Good morning

Ladies & gentlemen, it’s been 10 years since the start of the global financial crisis and the housing market downturn.

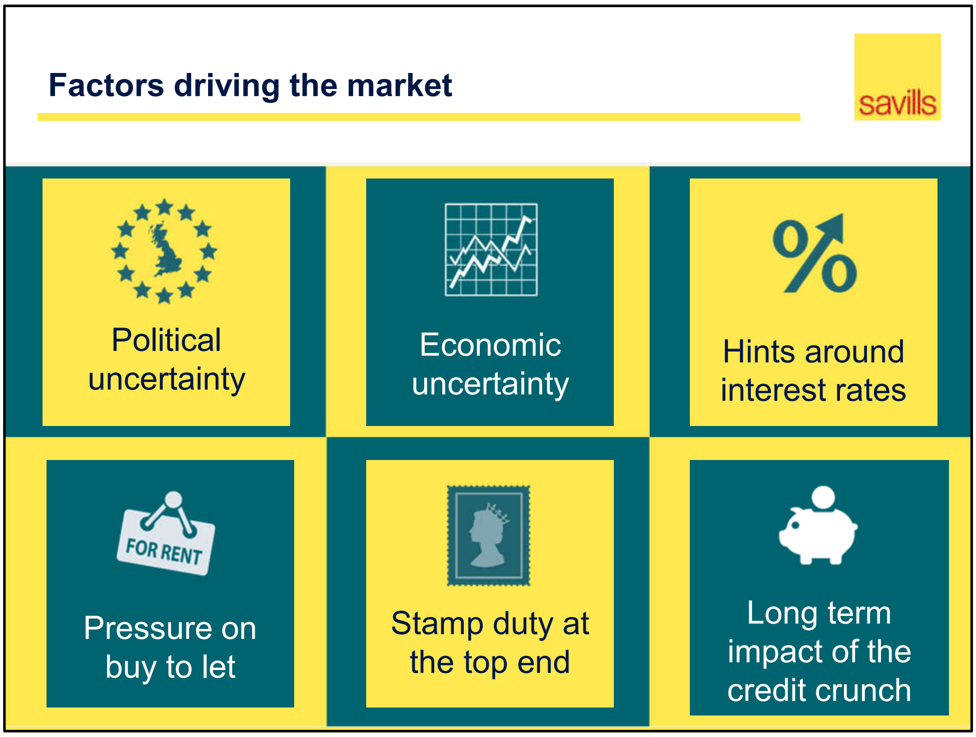
Some of the measures taken by the government to influence the market in the subsequent years are still having an impact.

Looking ahead, as market strength spreads from London to the regions, politics and taxation will continue to shape the future direction of the market.

Despite, these challenges, the market offers many opportunities for those willing to take a long term view.

Without doubt, the overall market will be tricky in the short to medium term as Britain negotiates to leave the EU. But there will continue to be a market due to the essential requirements to move house, together with the needs of upsizers and downsizers.

In my presentation I will examine the key features of today's market that have been shaped over the past decade. This will be followed by the current state of the market and new build activity. I will also briefly touch upon the state of the UK commercial market and future outlook.



Lets start off by looking at some of the factors currently driving the UK market.

The results of this year's GE continue to haunt the Government and the latest Brexit talks have made little headway.

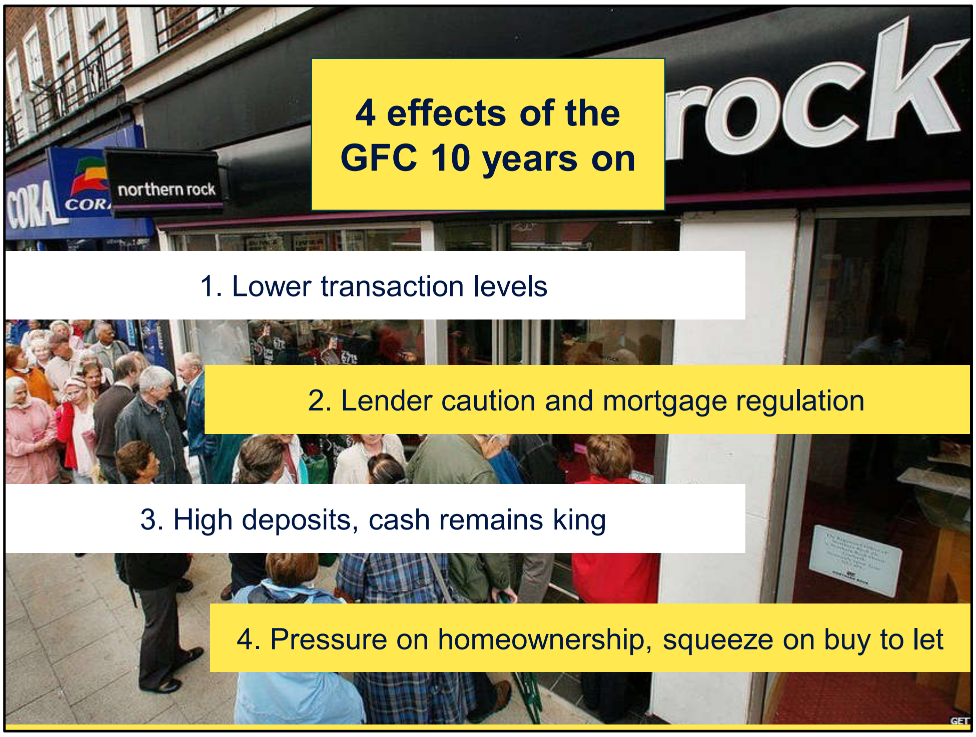
Economic growth in the first half of 2017 was the weakest in five years, and strong headwinds remain, as witnessed by Augusts' drop in the consumer confidence index to -10.

