FYNDERS

PRIME LONDON MARKET REPORT
The Jubilee Report

- Prime Central London (PCL) property has seen a growth of 11.3% over the last 12 months.
- Budget Report announced a 2% increase in Stamp Duty Land Tax (SDLT).
- PCL saw a growth of 1.1% the month immediately following The Budget.
- Number of sales for properties worth £5 million or more increased by 93% in the first quarter of 2012.
- François Hollande announced plans to impose a 75% tax on high-income earners, resulting in a sharp rise of French seeking refuge in London.
- Wealthy Greek buyers have now overtaken Russians as the main buyers of PCL property.
- Despite economic chaos, PCL property values are expected to increase by a further 22% over the next 3 years.

2012 is the year of the much-anticipated Olympics and the Queen's Diamond Jubilee. We have seen a great deal of activity, not only in the Prime Central London (PCL) property market, but across the globe.

The UK has now officially entered a double dip recession. Riots continue in Greece, as austerity measures have led to a political collapse and the failure to elect a new government. There is a growing prospect of debt default, and the spectre of Greece's withdrawal from the Euro is looming out of the dust of economic chaos. European markets have taken a hammering and the Euro has dropped close to a two year low.

France has seen a newly appointed Socialist French President, the first left-wing leader since Francois Metterand left office in 1995.

And, although less reported in the media, political turmoil has persevered throughout the Middle East.

This worldwide economic and political uncertainty has caused a flight to quality across the globe. Panicking investors are losing their risk appetite and scurrying for the cover of safer investment vehicles. Worries about a domino effect collapse of European banks has led to cash withdrawals of hundreds of billions of Euros in the last few weeks. Even gold has lost its lustre, with a 9% drop in the last 3 months. The main beneficiaries of the flight to quality have been the US Dollar and PCL property.

THE BUDGET REPORT

Prime London property took centre stage by way of the recent Budget Report. On 21 March 2012, the Chancellor addressed the nation in his annual Budget speech. The reaction of the population was as divided as was it passionate.

This year, he announced yet another increase in Stamp Duty Land Tax (SDLT) – from 5% in 2011 to 7% in 2012 – with immediate effect on all residential properties above £2 million; this reflects an astonishing 700% increase in the last 15 years.

SDLT avoidance tactics are no new phenomenon and have been employed for many years. In the last couple of years, however, we have seen a disproportionate number of our clients asking as a matter of course, whether particular properties are held in offshore companies in order to avoid paying SDLT.

The Chancellor's announcement of various measures to address these long-standing loopholes in tax legislation was therefore, not a huge surprise. His attempt to slam the door shut on such tax avoidance was embodied in a new punitive 15% charge on properties bought through a company. Further legislation to close down the widely marketed scheme that sought to take advantage of the sub sales relief rules as a route of avoidance was also announced.

Furthermore, the Government is currently consulting on the possible introduction of a large annual charge, which would address those properties already encompassed in these corporate 'envelopes.' It will also be extending the scope of Capital Gains Tax (CGT) to cover gains arising on disposals by non-resident companies and structures. Although not yet implemented, such charges are expected to be in place by April 2013.

In line with the above measures, the Treasury plans to introduce a general anti-avoidance rule (GAAR) – a blanket legislation, which will make tax avoidance, as a whole, much more difficult. The scope and details of the GAAR are yet to be finalised and, no doubt, will be a subject of heavy debate over the next 9 months.

FRANCE

The recent French elections gave presidential candidate, François Hollande, a majority vote. His anti-austerity measures and statement that he 'dislikes the rich', is a cause for concern amongst French high net worth individuals (HNWIs).

He has announced controversial plans to impose a super band tax of 75% on incomes over €1 million. This has been seen as nothing but a 'soak the rich' rhetoric, prompting a sharp rise in the numbers of wealthy French residents seeking refuge across the Channel to London.

More than 300,000 French are already resident in London and the increasingly popular Lycées Français is brimming to capacity. Indeed, in South Kensington, French investors were the second largest group of purchasers, after British residents, in the first quarter of 2012. They accounted for 8% of all property purchases. Over the course of the last year, agents have seen enquiries from French clients increase by 19%. We expect this to rise further, as French HNWI flee to jurisdictions where governments are more amenable to the wealthy.

GREECE

To address the country's mounting debt problems, Greece's ex-Prime Minister, George Papandreou, became incredibly unpopular with his attempts to implement austerity measures. Riots and political collapse have been an inescapable outcome. Consequently, both radical left-wing politicians and the fascists are finding their voices.

Following the failure of Greece to form a government, a fresh election will be called on 17 June 2012. It would be particularly concerning if the radical left wing politician, Alexis Tsipras, gained power. Like Francois Hollande, his approach to addressing the country's economic nightmare is to redistribute wealth instead of using austerity measures. The results of this would have a much deeper impact than in France, where the economy is stronger and better equipped to cope with such changes. Without these crucial austerity measures, Greece will not qualify for the next bailout, which will lead to a default on its debts and, ultimately, an exit from the Eurozone.
Unsurprisingly, we have seen a huge surge of interest from wealthy Greek buyers seeking a safe haven for their money. In April 2012, estate agent, Savills, saw a 39% increase in the number of Greek buyers searching for homes relative to the previous 6 months. Greece's largest banks have lost over one fifth of their deposits in the last year and it is rumoured that 9 billion euros left Greece within days after the May election.

