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Should Hong Kong, Chinese investors delay buying London property and wait for stamp duty cuts?

A plan to cut stamp duty on home purchases in Britain may just be the boost needed by the slumping London property market, according to analysts.

Boris Johnson, who is tipped to succeed British Prime Minister Theresa May this month, is considering a reduction in stamp duty for luxury residential units, according to a report by The Financial Times.

“A cut to stamp duty will provide a boost for the London market in terms of volumes of sales, and also pricing,” said Liam Bailey, global head of research at Knight Frank.

Since the introduction of stamp duty reform in 2014, many parts of central London have seen a decline of 20 per cent, having reached a peak the same year.

Luxury property agents have previously told the South China Morning Post mainland Chinese buyers were spending less on overseas home purchases, including in London, owing to a number of reasons, including Britain’s exit from the European Union, higher taxes, and even China’s capital controls, which were tightened in 2018 to stymie the yuan’s depreciation against the US dollar.

Hong Kong investors turn to outer London areas in search of growth

Bailey, however, said investors should weigh the potential risks of delaying investments in the hopes of paying lower stamp duties.

“Investors need to balance the fact that right now – even though the market is strengthening – it remains a buyers’ market and there are considerable opportunities to secure good deals. If there is substantial cut to stamp duty, the volume of active buyers will rise rapidly and competitive bidding is likely to push prices higher,” he said.

Mark Elliott, head of international residential at Savills Hong Kong, said the weak pound gave buyers from Hong Kong and China the advantage of a favourable currency.

Hong Kong buyers expect further drop in London home prices, delay investment

The pound Sterling has weakened by about 8 per cent against the US dollar since June 2016, when the British public voted to leave the EU.

“While there is talk of possible changes to the stamp duty in the future, buyers from Hong Kong and mainland China, who look to transact now, are able to take advantage of the exchange rate, which is currently in their favour,” Elliott said.

According to property consultancy Savills, the prime London residential market fell by 1.8 per cent in the second quarter year on year, although the rate of decline was less than half the level seen in the same period in 2018.

Foreign investment in UK property drops to its lowest level since Brexit vote

“The stamp duty reforms proposed by Boris Johnson would certainly assist in galvanising the London property market. This is not about rewarding the super-rich, it is about reducing barriers currently stopping people from moving, thus helping buyers at every rung of the ladder,” Penny Mosgrove, chief executive of property agency Quintessentially Estates, said in an emailed statement.

“The punitive stamp duty rates introduced back in 2014, in addition to the paralysing cloud of Brexit uncertainty, have resulted in ongoing ‘stickiness’ in the £2 million [US$2.5 million] – £10 million market. The market needs a shot of adrenaline and it needs it now,” she said.

“Many leading figures in the [British] property [industry] will be cautiously optimistic at the prospect of Boris Johnson becoming prime minister, which is an increasingly likely scenario. When he was mayor of London, the capital experienced growth in its property sector. Many new homes were built, and areas such as Nine Elms and Stratford were transformed by regeneration,” said Andrew Howard, managing director of communications consultancy Built Environment Communications Group.