RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

STAMP DUTY CHANGES DAMPEN ACTIVITY IN PRIME CENTRAL LONDON

Subdued activity levels in prime central London are likely to continue until the autumn as buyers and sellers digest recent tax changes, says Tom Bill

JULY 2015

Annual growth was flat at 2%, down from 7.9% in July 2014

December's rise in stamp duty for properties worth more than £1.1 million appears to have contributed to more **subdued activity**

London accounted for 13% of transactions across England & Wales in the first quarter of this year, **but contributed 46.9% of stamp duty revenue**

£1 million-plus London properties accounted for **1% of sales but 25.8% of stamp duty revenue in Q1 2015**

New monthly Macro View section: The impact of the impending interest rate rise and Chinese stock market volatility

TOM BILL
Head of London Residential Research

"December's rise in stamp duty appears to have had the single biggest dampening effect on demand"

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In the period between the general election and the summer holiday, buyers in London have taken stock of new market conditions and appear less inclined to rush into making decisions.

A succession of tax changes has contributed towards low single-digit annual growth, meaning buyers and sellers are more prepared to sit on the sidelines until later this year, unafraid of missing out on the imminent return of stronger growth.

Following a general election and a Budget that contained a degree of focus on the prime London property market, more discretionary buyers are waiting to see how readily recent policy changes will be absorbed.

While there seems to be some short-term hesitation around recent alterations to non-dom legislation, it is December's rise in stamp duty which appears to have had the single biggest dampening effect on demand as buyers digest the reforms.

Despite the strong underlying economy, the number of tax changes, which have a particularly strong impact on London, means the market is undergoing a period of readjustment.

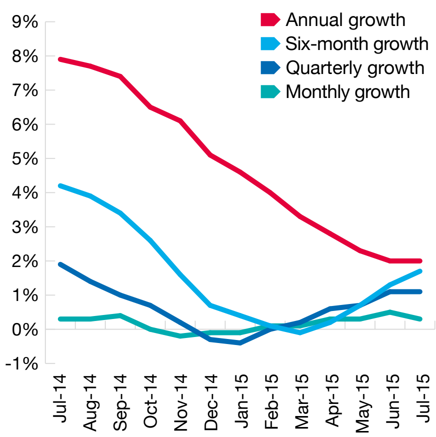
Indicative figures for housing transactions in England and Wales for the first quarter of 2015 show the extent to which high-value property transactions in London make a growing contribution to stamp duty revenues, in contrast to the volume of deals.

Although London accounted for 13% of transactions in the first quarter of this year, it contributed 46.9% of stamp duty revenue, up from 43.4% in the same period in 2014 under the old stamp duty system. Meanwhile, properties worth in excess of £1 million in London accounted for 1% of deals in England and Wales but the revenue contribution has increased to 25.8% from 19.8% last year.

Overall stamp duty in England and Wales is down in the first quarter, as the government predicted, though it expects house price inflation to help make up any short fall in coming years.

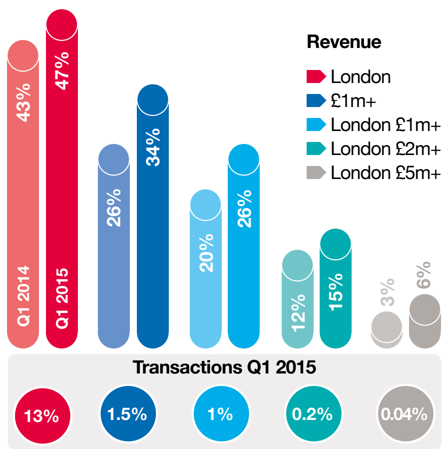
However, after 12 months of successive declines, annual price growth in prime central London flattened out at 2% in July, down from 7.9% in the same month last year. Furthermore, while total sales volumes in England and Wales fell 11%, the number of £2 million-plus deals in London was down by 25% in the first quarter of 2015.

