GOLDEN VENN

MARKET REPORT
FEBRUARY 2016

SALES MARKET

According to the Land Registry, average London house prices rose to £514,097 in December 2015: 12.4% higher than 12 months earlier. London remains the strongest performing region across England and Wales, with its rate of price appreciation almost double the national average of 6.4%. The next best performing region is the East, where prices are rising at an annual rate of 10.6%.

In prime central London, annual price growth in January 2016 was at 1.2% according to Knight Frank. The strongest growth was seen in markets outside of the core central London area, namely Islington (7.7%), City and Fringe (7.5%) and Marylebone (4.2%).

Demand levels were subdued over 2015 as a result of the increased costs of buying in the upper price bands. Along with extra taxes and costs, the increase in Sterling made properties less attractive to some overseas buyers. As a result, transaction levels were reduced, particularly in the upper price bands.

Douglas and Gordon report a 64% reduction in the number of prime London sales over £2 million in the last nine months of 2015 compared to the same period in 2013.

By the end of the year, Knight Frank reported that the stamp duty changes made in December 2014 were starting to be absorbed by the market. A growing number of vendors were prepared to set more realistic asking prices, as they acknowledged the lower rates of demand. However, the end of the year also saw a release in some of the pent-up demand that had built up over the year, with increased viewing figures.

Buyers in some areas have been hampered by a lack of available stock. In December, Home.co.uk reported a 17% decline in the level of available properties in London compared to a year earlier. This is a sharper decline than across England and Wales, where stock levels fell by 15%.

FISCAL POLICY

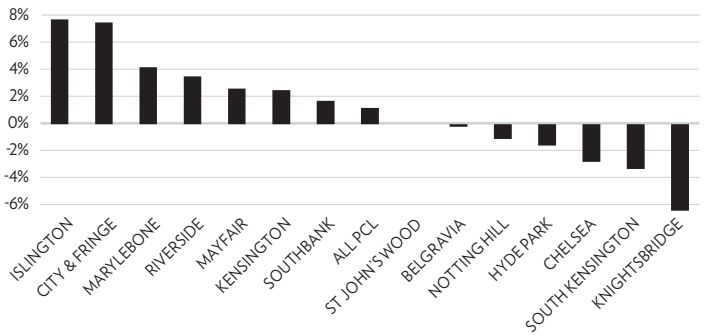
The Autumn Statement at the end of 2015 announced a 3% stamp duty surcharge on additional properties (including buy-to-let properties and second homes) to be payable on completions from 1st April 2016 onwards. The detail of the final policy will become clear in the March Budget following a consultation on possible exemptions for corporates and funds owning over 15 properties. The higher stamp duty charges will apply to sales over £40,000 and would almost double the payment on an average London property sale (an extra £15,423 on top of the initial £15,705 based on the average London property price of £514,097).

ECONOMIC BACKDROP

Inflation rose to 0.2% in December, the highest level all year. However, this still remains some way short of the 2% target rate and, while wage growth remains sluggish and the economy continues to grow at disappointing rates, the Bank of England has ruled out an immediate rise in interest rates. A rate increase now looks more likely to come in the latter stages of the year or even in the first quarter of 2017.

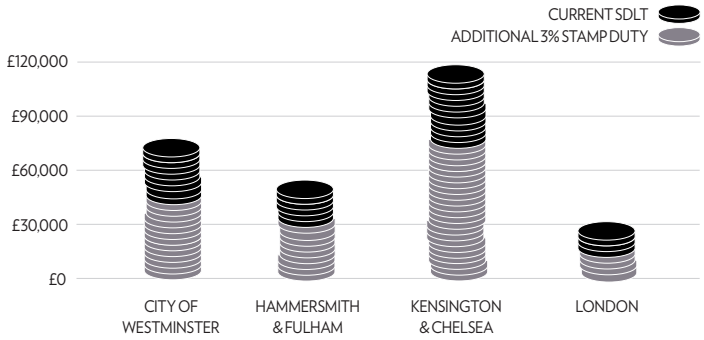
Uncertainty across the world's financial markets, falling oil prices and the economic slowdown in China may affect demand for central London properties in the short term. However, the security of investing in central London property may come to the fore again as buyers take refuge from other unstable assets and markets.

