



PRIME
COUNTRY
REVIEW
WINTER 2016

KEY FINDINGS

Prime country property prices have risen by 0.5% over the year to September 2016

Price change is increasingly dependent on property value following a series of tax changes

47% of respondents to our survey said they would be more likely to buy a house in an area with good internet connectivity or superfast broadband

Quality of life is the primary motivating factor for moving house, followed by either upsizing or downsizing, our survey shows

MARKET UPDATE

The prospect of Brexit may have added to a climate of uncertainty, but it is changes to property taxation that remain the primary driver of the market

Price growth in the prime country house market peaked in mid-2014. While it may have lagged behind London's more headline-grabbing growth during that period, an annual increase of 5.2% was the steepest rise in four years.

Since then, price growth across the market has moderated and currently stands at 0.5% over the year to September 2016.

While this headline figure suggests that the market has been relatively subdued, the slowdown in price growth is just a reflection of a market adjusting to a series of tax changes and, to a lesser extent, economic uncertainty resulting from the recent vote to leave the EU.

The wholesale reforms to stamp duty announced in December 2014, and subsequent introduction of a 3% surcharge for individuals purchasing additional properties, have succeeded in making buyers more price sensitive, and this has been factored in to asking prices and offers.

The results of our exclusive buyer survey, which we look at in more detail on pages 4 and 5, confirm this, with over 50% of respondents saying that their budgets had either been reduced following the changes, or that they planned to stay longer in their next property as a result.

A similar trend has been observed in the prime markets across Scotland following the

introduction of Land and Buildings Transaction Tax (LBTT) in April 2015.

As a result, we have seen the creation of a two-speed market where price growth is increasingly influenced by value. Homes worth under £1 million have gained 7.7% since the end of 2014, compared with 0.2% growth for properties worth over £2 million where the highest rate of stamp duty applies.

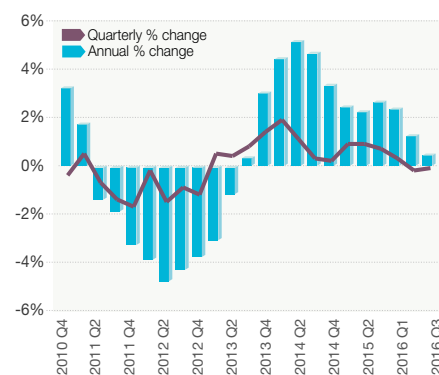
The strongest markets continue to be affluent towns and cities that have outperformed their more rural counterparts, although this differential has narrowed in the last six to 12 months as buyers look to take advantage of the relative value offered by rural markets.

While the EU referendum did create some uncertainty, demand across the market has remained resilient in the wake of the UK's vote to leave.

Our analysis shows that the volume of new buyer registrations and viewings conducted across the prime market over the year to September remains in line - and even above - historical trends for the past few years, suggesting that the appetite for property remains robust.

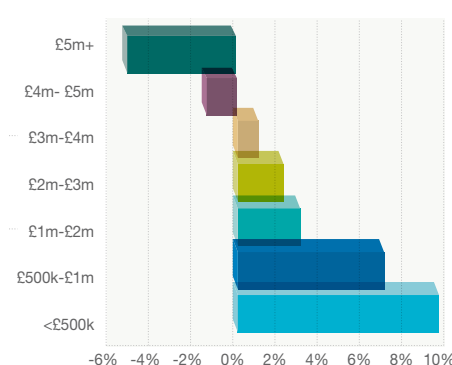
However, sensible pricing remains key, especially for properties valued above £1.5 million where the highest rate of stamp duty applies.

FIGURE 1
Prime country price change



Source: Knight Frank Research

FIGURE 2
Country price change, by value
Annual, to Q3 2016



Source: Knight Frank Research

GOOD CONNECTIONS

Access to good transport links is often cited as being essential to buyers but, as our survey reveals, it's not the only connection they look out for

Nearly half (47%) of respondents to our survey of more than 500 buyers active in the prime market (pages 4 and 5) said they would be more likely to buy a house in an area with good internet connectivity or superfast broadband, highlighting just how important home internet speeds and capacity are to buyers.

A further 32% of respondents said they would research an area's internet connectivity, or ask an estate agent about broadband speeds, before buying a house.

