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A NEW GENERATION

A 30-year outlook for prime residential property in the UK

Market Insights
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WELCOME

Our Market Insights reports investigate key trends and structural changes in the UK's prime housing markets.

Long-term performance matters to homeowners. This report – part of our ongoing collaboration with real estate researcher Yolande Barnes – considers relevant factors for the next 30 years and what the future might hold for prime property.

There are three key conclusions: prime markets will continue to be driven by equity-rich cohorts, they may become better supplied through probate sales and they will shift in terms of the locations and property types favoured by younger generations.

I hope you find it an interesting read.

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EXECUTIVE SUMMARY

- A fundamental force in demand for housing, often overlooked, is changing demographics. This is not only about population growth but also aging cohorts, generational shifts in demand patterns and different housing fashions between age cohorts.
- Localised population decline is already adversely impacting house prices in some overseas locations. This is not an issue in the UK because migration is predicted to counteract falling fertility rates. Current population projections equate to new housing demand of around 220,000 homes a year in this decade, falling to 126,000 a year in the 2040s. The new government's target of 350,000 new homes each year looks like over-supply.
- The key emerging trend is that the UK population is not just aging but becoming elderly. In the years to 2040 there will be a significant increase in the number of elderly households – and the number of homes coming to the market from the estates of the deceased.
- Demand from the elderly is likely to include new types of housing suitable for older residents with substantial purchasing power – but not just care homes or retirement communities. This is a prime market in the making: large lateral conversions in accessible and attractive towns and cities, single level eco-retreats and barn conversions in beautiful places with good amenities.
- The deceased will leave not just property but also freed-up capital. Whether passed directly to grandchildren or via their parents, a lot of this capital will by-pass the fully-housed and enable market participation in younger generations. For some, this will boost their purchasing power sufficiently for them to compete for the most desirable properties in the prime markets.
- Upcoming Gen Z and Alpha households will also carve a new niche in prime markets. High levels of environmental consciousness will likely mean a continued lease of life for country properties. AI will mean continued freedom with conventional workplaces and urban living becoming a choice rather than a necessity. Multi-generational households requiring large, adaptable properties could also become a major feature of these markets.
- Gen Z will probably continue to occupy eastern parts of London, although also tempted by many other global cities. We may well also see them pursuing experiences and environmentally conscious country lifestyles in some of the hitherto less fashionable counties like Kent, Somerset or West Yorkshire.
- The machine-learning, AI enabled, Gen Alpha will be supporting an unprecedented large number of aging elders who probably won't want to age in gated communities like their forebears. Gen Alpha may well be providing the care robots needed to enable aging in place and the slower recycling of homes. As pressures grow on the largest, rarest and most beautiful of prime stock, we may see a return to multi-generational and even communal living.

A NEW GENERATION

INTRODUCTION AND RATIONALE

Most homeowners, particularly in the prime sector, will stay in their home for at least 10 years. For homeowners with no borrowing, the UK average rises to 24 years. While value appreciation is of interest to many of these owners, it is a mystery why most reports of house price changes fixate on the last year, the last quarter or even the last month of price movements.

For most homeowners, these price changes are notional 'on paper only' concepts which won't be realised until a rare point of sale. It is often much longer periods of growth which are of relevance to their landholding. Informed decision-making requires up to date and relevant market information, so long-term performance statistics are of real relevance here.

Not only that, but, given the generational timescale of holding periods, most prospective prime home buyers and traders looking for long-term family homes need an outlook that covers prospects for far longer than next year.

So, what are the trends that are going to affect your prime landholding?

FACTORS AFFECTING PROPERTY MARKETS

The answer is complex and affected by many unknown factors including long-term policy and legislative initiatives, long-term economic trends and cycles – and even changing fashions in housing. Some of these factors are easier to predict than others but a fundamental element which affects both housing demand and supply is often overlooked – demographic trends.

A close analysis of these trends is a good starting point when examining the long-term fundamentals of residential property as they can predict changing levels of demand for homes as household numbers increase – and the likely amount of supply falling vacant when occupiers die.

