK housing market with a clear message that a sustained recovery was unlikely in the short-term and further price falls were possible. It would, we forecast, be 2012 before the two fundamentals needed for sustained house price growth would be in place; namely economic recovery and a substantial freeing up of the mortgage markets in terms of accessibility to loans.

We gave three scenarios for how the interim period might behave, all of which pointed to further price falls until 2011, and highlighted the importance of sentiment in a low transaction market, in particular its influence on the dynamics of supply and demand in the short-term.

Six months on and there has been a change in government and an emergency Budget that has brought national debt firmly into focus. An agenda has also been set for public spending cuts and tax rises.

So where, then, does all of this leave us right now?

The year-to-date

The UK housing market during the first six months of this year has been dominated by a slowing in the rate of national house price growth, in the context of very low transaction levels. The Nationwide indices suggest that price growth in the first half of 2010 was between 3.0% and 4.9%, while the equivalent range for the Halifax index is -1.5% and 1.7% respectively. All indices have reported a north-south divide in terms of the strength of this recovery (see Graph 1.1).

The low transaction levels, which have been around 20% less than those of the second half of last year, are undoubtedly a reflection of the ability and, importantly, the desire of people to trade in the current economic environment.

Transaction levels have been lower despite a slight improvement in the availability of mortgage finance. This reflects a faltering consumer confidence seriously undermined by the coalition government's policy of austerity measures.

Yet, although enquiries from new applicants have failed to keep pace with the amount of new housing stock available, the gap between the two has not been wide enough to result in price falls across the market as a whole.

Year-on-year house price growth to the end of June remained relatively high, although this is attributable more toward the growth in values of the last six months of 2009, than the first six of 2010. Even so, one of the key measures of affordability, namely mortgage interest payments as a percentage of a borrower's income, has continued to fall, leaving affordability for home movers as high as it has been for the past 35 years.

This improvement in affordability is, in part, explained by the fact there is more competition in the mortgage markets. This is leading to a narrowing in the gap between base rates and mortgage rates. Also, many of today's buyers have, by necessity, a good proportion of equity to put into their purchase meaning their mortgage loan requirements are low.

The economy

The government's recent substantial downward revision of its forecasts for economic growth was of little surprise to observers. This revised outlook is more closely aligned with those already published by the private sector and independent think-tanks.

We therefore have a consensus that the UK's economic output will not return to pre-recession levels until 2012; and that, as a consequence, base rates are likely to increase gradually to about 4% by the end of 2014.

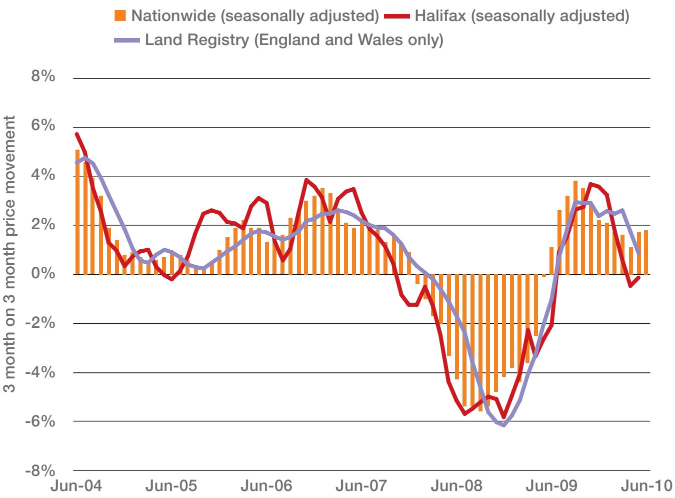
This should help mortgage affordability to remain relatively high over this period, even though increases in taxation will

Graph 1.1 House price indices to June 10

Index	Type	Basis	Price growth first 6 months
Nationwide	Monthly	Seasonally adjusted	+3.0%
		Non seasonally adjusted	+4.9%
	Quarterly	Seasonally adjusted	+3.7%
		Non seasonally adjusted	+4.1%
Halifax	Monthly	Seasonally adjusted	-1.5%
		Non seasonally adjusted	-0.5%
	Quarterly	Seasonally adjusted	+0.4%
		Non seasonally adjusted	+1.7%
Land Registry	Monthly	Not applicable	+2.8%

Source: Nationwide, Halifax, Land Registry

Graph 1.2 Recent house price trends



Source: Nationwide, Halifax, Land Registry

create dents in household finances.
The relationship between private and public sector employment and earnings could be of greater significance than mortgage affordability. Public spending cuts will have a disproportionate impact on the housing markets populated by high numbers of low-earning public sector employees.

The lending environment

Net mortgage lending over the last year has been just 11% of its level at the peak of the market, and 25% less than in 1993, when the average price of a UK house was less than a third of its current value. In June, the Council of Mortgage Lenders (CML) stated its forecast for £15 billion of net secured lending for this year was looking increasingly unrealistic (see Graph 1.3).

Any improvements to the availability of secured lending have been minimal and the Credit Conditions Survey published by the Bank of England suggests more lenders expect the availability of mortgage products to contract marginally over the third quarter of 2010. This sentiment reflects the nervousness in the industry over the scheduled closure of the two government-backed mortgage support schemes, which end next year.

In the longer term, lenders will have to hold higher levels of deposits. This, in turn, raises some questions in terms of where mortgage funding will come from and what form it will take as lending regulations become increasingly tighter for borrowers.

Our conclusions

Following the unexpected 4.1% average UK house price growth that was recorded during the first six months of this year (according to the Nationwide Quarterly Index against which we benchmark our mainstream forecasts), values would need to fall by more than 10% in the second half of the year, for our previous forecast of -6.6% for national house price growth in 2010 to stand firm.

