RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

SALES VOLUMES DECLINE IN APRIL AFTER STAMP DUTY CHANGE

Sales volumes and viewings have increased this year but so has the length of time buyers are taking before making an offer, says Tom Bill

April 2016

Annual growth declined to 0.5%, the lowest rate in six and a half years

Annual growth has been **less than 5% for 16 consecutive months**

Viewings rose 25% in the first quarter of the year but new prospective buyers fell 10%

The number of transactions in March rose 52% compared to last year due to the stamp duty deadline

Macro View: Offshore companies and London property

The effect of politics on the prime central London sales market was evident again in April as the impact of the higher stamp duty rate for second homes and buy-to-let property dampened demand.

The number of transactions since the start of the year has been higher than in 2015 but the extra three percentage points, which came into effect on 1 April, had a distortive effect on a property market finding its feet after a series of previous tax changes.

While the number of sales in March was 52% higher than in 2015, the number in April was almost half, highlighting the extent of the activity that took place before the 1 April deadline.

The longer-term result of higher rates of stamp duty, including the reform of December 2014 that increased the rate for properties worth more than £1.1 million, is that buyers have become more price-sensitive.

Indeed, higher transaction costs are producing similar distortions in the prime London property market as they do with other assets including stocks and bonds. Average holding periods increase, trading volumes decline, prices adjust to some degree and there is a stronger demand for 'best-in-class' assets that can be traded more easily.

In this new environment, vendors are typically lowering asking prices by 10% or more and buyers have become more hesitant.

While the number of viewings in the first three months of the year increased by 25%, the number of new prospective buyers declined 10%, indicating buyers are taking longer before making an offer.

As a result of more subdued levels of demand, annual growth slowed to 0.5% in April. It is the lowest rate in six and a half years and means annual growth has been lower than 5% for 16 consecutive months. To put that into perspective, annual growth did not exceed 5% for 17 months in the period preceding and following the collapse of Lehman Brothers.

TOM BILL

Head of London Residential Research

"Higher transaction costs are producing the same distortions in the prime London property market as they do with other assets including stocks and bonds"

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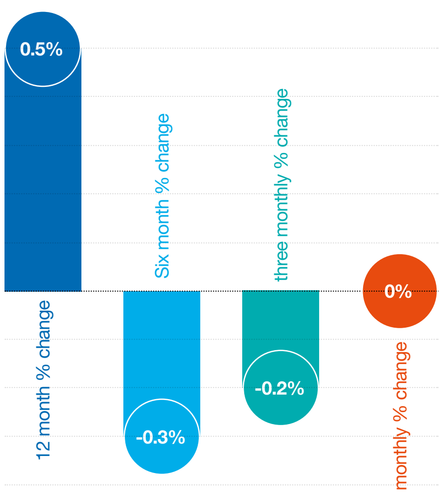
FIGURE 1