PRICE GROWTH IN PRIME CENTRAL LONDON - YEAR TO JANUARY 2016



Source: Knight Frank

COST OF ADDITIONAL 3% STAMP DUTY



Source: Dataloft (calculations are based on Land Registry average sales prices as at December 2015)

RENTAL MARKET

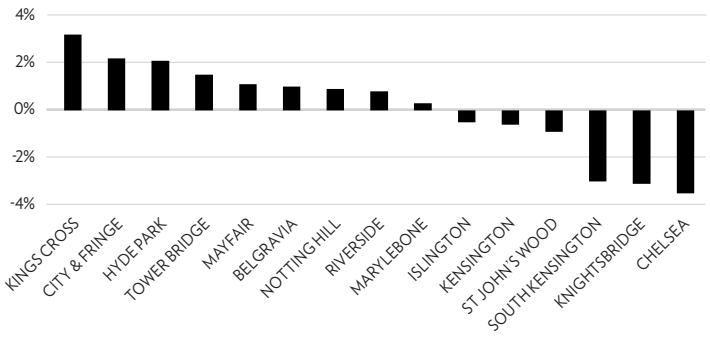
Rents across England and Wales are currently rising at their fastest annual rate since 2011 according to data from the Your Move buy-to-let index. Rental values rose by 3.4% on average over 2015. In London, rental values increased by 6.3%. This was only surpassed at a regional level by the East region, which witnessed a rental increase of 7.8%.

The Royal Institute of Chartered Surveyors (RICS) have stated that there was a rise in the number of letting agents reporting increased tenant demand in the fourth quarter of 2015. However, a rise in new instructions of properties to let also means that expectations for future rental levels are at their lowest level for two years.

In prime central London, Knight Frank report that rental values rose by 0.2% in the 12 months to January 2016. The rate of annual rental growth peaked in May 2015 at 4.2%, with a slowdown reported thereafter. Along with uncertainty across the global financial markets, Knight Frank suggest that restructuring plans by major European Banks have impacted on demand for rental properties over the second half of 2015. The strongest rental growth in the last 12 months was seen in the the area around Kings Cross, followed by the City and Fringe. With rental growth slowing, gross yields across prime central London declined from 2.96% in May 2015 to 2.92% in January 2016.

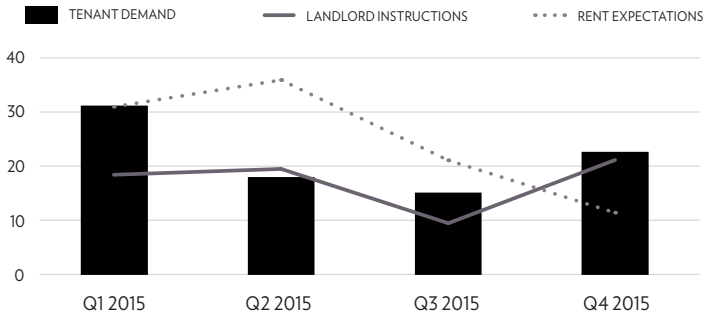
In the past, occupiers looking to reside in London for even just a couple of years could have benefitted from purchasing properties. By doing so they would have been able to recoup the costs of buying once the property sold and the capital value appreciated. However, with the high stamp duty costs in the upper price thresholds, those looking at central London as a shorter term opportunity could be in a position where the rental outlay does not even match the stamp duty costs payable. This could boost the appeal of the rental market in central London. Despite this, continued uncertainty across the world's financial markets on which the central London's rental market is so intrinsically linked may restrict growth in demand in the short term.

RENTAL VALUE GROWTH IN PRIME CENTRAL LONDON IN YEAR TO JANUARY 2016



Source: Knight Frank

RICS RESIDENTIAL MARKET SURVEY - LONDON



Source: RICS, showing net balance of agents reporting a change, seasonally adjusted

GOLDEN VENN PERSPECTIVE

The last two months have seen a surge in demand and higher sales volumes as sellers proved more willing to absorb the additional costs of stamp duty and buyers moved to beat the surcharge deadline in April 2016. Nevertheless, turnover remains relatively low, with sales over £2 million down 21% in October 2015.

For the high net worth individuals looking to relocate to London, Golden Venn recommends that they initially consider renting while the market settles since the saving on up-front acquisition costs will off-set the cost of rent. Stamp duty on £10m+ properties is equivalent to over three years in rent.

Buyers remain cautious and Golden Venn believes that prime central London and the more prime markets of Westminster and Kensington and Chelsea in particular, will see further price decreases albeit moderate, once the April 2016 deadline has passed. Looking ahead, London's safe haven credentials remain sound in the face of global economic uncertainty, falling oil prices – which causes nervousness amongst private wealth in the GCC region - a slow down in China and faltering stock markets indicate that before long, we can expect a renewed spark of activity.

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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