

RESIDENTIAL RESEARCH



# PRIME COUNTRY REVIEW

UK PRIME COUNTRY HOUSE MARKET  
**WINTER 2014**

COUNTRY MARKET  
UPDATE

THE RIPPLE STARTS  
TO TAKE HOLD

POLITICS AND  
POLICY IN SCOTLAND



## KEY FINDINGS

Annual price growth in the prime country house market was 4.7% over the year to Q3 2014

Country house prices remain 16% below their previous market peak

The number of £1m+ sales in England and Wales outside London rose 44% year-on-year between January and June 2014

In the Midlands and Wales the number of £1m+ sales rose by 78%, while in the north the number of £1m+ sales was 24% higher year-on-year

However, there are signs that this momentum is easing with a combination of policy and uncertainty acting as a brake on growth



**OLIVER KNIGHT**  
Residential Research

“Prime prices in the country still look good value on a historical basis having experienced several years of static or modest growth since the end of the financial crisis.”

## A YEAR OF TWO HALVES

The number of homes sold for £1 million and more across England and Wales reached a record high in the first half of 2014, but a combination of policy and uncertainty have acted as a brake on growth and activity in recent months.

Prices have been rising in the prime country house market for seven consecutive quarters, the longest period of sustained quarterly price growth since 2007.

Rising confidence among buyers as a result of more positive economic news, the ripple effect from London and growing demand for family homes has resulted in improved conditions in the prime market in 2014, helping to release some of the pent-up demand that had built up following the downturn.

Between January and June this year the number of homes sold for £1m+ in England and Wales was 44% higher than at the same time last year and 64% higher than the corresponding period in 2010.

Properties in the southeast, within commutable range of the capital and close to good schools have sold well. Continued low interest rates and attractive mortgage offers have also encouraged buyers.

Agents report that demand has been bolstered by an increase in the number of buyers looking to take advantage of the gap between urban and rural values, particularly those moving from London. Prime prices in the country look good value on a historical basis having experienced several years of static or modest growth since the end of the financial crisis.

As fig 1 shows, country house prices have risen in value by 5.6% since the market low in 2009 and currently sit 16% below the previous peak. In contrast, in prime central

London prices have grown by 74% and are 32% above their previous peak, making the country good value for those wishing to trade up and out.

But there are signs that the momentum seen in the first half of the year is easing. Uncertainty over the outcome of the general election, an impending interest rate rise, tighter mortgage lending and ongoing talk of ‘Mansion Tax’ have all cooled demand.

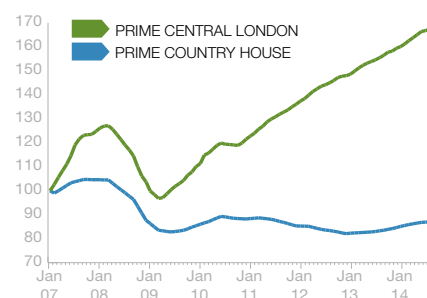
The number of prospective buyers registering their interest in buying a property during the three months to the end of October fell by 9% year-on-year.

As a result, price growth for prime country houses slowed to its lowest level in almost two years during the third quarter, with values increasing by just 0.3% over the three month period. Annual growth also slowed, to 4.7%.

The slowing pace of growth mirrors what has been occurring in the UK mainstream market. The latest Nationwide index shows that the annual pace of house price growth in the UK fell for the second consecutive month in October. Any slowdown in the mainstream market is likely to have an influence on buyer sentiment in the prime markets.

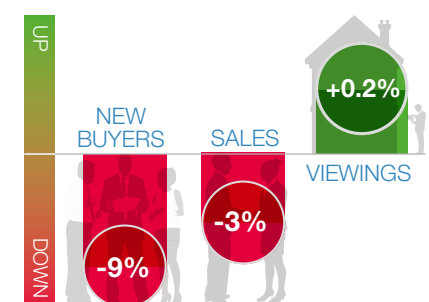
Against this backdrop, we are forecasting price growth of 2% across the prime country market in 2015. Such modest growth should ensure Londoners considering a move to the country will continue to benefit from eye-catching price differences.

**FIGURE 1 Price differential**  
Prime country and London house prices indexed from Jan 2007



Source: Knight Frank Residential Research

**FIGURE 2 Market momentum is slowing**  
Aug-Oct 2013 v Aug-Oct 2014



Source: Knight Frank Residential Research

# THE RIPPLE EFFECT

The number of properties sold for £1m+ in England and Wales, excluding London, during the first six months of 2014 was 44% higher than the corresponding period last year.

