April 2012
RESIDENTIAL RESEARCH

RESIDENTIAL MARKET UPDATE

Knight Frank

Stamp duty and the ‘son of’ mansion tax

The Budget delivered some surprises in March. The much vaunted ‘mansion tax’ was missing, although a version of it lingered on in the new rules outlined for prime property purchases made by companies

Key figures

UK house prices fell by 1% in March and are 0.9% down year on year

Prime central London prices rose by 1.1% in March and the annual growth is 11.3%

Budget verdict: No ‘mansion tax’, but stamp duty hike for luxury property purchases

Confidence in future house price rises climbs strongly in South of England

To find out the latest news, views and analysis from the world of prime property, visit Global Briefing

UK housing market and economic overview

On March 21st, the Chancellor announced wide-ranging stamp duty changes for homes worth more than £2 million.

Despite the rise in stamp duty for homes worth over £1 million in April last year, from 4% to 5%, the stamp duty on properties worth £2 million or more has been lifted higher, to 7%. The stamp duty payable on purchases of residences in this price bracket by ‘non-natural’ persons – which include many of those buying a property through a company structure – has tripled to 15%.

A consultation has also opened on proposals that an annual charge, a ‘son of’ mansion tax, should be levied on residences worth £2 million or more held as a primary asset by these companies. The charges will range from £15,000 (on properties worth between £2 million and £5 million) up to £140,000 (on properties worth £20 million or more). In addition, the sale of properties held by non-resident ‘non-natural’ persons may be liable for capital gains tax on disposal from April 2013 under current proposals.

There is still a lack of certainty about the stamp duty measures, as while a draft version of the finance bill has been printed, the final version will not pass through Parliament until the summer, at which point it becomes law. Until then, the bill can be changed.

But in the meantime, some key points to highlight in the draft legislation: there is no mention of trusts in the Treasury’s description of ‘non-natural’ persons; there is no change to the tax treatment of the sale of shares in a company which holds a property worth more than £2 million (the purchase of shares does not attract a stamp duty charge); and a residential dwelling worth £2 million or more which makes up part of a mixed-use property will be ‘carved out’ and attract 15% stamp duty if purchased by a ‘non-natural’ person.

The Chancellor’s new general anti abuse rule (GAAR), which he will introduce in 2013 to stop aggressive tax avoidance, has been extended to include stamp duty.

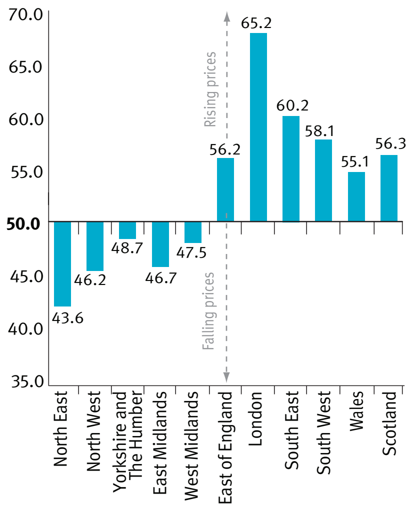
Given the new stamp duty regime, legal and accountancy professionals have indicated that bare trusts and other trusts may be investigated more fully by investors keen to maintain their privacy or order their tax affairs to benefit their children or grandchildren.

For more detail on the budget measures and developments as they happen, visit Global Briefing, Knight Frank’s research blog.

Figure 1

The regional breakdown:

How residents think the value of their home will change over the next year

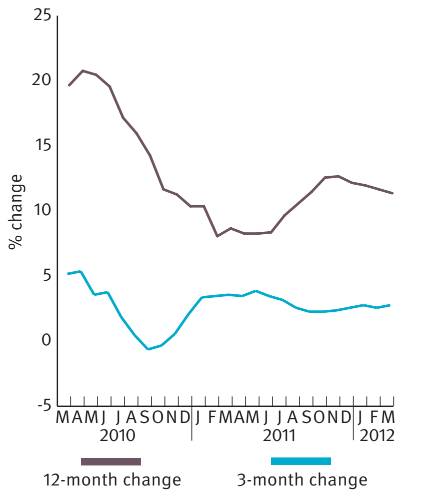


Source: Knight Frank/Markit HPSI
NB: A score of 50 equates to no change, above or below representing growth or decline respectively.

