

## SALES MARKET

Average London house prices rose to £530,368 in February 2016 (Land Registry), an increase of 13.5% in 12 months. London remains the strongest performing region across England and Wales with its rate of house price growth more than double the national average (6.1%). The next best performing region is the South East, where prices are rising at an annual rate of 10.9%.

In central London transaction volumes were high in March 2016, despite the number of deals in the previous two months being the same or lower than a year earlier. The uplift was prompted by the stamp duty deadline on 1 April, with buyers of investment properties or second homes keen to complete to avoid an additional 3% stamp duty and vendors pricing more realistically. Prices typically declined by in excess of 10%.

Average annual price growth in prime central London in March was 0.8% according to Knight Frank, the lowest level seen since prices fell by 3.2% in October 2009. The strongest growth

continues to be in markets outside of the core prime central area, namely Islington (8.2%) and City & Fringe (8.1%). The mainstream market (below £2 million) has outperformed more expensive properties both in terms of transaction volumes and price growth.

Sales declined across the market after the introduction of stamp duty changes in December 2014, but the fall was less marked for properties below £2 million. Similarly, annual price growth in March 2016 for properties below £2 million was around 3.2%, but prices for properties in the £5-10 million bracket fell by 1.0%. The very top of the market has remained stable, falling only marginally by 0.1%.

Stamp duty has the heaviest impact in high value markets. As a result, the eastern reaches of central London, closer to London's financial districts, are expected to prosper. Markets east of Mayfair and south of the river are forecast to grow by 5% in 2016.

## FISCAL POLICY

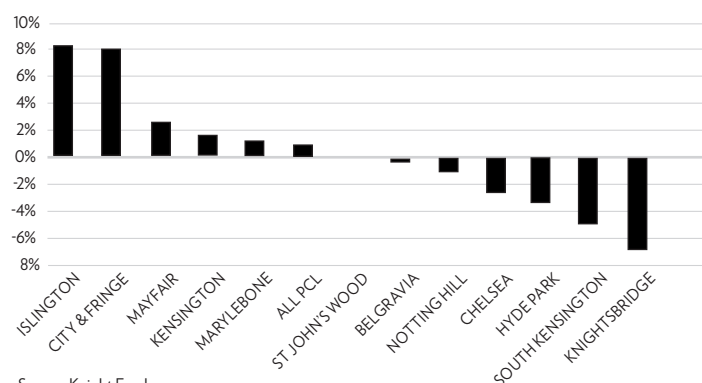
**Those hoping larger scale investors would be excluded from stamp duty obligations were disappointed, with the Chancellor's budget confirming the additional 3% will be payable on all investment and second home purchases. Mischon de Reya reported that whilst the Government confirmed continued reforms, the rules to the non-dom tax regime will be introduced in April 2017, limited further detail was provided. Most importantly all UK residential properties held through an offshore structure will be within the scope of inheritance tax. The Government have also said they will change the taxation of offshore trusts.**

## ECONOMIC BACKDROP

The Consumer Price Index (CPI) rose by 0.5% in the year to March 2016, although this was driven by increases to air fares as a result of the Easter holiday weekend being early. The Retail Price Index (RPI) increased by 1.6% in the year to March, up from 1.3% in February. This figure includes housing

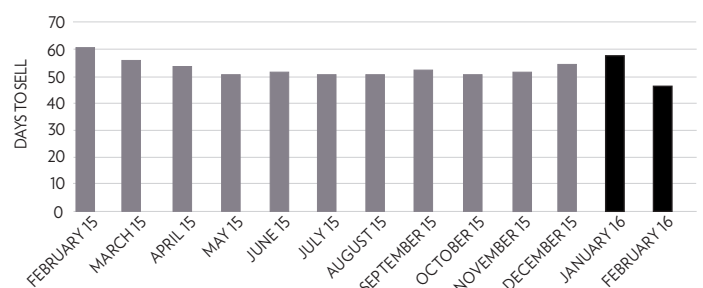
costs. Despite the CPI being well below the 2% target set by the Bank of England, most economists do not expect an interest rate rise until at least 2017, with many predicting it will take longer. In February the Bank's monetary policy committee voted unanimously to maintain rates at 0.5%.

PRICE GROWTH IN PRIME CENTRAL LONDON - YEAR TO MARCH 2016



Source: Knight Frank

LONDON PROPERTIES SELLING AT FASTEST RATE IN OVER A YEAR



Source: Rightmove

# RENTAL MARKET

Rents across England and Wales experienced their first monthly increase since autumn 2015, according to the Your Move buy-to-let index, rising by 0.1% from January to February 2016. Annual rental growth across London was 4.8%, well above the average for England and Wales of 3.3%.

