Lonres Residential Review

Spring 2013

- Introduction
- An overview of London's sales market
- An overview of London's lettings market
- Key housing market themes
- Paris residential market and other international values

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london's property pulse

Introduction

Our Spring newsletter is especially full this issue with comment on the £2m+ market and a perspective on market conditions outside of London. We also have some excellent guest contributions. I am very grateful to Peter Young, Managing Director of John D Wood, for a forthright opinion on the role of the modern buying agent in the market, a topic currently on the Lonres forum, which we would love feedback on. We also have sales market comment from Chris Palmer of Ashley Milton, lettings comment from Alison Van Dalen of Brookfield Partners, the market conditions in the East Midlands from Nick Salmon of Harrison Murray and an excellent guide on the budget from a property industry perspective, from Sara McCallum of Boodle Hatfield.

As a precursor to the arrival of Mark Carney as governor of the Bank of England, it was interesting that Osborne has now varied the government's remit to it, citing that it should consider using "unconventional" methods to boost the economy. Mr Carney has already hinted that he may look to raise interest rates. Whilst official reports say that inflation is only running at 2.8%, I have shown previously that real-world figures suggest a figure nearer 8%. As consumers, we can live with this. With potentially increased mortgage rates, it will do no harm to shake the boughs of the property tree.

Speaking to a healthy cross section of our subscriber agents, over 80% report that they have had very strong sales, with many record prices being achieved in the first two months of the year. March was a little quieter but there can be no doubt about the continuing strength of the London market in pushing prices yet higher.

The City (and Wall Street) continues to accumulate fines for their wrongdoings and, very slowly, firms are being charged. One does worry when reading reports that there is a "new" way to make money, such as collateral transformation. This involves taking, for example, $640 trillion of risky assets (from the derivatives market) and making them less risky. How can you repackage junk and make it A grade? I don't see that the time to be less vigilant is anywhere near now. As one S&P analyst wrote in an email: "Let's hope we are all wealthy and retired by the time this house of cards falters."

At the time of writing, the European politburo has come up with a draconian solution to the insolvency of Cyprus, which is to tax the saver. I think they have crossed a threshold that should never have been crossed in the first place. Whilst appallingly presented, it may also be that this "act" sends a very clear message to the banking industry in that they cannot rely on state intervention to rescue them. I hear that Slovenia is next and it is only a matter of time before one of the big countries blink. Germany has the most to lose if that were to happen as the unknown consequence is whether Spain/Italy will default and so allow France to abdicate its own responsibilities to the Eurozone – they are hanging by a thread. I only hope that there is a contingency plan in place for an orderly default.

But most of our export business is with Europe, I hear you say. It is not as big a threat as politicians like Vince Cable have suggested. UK banks have much more limited holdings of government bonds in vulnerable countries, but larger private sector holdings which should not be insoluble if we have an orderly default. Our most notable exporter, JCB, has diversified into other developing countries and recently secured a multi-million pound deal from Brazil.

This is why the government is trying to keep corporate Britain attractive to foreign investors and keeping taxes low. They should be careful, however, of playing fast and loose with all areas of the property industry and certainly look to ignore the liberal squeakings and socialist tendency to stifle success and share the burden of misery. They really ought to drop the "we're all in this together" mantra. No one believes them. The moralistic crusading of the government aimed at those corporates and individuals who quite legally avoid tax is a consequence of the failure to get to grips with our over complicated tax system. When the tax book has increased by 7,000 pages since 2000 there will always be holes in the tax net. I am on the side of Lord Clyde who, in 1929 said:

"No man in this country is under the smallest obligation, so as to arrange his legal relations to his business or property as to enable the Inland Revenue to put the largest possible shovel in his stores."

The biggest potential threat to stability (and the BOE may have called this one right) are the private equity deals done during the boom which now require refinancing. I cannot think of a single private equity deal which views itself as a long term investor. It is, I suppose, a cute way of asset stripping by loading a company with unsustainable debt but not before a major dividend has been paid out. The latest high profile casualty being Readers Digest. In fact, Coutts bank have already warned their clients about the risks associated with the debt market.

Finally, please keep your eye out for news of the Lonres/PrimeResi mixed doubles tennis tournament, which starts in early May. You must be a Lonres subscriber to participate. Details of rules and prizes will be released in due course.

5th April 2013

Focus on the £2m+ market

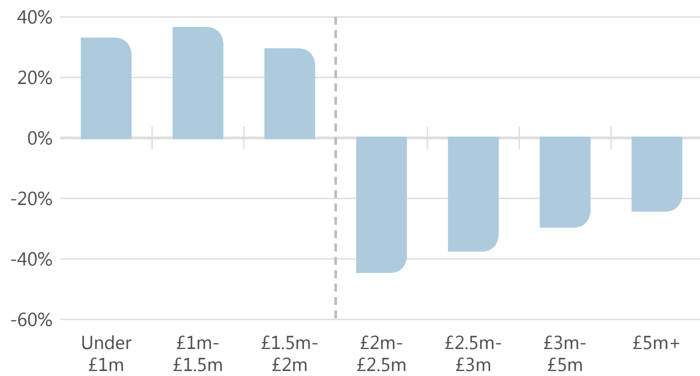
A year on from the 2012 Budget and announcements of increased stamp duty for purchases over £2 million, plus the new annual charge and Capital Gains Tax (CGT) extension for company owners of properties over £2 million, we take a look at how the market has reacted to the changes.

In the 12 months after the 2012 Budget, the sales of properties over £2 million across the Lonres survey area were down by 14% on the previous year. Sales below the threshold were down by just 6%. Unsurprisingly, the biggest effect on transaction levels was for those properties closest to the £2 million threshold. The number of sales between £2 million and £2.5 million was 34% lower in the 12 months after the Budget than in the year before. Interestingly, while sales in the other price thresholds seemed to recover as the year progressed (particularly over £5 million), this price bracket remains subdued. In the past six months sales were still down by 20% compared to the same period immediately preceding the Budget.

Clarification on the new Annual Residential Property Tax (recently renamed the Annual Tax on Enveloped Dwellings) and extension of CGT provided in December does seem to have provided a boost to confidence in the other price brackets at the end of 2012. Evidence of this can be seen in an analysis of properties withdrawn from the market throughout the year. In the nine months following the Budget, the number of withdrawals of properties over £2 million increased steadily, peaking in the fourth quarter of 2012, 36% higher than the same quarter in 2011. However, an 8% reduction in the first quarter of 2013 is indicative of the improved sentiment in the market which we discuss later in this report.

