

TAX CONCERNS DAMPEN DEMAND

Prices rose for the seventh consecutive quarter between June and September, but there are signs that the market is slowing. Oliver Knight examines the latest figures.

Results for Q3 2014

Prime property values increased by 0.3% in Q3 2014, the slowest rate of growth in nearly two years

Annual price growth in the country house market is 4.7%

The number of sales completed so far this year is 8.4% higher than the same period of 2013

But there are signs that momentum is easing. The number of new buyers registering fell by 9% year-on-year

Concerns over the introduction of a mansion tax, an impending interest rate rise and tighter mortgage lending meant that quarterly price growth in the country house market slowed to its lowest level in almost two years between June and September.

Prime property values increased by just 0.3% in the third quarter of 2014 while annual growth also slowed, to 4.7%.

Despite these concerns, there hasn't been a noticeable impact on sales volumes and the total number of exchanges completed so far this year was 8.4% higher than the corresponding period last year. The rising number of exchanges suggests that underlying demand has remained strong.

However, there are signs that this momentum is easing. While the number of property viewings was fairly steady during the three months to the end of September compared to the same period last year, the number of prospective buyers registering their interest in buying a prime country home fell by 9%.

Anecdotal evidence would suggest that concerns surrounding the possible

introduction of a "mansion tax" on properties worth more than £2 million after next May's general election are becoming more widespread among both prospective buyers and vendors.

Any further property tax would come on top of the large contribution purchasers of high value property already make in the form of stamp duty. Data for the 2013/14 tax year shows that across England & Wales over £1bn of stamp duty revenue, of the total £6.4bn annual tax take, was collected from the £2 million-plus price bracket alone.

Price growth over the last quarter was strongest in the South West, at 1%, followed by Yorkshire and the Humber. On an annual basis, prime homes in these areas have risen by 7.7% and 5.1% respectively.

Prime town and city markets across the UK have benefited from rising demand from those relocating from London and downsizers and price changes in urban locations have reflected this. Growth of 1.3% was seen in the three months to the end of September, while annual growth totalled 8.9%.



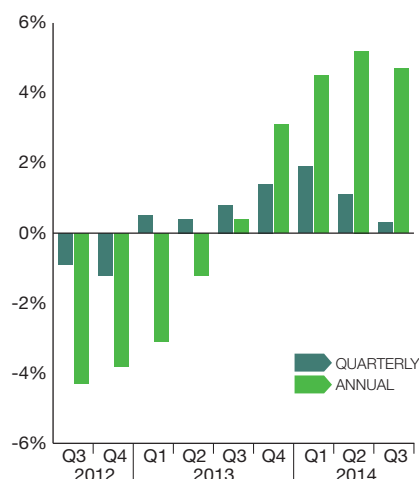
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"The rising number of exchanges suggests that underlying demand has remained strong."

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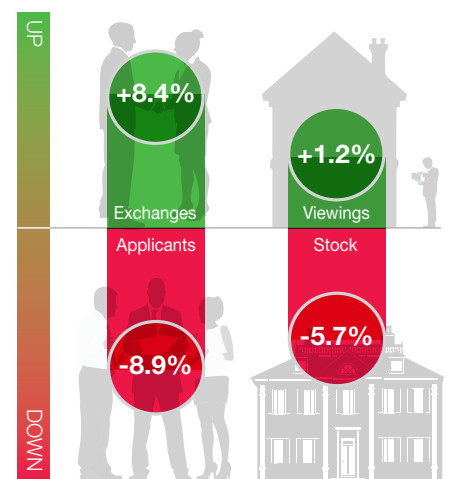
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FIGURE 1
Quarterly and annual price change



Source: Knight Frank Residential Research

FIGURE 2
Ups and downs in the prime country market



Source: Knight Frank Residential Research

PRIME COUNTRY HOUSE INDEX

Knight Frank Prime Country House Index

	Cottage	Farmhouse	Manor House	Unweighted average	
AVERAGE QUARTERLY CHANGE	2012 Q4	-0.2%	-0.4%	-2.7%	-1.2%
	2013 Q1	0.9%	0.6%	0.1%	0.5%
	2013 Q2	1.1%	0.4%	-0.2%	0.4%
	2013 Q3	1.4%	0.9%	0.3%	0.8%
	2013 Q4	1.7%	1.8%	0.9%	1.4%
	2014 Q1	3.3%	2.4%	0.5%	1.9%
	2014 Q2	1.6%	1.0%	0.8%	1.1%
	2014 Q3	0.8%	-0.1%	0.3%	0.3%
	AVERAGE ANNUAL CHANGE	2012 Q4	-2.9%	-3.8%	-4.4%
2013 Q1		-1.8%	-3.1%	-4.0%	-3.1%
2013 Q2		1.2%	-0.5%	-3.6%	-1.2%
2013 Q3		3.3%	1.5%	-2.5%	0.4%
2013 Q4		5.3%	3.7%	1.0%	3.1%
2014 Q1		7.7%	5.5%	1.4%	4.5%
2014 Q2		8.2%	6.2%	2.5%	5.2%
2014 Q3		7.6%	5.2%	2.5%	4.7%
THE INDEX		2012 Q4	210.7	242.0	224.0
	2013 Q1	212.7	243.4	224.3	226.4
	2013 Q2	215.1	244.4	223.7	227.2
	2013 Q3	222.3	248.0	218.1	228.2
	2013 Q4	221.8	250.9	226.3	232.2
	2014 Q1	229.0	256.8	227.5	236.5
	2014 Q2	232.7	259.4	229.2	239.0
	2014 Q3	232.1	259.2	230.0	238.9

Source: Knight Frank Residential Research

DATA DIGEST

The Knight Frank Country House Index

is a valuation based index, compiled quarterly from valuations prepared by professional staff in every Knight Frank Country House office in the UK. The index is based on the valuation of a comprehensive basket of properties throughout all UK regions based on actual sales evidence. Knight Frank tracks the performance of three country house property categories; cottages, farmhouses and manor houses. A typical manor house comprises a large property standing in extensive grounds. A typical farmhouse has six bedrooms, several acres of land including garden, paddock and barns. A typical cottage has about one acre of land, is detached, and has four bedrooms.



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