RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

FRESH STAMP DUTY UNCERTAINTY EMERGES IN RECOVERING PRIME CENTRAL LONDON MARKET

November's stamp duty increase came as buyers and sellers have shown early signs of absorbing last December's rise, says Tom Bill

December 2015

Prices were flat in November, and **annual growth was 1%**

Transaction levels were down by a fifth in November versus 2014

November viewing levels were the **second highest this year after October as demand picks up**

Number of properties withdrawn from sale between April and November this year **rose 12% versus 2014**

Macro View: Taxing property transactions

TOM BILL
Head of London Residential Research

"This latest rise in stamp duty came as the prime central London market was finding its feet after the previous change."

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It has taken a year for the first signs to emerge that buyers and sellers have begun to absorb stamp duty changes announced in December 2014.

Though transaction levels in prime central London in November were a fifth down on 2014, a growing number of vendors are prepared to set asking prices that reflect the more subdued state of demand and accept that double-digit annual price growth is unlikely to return in the short-term.

Furthermore, a degree of pent-up demand is being released as buyers become increasingly motivated after months of inaction, though this has been hampered by a lack of stock in some markets.

Annual price growth in December was 1%, following no monthly change from October.

Recovering demand has translated into a rise in viewing levels, which were higher in November than the same month last year and the second highest level in 2015 after October.

However, November also saw the announcement of a three percentage point increase in stamp duty for buy-to-let properties and second homes. It came as the prime central London market was finding its feet after the previous rise.

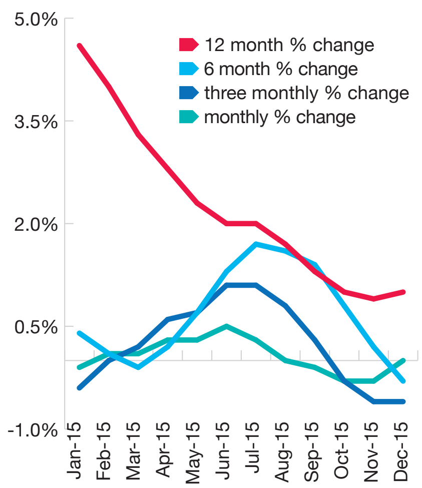
As a result, the primary effect has been to disorientate buyers and sellers. While the measure is unlikely to have the same dampening impact on demand as the December 2014 change, it heightens the sense of uncertainty after a series of tax changes in recent years.

The prevailing mood is one of caution surrounding expectations for what further measures may follow, the implications of which are examined in more detail in the Macroview section on page two.

Despite the tentative signs of strengthening demand, the prime central London market remains fragile and price-sensitive. Buyer caution is related to higher transaction costs and decisions are increasingly taken on a longer-term basis, producing a flight to quality for the best properties and addresses.

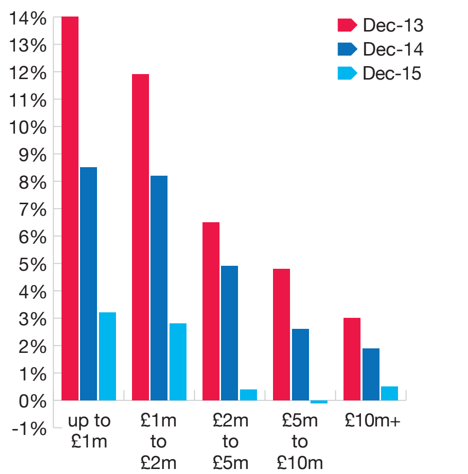
This sensitivity is underlined by the fact the number of properties withdrawn from sale between April and November this year rose 12% versus the same period in 2014.