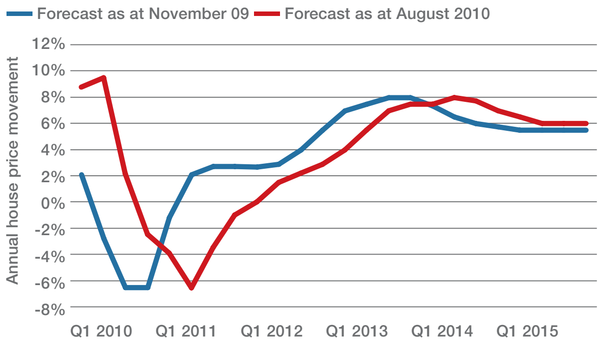
This is unlikely despite a deterioration in the sentiment of buyers and a depressed economic outlook. Nevertheless, we expect the current lower levels of transactions to remain with us (see Graph 1.4). These are equivalent to approximately half the turnover of a fully functioning market.

The prospect of lower than anticipated falls in mainstream UK house prices during 2010 will limit the extent of any price growth in 2011. However, the main risk is it will take longer for the two key triggers, economic recovery and a substantial improvement in mortgage lending, to improve before sustainable house price growth can occur.

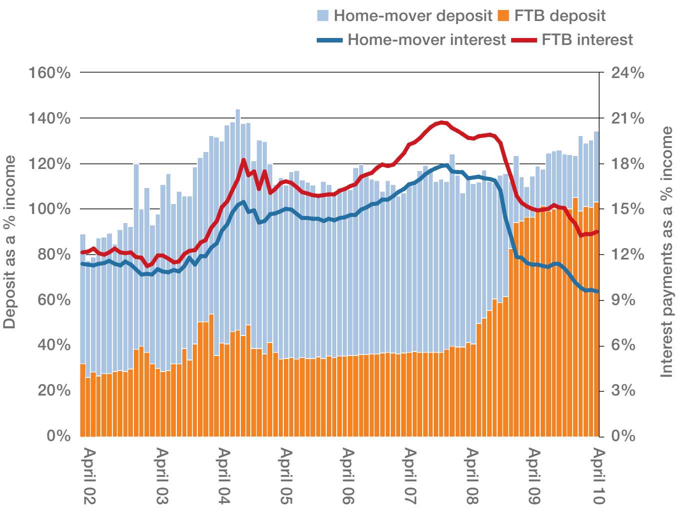
Of these, the most difficult to predict is the recovery of the lending markets, but with little sign of improvement to date; there is the real prospect that a sustained recovery in the mainstream market could be pushed back by 12 months. ■

Mainstream forecast revisions

	2010	2011	2012	2013	2014	2015
Previous (Nov 2009)	-6.6%	3.0%	5.5%	8.0%	5.5%	5.5%
Revised (Aug 2010)	-2.5%	-1.0%	3.0%	7.5%	7.0%	6.0%

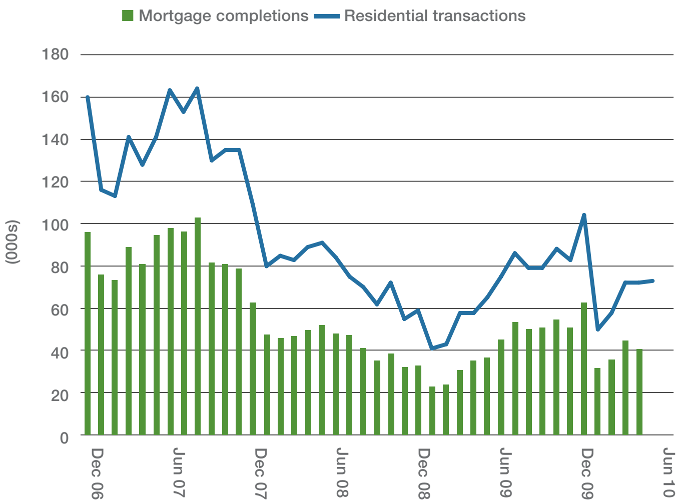


Graph 1.3 Deposits and interest affordability April 02-April 10



Source: CML

Graph 1.4 Housing transactions Dec 06-Jun 10



Source: HMRC, Nationwide

Prime markets

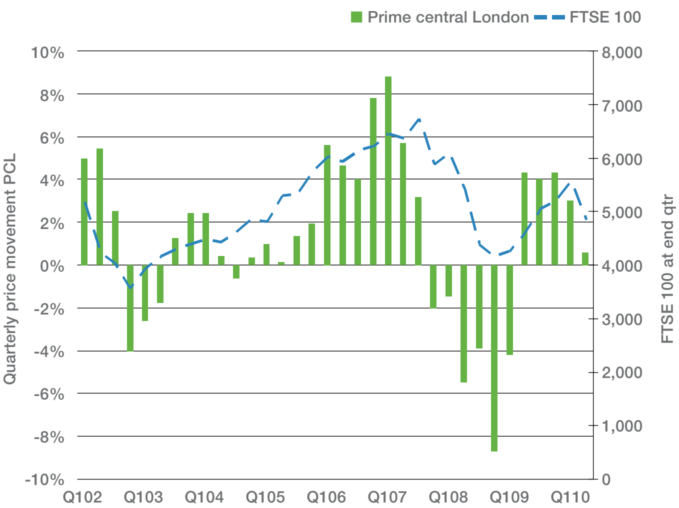
The impact of international wealth

The influence of Ultra High Net Worth Individuals on the prime central London markets is significant. **Yolande Barnes** assesses their impact on the first six months of 2010

The rebuilding of global wealth played a considerable part in the impressive rebound in transaction levels and prices paid for London's prime residential property in 2009. The Ultra High Net Worth Individual (UHNWI) population, whose wealth exceeds $30 million each, rose by 21.5% last year on the back of a positive comeback in the value of equities and commodities. This, combined with the increased volatility of the global stock markets, played neatly into the hands of the prime central London residential markets, which managed to maintain their reputation as a safe haven for wider international wealth.

