



Country house prices slip further as London boom halts at M25

With average prices falling by 1.7% over the past 12 months, the prime country house market has struggled to compete with London. A greater reliance on domestic buyers and the domestic economy is the key to understanding the relative underperformance, argues Liam Bailey.

Results for Q3 2011

Prime country house prices fell 1.2% in Q3 2011, contributing to an annual fall of 1.7%

Despite recent falls, prices have risen 5% since their recent post-credit-crunch low in June 2009

The most resilient sector over the past year has been the country cottage market, which has only seen prices fall 0.7% over the past 12 months

At a regional level country houses in the south-east of England have seen the strongest performance, with prices higher by 0.4% over the last 12 months and by 11.4% since their low in mid 2009

The recent strong surge in London house prices has still not rippled out to the prime country house market

The volume of available stock in the prime country house market has risen by 24% over the past 12 months

While the volume of new applicants has dropped by 4% over the past year, the number of properties going under offer has risen sharply, up by 32%, suggesting that stock volumes should begin to decline slowly over the next few months

In normal times the prime country house market would follow the growth cycle set by the central London market, with a lag of around 18 months. London booms, the luxury country house sector follows.

These are not normal times. Prime London property has risen in value by 36% since March 2009, but prime country houses are only marginally (5% on average) above their post-Lehman nadir reached in mid 2009. And while London prices have kept rising through 2011, the country house market has stuttered to a halt, in terms of price growth at least. Prices fell 1.2% in Q3 and are now down 1.7% since September 2010.

The old picture of market ripples flowing out from London is still partially correct - prime property prices in the south east of England rose by 0.4% over the past year, managing to climb 11.4% from the mid-2009 trough. Despite this relatively robust picture in the South East there is a significant difference between London and country - and this comes down to international buyers.

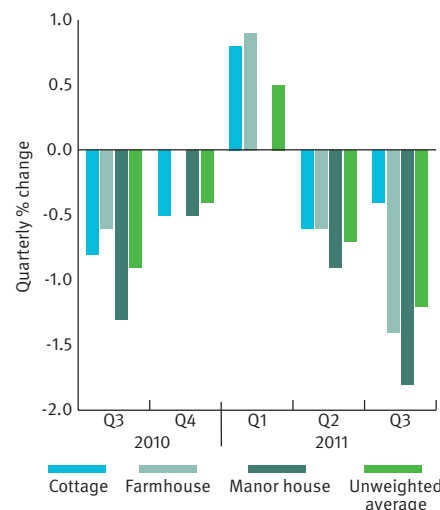
Outside of the main Surrey estates, such as Wentworth and St George's Hill, international buyers are a comparative rarity. Where the £1m+ market in London comprises almost 50% international buyers, for rural properties the figure is closer to 12%.

In the prime country market, despite the fact that buyers and sellers tend to be wealthier and far more equity rich than the average UK buyer, domestic concerns are the key influences. With the UK economy struggling and wealth creation under pressure, vendors are having to compete keenly on price; anything other than an absolutely perfect property can not be priced ambitiously at the outset.

The flow of buyers coming out of London is helping liquidity in the country house market, and this flow is helping to create competitive bidding on some properties, especially in the south-east of England.

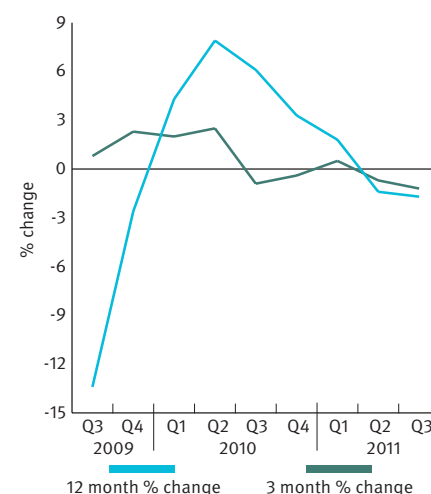
With the volume of prime country property going under offer rising by 32% over the past year (three months to September compared to the same period in 2010), there is just the glimmer of hope that London's surge might push out a little further than the M25 in time.

Figure 1
Quarterly price change
UK prime country house average residential price change



Source: Knight Frank Residential Research

Figure 2
12 month and 3 month price change
UK prime country house average residential price change



Source: Knight Frank Residential Research



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RESIDENTIAL RESEARCH PRIME COUNTRY HOUSE INDEX

Knight Frank



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.

Key market metrics

Prime country house market activity, 3 months to September 2011 compared to same period last year

Demand	New Applicants	-4% ▼
	Viewings	6% ▲
Supply	New instructions to sell	-3% ▼
	Stock volume	24% ▲
Activity	Sales (subject to contract)	32% ▲
	Exchanges	-5% ▼
	Average number of days to agree	-24% ▼

Knight Frank Prime Country House Index

		Cottage	Farmhouse	Manor House	Unweighted average
Average quarterly change	Q3 2009	0.7%	1.4%	0.3%	0.8%
	Q4 2009	2.5%	2.6%	1.8%	2.3%
	Q1 2010	1.9%	2.5%	1.7%	2.0%
	Q2 2010	2.4%	1.9%	3.2%	2.5%
	Q3 2010	-0.8%	-0.6%	-1.3%	-0.9%
	Q4 2010	-0.5%	0.0%	-0.5%	-0.4%
	Q1 2011	0.8%	0.9%	0.0%	0.5%
	Q2 2011	-0.6%	-0.6%	-0.9%	-0.7%
	Q3 2011	-0.4%	-1.4%	-1.8%	-1.2%
Average annual change	Q3 2009	-12.0%	-10.9%	-17.2%	-13.4%
	Q4 2009	-1.7%	-0.3%	-5.7%	-2.6%
	Q1 2010	4.8%	6.4%	1.9%	4.3%
	Q2 2010	7.7%	8.6%	7.2%	7.9%
	Q3 2010	6.2%	6.5%	5.5%	6.1%
	Q4 2010	3.1%	3.7%	3.0%	3.3%
	Q1 2011	1.9%	2.0%	1.3%	1.8%
	Q2 2011	-1.1%	-0.4%	-2.7%	-1.4%
	Q3 2011	-0.7%	-1.2%	-3.2%	-1.7%
The Index	Q3 2009	208.5	244.9	233.6	229.0
	Q4 2009	213.7	251.3	237.9	234.3
	Q1 2010	217.8	257.7	241.9	239.1
	Q2 2010	223.1	262.4	249.7	245.1
	Q3 2010	221.3	260.8	246.5	242.9
	Q4 2010	220.3	260.7	245.1	242.0
	Q1 2011	222.0	262.9	245.1	243.3
	Q2 2011	220.7	261.4	242.9	241.7
	Q3 2011	219.7	257.7	238.5	238.6

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