



# PRIME COUNTRY REVIEW

ASSESSING THE PERFORMANCE OF THE  
UK PRIME COUNTRY HOUSE MARKET  
**Q4 2013**



## KEY FINDINGS

Prime country house prices **increased in value by 0.8% in Q3 2013...**

...but there are large variations in price growth depending on location **with the largest price rises in commuter towns close to London**

**Demand for prime country homes has been strong so far in 2013**, with an increase in both demand and sales volumes across the prime market...

...this increase in buyer activity helps to inform our positive outlook for the prime country market **with prices expected to rise in 2014**



OLIVER KNIGHT  
Residential Research

*"There has been an increase in both demand and sales volumes across the prime market. Much of this is, however, concentrated in the sub-£2m market."*

## COUNTRY DIVIDE

Average prices for prime country homes in the UK are starting to rise, but remain around 20% below their market peak in Q3 2007. Oliver Knight examines the key factors influencing the market.

Following three years of falling prices, the prime country house market has come back to life this year, with three consecutive quarters of price growth. The average price of a prime country house has increased by 1.7% since the start of the year.

One of the key questions for the market, however, is whether this price growth will gain momentum in 2014.

Certainly, demand for prime country homes remains strong, and we have seen an increase in market activity and sales volumes across the market. Much of this demand is, however, concentrated on sub-£2m homes. Above £2m, the market has been much more sensitive to the increase in stamp duty announced in the 2012 Budget. As a result, vendors have been more hesitant to bring homes to the market and buyers more reluctant to absorb the additional cost.

However, for sub-£2m property, the number of buyers registering their interest in purchasing a country house has increased by 8.3% so far in 2013, compared to the same period in 2012, while the number of sales agreed is up by 19% year-on-year.

This increase in activity has had an impact on pricing at this level with average values of sub-£2m prime properties increasing on an annual basis by 1.8%.

Comparatively, the average price of homes valued between £2m and £5m has fallen by 1.1% over the last 12 months, while prices of super-prime £5m+ homes have fallen by 0.2% on an annual basis (figure 3).

As well as variations between price brackets, we are also seeing significant regional differences. The strongest price rises have been concentrated in locations within commuting distance of London. Prices in the South East, for example, are 1.7% higher than in Q3 2012 with price rises here also supported by increasing confidence in the regional economy.

Our analysis of the ten most searched-for counties by visitors to Knight Frank's property search website in 2013 confirms

the popularity of properties within London's commuter zone.

Six of the most popular counties are markets located within commuting distance of the capital, headed by Surrey. Hampshire and Oxfordshire are next on the list followed by Gloucestershire and Devon. Warwickshire, Kent, Buckinghamshire, Worcestershire and West Sussex complete the top ten.

### A mixed picture

As the wider economic picture improves throughout the UK, confidence in the housing market is beginning to spread. The [Knight Frank/Markit House Price Sentiment Index](#) is at its highest level in three and half years with households in all regions of the UK expecting the value of their property to increase over the coming 12 months.

The introduction of Help to Buy and other Government-backed schemes has played a part in improving sentiment in the UK property market, where Nationwide reports that house prices were 5.8% higher in the year to October 2013. Agents report they are seeing this confidence begin to filter into the prime country house market.

Indeed, our [UK Prime Country House Index](#) reveals that prime country property values increased by 0.8% in the third quarter of 2013, a modest increase but still the largest rise in over three years.

However, the gap between residential property values in prime central London and the country market continues to widen. While prices for London's best homes are 24% higher than their previous peak before the financial crisis, country house prices remain 20% below their respective high. This disparity in pricing between the prime country and prime London markets is something we examine in more detail later in this report.