Whilst the BOE base rate is likely to remain unchanged in the medium term, hawkish members of the MPC will continue to push for a rate rise, impacting those on variable mortgage rates.

The BTL market is feeling the effects of increased regulation. There were 74,700 BTL loans UK-wide in the YT June 2017. This is 14% lower than 86,985 , which is the 10-year annual average.

Current SDLT rates are affecting the markets above a £1 million, especially in Central London.

10 years on from the GFC, the UK housing market is still feeling the effects of the credit crunch



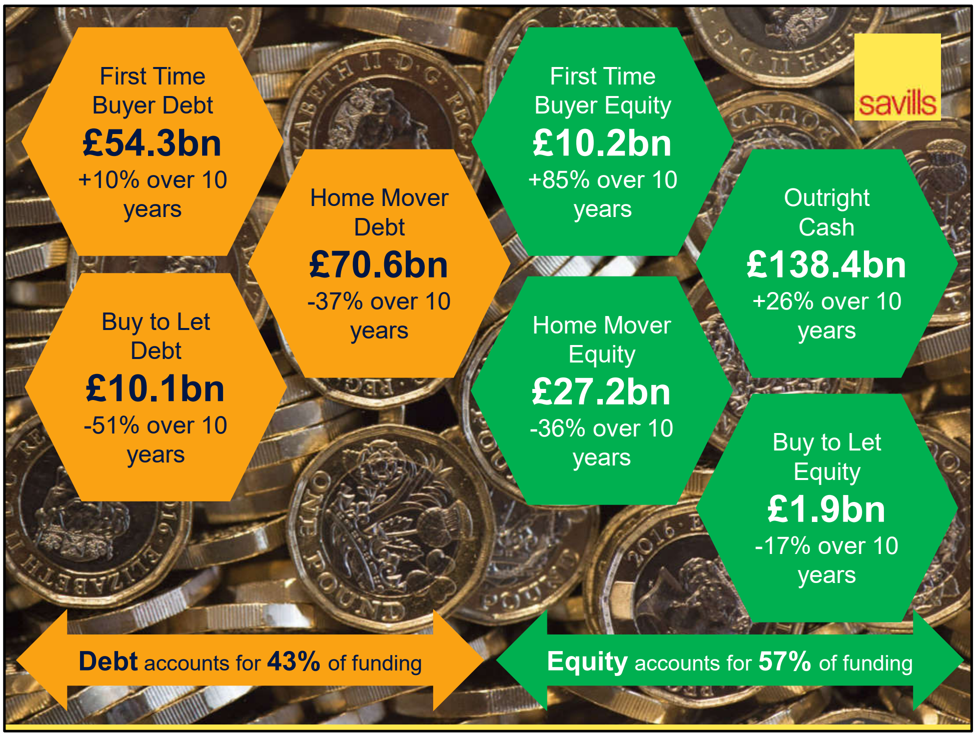
The events from 2007 continue to have four significant impacts on the market and will shape it for many years to come.

Transaction levels, which had averaged 1.6 million a year in the previous 10 years before the credit crunch, was only 1.1 million per year from 2007 to 2016.

Lending criteria remains tight and there is increased mortgage regulation, especially in the BTL market. As a result, the number of loans for house purchasing which averaged 1.2 million in the previous 10 years before the credit crunch was only 628k 2007 to 2016.

There is more pressure on those moving home to raise a big enough deposit. The median deposit requirement in 2007 was £50k in 2007 and is now £70k in 2017.

Whilst the BTL market is being hammed by increased taxation, the number of private renters aged 24-35 have increased by 808,000 in 10 years while those aged 35-44 have gone up by 505,000. We estimate the number of households in the private rental sector to grow by 1.1 million by 2021.



Lets take a closer look at the ways in which the mortgage market has changed over the last 10 years.

First time buyers
The high deposit required by first-time buyers has traditionally been a big barrier to younger households buying their first home. However, the level of debt taken on by FTB in the past year at just over £54 billion is 10% higher than the level 10 years ago and the amount of equity is now exceeding £10 billion, which is 85% more than the level 10 years ago.