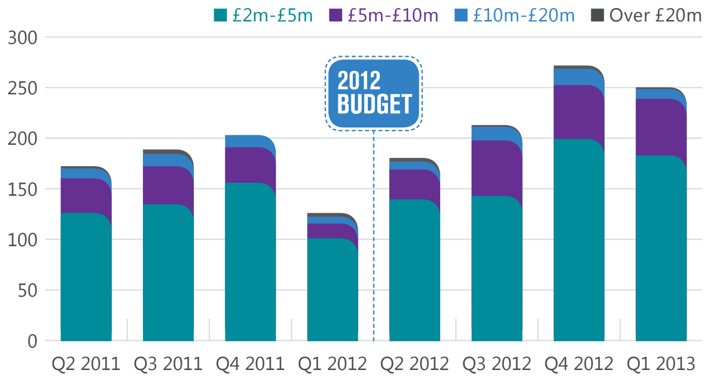
Our Spring survey of agents shows the effect that the new taxes are having on demand levels from companies. The most noticeable reduction in demand from companies is understandably in the £2 million - £2.5 million price bracket. Here a net balance of 44% of agents report weaker demand since the announcements were made. Meanwhile the net balance of agents report increased demand from companies for properties under the £2 million threshold.

Change in demand from companies since new SDLT announcement



Source: Lonres Spring 2013 Survey of Agents – balance of agents reporting a change.

Increase in properties withdrawn from the market post-2012 budget



Source: Lonres. NB. the quarters have been adjusted to reflect the timing of the Budget i.e. 22nd of the quarter month to 21st of following quarter month.

Changes in prime London since 2012 Budget

	Rise in new instructions	Increase in sales where price was reduced	Increase in £psf
Under £2m	52.4%	0.3%	7.8%
£2m-£5m	110.4%	0.2%	5.4%
£5m-£10m	143.4%	14.2%	12.6%
£10m-£20m	152.1%	11.2%	25.9%
£20m+	192.9%	20.0%	10.5%

Source: Lonres (12 months post-2012 Budget compared to 12 months preceding)

The Changing Times

The only constant in life is change. Since I started in 1978 I have witnessed the property market change repeatedly, but even as we competed for business there was still a certain camaraderie between agents. The emergence of professional buying agents over the last 20 years has been a welcome addition. However, the action of some of these buying agents threatens this camaraderie.

As estate agents it is our duty to act in the best interest of our client, the vendor. Normally as an estate agent we will expose the property to the widest possible market in order to secure the best price on the best terms. A buying agent will only have a limited number of clients, due to the need to avoid conflicting briefs, and will seek to buy the right property on the best terms. These are two different business models.

In agency we have high overheads, due to our offices and marketing campaigns in order to build up databases of potential purchasers. We have to provide a full service for our clients, with a view to achieving the best possible price. Occasionally we may be retained to buy a specific property for a client. But we know our strength is in agency and we are normally happy to pay a referral fee to the buying or relocation agent if they introduce an instruction and we earn a fee that we would not otherwise have received.

However, as agents we now have an additional problem as some buying agents are now acting as selling agents. Buying agents have always justified their existence by professing to act solely for purchasers in finding them the property of their dreams. In the spirit of co-operation we have allowed them access to our clients' properties. Due to the shortage of property in this competitive market they have provided a valuable service to purchasers, especially those from abroad.

If, however, buying and relocation agents wish to compete with us in selling property then it is a completely different matter. CLEA does not endorse such a practice and it is welcoming to see that Lonres, as well, does not permit buying agents to advertise properties for sale. Long may that continue. It is we who allow relocation and buying agents access to this valuable source of sales data, not only what is for sale and to rent, but also what has been sold. There is enough meat on the bone in the property market, but only if we all play the game according to the rules.

Let us all concentrate on our respective strengths.

PETER YOUNG
Managing Director
John D Wood

Confidence boost for prime sales market

The Annual Residential Property Tax (ARPT) has now become the Annual Tax on Enveloped Dwellings (ATED) but no further changes were announced in the 2013 Budget. Although waiting to receive Royal Assent, the charge would mean companies which owned properties valued at £2 million or more on 1st April 2012, or subsequently, will be liable for the charge, ranging from £15,000 to £140,000 per year.

Taking into account the various exemptions that apply, the Government estimate that the new tax (along with the 15% SDLT rate and CGT extension) will generate around £70 million in 2013/14.

Overview

While the onset of spring may be taking some time to materialise, there is a real air of optimism blossoming throughout the prime central London residential market. In the past three months, respondents to the Lonres Spring survey report a much improved picture of the state of the market compared to six months ago. Most market indicators have improved with a 31.4% turnaround in the level of demand. Properties are selling more quickly with fewer price reductions and the fall-through rate has decreased.

Transactions

The rise in confidence is encouraging vendors to bring their properties to the market with the promise of an easier onward search. As such, the number of new instructions brought to the market in the year to March 2013 compared to the same period in 2012 more than doubled. Despite this increase in supply, demand levels remain strong and average £ per square foot values paid across our catchment area at £1,096 in the first quarter of 2013, were some 9% higher than in the first quarter of 2012. Prices have grown most strongly in central and southern parts of the catchment.

Perhaps the biggest turnaround in the last few months has been in the level of transactions. In our Autumn survey, a net balance of 29% of agents had reported transactions falling in the previous three months. In our latest survey, a net balance of 24% of respondents report transactions levels increasing since the beginning of the year.

Improving demand from UK buyers

Overseas buyers remain the key source of demand for prime property, particularly in the most central parts of London. The fallout from the ongoing Eurozone crisis continues to encourage wealthy buyers to invest their capital in the relative safety of London real estate. Add to this the depreciation in the value of Sterling, and property has become an even more affordable asset to many. With the recent economic turmoil in Cyprus, we would expect to see a further influx of overseas buyers in coming months.