Much has been made in some quarters of the fact that, at a global as well as national level, women are having fewer babies per lifetime than they were before. In the UK, fertility rates are 1.8, which is below the 2.1 rate needed to replace the population. Should falling fertility rates and the potential for population decline be cause for concern, affecting demand for housing?

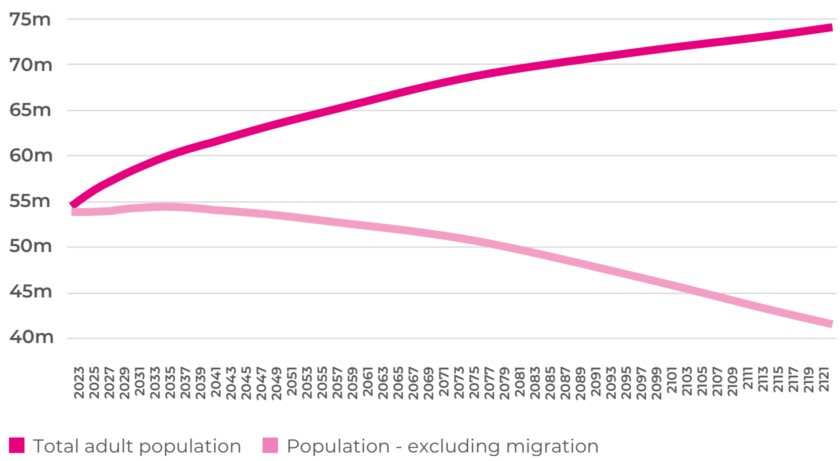
On the face of it, population decline would likely lead to falling demand for homes and have value impacts in the housing market. In countries such as Germany and Japan where some regional populations are already declining, the housing market effects are discernible, with rent and price falls in some towns, but this is by no means universal. Popular cities, like Kyoto, Tokyo and Berlin see continued demand and strong pricing, even affordability issues, while rents and values fall in rural and remote regions and less popular towns and cities in the same countries.

DEMOGRAPHY HAS SUPPLY AND DEMAND IMPACTS

So, impacts are mixed, affecting certain cities and regions more than others. Any population decline in the UK would likely be geographically patchy too having significant effects on some regions and localities while having minimal impact on others. Where are the resilient and in-demand places?

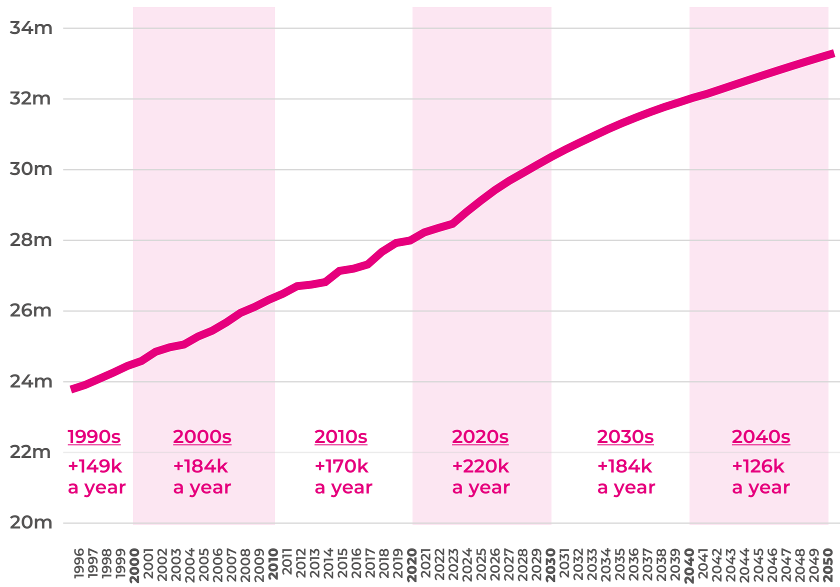
Before considering this, it is worth noting that the ONS does not seem to think a falling population will be an issue. At pains to state their figures are projections based on current trends and not forecasts, they currently show births and deaths in the UK at a virtual equilibrium but predict significant net immigration over the next hundred years which will reverse population decline. Their figures are based on recent migration trends which have been exceptionally high since 2019 (but may not remain so). The interaction of politics, public policies, regulation and legislation has a major part to play here but, as things currently stand, the gross housing demand figures look robust for the UK with the current population projections equating to new housing demand of around 220,000 homes a year in this decade - falling to 126,000 in the 2040s.

