

## SALES MARKET

Momentum across much of the London property market remains subdued. Across prime central London average prices fell 1.1% in the year to March, according to Knight Frank; the fourth consecutive month of marginal annual adjustment, with the agency reporting prices are now 8% below their 2015 peak. Across the capital as a whole, average prices fell by 1.0% in the year to February, according to the UK House Price Index, the first time annual growth has been negative since the global financial crisis.

While prices continue to stabilise across prime London, data from LonRes indicates that new instructions across the market are on the rise, up 8.4% during the first quarter of 2018 compared to a year ago. However, a lack of buyer demand across much of the market means sales volumes, especially across the core £1m-3m market, remain muted. While the number of properties sold across prime London in the year to March

2018 was up 6% compared to the previous 12 month period, sales in the first quarter of 2018 are lower than during the same period last year, with RICS reporting London agents are noting a rise in the number of properties being withdrawn from sale.

With the market remaining sensitive to political events, the effects of higher transactional costs are now being absorbed by vendors. According to LonRes, across the core prime London market (£1 million - £5 million), the average price adjustment for sales in the year to February was -9.9%. This more than compensates for the rises in stamp duty. The difference between the new and old rates of stamp duty as a percentage for a £2 million sale are an additional 2.7%, or 5.7% including the second home surcharge. For a £5 million sale this represents 3.3% or 6.3% respectively.

## FISCAL POLICY

New tax rules relating to non-domicile residents are now in force, and take retrospective effect from 6th April 2017. Any person who has been resident in the UK for more than 15 of the previous 20 years will be deemed domiciled in the UK for tax purposes. Inheritance tax is also now chargeable on all UK residential properties held indirectly through an offshore entity (company, overseas partnership or a trust).

In addition the HMRC has announced proposals to speed up Capital Gains Tax payments for residential property, suggesting payments will need to be made within 30 days of a sale, on a 'payment by accounts' basis as opposed to annually as part of the self-assessment process. The proposals are out for consultation until June, and if accepted will take effect from April 2020.

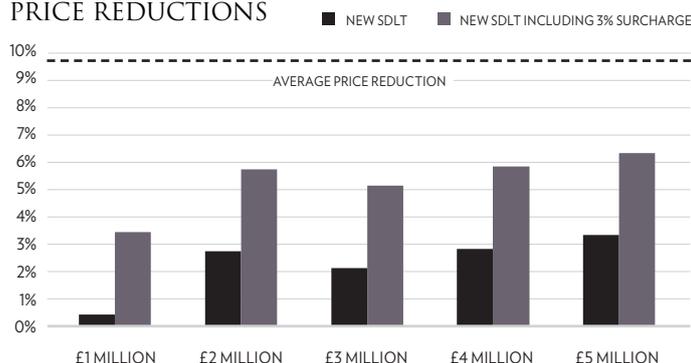
## ECONOMIC BACKDROP

The UK economy remains stoic with consumer confidence rising over the first quarter of the year. The GfK consumer confidence tracker was at its highest level in a year in March, the Office for National Statistics (ONS) reports employment levels are at a record high, and for the first time in over a year, wage growth has begun to outperform inflation. Inflation fell back to

2.5%<sup>1</sup> in March (the larger than expected fall casting doubt on whether the Bank of England's anticipated rise in interest rates in May will be put on hold). The strength of sterling against the US\$ continues, reaching a post-Brexit high of \$1.43 (18 April), just 3% below its pre-Brexit peak.

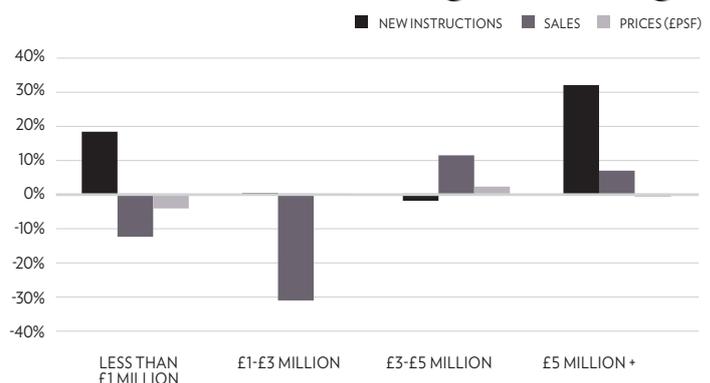
<sup>1</sup>CPIH - The Consumer Prices Index, including owner occupiers' housing costs (ONS)

