LONDON PRIME PROPERTY

ThR3e forces likely to drive volume

> *2026 may become a defining year for London's prime market. The interplay between stabilising mortgage rates, non-dom tax changes, and political uncertainty will determine whether transactions recover or decline further.*

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NEWSLETTER
JANUARY 2026

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Looking ahead to 2026

The London property market has weathered significant headwinds from pandemic disruption and interest rate volatility to shifting tax policies and economic uncertainty. As we look ahead to 2026, several converging trends will determine whether transaction volumes in the prime and super-prime segments recover, stagnate, or decline further.

Understanding these dynamics is important for advisors operating in London's high-value property market. While short-term fluctuations dominate headlines, underlying structural shifts in financing costs, tax policy, and buyer demographics will, by necessity, shape market activity over the coming year.

In this analysis, we'll examine **three** key trends that may impact transaction volumes for prime and super-prime property sales in London during 2026. These are evidence-based assessments of forces already in motion, whose full effects we expect will crystalise in the next 12-18 months.

1 Mortgage rate stabilising and affordability recovery

After the volatility of 2022-2024, mortgage rates are expected to stabilise in the 5% range through 2026. This matters even for the prime market because :

- Many high-net-worth buyers still use leverage for prime purchases
- Lower rates improve cash flow for buy-to-let investors in the prime rental market
- Reduced financing costs make London property more competitive versus international alternatives

3 Mansion tax: politically motivated decision

The 'council tax surcharge' could dampen demand at specific price points, predominantly affecting London prime and super prime markets.

It may discourage investment in London, and the loss in income from stamp duty land tax will likely outweigh the benefit of this new tax.

Additionally, a 2% increase in tax rates on rental income will reduce the yield for investors and landlords renting properties, making investing in property less attractive and lowering transactional volumes.

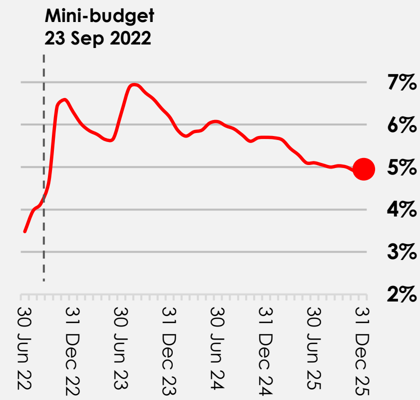
2 Non-Dom tax changes impact

The abolition of non-dom tax status will have its full impact felt in 2026:

- Some international buyers have already relocated or restructured holdings. However, the "wait and see" cohort will make decisions in 2026 about whether to remain UK-based.
- This particularly affects prime and super-prime (£5m+) where international buyers dominate. Potential 10-20% reduction in the international buyer pool, though some may be replaced by domestic wealth.
- The net effect depends on whether the government introduces any mitigating measures or whether global instability makes London attractive despite adverse tax changes introduced by a traditional left-wing Government.

1- Mortgage rates

The key question is whether rates stabilise closer to 4% (boosting transactions) or remain near 5% (dampening activity).



Source: *ONS – 2 years fixed rates*

2- Non-Dom impact

Sales of £5m+ properties have dropped, with some prime post codes seeing a drop of 15-20% in transactions in 2025 due to non-doms leaving for Dubai and Milan.

Annual average growth
Prime and Super Prime Property Value Central London

1-Yr	3-Yr	5-Yr
2.7%	0.5%	2.3%

Source: *Propertydata.co.uk*

3- Mansion Tax

The November Budget brought significant property news, including a new "mansion tax" (High Value Council Tax Surcharge) from 2028 on properties over £2m and a 2% hike in property income tax for landlords from 2027. See what R3 had to say about it.

> *The new "council tax surcharge" may lower property demand, reduce investor yields, and hurt revenue overall.*

Marco Previero R3 - *BE News*