RESIDENTIAL RESEARCH

Knight Frank

# PRIME COUNTRY REVIEW

## UK PRIME COUNTRY HOUSE MARKET

**SUMMER 2015**

POST-ELECTION MARKET UPDATE | £1M+ MARKET | NATIONAL PARK PREMIUM

# WHAT NEXT FOR THE COUNTRY HOUSE MARKET?

The long-term outlook for the prime country market is positive, but the election result is unlikely to lead to significant price growth says Oliver Knight.

## KEY FINDINGS

**The outlook for the prime country market is positive following the General Election, but...**

**...the result is unlikely to lead to a jump in prices as the market absorbs the recent changes to stamp duty**

**Prices have risen by nearly 1% so far this year and by 2.5% annually**

**However, prices remain below peak levels, creating an opportunity for buyers**

**Prime market activity has picked up over the last 12 months**


OLIVER KNIGHT
**Residential Research**


"The result of the General Election has marked an end to the uncertainty experienced in the UK prime markets in the run-up to polling day."

The result of the General Election has marked an end to the uncertainty experienced in the UK prime markets in the run-up to polling day.

Concerns about taxation and personal finances led to weaker demand at the start of 2015. Annual price growth had slowed to 2.5% by March, down from 5.2% in Q2 2014.

We now expect there will be more positive trading conditions as buyers and vendors return to the market. Transactions, which had been put on hold pending the outcome of the vote or as a result of a wider sense of political uncertainty, will proceed.

With a Conservative Cabinet, the possibility of a Mansion Tax for properties valued at over £2m has gone.

Now, one of the key questions is what effect a more certain political environment will have on prices.

While the confidence engendered by political stability is expected to result in a rise in market activity, any expectations that prices will jump significantly as a direct result of the general election may be unrealistic.

Any market is based on supply and demand and the number of new properties coming to the market is expected to increase. This rise in supply, together with uncertainty as to the precise direction of fiscal policies of the new government is likely to mitigate significant price rises.

Additionally, higher purchase costs as a result of the increase in stamp duty announced in December need to be considered. As a result of that change, the up-front cost of buying a property valued at more than £937,500 has risen.

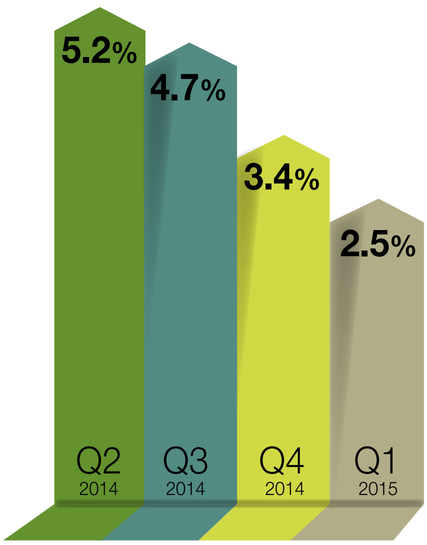
The prime market is still absorbing these changes and the early indications are that it has resulted in an adjustment in values at the top-end of the market as buyers factor the increased cost of moving into offers.

However, the long-term outlook for the prime country market is positive. For now interest rates remain at record low levels, economic growth is steady and mortgage rates are competitive.

As the economy continues to improve the ripples of demand from London will strengthen. Popular commuter locations, within easy reach of the capital, are likely to be the biggest beneficiaries.

There has already been an increase in the number of buyers looking to exploit the relative price gap that has opened up between London and regional prime markets and the expectation is that this will continue.

FIGURE 1
**Pre-election slowdown**
Annual growth slowed in the prime country market (Q2 2014- Q1 2015)




**Source:** Knight Frank Residential Research

## Prime Scotland

The result of the General Election will mark a reduction to the uncertainty experienced in the Scottish prime markets in recent months.

There was a relative slowdown in activity in the months prior to the election, mirroring the trend which was seen in prime markets across the UK.

With the final result resolving political uncertainty at a national level trading conditions are expected to improve.