In an age of Wi-Fi, tablets and streaming, it is unsurprising that fast and reliable internet access is seen as a necessity among home movers. In fact, with 61% of respondents saying that superfast broadband and good mobile coverage was either very or fairly important, it ranks ahead of a good view or secure parking in terms of attributes.

Technology improvements including fast, reliable internet have meant that working from home is a viable option for many, potentially cutting down on both commuting

time and costs. This is likely to be particularly relevant for buyers in more rural property markets. The most recent figures from the Office for National Statistics (ONS) show that the number of home workers is at its highest level since records began.

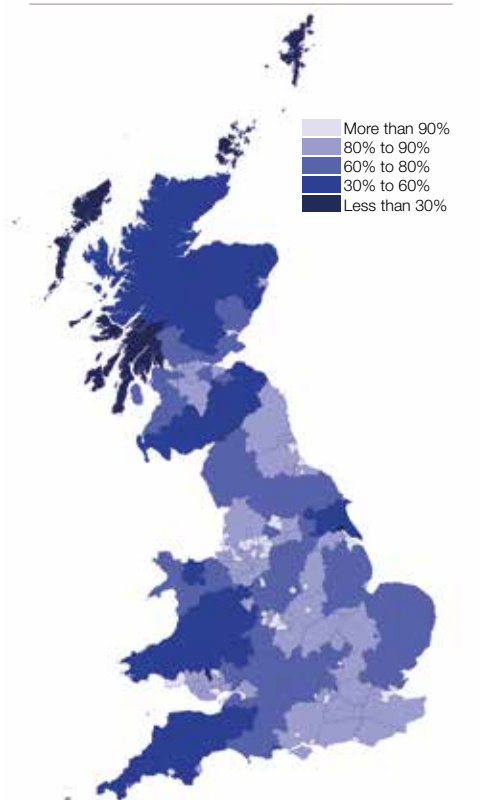
As a result, the need for fast broadband can be a stumbling block for some buyers, especially those moving from urban areas to more rural ones, with broadband speeds and availability changing significantly across the UK.

The proportion of respondents who said they would research an area's internet connectivity, or ask an estate agent about broadband, rose to 47% if the preferred location for a new property was in the countryside.

The UK government has stated its aim is to bring superfast broadband to over 95% of the UK by 2017.

The map on the right highlights the different levels of broadband coverage across the country. Areas which are dark blue indicate

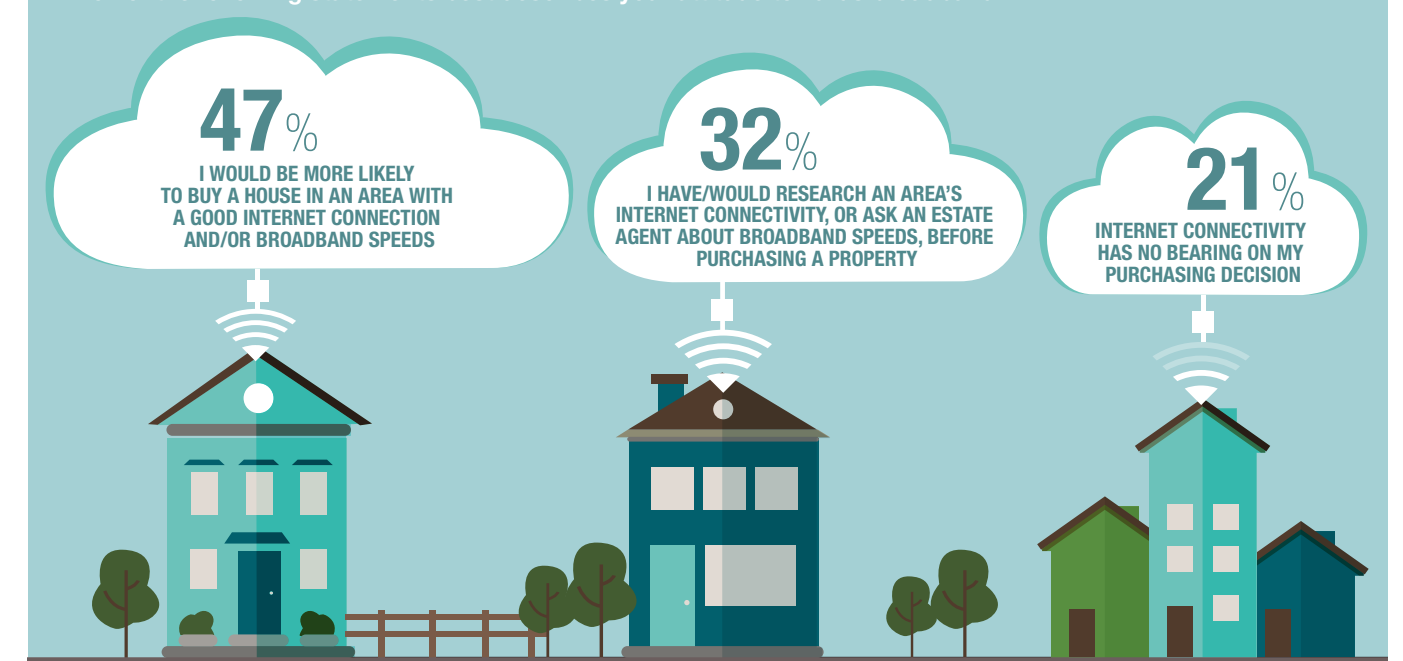
FIGURE 3
Superfast broadband availability
by local authority