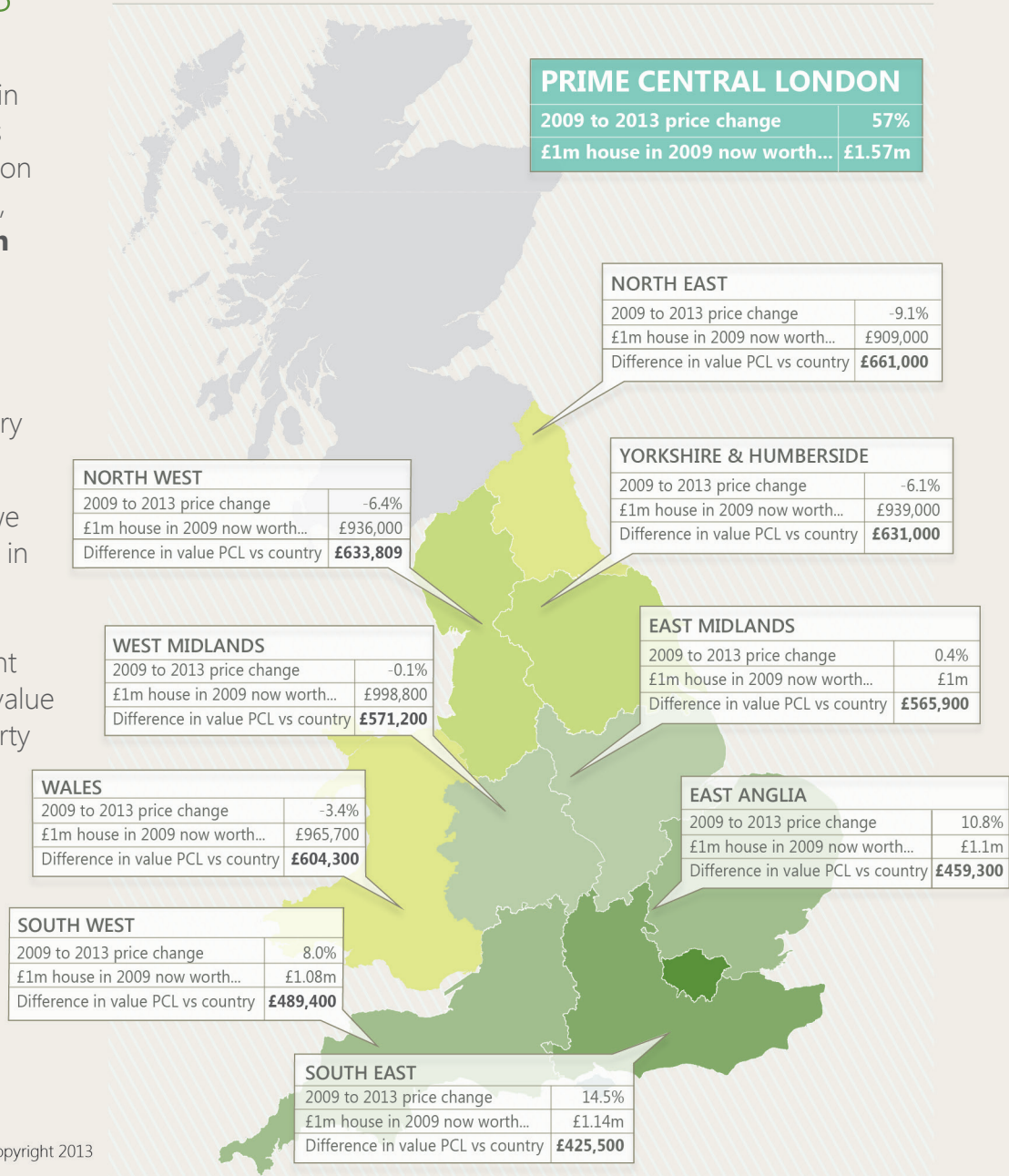
# LONDON OUTPERFORMS

Since January 2009, the average price of a home in prime central London has increased by 57%. Based on this average price growth, **a prime central London property purchased in 2009 for £1m is now worth £1.57m.**

But what would an equivalently-priced country home now be worth?

In the following graphic we take a look at the change in value for a £1m property across the UK using Land Registry data and highlight the current difference in value between a country property and one in prime central London.

