YOU IQ

Making the property industry more transparent.

Issue: Q1 2015

WEST PRIME CENTRAL LONDON RESIDENTIAL REVIEW

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Slowdown as forecast

Adrian Black assesses the slowdown in the property market, as well as discussing the now £1.1m tax to buy a £10m home - ouch.

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Mansion Tax (MT) - a prayer for sanity

Jeremy Priestley, FRICS, FARLA, questions political utterances and their consequences.

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Qualitative data analysis – Adrian Black

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Adrian discusses the slowdown evident in the property market

First of all may I wish you all a happy, healthy and prosperous new year.

For months we have been forecasting a slowdown in residential property activity combined with a categorisation of sales and a flight to quality.

The graph below in Figure 1 shows the dramatic fall in spend on residential property in west prime central London as we forecast. Our areas are shown in Figure 2 below. The data for November 2014 is based on the first two weeks but we expect the sharp drop will still be seen when full data is available.

October spend was supported by the completion of two category-leading sales; one in 21 Chesham Place SW1X which was one of the UK's biggest ever publically reported deals.

21 Flat 4 Chesham Place	SW1X 8HG	09/10/2014	£46,013,365	£5,813
Flat, Leasehold				

And one in the 1 Hyde Park SW1X development.

One Hyde Park, 100 Apartment D.02.1	SW1X 7LJ	30/10/2014	£21,500,000	£5,497
Knightsbridge				
Flat, Leasehold				

The chancellor announced a new property Stamp Duty marginal rate of 12% in the autumn statement delivered on 3rd December.

We expect a trend towards people buying the minimum space needed for their lifestyle – in other words we will see a big reduction in the discretionary element of spend on residential property. The potential supply of 3,500 to 4,000 square foot homes is substantial. We can see potential buyers not wanting to take the risk of being subject to mansion tax or an increase in the stamp tax marginal rate (say from 12% to 15% if the government decides more heavily to tax property transactions) – making it more expensive for buyers to buy when the seller decides to sell, potentially under a higher cost tax regime.

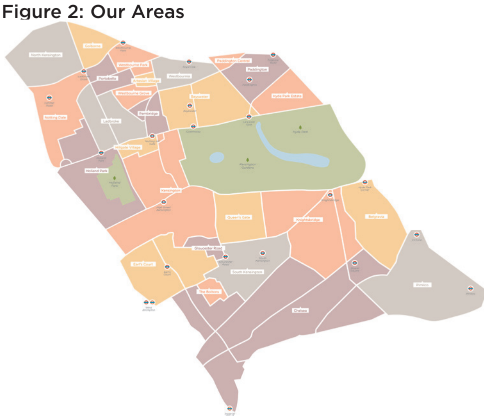
We also see a trend towards increasing demand for lateral space – which is usable for longer through a family lifecycle enabling a greater spreading of acquisition costs.

The purchase of a £10m family home has not been uncommon. But we think demand will fall given the tax exposure and potential increasing tax exposure. Also stamp duty land tax payable of around £1.1m under the new rules, which is an increase of over £400,000 compared to the old rules, will deter buyers.

So the Q1 summary is expect low spend to continue and watch for potential significant fall in demand for larger (4,000 plus square feet) family homes bought by very successful working Londoners but not super homes bought by billionaires.

It is well worth using our tool www.youeye.co.uk to track £ per square foot / metre property sales.