However, in the last few months we have also seen domestic demand increasing in importance. With some relaxation in lending as a result of the Government's Funding for Lending Scheme, along with increased confidence in the market, UK buyers are returning to the market with first time buyer numbers also on the increase. Indeed, a net balance of 44% of agents have seen increased UK demand in the past three months, greater than the proportion of agents reporting increases in demand from French, other European and Asian buyers.

Market outlook

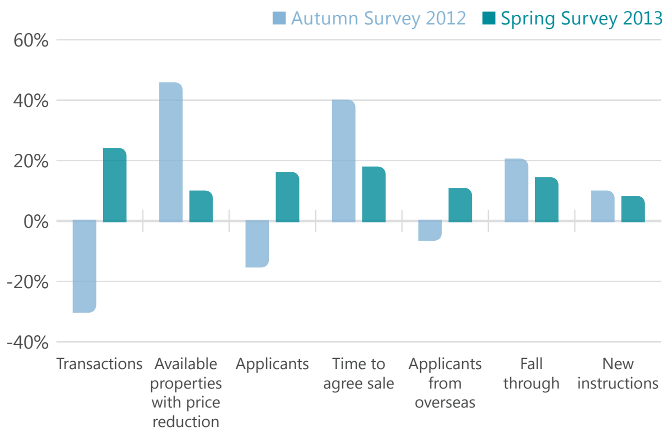
The buoyancy in the market is likely to result in commentators revising their forecasts from the dreary figures produced at the end of 2012. That said, given the higher levels of stock on the market, value growth is still likely to be lower than we have seen in recent years. Meanwhile, given the demand levels and confidence in the market, transaction levels look set to continue in their positive vein over the course of the year.

Respondents report a quarter of sales in 2012, both under and over £2m, were to company purchasers.

While transaction levels have improved they are still down 20% on 2007 levels in the first quarter.

73% of respondents expect prices to rise in London this year with 42% expecting a rise in transactions.

Change in market conditions in prime London



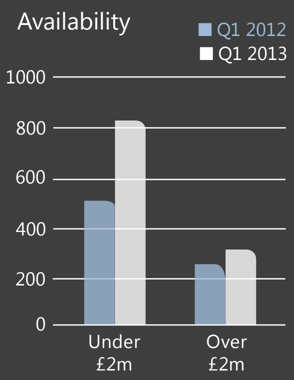
Source: Lonres Spring 2013 Survey of Agents (net balance of agents reporting a change)

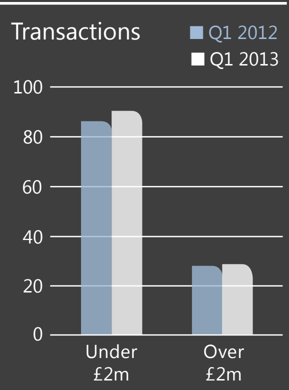
Change in demand in the last three months

Source: Lonres Spring 2013 Survey of Agents (net balance of agents reporting a change)

Key market trends - sales

NORTH





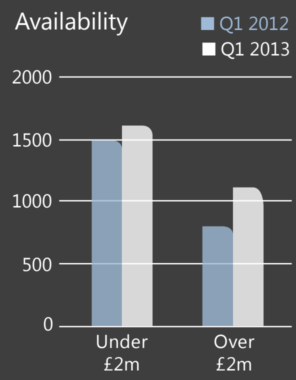
AVERAGE £ PER SQ FT (Q1 2013)

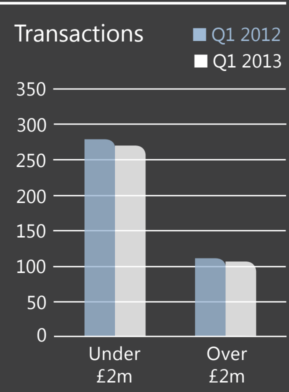
FLATS £907 5%

HOUSES £1,206 0%

Source: Lonres

CENTRAL





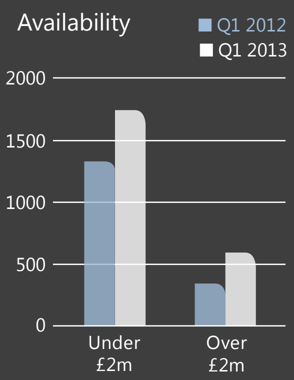
AVERAGE £ PER SQ FT (Q1 2013)

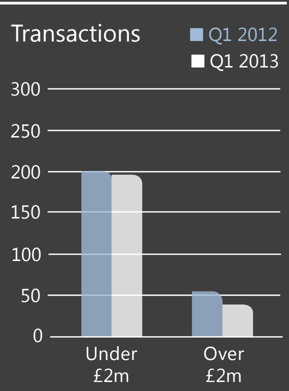
FLATS £1,326 7%

HOUSES £1,920 15%

Source: Lonres

WEST





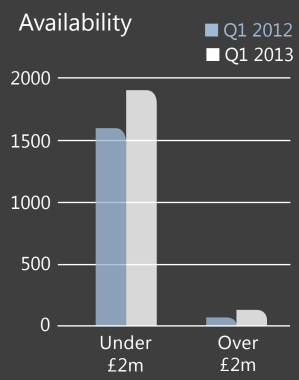
AVERAGE £ PER SQ FT (Q1 2013)

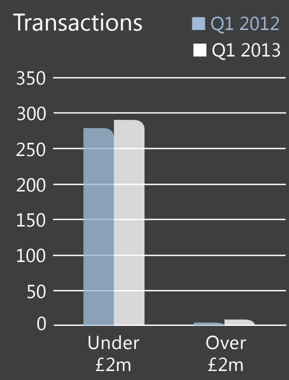
FLATS £1,048 8%

HOUSES £1,395 2%

Source: Lonres

SOUTH





AVERAGE £ PER SQ FT (Q1 2013)

FLATS £682 15%

HOUSES £701 8%

Source: Lonres

% change compares Q1 2013 to Q1 2012

AN AGENT'S VIEW

CHRIS PALMER

Ashley Milton, Maida Vale

Chris Palmer has been the manager of Ashley Milton since 2006. He has been an agent in Maida Vale and the surrounding areas since 1998.

In general the market remains strong with the usual scenario of a shortage of stock. I believe stock levels will remain low for the foreseeable future, while banks bolster their balance sheets and have a reluctance to lend.

