MASKELLS

Estate Agents in Prime Central London since 1965

Prime Central London Market Report – Summer 2015

SALES:

New SDLT Rates causing indecision and lower sales volumes

New SDLT puts UK market in line with others

Increased SDLT captured by expected rise in market

LETTINGS:

New Buy-to-Let tax may create shortage of rental stock.

Prime Central London rental prices now under pressure.

The market has had to digest a lot of information and changes over the past few months. Naturally with change comes uncertainty: Market participants must understand new tax and domicile arrangements which will delay buy or sell decisions until professional advisors have analysed the small print. Nevertheless the immediate result, in the form of lower sales volumes throughout the prime central London market, have been felt by all. Should we have been surprised by this tax increase and does this make London less attractive to property buyers?

SALES

UK property taxes and property transaction taxes have been some of the lowest in the developed world. This has turned prime properties into an investment class of their own, particularly for foreign buyers, but has also drawn much criticism that prices are being pushed up so that they are out of reach for most. The government needs to raise taxes to help reduce the UK debt burden and property (being immobile and easily identifiable) is a natural target. The various taxes including additional stamp duty, ATED and non-Dom IHT changes could be seen as "reasonable" as they seek to bring in line tax-efficient structures with the day to day taxes paid by ordinary UK residents. However as the majority of property over £1.5mm is in London & the South East, the increase in SDLT is really a tax on the wealthiest part of the country and not the Nation as a whole.

We will soon see if the SDLT receipts justify the increase (as there is no point in having a tax which does not raise revenue) but by all accounts, the sales volume of £2mm+ properties has dropped. Our analysis, taken from data supplied by Lonres.com, suggest a 27% fall in transactions in Prime Central London in the £2mm to £10mm range from January to August 2015 compared with the same time last year. The fall for £5mm to £10mm homes is nearer 39% for the same period. Further, the new system puts more focus on collecting revenue from property transactions over £2mm – applying the new system to 2014 receipts, 30% of receipts would have been raised from £2mm+ sales under the new system compared to 17% under the old. The government should have reasonably expected that as a consequence of the burden of SDLT on £2mm+ property transactions, this section of market would shrink. SDLT is a transaction tax and without transactions, receipts will fall. This is what we expect the OBR to soon report.

Nevertheless, we must remain realistic and analyse London in the context of other first world cities as transaction costs are high elsewhere: Hong Kong (around 23%), NY (upwards of 10% - largely due to very high agent fees) or Belgium (between 14-22% depending on the age of the building) or Tokyo at approx. 13%. We must also consider our very low property taxes (Council Tax) which is not based on actual property values, unlike other countries (NY being between 0.5% and 1% headline rate). We must also remember that we do not pay Capital Gains tax on the sale of our primary residences in the UK, unlike many other countries. So whilst the initial tax has gone up dramatically, we are still competitive on the world stage and as such we do not believe that SDLT will be reduced anytime soon by a significant margin, if at all. Originally seen as a political manoeuvre to offset a "Mansion Tax", an increase in SDLT, in hindsight, should have been expected.

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Prime Central London Market Report – September 2015

The Market: Sentiment is lacklustre:- UK buyers can't quite believe the additional SDLT rate and are considering further extensions to their properties over paying this tax. Foreign buyers have seen sterling strengthen during 2015 which, in addition to SDLT, makes acquisition very expensive. In addition to this, the recent volatility in the financial markets has affected individual confidence which is paramount when making large property acquisitions. An announcement by the government that there will be no more tax changes in the property market, may go some way to boost confidence - buyers, and particularly foreign buyers, need tax certainty. We do expect the new rate will slowly be accepted, particularly if the London Market rises by 20-25% over the next 5 years thereby absorbing the stamp duty paid through increased capital values, but do not expect anything to happen soon. People are still in shock.

LETTINGS

The new legislation on buy-to-let properties (announced July 2015 but due to be introduced in 2017) is a concern for the UK rental market as a whole. By no longer allowing landlords to fully off-set of mortgage interest payments against rental income, the return may no longer be attractive enough for landlords to remain in this asset class. Housing shortage is a major issue for a growing population and the effect of this new tax may well be to push landlords to either increase rents or sell their investments – the net result of which is fewer affordable homes for those who have to rent as they cannot meet the stringent terms of the Mortgage Market Regulations and are therefore precluded from buying. For the Prime Central London market however, landlords tend to be less levered than the rest of the UK and still see the total return (capital appreciation and income) as attractive compared to other asset classes in this low interest rate environment.

The Market: The lettings market has experienced improving conditions since the third quarter of 2014 which, up to that point was characterised by subdued and erratic demand and static or falling rental prices. Improving economic conditions had led to confidence with Applicants and this had started to filter through to the rental market in the half of 2015. Average rental values across Prime Central London rose just over 6% year on year to July 2014 – however in the last month we have seen an increase in properties available to rent (possible as a result of a slow-down in the sales market) and we have seen a small drop in rents achieved. August tends to be a busy month for lettings as families seek to move prior to the start of the school term and the recent turmoil in the financial markets will now be the focus of participants in that market rather than seeking a new home. We do expect moderate growth of 3-5% in rents achieved over the next 12 months but we caveat this with a concern over the current high stock levels depressing prices in the short term, particularly in the 3+ bedroom house market. The upshot of this is that Landlords still need to be realistic about the rents they are seeking to achieve. Over the summer months, the majority of Prime Central London agents reported an increase in the length of time that properties stay on the market before being let. We will see what the next quarter brings.

Established in 1965, Maskells is one of the oldest independent estate agents in Prime Central London. With multi-lingual staff and a full sales and ARLA registered lettings operation, Maskells gives you access to an unrivalled depth of property expertise, experience and local knowledge. Our Agency offering and post transaction services, via concierge sister-company White Circle Collection, www.whitecirclecollection.com , provide a one-stop solution for all Prime London Property requirements.

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