FIGURE 1
Price growth in prime central London flattens out



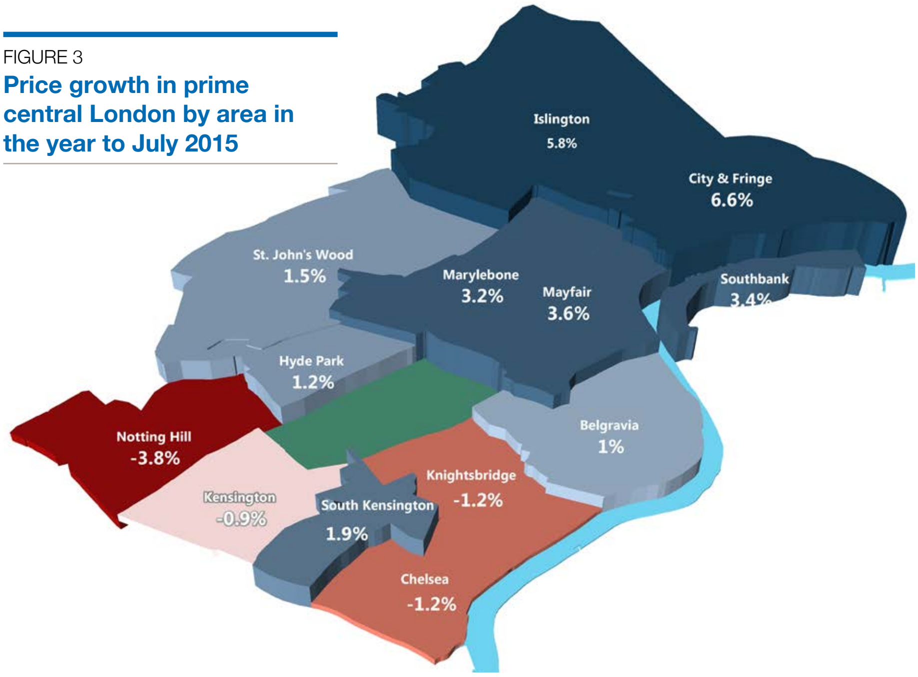
Source: Knight Frank Residential Research

FIGURE 2
The growing contribution of prime London
% of total stamp duty revenue and transactions



Source: Knight Frank Residential Research

FIGURE 3
Price growth in prime central London by area in the year to July 2015



DATA DIGEST

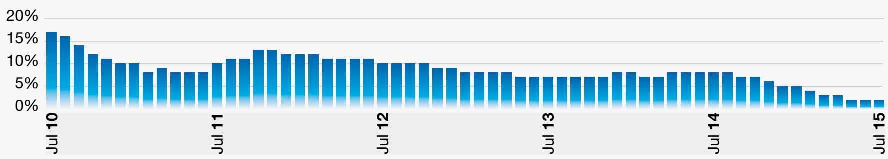
The Knight Frank Prime Central London Index, established in 1976, is the longest running and most comprehensive index covering the prime central London residential marketplace. The index is based on a repeat valuation methodology that tracks capital values of prime central London residential property. '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.

THE MACRO VIEW JULY 2015

Prime Central London Index | **6425.6**

Annual growth in prime central London - last five years



July 2015 was the month the UK began to focus more intently on the implications of an interest rate rise.

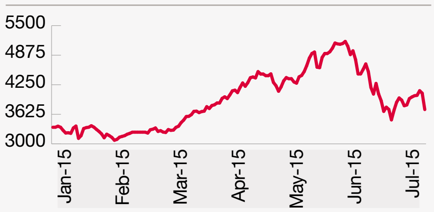
Bank of England governor Mark Carney said a decision on whether to raise rates would "come into sharper relief" at the end of 2015.

Speculation rose that record-low mortgage deals would begin to dry up and the country should brace itself for higher monthly bills.

The base rate fell to 0.5% in March 2009 and has remained there since in an attempt to stimulate the UK economy following the financial crisis. However, Carney's words should be placed in context.

First, many economists still don't believe rates will rise until the first or second quarter of 2016, including more than 50 polled by Reuters after the governor's latest remarks.

Shanghai stock exchange 2015 to date



Second, Carney indicated that rates would rise to about 2.25% over a three-year period, which would be welcomed by the property industry, said JP Morgan real estate analyst Tim Leckie.

"It is half the historical average, with a fairly long glide time, which I think most people would agree is great news for the residential property market," he said.

Elsewhere, as the intensity of the Greek crisis reduced by a notch or two, gyrations on the Chinese stock market caused some to consider the effectiveness of state intervention in the country's stock market and the ramifications for other markets.

Safe-haven outflows from China may not be the only response to a falling stock market, said Leckie. "Further downside in equity markets could trigger a need to bolster balance sheets in China, which, combined with higher rates of stamp duty in the UK for homes above £1.1 million, could see some Chinese investors think twice before investing in prime London residential property."

However, there is anecdotal evidence that Chinese interest in safe-haven property markets including London has intensified since the stock market's strong run ended in June.

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