Source: Ofcom

a lower level of availability of superfast broadband, with light blue areas the best connected.

FIGURE 4
Which of the following statements best describes your attitude towards broadband?



Source: Knight Frank Research



OLIVER KNIGHT
Associate

"We have seen the creation of a two-speed market across the country whereby performance is increasingly influenced by value"

KNIGHT FRANK BUYER SURVEY

Our exclusive survey of over more than 500 buyers gives an insight as to the changing demands across the market

REASONS FOR MOVING

While many of the reasons for moving vary across the UK, 'quality of life' is undeniably the primary motivating factor, selected as the most important reason by **43%** of respondents.

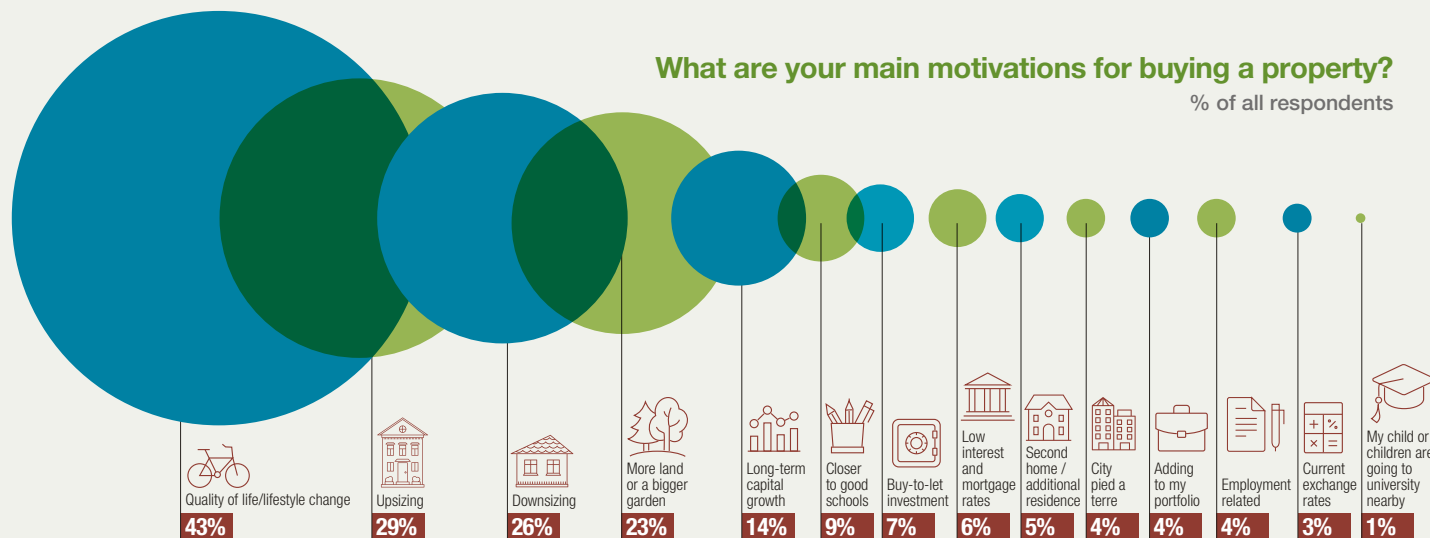
Moving up (**29%**) or down (**26%**) the ladder are also key drivers, featuring at number two and three on the list of what motivates our respondents to move respectively.

