RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON INDEX

Stamp Duty: One year on

With the countdown to the 2013 Budget underway, Liam Bailey looks at the impact last year's increase in stamp duty has had on the market.

Results for February 2013

Prices in prime central London **increased 0.9% in February**

Over the last **12 months prices have increased 8.4%**

Last year's stamp duty increase has **reduced annual prime central London sales volumes by 15%**

By the end of March, HMRC will have collected some £223m in additional tax revenue

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For the prime central London market, the most important policy to come out of the 2012 Budget was the increase in stamp duty for residential transactions over £2m.

Using transactions data and our own market knowledge, we have calculated the impact that the new 7% SDLT rate has had, and estimated the likely impact on stamp duty receipts for the full tax year 2012-13.

At the time of the 2012 Budget, HMRC forecast the increased levy would help net an additional £150m.

During the six months following last year's budget the impact was dramatic, the volume of £2m+ sales fell by between 25% and 35% across London.

We estimate that transactions in the £2m+ residential property sector will be around 15% lower in the 12 months to the end of March 2013, compared to a year earlier. Based on published HMRC data this would point to a total of 3,400 transactions as opposed to 4,000.

At the lower end of the prime market, sales of £1-2m homes are likely to have increased by around 5% in this time.

Based on this, we have calculated that by the end of March, HMRC will have collected £223m in additional tax revenue since the new SDLT rate was implemented, £73m more than originally forecast.

The announcement in the Autumn Statement that the Chancellor planned to introduce "no new property taxes", combined with the clarity around the wider £2m+ residential property tax environment provided by the draft Finance Bill did encourage buyers to return to the market at the latter end of the year. However, we believe the longer term impact of the stamp duty increase has been to reduce total £2m+ sales by around 10% below the level they would have been if the rates had not been introduced.

In February, the average price of prime central London property increased at its highest rate in 10 months, climbing 0.9%.

As was the case for much of 2012, the lower end of the market continues to be the strongest performer. Prices in the £1m-£2.5m bracket increased by 1.7% on a monthly basis in February and have risen by 2.1% in the last three months. Conversely, prices in the £10m+ market have been more sedate with a 0.1% increase in February and a 1.6% rise in the past three months.

The fall in the value of sterling has increased the appetite for prime central London homes among overseas buyers, especially those located in the Eurozone.

In France and Italy, where concerns over the introduction of wealth taxes and political uncertainty form the wider economic backdrop, searches on Knight Frank's Global Property Search website increased by 16% and 85% respectively compared to the previous year.

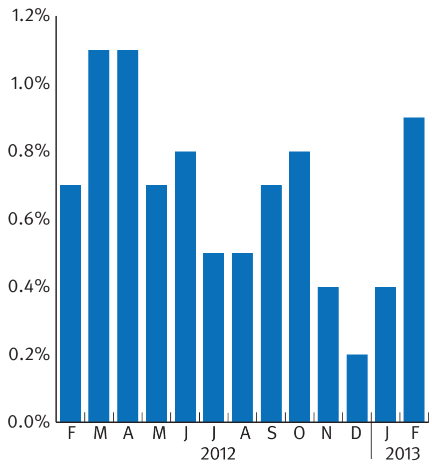
"The long term impact of the new stamp duty rates will be to reduce transactions by 10% below the level they would otherwise have been."

Liam Bailey, Global Head of Residential Research

Figure 1

Monthly price change

Prime central London average residential price change

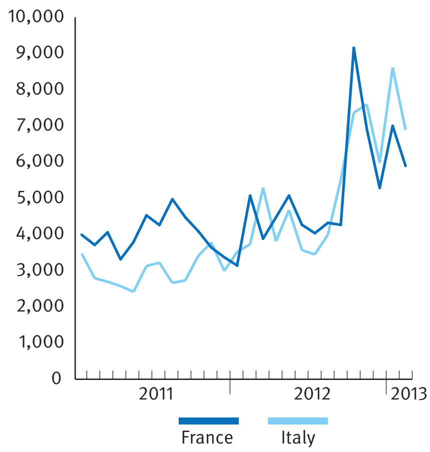


Source: Knight Frank Residential Research

Figure 2

Global demand

Searches for prime central London property



Source: Knight Frank Residential Research

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, Regent's Park, St John's Wood, Riverside* the City and the City Fringe. 'Prime London' comprises all areas in prime central London, as well as Canary Wharf, Fulham, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon.

* Riverside covers the Thames riverfront from Battersea Bridge in the west running east to include 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.

Knight Frank Prime Central London Index

	KF Prime Central London Index	12-month % change	6-month % change	3-month % change	Monthly % change
Feb-11	4,679.7	8.0%	3.9%	3.4%	1.0%
Mar-11	4,742.5	8.6%	5.5%	3.5%	1.3%
Apr-11	4,790.8	8.2%	6.8%	3.4%	1.0%
May-11	4,856.9	8.2%	7.4%	3.8%	1.4%
Jun-11	4,902.7	8.3%	7.0%	3.4%	0.9%
Jul-11	4,937.0	9.6%	6.5%	3.1%	0.7%
Aug-11	4,979.1	10.5%	6.4%	2.5%	0.9%
Sep-11	5,010.9	11.4%	5.7%	2.2%	0.6%
Oct-11	5,047.2	12.5%	5.4%	2.2%	0.7%
Nov-11	5,095.2	12.6%	4.9%	2.3%	1.0%
Dec-11	5,138.3	12.1%	4.8%	2.5%	0.8%
Jan-12	5,185.5	11.9%	5.0%	2.7%	0.9%
Feb-12	5,222.0	11.6%	4.9%	2.5%	0.7%
Mar-12	5,278.9	11.3%	5.3%	2.7%	1.1%
Apr-12	5,338.2	11.4%	5.8%	2.9%	1.1%
May-12	5,378.1	10.7%	5.6%	3.0%	0.7%
Jun-12	5,419.1	10.5%	5.5%	2.7%	0.8%
Jul-12	5,444.2	10.3%	5.0%	2.0%	0.5%
Aug-12	5,473.0	9.9%	4.8%	1.8%	0.5%
Sep-12	5,510.0	10.0%	4.4%	1.7%	0.7%
Oct-12	5,554.6	10.1%	4.1%	2.0%	0.8%
Nov-12	5,576.7	9.4%	3.7%	1.9%	0.4%
Dec-12	5,587.2	8.7%	3.1%	1.4%	0.2%
Jan-13	5,607.1	8.1%	3.0%	0.9%	0.4%
Feb-13	5,659.2	8.4%	3.4%	1.5%	0.9%

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International Residential Investment in London 2013

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