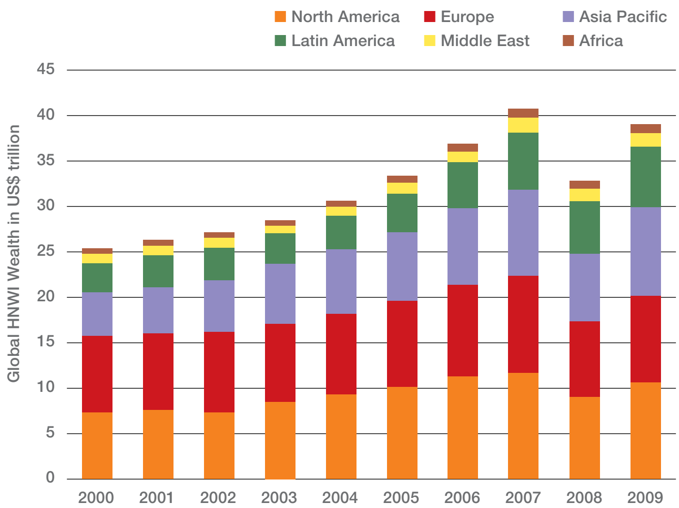
UHNWIs often own prime residential property in more than one country so their influence on the prime London market is dependent on it remaining a desirable destination to invest. The geographical origin and movement of UHNWIs across the globe will remain a critical factor in the value of London's ultra-prime stock.

Graph 2.1 Prime central London vs FTSE



Source: Savills

Graph 2.2 Wealth of High Net Worth Individuals



Source: Capgemini / Merrill Lynch

Prime regional

Could new car registrations really provide a key to UK residential house price growth? **Marcus Dixon** investigates

Over the course of 2009, low returns on savings made investment in prime housing an attractive proposition for those with cash and an attractive refuge for accumulated wealth. This was in stark contrast to the mainstream markets, where, for many, the prospect of upsizing and taking on more debt was seen as a long-term financial burden, taking into account potential future interest rates.

This has led to heavily suppressed mainstream market transaction levels, yet the low interest rates have allowed some households to enjoy a boost to their net household incomes. So while they have been reluctant to commit to long-term financial commitments, they have been happier to purchase a new car.

If we look at the relationship between the sales of prime property in south east England and luxury brands of cars such as Aston Martin, Bentley and Porsche, property has won hands down with transaction levels recovering at a much faster rate than new car registrations.

The fact that property does not depreciate in the same way as cars, has added to its attraction. This has even more resonance in an uncertain economic environment, where earning expectations in the financial and business services sector have been curtailed, meaning bonus buys of boys' toys are less frequent.

The ability of regional residential markets to recover in this way, depends heavily on the nature of demand, but is also reliant on a positive sentiment amongst buyers. Accordingly, in the prime residential markets of south east England values have risen by 11% since the bottom of the market, yet the smaller prime residential

While the 2009 market started slowly, it gathered momentum throughout the year leading to an 8.9% growth in values by the year's end. However, 2010 looks as if it will be a different story. In the first quarter of 2010, values across prime central London continued to improve at a pace; increasing by 3.0% in central London. During the second quarter, however, that price growth slowed significantly to just 0.6%.

A number of factors have played their part in the weakening of this market, including economic uncertainty across the Eurozone, and the accompanying depreciation of the euro that has eroded the exchange rate advantage for an important source of buyers.

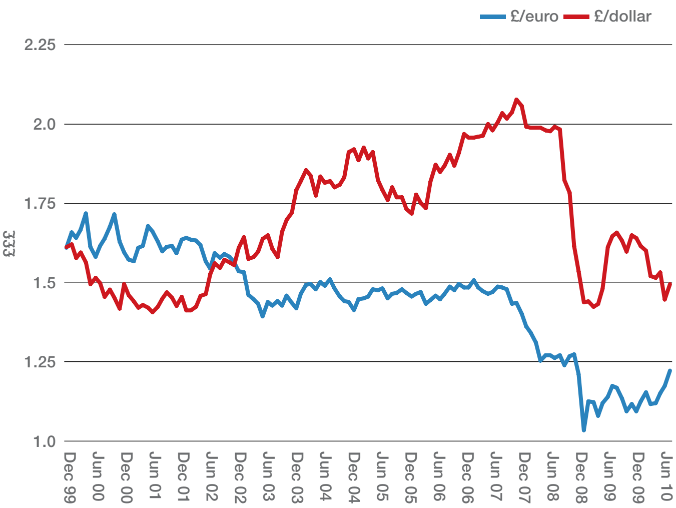
This economic uncertainty has also caused global stock markets to weaken over the first six months of 2010. This has depleted some of the wealth gains acquired in 2009. Correspondingly, transaction levels in the prime markets of central London have eased, eliminating the stock shortages that had underpinned the price growth since the end of the first quarter of 2009.

We expect this easing back in activity to lead to a softening in the prime second-hand markets during the second half of this year, although we do not expect it to be as deep or prolonged as was the case in 2008.

Importantly, for dollar-based currencies, including those of Asia, the exchange rate advantage remains. For many Asian investors it is the prime new development sector that is of particular interest and has therefore continued to prosper. Additionally, rental values in the prime markets have started to show signs of improvement once again and are now within 5% of their peak. Prospects for rental growth are an attractive investment story. ■

While the 2009 market started slowly, it gathered momentum leading to an 8.9% growth in values; 2010 looks like a different story.

Graph 2.3 Value of the euro and the dollar against the pound



Source: BoE

South west London

Demand indicators remain positive

Somewhere between the multinational markets of prime central London and the prime country markets outside of the capital, lay the prime markets of south west London. This is an affluent area where demand is dominated by domestic purchasers predominantly buying their main residences.

