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Wealthiest Buyers Undeterred by Taxes on London Luxury Homes

By Chris Spillane - Jan 11, 2013 9:41 AM GMT

London's most expensive homes will outperform the rest of the U.K. residential real estate market this year as wealthy buyers shrug off property-tax increases, Knight Frank LLP said.

Prices in the super-prime market of houses and apartments costing 10 million pounds ($16 million) or more will climb as much as 5 percent this year, the London-based broker estimates. Values gained 6.9 percent last year as buyers competed for fewer properties.

Tom Shaw/Getty Images
An Aerial view of houses in Knightsbridge, London.

London's most expensive homes will outperform the rest of the U.K. residential real estate market this year as wealthy buyers shrug off property-tax increases, Knight Frank LLP said.

"Stock in this segment is very limited," Liam Bailey, Knight Frank's head of residential research, said by e-mail. "The population of very wealthy potential buyers has been rising strongly over the past two years and looks set to rise into 2013."

London's high-end properties are attracting investors seeking assets that have appreciated during Europe's sovereign debt crisis and the Middle East's economic and political turmoil. While price gains are slowing for homes costing an average of 3.7 million pounds, which Knight Frank defines as luxury properties, demand for super-prime London properties hasn't abated, Bailey said.

There were 98 deals valued at 10 million pounds or more in the nine months through September, up from 94 a year earlier and 74 in 2010, according to data compiled by the firm.

Tax Havens

Many super-prime homes are owned by shell companies set up in tax havens such as the Cayman Islands to avoid transaction levies and to remain anonymous. Chancellor of the Exchequer George Osborne's annual budget, announced in March, targeted these companies to help trim Britain's record deficit.

In the budget, Osborne introduced a 15 percent tax, or stamp duty, on all properties bought by overseas companies. The levy on all other homes sold for more than 2 million pounds was raised to 7 percent from 5 percent.

On top of that, homes valued at 2 million pounds or more and owned by an offshore company will be taxed as much as 140,000 pounds a year, starting in April. The government will also charge a capital-gains tax on home sales by owners who are non-resident, non-naturalized persons if the value of the deal exceeds 2 million pounds.

The initial round of tax increases in March fueled concern among potential buyers that stricter levies would follow. Luxury-home prices in areas like Knightsbridge, Mayfair and Kensington rose at their slowest rate in more than two years in December as homebuyers delayed purchases.

'No Shocks'

The latest measures weren't as drastic as some super-prime buyers had expected, according to Giles Hannah, co-founder of broker VanHan, which is backed by private-equity firm Palmer Capital. Hours after the government confirmed the additional levies, a Middle Eastern investor contacted VanHan looking to spend about 70 million pounds for a mansion in central London.

"This client was taking a wait-and-see approach in case there were any shocks" in terms of new taxes, Hannah said. He declined to identify the buyer.

"The 140,000 pound levy is very quickly absorbed," Hannah said. "The numbers are so extreme that these taxes aren't that damaging to this sector of the market. To them it's just another bill."

Lucian Cook, a director of residential research at broker Savills Plc (SVS), said transactions in the super-prime range have been less affected by the changes than other parts of the luxury market.

Market's Resilience

"At this end of the prime market, housing wealth tends to be a much smaller proportion of a buyers total wealth," Cook said by e-mail. "This suggests that it will outperform over the next five years and should be less susceptible to a slowdown in the coming year."

Like Knight Frank, Savills expects super-prime homes to appreciate more than less expensive luxury residences, though the broker hasn't made a specific forecast.

Oversea buyers and a scarcity of luxury properties listed for sale is also inflating values in Manhattan. The median sales price climbed 7 percent in the fourth quarter from a year earlier to $4.4 million, Douglas Elliman Real Estate said on Jan. 3. The broker defines luxury property deals as the top 10 percent by price.

The new levies are affecting how luxury homes are bought, brokers say. Offshore companies were used in 14 percent of property transactions handled by Savills before the taxes, according to the London-based broker. Since then, about 5 percent purchases have been made using a company structure.

Credit Boost

Prior to the new taxes, about 32 percent of homes worth 10 million pounds and above were purchased by an offshore company, according to data compiled by Knight Frank. After their introduction, the rate fell to 3.8 percent.

The taxes have mostly affected those luxury properties in the range of 2 million pounds to 5 million pounds. Sales in that bracket fell 44 percent in the third quarter from a year earlier. For homes valued at 5 million pounds and up, the drop was 13 percent, according to Knight Frank. For homes valued at 2 million pounds and below, sales rose by 13 percent.

While the British economy emerged from a recession in the third quarter and the Bank of England is trying to boost the availability of credit, doubt about the recovery is curtailing property demand.

Britain's home prices may record a modest increase this year, Acadametrics Ltd. said today. Halifax forecasts home prices will probably be little changed in 2013 and Nationwide Building Society predicts that values may fall "modestly."

U.K. home prices will fall 2 percent this year, the second straight decline, as values in every region of the country decrease for the first time since the onset of the financial crisis in 2008, Knight Frank said in November.

Kensington, Chelsea

Home owners are reluctant to sell in areas such as Kensington, Knightsbridge and Chelsea that have traditionally been home to the city's best properties. A dwindling supply in those central London neighborhoods and a desire among some to live near the U.K. capital's financial districts have spurred super-prime developers to expand east toward the City of London.

Developers are turning obsolete commercial buildings into apartments in the City of London financial district as non-prime offices on the area's fringes become difficult to lease.

One of those is the latest luxury apartment complex to be conceived by the Christian Candy's CPC Group, which helped mastermind One Hyde Park, the U.K.'s most expensive condominium complex. CPC in November submitted a planning application to build 165 apartments near the Tower of London for a Norman Foster-designed development called Sugar Quay.

Sugar Quay

"Given the scarcity of land available for development in prime central London, you can see how and why developers are now looking for new areas develop, such as Sugar Quay," said Camilla Dell, managing partner at Black Brick Property Solutions LLP, which helps wealthy individuals find homes in the U.K. capital.

Dell recently advised a buyer who agreed to terms on a house on a private, gated road in London's Kensington neighborhood for 10.75 million pounds. The buyer, who she declined to identify, was seeking a house in London because his children are being educated in U.K.

London's luxury home prices are 16 percent higher than their 2008 peak and have risen 53 percent since a post-credit crisis low in March 2009, according to Knight Frank.

Kensington Palace Gardens

The British pound has depreciated about 13 percent against a basket of currencies in the last five years, a Bank of England index shows. That makes London properties less expensive for some foreign buyers.

The Middle Eastern buyer that VanHan is acting for is seeking to buy a 30,000 square-foot (2,800 square-meter) residence in Holland Park or Kensington Palace Gardens, one of the world's most expensive streets, Hannah said.

"For these super-prime buyers, it's about having a solid, secure asset in a gated street with security at each end," Hannah said.