Figure 2

Prime central London prices continue to rise

Prime central London average residential price change



Source: Knight Frank Residential Research

Gráinne Gilmore
Head of UK Residential Research
+44 (0)20 7861 5102
grainne.gilmore@knightfrank.com

> “LONDON’S PRIME CENTRAL PROPERTY MARKET CONTINUES TO SHOW ITS STRENGTH WITH AVERAGE PRICES REACHING A NEW RECORD HIGH IN MARCH.”

The Government also published the National Planning Policy Framework (NPPF) late last month. It is hoped that the framework, which is now in force, will help boost the number of new homes being built, as it aims to simplify the planning system with a presumption of favour for ‘sustainable development’. There is no exact definition of what such ‘sustainable development’ is however, which could lead to confusion. But the Government has won plaudits from all sides after listening to concerns raised after the first draft of the bill was published and amending the final version in accordance with these.

Meanwhile, in the UK housing market, there is an unusual twist to the mainstream house price data this month. While Nationwide’s figures suggest a 1% fall in values, both the Knight Frank/Markit House Price Sentiment Index (HPSI) and Rightmove’s survey of asking prices suggest a significant upturn in confidence during the month.

The rise in asking prices reported by Rightmove and the confidence about future house price rises (especially in Southern England), may have been due to an improvement in economic news as well as the closure of the first-time stamp duty holiday, which no doubt emboldened some sellers of homes worth up to £250,000 to push for the maximum asking price in the run up to the cut-off date.

Prime market performance

London’s prime central property market continues to show its strength with average prices reaching a new record high in March. Activity levels were appreciably higher in the first three months of the year than the same period last year, especially in the market for homes worth £5 million and above, our latest data shows.

Demand for all prime properties rose between January and March, with the number of potential buyers registering interest up 26% compared to the first three months of last year.

The initial feedback in the wake of the new stamp duty charge is that sales activity is continuing, although there have been some re-negotiations of sales in and around the £2 million mark.

Country homes in the £5 million plus price bracket continue to outperform the rest of the market, with average values rising by 2.1% in the first quarter. This contrasts to a decline of 0.5% for all prime country properties in the first three months of the year, and a 4.1% decline year on year. This reflects the fact that the £5m+ sector is more international in nature than the rest of the country market, with overseas buyers remaining active.

But within the country market, property “hotspots” such as Oxford and Basingstoke, with the best commuter transport links and schools, continue to hold their own.

Prime property prices in Scotland fell 0.4% in the first three months of the year, and are down 3.6% year on year.

Rental market:

Prime central London rents fell for the sixth consecutive month in March, dropping by 0.1%. Average rents have slipped by 0.8% since September, but are still 1.2% higher than the first quarter of last year. Despite a rise in both tenant demand and supply in the first three months of the year, the data is in tune with a gradual deterioration in the employment market, especially in the City, which is weighing on rental negotiations.

Residential Research
Gráinne Gilmore
Head of UK Residential Research
+44(0)20 7861 5102
grainne.gilmore@knightfrank.com

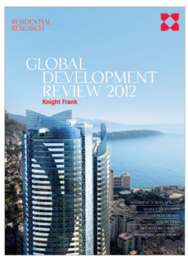
Press Office
Daisy Ziegler
+44 (0)20 7861 1031
daisy.ziegler@knightfrank.com

Recent market-leading research publications

Prime Central London Sales Index Mar 2012

Super-prime London Report 2011

Prime London expands 2011/2012



Global Development Review 2012

Knight Frank Research Reports are available at **www.KnightFrank.com/Research**