GRAPH 1: PROJECTED UK POPULATION (2023 – 2121)



Source: ONS

GRAPH 2: NUMBER OF UK HOUSEHOLDS (1990 – 2050)



Note: Future estimated from population projections. Source: ONS

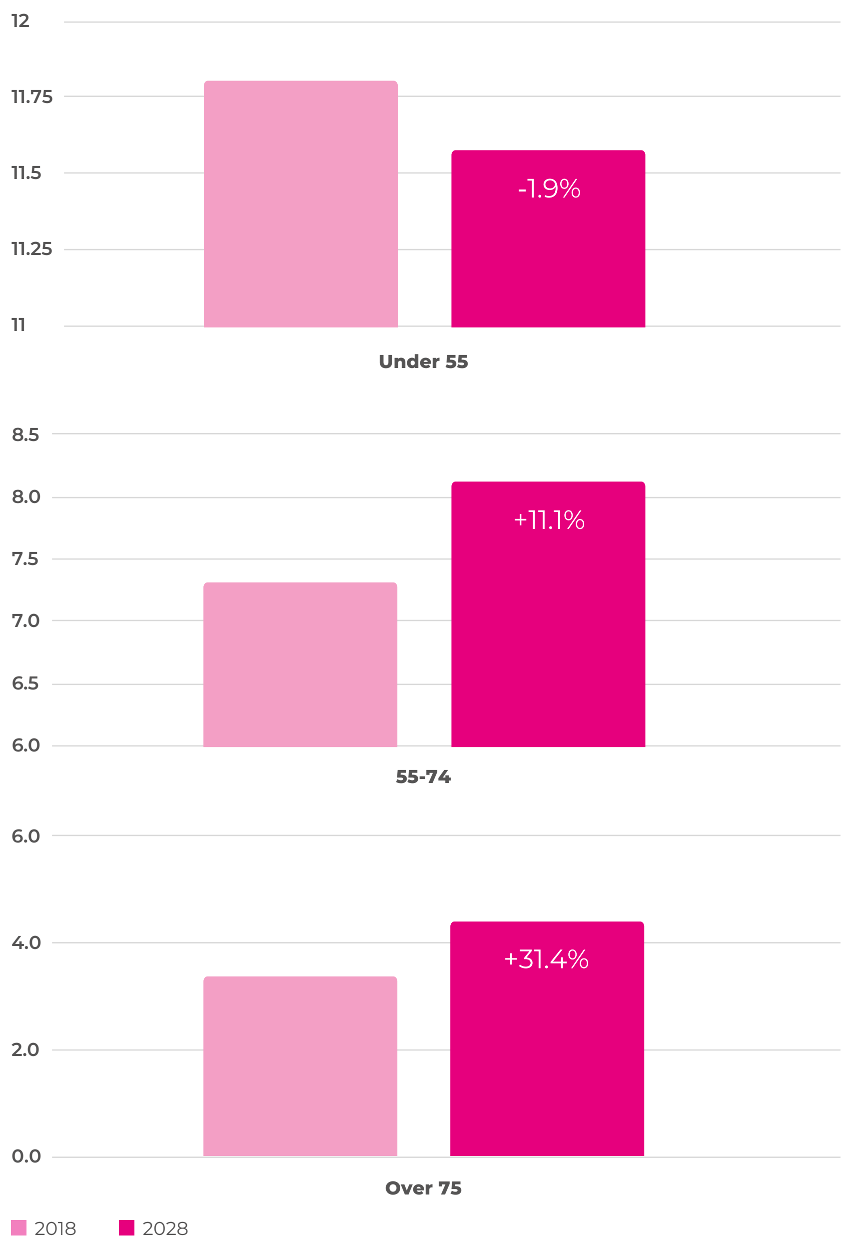
This fundamental demand equation of bodies requiring shelter has been automatically interpreted as a need for new house building. The new Labour government have firmly stated that over 300,000 new homes need to be built each year – a figure they seem keen to facilitate. While this is not surprising given the very significant contribution that the construction industry provides to economic growth, it may not be necessary – or even desirable as far as the housing market is concerned.