During 2009, these markets led the recovery as equity-rich buyers of family accommodation returned to the market much more quickly than the more discretionary buyers of central London. As the market enters its next phase, key demand indicators suggest that this market will remain more buoyant than its counterparts, but even here market activity and price growth has begun to soften. ■

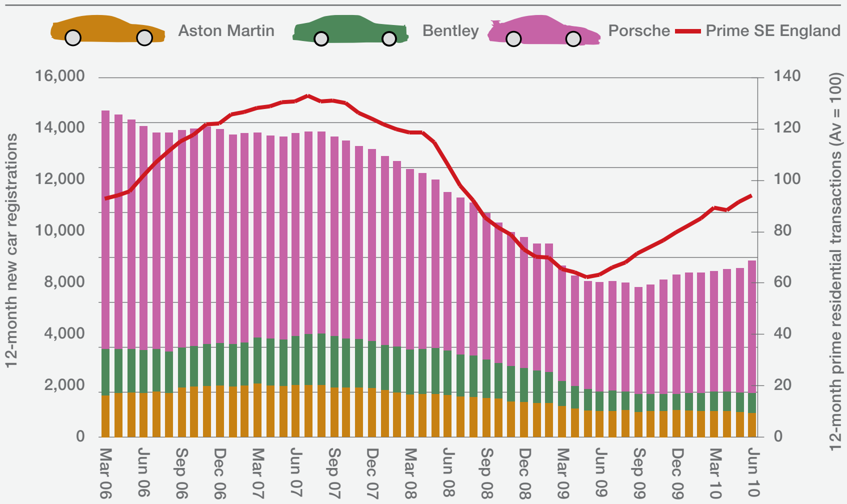
markets of the Midlands and the North of England, which along with Scotland were the last to see the ripple of positive sentiment from London, have seen growth of less than 3%.

Across these markets, exchange rates and the wealth of HNWIs are much less influential than the UK economic outlook. Equally, they are more heavily influenced by the domestic political uncertainty. Since the election was called, both played their part in tempering demand, although the reality of an emergency austerity budget has had the greater effect.

That suggests a slow summer market with a return of market conditions that favour 'best in class' property. With little prospect of positive economic news over the rest of the year, values will soften during the rest of the year.

Looking further ahead one thing is certain, by the time the luxury car market takes off, the prime property market will be well and truly firing on all cylinders. ■

Graph 2.4 Sales of prime property vs new car registrations



Source: Savills, SMMT

Forecasts

The market in minutes

Revised annual forecasts for house price growth for both the prime and mainstream markets together with comparative performance tables for the first six months of 2010

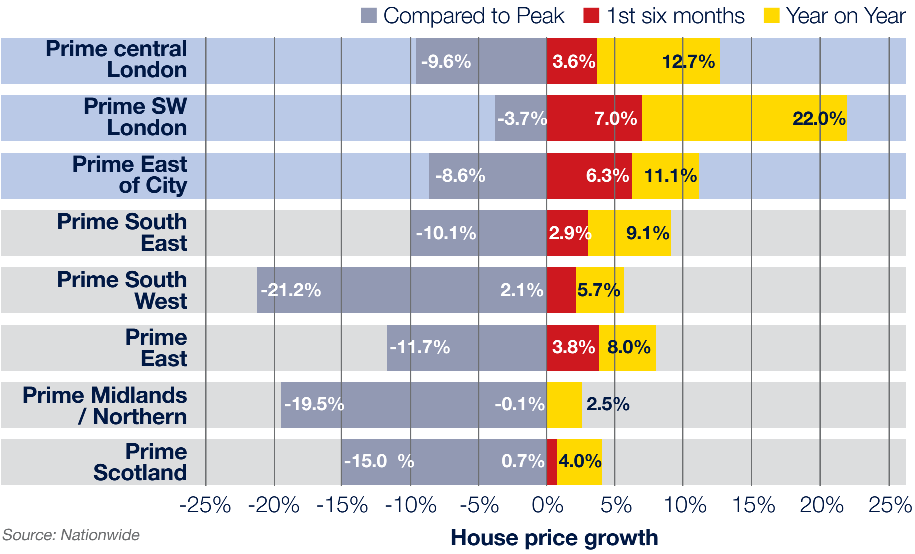
Key: Annual house price growth

-5% & below | -5 to 0% | 0 to 2% | 2 to 4% | 4 to 6% | 6% & over

Prime markets: Forecast values

Forecasts	2009 (Actual)	2010	2011	2012	2013	2014
Prime central London	8.75%	-1.00%	0.50%	7.50%	9.75%	4.75%
Prime Regional	1.50%	-1.75%	-0.25%	5.25%	8.75%	6.00%
Prime SE	5.00%	-1.50%	0.00%	6.25%	9.25%	5.50%
Prime SW	-2.25%	-1.50%	0.00%	5.75%	9.00%	5.75%
Prime East	0.75%	-1.50%	0.00%	6.25%	9.00%	5.50%
Prime Midlands/ North	-0.25%	-2.00%	-0.50%	4.25%	8.00%	6.50%
Prime Scotland	-1.25%	0.00%	0.00%	4.25%	6.50%	5.75%

Prime markets: 2010 six-month performance



Source: Nationwide

Analysis

■ To the end of June 2010 annual price growth for prime central London was 12.3% but for the March to June quarter growth was just 0.6%.

■ Similarly, prime country residential values rose by just 0.5% during the last quarter, as constrained stock levels eased across these prime residential markets.

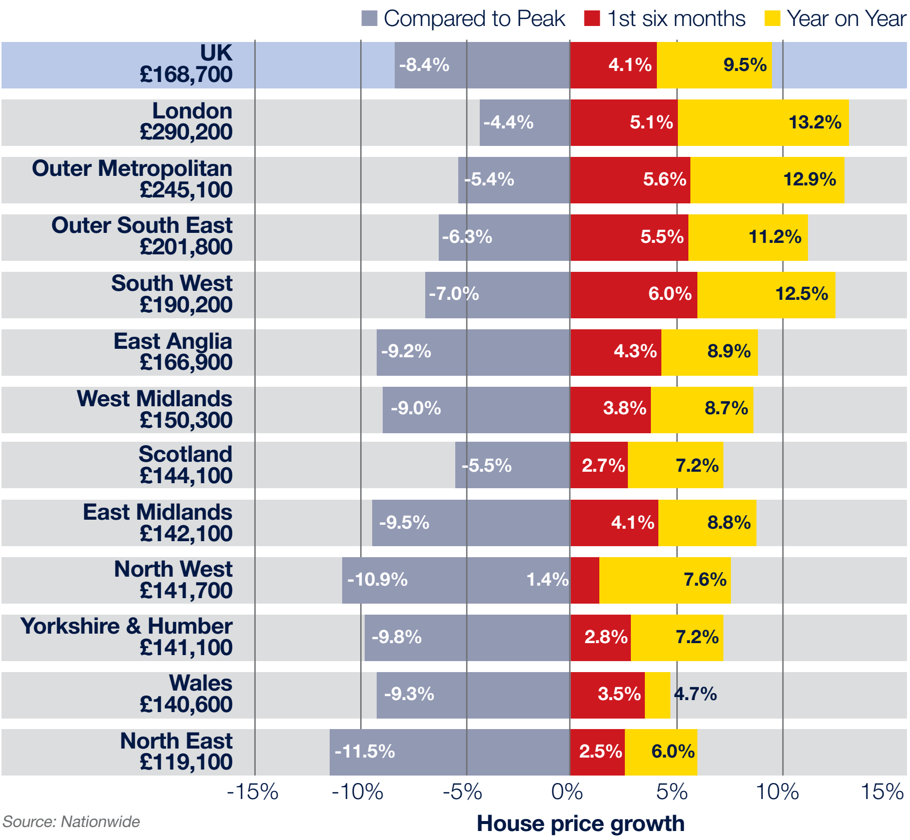
■ Rental values continued to improve during the last quarter rising by 2.4% in central London and 6.7% in the prime rental markets of south east England, where they have previously been slower to recover.