Figure 2: Our Areas



KEY FACTS

No.1

Dramatic fall in spend on residential property

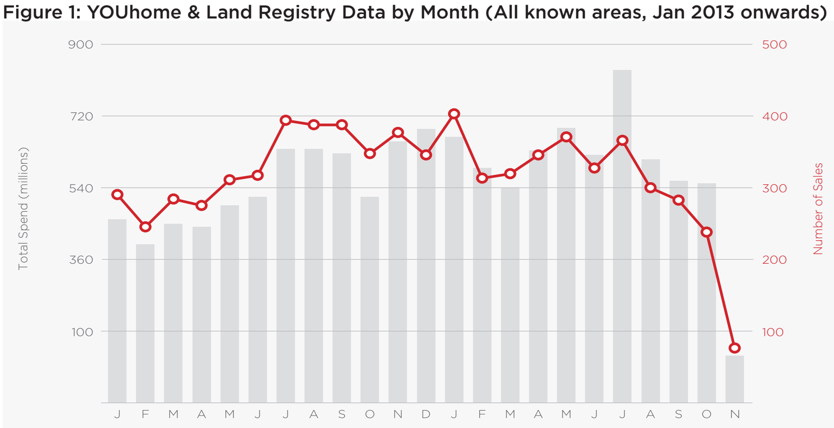
No.2

There will be a flight to quality properties

No.3

October spend was supported by two category-leading sales, both £20m+

Figure 1: YOUhome & Land Registry Data by Month (All known areas, Jan 2013 onwards)



*We use Land Registry data processed through our systems – the amount of data recorded at the Land Registry has shifted a little over the years as incentives to record transactions within corporate vehicles has reduced – we accept this but the trends are still clear.
**November data based on first two weeks.

Jeremy questions the impact of newly imposed levy on the property market

You have to give it to Balls and Miliband - the name's a real vote catcher. But, as in so much other injudicious political meddling, of which another recent example is the introduction of fixed "bonus caps" on bankers' pay - an element of which has had the perverse effect of increasing salaries and therefore systemic risk in the sector. Politicians seem incapable of assessing the consequences of their utterances. Are they really completely blind-sided by dogma? or just poorly advised?

For the moment let's postulate an MT with one threshold at, say, £2 million, above which level an annual levy would be imposed at, say, 1%. Quite apart from distorting the market either side of that threshold as vendors seek to achieve a sale above it and purchasers seek to establish a purchase price well below it - you only have to look at the recently scrapped Stamp Duty thresholds and the contortions buyers went through to diminish their liability, and that is / was on a one-off basis - the very fact of the new tax, the MT, will serve to reduce values in the short term across the board. But in this instance, will this reduction mean that the tax is no longer due? At what date is the assessment to be made - before or after the sale?

Once the transaction has proceeded - let's postulate that it goes through at £1.9m - what happens when the purchaser decides to improve the property? Even a simple redecoration might cost well over £100,000. How then is the liability to MT to be assessed for the property? There will be little, if any public record of the work, since there will be no need for planning consent - so how will HMRC or local Council even know about it?

The next anomaly arises once the property is to be extended or refurbished i.e. improved - Will the District Valuer be required to re-assess value every time a property is improved? Will the owner be required to self-assess? There is also the impact of a 20% levy on top of cost (for VAT); how to account for that? Won't the additional cost just destroy the incentive to improve properties in the first place - surely the last thing any government would wish to be seen to be encouraging as a direct result of fiscal policy? In the medium and longer terms, the imposition of MT in such a structure would probably anyway be self-defeating as real values would fail to be maintained and tax revenues - whether on a one-off basis at purchase or sale, or on an annual basis à la MT - would almost undoubtedly decline. Politically too, such an effect would carry a significant risk for those politicians who introduced the MT at the following election. Turkeys voting for Christmas?

So far, in my professional lifetime, they've scrapped rates, introduced and withdrawn Development Land Tax, lost an election (is that an exaggeration ?) on the back of Poll Tax, acknowledged severe deficiencies with Council Tax (which MT would do nothing to alleviate), tinkered and re-tinkered with the planning system, introduced and scrapped the Home Information Pack. No, it's time to think more radically - because, in reality, the MT would not work and would never work. Jealousy is insidious. MT is the response of the envious, masquerading as grand political gesture. Let's think it through some more. Next issue, if I am still around, I might suggest some alternatives to consider.

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> ***"Politicans seem incapable of assessing the consequences of their utterances"***

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+	+
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