INTERNATIONAL INVESTMENT

Similar economic worries in Spain and Italy have also been responsible for the upsurge in prime London property investment. Spain has also entered a double dip recession; unemployment is 24.4%, the highest in 18 years. The recent spate of violent protests is an indication of the increasing civil unrest.

Spain's fourth largest bank, Bankia, has been bailed out and nationalised by the Spanish government at twice the estimated cost. This is in sharp contrast to only a few years ago, when Spain was considered the economic star of Europe

The country has not presented any credible rescue plan for the rest of its banks. The Spaniards are withdrawing funds from accounts at record rates. Last month, €62.2 billion was sent abroad last month. It is now highly likely that the European Central Bank will need to step in. Indeed, it is this news that has recently pushed the Euro close to its two-year low.

Italy, on the other hand, has recently introduced increasingly complicated and burdensome property taxes. Not only are Italians' primary residences now liable to an annual charge, but also the fixed annual tax has been scrapped in lieu of a tax calculated on the notional value of a property. This means that as the value of the property rises, the tax will increase. It is also likely that inheritance tax will be increased. VAT on property purchases has been increased from 10 to 12%. The loophole allowing foreign investors to use SPVs (special purpose vehicles) to avoid paying tax has been closed. Italy has also declared a €100 billion tax amnesty to legalise hidden assets. The recent changes in UK property tax appear simple in comparison. Consequently, we have seen wealthy Italian buyers flooding to London. They have overtaken Russians as the main buyers of PCL property and account for 8% of all property purchases in PCL since January 2012.

PRIME CENTRAL LONDON

Recent surveys of HNWI have revealed that London continues to retain pole position as the leading city of choice, over-taking its long-standing rival, New York. As the financial centre of the world, London continues to attract strong international interest. According to data compiled for the Financial Times this year, 85% per cent of super-prime (£10 million plus) property buyers in London are foreign.

As a result, records continue to be broken, both in terms of prices achieved and volume of properties sold. Knight Frank's activity indicators showed that the number of properties sold in PCL in the first quarter of 2012 increased by 42%. The volume sold of properties worth £5 million or more increased by an astounding 93%.

Vendors are increasingly resorting to sealed bids in an attempt to tackle the enormous competitive demand they are facing for their properties. When the 'best offer' is accepted, it often pushes up the benchmark prices in the area. Average prices in Knightsbridge/Belgravia are now £2,007 per square foot, a 94% increase over the past 6 years. Eaton Square has seen a 130% increase in the same period.

The Candy brothers' latest development, One Hyde Park, has also set the benchmark for Prime London's ever-increasing prices. The average price of apartments in these ultra-stylish, modern buildings is £6,000 per square foot. With their designed interiors and minimalist appearance, their appeal will be short-lived, however. In contrast, the traditional best in class properties in the area, with their wealth of original features, will age gracefully. Demand for them will never be dictated by fashion. Consequently, they are perceived to be good value at the current price of £3,000 – £4,000 per square foot. It is only a matter of time before these properties command a higher premium than One Hyde Park, the so-called 'world's most expensive residence'.

THE FUTURE

Amongst this worldwide economic chaos, the concerns mounting at the forefront of every shrewd investor's mind are whether the recent change in government policy will affect the popularity of Prime London property; and how the state of the Eurozone will affect investment into PCL in the long-term.

PCL property prices have increased by 11.3% in the last 12 months. In light of this, the additional expense incurred by the introduction of the new 7% SDLT must be viewed within the context of the significant and ongoing price rises. Whilst we initially saw some renegotiations on property in the days following the Budget announcement, this initial reflex reaction was short-lived. Buyers panicked and simply fought to purchase properties for the same total price that had been agreed prior to the announcement. With the fact that property prices went up by 1.1% in April 2012, buyers are already shrugging off the additional liability.

As a result of the heavy transfer of equity into PCL property, 2012 has, yet again, seen phenomenal growth. It is expected that PCL will continue to outperform the wider housing market with values increasing by a further 6% in 2012 and by a total of 22% over the next three years.

Such is the stampede of a flight to quality that investors are willing to trade safety over any form of return at all. This has been shown by the huge uptake of German bonds, with yields that have now fallen to 0%. Indeed the countries with the lowest bond yields are the US, UK and Germany, which indicates the relative financial stability of these three countries.

Astute European investors in PCL have benefited twofold; not only have the values of their properties increased by some 30% over the last two years, but the British pound, the currency in which their properties are held, is also at a 42-month high against the Euro.

Uncertain turbulent times seem only to fuel demand for Prime Central London property. With no end to growth in sight, London property continues to be a solid appreciating asset, both in the short and long-term. It makes a very good case for itself as an outstanding investment. The fact remains that buyers would rather invest in bricks and mortar in a relatively stable economy and desirable city, than pieces of paper of doubtful value.

Last but not least we would like to congratulate Her Royal Highness, Queen Elizabeth II, on her Diamond Jubilee.

For further information, please contact Nadia Soutzos at Fynders.

Nadia Soutzos
56 Sloane Square
London
SW1W 8AX
Direct: +44 (0)20 7858 9812
Email: nadia@fynders.co.uk

About Fynders

Fynders is a property firm based in Sloane Square, specialising in the acquisition of prime and super-prime properties in Knightsbridge, Belgravia and Mayfair. For more information or to visit our website, please go to: www.fynders.co.uk