■ We continue to expect equity rich prime markets to lead the recovery as they have done in previous housing market cycles.

Mainstream markets: Regional property value forecasts

Forecasts	2009 (Actual)	2010	2011	2012	2013	2014
UK	3.25%	-2.50%	-1.00%	3.00%	7.50%	7.00%
North	-2.00%	-3.25%	-1.75%	0.50%	6.50%	8.00%
Yorks & HSide	2.75%	-3.25%	-1.75%	0.75%	6.50%	8.00%
North West	2.75%	-3.00%	-1.50%	1.25%	6.75%	7.75%
East Midlands	2.50%	-2.25%	-0.75%	3.50%	7.75%	6.75%
West Midlands	2.00%	-3.00%	-1.50%	1.50%	6.75%	7.75%
East	4.50%	-2.00%	-0.50%	4.75%	8.50%	6.00%
South East	5.50%	-1.75%	-0.25%	5.25%	8.50%	6.00%
Outer Met	6.50%	-1.75%	-0.25%	5.00%	8.50%	6.00%
London	7.00%	-1.50%	0.00%	6.00%	9.00%	5.50%
South West	3.75%	-2.00%	-0.75%	4.00%	8.00%	6.50%
Wales	-0.25%	-2.50%	-1.00%	2.50%	7.25%	7.25%
Scotland	1.00%	0.00%	-0.50%	0.75%	3.00%	6.50%

Mainstream markets: 2010 six-month performance



Source: Nationwide

Analysis

- Mainstream UK house prices showed no net growth in the three months to the end of July, according to the Nationwide monthly index.
- Mortgage approvals in the first six months of 2010 were 10.8% lower than those in the last six months of 2009, according to the Bank of England.
- Our forecasts for the mainstream markets have been pushed out by six months to reflect the price growth seen in the first half of 2010.
- A widening gap between new stock coming to the market and new buyer enquiries witnessed in June suggests that prices will soften in the latter part of 2010 and early 2011.
- Despite improved financial performance of the UK banking industry, the limited degree to which mortgage markets have improved and the prospect of greater lending regulation combined with a weak economic outlook suggests a sustained housing market recovery may take longer to materialise than previously forecast.

Home ownership

Bridging the generation gap

Distribution of equity is a major factor in shaping the housing markets of the future and, as **Yolande Barnes** explains, will polarise the haves and have nots in terms of ownership

The credit crunch has brought about a significant divide between the accumulated wealth of the baby boomer generation and the financial burden facing the GCSE generation sharply into focus. The housing market provides one of the clearest examples of this divide, where we estimate that only 5% of household equity is held by home owners aged under 35, while 40% is held by the over-65s (see Graph 4.1).

This distribution of equity is critical to the future profile of home ownership. At the bottom end of the housing ladder, it carries particular weight since the average deposit now expected of the average first-time buyer exceeds their annual income.

Therefore, whatever the intentions of the would-be first-time buyers to accumulate a deposit, their ability to find a willing mortgage provider is more than likely to hinge on whether their parents are able to dip into their own equity in order to provide that helping hand onto the housing ladder.

> First-time buyers' ability to find a mortgage provider is likely to hinge on whether their parents are able to provide help onto the ladder.

The hefty deposit requirements that currently prevail reflect, in part, the lack of credit availability in the immediate wake of the financial crisis, meaning the usual benchmark of the average age of the first-time buyer has been superseded by the number actually able to buy.

This is supported by evidence from the Department of Communities and Local Government (DCLG), which suggests the proportion of first-time buyers under the age of 25 has fallen from 30% in 1991 to less than 16% in 2009. Clearly there are implications further up the housing ladder.

Consequences of delay

The knock-on effect is that the number of rungs on the housing ladder has fallen and so, for example, the proportion of home movers making their second move on the housing ladder aged between 25 and 34 has fallen from 43% in 1991 to 24%. Equally, the average age of home movers (those making their first move on the ladder) has progressively increased over the past 35 years from 33 in 1974 to an average of 40 today. The consequence of this is that the proportion of under-30s in the private rented sector has risen from 30% in 1997 to just under 50% in 2009. This means home ownership is becoming an aspiration that is achieved in more mature stages of the property life cycle.

The fact that the profile of home ownership has been shifting for some time makes it difficult to pinpoint a typical home ownership timeline. Effectively, all we can do is take a snapshot at any single point in time, acknowledging that each rung is likely to be reached progressively later as time passes with perhaps a wider gap between each move.

We have drawn some conclusions by looking at the time between moves and the period of ownership for those with and without mortgages, and by making some assumptions on the average age of first-time buyers and cross-referencing the age profiles to transaction levels. We have constructed a typical housing ladder for the average UK household (see Table 4.1).