Price growth in prime central London

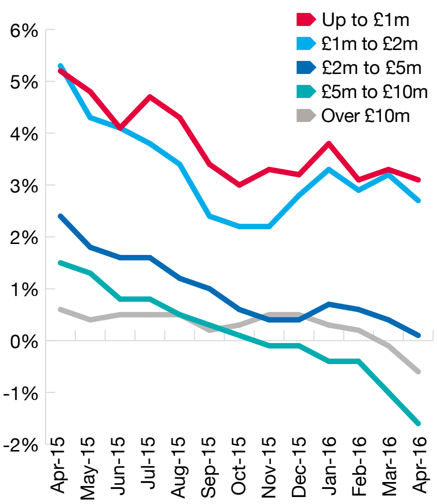


Source: Knight Frank Research

FIGURE 2

Growth remains positive in lower price brackets

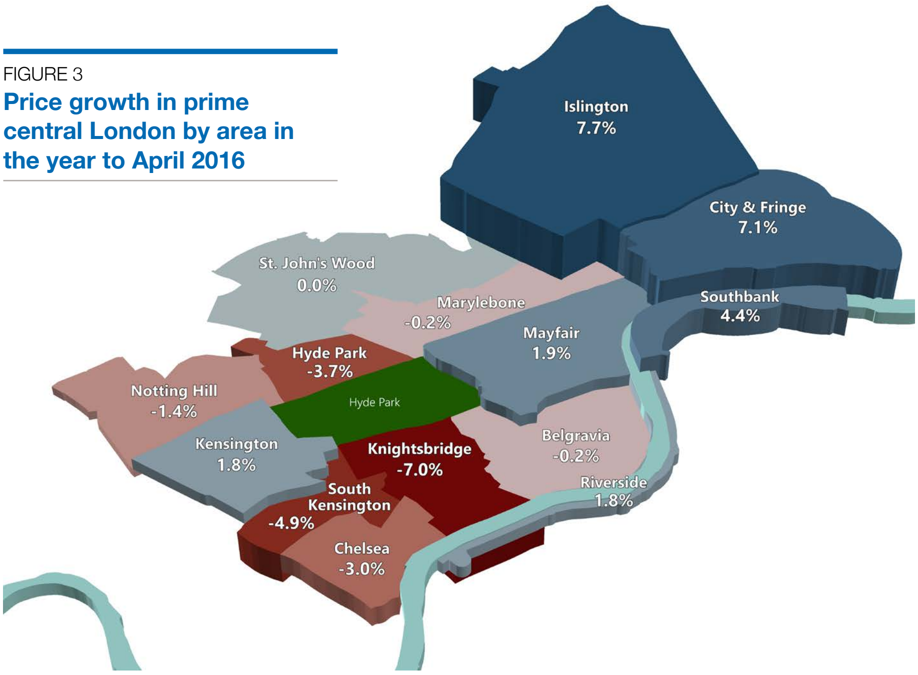
Annual growth by price bracket



Source: Knight Frank Research

FIGURE 3

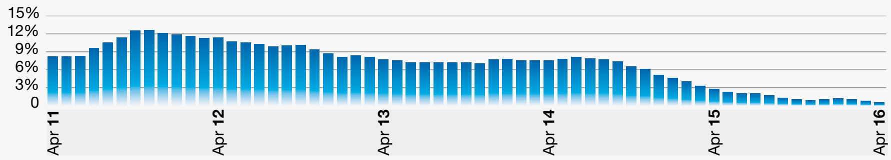
Price growth in prime central London by area in the year to April 2016



THE MACRO VIEW APRIL 2016

Prime Central London Index | **6,385.5**

Annual growth in prime central London over the last five years



OFFSHORE COMPANIES AND LONDON PROPERTY

Offshore companies have been the focus of regular media stories in recent weeks, particularly following the so-called 'Panama Papers' data leak.

The leak came against the backdrop of a drive by the UK government for greater transparency around offshore companies and growing global scrutiny on cross-border money flows from organisations including the OECD and IMF.

The media coverage has focussed on high-profile individuals named in the files and the fact opaque structures can be used to conceal a variety of motives.

However, the reality of buying London property through an offshore company is far more prosaic, according to Paul Ayres, a tax partner at accountant BDO.

"Anonymity has not been a big reason for clients using offshore vehicles to buy property," he said. "They have been overwhelmingly used for inheritance tax reasons," he told Knight Frank.

Until recently, offshore companies were exempt from paying 40% inheritance tax but the government has signalled this will change from next year.

On its own, the change is unlikely to have a material impact on demand for London property. The primary reason is that the vast majority of property transactions in London do not involve offshore companies

The second reason is that buyers will still want to buy a home in London, irrespective of how the transaction is structured.

"In other countries it can still make sense to buy through an offshore company but rules are changing everywhere to make owning via structures less attractive so owning property directly is becoming the new global norm," said Ayres.

Furthermore, the number of deals that would not happen if anonymity was removed is "not significant", he said.

"From what we see demand is holding up despite the changing tax environment. Brexit is more of a concern to buyers right now."

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.

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