**FIGURE 1 Moving to the country – more bricks for your buck?**  
Price performance in prime country market since 2009, and disparity with PCL

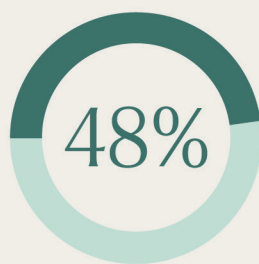


Source: Knight Frank Residential Research/  
Data produced by Land Registry © Crown copyright 2013

**FIGURE 2 Buyer profiles – who buys prime country property?** (12 months to Q3 2013)



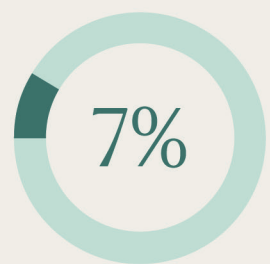
of buyers purchased a property worth up to £2 million



of buyers were in their 40s

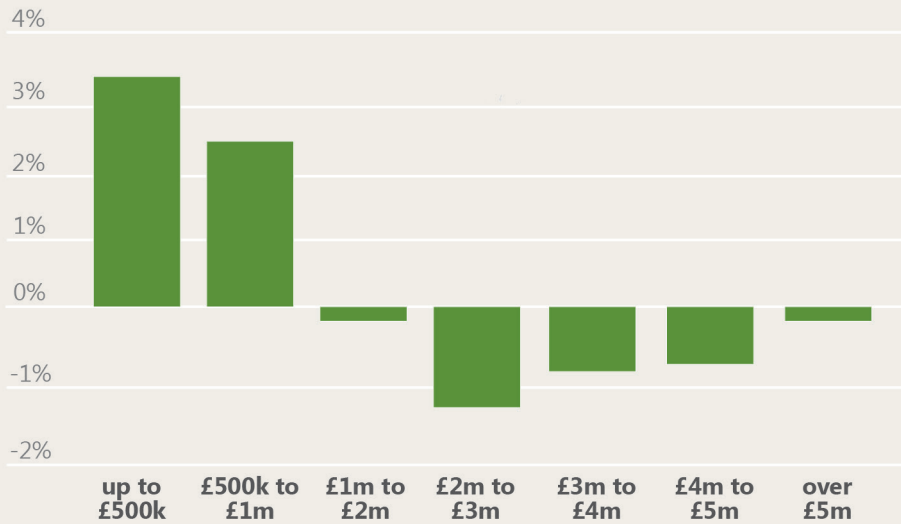


of buyers worked in financial services



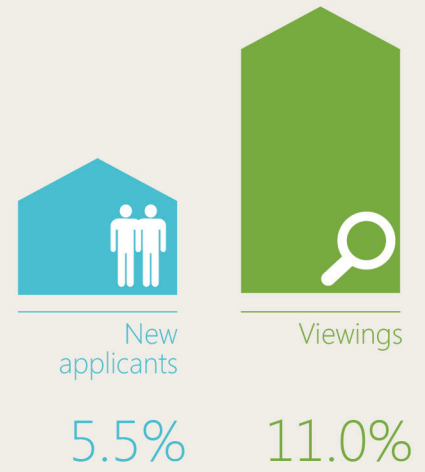
of buyers purchased their country house as a second home

