

BUYERS CONTINUE TO ABSORB STAMP DUTY CHANGE

Prime country house prices continue to grow, but tax policy is starting to have an effect at the top end of the market.

Key headlines from Q3 2015

Prime country house prices increased by 0.7% in the third quarter of 2015

Annual growth stands at 2.7%

December's stamp duty change continues to have an effect on the market above £1.5m

The price differential between the prime London and the prime country markets remains significant

Prime country house prices rose by 0.7% between July and September, continuing the modest upward trend of growth that started in early 2013. Prices have shifted upwards now for eleven consecutive quarters.

Annual growth also rose slightly to 2.7% on average, up from 2.3% in Q2 but down from a recent high of 5.2% in 2014.

The market continues to feel the impact of the increased cost of stamp duty, following the Autumn Statement in December 2014. This continues to weigh on both price growth and activity at the top end of the market.

In fact, the latest figures from the Land Registry show that between January and July there have been 35% fewer sales with a value above £1.5m outside of London compared to the same period last year.

The prime market below £1.5m has been less affected by these tax changes.

Illustrating this fact, prices for homes in the prime market valued under £1.5m have risen by nearly 4% annually over the year to September. In comparison, over the same time properties priced above £1.5m, the point at which the 12% rate of SDLT kicks in, have risen by 2%.

Under £1.5m, price growth has generally been underpinned by demand for homes in urban centres. Price growth in town and city markets including Bristol, Bath and Oxford for example, where buyers continue to be attracted by good schooling, amenities and transport links, has outperformed the wider prime market.

There remains a significant price differential between property prices in the prime country market and in London, while anecdotal evidence from agents suggests that there is pent up demand from buyers in the Home Counties and the South West. This could help underpin prices and an increase in activity levels across the market as the year progresses.

The average prime country house price is still 14% below its 2007 peak. In contrast, prime prices in London are, on average, 34% higher than their previous peak values. The rise in London prices in the last few years means that buyers looking to swap the city for the country are able to get a lot more property for their money, with such buyers able to take advantage of the relative "discount" which currently exists.



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"The country house market continues to feel the impact of the increased cost of stamp duty. This continues to weigh on both price growth and activity at the top end of the market."

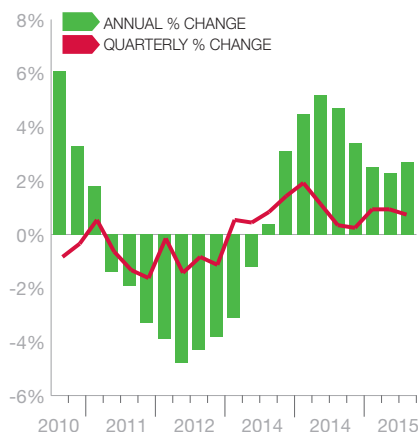
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FIGURE 1

Prime country price growth

Annual and quarterly change in prime country property values

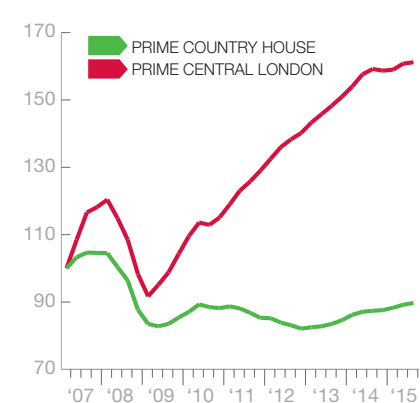


Source: Knight Frank Research

FIGURE 2

Prime London v Prime Country price differential

Nominal price change since Q1 2007



Source: Knight Frank Research



Knight Frank Prime Country House Index

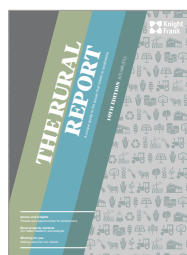
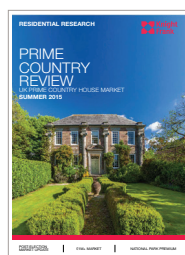
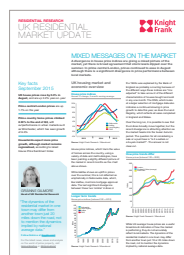
| | | Cottage | Farmhouse | Manor House | Unweighted average |
|--------------------------|----------------|--------------|--------------|--------------|--------------------|
| AVERAGE QUARTERLY CHANGE | 2013 Q4 | 1.7% | 1.8% | 0.9% | 1.4% |
| | 2014 Q1 | 3.3% | 2.4% | 0.5% | 1.9% |
| | 2014 Q2 | 1.6% | 1.0% | 0.8% | 1.1% |
| | 2014 Q3 | 0.8% | -0.1% | 0.3% | 0.3% |
| | 2014 Q4 | 1.0% | 0.0% | -0.3% | 0.2% |
| | 2015 Q1 | 1.0% | 0.2% | 1.5% | 0.9% |
| | 2015 Q2 | 1.5% | 0.8% | 0.7% | 0.9% |
| | 2015 Q3 | 1.4% | 0.5% | 0.3% | 0.7% |
| AVERAGE ANNUAL CHANGE | 2013 Q4 | 5.3% | 3.7% | 1.0% | 3.1% |
| | 2014 Q1 | 7.7% | 5.5% | 1.4% | 4.5% |
| | 2014 Q2 | 8.2% | 6.2% | 2.5% | 5.2% |
| | 2014 Q3 | 7.6% | 5.2% | 2.5% | 4.7% |
| | 2014 Q4 | 6.8% | 3.4% | 1.4% | 3.4% |
| | 2015 Q1 | 4.4% | 1.2% | 2.3% | 2.5% |
| | 2015 Q2 | 4.4% | 0.9% | 2.2% | 2.3% |
| | 2015 Q3 | 4.9% | 1.5% | 2.2% | 2.7% |
| THE INDEX | 2013 Q4 | 221.8 | 250.9 | 226.3 | 232.2 |
| | 2014 Q1 | 229.0 | 256.8 | 227.5 | 236.5 |
| | 2014 Q2 | 232.7 | 259.4 | 229.2 | 239.0 |
| | 2014 Q3 | 232.1 | 259.2 | 230.0 | 238.9 |
| | 2014 Q4 | 234.3 | 259.3 | 229.4 | 239.3 |
| | 2015 Q1 | 236.6 | 259.8 | 232.7 | 241.4 |
| | 2015 Q2 | 240.2 | 261.8 | 234.3 | 243.7 |
| | 2015 Q3 | 243.5 | 263.1 | 235.1 | 245.3 |

Source: Knight Frank Residential Research

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.

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