

Prime Country House Index



Q4 2024

Knight Frank's quarterly valuation-based index, tracking prices and activity in property markets above £750,000 outside London

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PCHI **270.2**

Annual change **-0.9%**

Quarterly change **-0.3%**

Annual change by price bracket

£1m to £2m **-1.3%**

£2m to £3m **-1.1%**

£3m to £4m **-0.2%**

£4m to £5m **0.9%**

£5m+ **-1.8%**

Uncertainty and Opportunity in Country Markets as Mortgage Costs Rise

Before Donald Trump was even inaugurated for his second term as US President, he was having an impact on the UK housing market.

Borrowing costs have been rising steadily since the Budget, but spiked higher in the first weeks of 2025 as investors bet the Federal Reserve may have to keep rates higher for longer due to inflationary risks under the new President.

The jitters were no doubt magnified by the so-called 'January effect',

a month often marked by volatility as investors switch strategies at the start of the year in the search for higher returns.

Higher borrowing costs were already increasing the political pressure on Chancellor Rachel Reeves since she set out plans to borrow and spend more in October's Budget. The five-year SONIA swap rate, which is used to price fixed-rate mortgages of the same length, rose from 3.4% in mid-September to 4.3% by mid-January.



17.6%

Forecast average price increase in the Country during the five years to 2029

Source: Knight Frank

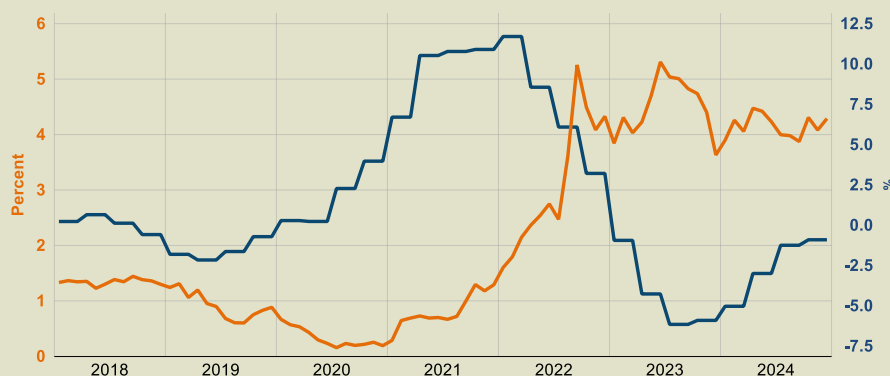
Cracks in the UK housing market have already started to show. Mortgage approvals fell between October and November and Halifax said prices slipped in December.

The mood of uncertainty has created opportunities for anyone able to hold their nerve, said James Cleland, head of the Country business at Knight Frank.

"For those who can filter out the noise of recent weeks, it's actually a smart time to buy," he said. "The quality of stock on the market is high and most vendors recognise the headwinds facing buyers. The alternative would be to wait several

Downwards Price Pressure as Borrowing Costs Rise

— 5 Year Interest Rate Swap (Monthly), lhs — Country House Price Index, Annual % Change, rhs



Sources: Knight Frank

“For those who can filter out the noise of recent weeks, it’s actually a smart time to buy.”

James Cleland, head of Country business, Knight Frank

years for a possible change of government, by which time we expect prices to be more than 15% higher than they are today.”

We forecast growth in the Country of 17.6% in the five years to 2029.

The Country House Price Index fell by 0.3% in the final quarter of 2024, which took the annual decline to 0.9%.

It was the narrowest annual fall since Q1 2023, showing how prices bottomed out as mortgage costs came under control earlier last year.

Urban markets performed relatively more strongly than rural locations, thanks to a higher proportion of needs-

driven buyers. The average price of a town house fell by 0.5% in 2024, compared to a decline of 3% for farmhouses.

Prices above £5 million fell by 1.8% versus a decrease of 0.9% for properties between £500,000 and £1 million, underlining how a downwards shift in sentiment also affects cash buyers.

We expect prices and transaction volumes to come under renewed downwards pressure this year if rates stay high, although demand in lower-value markets may be temporarily boosted in the first three months of 2025 by an increase in the rate of stamp duty from April.

Demand in the Country, an area covering a range of rural and urban property markets outside of London above £750,000, has cooled since the pandemic, which saw strong demand for space and greenery.

Although the number of exchanges in 2024 was broadly flat compared to 2023, it was down by about a fifth compared to the five-year average.

Despite the uncertainty around borrowing costs, financial markets expect about two rate cuts in 2025, which would support demand.

We would also expect the property market to increasingly adapt to the measures announced in the Budget, as we explore here. Furthermore, there may be an injection of capital into prime markets after April this year under the new non dom rules, as we look at here.

Insight: The relative value argument

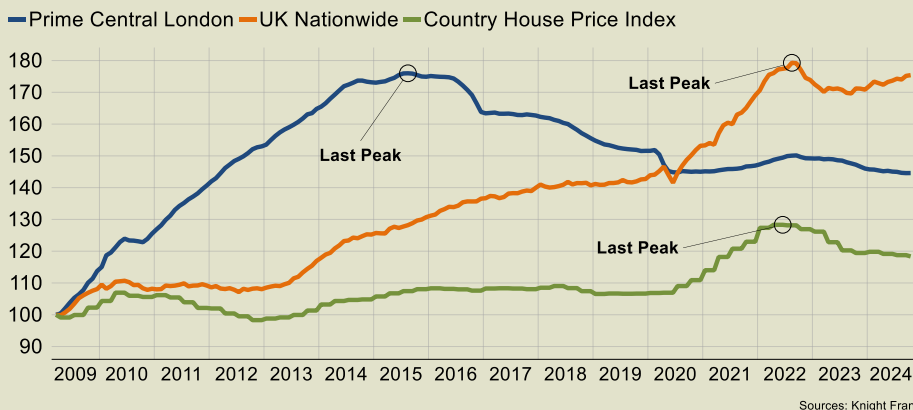
Average prices in the Country have risen by less than other areas since the global financial crisis, which makes it look relatively good value.

Prices are 18% higher than January 2009, which compares to an increase of 45% in prime central London and 75% for the Nationwide UK mainstream index.

While the ‘escape to the country’ trend has died down, demand will be closely tied to affordability as rates stay higher for longer. As a result, demand may gravitate towards markets outside of the capital, particularly in locations that have previously been less in-demand.

How Far Have Prices Risen Since the Financial Crisis?

Rebased to 100 at Jan 2009



Sources: Knight Frank

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Tom Bill
Head of UK Residential Research
+44 20 7861 1492
tom.bill@knightfrank.com



James Cleland
Head of Country Business
+44 20 7861 1552
james.cleland@knightfrank.com