New build homes do not supply the whole market - just an expensive niche (sometimes at high environmental and social costs) which means that new routes to less-affluent and social housing markets will need to be found to diversify the housebuilder offer. Not only this, but an important source of housing supply has been overlooked. Each year, around 250,000 homes are vacated by their recently deceased owners and tenants.

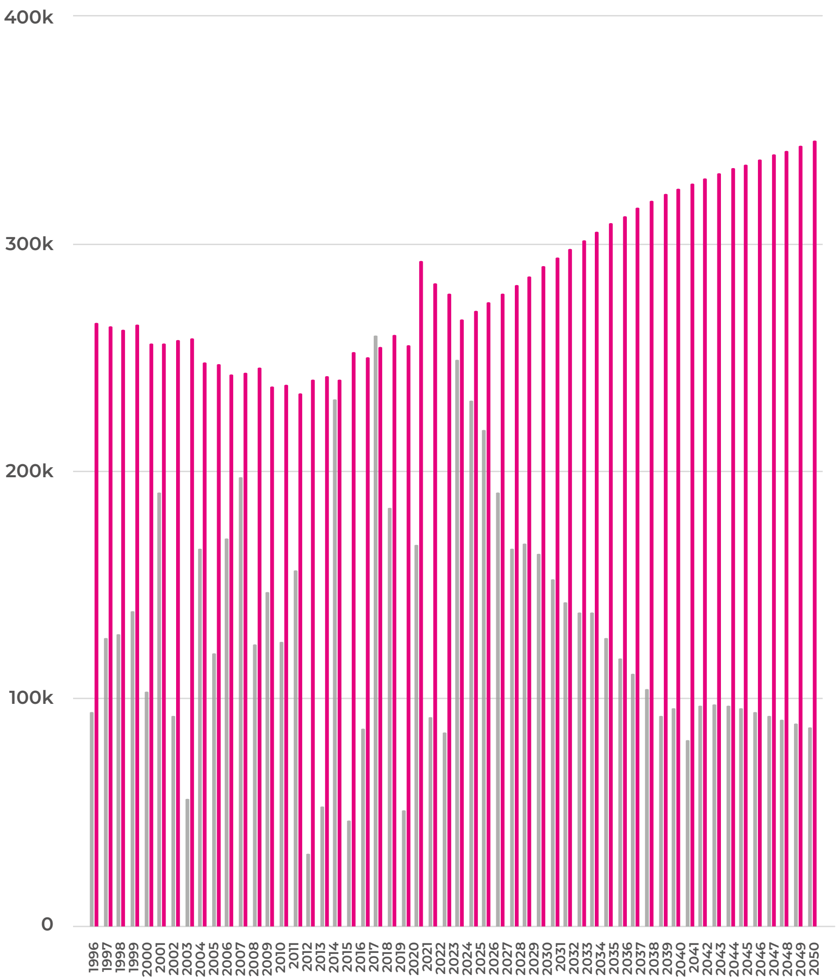
This number is set to increase because the existing population is getting older, with a higher proportion of significantly older people who are more likely to be leaving their home due to ill health, bereavement or their demise. We are already seeing the start of a significant shift in age cohorts – with many more in the elderly over 75 age groups and fewer in the mortgage-borrowing and low equity cohorts of the under 55s.