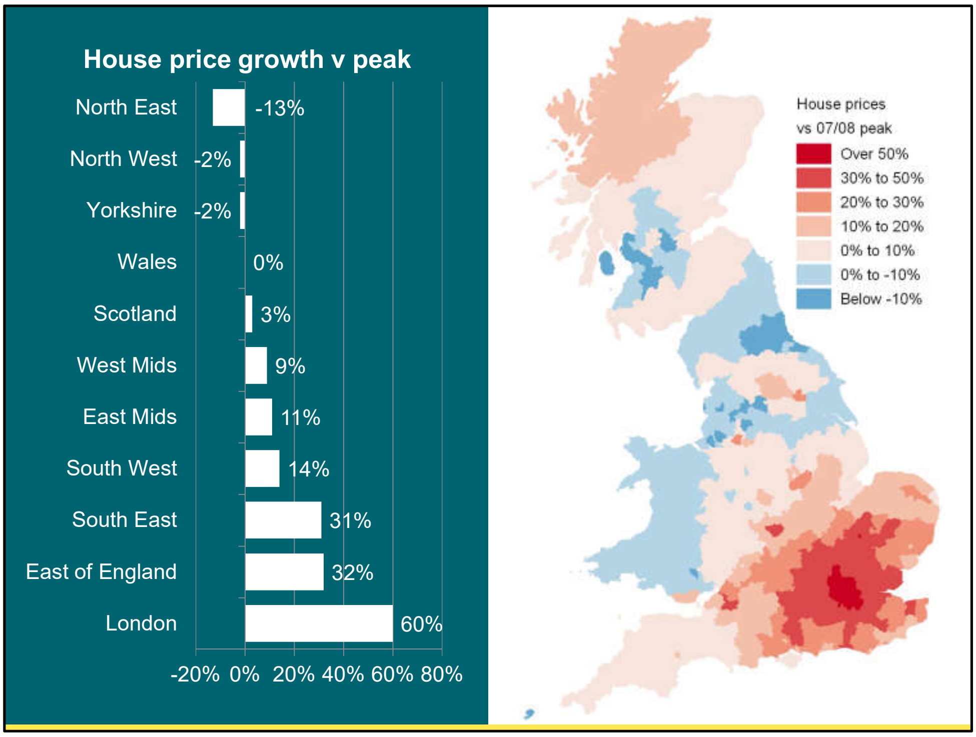
A lot of this equity is being provided by the Bank of Mum & Dad and Help to Buy. Parental funding and government support are now heavily relied upon to help younger generations to get on the housing ladder and this is unlikely to change.

Home movers
The debt taken on by home movers, which exceeded £112 billion 10 years ago, now stands at just £70 billion, which is a 37% decrease. This reflects a situation where people are trading up the housing ladder less frequently. Compared to the preceding decade, when households could aggressively trade up the housing ladder, there have been 3.8 million fewer such moves by those needing a mortgage in the past 10 years. The recovery in these numbers has been muted, suggesting this is likely to become a permanent feature of the market.

BTL
I've mentioned the difficulties being faced by buy-to-let investors due to increased mortgage regulation. This is also likely to impact portfolio landlords, due to politically motivated increases in stamp duty charges and restrictions of tax relief on interest payments. BTL activity has been curtailed and lending is at half the level of 2007. This effect is likely to become even more entrenched as the progressive reduction in tax relief will combine with rising interest rates to squeeze affordability.

Cash
As mortgage regulation is reaching all aspects of the market, cash has become king and this is likely to be the lasting legacy of the credit crunch.

Overall
Overall, the total spend on house purchases in the past year was £312 billion, which is £30 billion less than was seen 10 years due to the reduction in transactions. The amount funded by debt has fallen by £47 billion. At present, debt accounts for just 43% of house purchase funding, with cash and accumulated equity the dominant source of funding.



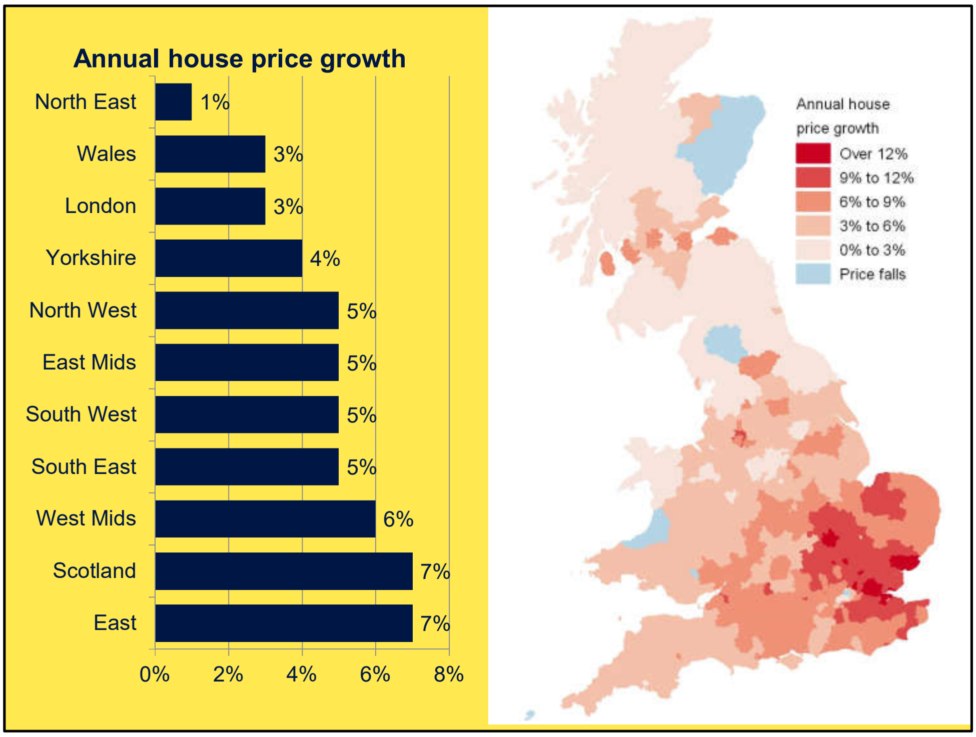
Lets look at market performance at a local level.