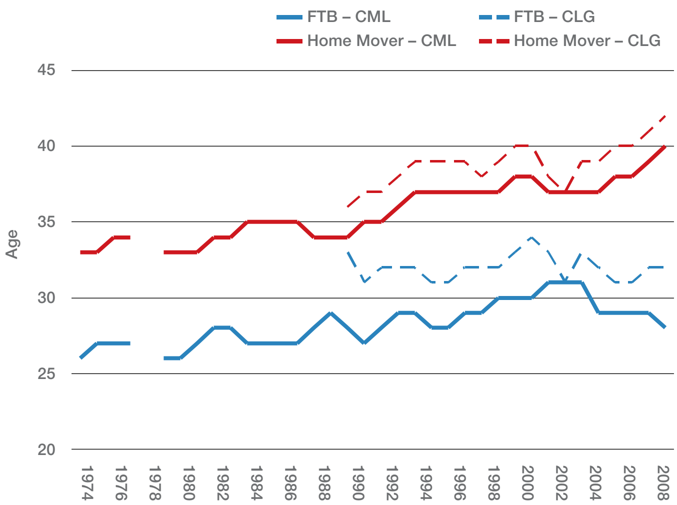
Changes to that profile reflect both the distribution of debt and equity but also take into account the fact that the trigger points for moving in terms of marriage, starting a family and divorce are shifting.

The number of first-time marriages between couples over the age of 35 has increased by more than 260% since 1981, though clearly this does not take account of people who live together before committing to marriage. It is perhaps more important

Graph 4.1 Value versus equity by age band

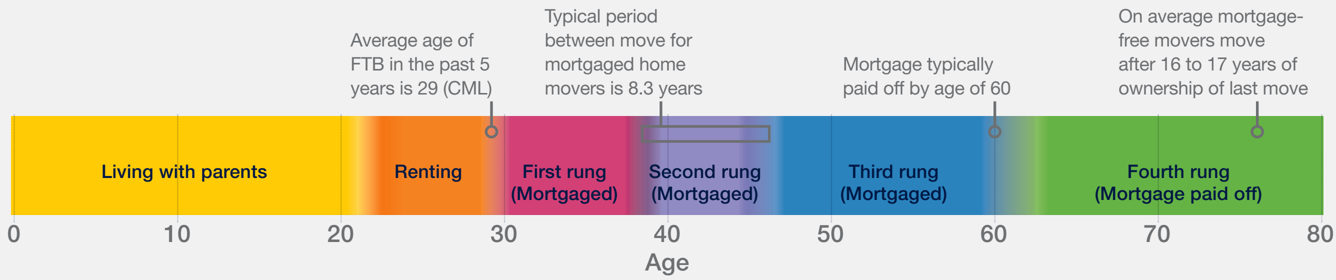
Source: Savills

Graph 4.2 Average age of house buyers



Source: CML, CLG

Table 4.1 Typical housing ladder for the average UK household



Source: Savills

that the number of mothers giving birth over the age of 35 has increased by 240%.

The now 'thirtysomething' couples, who were able to step onto the housing ladder as individuals, when deposit affordability was much less of a constraint, have the huge advantage of owning two properties and can therefore bring two chunks of equity to a future house move/purchase.

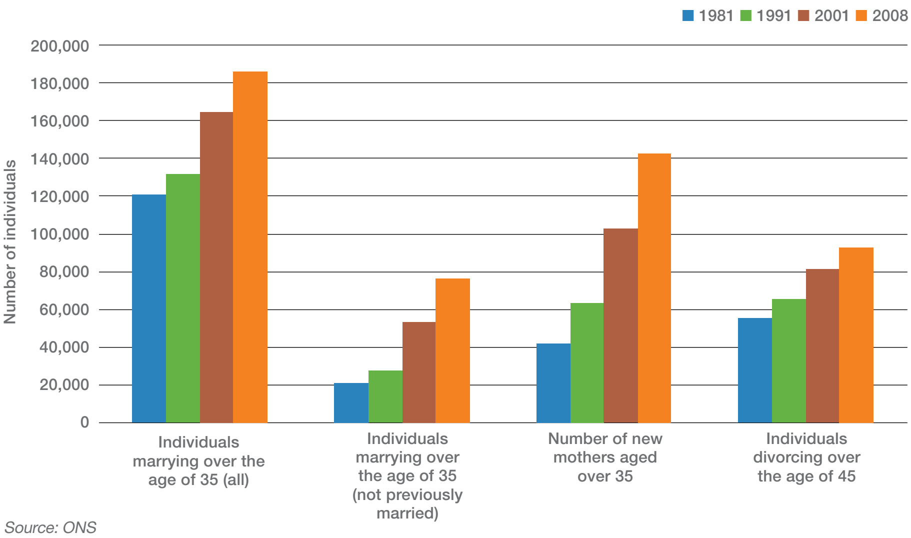
For this age group with a mortgage secured, the low interest rates have been a bonus, reducing mortgage interest payments, which has enabled them to start paying off larger chunks of their mortgage; turning equity withdrawal into equity replenishment since March 2008. Their next move up the housing ladder may have been delayed, but in the context of their total period of home ownership this is unlikely to be significant.

In contrast, for many in their late 20s, who have not yet made it onto the housing ladder, this delay will shorten their period of home ownership. Those whose parents are prepared to downsize and pass equity down a generation will be least affected, although the timing of their parent's decision to downsize will be critical in terms of how long their children have to repay their mortgage debt and how quickly they can progress up the housing ladder.

For some, shared equity holds the key, yet for others the aspiration of home ownership may remain unachievable These factors suggest our model of home ownership is likely to become more complicated and will include a revaluation of home ownership and for some a lifetime of renting. ■

For many in their late 20s who have not yet made it onto the housing ladder, the delay will shorten their period of home ownership.

Graph 4.3 Marriage demographics for the over-35s



Source: ONS

Commuter trends

Tightening the commuter belt

Cutting a commute by 60 seconds can add £1,300 to the average house price. But what does this mean in terms of house price performance? **Lucian Cook** explains

Commuting patterns play a very important role in how wealth generated in London is geographically distributed across the housing market. Therefore, an understanding of the strength of demand and purchasing power of commuters is critical to our understanding of the strength of local housing markets.