Graph 4 shows a conservative estimate of the supply impact of this over-75 cohort as they grow in the population. The elderly tend to occupy much smaller households than the average, so the number of vacant and available homes could turn out to be higher. In any case, on paper, this supply dwarfs the additional demand created by net migration.

GRAPHS 3A, 3B & 3C: PROJECTED ENGLISH HOUSEHOLDS BY AGE (MILLIONS OF HOUSEHOLDS, 2018 - 2028)



GRAPH 4: ANNUAL INCREASE IN HOUSEHOLDS AND ESTIMATED SUPPLY AFTER DEATH OF LAST HOUSEHOLD MEMBER (1995 – 2050)



Increase in household numbers (demand for new housing in year)

Estimate of homes (all tenures) vacated through death in previous year (deaths/average household size)

Source: ONS / YBC

SOME CONSIDERATIONS FOR PRIME MARKETS

The question then is whether the supply vacated by the elderly is in the right locations, of the right type and in the right price brackets to satisfy demand. It is this question that has particular impact for the prime markets. Will the demise of affluent, elderly homeowners flood the market and surpress prices or is there sufficient demand for the best properties to balance this?

In order to answer this question, it is perhaps worth noting what prime property is and what proportion of housing it constitutes.

The very rough rule of thumb, which has been applied to the question since the introduction of the term ‘prime’ to the residential sector in 1989, is that it refers to the best tenth of the market. ‘Best’ is clearly subjective but can refer to the most desirable and rare property types as well as the most highly regarded locations. In price terms, Table 1 shows the distribution by price with most of the prime market sitting in a band between £600,000 and £2m. The ‘super prime’ and ‘ultra prime’ markets are very high profile at £2m to £10m and over £10m respectively but tiny markets in relation to the whole. They constitute barely 0.5% of all transactions and even less (0.3%) of all housing stock (which includes rented property).

TABLE 1: DISTRIBUTION OF UK RESIDENTIAL PROPERTY BY PRICE (2022-23)

Sector	Approx price range	% of market	Number of households	% of all households	Characteristics of most households in this category
Social renting			4,000,000	16%	Lower income, no equity
Private renting			4,600,000	19%	Average income, little/ no equity
Average and below	<£250k	50%	7,697,378	32%	Lower income, low equity
Upper mainstream	£250k to £500k	35%	5,680,740	23%	Higher income, equity
Pre-prime	£500k to £600k	5%	813,478	3%	High income and/or substantial equity
Prime	£600k to £2m	10%	1,529,252	6%	High-net-worth (HNWI)
Super prime	£2m to £10m	0.5%	76,885	0.3%	Very-high-net-worth (VHNWI)
Ultra prime	>£10m	0.01%	2,267	0.01%	Ultra-high-net-worth (UHNWI) & billionaires
			24,400,000	**100%**	

Source: ONS, YBC

An attempt has been made here to characterise the majority of owners and occupiers in each sector, showing three things:

The distinction between owners and renters is largely between young and old, those with equity and those without. 35% of households are outside the housing market in renting; perhaps 20% of households will never be able to or aspire to enter the owner-occupied housing market. The rest will rely heavily on inheritance or 'the bank of Mum and Dad'.

Mortgage reliance is concentrated amongst the young in the non-prime markets and becomes more discretionary, a choice, at higher price points among the asset-rich older generations.

TABLE 2: DEFINITIONS OF HIGH-NET-WORTH INDIVIDUALS

HNWI	Individuals with financial assets (excluding main residence) over US$1m
VHNWI	Individuals with financial assets (excluding main residence) over US$5m
UHNWIs	Individuals with financial assets (excluding main residence) over US$30m

Source: Wealth X, UBS, Credit Suisse, Knight Frank, Henley & Partners

Prime, Super-prime and Ultra-prime can be seen as equating to distinctions of wealth between HNWIs, VHNWIs and UHNWIs respectively

These observations are important in considering the future of the housing market in general and prime markets in particular. Population and demographic predictions are critical in determining the shape and trajectory of prime markets.