FIGURE 1
Price growth in prime central London



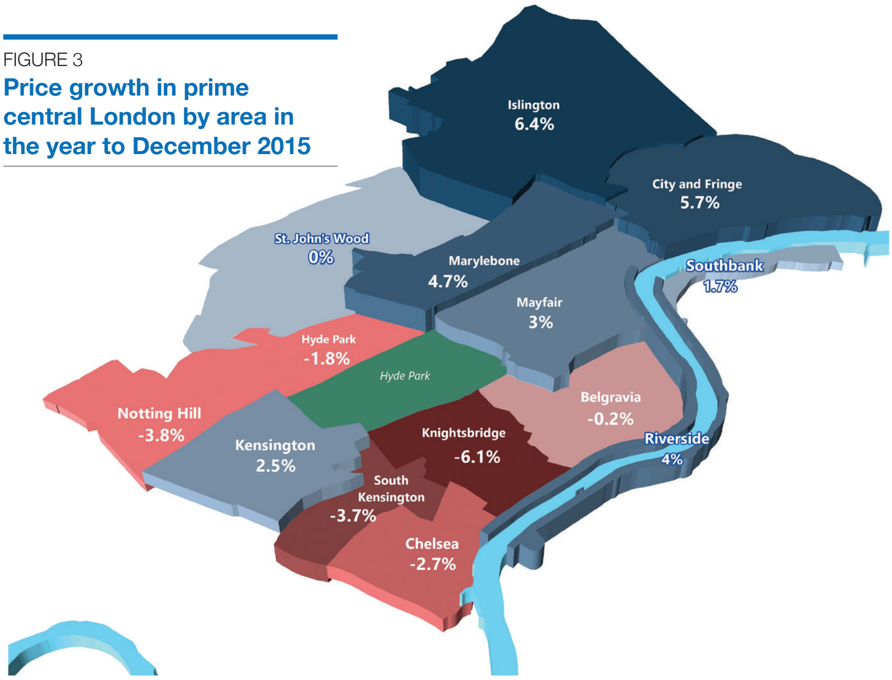
Source: Knight Frank Residential Research

FIGURE 2
Declining price growth in prime central London
Price growth by price bracket since 2013



Source: Knight Frank Residential Research

FIGURE 3
Price growth in prime central London by area in the year to December 2015



DATA DIGEST

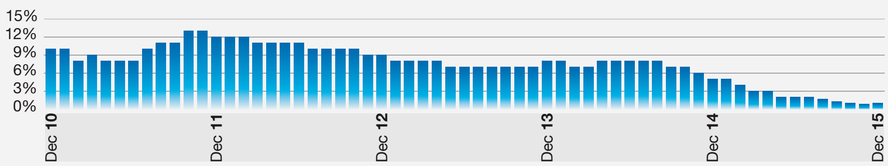
The Knight Frank Prime Central London Index, established in 1976, is the longest running and most comprehensive index covering the prime central London residential marketplace. The index is based on a repeat valuation methodology that tracks capital values of prime central London residential property. 'Prime central London' is defined in the index as covering: Belgravia, Chelsea, Hyde Park, Islington, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, South Kensington, St John's Wood, Riverside* the City and the City Fringe. 'Prime London' comprises all areas in prime central London, as well as Barnes, Canary Wharf, Chiswick, Clapham, Fulham, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon.

* Riverside in prime central London covers the Thames riverfront from Battersea Bridge in the west to Tower Bridge in the east, including London's South Bank. The City Fringe encompasses the half-mile fringe surrounding most of the City including Clerkenwell and Farringdon in the west and Shoreditch and Whitechapel in the east.

THE MACRO VIEW DECEMBER 2015

Prime Central London Index **6,387.5**

Annual growth in prime central London over the last five years



TAXING PROPERTY TRANSACTIONS

The issue of stamp duty has dominated the prime central London market in 2015.

In January, buyers and sellers began to digest higher rates for property worth more than £1.1 million. It slowed transaction levels but by November there were tentative signs of strengthening demand.

The Autumn Statement in November added three percentage points to rates for buy-to-let investors and second home purchases.

The proposal is subject to review but the effect has been to disorientate a market finding its feet.

Fewer transactions have reduced the tax take in prime central London, an outcome consistent with the Laffer curve, an economic model which indicates that tax increases beyond a particular rate can be counter-productive.

Excessive property transaction taxes can produce "inefficient and destabilised markets", said Richard Grover, a senior lecturer at Oxford Brookes and an advisor to governments and global financial institutions on property taxation.

"In countries with high transfer taxes, it simply discourages transactions. In some cases it changes behaviour to the point markets become less transparent," he told Knight Frank.

"That is not the case in the UK but the purpose of the tax was to raise revenue not result in buyers who are unwilling to transact," he said of the changes announced in December 2014.

Reform of council tax is a more effective way of guaranteeing revenue and has a markedly less distortive effect on property markets, he said.

"Increasing stamp duty produces far more sporadic results but is politically an easier thing to do than the highly desirable but more unpopular option of restructuring council tax."

"Stamp duty changes in the UK have resulted from the displaced need to tackle council tax reform, which is highly visible and highly opposed across the whole spectrum of the market."

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