Our map tracks these sales and confirms the regions which saw the largest year-on-year increases in prime transactions. As the ripple effect of stronger market performance moved out from London in 2014 sales picked up across the country.

In the Midlands & Wales, for example, the number of £1m+ sales over the year to June 2014 rose by 78% year-on-year, while in the north, where the housing market recovery since the downturn has been slowest, the number of £1m+ sales was 24% higher compared to the previous year.

However, in terms of the number of sales, the bulk of prime activity during the first half of 2014 was concentrated on southern England and the Home Counties. The majority of £1m+ sales in the first half of 2014 were located around the transport corridors of the M3, M4 and the M40.

These markets benefit from their proximity to London and excellent transport links back to the capital, good schools and local amenities.

The proportion of London buyers in a number of prime markets in 2014 has reflected this. Most Londoners are still moving to the places pegged as familiar commuter-belt territory in the Home Counties, but others have looked further afield.

In Bath, for example, the number of Londoners who have purchased a property has doubled so far this year compared to 2013, while buyers from the capital made up 24% of sales in Cirencester, 26% in Stow and 44% of sales in Haslemere.

FIGURE 3 Increase in number of £1m+ transactions in England and Wales (excluding Greater London) Q1 & Q2 2014 versus same period in 2013

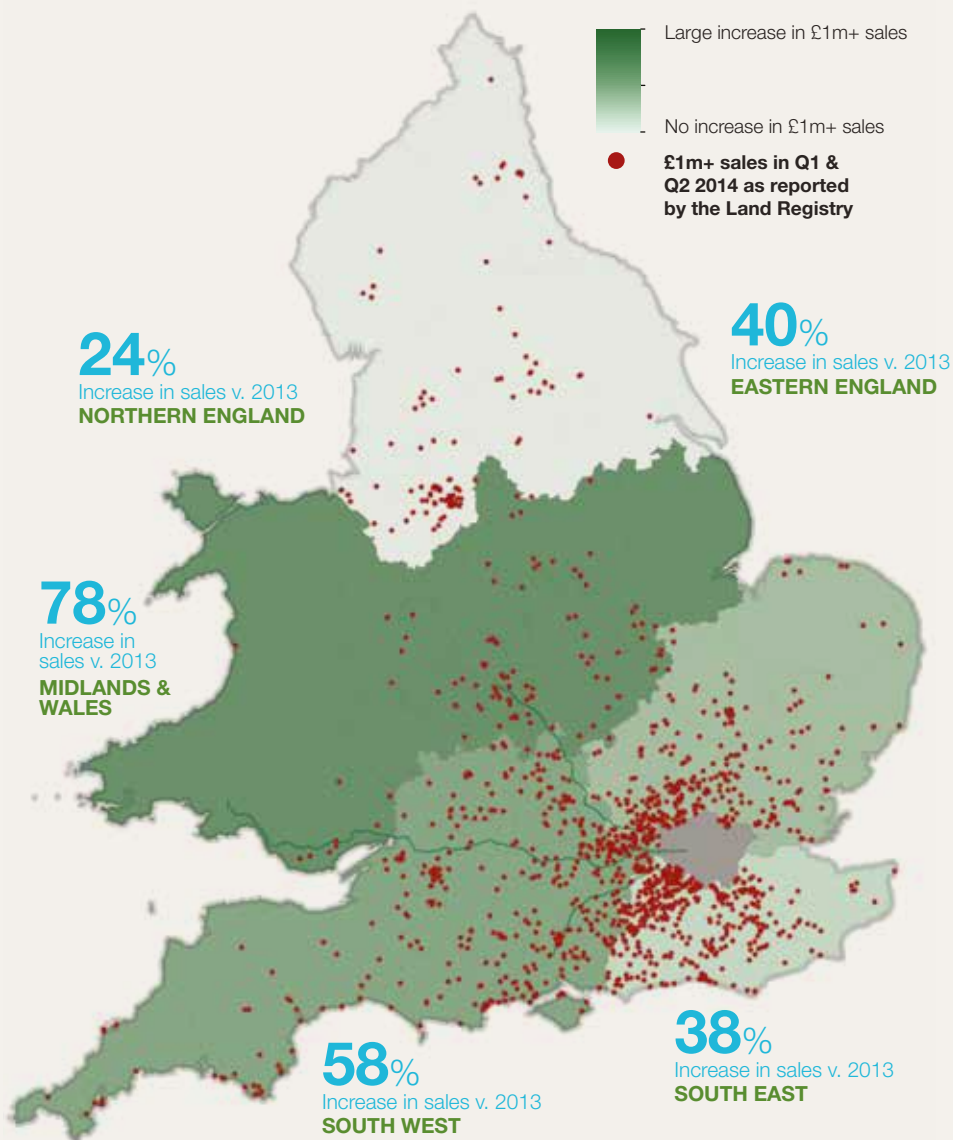


FIGURE 4 Annual prime country house price change by price band Q3 2013 - Q3 2014



Source: Knight Frank Residential Research

## THE WEALTH EFFECT

Knight Frank research shows that the number of properties which are worth £1 million or more and located outside of London has increased by 38% over the last year.

