

THE PRIME CENTRAL LONDON MARKET STARTS TO ABSORB STAMP DUTY CHANGES

The restrained initial reaction to December's stamp duty changes suggests the market had been braced for some form of political intervention, says Tom Bill

DECEMBER 2014

Prices declined -0.1% in December, which meant annual growth slowed to 5.1%

Annual growth is the lowest in five years but **prices have risen 52% since the end of 2009**

The market has begun to absorb stamp duty changes and **in some instances prices have moderated slightly to reflect the new charges**

Prices have risen 17% since the last time stamp duty rates were raised for high-value properties

OECD report findings raise **questions over the viability of further property taxation in the UK**



TOM BILL

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"The composed initial reaction to the stamp duty changes and the fact annual growth has been moderating for three years indicate the market has priced in some form of political intervention."

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Prices in prime central London softened for the second consecutive month in December against an increasingly unpredictable political backdrop.

A decline of -0.1% was smaller than the -0.2% registered in November and annual growth eased to 5.1%. Though the annual rate was the lowest in five years, prices have risen 52% over that period.

At the start of December, Chancellor George Osborne increased stamp duty for properties above £937,500 in a move designed to outmanoeuvre his political opponents five months from the general election.

Following a spike in transactions before the new system came into effect at midnight on 3 December, there has been a period of tougher negotiation between buyers and vendors that in some instances has led to prices adjusting downwards slightly to account for the new higher charge.

Some sellers and buyers opted to split the difference between the old and new charges and overall there has been minimal evidence to date of deals falling through.

Firstly, it indicates how likely the prime central London market is to absorb the changes in

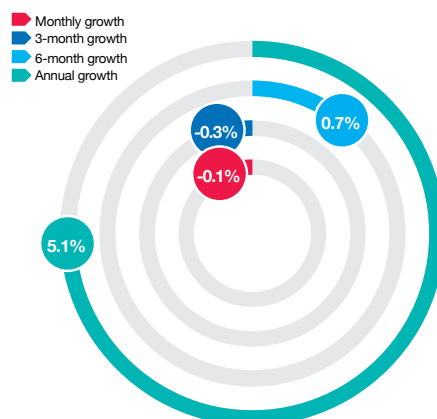
the short to medium term.

The market has reacted in a largely level-headed manner to previous similar changes, including a rise in stamp duty to 7% from 5% for properties over £2 million in March 2012. Despite negative forecasts at the time, prices have since grown 17% in the £2 million to £5 million price bracket, as figure 2 shows.

Second, there has been a debate surrounding the taxation of high-value residential property, including the proposed mansion tax, for more than five years. The composed initial reaction to the stamp duty changes and the fact annual growth has been moderating for three years indicate the market has priced in some form of political intervention.

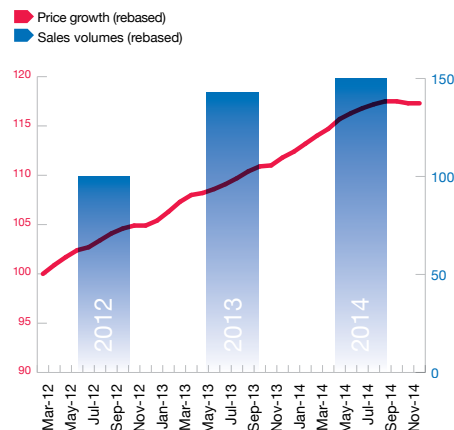
However, that is only true up to a point and uncertainty remains over the possibility of further property taxes after the election. After December's stamp duty changes and an OECD report this month showing UK property taxes as a proportion of total tax revenues are already the highest in the world, the case for further property taxation is significantly weaker than it was in November.

FIGURE 1
Prime central London price growth in December 2014



Source: Knight Frank Residential Research

FIGURE 2
Price and transaction growth following the march 2012 stamp duty changes

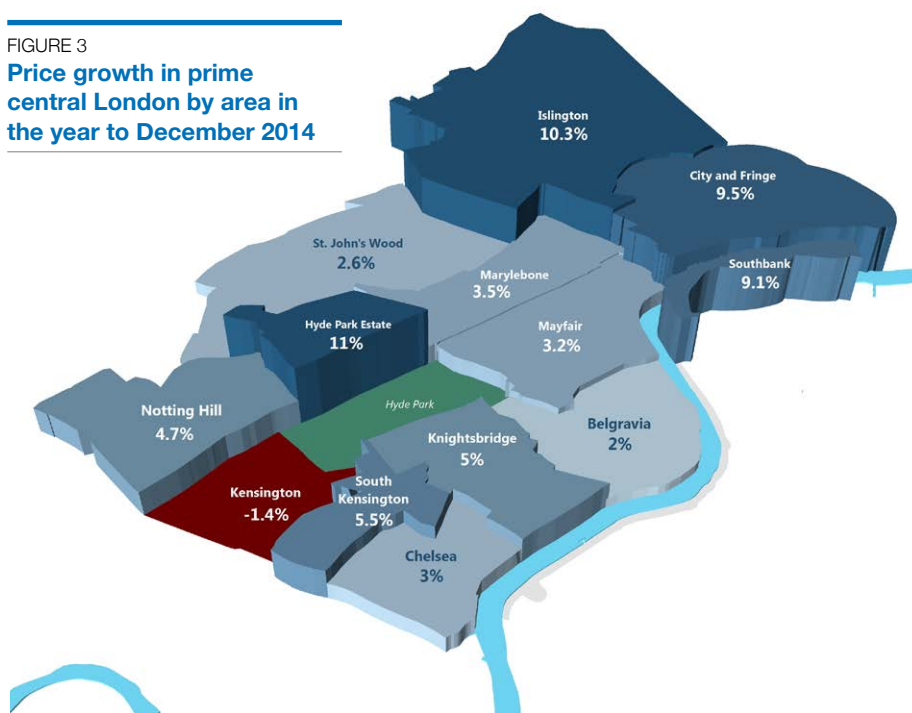


Source: Knight Frank Residential Research

PRIME CENTRAL LONDON SALES INDEX

FIGURE 3

Price growth in prime central London by area in the year to December 2014



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 |
|--------|-------------------------------|-------------------|------------------|------------------|------------------|
| Dec-13 | 6,017.9 | 7.7% | 3.6% | 1.9% | 0.8% |
| Jan-14 | 6,043.6 | 7.8% | 3.6% | 1.5% | 0.4% |
| 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% |

Source: Knight Frank Residential Research

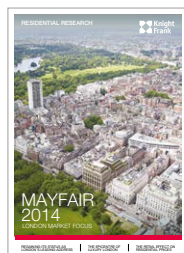
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