



Party conferences and property taxes

Property taxes took centre stage during party conference season, but the Chancellor has put an end to talk of a 'mansion tax'. Meanwhile UK house prices are stalling once more, but central London continues to buck the trend

Key facts

Prime central London prices rise by 0.7% in September, up 10% year-on-year

UK house prices fall 0.4% in September, down 1.4% on an annual basis

Prime country house prices down 4.3% on an annual basis in Q3

Prime Scottish property prices down 3% year-on-year

Political parties put housing policies high on agenda

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UK housing market and economic overview

Some small positive signs emerged from the economy over the last month, with new data suggesting that the recession is less deep than originally feared. But this has been overshadowed by a downgrade in the IMF forecasts for economic growth this year, the largest downgrade seen in any advanced economy. Meanwhile the political party conference season is in full swing.

It is a sign of the momentum gained by proposals for property taxes during the Lib Dem and Labour party conferences that the first move the Conservatives made as their own conference kicked off was to announce that they would not be introducing a 'mansion tax'.

Under the Lib Dem plans, this 'mansion tax' would result in owners of houses worth £2m+ paying an annual charge equal to the value of 1% of their property. It would have come just months after an increase in stamp duty for purchases of £2m+ homes from 5% to 7%. The burden of stamp duty on residential transactions has rocketed over the last 15 years or so, as illustrated in Figure 1. Knight Frank's recent [London Residential Review](#) discussed how the change to stamp duty has already had an impact on activity in the market for high-

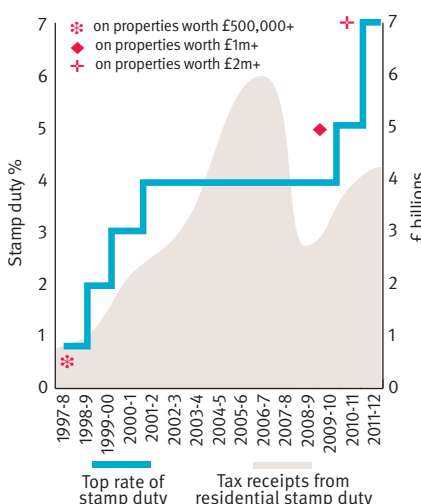
end properties in London, with a 20% drop in transactions in properties worth between £2m and £10m in prime London since the Budget. Such a drop in activity will have hit stamp duty receipts, raising the question of how many new property taxes can be introduced before any net gain for the Treasury is wiped out.

An alternative plan mooted by the Lib Dems – to increase the number of council tax bands to levy higher charges on more highly valued properties was also shot down by Chancellor George Osborne. He pledged that there would be a freeze on council tax, effectively ruling out extra bandings.

These property tax ideas, so roundly rejected by the Chancellor, are important for two reasons. The first is political: since much bartering must take place in any Coalition government to usher policies into legislation, and the Lib Dems are still firmly behind the mansion tax and council tax plans, it will be interesting to note if the Conservatives have to give way elsewhere in the run up to December's Autumn Statement and next year's Budget.

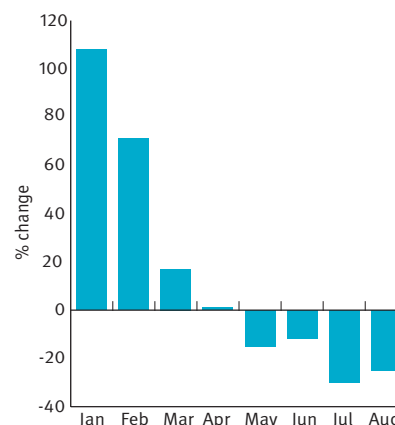
The second issue is a wider policy issue. These property tax proposals formed part of a wider debate about "taxing the wealthy". George Osborne has rightly recognised that a mansion tax, or a one-off wealth tax, would send the wrong signals when the government and

Figure 1
How the top rate of stamp duty has risen



Source: Knight Frank Residential Research

Figure 2
Change in transactions of £2m+ properties in prime London
% change in £2m+ exchanges in London, compared with the same month in 2011



Source: Knight Frank Residential Research, CLG

"There has been some positive news from the UK economy, but this has been largely overshadowed by a large downgrade to the IMF forecasts for UK growth this year."



Gráinne Gilmore, Head of UK Residential Research

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AVERAGE
PRICES IN
PRIME CENTRAL
LONDON ROSE
BY 0.7% IN
SEPTEMBER,
HITTING A NEW
RECORD HIGH.

businesses are trying to attract international investment. Indeed he has pointed to other countries (such as France) where such a move had driven enterprise and investment elsewhere. But Mr Osborne has said that the “wealthy” will have to make a bigger contribution, although he said this would be done in conjunction with cuts in welfare and government spending.

While the country looks safe from a ‘mansion tax’ for now, activity in the housing market and housebuilding, or rather the lack of it, was also discussed at length during party conference season.

The Lib Dems’ plan to use parents’ pension pots to secure mortgage deals for their children received a lukewarm reception.

The call from Labour to use receipts from the multi-billion sale of the 4G mobile spectrum to re-introduce the stamp duty holiday for first-time buyers and to build 100,000 affordable houses over the next two years garnered a warmer welcome, but stands little chance of being adopted by the Coalition government, with the Conservatives claiming that the sums don’t add up.

As the political debate continues, the UK housing market continues to stall. Data from Nationwide shows that average property prices across the country fell by 0.4% in September, partly reversing the rise seen in August. Prices are down 1.4% year-on-year.

In the wider economy, there was positive news from the UK’s dominant services sector. While the data suggested the economy achieved some growth in Q3, the pace was very modest. But the IMF downgraded its forecasts for the UK economy sharply, predicting that the economy will shrink by 0.4% this year. There was some relief however as the IMF expects 1.1% growth next year.

There is likely to be little change in the UK housing market until confidence in the economic recovery improves.

Prime market performance

While activity levels have been affected by the new stamp duty charges, and the uncertainty around the upcoming announcement on capital gains tax and annual charges for £2m+ houses owned by offshore companies in December, prices in prime central London continue to climb. Average prices rose by 0.7% in September, hitting a new record high. Average values have increased by around 10% over the last 12 months alone.

However the prime markets outside London are facing more challenges. Prime country property prices in England and Wales fell by 0.9% in Q3, and are down 4.3% year-on-year. There have also been modest declines in prime property prices in Scotland, with a 0.6% decline in Q3 leading to a 3% annual fall.

Rental market

Average UK rents jumped by 1.2% in August, helped by increased demand in what is typically the busiest time of year for lettings. This was the largest rise in average rents in more than a year, with Wales and the South East leading the way, according to LSL property services.

Again the story in London is slightly different as rents continue on a modest downward trajectory. Prime central London rents dipped by 0.1% in September and are down 2.3% on an annual basis. However despite the fall in rents, demand in the market remains healthy, with the number of new tenancy starts up 18% since January compared with the same period last year.

Residential Research

Gráinne Gilmore

Head of UK Residential Research
+44(0)20 7861 5102
grainne.gilmore@knightfrank.com

Press Office

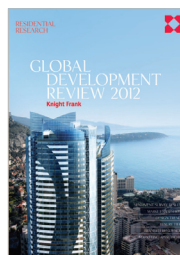
Daisy Ziegler

+44 (0)20 7861 1031
daisy.ziegler@knightfrank.com

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