Using sales data from the Land Registry, and price performance at a local authority level over the year to September 2014, we have identified the areas where the largest number of property millionaires have been created over the last 12 months.

The biggest growth, in terms of households, has been in markets on the outskirts of the capital such as Elmbridge, Guildford and Windsor and Maidenhead (figure 5).

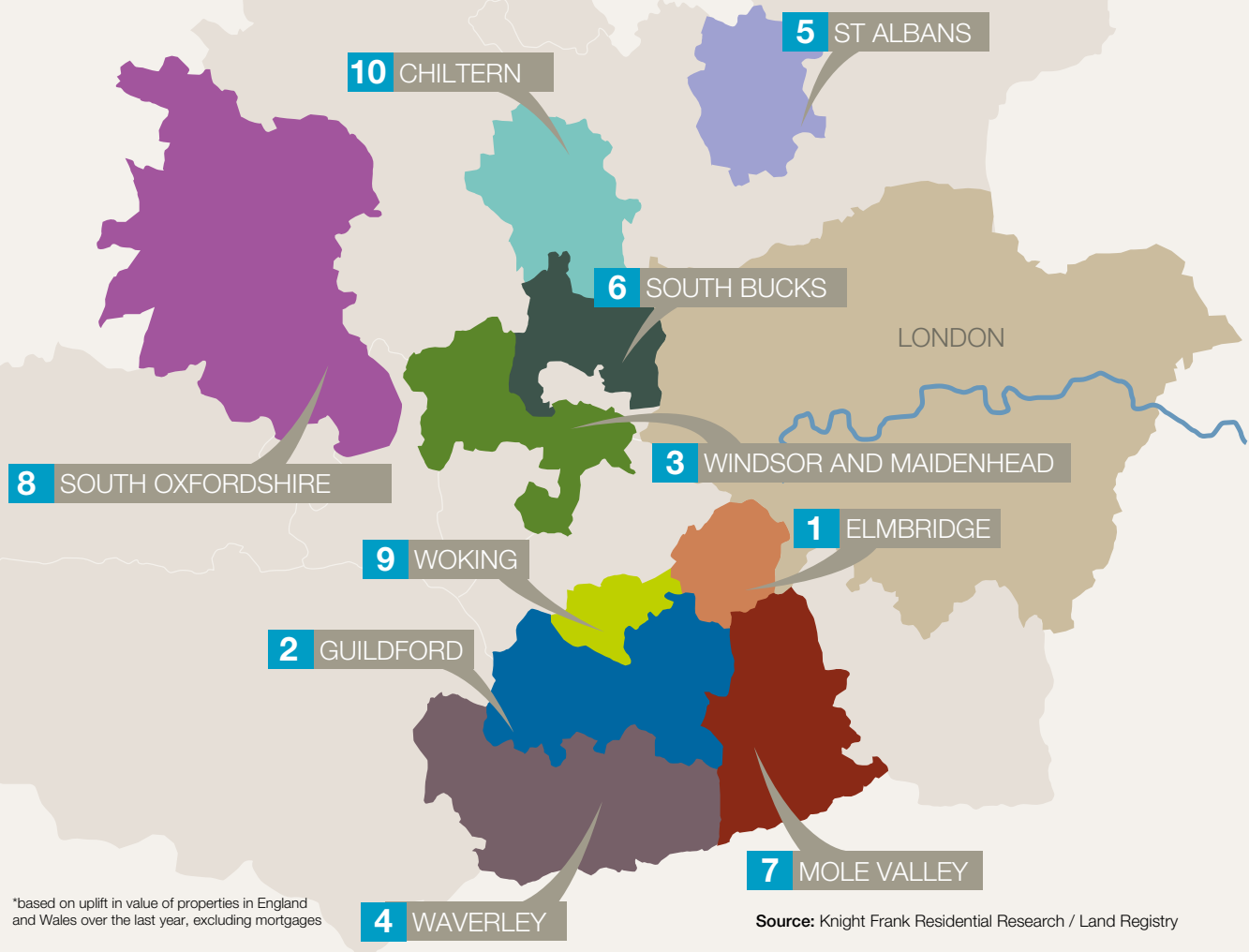
These markets have been the biggest beneficiaries of price growth rippling out

from central London, while rising demand for family homes from both Londoners looking to move out of the capital and buyers wishing to trade up in the local area has helped to boost property values.