This hotspot map shows house price growth over a 10-year period. 2007 v 2017.

The darker red colours show where growth has been the strongest.

In the past 10 years, unsurprisingly, the highest growth areas have been London boosted by international buyers, and also the South East.

The north of England and Wales have witnessed relatively subdued markets, with the exception of hotspots in locations such as York, Wilmslow and Edinburgh.



How things have changed 10 years on.

This hotspot map shows house price growth in one year. 2016 v 2017.

Again, the darker red colours show where growth has been the strongest.

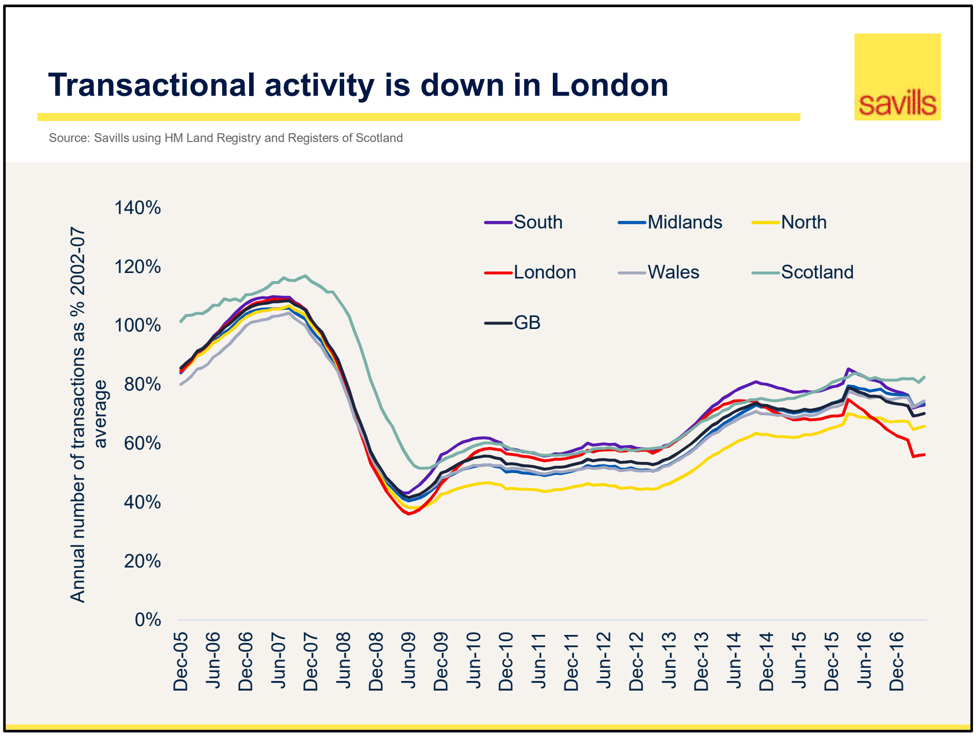
Whilst prices in Central London have, across England & Wales, house price growth has spread into commuter and suburban locations.

The strongest growth in the past year was witnessed in the

East of the county in locations such as Stevenage and Basildon.

East Midlands, in locations such as Northamptonshire and Corby

Scotland, mainly in Edinburgh and surrounding commuter locations.



Increased levels of SDLT taxation, mortgage regulation and the Brexit vote have left the London market more exposed to uncertainty.

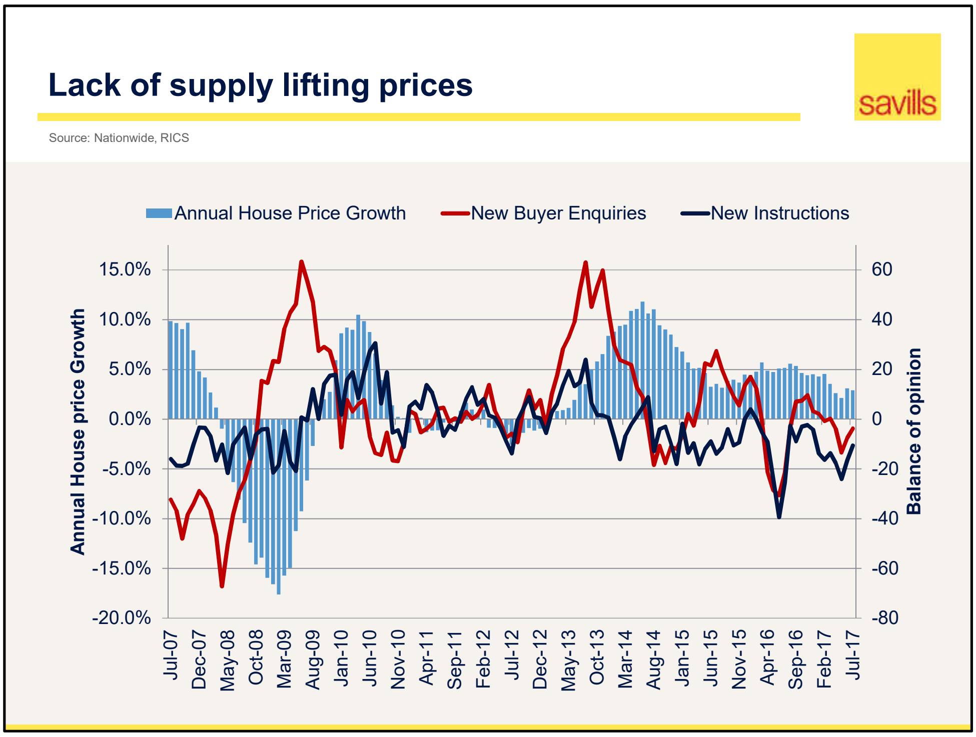
This chart shows that the number of transactions in London is currently 56% of the average before the credit crunch.

