

RESIDENTIAL RESEARCH



PRIME COUNTRY REVIEW

UK PRIME COUNTRY HOUSE MARKET
SUMMER 2014

TOWN AND CITY LIVING:
PRIME URBAN V PRIME RURAL

MIND THE
'PRICE' GAP

HOME COUNTIES
LETTINGS UPDATE

KEY FINDINGS

Volume of prime property sales outside London increased by 35% in the year to March 2014, compared with the previous year

Country house prices rose by 4.5% over the year to end Q1 2014

Applicant numbers rose 13% in the year to May 2014

There is a growing trend among buyers towards prime urban living

Robust price rises in commuter locations such as Cobham, Henley, Berkhamsted, Beaconsfield and Oxford



OLIVER KNIGHT
Residential Research

"While rising sales volumes are good news, prime property purchases in England and Wales are nearly 10% lower than the peak of the market in 2007."

TRANSACTIONS RISING

The number of prime property sales outside of London is rising as the economic recovery takes hold, but, as Oliver Knight examines, the market is highly regionalised and transactions remain some way below peak levels.

The turning point for the prime market outside London happened in early 2013 and the recovery has continued in 2014. As the mainstream housing market continues to pick up, with both sales and prices rising, regional prime markets have also strengthened.

Buyers, who had previously remained on the sidelines during the economic downturn, have been buoyed by recent good economic news and started to return to the market. Knight Frank data shows that the number of new applicants registering their interest in purchasing a country property has increased by 13% over the year to May 2014 compared to the same period 12 months previously. The number of property viewings rose by 3% over the same time.

But rising interest among potential buyers tells only half the story. Another measure of the health of the prime market can be achieved by assessing activity.

Across England and Wales, excluding London, annual sales of properties valued at £500,000 and over rose by 35% in the year to March 2014 compared to the previous year, with transactions higher in all regions.

Transactions increased across all price bands, including a 40% jump between £1m and £2m, a 35% rise between £500,000 and £1m and a 22% increase for £2m+ homes, according to data from the Land Registry.

In Scotland, total sales volumes were over 20% higher at the end of Q1 2014 year-on-year.

While rising sales volumes are good news, prime property purchases in England and Wales, excluding London, are still almost 10% lower than the peak of the market in 2007, and in many parts of the country remain even further below where they were at the height of the market.

It is interesting to note how different submarkets have performed over this time.

The growing trend for prime market purchasers to target town and city properties outside of London (page 4) has helped fuel demand for homes in urban markets. Our analysis of Land Registry data highlights the trend towards urban living further.

As can be seen in figure 1, prior to 2010, sales of prime urban and prime rural homes followed a similar pattern. Since then, while both markets have enjoyed a pick-up in demand, there has been a divergence in performance. Town and city markets have seen a much faster rise in activity than neighbouring village and rural locations.

In fact, at the end of March, annual sales of prime urban homes were just 3.3% below their previous market peak in 2007. In comparison, sales of prime rural properties were 18% below peak levels (figure 1).

A full regional breakdown can be found on the map on page 4.

Schooling, transport links and the convenience of having local amenities on the doorstep are big drivers of urban markets.

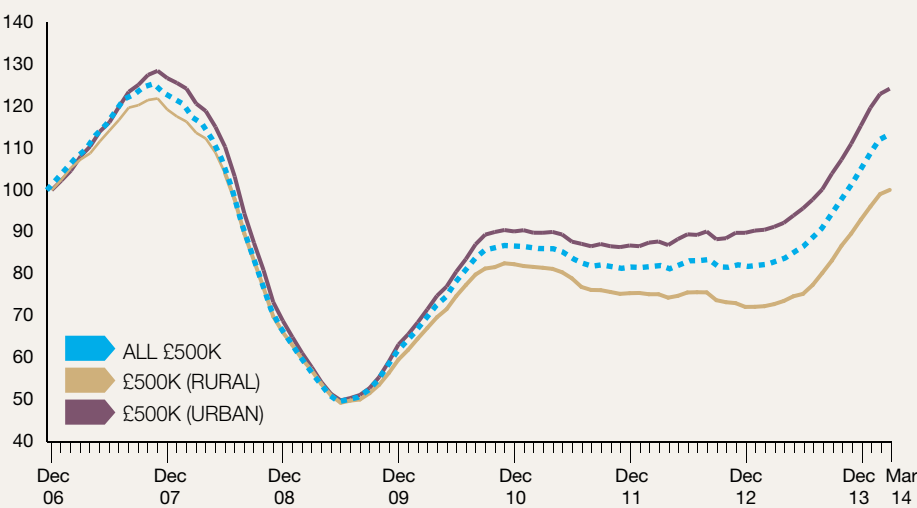
Indeed, most of the best-performing locations, where the number of prime property sales has exceeded previous peaks (figure 5), are home to excellent state, private and grammar schools, which only adds to their appeal. Good transport links back to the capital make them attractive destinations for buyers from London.

