MERCURY
HOMESEARCH

It's all about the tax, stupid!

First some facts & figures:

- Canary Wharf is being sold for £2.6 billion to a Qatari led bid

- TFL is looking for partners to help develop some of the 200m sq.ft. of land it owns, beginning with 10m sq.ft. at 50 locations across London.

- Norway's $850 billion sovereign wealth fund paid £190.6 million for Queensberry House at 3-9 Old Burlington Street in London (Reuters)

- SW1 now has a development pipeline of around 3000 units that have either been applied for, approved or are currently under construction. The majority are focussed around Victoria, St James's Park and Milbank.

- The number of repossessions fell to 21,000 in 2014 – 26% fewer than the 28,900 in 2013, and the lowest number since 2006 (The Council of Mortgage Lenders)

- Investment fund China Minsheng Investment Corp. said it will team up with Advanced Business Parks to jointly invest £1 billion in the development of a new commercial district in London (WSJ)

- China's overseas property investments have jumped 24 fold from US$600 million in 2009 to US$15 billion in 2014 (Knight Frank)

- Prime farmland has gone up by 277% in the past 10 years, compared with prime London property up 127% (Savills)

- 27% of the housing units in Mayfair are affordable housing

- The value of Great Britain's homes has rocketed by **£1.412 trillion** to **£5.752 trillion** over the past 10 years - more than the combined GDP of France, Germany and Italy. More than half of Great Britain's total growth occurred in London, where the total value of housing stock has doubled, rising by **£741bn** (Savills)

- The number of people in the UK who own their home outright has surpassed the number of those with mortgages for the first time since the 1980s.

- Of the 14.3m who own their house, 7.4m owned outright, compared to 6.9m who bought with a mortgage. Last year these two types of owner were equal, according to the latest official figures.

- Over-65s make up the majority of households without a mortgage, accounting for 4.5m of the 7.4m outright owners.

- Meanwhile, the number of homeowners aged 25-34 years old, either owning outright or with a mortgage, fell from 59 per cent to just 36 per cent in the last decade, demonstrating the generational divide when it comes to property ownership. (City A.M.)

February 2015

Are you interested in hearing about a bunch of overweight middle-aged men waddling around a football pitch? No! Well hard luck.

You will be delighted to learn that the OE Veterans vanquished Old Foresters 4-0 in the Cup on a blustery day and muddy pitch. I won’t thrill you with the details. I awarded myself Man of the Match although this was greeted with much surprise by the rest of the team who seemed to be in unanimous disagreement. They show a clear lack of understanding of the game…

Why am I telling you this?

Well I don’t get out to East London often nowadays and the drive back to lunch at friends in Fulham reminded me of how London has changed:

We drove past the Olympic Park with its enormous twisted metal sculpture and the huge amount of building work in the surrounding area.

Then on past Canary Wharf and into the City where The Gherkin, The Shard & The Walkie Talkie (to name but a few) tower above the skyline. A skyline which is unrecognisable to just 10 years ago let alone when I first lived in London in 1989.

Back then, I shared a flat in Notting Hill just off the Portobello Road with two friends. It was, shall we say, a touch edgier in those days. The beautiful family homes were much the same externally, but, back then, instead of shiny families, the houses were inhabited in no small number by drug dealers and their clientele.

The local pubs were constantly being raided by the police for drugs although they could have made a strong case for shutting them down solely for the quality of the food.

London has undergone a substantial metamorphosis ever since. In large part, thanks to regulatory decisions in the United States in the 1990’s (and Sarbanes-Oxley in 2002), which pushed a huge amount of foreign exchange and other financial business to London - a fortuitous turn of events that the City grabbed and has built upon ever since.

With the increased money and ensuing global interest have come improvements to shopping, restaurants, nightlife and culture. Indeed the transport has improved too: as much as we groan about London’s infrastructure, the tube is still a remarkably efficient way to get around town (especially outside of rush hour) and this has been vastly improved with the addition of the Jubilee Line and DLR. Then you have the Eurostar with Crossrail and HS2 to come.

Add in the best taxis in the world, a robust bus service and even "Boris Bikes" and you have a dynamic city on the move.

King's Cross & Bayswater, once the preserve of ladies of questionable repute, are, respectively, set to become a technological centre - home to the behemoth that is google - and London's next mini village. Battersea, Clapham, Shepherd's Bush, Hammersmith, Brixton are no longer places that taxis avoid.

And let's not forget Silicon Roundabout. Despite often being portrayed as fuddy-duddy and antiquated (think Downton Abbey), the fact is that London and the UK in general have a record of innovation and invention that can be matched by very few countries.

Add in Boris Johnson's and George Osborne's recent plan for London to create 400,000 homes and create half a million jobs by 2020 and you can see that the future infrastructure investment which will benefit house prices is in the pipeline. Other ideas that they are proposing:

1. 24 hour underground service
2. Expansion of the bus fleet,
3. Wifi on the underground
4. Decisions on Crossrail 2 and other major schemes will be made later this year.

Now admittedly their grandly unveiled plans should be taken with a bucket of salt in addition to a mighty dollop of cynicism. Nevertheless, it shows the potential level of investment that will continue to benefit London. And on the whole this is sensible infrastructure investment rather than building bridges to nowhere.

So am I relentlessly bullish?

Although the signs look good, dangers lurk. Sarbanes-Oxley proved the dangers of ill-thought through government policy. For more recent evidence, just look to France. That is not to say that all regulation or taxes are bad. But taxes and regulation driven by political expediency rather than practical necessity invariably have far more negative than positive effects.

Consequently, a draconian Mansion Tax or any other punitive tax measures would have potentially disastrous consequences for the London property market and the UK as a whole. Money can move more swiftly now than ever before and there are plenty of countries that would welcome the huge international investments from which London and the UK are benefitting.

There has been much talk in the press recently about the use of London property to launder money. Yes, we should stop money-laundering. But what we do not want to do is deter the “honest” money which is by far the majority of investment despite what the press, populist politicians and other self-publicists may imply. When operating on cancer, lasers are more effective than machetes. Unfortunately more headlines are grabbed with the latter.

How is this affecting the market currently?

Transaction levels are still down dramatically while the uncertainty of the election – the possibility of a Mansion Tax - looms on the horizon. However, there is still activity.

In certain cases there is competitive bidding. In other instances we have acquired properties at a very good discount to fair value for our clients – typically from international owners who are concerned about the increases in SDLT, the introduction of CGT and the potential arrival of the fourth horseman of the apocalypse. Sorry, I mean Mansion Tax.

This trend of lower transaction levels will continue until the election. Although I do not have the figures for it, I expect that the “off-plan” sales market will be struggling more than any other and I expect the high density new developments to underperform dramatically over the next 18 months.

Of course nothing is set in stone. There are a couple of things that could happen which will alter my opinion on this and I will let you know if and when they happen.

In the meantime, if you would like help acquiring a home or investment in prime central London, please email me at jeremy@mercuryhomesearch.com or call 0800 389 4280 (+448003894280 from outside the U.K.) to arrange a consultation.

Best regards,

Jeremy