As housing policy is already a devolved issue in Scotland, little is likely to change on the policy front, and it is perhaps the recently introduced Land and Building Transaction Tax which will continue to be the biggest policy lever affecting the prime market. The potential impact of Land Reform on the farms and estates market will become clearer once more details are revealed.

However, in terms of the overall political outlook for Scotland, all eyes will now be on the Scottish Parliamentary Elections in 2016, and the ability of the SNP to replicate its success there.

# FIELDS OF GOLD

## Farmland outperforms prime residential property

Agricultural land may not be quite as glamorous as the country houses that the majority of the research in this report refers to, but when it comes to market performance farmland has been anything but dull.

Over the past 10 years, the capital value of farmland has increased by 192%, according to the Knight Frank Farmland Index. This far outstrips the equivalent growth for our Prime Country House Index and outperforms even our Prime Central London Index (+138%), which covers some of the world's most valuable real estate.

A good example of how farmland's star has been in the ascendancy is its changing relationship with residential property. In the past, selling a large block of land with a country house has always created a marriage-value premium – the sum was generally greater in value than the parts – but recently we have seen a number of examples where farmland has achieved a higher price when sold separately.

So why is farmland performing so strongly? Put simply there is a huge amount of demand and just not enough on the market to go around.

After the financial crisis, investors started to look at agricultural property as a safe-haven for their funds. Its annual returns may not be terribly exciting – although with the base rate at 0.5% they are probably better than cash - but unlike other asset classes, such as equities, it is tangible and offers long-term security.

A significant amount of the interest is coming from investors based overseas who value the transparent nature of the UK's property market and our stable governance and economy.

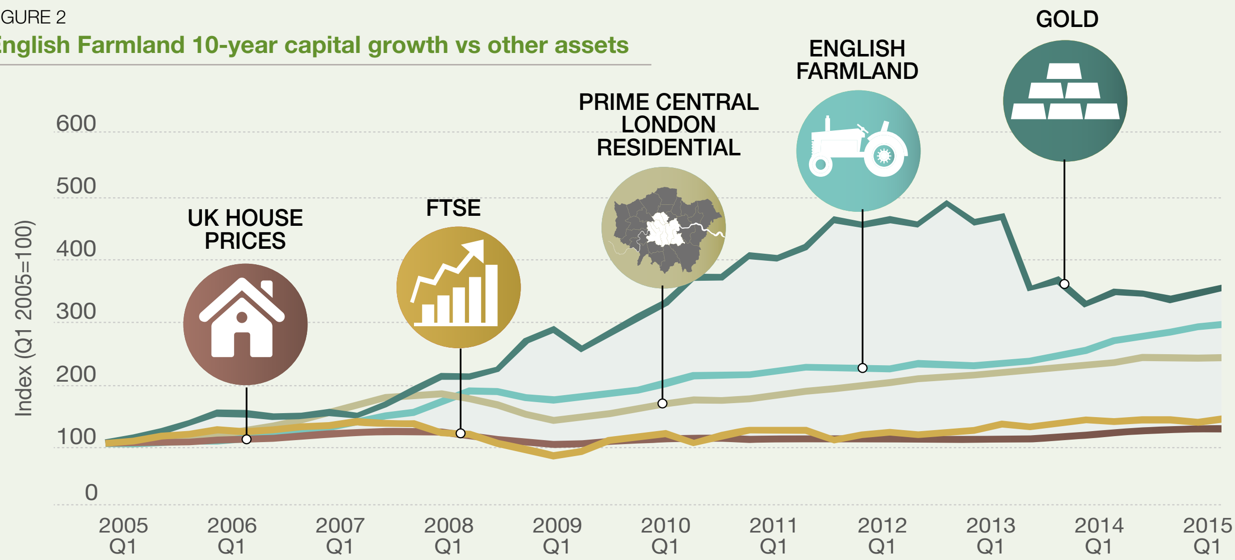
Investors are generally looking for large blocks of land and these, when they do come up for sale, are outperforming the wider market, often by a significant margin. The average value of English farmland is £8,059/acre, according to our Farmland Index, but a number of sales to investors have exceeded £15,000/acre.