Our research into commuter trends has illustrated that there is, in essence, a three-way trade off to the commuter's decision-making, namely: quality of life; travel time; and house prices.

The analysis shows that shaving just one minute from a commuter journey to London by train adds £1,300 to the price of an average home, and as much as £2,250 for a detached property (see Graph 5.1).

The commuter zone expands

By looking at house prices in the vicinity of 174 stations on two mainline rail routes out of London, the relationship between travel time and commuter levels becomes clear.

Within an hour of London season tickets consistently account for around 40-45% of all rail journeys, a figure that reduces significantly to around 30-35% between an hour and an hour and 40 minutes, before falling away dramatically for much longer journeys.

Evidence suggests that the commuter boundary is gradually expanding, with the biggest increases in commuter numbers over the past three years occurring in the 80-100 minute travel time.

This is an increase of more than 35% according to figures from the Office of Rail Regulation. Accordingly, commuter numbers around stations including Diss and Stowmarket in Suffolk and Castle Cary in Somerset have increased significantly where a longer travel time has become the trade-off for an improved quality of life and less expensive housing. Broadband and the ability to work at home with a part-time commute have played a part too.

Family housing still strong

The amount by which house prices fall for every minute of extra travel has increased by £150 over the past three years.

However, because of today's low interest rate environment, the annual saving on mortgage interest for the average property is likely to be offset by the increased cost of a season ticket. Buyers, who have a high proportion of equity for a house purchase and are prepared to accept a longer commute are in a stronger position to make an annual saving.

In terms of house price performance during the next stage of the housing cycle we expect the prime commuter locations within an hour of the capital to perform best. These locations, which offer a high quality of housing stock, access to good schools and strong connectivity to the capital include Cambridge, Guildford, Sevenoaks and Winchester.

There are also some much smaller commuter villages in Kent, Essex, Surrey and East Sussex, such as Dunton Green, Newport, Worplesdon and Frant, where values are typically 24% higher than the county's average figure.

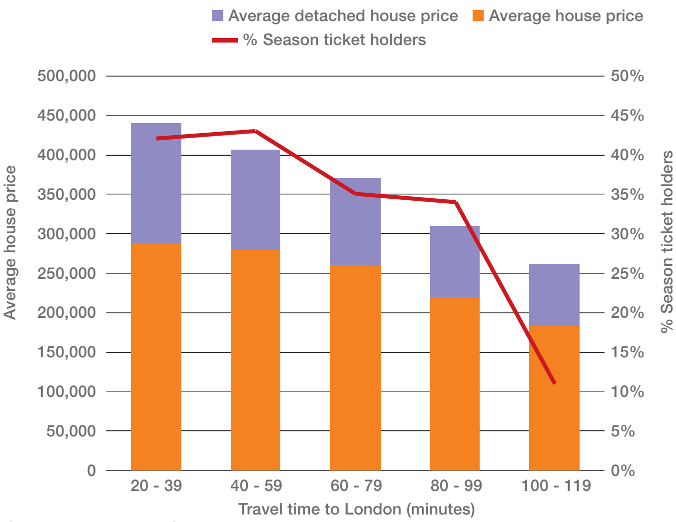
The low-cost commute

For the less equity-rich commuters, where the three-way trade-off is more heavily skewed towards house price savings, the opportunities are based predominantly in and around the towns of north Kent along the Thames Estuary.

There are also a number of opportunities to be found within the core commuter zone

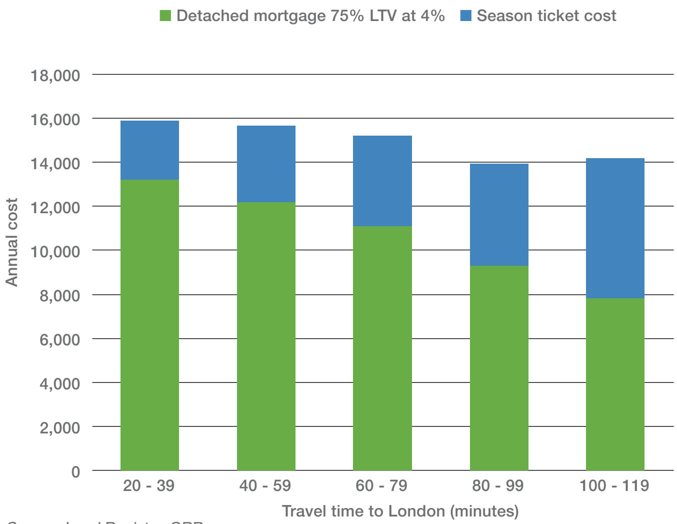
> Looking at prices in the vicinity of the stations on two mainline routes, the relationship between time and commuter levels is clear.

Graph 5.1 House price vs commuting time to London



Source: Land Registry, ORR

Graph 5.2 Mortgage interest and season ticket costs



Source: Land Registry, ORR

of Milton Keynes, Stevenage, Slough and Hemel Hempstead.

The commuting pioneers

The more adventurous will look towards areas where, through improvements to the rail infrastructure, travel times will shorten. This, in turn, will open up the surrounding housing markets to more buyers who need to commute. Ashford in Kent is a perfect example of where travel times to London have been reduced to 37 minutes since the opening of the High Speed Rail Network.

However, any increase in house prices because of improved commuter times is likely to be slow in current markets and dependent on the local infrastructure such as schools and amenities, in other words the improvements to the quality of life. ■

Ashford in Kent is a perfect example of where travel times to London have been reduced since the opening of the High Speed Rail Network.