Downsizing was, unsurprisingly, more popular among those aged over-55 (**45%**), while younger homebuyers were more likely to be looking to move to a larger property (**43%**), or one with a bigger garden or more land (**31%**).

Good schools are often cited as a big draw for buyers and this was especially noticeable among 35-44 year olds. More than a quarter

(**26%**) of respondents in this age bracket said it was one of their main motivations for moving, compared to (**9%**) overall.

London buyers were much more likely to cite long-term capital growth as a motivation for buying (**23%**) compared with those elsewhere in the UK (**10%**), perhaps reflective of the strong growth seen in the capital following the financial crisis.



ATTRIBUTES

Privacy and security (**67%**) and having a garden or access to land (**67%**) were considered the most important attributes of a new home among respondents to our survey.

Across the UK, having a superfast broadband connection or good mobile coverage (**61.4%**) was thought to be slightly more important than a good view (**60.8%**), highlighting just how important digital connectivity is for buyers.

Regionally, there are a number of variations. Most notably in the South West where a good view was considered very or fairly important among **68%** of respondents, perhaps reflecting the large number of coastal hotspots, national parks and areas of outstanding natural beauty in the region.

What attributes are important when buying a property?

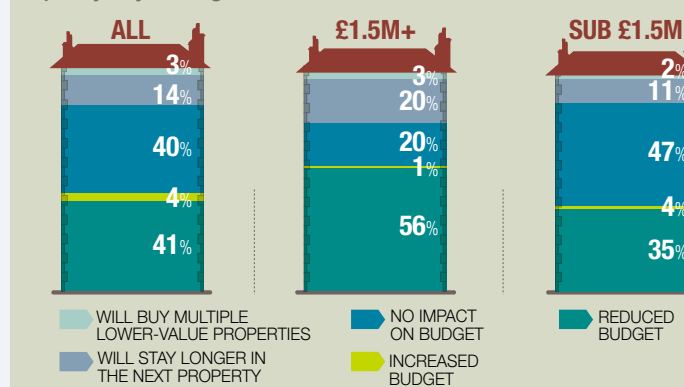
% of all respondents who said property attribute was very or fairly important



STAMP DUTY

What effect have reforms had?

Split by buyer budget



Some **41%** of prime buyers have reduced their budget as a result of changes to stamp duty in December 2014 and, more recently, April 2016. This increases to **56%** for those with a budget over £1.5 million – the level at which the highest rate of stamp duty is applied.

A further **14%** of buyers said that they would stay longer in their next property as a result of stamp duty changes, rising to **20%** for those with higher budgets.

As well as variations by price band, there were also differences by age bracket. Some **47%** of over-55s reported that the changes have had no impact on their budget, although this may be explained by the fact that nearly half (**45%**) of older movers were also looking to downsize to a smaller property.

LOCATION, LOCATION, LOCATION

Some **30%** of respondents to our survey said that the preferred location of their next home was in a city. A quarter of respondents (**25%**) said they would like to move to a village, while just fewer than a fifth (**19%**) said they would prefer a countryside location.

The popularity of city living reflects a wider trend among buyers since the financial crisis towards living within thriving urban locations, which have outperformed their more rural counterparts in terms of price growth since the market downturn.

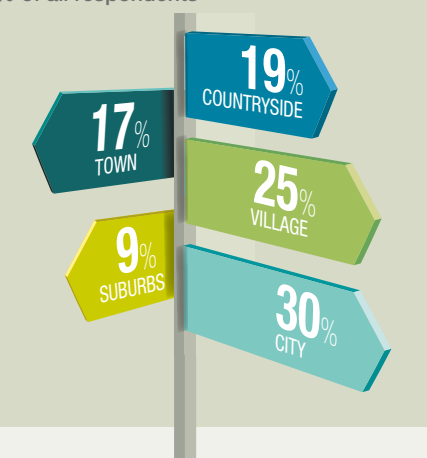
Key to this outperformance has been the demand among buyers to live in towns and cities with good schools, transport links and amenities.