The Central London market, which had been boosted by international buyers, has been affected by increased exposure to capital gains tax and inheritance tax. Together, these tax changes have made international buyers more reluctant to exploit the weakness of sterling.

Furthermore, families looking for more space and more value for money will continue to make the move outwards from London. In 2011, 37% of buyers in the country had moved from London. In 2016, this had increased to 46%. The most popular locations have consistently been the Home Counties, Surrey, Berkshire and the South East.

As you can see in this chart, market strength continues to spread out to the regions, where transaction numbers are better compared to the average before the credit crunch.

South	Midlands	North	London	Wales	Scotland	GB
73%	74%	66%	56%	75%	83%	70%

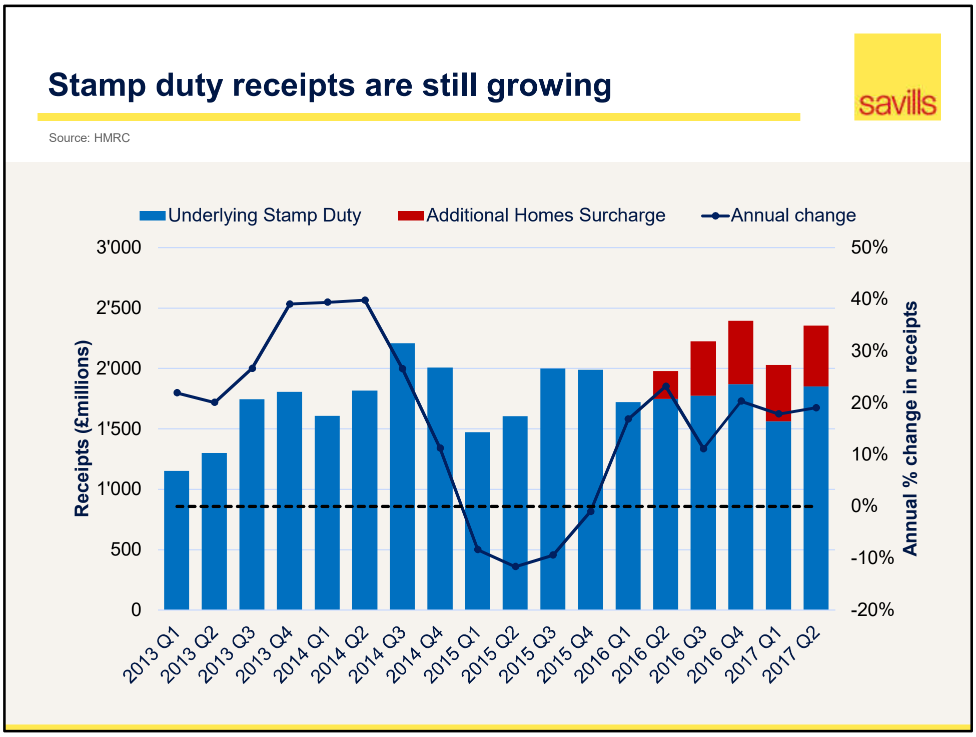


As the effects of the GFC evolve, political and economic uncertainty has created a greater sense of caution in the UK housing market

At Savills Research, we value the opinion of agents. This chart shows the monthly balance of opinion of residential surveyors and agents across the board in England & Wales, carried out by the RICS.

The RICS Survey suggests that numbers of both new buyer enquiries (red line) and properties being brought to the market (dark blue line) are contracting as buyers and sellers become more cautious. That feeling has been compounded by a slight squeeze on household finances, as inflation outstrips wage growth, and the increased tax burden faced by buy-to-let investors.

Indications of an interest rate rise in the next 6 to 12 months will only add to this caution. However, underlying affordability of existing mortgage debt is unlikely to become an issue, so we expect price growth (shown by the blue bars) to continue to slow rather than go into reverse. All of this suggests that we will return to more of a needs based market during the next two years.



SDLT has been blamed for a cooling in the prime housing market ever since the changes were announced in December 2014.