Historically low interest rates also seem to be a barrier for potential vendors putting their properties on the market, particularly if they are fortunate to be on a tracker rate which they are concerned about losing if they buy a new property.

January was, as usual, seasonally quiet and disappointing after a post-Olympic lull. However, things improved in February with a marked increase in applicant registrations and market appraisals, especially from Landlords who are starting to suffer longer void periods, reduced rents and increasing service charge demands.

Old stock which had been sitting on the market was also beginning to get snapped up in February which was a definite indication that we were heading for a busy spell which was what we have seen in March with an increase in buyers registering by 30% on February. The overseas buyer effect has undoubtedly helped the property market in our area but we have seen a decline in the numbers purchasing recently and increased activity from domestic purchasers.

March was our busiest month in terms of sales agreed for 4 years, with competitive bidding common place. This spike in activity and competition to win new instructions has lead to increases in asking prices and offers. We are seeing the sale of un-modernised property in good Maida Vale Streets selling for close to £1000 per sq ft.

The outlook: Generally this period of demand outstripping supply seems set to continue, although I have concerns that the rapid rises in prices and "over-valuing" by agents to get stock may put buyers off and lead to a correction. But in the short term with the better weather arriving (at time of writing!) we looking forward to a busy year ahead.

Over supply affecting rental market

The latest economic forecasts from the Office for Budget Responsibility reveal that the UK economy is expected to grow by just 0.6% in 2013, half the rate of the previous forecast. The forecast for 2014 has also been cut to 1.8%, down from 2%.

In response the rating agency Fitch has put the UK credit rating on negative watch as a warning that it is likely to downgrade the economy from its triple A status by the end of April.

Overview

The prime London rental market is not as buoyant as the sales sector and confidence is waning. Our latest survey of lettings agents suggests rising levels of supply and void periods while at the same time applicant numbers, corporate demand and viewing levels are all weakening. It is of little surprise, therefore, that average rents achieved in the first quarter of 2013 across our survey area have fallen back by 3.2% compared to the final quarter of 2012. Average rents are now some 4.3% lower than at the beginning of 2012.

Over supply of rental properties

Over half of agents report that tenant demand levels are lower than three months ago. The ongoing fallout from the Eurozone economic crisis, along with uncertainties on City financial job prospects are taking their toll on both corporate and overall tenant demand.

At the same time, as our agents have suggested, supply levels are on the rise. In the year up to 1st March, we have seen a 35% increase in new instructions being made available for rent across our survey area compared to the same period in 2012. New instructions have grown in all areas, although the highest increases have been seen in the north of our catchment, with the south seeing the smallest rise in supply.

The lower tiers of the market by rental value have seen the greatest increases in supply compared to the beginning of 2012. The number of properties coming to the market under £1,000 per week has risen by 42%. However, with tenants being more price sensitive and corporate budgets cut, demand has become ever more focused on the more affordable properties and the market is managing to absorb some of this increase in supply. Interestingly it is the upper tiers of the market where agents are most concerned about demand levels failing to match supply. In the top third of the market by value, a net balance of 53% of agents say that supply is outstripping demand. This compares to a net balance of 29% of agents reporting over supply in the lowest third of the market.

Transaction levels rise

More rental properties coming to the market means additional choice for tenants and, while this has given tenants more bargaining power for rental negotiations, we have also seen an increase in the number of tenancies being agreed. In the year to March 2013 there has been an 11% increase in the number of lets agreed compared with the same period of 2012. Matching the profile of demand, the largest increase in deals has been under £1,000 per week (11.2% rise), while over £1,000 per week there has been just 2.5% growth in the number of tenancies agreed.

Outlook

Agent's expectations on the outlook for the rental market over the remainder of 2013 are fairly weak. A net balance of just 1.6% of agents expect to see positive growth in rents in the year. The majority of those who do expect rental growth feel it is likely to be under 5%.

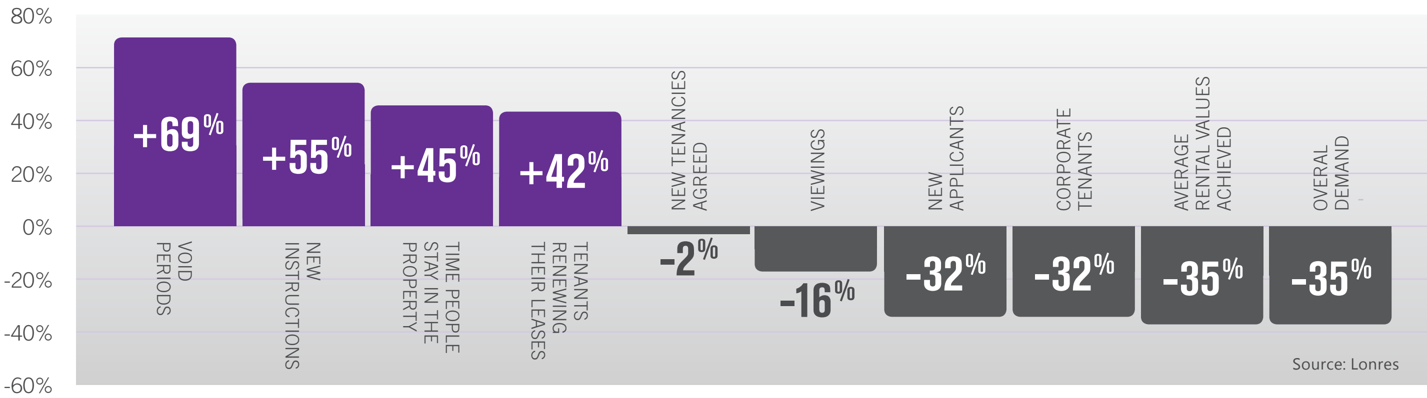
Looking ahead, the ongoing turmoil across the Eurozone is expected to draw in more tenants to central London, with 48% of agents expecting increased European demand in the remainder of the year.

Average rents achieved have fallen by 4.3% over the past year.

70% of agents have seen an increase in rental negotiations on new tenancies in the past three months.

45% of agents expect to see increased Asian tenant demand over 2012.