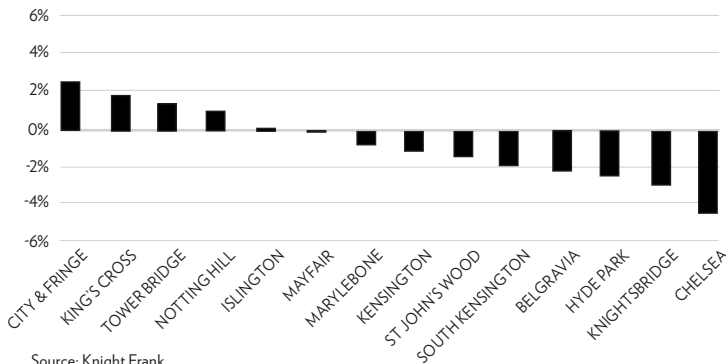
The Royal Institute of Chartered Surveyors (RICS) reported that tenant demand rose robustly for fourteen months in succession. Knight Frank figures suggest this led to annual rental values in prime central London experiencing sustained growth from July 2014 to January 2016. Demand was boosted by the introduction of various property related taxes which turned potential

buyers to the rental market. However, annual rental growth eased off in March 2016, falling 1%, the lowest rate since May 2014. This was a result of an increase in supply of rental properties – buoyed up by potential vendors deciding to become landlords, rather than accept lower sale prices on their properties. This 1% average fall in rental growth hid considerable geographic variation, with the less expensive districts further east, closer to London's financial district, such as City & Fringe and Kings Cross recording growth of 2.2% and 1.8% respectively. These areas have outperformed the wider prime market with lower rents and proximity to the City, attracting financial sector workers. The number of tenancies agreed in the

first two months of the year was up 12% on the 2015 figure as a result of landlords being more realistic about values and agreeing on rent reductions to let properties.

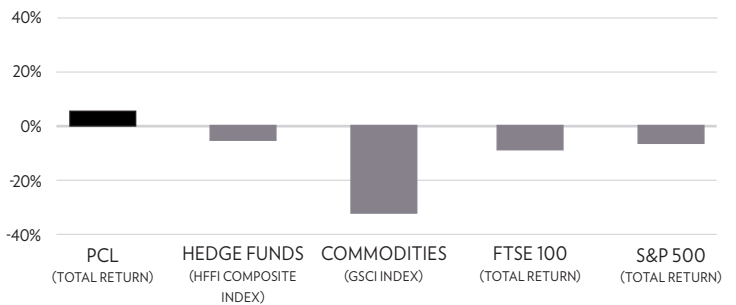
In the past, activity in the rental sector tended to rise at the beginning of the year, on the back of confidence in the financial services industry in anticipation of substantial bonus payments, but Bloomberg reports that despite record mergers and acquisitions activity (\$3.8 trillion in 2015), uncertainty in global financial markets has reduced bonuses by up to 15%. Now bankers are less certain about their bonus, activity previously seen early in the year tends to be postponed.

## RENTAL VALUE GROWTH IN PRIME CENTRAL LONDON IN YEAR TO FEBRUARY 2016



Source: Knight Frank

## PCL OUTPERFORMS OTHER ASSETS



Source: Knight Frank

# GOLDEN VENN PERSPECTIVE

A range of global and domestic factors have caused the prime central London residential market to finally slow down, recording the lowest annual growth in six years. Longer term issues include low oil prices, the economic difficulties in China and domestic tax changes, while the upcoming Mayoral election and EU referendum are affecting the market in the shorter term. While March 2016 saw annual price growth across prime central London remaining positive at 0.8%, areas such as Knightsbridge and South Kensington have started to decline. Areas such as City & Fringe and Islington, however are seeing positive growth of 8.1% and 8.2% respectively. This has attracted international investors, who are also diversifying to the sub-£2 million price bracket, with its above average performance.

Despite the challenges prime central London property has still performed well. The total return was 4% in February 2016, outperforming asset classes such as equities and hedge funds. Golden Venn believes the prime market will continue to slow this year, which is likely to lead to price declines in the sales and rental market. However, 2017 should see fundamentals - such as the weaker pound, more realistic pricing levels and London's appeal as an international destination, reignite the 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.

Eirini Nousia  
42 Brook Street  
Mayfair  
London W1K 5DB

+44 (0) 20 7117 6324  
+44 (0) 77 8662 4376  
eirini@golden-venn.com  
www.golden-venn.com