The north/south divide is also reflected here with eight of the top 10 located in either the south east or the east of England.

As the wider economy continues to recover, we expect the prime market will grow this year. However, with an election in 2015, and property taxes likely to be high on the agenda, the market may be buffeted by some headwinds in the short term.

MARKET ANALYSIS

FIGURE 1
Transaction levels – prime urban and rural split
 £500,000+ sales in England & Wales (excl. London) split by rural and urban areas (indexed to 100 in Dec 06)



Source: Knight Frank Residential Research / Land Registry / ONS

FIGURE 2
Increased demand for prime country houses
 Annual change in applicant numbers and viewings (year to May 2014)

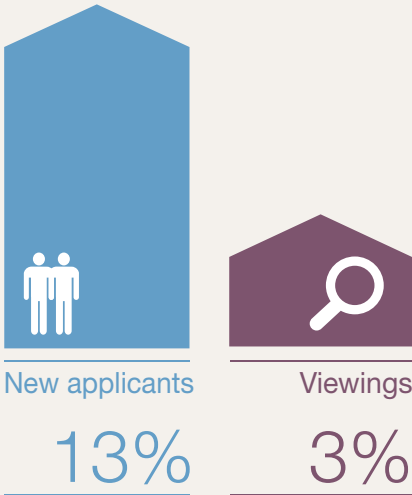
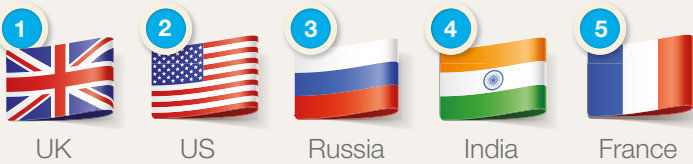


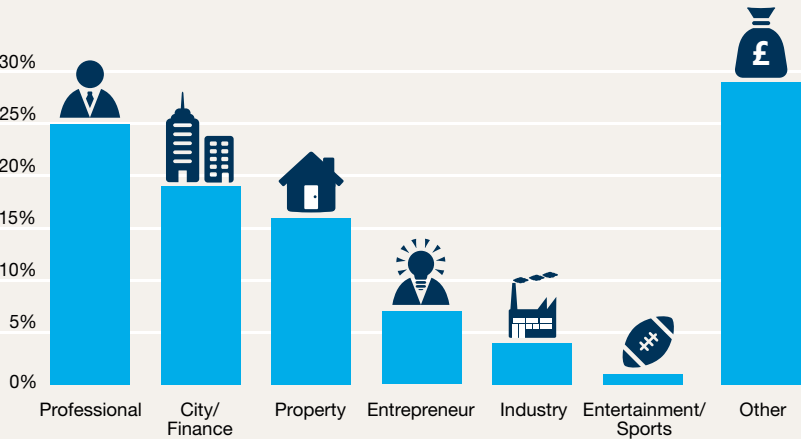
FIGURE 3
Who buys prime country property? (year to May 2014)