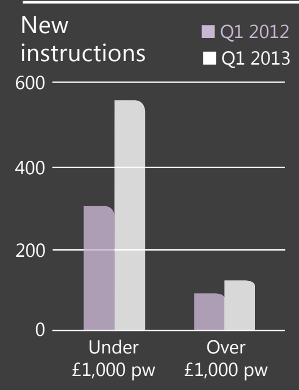
Lonres Spring agents survey: Net balance of respondents reporting a change

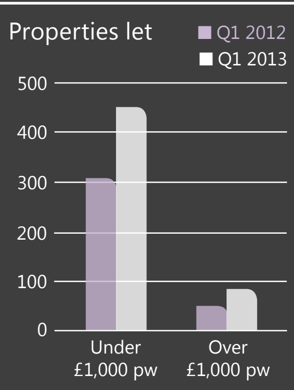


Source: Lonres

Key market trends - lettings

NORTH

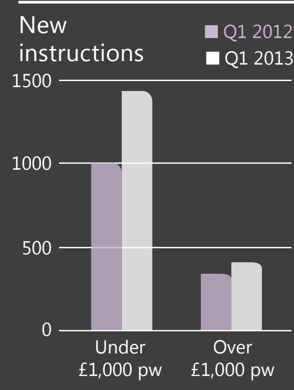


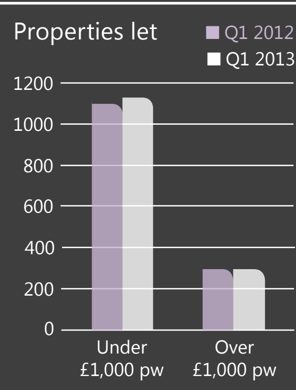


AVERAGE RENTAL PER WEEK (Q1 2013) FLATS £578 8% HOUSES £1,545 8%

Source: Lonres

CENTRAL

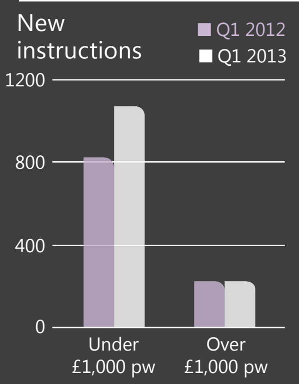


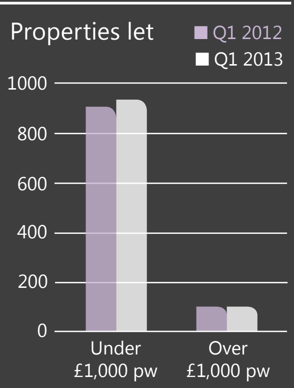


AVERAGE RENTAL PER WEEK (Q1 2013) FLATS £740 3% HOUSES £1,728 0%

Source: Lonres

WEST

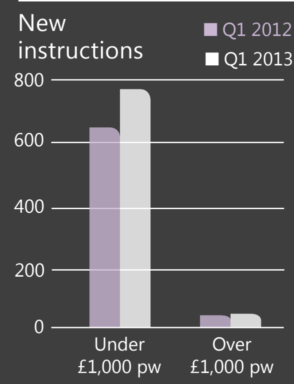


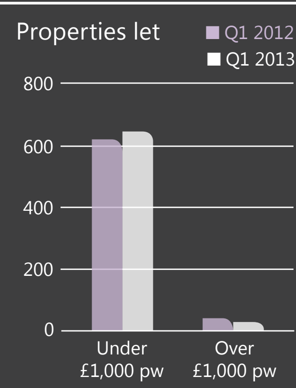


AVERAGE RENTAL PER WEEK (Q1 2013) FLATS £587 10% HOUSES £1,506 2%

Source: Lonres

SOUTH





AVERAGE RENTAL PER WEEK (Q1 2013) FLATS £464 2% HOUSES £790 4%

Source: Lonres

% change compares Q1 2013 to Q1 2012

AN AGENT'S VIEW

ALISON VAN DALEN

Brookfield Global Partners

The corporate relocation sector has been quiet in recent months, although we are now seeing a gradual pick-up in activity as we move into the Spring market. However, the patterns of relocation are shifting. In previous years it has been commonplace for families to relocate. More recently, however companies are relocating workers, from China in particular, on shorter term contracts, as little as three to six months. As such we have been largely dealing with individuals looking for short term options.

The types of property in demand are therefore smaller one and two bedroom flats rather than larger family homes. However, landlords are not keen on short term lets which means they are often more expensive. The budgets for temporary accommodation are normally £1,000 to £1,500 per week. There is currently a good supply of one and two bedroom properties, although high quality properties are the most sought after with competition to secure. As such, good properties are being let very quickly at a premium rent.

For families that are looking to relocate there is a real issue with stock availability, even for those with higher budgets or relocation allowances. We are working with one family who have been searching for the right property for almost a year.

In recent months we have seen an increase in relocations from Europe. However, many of these tenants are not looking for a main residence but a London bolt hole for the working week. Indeed we have two French clients who work in London during the week and then travel back to their families in Paris at the weekends.

The national picture

As confidence grows in the prime central London residential market, are the regions once again to be left behind, or is the renewed optimism beginning to filter through to the rest of the UK?

In the last few years there has been much talk of London's outperformance compared to the rest of the UK's regional housing markets. Indeed, in the last four years, prices in London's most prime Borough of Kensington and Chelsea have risen by 53%. Meanwhile, nationally, average prices have grown by 6.6% and in some northern regions values have fallen over this period.

Annual price growth currently stands at just 1% across England and Wales with transactions in the past 12 months being just over half the level seen in 2012. Despite prices and transactions remaining subdued across the regional markets of the UK, there are glimmers of renewed optimism emerging in the more mainstream sectors.

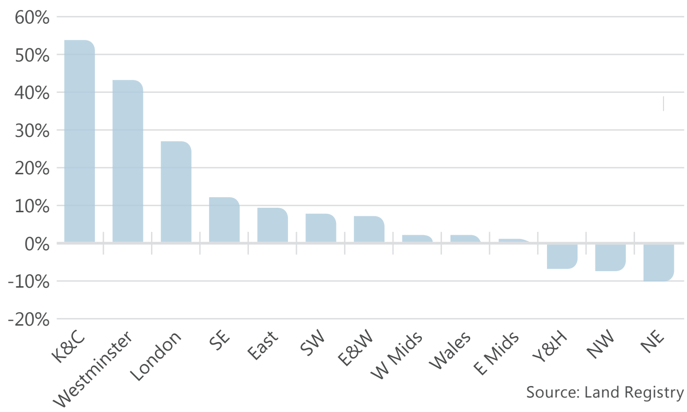
Average asking prices monitored by Rightmove rose to £239,710 in March, which is reportedly the 'highest ever recorded for the month of March'. They also suggest that transaction numbers are rising and properties are selling more quickly. Furthermore the latest Rightmove Consumer Confidence Survey indicates 60% of the 40,000 respondents expecting prices to stay at a similar level over the next 12 months, with 23% expecting prices to be higher.

