RESIDENTIAL RESEARCH

UK RESIDENTIAL MARKET UPDATE

COUNTDOWN TO THE ELECTION

The Chancellor fired the starting gun for the UK General Election campaign during last week's Autumn Statement, responding to years of lobbying for a wholesale transformation of the stamp duty rules for residential property. Meanwhile house price momentum continues to ease, and the Bank of England has calculated the impact that rising interest rates will have on households, and the economy. Gráinne Gilmore examines the latest data.

Key facts December 2014

UK house prices rose by 0.3% in November, with the annual rate of growth slowing to 8.5%

Prime central London property values dipped by 0.2% in November; the annual rate of growth dropped to 6.1%

Rents in prime central London were flat in November, but up 3.3% year-on-year

A comprehensive reform of stamp duty in England & Wales has been introduced

GRÁINNE GILMORE
Head of UK Residential Research

"It will now be difficult to suggest that high value properties are not taxed enough."

Follow Gráinne at @ggilmorekf

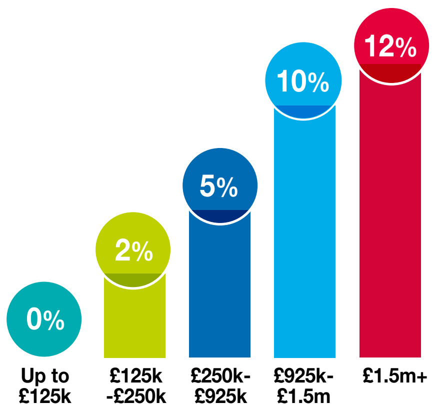
For the latest news, views and analysis on the world of prime property, visit Global Briefing or @kfglobalbrief

UK housing and economic overview

The reform of stamp duty comes after years of lobbying for a move away from the "slab structure", which meant the whole value of a house was taxed according to what stamp duty bracket it fell into. The new system, which came into force on December 4th, is a "progressive" tax, like income tax, which means each part of the value of the house is taxed at the appropriate rate (as shown opposite).

The new stamp duty rates

Percentage paid in each price band

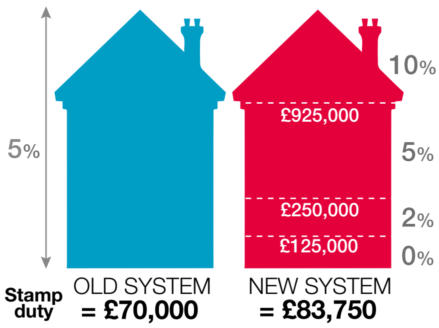


Source: Knight Frank Residential Research

The move reflected the changes announced in Scotland several months ago. However, whereas Scotland announced rates (which will come into force from April next year) where anyone buying a home worth around £254,000 will pay more under the new system, the Chancellor chose a 'break-even' point of £937,500 – making sure that the vast majority of purchasers would be paying less money in stamp duty under the new system. The timing of the move cannot be ignored – it is likely to provide a fillip to sentiment as parties gear up for the General Election.

Buyers in Scotland will pay the new rates announced by the Chancellor until their new rates come into force next year.

Old vs new stamp duty charges for a £1.4 million property



Source: Knight Frank Residential Research

Policymakers in Scotland also reformed the stamp duty regime for land and commercial property, whereas the new rates announced in the Autumn Statement only refer to residential property in the rest of the UK.

Under the new rules, buyers of higher value homes now face higher stamp duty charges, as examined in our Tax Update. It is possible that this sector of the market may take some time to absorb the changes, with harder negotiations between buyers and vendors likely, especially in these first few weeks after the introduction of the new rules.

However, the changes could actually serve to provide more certainty on the outlook for this part of the market. With a top rate of 12% stamp duty, it will be difficult for Labour or the Liberal Democrats to imply that these properties are not highly taxed enough – a key tenet of their arguments for a "mansion tax", something which has been weighing on sentiment in the prime markets.

Meanwhile, average house prices in November continued to rise across the UK, but at a much slower pace than in recent months. According to Nationwide, average annual price growth was 8.5% in November, down from 11.8% in June. There have been suggestions that the cut in stamp duty may serve to boost prices, as sellers factor the decreased purchase costs into their sale price.