NATIONALITY OF BUYERS

Top buyers of prime country homes



SOURCE OF WEALTH



Source: Knight Frank Residential Research

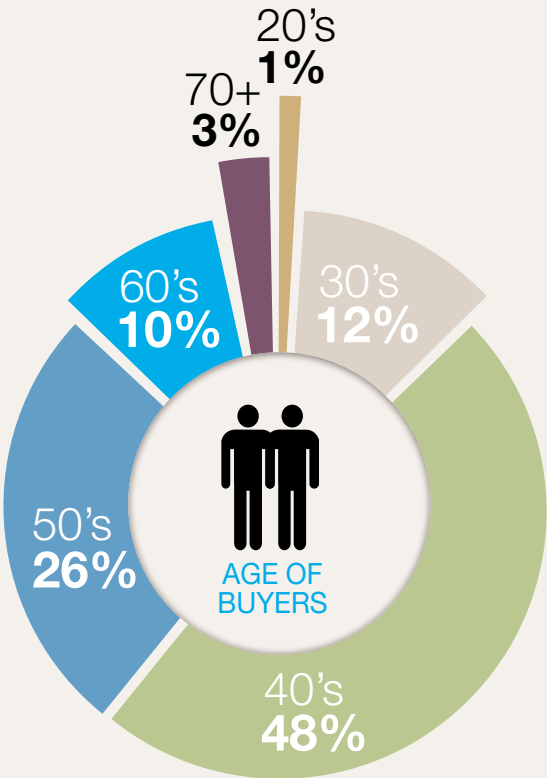
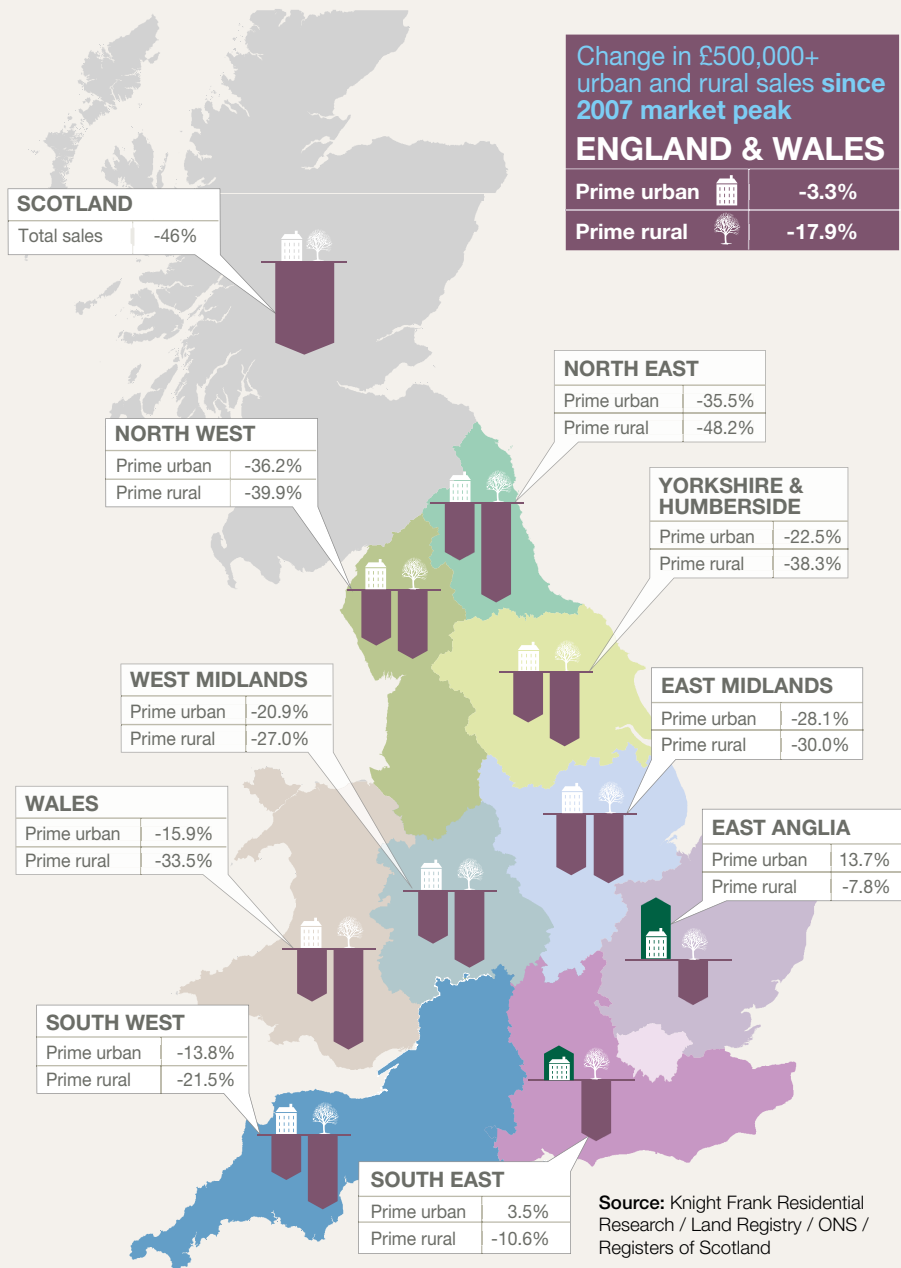


