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inspired property investment

AUGUST 2013

A VERY UN-BRITISH SUMMER

Sunshine and sporting success have been the characteristics of this summer. Added to this have been the recent series of economic data which have encouraged certain tabloids to pontificate about booming Britain. It is a far cry from the riots of two years ago, the cold and damp summers (the diamond jubilee downpour epitomised last year's summer weather) and the double dip recession so keenly predicted by Her Majesty's opposition, which happily failed to materialise.

The sun shone for nearly the whole of July and much of August with temperatures often in the early 30's, and if that wasn't enough, the tally of British sporting victories continued throughout the summer. After the euphoria following the success of last year's Olympics, we felt things simply couldn't get better, but 2013 has been a great year on many fronts so far.

A men's Wimbledon champion, back to back winners of the Tour de France, the Lions walloping the Wallabies, an Englishman winning the US open and even the Queen having a Gold Cup winner at Royal Ascot. That's before mentioning the Ashes!

Sunshine and sporting trophies are useful distractions in times of austerity but there are other stirrings afoot. The robust performance of the prime London property market, both residential and commercial, have been widely documented and commented on in these bulletins over the past 3-4 years. We were amongst the majority who had expected things to quieten a bit in 2013, yet there are few signs of this as yet. Many will be aware of the mass influx of overseas buyers attracted by the slick marketing of the numerous new build apartment projects, most of which are in secondary locations. A recent FT report stated that over 75% of new build sales were to foreign buyers of which 50% were from HK, China, Singapore & Malaysia. Meanwhile, in our last comment we noted that domestic buyers are playing their part in the prime markets and the perception that the likes of Knightsbridge & Belgravia are wholly the preserve of Russian & Middle East buyers is simply incorrect.

With London hogging the headlines for so long, we are now seeing a change with the rest of the UK housing market showing signs of real growth. Part of this may well be as a result of the Government's risky stimulus strategy through their help to buy scheme but it would appear that there is more to it than that. House prices play a key role in the fortunes of the UK economy but in tandem with the largest reported growth in house prices for 3 years (up 3.9% in July), we are seeing other data coming out giving rise to cautious optimism. Economic growth in Q2 has been double that of the first quarter, manufacturing output has shown the largest monthly increase since 1992, new car sales 12% are up on a year ago, unemployment is falling etc. Meanwhile, Savills most recent Office Sector update reported a 28% increase in take up in the first half of this year compared to last. The result has been a definite mood shift with both business and consumer confidence rising.

Our new Canadian Governor has taken the helm of the Bank of England and sent out a clear message that he intends to maintain the current strategy of keeping interest rates at their current all time low until such time as the employment figures show a return to clear sustainable growth. Therefore in assessing the immediate outlook the future looks encouraging as the low interest rate environment favours investment in hard assets. However, dark clouds are never very far away and spotting and planning for the risks ahead remain key to any investment strategy.

In the back half of last year, we discussed the key risks that might affect the prime London property market. These were;

- Interest rates
- Supply
- Global recovery
- Appreciation of sterling
- Tax

Interest rates are the key influence on property prices and remain the most obvious factor to monitor, although the general consensus following the BOE's first report under Mark Carney implies rates will remain at current levels for 2-3 years at least. Significant increases in supply (excluding a few hot spots like Battersea/Nine Elms and East London) are unlikely due to the UK's archaic planning rules. Few expect a swift return to normality for the Global Economy (potentially reversing the wealth preservation driver for London) nor indeed is Sterling likely to significantly appreciate anytime soon (an increase would dampen London's appeal and potentially give rise to the temptation to take profits). However, the relatively recent bogeyman to watch out for has been the Government and its appetite for meddling with property taxes.

THE TAX POSITION IS NOT SO CLEAR ANYMORE

The budget in March last year really put a cat amongst the pigeons. The chancellor introduced a raft of measures which were intended to levy higher taxes on high value property transactions (stamp duty was increased on properties over £2m) and to discriminate against foreign owners of high value residential property (over doubling of Stamp Duty plus annual property taxes for properties owned in SPV's and then used as second homes or kept unoccupied).

These new measures were appallingly drafted and it took close on 10 months for actual clarification on who was exempt and who wasn't. The end result was a general acceptance on a number of measures which were fundamentally quite fair and reasonable. 18 months on and there is little evidence to show that the market has been materially impacted in any obvious way.

What was perhaps more interesting was how the likes of Hong Kong and Singapore appeared to adopt similar measures, mostly through the introduction or increase in seller's stamp duty. There have been expectations that the US, Canada and Australia may follow suit but nothing as yet.

Due to the lack of real returns available on cash deposits and bonds etc. a significant amount of wealth is being invested and stored in hard assets such as property. Additional motives for diversifying wealth (noticeably from Mainland China) has led to vast sums being invested in relatively secure and mature property markets such as Hong Kong, Singapore, UK (London primarily), Australia and North America. The result of which has distorted some of the local market dynamics which has led to political headaches, as is being seen in Hong Kong and Singapore. In the west the political strain comes from an ever widening and increasingly visual gap between the rich and poor resulting in Governments being urged to introduce new or higher taxes on the wealthy.

Comparing the tax position from one jurisdiction to another is not quite as simple these days and as ever proper professional advice should always be sought. As things stand, The UK still remains , remarkably tax friendly for overseas investors with buying and selling costs on par with a global average. Despite the newly introduced measures last year, non resident buyers can acquire high value properties remaining free of capital gains taxes and are able to offset all outgoings (including mortgage interest, depreciation, annual allowances etc.) against their income. The new measures last year have required additional planning for some to mitigate IHT, but in the main the UK holds its advantage as a tax friendly environment for foreign investment in residential property.

The unknown these days is the Government. Hopefully last year's tinkering was enough to demonstrate at least a political intent to tax the super wealthy allowing the Government to focus more on their pet projects to help the broader market through their help to buy scheme etc. More tinkering will lead to greater uncertainty and this carries higher risk for the market as the one thing London has thrived on for many, many years is its predictability.