For more information on investing in farmland please contact Tom Raynham, our Head of Agricultural Investments

**Andrew Shirley,** Head of Rural Research, Knight Frank

FIGURE 2

**English Farmland 10-year capital growth vs other assets**




**Source:** Knight Frank Rural Research

# PRIME HOTSPOTS

Popular commuter towns and prime urban markets lead the way as the number of million pound property sales rises.

Sales of properties worth £1 million or more across the UK rose by 23% over the year to January 2015.

The UK's ongoing economic recovery over the past year, and growing confidence in the property market, resulted in an increase in demand for large family homes, which has underpinned sales.

Although London accounted for the majority of £1 million-plus transactions, Land Registry records showed a notable pick-up in most regions of England and Wales as the prime market recovery became more widespread (figure 5).

The West Midlands and the North East enjoyed the largest percentage increases in high value residential sales over the course of the year, although it is worth noting that in the North East this was from a low base.

The South East was the most active market for £1 million-plus sales outside of London with popular commuter hotspots such as Elmbridge, Guildford and Sevenoaks among the busiest markets as demand rippled out from central London.

The relative price differential which exists between the prime country and prime London market is undoubtedly a factor encouraging equity rich buyers from the capital to move.

Since early 2014, nearly a quarter of purchasers across the prime country market have moved from London, according to Knight Frank data.

City workers and those in professional service jobs were the most active buyers over this time, together accounting for just under half of all £1 million-plus sales completed by our offices. Meanwhile, the number of entrepreneurs buying prime property in the country grew by 35%.

Wales was the only region to report a fall in the number of high value sales year-on-year, according to the Land Registry. However, the volume of £1 million-plus transactions in the country tends to be lower than in other regions.

## Prime urban

Many of the most active prime markets have been prime urban areas such as Bath, Edinburgh, Winchester and Oxford. Demand is strong in these cities in part due to the high concentration of prime housing stock and the presence of good schools and transport links.

This forms part of a wider trend seen since the financial crisis or price outperformance in town and city markets.

Indeed, prime urban properties are now on average 0.4% above their 2007 peak, compared to neighbouring village and rural locations which are 14% below peak levels.

Property prices in many of these locations have outperformed prime central London over the last year. This strong performance is expected to continue.

FIGURE 3

**£1m+ prime country house buyer nationality (Jan 2014 to date)**

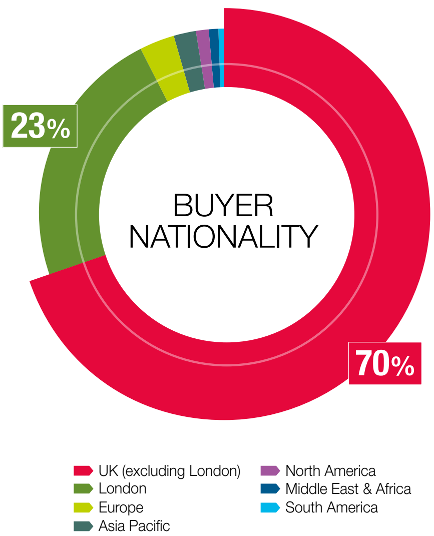



FIGURE 4

**£1m+ prime country house buyer source of wealth (Jan 2014 to date)**


**Source:** Knight Frank Residential Research

## Scotland's £1 million-plus market

Edinburgh has historically accounted for the majority of £1 million-plus sales in Scotland and the last 12 months have been no exception. The city accounted for 72% of all transactions above this level over the year to March 2015.

In fact, if Edinburgh sat in our ranking of Local Authorities with the highest number of £1 million-plus sales (below) it would be thirteenth.

Across the country meanwhile, the number of high value sales increased steadily over the course of the year. The introduction of Land and Building Transaction Tax (LBTT) in April 2015 was undoubtedly a factor with some buyers and vendors bringing forward transactions ahead of the change.

