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Market in Minutes
Prime London Residential Markets

January 2015

SUMMARY

2014 was a year of two halves with prices rising in the first half and falling in the second

- In 2014, house prices in London rose by 2.6% on average despite a small fall in the final quarter following the stamp duty changes in the Autumn Statement.
- The market under £2m was less affected by the changes and saw the strongest performance over 2014.
- Savills forecasts a small fall of -0.5% in prime London over 2015 in the run up to the election but a total growth of 23% over the five years to 2019, assuming there are no further tax changes.

TABLE 1

Price movements in the prime London market to Q4 2014

All Prime London	Q on Q	Y on Y	5 year
Under £1m	-0.8%	7.9%	46.6%
£1m - £2m	-2.9%	3.3%	44.8%
£2m - £3m	-3.6%	1.2%	39.4%
£3m - £5m	-4.0%	-1.1%	36.2%
£5m+	-4.3%	-2.7%	33.2%

Source: Savills Research

Prime London house prices rose by an average of 2.6% in 2014. However, 2014 was a year of two halves with prices rising by 4.9% in the first half and falling by a net figure of -2.2% in the second half, predominantly due to the stamp duty changes introduced in the Autumn Statement on December 3rd 2014, which particularly impacted the higher value markets.

The strongest performers in 2014 were the markets up to £1m and in the £1-2m range. These saw annual price growth of 7.9% and 3.3%, reflecting the fact they are less adversely affected by the stamp duty changes and would be outside of the scope of opposition proposals for a mansion tax.

The greatest impact of the stamp duty increase was seen in the most valuable markets of prime central London, which have seen the strongest price growth in recent years. In these central markets, where prices average £4m, values fell by -4.2% in the last quarter, contributing to small falls of -1.3% year on year.

Though the £5m+ market saw slightly bigger price falls of -2.7% in 2014, there were still well over 500 sales in this part of the market over the course of the year. These had an aggregate value of over £5.5bn, being within 3% of the previous year. Of these, over 250 took place in the second half of the year.

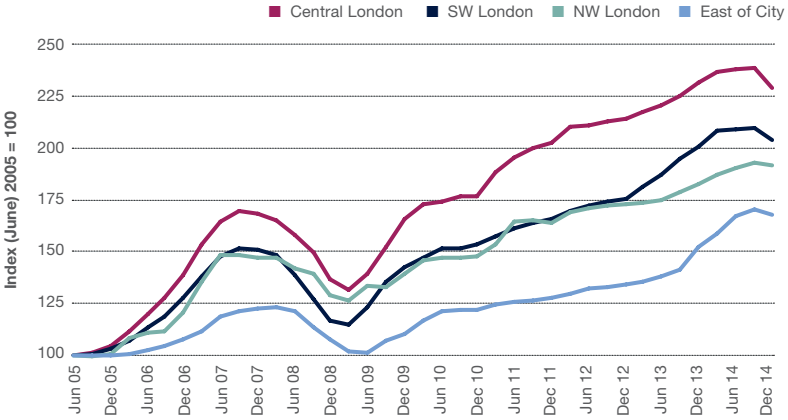
It will take time for the effect of the Autumn Statement stamp duty changes to become clear, but early signs are that the additional cost is predominantly being borne by sellers through price adjustments similar to the amount of extra stamp duty.

There is evidence some of the froth had come off of the market before the Autumn Statement. Our analysis suggests that even without the stamp duty changes, values were on track to soften by around -1.0% in the final quarter of 2014, in part due to pre election uncertainty around high value property taxation. The stamp duty changes took that adjustment to -2.6% on average.

This being the case, early indications are that where stock is priced to reflect these circumstances, the market continues to function with a healthy level of transactions.

GRAPH 1

Prime London house prices since June 2005



Source: Savills Research

OUTLOOK

The Autumn Statement further undermines the case for a mansion tax, both by increasing the rate of stamp duty on high value properties and substantially increasing the annual charges for those caught by the ATED* regime. Despite this, its introduction remains Labour party policy. Such a tax would not be significant at the lower end of the price spectrum, with Labour suggesting a charge of just £3,000 for properties worth between £2m and £3m. However, it would be more onerous in higher price bands, if the stated target revenue of £1.2bn per annum were to be raised.

This would indicate a relatively muted market in the run up to the election. What happens thereafter depends on who gets into power and specifically whether a full blown mansion tax is introduced, abandoned or substantially toned down.

As things stand we are forecasting that prices will fall by around -1.0% in prime central London and plateau across the rest of the prime London market in 2015, assuming there are no further tax changes.

Overall, this means committed sellers will need to be realistic on prices but there could be a buying opportunity for those who are prepared to take a long term view on the prime housing market.

Over the five years to 2019, we are forecasting growth of 23% assuming no mansion tax is introduced.

*Annual Tax on Enveloped Dwellings

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