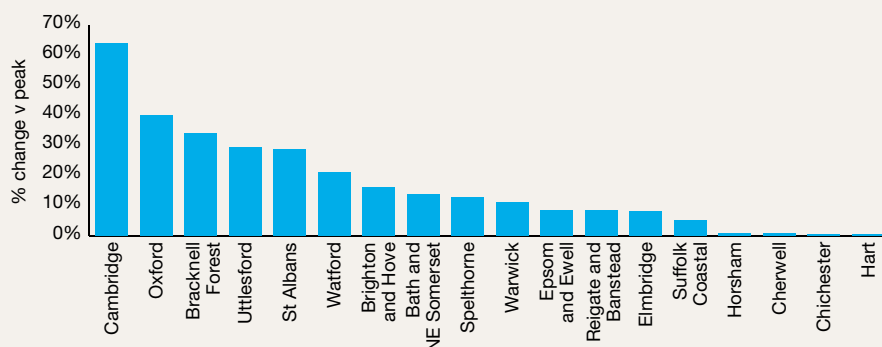
FIGURE 4 Change in prime sales volumes



“Most of the best-performing prime urban locations are home to excellent state, private and grammar schools which only adds to their appeal, while good transport links back to the capital make them attractive destinations.”

FIGURE 5 Volume of sales

Local authorities in England & Wales where £500,000 sales are higher than previous peak (2007 v 2013)



Source: Knight Frank Residential Research / Land Registry

“Price rises have been less dramatic further from London, but for many locations there has been a marked improvement on recent years.”

MIND THE ‘PRICE’ GAP

The prime country property market has been slower to recover than London, but will recent good economic news encourage more buyers to take advantage of the price gap?

The prime country market began to pick up in 2013 and prices have been rising now for five consecutive quarters. Price growth of 1.9% in the first three months of 2014 was the strongest quarterly rise in four years. In the year to the end of March 2014, country house prices rose by 4.5%.

Although this lags behind price growth in prime central London, where values were up by 7.8% in the year to May 2014, it is an indication that price growth is spreading to the prime regional markets.

It seems that rising house prices, increased demand and a lack of stock in London is starting to tempt buyers away from the capital and into the country market.

The flow of wealth has contributed to strong price rises in commuter locations such as Cobham, Henley, Berkhamsted, Beaconsfield and Oxford, while agents in Sevenoaks, Winchester and Guildford have all reported an increase in demand from London buyers.

However, there are large regional differences in terms of price performance.

Price rises have been less dramatic further from London, but annual growth of around 6% in the south west and 4% in central England in the year to March 2014 is still a marked improvement from recent years. In the North, prices have started to rise in recent months, and are up by around 3% on the year.

The prime Scottish market has seen prices rise by around 3% over the last year, while in Edinburgh annual growth of 4.6% was recorded.

As can be seen in figure 6, there remains a large price discrepancy between the prime country and prime London market. This has created an opportunity for buyers, especially those relocating from London who are able to take advantage of the price gap that currently exists.

This has effectively given Londoners who are buying in the country more spending power, which they can use to invest in a larger property or to buy additional land.

As the economy continues to recover and house prices outside London show growth, we expect more London buyers will look to move.

Certainly, demand for prime country homes remains strong, and as we have noted previously we have seen an increase in market activity across the country. Much of this demand has been concentrated on sub-£2m homes. Above £2m the market remains much more sensitive to the increase in stamp duty announced in the 2012 Budget as well as uncertainty surrounding the possible introduction and form of a “mansion tax”.

A flat levy on £2m+ homes was rejected by MPs last year. However, the Liberal Democrats have said that they are looking at ways to introduce new council tax bands for properties above £2m as an alternative. It is likely we will hear more about Labour's plans in the run up to the General Election.

