DECEMBER 2013

LEVELLING THE PLAYING FIELD

George Osborne has grasped the nettle and chosen to address one the strangest anomalies in the UK tax system. Non residents will, from April 2015, pay capital gains tax on their future residential property gains just the like the rest of us.

The announcement in Osborne's Autumn statement had been leaked a while in advance and therefore came as little surprise on the day. It was perhaps more of a surprise that he overlooked this last year, in the March 2012 budget, when he introduced a raft of other measures which were mostly targeted at foreign buyers. As with the March 2012 announcement, a period of consultation will follow and, if the previous consultation is to go by, there will be certain exemptions and important clarifications. The following is a simple summary of what we know and what we need to know;

- Non residents will pay Capital Gains Tax on future profits earned on residential property post April 2015
- Gains earned prior to April 2015 will not be subject to CGT
- It is unclear if CGT will apply to all gains after 2015 or all gains on property purchased after April 2015
- If future gains on property owned prior to April 2015 are to be taxed, the question arises as to how values at April 2015 are determined either at that time or retrospectively in the future.
- It is currently unclear whether a single dwelling designated as a primary residence will be exempt, as is the case for domestic tax payers.
- CGT is currently 18% for low rate tax payers and 28% for high rate tax payers.
- It is expected that certain costs will be allowable to be offset (improvements, stamp duty, agency fees etc.) as is currently the case

The announcement was greeted with resigned acceptance by most. Few could argue that it was not a fair and logical measure that had long been mooted. Many like ourselves were not unduly concerned about the impact this might have on inward investment, as we had known for many years that CGT exemption was far from being a key determinate in overseas buyers motives. Any moves that suppress short term speculation, particularly as we are seeing in the new build sector, are probably quite sensible. However further tinkering and changes will add to concerns that the UK's historically transparent and relatively predictable tax system is now becoming subject to random change.

Another year ending on another high

For the fourth year in a row Prime Central London property has risen by close to double figures. Far from seeing the market take a breather, as some predicted, we have simply seen a continuation of a trend that started around the end of Q2 2009. However, there is change in the air and the following are areas to look out for;

UBER PRIME

Nick Candy was widely quoted as he cautioned developers looking at replicating the sort of prices and values One Hyde Park have achieved. Putting aside the fact that Candy and Candy may feel they have some exclusive right to develop at the very top end, he makes a very good point. One recent article noted that there are over 200 properties being developed with a price tag in excess of £20m. To put this in context, One Hyde Park is a scheme of 86 apartments which started marketing around 2005/2006 and approx. 10% remain unsold.

NON PRIME

The real buzz at the moment centres around Help to Buy. Whatever one thinks, it has provided a huge adrenalin shot to the broader domestic market. A market that had been going nowhere and was around 25% or more off its peak back in 2007, is predicted to be up by 6% this year and much the same next. In the short term the impact will be positive on many fronts but there is no avoiding the fact that this is effectively a debt supported recovery.

TRADITIONAL PRIME

The age old recognised prime boroughs of Kensington & Chelsea and Westminster remain stubbornly under supplied. This is the perennial problem due in large part to the fact of being within conservation areas which prevents meaningful additions in new supply. Aside from the obvious spurt in international demand in recent years, It has also been due to the fact that foreign buyers tend not to sell as frequently as domestic buyers and therefore the supply pool shrinks year on year. We may see a little rebalancing in the next year or two but most likely this will be modest and, as has been the case over the past 25 years, periods of sharp growth will likely be followed by periods of flat lining with reduced volumes.

OFF PLAN

To buy a unit off plan, for a very substantial number of the actual buyers, simply requires a trip to a show suite or hotel marketing suite in Asia and paying a few thousand pounds on a credit card. This is then followed by 10% of the purchase price being paid a few weeks later on exchange and then nothing to do for 2-3 years. Some who got in at the very early stages may feel that they have a sizeable paper profit. With the new CGT rules coming in within 15 months from now and the realisation that £1,800 to £2,00psf values in non prime addresses is toppy at the very best of times, I think we might see a surge of pre completion sales just as buyer appetite is starting to wane a bit. I suspect then that the reality will hit hard for most when they factor in their 8-10% buying/selling costs and the recognised premium that is paid for brand new apartments.

