

# MARKET OUTLOOK

Stock shortages, in both the prime and mainstream markets, look set to bolster house prices

**W**hile the mainstream mortgage market faces significant challenges, equity-rich markets look to be more insulated against a second leg of price falls, not least because of the stock shortages emerging in the markets of London and the South East.

Although we expect a marginal softening in prices, transaction volumes are expected to remain more buoyant than in the mainstream. The extent to which bonus money finds its way into the prime residential markets will be key to the depth of domestic demand during 2011.

Increasingly, the higher tiers of the prime markets of London need to be considered in an international context, with demand driven by global wealth generation and the state of the global financial markets.

## Mainstream matters

The strength of the economic recovery has been brought sharply into focus with the news that, after four quarters of quite strong economic growth, the UK economy contracted by 0.5% in Q410. At the same time, inflation rose to an eight month high of 3.7% in December, raising questions over how long interest rates will remain at their current level.

This continued economic uncertainty goes some way to explaining why the Bank of England credit conditions survey indicates a fairly sharp dip in the demand for secured credit in the last three months of 2010.

All of these factors point to continued price falls in the mainstream market. However, the RICS survey suggests that the reduction in buyer demand has been accompanied by a roughly equivalent fall in the amount of new stock coming to the market. Accordingly, while we expect prices to soften, a relative balance between supply and demand, coupled with the relative affordability of mortgage finance should put a floor under prices.

While a 25 basis point interest rate rise would add £2.3 billion to the UK's mortgage interest payments, this amount needs to be set against the context that total mortgage payments have fallen by an estimated £24 billion over the last two years. ■

*For commentary on the Spring market, our next Residential Property Focus is due for publication in May 2011. If you do not currently receive your own copy, please register your details at [savills.co.uk/research](http://savills.co.uk/research)*

## Savills Research Team

Please contact us for further information



**Yolande Barnes**  
Head of Research  
020 7409 8899  
[ybarnes@savills.com](mailto:ybarnes@savills.com)

“The coming decade could be seen as the beginning of a deep and permanent schism in housing between the equity haves and the equity have-nots. Right now, it is the availability of cash that drives the UK housing market.” Yolande Barnes



**Lucian Cook**  
Director  
020 7016 3837  
[lcook@savills.com](mailto:lcook@savills.com)

“The inequality of housing wealth distribution will shape the market going forward, affecting everything from price growth prospects for different tiers of the housing market to the way different properties are occupied.” Lucian Cook



**Jim Ward**  
Director  
020 7049 8841  
[jward@savills.com](mailto:jward@savills.com)

“In terms of price movements, the partial recovery of 2009 was much more pronounced in terms of price growth than in previous downturns, though much less strong in terms of transaction levels.” Jim Ward



**Jacqui Daly**  
Director  
020 7016 3779  
[jdaly@savills.com](mailto:jdaly@savills.com)



**Marcus Dixon**  
Associate Director  
020 7409 5930  
[mdixon@savills.com](mailto:mdixon@savills.com)



**Neal Hudson**  
Associate Director  
020 7409 8865  
[nhudson@savills.com](mailto:nhudson@savills.com)



**Faisal Choudhry**  
Associate  
0141 222 5880  
[fchoudhry@savills.com](mailto:fchoudhry@savills.com)