**FIGURE 3 Annual prime country house price changes by price band**  
(Q3 2012 - Q3 2013)



Source: Knight Frank Residential Research

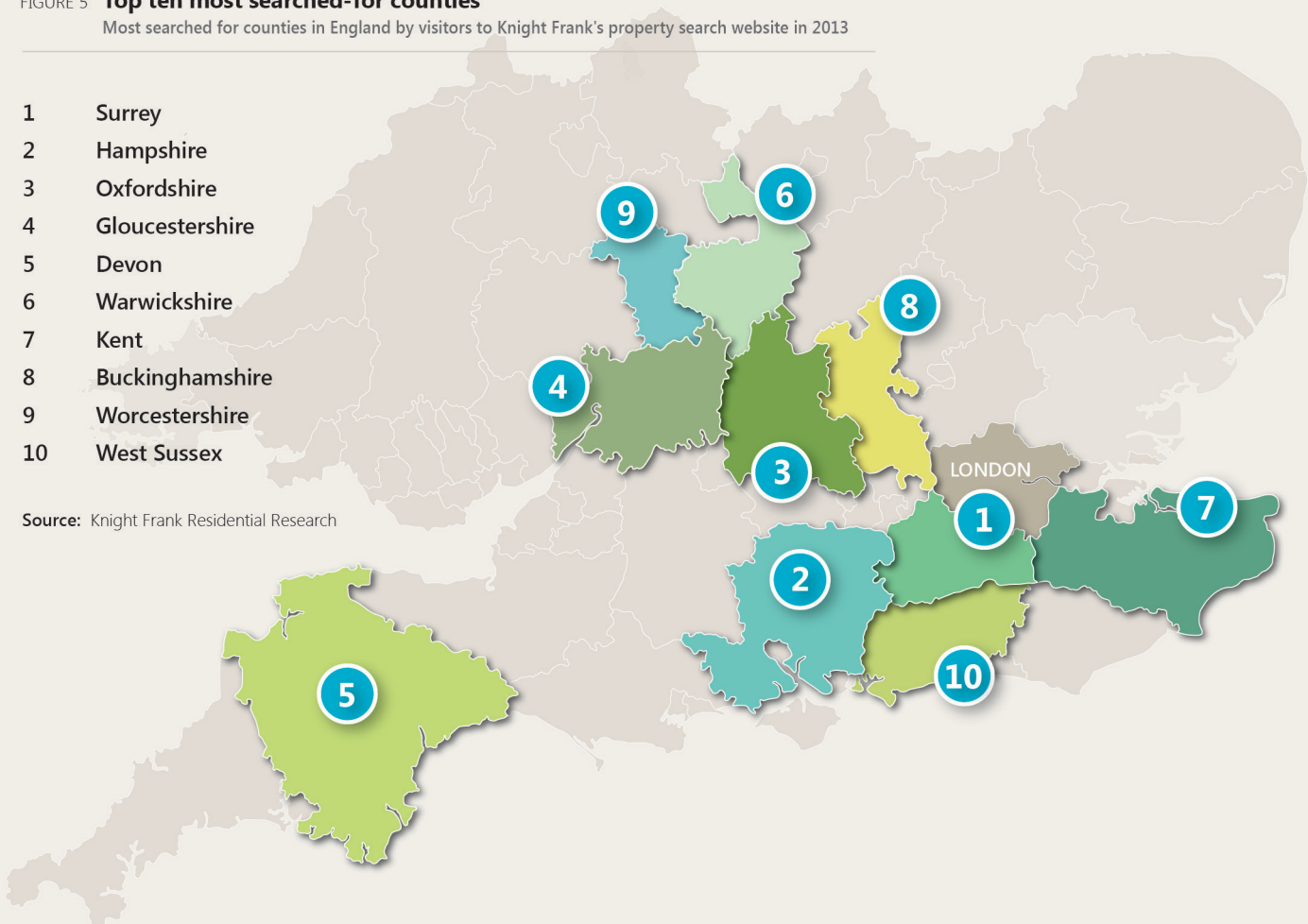
**FIGURE 4 Increased demand for prime country houses** (2013 year to date v comparable period of 2012)



Source: Knight Frank Residential Research

**FIGURE 5 Top ten most searched-for counties**  
Most searched for counties in England by visitors to Knight Frank's property search website in 2013

- 1 Surrey
- 2 Hampshire
- 3 Oxfordshire
- 4 Gloucestershire
- 5 Devon
- 6 Warwickshire
- 7 Kent
- 8 Buckinghamshire
- 9 Worcestershire
- 10 West Sussex



Source: Knight Frank Residential Research

## GREEN SHOOTS

Prime UK country house prices are forecast to increase in 2014 as the regional economy strengthens and buyer confidence returns to the market.

