

## BUDGET UPDATE

The Chancellor revealed details of how the extra 3% stamp duty charge on additional properties will work in his Budget, two weeks before the rules come into effect on April 1st. Meanwhile, property values across the country ticked up in February, while the annual growth for prime central London property remains fixed at around 1%.

### Key facts March 2016

**UK house prices ticked up 0.3% in February**, taking annual growth to 4.8%

**Prime central London prices fell by 0.1% last month.** Values are up 1.1% year-on-year

**Prime central London rents are down 0.2% year-on-year**

Households across the UK **expect prices to rise over the next 12 months**

### Economic and housing market overview

In his Budget speech this month, the Chancellor George Osborne warned that there were headwinds facing the UK economy. He described a “cocktail of risks” including turbulent financial markets, slowing global economic growth and low productivity in Western economies. As such, forecasts for economic growth in the UK were revised down, from 2.4% to 2% this year, and to 2.2% from 2.5% in 2017. However, he said the UK was still on course to be one of the strongest growing economies in the G8.

### Annual UK average house price change



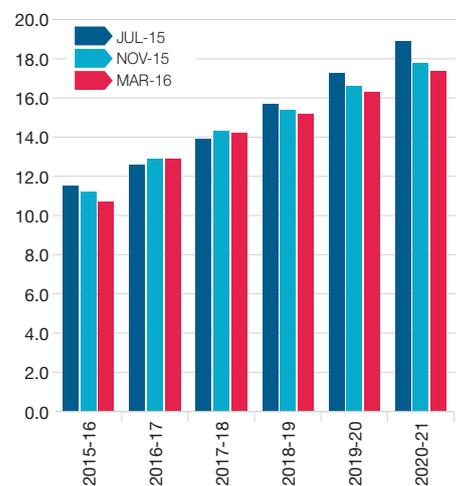
Source: Knight Frank Research / Nationwide

The Budget also revealed the detail of how the extra 3% stamp duty for additional dwellings will work when it comes into force on April 1st.

A key change was that the ‘exemption’ window for those buying a new principal residence before selling their previous home or for those replacing their main home having already sold their previous principal residence was extended from 18 to 36 months.

While such buyers will still have to pay the additional tax upfront, it effectively doubles

### Changes to the UK SDLT forecast



Source: Knight Frank Research / OBR

the time they have to claim a refund should they sell their previous main residence.

One of the biggest surprises was that large-scale investors in rental property will not be exempted from the additional stamp duty charge in England, Wales and Northern Ireland. This seems to run counter to the Government’s pledge to support build-to-rent, but we expect that investment in this sector will continue. There is more detail on the Budget announcements in [Global Briefing, the research blog](#).

Meanwhile, the housing market received a fillip from increased activity among those looking to beat the April 1 deadline for the additional stamp duty charges. Demand rose in many regions, with the CML reporting that gross mortgage lending in February hit the highest level since 2008.

Activity may ease from April, but in the wider UK market the fundamentals of a lack of supply and low mortgage rates are underpinning the market. In the London and South East markets the effect of uncertainty in the run-up to the EU Referendum is likely to be felt more keenly.



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“Across the UK the fundamentals of a lack of supply and low mortgage rates are underpinning the market”.

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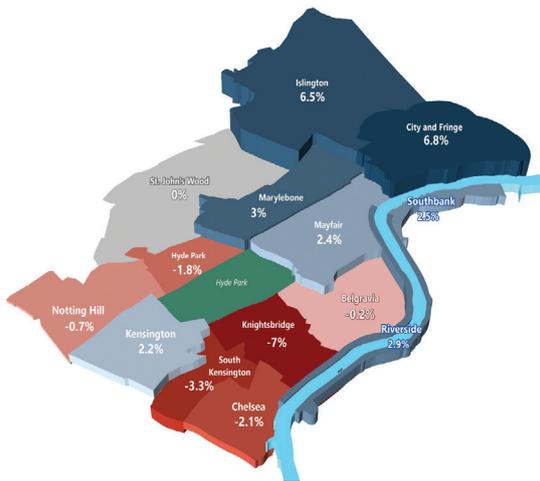
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In the prime central London market, we expect differing levels of growth in the east and the west this year, underlining the very localised nature of the market.

Prime market update

Property prices in prime central London fell by 0.1% in February, taking the annual change in values to 1%. The market remains highly localised, as shown in the map below, with stronger performance in areas such as Islington, City and Fringe and South Bank. In comparison, price falls were seen in markets including Knightsbridge, South Kensington and Chelsea over the last year.

Price growth in prime central London  
Year to February 2016



Source: Knight Frank Research

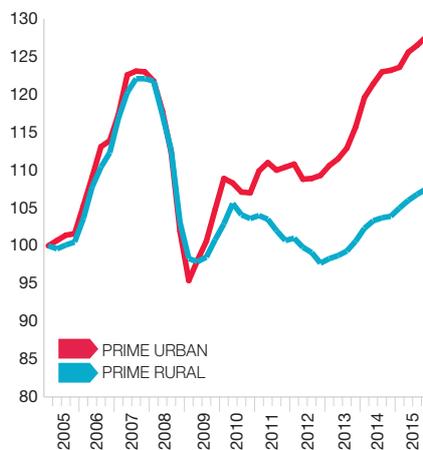
Demand in prime central London was relatively subdued in the first two months of 2016 as a result of the higher levels of stamp duty and ongoing volatility in global financial markets. Further domestic uncertainty, in the shape of a London Mayoral election in May and an EU referendum in June, means

this is likely to continue as buyers adopt a wait-and-see approach.

In the country market, prices rose by 3.1% in 2015. The market is still being driven by prime properties in urban locations, with buyer demand concentrated on areas with effective transport links and good schools and amenities. In Scotland, prime country house prices ended the year up by 0.1%.

Prime urban outperformance

Prime Country House Price Index  
(100 = March 2015)



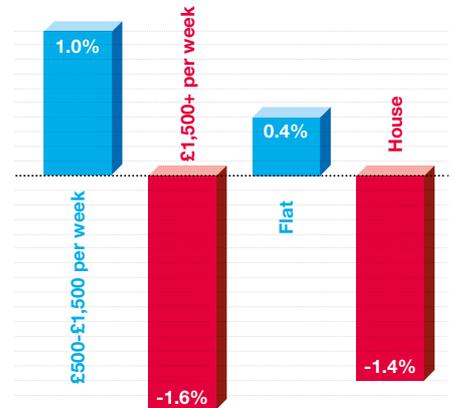
Source: Knight Frank Research

Rental market

Prime central London rents fell by 0.1% in February, the fifth consecutive monthly decline. As a result, the annual rental value growth in prime central London fell to -0.2%. Uncertainty over taxation and slowing price growth in the sales market has resulted in relatively high supply levels – especially at above £1,500 per week. As a result, tenants feel little urgency to agree deals, putting pressure on rental values.

Differing fortunes in the lettings market

Annual growth by price bracket and property type (February 2016)



Source: Knight Frank Research

Average UK rents rose by 2.6% in Great Britain over the 12 months to January 2016, according to latest figures from the ONS.



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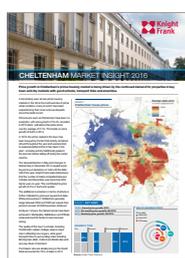
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