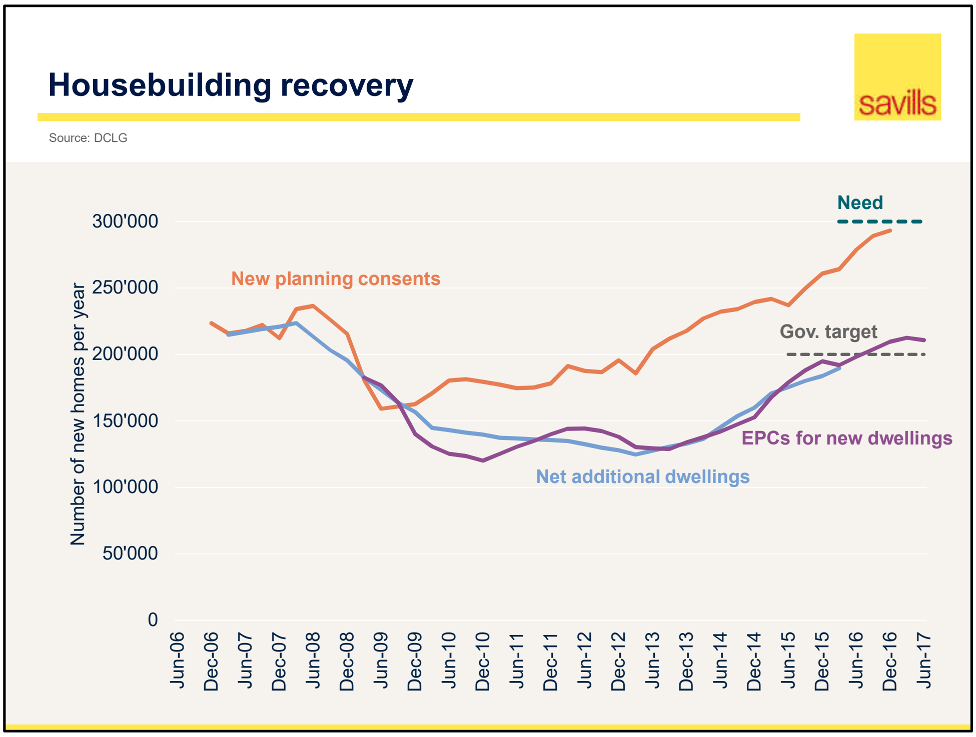
There have been reports suggesting that transactions from prime property have fallen as a result of the stamp duty tax rises. However, no one has been able to prove conclusively that the tax take is down.

The bars on this chart show the quarterly tax take since 2012 and the line shows the annual change.

Stamp duty receipts across the housing market as a whole (reported by HMRC) continue to rise, having been boosted by higher than expected revenues from the additional 3%.

Even when we strip out the Additional Surcharge, the basic level of SDLT is higher the level a year ago. The government intentions were to have a tax neutral structure and that what it seems is happening.

So, the verdict on SDLT so far is that however highly taxed the top end of the market is, and whatever the undoubted economic inefficiencies this creates, a rate cut in the short term remains only a possibility rather than a probability.

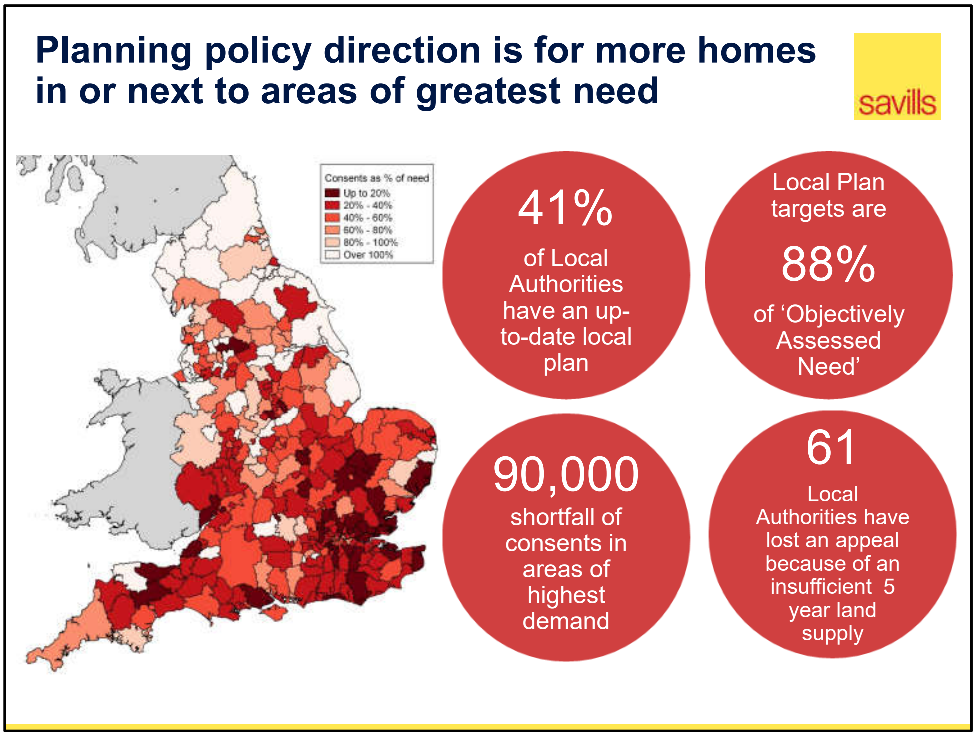


Let's take a brief look at the new build sector.

The annual number of additional dwellings across the UK (blue line) reached just under 190k which is the highest number since 2008.

Along with the number of EPCs (purple line), house building appears to be reaching the government target of 200,000.

Moreover, the number of planning consents (orange line) is reaching the target that most housing experts estimate the UK needs every year, which is around 300,000.