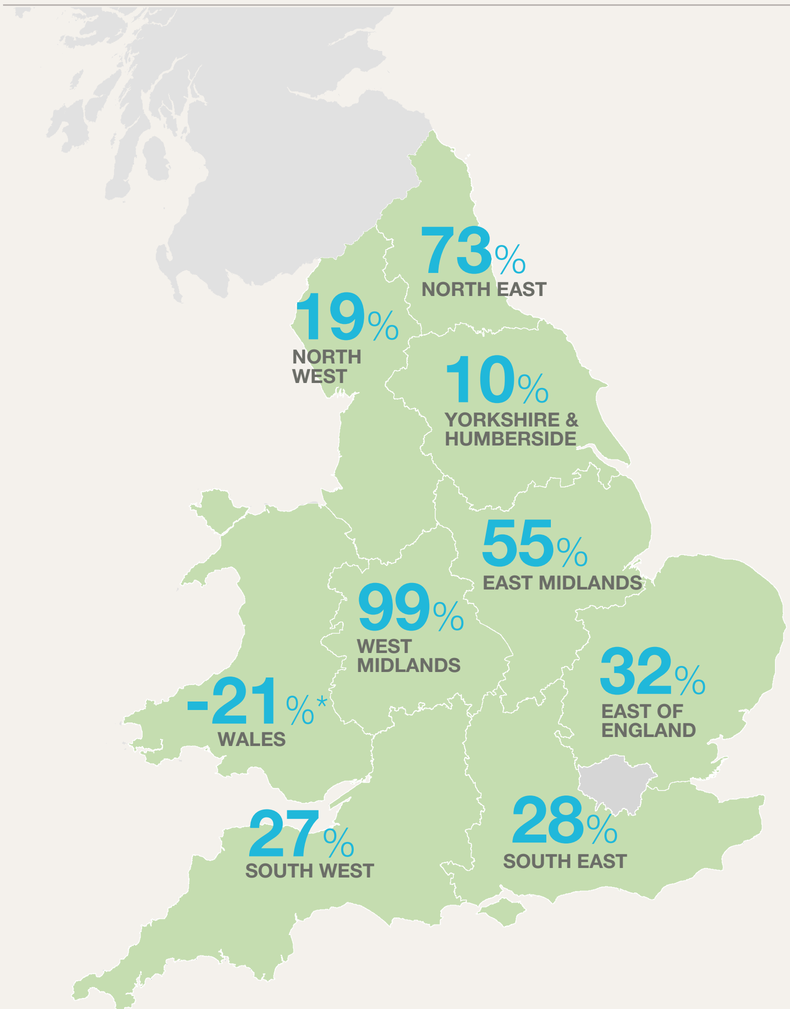
There was a spike in sales during the first three months of 2015, immediately prior to the introduction of LBTT, with the volume of £1 million-plus sales 21% higher than the previous quarter and more than double the corresponding quarter of 2014.

As buyers take time to adjust to the new higher levels of taxation, there will be a slowdown in this market, although in the long-run we see the market absorbing the tax change.

FIGURE 5

**The £1 million-plus market in England & Wales**

Year-on-year increase in £1 million-plus sales, 2014 versus 2013




*based on under 20 sales

**Local Authorities with the highest number of £1 million-plus sales in England & Wales, 2014**

| | Local authority | Region |
|---|---|---|
| 1 | Elmbridge | South East |
| 2 | South Bucks | South East |
| 3 | Windsor and Maidenhead | South East |
| 4 | St Albans | East of England |
| 5 | Guildford | South East |
| 6 | Waverley | South East |
| 7 | Chiltern | South East |
| 8 | Sevenoaks | South East |
| 9 | Hertsmere | East of England |
| 10 | Reigate and Banstead | South East |
| 11 | Oxford | South East |
| 12 | Three Rivers | East of England |
| 13 | Bath and North East Somerset | South West |
| 14 | South Oxfordshire | South East |
| 15 | Chichester | South East |
| 16 | Mole Valley | South East |
| 17 | Tandridge | South East |
| 18 | Epping Forest | East of England |
| 19 | Woking | South East |
| 20 | Cambridge | East of England |

