

Prime Country House Index



Q2 2023

Knight Frank's quarterly valuation-based index tracking the price performance and health of the UK prime regional market

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PCHI	279.7	Annual change	-4.2%	Quarterly change	-2.6%
Annual change by price bracket					
£1m to £2m	-4.6%	£2m to £3m	-4.7%	£3m to £4m	-3.4%
£4m to £5m	-2.3%	£5m+	-3.3%		

County House prices come under pressure as borrowing costs rise

Country house prices came under pressure in the second quarter of the year, as the 'escape to the country' trend reset, and buyers re-calculated their budgets due to higher borrowing costs.

The average price of a property fell 2.6% in the second quarter, according to the Prime Country House Index (PCHI). It was the largest quarterly fall since the global financial crisis in Q2 2008. It came after a decline of 0.5% in Q1.

It left country house prices down 4.2% since their peak in June 2022, although the average property is still worth 15% more than before the pandemic (see fig. 1), which supported a surge in prices as people upgraded their homes and took advantage of a period of stamp duty savings.

With the Bank of England having increased the bank rate 13 times since December 2021, taking it to a 14-year



-24%

Decline in exchanges outside of London in Q2 versus the five-year average (excluding 2020).

Source: Knight Frank Research

high of 5% as it attempts to rein in inflation, buyers have had to trim budgets in recent months.

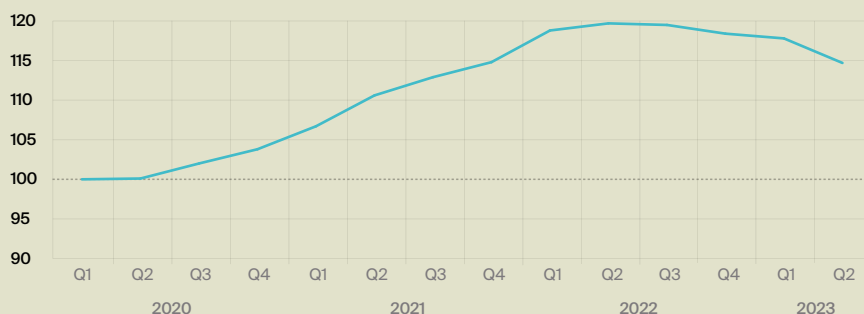
This has put downwards pressure on prices despite resilient demand outside of London, with new prospective buyers down 9% in Q2 versus the five-year average (excluding 2020).

Our latest sentiment survey confirms that a third (33%) of buyers have seen their spending power fall due to the increase in borrowing costs. For 17% of respondents the drop in spending power has been more than 10%.

It has led to a period of price discovery, with price expectations between buyers and sellers currently at their widest since the reopening of

Fig 1: Country house prices remain 15% above their pandemic level

Rebased to 100 = January 2020



Source: Knight Frank Research

“The increase in the cost of borrowing has put equity rich and cash buyers in a strong position.”

Chris Druce, senior research analyst, Knight Frank

the property market after the first UK lockdown in Q2 2020.

The increase in the cost of borrowing has put equity rich and cash buyers in a strong position.

Higher value bands saw a smaller quarterly fall than the main PCHI in Q2, with the £4m to £5m bracket down 1.8% and £5m+ down by 1.4%.

While the number of cash buyers

in prime regional markets outside London was 40% in 2022, at £5m+ it is more than three-quarters (77%). Unlike in the capital, domestic demand has been the main force at play in the high value prime regional market. This has provided some insulation from high borrowing costs.

Supply, although improved from pandemic lows, remains tight at the top

end of the market, which is providing some support to prices.

Exchanges outside of London were down 24% in Q2 versus the five-year average (excluding 2020) but they increased by 37% in the £5m+ value band. On the same basis, the number of offers made was down 20% overall in the second quarter but up 22% for properties valued at £5m and above.

We expect prices to fall 10% through the remainder of this year and next, although a strong wage growth and jobs market, forbearance from lenders, and availability of longer term fixed-rate mortgages should limit further falls.

Insight: Waterfront Homes

Despite the fading influence of the ‘escape to the country’ trend, a UK home set by the water was worth up to 48% more on average than an equivalent non-waterfront property in Q2 2023.

The overall premium was just two percentage points lower than a year ago according to the Knight Frank Waterfront Index, underlining the depth of demand for such properties.

This is despite higher borrowing costs reducing sentiment in a market that has seen volumes dip.

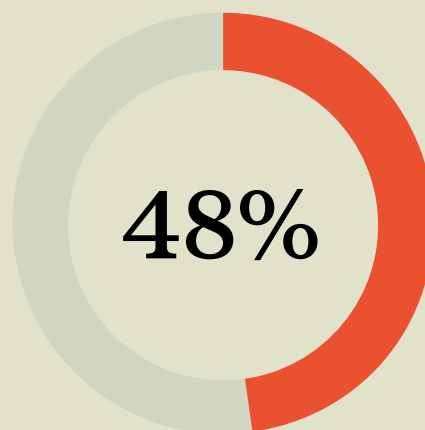
There were 80,000 residential property transactions in May, which was down by just more than a quarter on the same month the previous year as higher mortgage costs took their toll. As of May, the average house price had declined by 4.1% since the peak in August 2022, according to

Nationwide.

However, with more than half (54%) of UK waterfront property buyers purchasing in cash in the last five years, compared to an average of 29% in the overall UK property market, demand remains resilient.

“Not only has the pandemic made the waterfront lifestyle more appealing, but it’s also made it more realistic. A lot of families and their employers have realised they can work efficiently at home, with fewer visits to the office each month,” said Sarah-Jane Bingham-Chick, partner in Knight Frank’s Exeter office.

“Families are therefore opting to bring their dream move forward by ten years to enjoy the benefits of the lifestyle, which is something I don’t see changing anytime soon,” she said.



Average premium for a waterfront property compared to non-waterfront

Got a question? Do get in touch, and you can sign up for more analysis at knightfrank.com/research.

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