The RICS housing market survey in February, while seeing reduced activity caused by the snow in January, is fairly optimistic about the longer term outlook for the market. Market conditions are expected to improve in the second half of the year with an increase in transactions anticipated. More good news comes from the Land Registry which reports a continuation in the downward trend in the numbers of repossessions.

Underpinning the renewed optimism in the longer term prospects for the market are improvements in lending conditions. The Bank of England's Funding for Lending Scheme was set up to boost lending in August 2012. Since then mortgage rates have fallen, and mortgage approvals rose from 48,200 in August 2012 to just under 55,600 in December. First time buyers seem to have been particularly encouraged by the relaxation in lending with numbers rising by 12% in 2012 to their highest level for five years according to the Council of Mortgage Lenders. First time buyers in the Capital also rose by 15% in the year, although numbers are still lagging behind the level seen before the credit crisis in 2007.

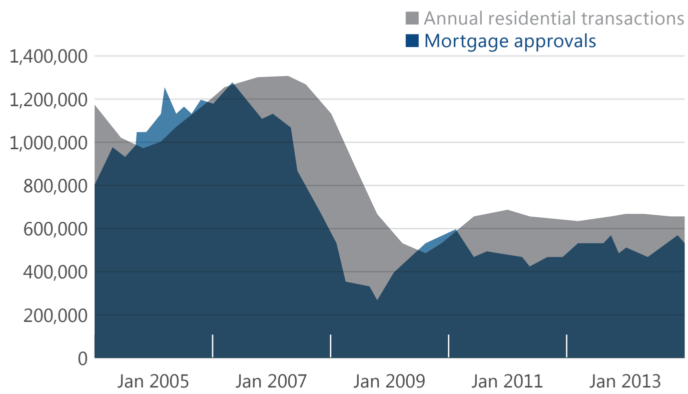
Although the signs were positive, the success of the Funding for Lending Scheme took a knock in January as mortgage approvals fell back again. However, despite this knock, the Council of Mortgage Lenders remains optimistic about the rest of 2013. With the increased availability of mortgages and ever lower rates being offered, they expect activity to increase in the coming months which will boost transaction levels through the course of the year.

Change in average residential values since 2009



Source: Land Registry

Annual residential transactions and monthly mortgage approvals



Source: Land Registry and Bank of England

AN AGENT'S VIEW

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The major issue facing the entire housing market is the restrictive lending policies. Before we can see any meaningful change in prices or transactions we will need to see a new approach to mortgage lending for UK residential property.

The areas we work in close to London such as Harpenden and St Albans continue to benefit from commuter demand. However, the fast commute into the capital attracts significant price premiums. These are less of a barrier to households moving out of London but do create affordability issues for local buyers and first timers. Good schools, coupled with the commute are a major draw for London escapees.

Outside of the core commuter markets the sales sector is more quiet. As with any location there are micro-markets, which often combine desirable housing, good schools and facilities. These areas remain perennially popular and it is far easier to sell properties at good prices within relatively short time frames.

2013 Budget Summary

Sara Maccallum, Partner at Boodle Hatfield, comments on the 2013 Budget changes.

Another March day and another Budget from George Osborne delivered against a backdrop of fairly grim economic statistics and a significant degree of press and public concern regarding tax avoidance and "immoral" use of reliefs. With all this going on in the background, the Chancellor's delivery of his speech was as positive as possible with his new phrase of the day being references to Britain as an "aspiration nation". I am not sure whether that phrase is really going to catch on but in principle the Chancellor had good news for those aspiring to drive cars, drink beer and potentially even get on the housing ladder.

Unlike in previous years, there was little on the specific tax front for those interested in property issues. The main points of interest are set out below, together with a few bullet points on other interesting Budget measures. The breathing space on specific property tax measures is, in a sense, quite a relief after the wide ranging changes to the taxation of high value residential property announced last year, which are in fact still working through the system (updates on some of them are below). Points to keep an eye on are:

1. What was originally known last year as the annual charge became known in December as ARPT and is referred to in these new Treasury documents as the "annual tax on enveloped dwellings" or ATED. Perhaps of more interest than the ever changing acronym is the announcement that there will be some changes to the draft legislation published in December to introduce additional reliefs, modify the conditions for some of the previously announced reliefs, and alter the requirement to make returns if companies cease to be eligible for relief or become liable to an increased charge. There are also to be changes to introduce rules for alternative finance arrangements, provide exemptions for charities and certain others, and set rules for various tax management procedures. We await precise details of these changes.

2. There was some hope before the Budget that the Chancellor might announce that the timing of the proposed extension of reliefs from the 15% SDLT rate (to mirror those to be introduced for ATED) would be brought forward - especially the relaxation of the property developer relief. The Budget press notices however still state that the changes to the 15% rate rules will come into effect from the day of Royal Assent to Finance Act 2013, and not before. The 15% SDLT rate is therefore still a worry for a number of corporate landlords.

3. It had already been announced in the Autumn Statement 2012 that the SDLT rules on "transfer of rights" (often referred to as sub-sale relief) would be amended with the idea being that the SDLT planning strategies which utilise this relief would finally be put to bed. Following the consultation process, we now know that this draft legislation will itself be revised and we await details as to what the revisions will be.

4. Information has also been published to the effect that legislation will be introduced in Finance Bill 2013 to put "beyond doubt" that certain SDLT avoidance schemes which in the Treasury's eyes "abuse" the transfer of rights rules do not work. Unusually, these changes will have retrospective effect to 21 March 2012 in accordance with the announcement in Budget 2012 that the Chancellor would use retrospective legislation to close down future SDLT avoidance schemes if he saw fit. This measure would be the first use of that power in the context of SDLT and will impose a requirement on purchasers who have used such schemes to notify HMRC of SDLT due by 30 September 2013. Anyone who has used one of these schemes should now get in touch with their adviser to determine their position.