**Source:** Knight Frank Residential Research / Land Registry

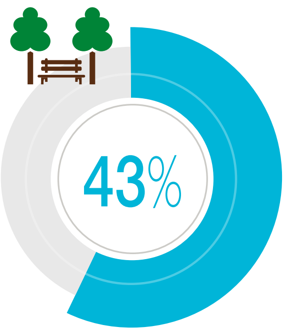
nb. The Land Registry can undercount the total number of sales over £1m

# PARKLIFE

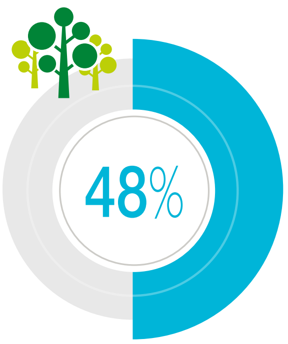
Living within the boundary of a National Park comes at a price, and there is a clear premium for a home in areas of England and Wales celebrated for their landscapes and nature.

**National Parks** are designated protected areas because of their scenic countryside, wildlife and cultural heritage. There are currently 13 National Parks in England and Wales spanning over 16,000 sq. kilometres.

**An Area of Outstanding Natural Beauty (AONB)** is an outstanding landscape whose distinctive character and natural beauty are so precious that it is safeguarded in the national interest.




Average premium for a property located in a National Park




Average premium for a property located in an area of outstanding natural beauty

NB: premium is relative to wider county average

It's no secret that a room with a view can command a premium, and if that view happens to be of some of the finest countryside in England and Wales the uplift can be even greater. But just how much more are people prepared to pay to live within the boundaries of a National Park in England and Wales?

Our analysis of Land Registry house price records shows that in 2014, on average, the price of a property situated within the borders of a National Park in England and Wales was 43% higher than in the county where the park is located.

Supply of stock in these areas can often fall short of demand as there are more restrictive planning regimes, and this is one factor underpinning pricing.

Four of the thirteen National Parks analysed attracted a house price premium in excess of £100,000.

The New Forest and the South Downs were the most expensive National Parks examined. Both are located in the South East where house prices are among the highest in the country outside of London.

In the New Forest, which was designated a National Park in 2005, average house prices were £451,241, some 93% higher than the average for the wider county. The South Downs had an average house price of £392,148, a 60% premium compared to the local county average.

Snowdonia was the least expensive park with an average house price of £139,178 in 2014.

The full breakdown can be seen on the map opposite.

## Area of Outstanding Natural Beauty

As well as measuring the premium for National Parks we have also analysed the potential uplift for properties situated in Areas of Outstanding Natural Beauty (AONB).

Planning legislation gives many AONBs the same protection as National Parks, so it's no surprise to find the premium, at 48%, broadly similar.

Gower, which was the first region to be designated an Area of Outstanding Natural Beauty in Britain in 1956, commands the largest house price premium relative to the local county. The average price of a home in this area was 125% higher than in West Glamorgan in 2014. However it is worth noting that the average price of a home in West Glamorgan, at £123,550, was below the national average for England and Wales, at around £177,000.

The Surrey Hills was the most expensive AONB in 2014 with an average house price of £568,000. Being within easy reach of London and in close proximity to major towns such as Guildford and Epsom, this is a popular commuter location and strong demand on the back of this – especially from London – has underpinned house prices.

