



Prime central London stock volumes rise as buyers await tax clarity

Draft legislation regarding changes to the current capital gains tax regime and the introduction of new rules for an annual charge on £2m+ properties held in certain ownership structures is due to be published on December 11th. Ahead of this Liam Bailey assesses the impact that tax changes have had on the prime central London market.

Results for November 2012

Prices in prime central London rose 0.4% in November

Annual growth is now 9.4%

Prime central London residential stock in November was 47% higher than in the same month in 2011

Stamp Duty increase has impacted on the market, exchange volumes in the £2m-£5m bracket are down 44% year-on-year

Following an increase in stamp duty for homes valued over £2m in March this year, an air of uncertainty among buyers has greeted the prospect of a new capital gains tax regime and an annual charge on residential properties valued over £2m owned through a company structure.

This element of 'wait and see' in the market from potential homeowners has resulted in a significant rise in prime central London residential stock which now stands 47% higher than in November 2011.

Prime central London property prices rose by 0.4% in November, bringing the total price growth in the sector over the preceding 12 months to 9.4%. While prices in a number of prime central London postcodes remained flat over the month both Notting Hill and Chelsea reported declines of 0.7% and 0.4% respectively, reinforcing our view that the market will moderate in 2013.

As individuals hold off making decisions, exchange volumes remain subdued and sales of £2m+ homes were down 33% year-on-year in the third quarter. Within this, the £2m-£5m

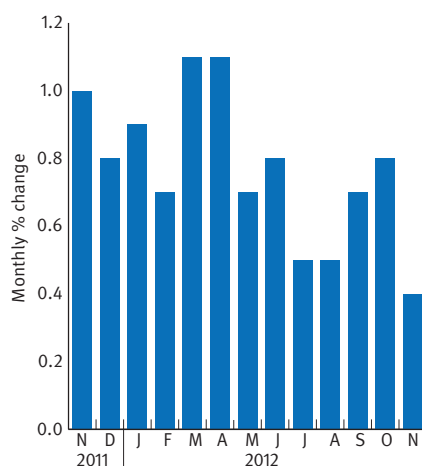
bracket has been hit the hardest with volumes down 44% over the same period.

The volume of new applicants, while still lower than a year ago, has not slipped quite as strongly which suggests there is some evidence for the claim that some buyers are waiting for the December 11th draft legislation to be published before committing.

Over the year-to-date, price growth has been driven by the sub-£2m market where, since changes to stamp duty were enacted in the budget, exchange volumes have been higher than in 2011 adding further weight to the idea that at the top end of the market uncertainty caused by the tax changes has resulted in indecision among buyers.

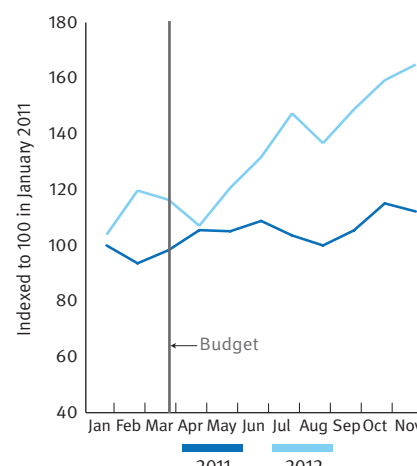
The government has already increased stamp duty to 7% for people buying property over £2 million in their own name and 15% for companies. It also revealed plans, to be confirmed next month, to impose an annual charge of up to £140,000 per annum on properties held by these companies as well as a new capital gains tax on their sale.

Figure 1
Monthly price change
Prime central London average residential price change



Source: Knight Frank Residential Research

Figure 2
Residential Stock Volume
Prime central London, residential stock volume



Source: Knight Frank Residential Research

“Despite a rise in the number of properties coming to market, exchange volumes remain subdued, especially at the top end of the market.”



Liam Bailey, Global Head of Residential Research

RESIDENTIAL RESEARCH PRIME CENTRAL LONDON INDEX

Knight Frank



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, 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.

Exchanges

Our year-on-year data for Prime London

| | Sub-£2m | £2m-£5m | £5m+ | All £2m+ |
|----|---------|---------|------|----------|
| Q1 | 10% | -7% | 78% | 17% |
| Q2 | 23% | -14% | -6% | -11% |
| Q3 | 13% | -44% | -13% | -33% |

Source: Knight Frank Residential Research

Knight Frank Prime Central London Index

| | KF Prime Central London Index | 12-month % change | 6-month % change | 3-month % change | Monthly % change |
|--------|-------------------------------|-------------------|------------------|------------------|------------------|
| Nov-10 | 4,524.3 | 11.2% | 0.8% | 0.5% | 0.9% |
| Dec-10 | 4,583.9 | 10.3% | 1.3% | 2.0% | 1.3% |
| Jan-11 | 4,633.7 | 10.3% | 2.8% | 3.3% | 1.1% |
| 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% |

Residential Research

Liam Bailey

Global Head of Residential Research

+44(0)20 7861 5133

liam.bailey@knightfrank.com

Press Office

Daisy Ziegler

+44 (0)20 7861 1031

daisy.ziegler@knightfrank.com

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