5. One issue which is perhaps not of immediate interest to those involved in property but which might well have an impact is an announcement that the Government is to consult on measures to remove the presumption of self-employment for LLP members (to tackle the disguising of employment relationships through LLPs) and to counter the manipulation of profit and loss allocations by partnerships including a company, trust or similar vehicle in order to secure tax advantages. We still await the consultation document on these proposals, but they are of concern to the property industry (as well as the wider world of course) as LLPs or partnerships have been much used to structure property holdings.

6. Another announcement of wider interest is the entirely expected announcement that the measures to introduce a general anti-abuse rule (GAAR) are going forward. To be noted is that the GAAR will apply to the new annual tax on enveloped dwellings.

7. There are a number of other points of interest arising from the Budget:

- the main rate of corporation tax (which is already set to reduce to 21% from April 2014) is to reduce further to 20% from 1 April 2015. From that date, there will only be one 20% rate of corporation tax for all companies;

- in an attempt to encourage employment, a new £2,000 employment allowance for all businesses and charities will be available to be offset against employer Class 1 NICs from 2014;

- the Government is to increase the exempt threshold for loans provided to employees (for items such as season tickets) from £5,000 to £10,000 with effect from 6 April 2014;

- the Capital Gains Tax exemption for reinvesting gains in shares qualifying under the Seed Enterprise Investment Scheme is to be extended to gains accruing in the 2013-14 tax year. The relief will apply to half the re-invested amount;

- as announced in December 2012, certain amendments will be made to the new controlled foreign companies rules in order to counter tax planning opportunities and to ensure that the rules work as the Government intended;

- stamp duty and stamp duty reserve tax are to be abolished from 2014 on share transactions in UK companies quoted on small company growth markets such as AIM; and

- legislation is to be introduced (with immediate effect) to close loopholes used to attempt to avoid tax liabilities arising on loans by close companies to their participators. The changes will affect loans and other payments made to participators via intermediaries and will update the repayment rules.

Finally, a positive non-tax announcement by the Chancellor is of the "Help to Buy" scheme designed to boost the housing industry, available for homes with a value of up to £600,000. Under the scheme, the buyer will be required to fund a 5% deposit on a new home. The government will then fund up to 20% of the cost of the home through a shared equity loan, repayable when the home is sold. This shared equity loan will be interest-free for the first five years and the remainder of the purchase price will need to be funded with a standard mortgage.

In an additional measure to boost the industry, the Chancellor announced a new mortgage guarantee scheme, which will be available for a period of three years from the start of 2014. Under this scheme, the government will step in to compensate a lender where the borrower defaults on a loan. The guarantee will cover mortgages for new or existing homes.

We will see what the next 12 months will bring for the tax world and of course the economy generally - hopefully next year's update will be reporting announcements of a much more positive outlook!

Paris residential market

Low economic growth and rising unemployment in France, in addition to the continued debate about wealth and income taxes, are all factors leading to falling transaction volumes and price declines in the Paris housing market.

Economic outlook impacts the national housing market

While France has successfully avoided the most severe impacts of the global economic crisis, growth forecasts remain low, at 0.3% in 2013 according to the IMF. This, coupled with the Ministry of Labour's most recent figures showing that the number of unemployed people in France rose by more than 10% in the last year, to more than 3.1 million people out of work, has prompted both the OECD and the IMF to suggest France seeks to boost its competitiveness. As businesses focus on cost savings and efficiency, take up in office space in Paris has also slowed and is expected to decline over the course of 2013.

According to the national statistics agency INSEE, property sales volumes fell nationally throughout 2012, with figures for December 2012 (latest available data) showing an annual decline of 11.9%. The Paris region has been no exception to this trend, with a sharp drop in volume in the third quarter (Q3) of 2012 after the elections.

Despite falling interest rates, lending also remains low, with a 32.6% decline in housing loans to domestic clients recorded in the first eleven months of 2012, according to the Observatoire Crédit Logement.

Fiscal uncertainty

While President Hollande's flagship 75% upper income tax policy was deemed 'unconstitutional' by the Conseil Constitutionnel at the end of 2012, the government continues to pursue a similar measure. Indeed, a 65-66% rate on households earning more than €2 million was reportedly discussed in the Assemblée Nationale. And in a recent prime-time television interview, President Hollande said that companies would pay a 75% tax rate on salaries over €1 million. For French households wishing to plan their liabilities, this air of nervousness is deepened further by recent events in Cyprus where large bank depositors are facing considerable losses.

As such, the flight of High Net Worth Individuals abroad to pre-emptively avoid such measures, continues to impact the housing market. Demand remains limited and focussed on the very few, exceptional properties which come to the market. At the same time, since the government announced it would target properties under its tax policy, many home owners have sought to dispose of their existing homes, leading to a rise of properties on the market.

Price adjustment in the Capital

In Paris, there has been a marked increase in the supply of large (four bedroom plus) apartments on the market priced at around €1.5 million. This increased supply and low level of take-up means these properties are sticking on the market, contributing to downward pressure on prices. On a price per square metre basis, prices have fallen by 11% between Q1 2012 and Q1 2013 on average, according to databiens.com. To date, price falls have been less marked in areas with prime property.

Despite falling prices, there is very low availability of compact properties including studio and one bedroom apartments. This, coupled with stabilising sales volumes over the last quarter suggests that rather than keep cash in bank deposits, wealthy French residents still prefer to put their money into bricks and mortar as buy to let investments, despite the prospect of low returns. Indeed, now that prices have dropped, we can see transaction levels picking up.