Keeping an eye on the risks

As we end the year I will comment on the 5 risks that I picked out back in the summer which I felt could affect the London property market;

- Interest rates - So far no indication that these are set to rise. However, given the unexpectedly strong return to growth in 2013 and Mark Carney's forward guidance announcements, there is a growing expectation that rates will rise as early as 2015. The most recent dip in inflation to 2.1% and a still fragile recovery should hopefully see the first increase(s), when they come, at a very modest level.

- Supply – As touched on above, there are areas where supply is starting to look plentiful from the very top down. Developers have focused too much on the overseas market in secondary locations rebranded as prime London. One has to question how sustainable this is. With prices typically starting at £1,500psf, the affordability gap is huge for most domestic buyers, so too for potential domestic tenants. One just has to look at the 24,000 units in the approved and potential pipeline for Vauxhall/Nine Elms/Battersea alone to see a problem emerging.

- Global recovery – Alternative markets which offer the safe haven status of London are yet to materialise. Some are turning their attention to specific markets in Europe where the bottom is thought to have been reached, the US is looking encouraging and, for the truly global investor, Japan is the current hot tip. Meanwhile the mood in Hong Kong & Singapore and nervousness in other Asian markets means that there is no clear area for opportunity that is emerging within the traditional newly emerged markets.

- Appreciation of sterling – It was sterling's rapid devaluation that kick started the London recovery. A meaningful appreciation in the currency would both deter inward investment and offer temptation for profit taking. In recent months sterling has strengthened somewhat and should this become a sustained rally we might well see a dampening effect on the prime London market.

- Tax – The UK remains on balance pretty tax friendly for property owners, both resident and non resident. Some of the significant advantage has been eroded due to the recent measures introduced but the UK remains fairly transparent and welcoming from a tax perspective. One can't help but think that enough is enough for now as we have had 18 months of fairly significant changes to redress certain overly accommodating tax breaks exclusively for non residents. More tinkering and further measures focused specifically on wealthy foreigners who the Government claim they want to attract, will undermine London's critical advantage and appeal in the long term.

The following is a snapshot of some of our current refurbishment and development projects as we end the year.

Under Refurbishment

HOLLAND PARK, W14

Approx 1,000 sq ft. in 1970's block (porter, parking). 5th floor with stunning views over Holland Park itself. Bought in September for £1.355m. Buying & refurb costs £350k. To be completed in February. Target sale price @ £2.25m or let for £1,200pw.

EARLS COURT, SW5

Approx 870sq ft period conversion on raised ground floor overlooking square gardens. Bought in May for £890,000. Buying & refurb costs £230k. Completed early December, agents revised value £1.4m. To let for £850pw.

SOUTH KENSINGTON, SW7

A second floor two and half bedroom flat on a garden square being refurbished as a stunning one bedroom apartment. Approx. 700 sq ft, acquired for £1m in October. Buying & refurb costs £250k. Projected end value £1.35m. To let for £775pw.

SOUTH KENSINGTON, SW7

Approx 1,200 sq ft. 4th floor in centre of square overlooking gardens. Share of FH. Bought for £2.5m. Buying and minor refurb costs £300k. Projected revised value £2.95m. Pre-let @ £1,500pw for three years.

KNIGHTSBRIDGE, SW7

Approx. 2,200 sq ft with planning to extend by a further 600 sq ft. Freehold house bought for £4.5m. Buying and refurb costs £1.5m. Projected sales value late next year £7.75m

WEST KENSINGTON, W14

Redevelopment of a five story period house, used as commercial offices, in to 5 apartments. Client intends to hold as a long term income generator and discussions are advanced in securing a long rental agreement on the whole building to one entity to show 4% gross yield on gross costs.

Developed for sale

KENSINGTON, W8

Approx 2,000 sq ft. Third floor on best position looking due south over gardens. Bought for £2.65m. Buying & refurb costs £850k. Just placed on market for sale @ at £4.35m

http://web.aspasia.net/pls/mountgrange/rv?id=24372

KNIGHTSBRIDGE, SW7

Approx 3,400 sq ft. Rare lateral flat on one of the best positions of a well known block. Bought for client in 2006 for own use. JV development based on book value of £6m. Refurbishment costs £1.7m. Just placed on market for sale asking £9.85m.

DIRECT LINK

WISHING ALL OUR CLIENTS AND FRIENDS A HAPPY HOLIDAYS, MERRY CHRISTMAS AND SUCCESUL NEW YEAR.

DO PLEASE CHECK OUT OUR NEW WEBSITE WWW.OBBARD.CO.UK WHICH COINCIDES WITH OUR 20th ANNIVERSARY THIS YEAR