The UK's economic resurgence over the last year, which has played its part in boosting buyer's confidence, together with increased activity in the mainstream property market have also been factors here.

But while the number of property millionaires in England and Wales may be rising, it is worth noting that the number of homes worth over a million pounds outside of London still only accounts for less than 1% of the total housing stock.

FIGURE 5 Local authorities ranked by growth in total number of property millionaires\*  
Q3 2013 v Q3 2014 (excluding London)



\*based on uplift in value of properties in England and Wales over the last year, excluding mortgages

Source: Knight Frank Residential Research / Land Registry

# CHANGES TO UK PROPERTY TAXATION

The UK's Autumn Statement on 3 December introduced a number of revisions to existing residential property taxation. The main change is the creation of a new stamp duty structure.

Instead of the historic slab structure, stamp duty is now a progressive tax, more in line with income tax.

Those purchasing a residential property will now pay no stamp duty on the first £125,000 of property's value, 2% on the amount between £125,000 and £250,000, 5% on any additional amount up to £925,000, 10% between £925,000 and £1.5 million and 12% on everything above that.

The changes mean that those buying homes worth up to £937,500 will pay less stamp duty than under the old slab structure. However above this value, buyers will be paying more, although there is a small anomaly between £1.01 million and £1.11 million, where under the new regime buyers will still pay less tax.

Removing the slab structure of the old form of stamp duty will remove distortions in the market. While the majority of homebuyers in the UK will

see immediate savings as a result of the new regime, the upper end of the market will see costs rise.

In assessing the impact on the £1m+ market it is important to bear in mind that similar changes have taken effect in recent years, both in the UK and overseas. The lessons from these changes are that the market rarely reacts in a dramatic manner. While the increase in £2m+ stamp duty from 5% to 7% in 2012 undoubtedly led to weaker price growth above £2m, it also coincided with a period of record £2m+ sales volumes.

For vendors of properties worth substantially more than £1m, there is likely to be a period of harder negotiations ahead and values are likely in many instances to adjust downwards slightly to take account of the new higher charge.

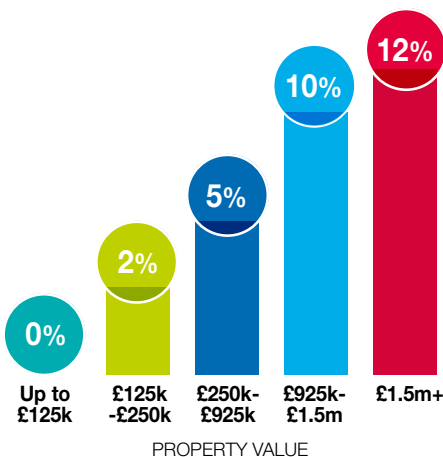
It would seem unlikely that changes will deter vendors. With the opposition Labour Party voting in favour of the new

“It would seem unlikely that changes will deter vendors”

regime it would seem that this is a change which is not going to go away – so there is little to be gained from delaying sales.

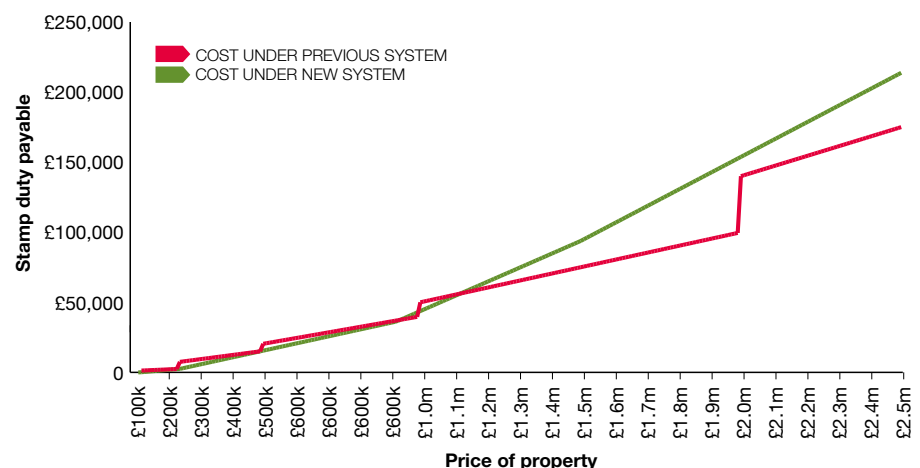
One question mark which still remains is whether this new change means that a Mansion Tax (a policy from the Liberal Democrat and Labour parties for a new annual charge on high value property) is still a feasible option for a new government after next May's election. While the Labour Party has confirmed they are still in favour of some form of Mansion Tax, the final form of this tax could well be watered down. Certainly, with the reforms to UK property tax seen in recent years it is difficult to argue that housing is “under-taxed”.