This desire for convenience is also evident among those looking to move to a more rural location. Of the **44%** who said they want to move to the countryside or a village, proximity to transport links or amenities were the second most important considerations.

Overall, being close to parks and green space was considered the most important factor in terms of location with **66%** of all respondents saying this was either very or fairly important. Among 35-44 year olds proximity to good schools was considered either very or fairly important by **64%** of respondents.

What is the preferred location of your next home?

% of all respondents



How important are the following in terms of property location?

Split by preferred location of next home



REGIONAL FOCUS

Knight Frank's property experts offer a detailed insight into selected prime regional markets across the UK.



SCOTLAND

Policy continues to be the big driver of the market in Scotland, although there are grounds for optimism.

Land and Buildings Transaction Tax (LBTT) is still dominating our conversations with buyers at the moment, with higher purchase costs in the prime market generally motivating them to negotiate harder. This has had a knock-on impact on prices, which have fallen slightly over the last year. In spite of this, the market continues to perform with viewings and deals being done, especially in key cities. Generally speaking, if a property is of the right quality and is accurately priced then there is competition for it. Given the wider political and economic uncertainty in Scotland at the moment, potential vendors, who have not "had to" sell, have been reluctant to test the market. Despite this, following the EU referendum we have experienced a pick-up in interest from overseas as potential buyers look to take advantage of sterling's recent slide – this is a trend we expect to continue.

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SOUTH WEST

There have been notable variations in terms of performance across the prime markets in the South West.

There are a number of significant trends that have emerged across the South West in the past year. One is the growing demand among buyers for property in more rural areas, with Dorset a particular hotspot. Villages and small towns surrounding Bristol, Bath and Winchester have also been in high demand. Across the region, purchasers have been heavily influenced by the recent increase in stamp duty for second home buyers and investors in April 2016. As a result, there has been a real "flight to quality" from buyers that has resulted in competitive bidding for the best homes. Activity levels remain strong in spite of wider uncertainties – our data shows a 9% increase in prospective buyers registering with our offices so far this year compared with last, as well as a 19% jump in viewings and a pick-up in terms of properties being listed for sale – this bodes well for the remainder of the year.

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YORKSHIRE AND NORTH

There are some trends which unite many local markets – and one of these is a continued lack of stock.

Low stock levels have underpinned pricing in some respects, especially in more urban markets where demand has been strongest but also in popular village and rural settings. Increasingly we've found that buyers are being pragmatic in this low-stock environment and – if they have already sold their home – are willing to rent until the perfect property becomes available. As a result, there has been competition for the best homes, provided they are priced sensibly. While the bulk of demand has come from buyers moving within the local area, there remains healthy interest from individuals relocating from the South. Many such buyers recognise that the relative price differential between markets in Yorkshire and the North compared to Southern England means their budgets stretch much further.

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CENTRAL

The prime market in the Cotswolds has been particularly buoyant in 2016 compared with the previous year.

We have seen a 24% increase in the number of sales completed with a value above £2 million across the Cotswolds in the first ten months of 2016 compared with the same period last year. Some 55% of those deals were completed in the four months subsequent to June's referendum on EU membership. This suggests that, so far, the vote has had a minimal impact on buyer activity at the top end of the market. Our experience is that stamp duty has been a bigger hurdle. Buyers remain very price conscious following successive increases to stamp duty, which culminated in the changes introduced in April 2016. In some cases this has led to an imbalance between vendor and purchaser expectations, but generally people are now starting to meet in the middle. The recent fall in the value of the pound relative to other currencies has encouraged an increase in the number of international buyers.