### ADDITIONAL SDLT COSTS HAVE BEEN ABSORBED BY PRICE REDUCTIONS



Source: dataloft/LonRes

### PRIME LONDON - THE MARKET Q1 2018 VERSUS Q1 2017



Source: dataloft/LonRes Q1 2018 v Q1 2017

# RENTAL MARKET

Supply has exceeded demand across much of the prime London rental market in recent times, placing sustained pressure on prices. However, evidence suggests this situation is beginning to change. Data from LonRes indicates that the supply of new instructions to prime central London fell by over 11% in the first quarter of 2018 compared to a year earlier, while Knight Frank report that average rental values across prime central London fell by just 1.5% in the year to March, the most moderate rate of decline in almost two years. The agency report average rents increased 0.2% between February and March, the first positive movement since

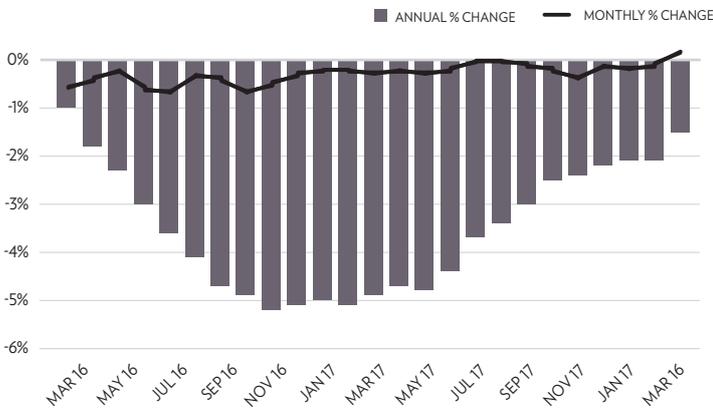
September 2015. Across London as a whole, rental growth was just 0.1% in the year to March, unchanged for the third consecutive month according to the ONS.

Rental supply rose dramatically in 2016 and early 2017 thanks to a combination of factors, including the rush to buy pre the introduction of the 3% additional stamp duty levy on second homes, and the uncertainty of the sales market in the aftermath of the Brexit vote. This situation is now reversing, as pricing in the sales market shows more signs of stability, while tax changes for landlords have curbed new buy-to-let activity. The

Council of Mortgage Lenders reports there were just 74,900 loans issued for new buy-to-let property purchases across the UK in 2017, down 26.6% on 2016 when the figure was over 100,000.

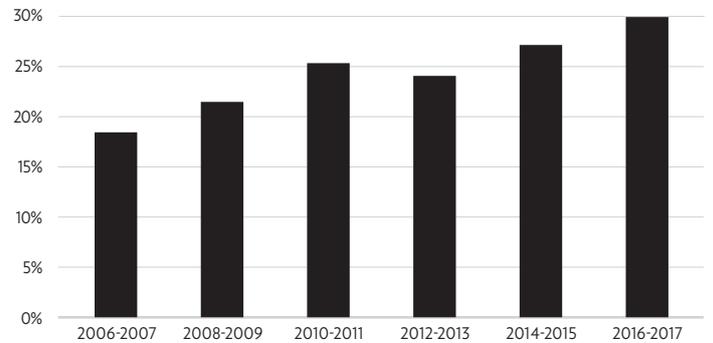
Meanwhile, tenant demand continues to grow. Knight Frank report that the number of new prospective tenants registered across prime central London in the year to February was 16% higher than during the previous 12 month period, while viewings rose 14% over the same period. If demand exceeds available supply there will be upward pressure on prices.

## MONTHLY GROWTH RETURNS IN PRIME CENTRAL LONDON



Source: Knight Frank Research

## RECORD NUMBERS OF LONDON HOUSEHOLDS PRIVATELY RENT



Source: dataloft, English Housing Survey (2016-2017), (2018)

# GOLDEN VENN PERSPECTIVE

The London property market is undoubtedly resilient. Despite major property tax changes, together with the well-documented prevailing period of political uncertainty, prices are only running at just 8% below the 2015 peak. While further price corrections are a possibility during 2018, there are indications of stability within the market. These are reinforced by positive noises coming from the economy in terms of consumer confidence, falling inflation and record high employment rates.

The higher transactional costs of purchasing property are providing shrewd buyers with the leverage to increase their negotiating power, while the increase in instructions is offering a wider choice of property. The price corrections, combined with political instability across the globe and the relatively weak pound, continue to capture the interest and provide opportunities for the international investor in the London property market.



Golden Venn is a boutique firm specialising in advising international buyers on the acquisition of investment properties in prime central London and other major cities around the world.

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