French market analysis by **Laurent Lakatos** of Databiens.com, an independent subsidiary of Lonres.com

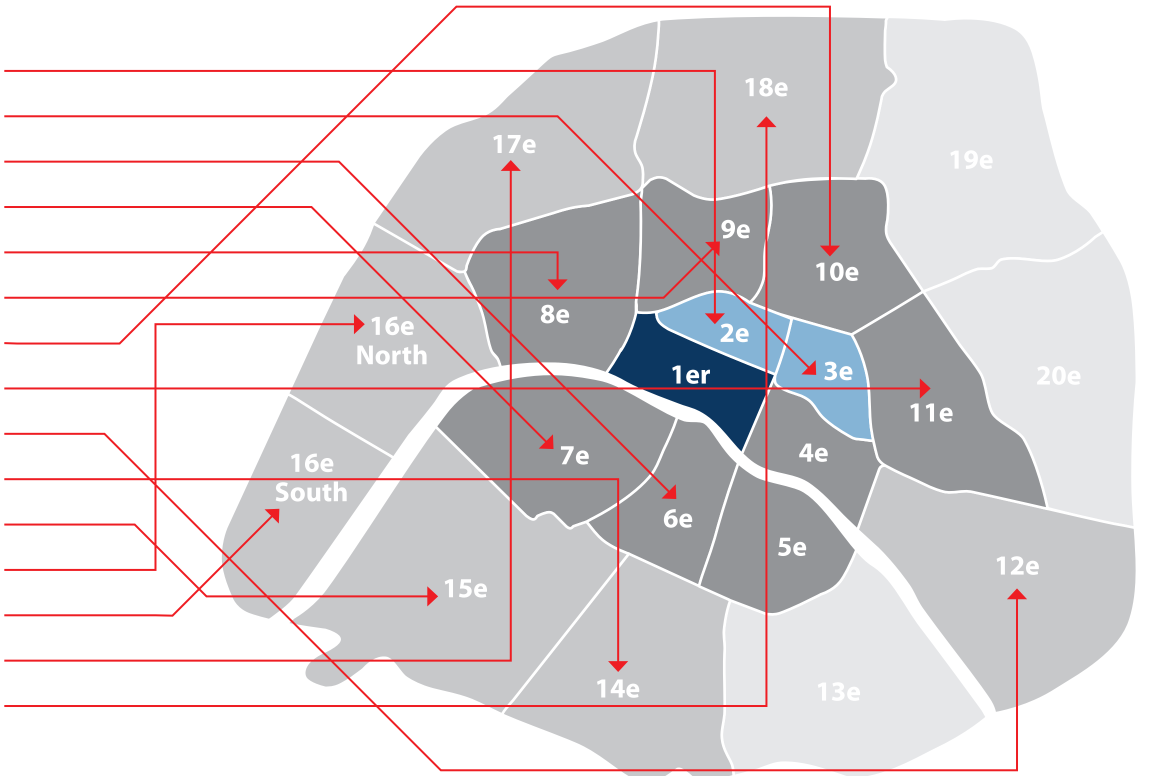
Price reductions are attracting buyers back to the market

Average prices paid	Q3 2012	Q4 2012	Q1 2013
Studio	€291,600	€277,600	€162,000
1 bedroom	€520,000	€509,300	€488,000
2 bedroom	€781,800	€782,600	€735,000
3+ bedroom	€1,488,000	€1,462,000	€1,445,000

Source: Databiens.com

Average €/sqm by arrondissement of Paris

2	€9,348
3	€11,033
6	€14,626
7	€12,196
8	€10,396
9	€8,896
10	€8,057
11	€9,094
12	€7,192
14	€9,087
15	€9,479
16 North	€10,421
16 South	€10,069
17	€9,876
18	€7,944



Source: Databiens.com

International house price comparison

Following a period of steep decline, Miami is now experiencing a bounce back in property values, topping this list of price changes in 2012. With annual price appreciation of 12%, prime central London continues to outshine the performance of mainstream housing markets across Europe, although remains below the heady pace of some high-growth, emerging markets.

2012 INTERNATIONAL HOUSE PRICE GROWTH

AMERICAS/AFRICA

CANADA	3.3%
USA	6.9%
USA (MANHATTAN)	1.1%
USA (MIAMI)	27.8%
BRAZIL (SAO PAULO)	14.8%
BRAZIL (RIO DE JANEIRO)	14.7%
NIGERIA (LAGOS)	26.5%
SOUTH AFRICA	9.6%

EUROPE

NETHERLANDS	-6.9%
PARIS	-1.0%
IRELAND	-6.1%
GERMANY	4.2%
UK	2.3%
FRANCE	-1.7%
PORTUGAL	2.7%
GREECE	-13.2%
TURKEY	-11.5%
SPAIN	-10.5%
ITALY*	-3.2%
AUSTRIA*	11.3%
SWITZERLAND	3.6%
RUSSIA (MOSCOW)	6.0%

N. EUROPE/M. EAST

FINLAND	3.0%
SWEDEN	2.1%
NORWAY	6.7%
DENMARK	7.9%
DUBAI	18.9%

ASIA/AUSTRALIA

CHINA	0%
KOREA	0.3%
JAPAN*	-0.3%
INDIA (DELHI)	16.8%
INDIA (MUMBAI)	12.4%
THAILAND	0.8%
SINGAPORE	6.6%
HONG KONG	25.2%
AUSTRALIA	2.1%
NEW ZEALAND	4.6%

Source: Statbank, ABSA, INSEE, ISTAT, OENB, OECD, SSB, NHB, HDB, IRN, RVD, REIDIN, NAR, HDB, BOT, TCMB, CREIS, ZAP, Case-Shiller,Elliman Report, JAREA,Bulwiengesa, Residential Auctions Company (Lagos)

Note*- Q3 2011 compared to Q3 2012

About this publication

This newsletter was written for Lonres by Dataloft. By utilising Lonres and other valuable sets of data, Dataloft provides a unique and bespoke service to Lonres' clients. Through analysing data and writing market commentary on their behalf, at both a local and national level, Dataloft provide marketing material that raises the profile of their clients and helps to cement their position as experts in their areas.

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In partnership with Lonres, Dataloft uses its own analysis tools and models to evaluate trends in Lonres data as well as the wider housing market, providing value added commentary for Lonres subscribers.

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Dataloft specialises in providing comprehensive publications and marketing collateral on the residential property market. Our team of industry-leading experts provide high quality research and property market commentary at both national and micro levels. We present our information in a digestible, attractive format and the wide range of products available give a competitive edge and profile-raising opportunities to clients as well as informing business strategy.

For more information please visit www.dataloft.co.uk or contact Harriet Black on 01962 867712.

Date of publication: 5th April 2013

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All data and charts supplied by Dataloft, www.dataloft.co.uk

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