



Prime Country House Index

Q3 2022

 PCHI INDEX	291.5	ANNUAL CHANGE	5.9%	QUARTERLY CHANGE	-0.1%
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 ANNUAL CHANGE BY PRICE BRACKET	£1M TO £2M 4.6%	£2M TO £3M 7.4%	£3M TO £4M 6.4%	£4M TO £5M 9.0%	£5M+ 9.6%
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Surge in offers as prime country buyers act ahead of rate increases

Buyers outside of London have accelerated their plans, spurred on by rising mortgage rates and a wider sense of uncertainty.

The number of offers accepted outside of London hit its highest level for 20 weeks in the seven days after the mini-budget last month, as sellers became aware of rising interest rate expectations. For September, offers accepted were up 21% versus the five-year average.

However, while the escape to the country trend created by the pandemic continues to benefit prime regional UK markets, and transactions are set to remain strong for the rest of this year, we do not expect them to defy economic gravity indefinitely.

The five-year swap rate, which dictates the price of most fixed-rate mortgages in the UK, exceeded 5% in early October compared to less than

3% in early July when we last issued our house price forecasts. At 2.25%, the current bank rate is also 100 basis points higher than it was three months ago.

As a result of this more adverse outlook for borrowers, we have revised down our forecasts for the next two years across all UK housing markets.

In the prime country market, we

21%

Increase in offers accepted in September versus the five-year average

Source: Knight Frank Research

forecast average values will fall by 5% in 2023 and by a further 3% in 2024 before returning to growth (see table).

For now, the prospect of a turn in the market has accelerated already high levels of activity.

“The current situation has provided impetus, with people in property chains especially motivated to get deals done and lock in a mortgage deal.

“We’re still getting viewings and things are still going under offer, however it’s paramount in the current market that homes are priced correctly if they’re going to attract interest,” said Mark Proctor, head of the South West region at Knight Frank.

Transactional activity has been high throughout this year despite the end of the stamp duty holiday in 2021, with frustrated demand being

increasingly matched by supply. Offers accepted were up 16% in the three months to September versus the five-year average.

The amount of property available to buy outside of London in September was at its highest level since January 2021. While the number of active applicants outside of London in the 12 months to September was unchanged on the previous year.

With supply and demand levels balanced, the average price of a property in the Prime Country House Index has been essentially unchanged for the last two quarters.

This has seen the annual rate of increase ease from 8.2% in the second quarter to 5.9% in the third.

Average prices have climbed 19% since the reopening of the market in May 2020.

INSIGHT: LONDON SALES FORECAST

Following the mini-budget, even if the government can convince financial markets that they over-reacted and mortgage rates calm back down, sentiment in the housing market has been damaged and people have been reminded that the era of ultra-low borrowing costs is ending.

Higher mortgage costs will reverberate up through housing markets and be felt in prime London postcodes. However, the impact will be less marked due to higher levels of affluence and housing equity as well as a broader base of returning international buyers.

This is particularly the case in prime central London (PCL), where the percentage of cash buyers in the first nine months of this year was 52%, compared to 30% in prime outer London (POL).

That said, we expect prices to fall by 3% next year in PCL before rising modestly in subsequent years. The relative value in PCL compared to 2014 will underpin an overdue recovery in the medium term.

While we expect a 4% decline in POL, the 'race for space' trend has not yet run its course and will support demand beyond 2023.

Sales market forecast

2022-2026

	2022	2023	2024	2025	2026	5-YEAR CUMULATIVE
UK	6.0%	-5.0%	-5.0%	2.0%	4.0%	1.5%
GREATER LONDON	3.0%	-6.0%	-4.0%	3.0%	5.0%	0.5%
PCL	3.5%	-3.0%	0.0%	3.0%	4.0%	7.5%
POL	5.0%	-4.0%	0.0%	2.5%	2.5%	5.9%
PRIME COUNTRY	7.0%	-5.0%	-3.0%	3.0%	3.0%	4.6%

Source: Knight Frank Research.

Forecasts relate to average prices in the second hand market. New build values may not move at the same rate.

Please get in touch with us

If you are looking to buy, sell or would just like some property advice, we would love to hear from you.



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