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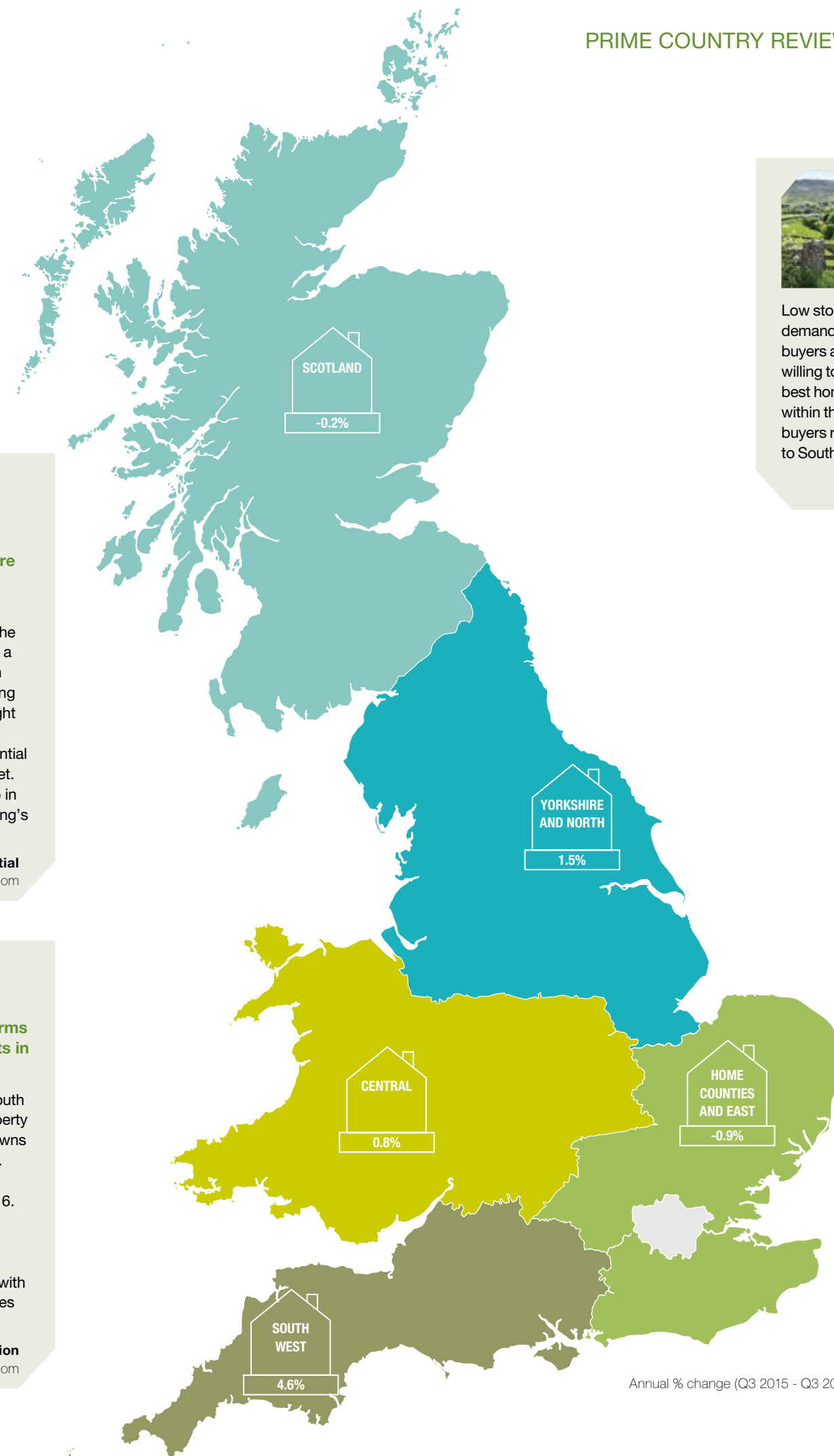


HOME COUNTIES AND EAST

Demand has been underpinned by a notable increase in the number of buyers choosing to relocate from the capital.

The number of Londoners buying property in the Home Counties so far in 2016 was 36% higher than the previous year. As prime markets in the capital pause for breath, buyers have been tempted by the extra space and relative value on offer, especially in town markets. An easy commute back to the city and proximity to good schools are often the key considerations for such buyers. Demand has been strongest for sub-£1.5 million properties and we have seen fairly consistent trading below this threshold this year. However, a number of these deals are subject to long chains and, as a result, completion times have increased. Higher purchase costs as a result of successive increases to stamp duty remain an issue for the most expensive homes.

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Annual % change (Q3 2015 - Q3 2016)



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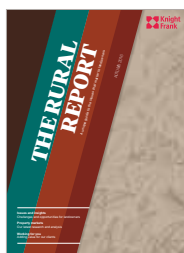
PCL Rents - September
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Home Counties rents



The Wealth Report
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The Rural Report -
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Country House Index
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UK Residential Market
Update



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