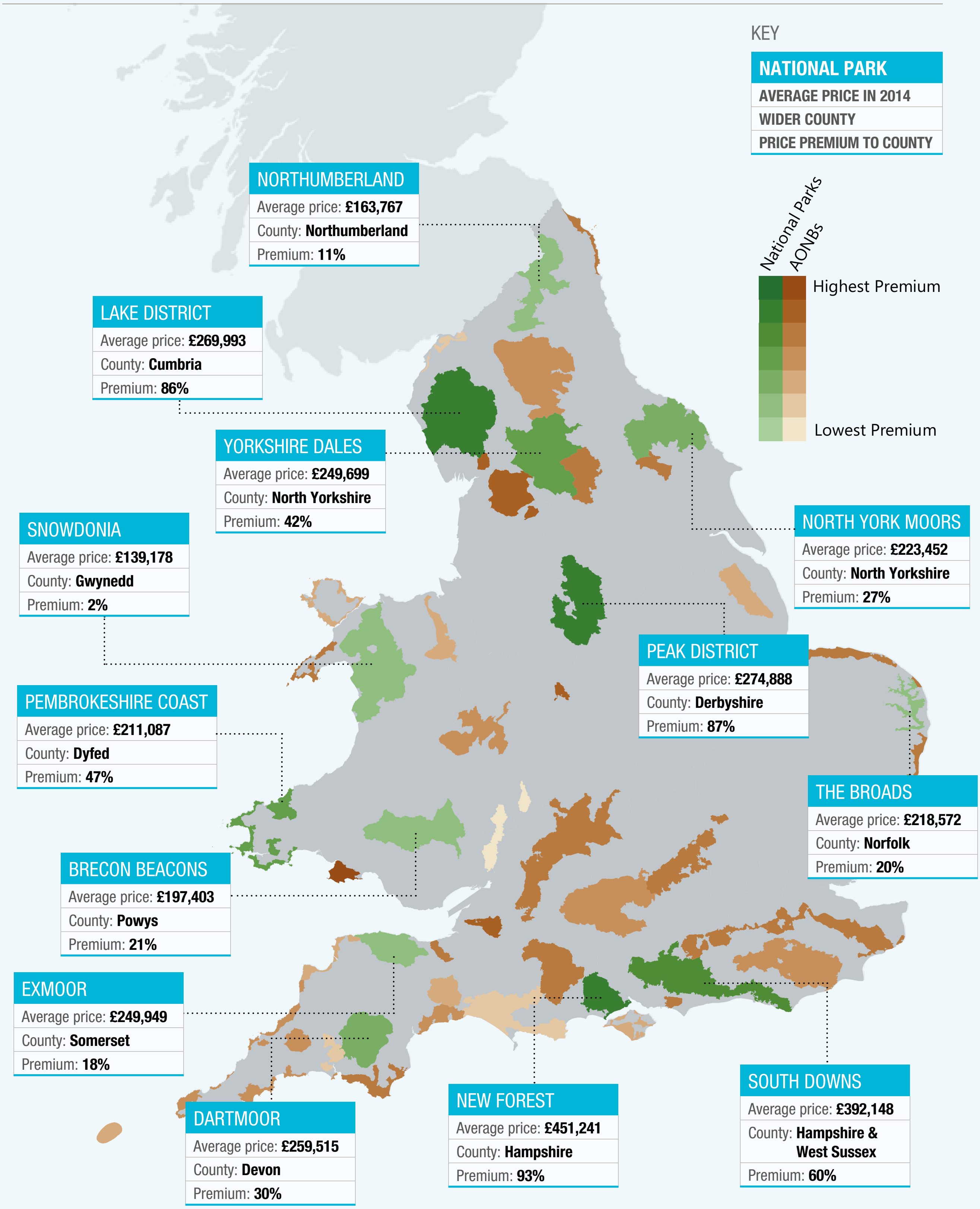
The "London ripple effect" on pricing is evident in other AONBs including the Chilterns which was the second most expensive AONB with an average house price of £464,082, a 61% premium over the wider counties of Oxfordshire and Buckinghamshire.

House prices for properties in the Wye Valley and the Malvern Hills were 6% and 7% below the average for the wider county, the only two areas where a premium was not present.

FIGURE 6

**The National Park / Area of Outstanding Natural Beauty (AONB) premium**

Price difference relative to county (2014)




**Source:** Knight Frank Residential Research / Land Registry

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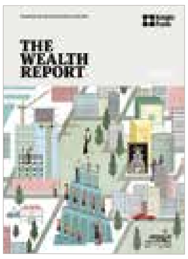


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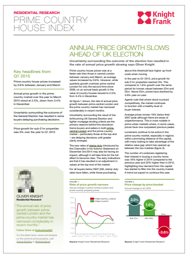


Prime Country House Index Q1 2015


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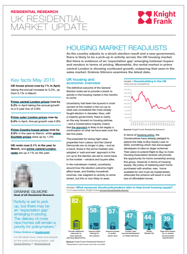


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