FIGURE 6  
**The new stamp duty rates**  
Percentage paid in each price band



Source: Knight Frank Residential Research

FIGURE 7  
**New versus old**  
How new progressive stamp duty rates compare to the old 'slab' system



Source: Knight Frank Residential Research



# SCOTLAND UPDATE

Market uncertainty caused by the Scottish independence referendum may have subsided, but there are still challenges facing the prime market in Scotland.

Scotland has been a regular feature in the news this year, with the referendum on independence and recent changes to property taxation dominating the headlines.

Ultimately, the 'No' vote means we now have a more certain environment for the property market to function. The number of sales completed across Scotland following the referendum in September and October was 63% higher than during the two month period running up to the vote.

Additionally, in October the number of potential buyers registering their interest in purchasing a property with Knight Frank was at its highest level all year.

While activity has picked up, the introduction of a new Land and Buildings Transaction Tax (LBTT) to replace Stamp Duty in April next year could have the unintended consequence of stalling the market's recovery.

Based on the rates announced and compared to the stamp duty system that is now in place across the UK, the new LBTT would favour buyers of properties valued under £254,000, where less tax would be payable. Sales above this will incur a higher rate of tax.

According to figures from the Registers of Scotland, the average price of a detached property is higher than £254,000 in nearly a third of all the local authorities in the country.

Under the current system, a house costing £390,000 will incur a stamp duty payment of £9,500, whereas the upfront costs under

the new LBTT system for the same property will be 72% higher at £16,300. Prior to the introduction of the new levy in four months' time, we expect to see an increase in the number of prime sales and homes coming to the market as both buyers and vendors look to move before costs rise.

Homes worth £250,000+ accounted for 72% of the total £215m stamp duty take in Scotland last year. The new regime could hit receipts at this end of the market if there is a slowdown in transactions, and perhaps raise questions among policymakers about the rate structure.

## Million pound market

The uncertainty caused by the referendum was not enough to override the underlying recovery in activity in the £1m+ market.

The number of high value residential sales in Scotland over the first nine months of the year was 30% higher than the corresponding period in 2013, according to data from the Registers of Scotland.

In the first nine months of the year, 92 properties were sold for over £1m. Of these some 64% had an Edinburgh postcode, while 23% were sold in Aberdeen. The remaining properties were sold in areas across Scotland including Glasgow, Auchterarder and Bridge of Weir.

The New Town in Edinburgh saw the highest number of high value properties changing hands over the year to September, followed by south west Aberdeen, the data shows.

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## COUNTRY HOUSE SALES AND LETTINGS

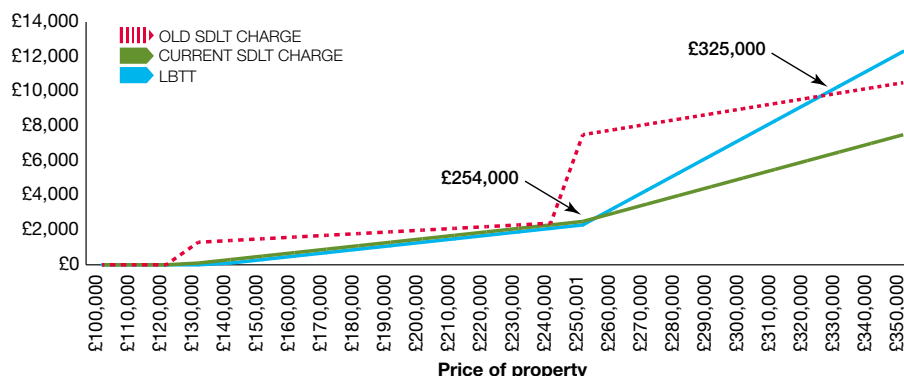
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FIGURE 8 **Rising costs of moving**  
Current stamp duty costs v costs of Land and Building Transaction Tax



Source: Knight Frank Residential Research



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