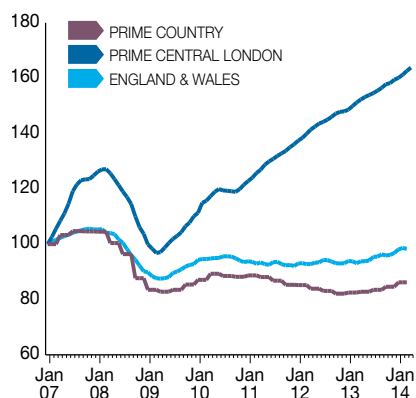
Following the introduction of the higher 7% stamp duty rate for £2m+ homes in March 2012, sales of properties above this threshold in England and Wales (excluding London) fell 28% the month after its introduction, compared with the same month the previous year.

While subsequently the volume of £2m+ sales outside of London has increased, it still remains 11% below the market peak in 2011 (figure 7).

As a result of the increase, some vendors have been more hesitant to bring homes to the market above the £2m threshold with buyers more reluctant to absorb the additional cost.

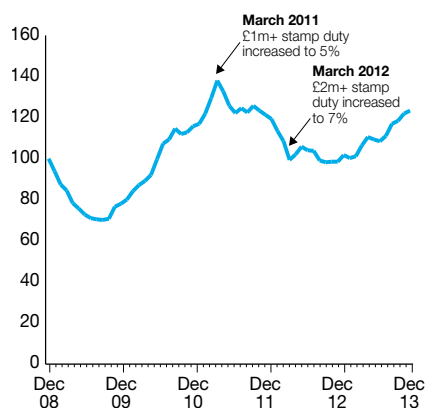
We expect further price growth in the country market in the coming year with positive economic news encouraging more buyers to enter the market.

FIGURE 6
Prices in context
House price change, indexed to 100 in Jan 2007



Source: Knight Frank Residential Research / Land Registry

FIGURE 7
Stamp Duty
Annual sales of £2m+ homes (excluding London), indexed to 100 in Dec 2008



Source: Knight Frank Residential Research / Land Registry



HOME COUNTIES LETTINGS

The number of new applicants registering with Knight Frank lettings agents in the Home Counties rose by 38% in the first three months of 2014 compared to the same period last year. Viewings have increased by 11% over the same time.

This has contributed to a significant rise in the number of tenancies agreed over the course of the quarter, with deals 74% higher year-on-year.

Corporate demand, which traditionally forms a large part of the Home Counties lettings market, is coming from a range of industries with a number of firms looking to recruit new talent. This is particularly the case in the oil and gas, tech and mining sectors. As figure 8 shows, all these sectors have performed relatively strongly in the last six months. The recovery in the finance sector is still tentative.

Prime rents across the Home Counties rose by 0.7% in Q1 2014. The rise did little to reverse the annual decline in rents, which have fallen by 4.3% over the last 12 months.

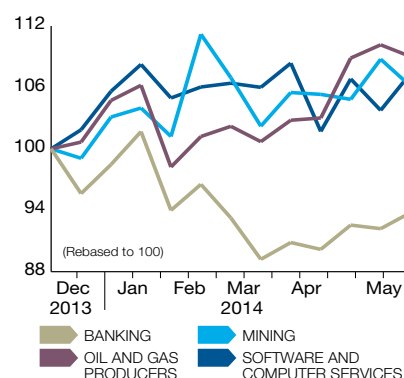
As well as rising corporate demand, there has been an increase in the number of family tenants deciding to rent before buying a property. In line with the strengthening sales market in the area, as price rises begin to ripple out from London, agents are reporting an increase in 'try before you buy' tenants

who want to get to know an area before making a commitment to purchase.

Such tenants often use this as an opportunity to test transport links, familiarise themselves with local amenities and scout out good schools.

Rents rose or were unchanged in five of the seven areas covered by our index in the first quarter of the year. In addition to a 4.9% rise in Guildford, there were rises of 3.6% in Beaconsfield, 3.5% in Virginia Water and 1.1% in Ascot. In Henley, rents were unchanged compared to the previous quarter.

FIGURE 8
Share performance of FTSE 350 by
industry sector



Source: Knight Frank Residential Research

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