

MANSION TAX UNCERTAINTY CREATES A TWO-SPEED MARKET IN PRIME CENTRAL LONDON

Markets with a higher proportion of properties not subject to a proposed 'mansion tax' are outperforming the prime central London average, says Tom Bill

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Prices rose by 0.1% in February as Islington and City & Fringe performed strongly

Annual growth slowed to 4%, half of the 2014 average of 8.1%

Prices declined -0.1% in February for £5 million-plus properties while **there was growth of 0.4% in the £1 million to £2 million price band**

There were declines of -0.8% in Chelsea, -0.2% in Notting Hill and -0.2% in South Kensington

Eight out of ten properties on the £2 million 'mansion tax' threshold are located outside Westminster and Kensington & Chelsea



TOM BILL
Head of London Residential Research

"It underlines the mistaken belief the mansion tax would start to bite in prime central London."

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Prices in prime central London rose for the first time in five months in February, boosted by price growth in markets with a higher proportion of properties that would not be subject to a proposed 'mansion tax'.

A marginal increase of 0.1% was the first time the index has risen since September 2014 in a market where activity has been kept in check by the potential of a 'mansion tax' on properties worth more than £2 million after May's general election.

Annual growth slowed to 4%, which is half of the 2014 average of 8.1%.

Stronger-performing markets included Islington and the City & Fringe in the eastern area of prime central London, where prices grew by 1.3% and 1% respectively in February. Both recorded annual growth of 9.1%.

The Riverside market, which was included in the index six months ago to reflect the high quality of developments in areas like Battersea and Vauxhall, has also risen 0.4% this year.

Elsewhere, there were declines in more

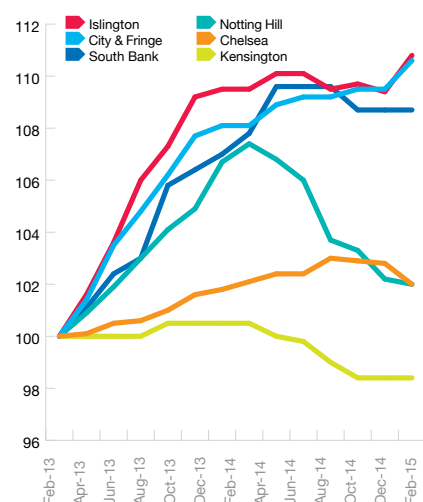
traditional prime markets with higher-value properties, including -0.8% in Chelsea, -0.2% in Notting Hill and -0.2% in South Kensington.

The existence of a two-speed market was underlined by the fact values for properties worth in excess of £5 million and £10 million declined by -0.1% in February. Meanwhile, prices in the £1 million to £2 million price bracket grew 0.4% in February, up 6.8% in the last year.

We estimate that 46% of £2 million-plus properties are located in the prime central London boroughs of Westminster and Kensington & Chelsea. However, eight out of ten properties on the £2 million 'mansion tax' threshold would be located outside the two boroughs in areas of suburban London and the Home Counties, [research shows](#).

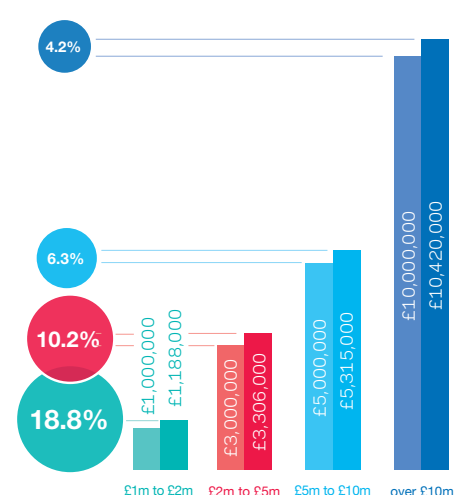
Though any tax would be lower in value and there is more clarity on the potential levy for properties worth between £2 million and £3 million, it underlines there is a mistaken belief the mansion tax would start to bite in prime central London.

FIGURE 1
'New' outperforms 'old' in prime central London



Source: Knight Frank Residential Research

FIGURE 2
Price growth by price bracket
(Two years to February 2015)

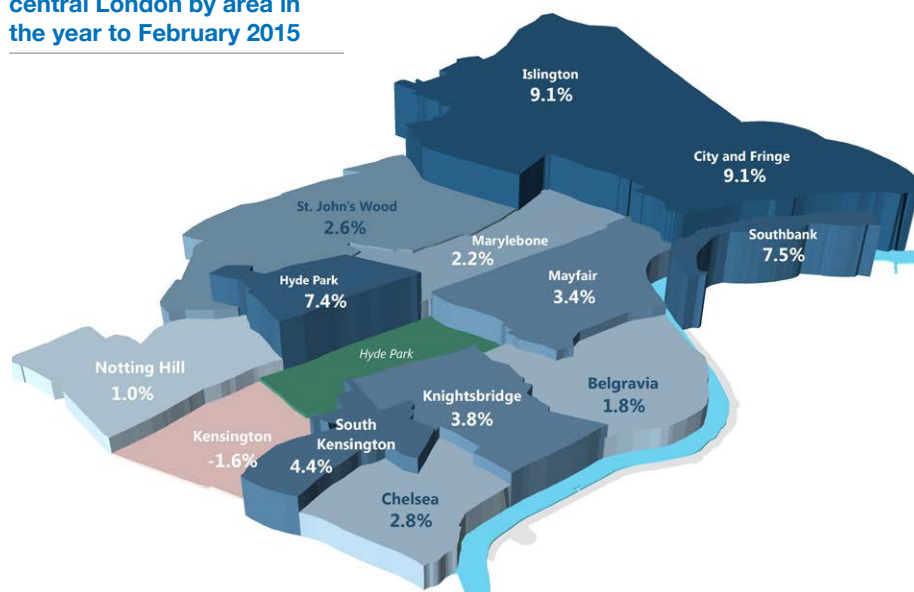


Source: Knight Frank Residential Research

PRIME CENTRAL LONDON SALES INDEX

FIGURE 3

Price growth in prime central London by area in the year to February 2015



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.

Knight Frank Prime Central London Index

	KF Prime Central London Index	12-month % change	6-month % change	3-month % change	Monthly % change
Feb-14	6,083.4	7.5%	3.7%	1.9%	0.7%
Mar-14	6,135.1	7.5%	3.8%	1.9%	0.8%
Apr-14	6,182.4	7.5%	3.8%	2.3%	0.8%
May-14	6,231.2	7.8%	4.4%	2.4%	0.8%
Jun-14	6,278.7	8.1%	4.3%	2.3%	0.8%
Jul-14	6,297.3	7.9%	4.2%	1.9%	0.3%
Aug-14	6,318.9	7.7%	3.9%	1.4%	0.3%
Sep-14	6,343.4	7.4%	3.4%	1.0%	0.4%
Oct-14	6,343.4	6.5%	2.6%	0.7%	0.0%
Nov-14	6,330.7	6.1%	1.6%	0.2%	-0.2%
Dec-14	6,323.7	5.1%	0.7%	-0.3%	-0.1%
Jan-15	6,319.5	4.6%	0.4%	-0.4%	-0.1%
Feb-15	6,328.1	4.0%	0.1%	0.0%	0.1%

Source: Knight Frank Residential Research

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