GENERATIONAL CHANGES IN BEHAVIOUR AND FASHION

The changing behaviour of each generation alters what is considered prime in different decades. The way money is made, by whom and how it passes (or doesn't) down the generations will determine the future trajectory of prime markets. Whatever is considered the best, the most desirable will end up belonging to those with the greatest purchasing power.

Table 3 shows a century of changing demand and fashion in the prime sector.

TABLE 3: A CENTURY IN PRIME RESIDENTIAL PROPERTY (1930S – 2020S)

	Generation (came of age)	By-word of the decade	Economy	Housing market	Source of wealth	Fashion	Prime London	Prime outside London
1930s	Greatest	Depression	Depression	Strong, huge private sector house building	Banking, electrification of industry	Art Deco apartments	Bayswater	Shires, old wealth, some rebuilding in 'modern' style
1940s	Greatest	War		Destruction, price falls	Little (wartime)	Utility	Wartime destruction	MoD requisition of large houses
1950s	Silent	Austerity	Rationing, Austerity	Housing shortage	Little (austerity, rationing, post-war social change)	Polarised between traditional and 'avant garde'	Depopulation - retreat to Belgravia	Country houses demolished
1960s	Late Silent/Early Boomers	Swinging		Huge public sector house building (and demolitions)	Creative industries, UK buyers	Bohemian, swinging sixties	Chelsea & Hampstead	Berks, Bucks, Hants.
1970s	Boomers	Oil crisis	Inflation, Recession	Expanding mortgage lending, house price inflation	Oil, Middle Eastern and Western European buyers	Status, adornment	Park Lane	Recessionary downsizing to less fuel-hungry buildings. Barn conversions
1980s	Late Boomers	Sloane Ranger	Inflation, Boom	Rising owner-occupation, Right-to-Buy, boom	Service industry growth, deregulation & early globalisation of finance, American buyers	Country house style	South Kensington	Home counties
1990s	Gen X	Yuppie	Recession, Death of Inflation	Long slump, high interest rates, price falls	City finance (after 'big bang'), emergence of south east Asian buyers	Urban renaissance London: period house renovation and repair	Notting Hill	Cotswolds and counties west and SW of London
2000s	Early Millennials (Gen Y)	Cool Britannia	Boom and bust	House price boom due to downward yield shift, GFC bust	Globalisation of investment & finance, Russian and Eastern European buyers	Urban renaissance: Industrial conversion	South London (Wandsworth, Clapham)	Regenerated urban centres in regional cities
2010s	Late Millennials (Gen Y)	Brexit	Austerity, asset price inflation, stagnation, low productivity	Continued house price boom due to low interest rates, prime market booms then falls while mainstream grows	Entrepreneurial tech (scale-up and VC), Chinese buyers and wide range of other nationalities in the market	Urban renaissance: New build luxury apartments	East London (Shoreditch & Hoxton)	Eclectic small towns and cities/ city neighbourhoods (e.g. Clifton Bristol, Hebden Bridge, Southwold, Brighton)
2020s	Zoomers (Gen Z)	Covid and AI	Cost of living crisis	Covid changes demand patterns significantly, end of yield shift means overall stagnation but big differences between regions/ sectors and types of property	AI, Continuing international buyer interest as 'safe haven' investment amongst increasing geopolitical instability	Environmental performance, quality of experience	Leafy outer neighbourhoods and high quality suburban centres	New self-sufficiency country living revival, further-flung commutable counties and towns

Source: YBC

CONCLUSIONS

The key emerging trend is that the UK population is not just aging but becoming elderly. Behaviour of people in their 80s and 90s is different to those in their 60s and 70s. As we have already seen, the growing elderly populations will be more likely to downsize/right-size or die, leaving not just property but also making available freed-up capital. Whether passed directly to grandchildren or via their parents, a lot of this capital will by-pass the fully housed and enable market participation or erstwhile renters in younger generations. For some, this will boost their purchasing power sufficiently for them to compete for the most desirable properties in the prime markets.