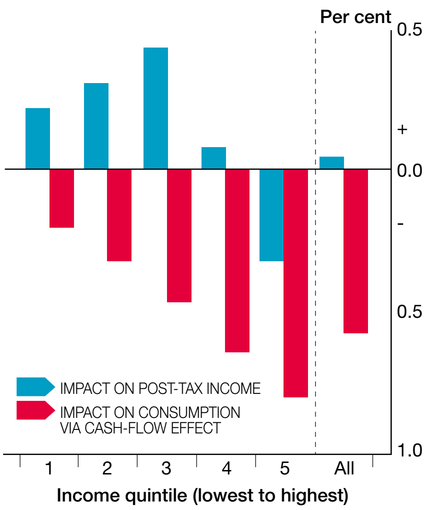
However, it is likely that the boost to prices may be minimized by macro-economic concerns. Any re-pricing effects that do filter through are likely to be most noticeable around the old "sticking points" of the slab structure, where sellers were tempted to cut their asking price to make sure it fell below the old stamp duty thresholds, e.g. £250,000 or £1 million.

In its latest publication, the Bank of England has assessed the impact of interest rate rises. In a move which could be seen as a significant step in preparing the country for a change in monetary policy, it analyses the impact of varying levels of rate increases across the country by region and by age and income.

While older people are expected to benefit from base rate rises, given they are more likely to have savings, the Bank finds that higher income households could be most adversely affected by a sudden rate rise, as they are more likely to have higher levels of borrowing. However, overall the Bank economists conclude that its findings "do not imply that gradual increases in interest rates from their current historically low levels will have unusually large effects on household spending."

Impact of a 1 percentage point rise in rates on income and spending

(by income quintile*)



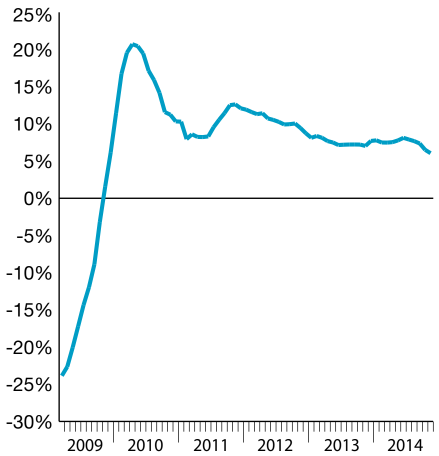
Source: Bank of England

*Results for borrowers and savers within each income quintile are aggregated.

Prime markets

Prices in prime central London declined in November for the first time since October 2010, although values are still up by 6.1% year-on-year. The change in sales and rental prices is examined by local area in the latest London Map.

Prime central London prices: Annual % growth



Source: Knight Frank Residential Research

Prime central London prices have grown by 73% since the market trough in 2009, but are now reflecting the uncertainty in the market as the run-up to the General Election starts in earnest. The new stamp duty rates are likely to have an impact on negotiations in the prime markets in the coming weeks and months, and there could be some adjustment of prices to take account of the new regime. However, as referred to earlier, the stamp duty charges significantly impact the arguments for a "mansion tax", and could result in the idea being watered down, or discarded completely.

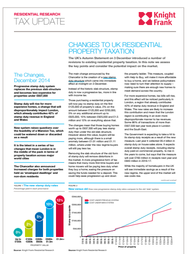
Prices in the prime country market were up 4.7% in the year to the end of Q3 2014, but the rate of growth has slowed in the second half of this year. Despite this, the "ripple effect" on prices, emanating from London and the South East, has been evident in activity in the £1 million plus market, as examined in the latest Prime Country Review.

Meanwhile, more detail has emerged on how the new capital gains tax charges for non-resident property sellers will work. It confirmed that residential property owners who are 'non-resident' in the UK will pay CGT at 18% or 28% on any gains arising after April 2015 when they sell their property. For more details, read the full CGT update.

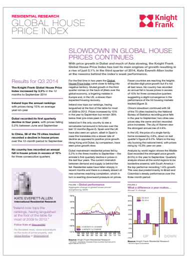
UK **rents** rose by 1.5% in the year to October, while prime London rents remained unchanged in November. Rents in the Home Counties remained broadly unchanged in the year to the end of Q3 2014.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS

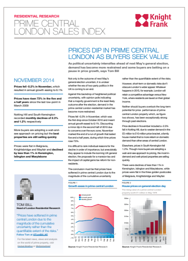
UK Housing Market Forecast Q4 2014



Tax Update 2014



Global House Price Index Q3 2014



Prime Central London Sales Index Dec 2014

Knight Frank Research Reports are available at **KnightFrank.com/Research**

RESIDENTIAL RESEARCH

Gráinne Gilmore
Head of UK Residential Research
+44 20 7861 5102
grainne.gilmore@knightfrank.com

PRESS OFFICE

Daisy Ziegler
+44 20 7861 1031
daisy.ziegler@knightfrank.com

Knight Frank

© Knight Frank LLP 2014 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.