Prime Country House Index

Knight Frank

Q3 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	Annual change	Quarterly change
273.8	-6.1%	-2.1%

Annual change by price bracket

£1m to £2m	£2m to £3m	£3m to £4m	£4m to £5m	£5m+
-6.7%	-7.3%	-5.1%	-3.5%	-2.8%

Activity subdued in Q3 as buyers and sellers await interest rate peak

Prime UK regional prices suffered their largest annual fall since the global financial crisis in the third quarter of 2023, as high borrowing costs and weak sentiment curbed demand.

Prices declined 6.1% in the year to September, which was the biggest annual drop since a 13.4% fall in Q3 2009 [fig. 1].

Despite this, prime regional prices remain 12.2% higher than they were in June 2020, the first full month after the re-opening of the property market due to Covid.

Prime regional markets have failed to regain the momentum lost after the mini-Budget in September 2022, which saw a spike in rates and the temporary removal of some mortgage products.

It brought the curtain down on a period of high activity and strong house price growth that had been spurred by a stamp duty holiday and the Covid pandemic. This saw a 'race for space' as people upgraded their homes during successive lockdowns.

Although the Bank of England held interest rates at 5.25% in September, the cost of borrowing remains at a 15-year high and continues to weigh on activity.

Offers made were down by 14% in Q3 versus the five-year average (excluding 2020) and exchanges, on the same basis, were down by 9%.

On a quarterly basis, average prices were down 2.1%, which was an improvement on a 2.6% fall in Q2.

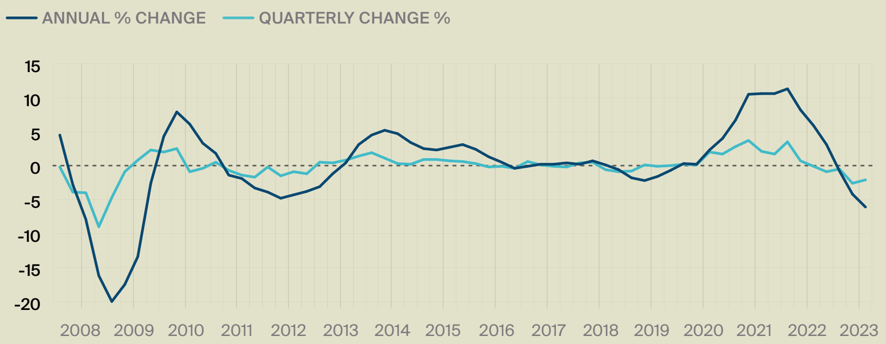
Mortgage approvals for purchase across the UK fell from 49,500 to 45,500 in August, the lowest level in six months

-14%

Decline in offers made in Q3 2023 versus the five-year average (excluding 2020)

Source: Knight Frank Research

Fig 1: Prime regional prices see largest annual fall since global financial crisis



Source: Knight Frank Research

> "Some sellers are looking for last year's prices, while buyers are seeking discounts in the falling market. With little evidence of forced selling or repossessions, the result is often a stalemate."

Chris Druce, senior research analyst, Knight Frank

and 30% below 2019's monthly average.

This subdued picture is why we have revised down our sales forecast for prime regional markets and expect prices to fall 7% in 2023, rather than the 5% predicted in March (see Insight for more).

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We expect sentiment to improve next year as the economic picture brightens and interest rates peak. Which is why our forecast for 2024 is for a smaller price fall of 3% in prime regional markets and a return to growth in 2025.

"The belief that we've reached the top for interest rates and the return of 5-year fixed-rate deals at under 5% has improved confidence. We've started seeing viewings nudging up again, as buyers that had paused their searches decide to resume," said Christopher Dewe, regional partner for Scotland and the North of England at Knight Frank.

Supply continues to improve in the country market having been low at times during the pandemic due to very high levels of demand in a hot sales market. Instructions for sale were up 4% in Q3 versus the five-year average (excluding 2020).

Insight: UK house price forecasts

Anyone buying, selling, or re-mortgaging a property in the last 18 months has faced market volatility caused by the mini-Budget and inconsistent inflation data.

The cost of borrowing has lurched erratically, and sentiment has been eroded, which has put downwards pressure on house prices and, to a more noticeable extent, transaction volumes.

Now, some stability appears to be on the horizon. The Bank of England held at 5.25% in September after inflation fell by more than expected, and we have updated our house price forecasts to reflect the recent changes.

We expect prices in Country markets to fall by more than we expected in March, declining 7% this year rather than 5%. The main reason is that Country markets are coming down from a relatively higher point during the pandemic compared to London.

Prices in the Country had risen by 20% at their peak and even after a 7% decline this year, they would still be 6.7% higher compared to Q1 2020. They would also be 3.4% higher than their pre-pandemic level at the end of 2024 if there was a further 3% decline next year (see table).

We still think prime central London (PCL) will experience a smaller correction, due to a combination of more cash sales (around half inside zone 1), the fact prices are still more than 15% below their last peak in mid-2015 and the fuller return of international travel.

We have left our forecasts for PCL unchanged but expect a slightly smaller fall (-3% rather than -4%) this year in prime outer London (POL), and a marginally stronger recovery from 2026. POL continues to benefit from demand that is more domestic and needs-driven.

Prime Country Price Forecast

Year	Prime Country
2023	-7%
2024	-3%
2025	3%
2026	4%
2027	4%
5-year cumulative	**0.5%**

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

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