December 2012
RESIDENTIAL RESEARCH

RESIDENTIAL MARKET UPDATE

Knight Frank

Property taxes: some welcome reliefs

A busy month in Westminster resulted in some clarification of the rules around tax changes for £2m+ properties, and another downgrade to the UK's economic growth forecasts. Meanwhile prices in central London continue to far outperform the wider UK market.

Key facts

Prime central London prices rose by 0.4% in November, and are up 9.4% year-on-year

Average UK house prices were unchanged in November, and down 1.2% on an annual basis

Census data shows 64% of households are homeowners, and 31% own property outright

Knight Frank forecasts average UK mainstream house prices will fall 2% in 2013

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"The Office for Budget Responsibility expects a jump in housing transactions next year, but also downgraded its forecast for UK economic growth."

Gráinne Gilmore, Head of UK Residential Research

UK housing market and economic overview

The Treasury's schedule was packed in early December, with the Chancellor's Autumn Statement (December 5th), and the publication of the draft Finance Bill (December 11th), which gave much more clarity on the property taxes proposed for £2m+ properties owned through companies.

In his Autumn Statement, the Chancellor confirmed the signals that had come from the Conservative party conference that there would be no "new" property taxes.

He said any new tax would be "intrusive, expensive to levy, raise little and the temptation for future Chancellors to bring ever more homes into its net would be irresistible."

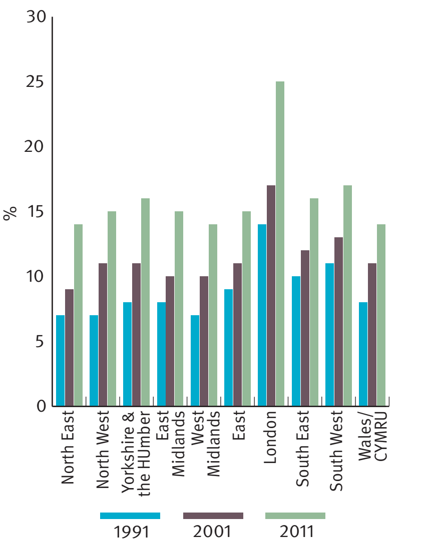
Although Mr Osborne did not spell out what he meant by "new" taxes, the strong indication was that he was ruling out a **Mansion Tax** – an annual tax on all properties worth more than £1m or £2m – and also dismissing suggestions that there should be additional bands for Council Tax which would lift the charge for the most expensive properties.

However, his statement did not cover the proposed changes to the tax treatment of £2m+ properties owned through companies, already announced at the Budget in March this year. Indeed the plans for these tax changes were outlined in the draft Finance Bill, published a week after the Autumn Statement. The Bill confirmed there would be an annual charge for properties worth more than £2m held by "non-natural persons" (NNPs), which includes most company structures. It also said that such properties held by non-resident NNPs would be subject to capital gains tax (CGT) on disposal. For details on these changes, visit Global Briefing.

The stamp duty charge for buying a property through a company was raised from 5% to 15% in March this year.

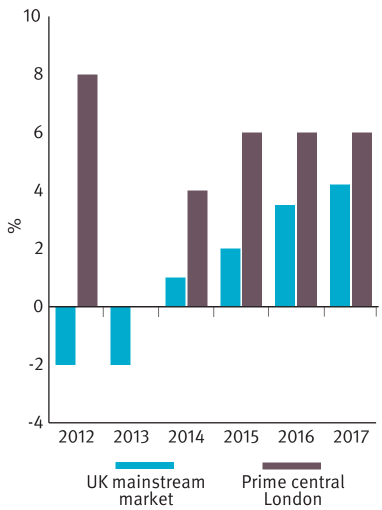
Yet the Finance Bill showed that there had been marked progress on the detail of the

Figure 1
Proportion of households in the private rented sector 1991-2011
Based on census 2011 data



Source: Knight Frank Residential Research, Census 2011

Figure 2
Knight Frank forecast: House price growth
PCL and UK mainstream



Source: Knight Frank Residential Research

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rules, with wide-ranging 'reliefs' now being offered for certain types of companies.

In a move welcomed by the property industry, property developers, those letting out properties on a commercial basis, homes open to the public and property trading companies will all receive 100% relief from the annual charge, and CGT, as will farmhouses occupied by working farmers and properties used by charities. In addition, the purchase costs of £2m+ properties by such entities will fall as the stamp duty charge drops to 7% next summer. Oddly, until the summer, the stamp duty charge will continue to be 15%, indicating that activity in this part of the market may be held up until then. There is more legislation coming out around CGT charges in January, so it remains to be seen if the Treasury will address this market-changing anomaly.

> "ACROSS ENGLAND AND WALES 17% OF HOUSEHOLDS ARE IN THE PRIVATE RENTED SECTOR, UP FROM 12% IN 2001."

December also marked the publication of the latest tranche of data from the 2011 Census which gives a fascinating insight into the changing nature of tenure in the UK's housing market. The data clearly illustrates the rising importance of the private rented sector (PRS), especially in London, where 25% of households are in the PRS, up from 14% in 1991 (figure 1). Across England and Wales 17% of households are in the PRS, up from 12% in 2001. However, homeowners remain in the majority in terms of tenure, with 31% of households owning their home outright, and 33% owning with a mortgage.

Activity in the housing market remained constrained in latter stages of the year, and prices were broadly flat across the UK. Data from Nationwide showed that prices were unchanged in November and are down 1.2% year-on-year. During this extended period of low transactions, it was interesting to note that the Office for Budget Responsibility (OBR) expects an sharp jump in transactions in 2013/14, a much larger rise than we predict in the Knight Frank house price forecasts. The OBR was also rather downbeat about its assessment of the UK economy, downgrading its forecasts for growth over the next 5 years. It expects just 1.2% growth in GDP next year.

Prime market performance

Activity in the market in prime central London has been affected by uncertainty as everyone awaited the publication of the draft Finance Bill. The number of exchanges of properties worth between £2m and £5m between July and September was down 44% compared to the same period last year. But the sub-£2m market has been very strong, and prices across the board continue to rise, climbing by 0.4% in November. Prices are now 9.4% higher year on year, far outperforming the rest of the UK market.

Prices in the prime country market are not faring quite so well, with prices down 4.3% year-on-year in the third quarter. In Scotland the price of prime property is down 3% on an annual basis.

Rental market

Average rents continue to rise across England and Wales, with a 0.4% rise in October they are 3.4% higher on an annual basis. But fears over city jobs and economic uncertainty are weighing on rents in prime central London, which continued to dip in November, leading to a 2.4% annual fall. But this mainly reflects a slowdown in rents in the £1,500+ bracket. Activity levels are still high, and rents in the £500 to £1,500 a week market remain steady.

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