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inspired property investment

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Russian ramifications

The Russians are giving many of us a headache these days. They currently appear in the news for all the wrong reasons. As if invading the Crimea wasn't bad enough and creating a new source of global instability, they are most probably one of the primary causes for much of the recent new tax changes on UK property.

In recent years the phenomena known as 'Buy to Leave' has become the focus of political parties looking to have a go at the super wealthy. It can probably be traced back to the spurt of sales 4-5 years back to Eastern European buyers in the most high profile of all schemes, One Hyde Park. It is rare that a press article on One Hyde Park ends without the word 'Oligarch' being mentioned at least once. One Hyde Park is quite fairly referred to as the 'black elephant' in view of its dark windows at night highlighting its minimal occupancy.

However this has been picked up on by the press and now, according to them, the Oligarchs are apparently leaving swathes of London unoccupied. Recent articles have highlighted the Bishops Avenue in Hampstead where, 'up to a third of houses are empty' and another mentioned 'the oligarchs leaving their stupendous penthouses empty at the top of The Shard'. I recall selling houses on Bishops Avenue in the mid 1980's and back then the majority seemed deserted. As for the Shard, as someone helpfully pointed out in response to the article, the residential element hasn't even been sold yet. Meanwhile the flood of overseas buyers, the great majority of which speculate on new build projects, are apparently leaving empty their homes that have not even been built yet!

This quote from the Evening Standard last week 'a friend looking around the exclusive Charles House development off Kensington High Street was told by the agent giving the tour that "they would be the only person actually living there", the rest of the buyers being non-resident purchasers, apparently from South-East Asia' Firstly I doubt a commission incentivised selling agent would use such negativity to make a sale. Secondly, on what basis is the assumption that these 'South East Asian' buyers have no intention to rent out their investment properties or put their children in them while they study? There is a certain hysteria about buy to leave and whilst I accept there is a good degree of truth behind some of this, I suspect the great majority of properties left part or wholly empty will be at the very top end, meanwhile the majority will be used quite frequently, if not permanently, and or let.

So back to the Russians who, although not exclusively, do indeed buy and leave. It may not be the way the world should be going but it strikes me that the Oligarchs are doing much the same as the aristocrats of old used to do. 100 years back the very wealthy would live in their country estates (read Moscow for today) and come to London for business and social events. Their London residences being secondary and for occasional use, the furniture spending most of its life under dust sheets. We appear to be moving back in to those times more and more as we see 19c houses since divided in to multiple flats now being turned back in to single dwellings with the mews behind housing the Bentley rather than the horse and carriage. Existing houses are having basements dug in order to house the staff that are now being recruited in large numbers.

It seems only right and fair that this new plutocrat class should pay more taxes and 'give back' but unfortunately the attention they have been getting means that others, who may not have such disposable wealth, are having to also put up and contribute through new taxes.

This month the Chancellor made further amendments to the changes he started introducing back in early 2012. The key changes are as follows;

STAMP DUTY (SDLT)

The threshold for the punitive 15% SDLT rate on residential properties acquired by certain non-natural persons (companies etc.) will be lowered from £2m+ to £500,000+, from 20th March 2014.

ANNUAL PROPERTY TAX (ATED)

The Annual Tax on Enveloped Dwellings (ATED) will receive two new tax bands:

- Properties worth over £1m and up to £2m will be charged £7,000 per annum from 1st April 2015
- Properties worth over £500,000 and up to £1m will be charged £3,500 per annum from 1st April 2016

Both charges will be increased by the change in annual consumer price inflation.

Note. The ATED does not apply for properties to be developed and sold or rented out as investments and is applicable only in the cases where certain types of corporate vehicle are used.

CAPITAL GAINS TAX (CGT)

The consultation paper on the proposed CGT on the disposal of residential property by non-resident owners which was promised in his Autumn Statement and is due to take effect from April 2015 has yet to arrive but the Chancellor confirmed that it would be circulated "shortly".

These taxes, as with those initially introduced, are specifically targeted at properties owned through SPV's and the like for personal use. Up until the first introduction of these new measures, non resident buyers were free of any exposure to CGT and in owning through a company or similar would be protected from UK inheritance taxes.

Looking ahead it seems likely that exemption on paying CGT (currently 28%) is likely to go. Whether this is simply scrapped or some taper relief will apply for investors remains to be seen. An annual property tax, 'Mansion Tax' as it has been dubbed, may well be introduced by the next Government. The key to new taxes is proportionality and there is no doubt that the upper end of the market can absorb a modest annual tax as is so common in many parts of the world.

I can't really blame the Russians for all this but make no mistake, most of these new taxes are political in motive and bear no relation to the politicians stated goal of favouring domestic buyers struggling to buy homes in an undersupplied market. Discouraging an Oligarch from spending £15m on a flat he then leaves empty is not going to help an average Londoner earning £40,000 a year buy his first flat.

The art of property

Exactly why is Eaton Square so much more valuable (maybe 3 times) than Warwick Square? Architecturally they are the same and of the same era, they are both in SW1 and it takes less than 10 minutes to walk from one to the other. Why is a flat in Bolton Gardens more expensive than the flat directly opposite on Bramham Gardens? Or why is Warren House built around 15 years ago selling at under 1,000psf whereas within sight and 2 minutes walk the new development of Charles House, referred to in the quote above, is selling at £1,750psf or more?

Certain variances are easier to understand once one knows and understands the specific style of property. For example a basement can be half the price on a per square foot basis than a 1st floor in the same building. Then there are differing aspects, architectural styles, quality of finish, amenities, levels of outgoings etc. To highlight this further, the East section of Bolton Gardens mentioned above achieves prices about 15% more than the West section. And that's before discussing the lease issue, but I will leave that for today.

One analogy I have used is to compare property to art. I can't pretend to know much about art but what I do know is that there is always competing demand for a Manet or a Cezanne and that demand is widespread with deep pockets. Impressionist art has perhaps the broadest appeal and Van Gogh's Sunflowers is probably the equivalent to a first floor lateral flat in Eaton Square. As with property, there are different eras and schools and so if Chester Square is equivalent to a Renoir, Grosvenor Square might be a Reubens and Cadogan Square a Turner.

Old Masters and the leading impressionists are perhaps the obvious 'best of the best' but to me the analogy becomes interesting when looking at the new 'artists'. The likes of Dali, Picasso or Lichtenstein were maybe the equivalent of the next up and coming area or developer. We all know the names of the successful but how many abstract, cubist, surrealist etc. artists never really took off. Which brings me up to date to Damien Hirst (think One Hyde Park) a good example of shocking the old school and combining talent with clever marketing and then market making to achieve commercial success.

The conclusion being that once something is accepted as the best and there is no more of it, the death of the artist being equal to the strict restrictions in planning within the prime locations, the demand grows inexorably. Meanwhile new talent emerges and, as with many artists in days gone by, the new talent requires patrons to promote, finance and support them. The Candy's had the Qatari's and Damien Hirst had his investor syndicates. Who is to say whether One Hyde Park is worth £7,000psf anymore than Hirst's diamond encrusted skull worth £50m? Or if Nine Elms will be the Turner prize winner and Stratford a disappointing runner up. Personally I would stick with Renoir.

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