But whilst there's been an overall recovery in house building, there continues to be a significant mismatch between the number of homes local authorities actually need and the number their planners think they need.

Only 41% of English local authorities outside London have a 5-year local plan. Across those that do have a 5-year plan, housing targets are 12% below objectively assessed need. Some of the biggest gaps are in the Nottingham, Portsmouth and Watford areas. The combined effect of an underestimate of need and target set, means that we are planning for 37% fewer homes than needed.

As mentioned in the previous slide, the total number of consents has increased. But there has not been any greater increase in the areas where affordability is most stretched. This means we are not building enough homes in areas where they are most needed to improve affordability and economic productivity. The shortfall in consents is more than 90,000 units per year in places where affordability is worse than the national average, as shown in this map. The darker colours represent areas where the gap is widest between consents for housing and need.

61 local authorities have lost at appeal due to not having a five year land supply and a further 61 authorities have a published housing land supply of less than five years. This presents an opportunity for developers because the lack of five-year land supply triggers the "presumption in favour of sustainable development", which effectively diminishes authorities control over where new housing is built.

So what's the outlook for the residential market.

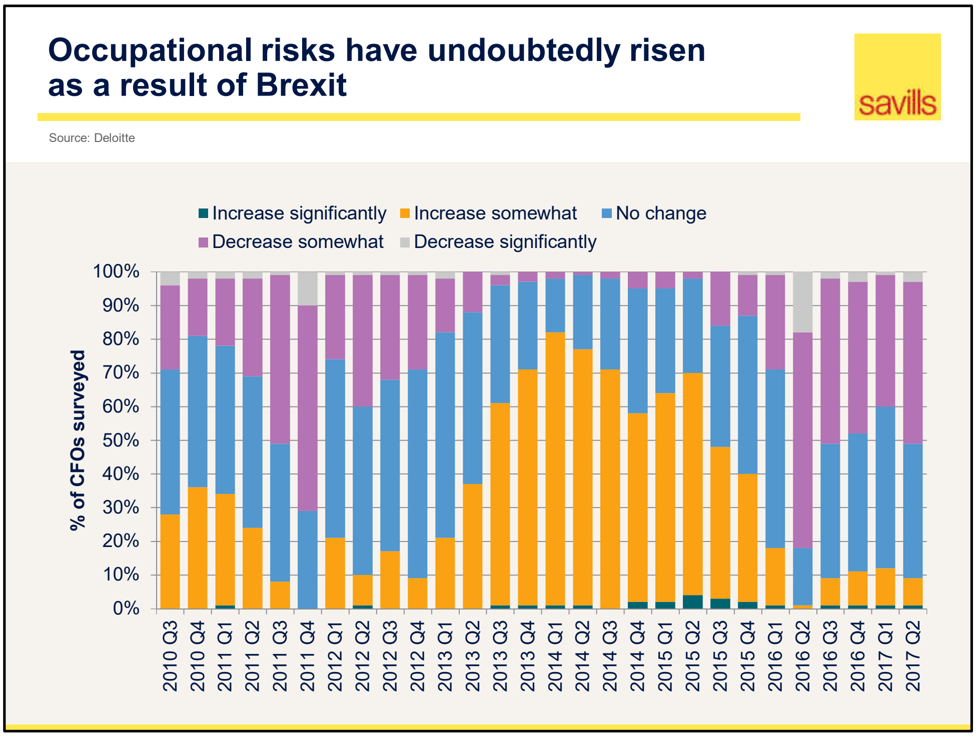
Well in the short-term, political and economic uncertainty will result in low levels of confidence.

We expect reduced levels of growth in values and transactions during the Brexit negation period.

London is expected to be most exposed, given the scale of the financial commitment which a mortgaged house purchase now represents in the capital.

More and more families will make the move outwards to the regions. Value for money and quality of life are key drivers for such buyers, including super-commuters, who benefit from combining London salaries with lower values outside the capital.

Following Brexit in, as buyer confidence returns, low mortgage rates should mean there is capacity for a small bounce-back in house prices. However, possible rises in rates towards the end of this decade and beginning of the next decade will put a squeeze on affordability and restrict further house price growth.