What such property will be for Gen Z is an interesting question and only just becoming apparent as the eldest of them start to enter the market. What is highly likely is that their tastes and preferences will be different to their Gen X and older Millennial parents. Fashion may revert to that seen in previous generations or they may carve out a new style in particular locations and property types.

While Gen Z will probably continue to occupy eastern parts of London for example, we may well also see them pursuing experiences and environmentally conscious country lifestyles in some of the hitherto less fashionable counties like Kent, Somerset or West Yorkshire.

What the machine-learning, AI enabled, Generation Alpha will demand is anyone's guess but they will be supporting an unprecedented large number of aging elders who probably won't want to age in gated communities like their forebears. Gen Alpha may well be providing the care robots needed to enable aging in place and the slower recycling of homes. As pressure grows on the largest, rarest and most beautiful of prime stock, we may see a return to multi-generational living and, who knows, even more communal living.

Table 4 details a few possibilities of how the future might unfold. It will almost definitely turn out differently but perhaps this illustrates that some of the things we think are an integral part of the housing market, like ever inflating prices in all sectors, cannot be taken for granted.

TABLE 4: POSSIBILITIES FOR UK PRIME REAL ESTATE (2030S & 2040S)

2030s (Gen Alpha coming of age)	
Economy	Geopolitical turmoil continues, inflationary periods result. Western governments grapple with public spending. Institutions in the public sector start to reform. Central bank rates stabilise around 4%.
Housing market	Fashions (type and location) different for new households. Aged population creates increased supply (some wanted, some unwanted), Some areas/types see falling values, at extreme new slums are created. Demand increases for multi-generational living and new types of prime living. Big divide according to service charges/running costs. Prime is different but still strong amongst those with purchasing power. Continuing reliance on equity. 'Generation rent' aging. Lenders and insurers 'red-line' floodplains and some locations which are insufficiently resilient to climate change. Market polarisation between climate-adapted housing and less comfortable.
2040s (Gen Beta coming of age)	
Economy	AI and machine learning starts to create efficiencies, particularly in newly-streamlined public sector organisations. Medical breakthroughs transform quality of life and re-emphasise the demand trends for experience rather than status - in all forms of real estate.
Housing market	Early Boomers now aging in large numbers, create demand for certain types of property (not elder-care homes) and also release supply to market. Millennials head multi-generational households. Sea levels rise leaving some real estate assets 'stranded' in more ways than one. Markets continue to polarise and cause even bigger issues of inequality in society which politicians seek to address with new technologies for example by transferring housing equity from landlords to tenants through tokenisation and new types of rent to buy schemes, effecting and increase of ownership unseen since the expansion of mortgage lending in the 1970s and 1980s. Care robots in widespread use make care homes almost redundant except as social hubs.

It is possible that new tenures and new types of property will emerge as well as new ways of transferring equity from landlords to tenants. New construction will need to go hand in hand with retrofit and the intensification and improvement of neighbourhoods, a concentration on improving existing stock and existing places. Repair and re-use instead of consume and discard.

Meanwhile, it seems inevitable that the market will polarise in a variety of ways. For example, expensive to run, high maintenance, new buildings – even those labelled 'luxury' - may well fall out of favour in the same way as 1930s mansion blocks did when fashion changed and service charges outstripped value. Value will be placed on 'long-life, loose-fit', adaptable and attractive buildings in town and country. The best, the 10%, will still be called 'prime'. The sector may even grow as equity, and therefore purchasing power, is concentrated in more hands. This will depend on neighbourhoods being regenerated and new types of homes being created to fulfil demand. New build and retrofit will be a game of quality, not numbers.

NOTES:

About the author

YOLANDE BARNES

Yolande Barnes has been examining and analysing real estate markets for over 35 years. As Director of World Research at Savills, she provided evidence-based advice to clients and thought-leadership in real estate. She set up and ran their UK residential research department, pioneering and developing new techniques for measuring place potential, land values and sustainable urbanism.

YOLANDE BARNES CONSULTING SEPTEMBER 2024

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