THE COMMUTING LOWDOWN

30 mins to 60 mins

Most popular station

	Season ticket	Travel time	Av house price	% Season tickets
Kelvedon	£3,564	48	238,249	79%
Hatfield Peverel	£3,304	43	266,644	75%
Earlswood (Surrey)	£2,188	35	253,577	74%
Worplesdon	£2,528	31	373,378	74%
Wolverton	£3,832	44	163,439	71%
Frant	£3,352	51	483,192	71%
Hildenborough	£2,884	31	365,228	70%
Marks Tey	£3,644	54	268,666	67%

Most expensive station

Seer Green	£2,384	60	286,885	65%
Welham Green	£1,872	84	259,483	63%
Witley	£2,920	71	397,172	63%
Milford (Surrey)	£2,880	69	292,315	62%
Wadhurst	£3,556	68	314,077	61%
Frant	£3,352	72	389,253	59%

60 mins to 90 mins

Most popular station

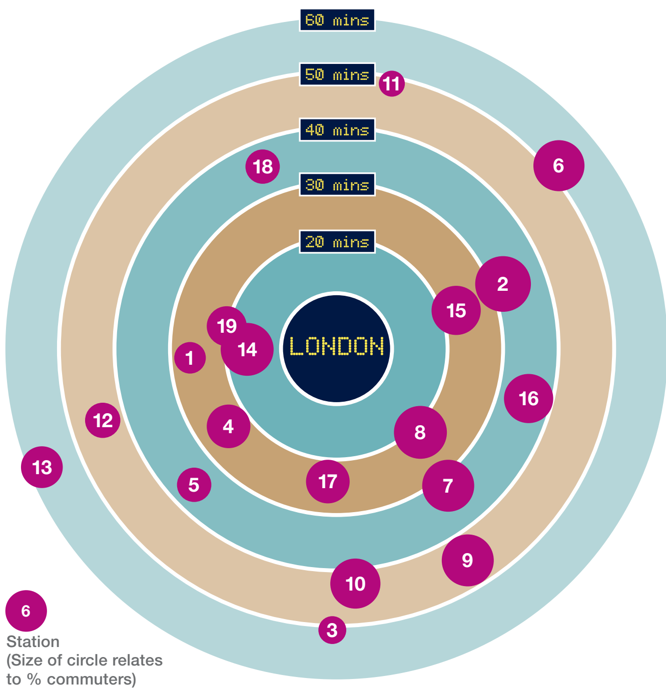
	Season ticket	Travel time	Av house price	% Season tickets
Newport (Essex)	£3,444	60	286,885	65%
Crowhurst	£3,716	84	259,483	63%
Shawford	£3,864	71	397,172	63%
Great Chesterford	£3,604	69	292,315	62%
Etchingham	£3,576	68	314,077	61%
Robertsbridge	£3,576	72	389,253	59%

Most expensive station

Stonegate	£3,576	62	510,488	57%
Shawford	£3,864	71	397,172	63%
Robertsbridge	£3,576	72	389,253	59%
Bedwyn	£3,880	72	360,458	26%
Liss	£3,236	70	356,646	35%

The top commuting stations

	Station	Travel time	Av house price	Season tickets 08/09	% of commuters
1	**Reading**	27	240,938	4,902,022	34%
2	**Chelmsford**	34	229,627	4,400,864	60%
3	**Brighton**	51	254,744	4,171,324	30%
4	**Woking**	24	307,173	3,502,678	47%
5	**Guildford**	37	301,710	2,983,944	37%
6	**Colchester**	51	182,908	2,494,632	55%
7	**Tonbridge**	33	252,215	2,364,082	56%
8	**Sevenoaks**	23	489,201	2,201,264	57%
9	**Tunbridge Wells**	45	292,446	2,110,904	56%
10	**Haywards Heath**	42	263,163	2,107,280	54%
11	**Cambridge**	48	286,300	2,106,53	28%
12	**Basingstoke**	44	202,438	1,822,004	38%
13	**Winchester**	58	336,518	1,795,964	45%
14	**Slough**	17	231,299	1,719,084	35%
15	**Shenfield**	23	330,307	1,706,832	57%
16	**Chatham**	36	151,414	1,688,334	53%
17	**Redhill**	25	253,577	1,676,716	47%
18	**Milton Keynes Central**	35	175,294	1,662,032	37%
19	**Maidenhead**	20	349,086	1,578,188	43%



Summary

Mainstream markets

Further to predictions published last November, Savills has revised its annual forecasts for the mainstream market.

Following the 4.1% average UK house price growth recorded in the first six months, values would need to fall by more than 10% in the second half of 2010 for the previous forecast of -6.6% to stand firm. However, the prospect of lower than anticipated falls during 2010 is likely to limit the extent of any price growth in 2011. The revised forecasts predict growth levels of -1.0% in 2011 from the 3.0% previously stated.

The main threat to the housing market is that it will take longer for the two key triggers, namely economic recovery, and a substantial improvement in mortgage lending, for sustainable house price growth to occur.

■ *See page 4*

Prime markets

The rebuilding of global wealth, and in particular the rise in the population of Ultra High Net Worth Individuals, played a vital part in the rebound in transaction levels, and prices paid for property in prime central London in 2009.

Global economic uncertainty over the first six months of 2010 has depleted some of the wealth previously acquired. As a consequence transactions in the prime markets of London have eased back. This will, in turn, lead to a softening in the prime second-hand markets during the second half of this year.

However, the exchange rate advantage remains for dollar-based currencies, and so for many Asian investors it is the prime new development sector that is of interest. Prospects for rental growth are also an attractive investment story.

■ *See page 6*

South west London

During 2009 the family-orientated prime markets of south west London led the house price recovery. As the market enters its next phase, key demand indicators suggest this market will remain more buoyant than its counterparts.

■ *See page 7*

Home ownership

The profile of home ownership has been shifting for a number of years, and has been exacerbated by the credit crunch. For instance, the proportion of house movers making their second move on the housing ladder aged between 25 and 34 has fallen from 43% in 1991 to 24%. More than ever the distribution of equity will prove critical to any future profile. Those whose parents are prepared to downsize and pass equity down a generation will be the least affected. Yet for others the aspiration of home ownership may remain unachievable.

■ *See page 10*

Commuter trends

Commuting patterns play an important role in how wealth generated in London is geographically distributed across the housing market.

Analysis shows that shaving just one minute from a commuter journey from London by train adds £1,300 to the price of an average home, and as much as £2,250 for a detached property.

In terms of house price performance during the next stage of the housing cycle, we expect the prime commuter locations within an hour of the capital to perform the best. These locations include Cambridge, Guildford, Sevenoaks and Winchester.

■ *See page 12*

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