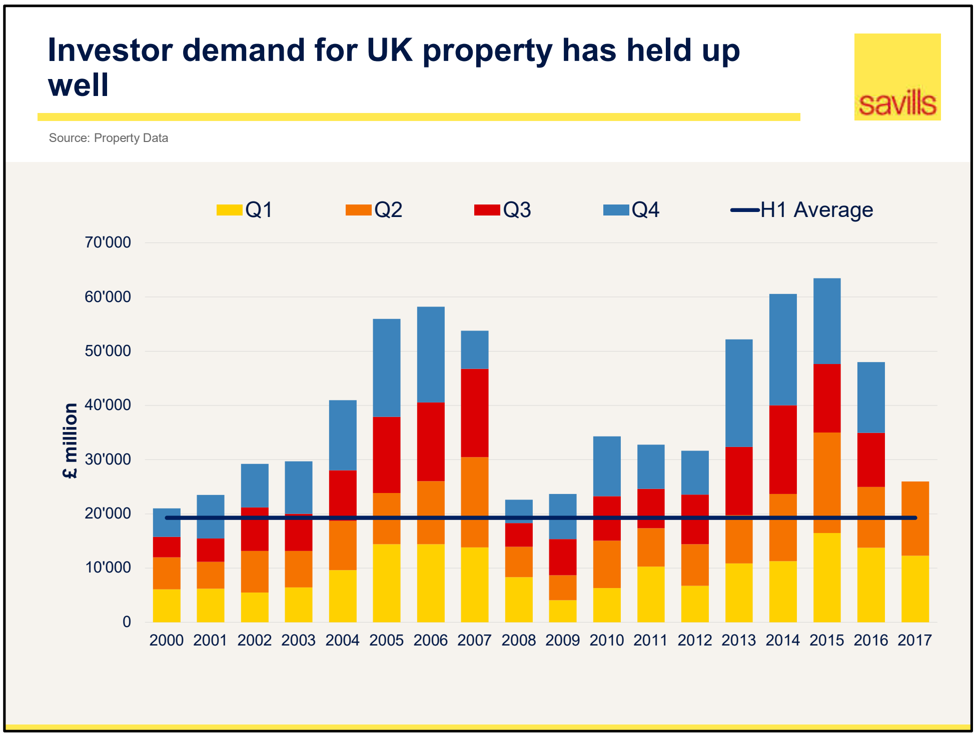


This chart shows the demand for business space, as measured by a survey of CFOs by Deloitte.

During 2016Q2, CFOs wanted to reduce staff due to Brexit and economic fears.

Situation has improved. There is now a balance between increase and decrease.

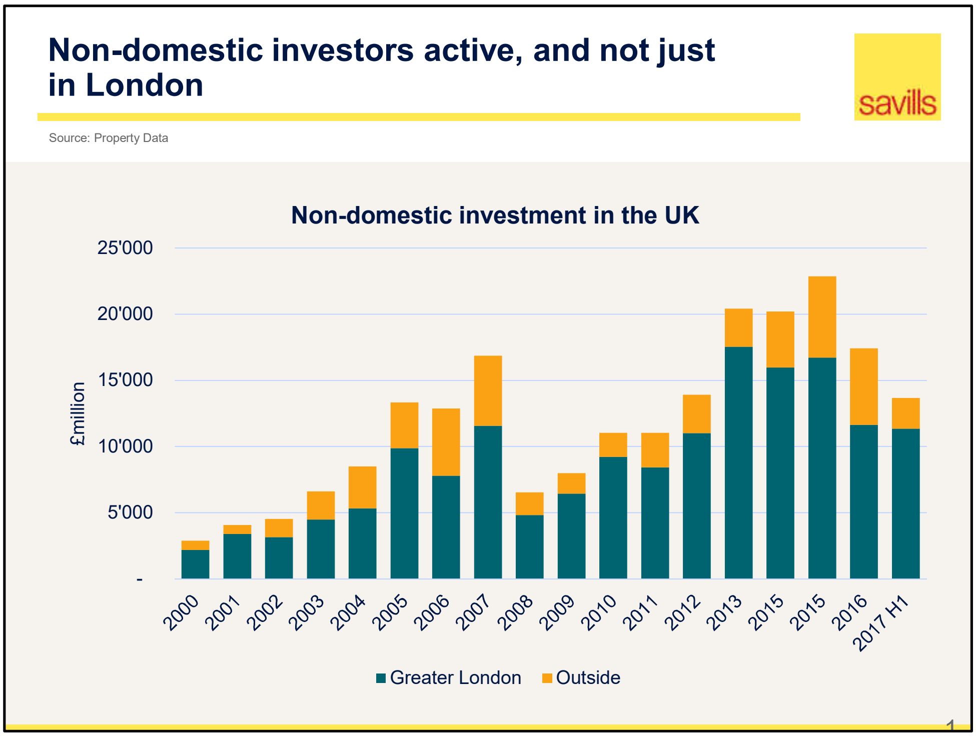
But no where near 2013-2015 levels.



In terms of demand for UK commercial property, 2017 is on par with 2016.

However, individual investment numbers are down 6%.

Larger value transactions are sustaining investment volumes.



International investors have not been put off by political uncertainty.

They are looking to the regions due to value gap.

Retail looks challenging against rising consumer and retailer caution

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- Consumer is saving less, borrowing more
- Real earnings growth has gone negative (briefly)
- Retailer's margins being affected by import costs, minimum wage, and in some areas business rates

But:

- Tourist focused markets doing well
- Retail warehousing more defensive against structural change
- Value/convenience offers and locations defensive against cyclical change

Credit card debt fears, increased inflation and lack of wage growth impacting retail sector.

Tourist focussed areas such as London and Edinburgh are doing well.

Low value/convenience stores, such as such as Aldi, Lidl, Home Bargains, B&M Stores will ride the storm.

Commercial market conclusions

savills

- Uncertainty has risen as a result of Brexit, but it isn't significantly impacting leasing, development or investment deal volumes (yet)
- Distress will remain limited, but discounts have emerged and are likely to continue on some secondary stock.
- Occupational risk lies most heavily in the London office market & national retail
- But the moment of peak uncertainty will vary, and there is little sign of it affecting the London office market at present
- Investor demand will remain heavily skewed to income and risk-aversion

Incentives are being offered to tenants in London's West End.

Brexit and Inflation remain the biggest fears.

Long income and lower risk assets favoured by investors.