*“We expect that location and price will have the greatest bearing on price growth in 2014.”*

The increase in buyer activity seen so far in 2013 helps to inform our positive outlook for the prime country market. Improving economic conditions should boost confidence, increasing stock on the market and transaction levels. However, stamp duty will weigh on activity in the market over £2m.

The number of new applicants registering their interest in buying a prime country home in the first ten months of 2013 was 5.5% higher than in the same period of 2012, and property viewings are up over the same period by 11%.

This increase in activity has led to a rise in the number of prime country house transactions, which are around 19% higher in 2013 compared to the same period of 2012. We forecast that this market activity will continue to increase as buyer confidence returns.

However, there are likely to be significant regional variations in house prices across the UK, with property markets in the north of England lagging behind those in the south, where growth has been boosted by the rise in property values in London and the surrounding commuter towns.

As has been the case through 2012 and 2013, we expect that location and price will have the greatest bearing on growth, with property within commutable distance of London, and the sub-£2m market, forecast to see the strongest performance in 2014.

Demand from London buyers has been slow to filter out to the regions but we expect the wealth that has remained in London for so long should soon start to spread more around the South East.

As we examined in our recent [London Review](#), price growth, which has been concentrated in prime central London until recently, is beginning to filter out into the London suburbs and adjacent markets.

Increased buyer demand will underpin prices, but the increased cost of moving home for those in the £2m+ market may affect activity above this level, especially in markets outside of the South East.

However, we also expect to see improving performance from key regional markets around prime towns and cities.

## HOME COUNTIES LETTINGS MARKET

**The number of new tenancies agreed in the Home Counties over the last 12 months is 27% higher on an annual basis, driven by demand for houses and apartments in the sub-£5,000 pcm price bracket.**

This market is closely aligned to business confidence and demand from staff relocating to work in London, or for one of the blue chip companies based in the Thames Valley, forms a large part of demand in the market.

While corporate demand is not yet back to the levels seen before the financial crisis, it has been strong over the past year.

Activity levels in the Home Counties lettings market confirm this, with the number of

viewings conducted across the Home Counties over the last 12 months 29% higher year-on-year. The number of new instructions is up by 40% over the same period.

In spite of the increase in market activity, prime rents in the region have fallen by 2.7% annually. Agents report that landlords have been willing to lower asking rents in order to keep vacancy periods to a minimum.

Traditionally workers from the finance sector have been a mainstay of corporate demand, accounting for a large percentage of all corporate lets, but this year other sectors have grown in importance as financial firms continue to reassess headcounts

and streamline operations. Large energy companies in particular have been actively hiring.

Additionally, the market attracts a significant number of international tenants.

The Home Counties appeal to tenants relocating from abroad largely because of the excellent local schools, both private and state, the easy commute to central London, as well as the promise of more living space than can be found in the city.

Over the last 12 months, around 49% of tenants in this prime rental market came from overseas. In this time, Knight Frank has let properties to international tenants from America, South America, Canada, South Africa, France, Russia and Australia.



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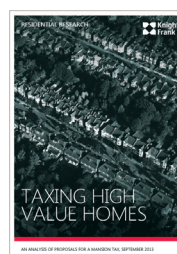
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[The Wealth Report 2013](#)



[International Buyers in London Report Oct 13](#)



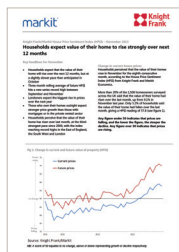
[Taxation of Prime Property Report 2013](#)



[London Review Autumn 2013](#)



[UK Residential Market Update October 2013](#)



[House Price Sentiment Index \(HPSI\) Nov 13](#)



[UK Prime Country House Index Q3 2013](#)



[UK Prime Scottish Property Index Q3 2013](#)

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