The Changing Landscape of the London Real Estate Investment Market

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Key tax changes introduced since 2012

- Previously residential and commercial property held in Off-Shore companies was sheltered from Capital Gains Tax (CGT) as well as Inheritance Tax (IHT) and subject to tax on income only at Corporation Tax Rates.
- The UK tax landscape has changed radically in recent years particularly in relation to residential property.
- Tax has been the main driver to slow capital growth and low transaction levels in the residential property market in London.

Key Tax Changes Introduced since 2012

- Tax changes have introduced:
  - Changes in SDLT Rates and introduction of the 'slice system' which now means that currently people who buy homes under £937,000 pay less tax compared to the old system.
  - It also means higher SDLT Rates for second property purchases, buy-to-let and company purchases.
  - Consultation launched February 2019 proposing an additional 1% surcharge on foreign buyers, whether individuals or companies. This is likely to be introduced in 2020/2021.
  - Tax relief on property loan interest has been reduced and will be phased out by 2020.
  - CGT net widened with introduction of ATED related CGT and non dom CGT for residential property.
  - CGT on commercial property from 6 April 2019 will be at corporation tax levels which will be 17% by 2020 – re-base valuation from that date.

The Knightsbridge

Current position SDLT Stamp Duty Rates

- Residential Property

SDLT STANDARD RATES	
Property or Lease Premium or Transfer Value	SDLT Rate
Up to £125,000	0%
£125,000 to £250,000	2%
£250,000 to £925,000	5%
£925,000 to £1.5 million	10%
Above £1.5 million	12%

SDLT HIGHER RATES	
Property or Lease Premium or Transfer Value	SDLT Rate
Up to £125,000	3%
£125,000 to £250,000	5%
£250,000 to £925,000	8%
£925,000 to £1.5 million	13%
Above £1.5 million	15%

ATED Rates

ATED RATES (1 APRIL 2019 – 31 MARCH 2020)	
Property Value	Annual Charge
Above £500,000 to £1 million	£3,650
Above £1 million to £2 million	£7,400
Above £2 million to £5 million	£24,8000
Above £5 million to £10 million	£57,900
Above £10 to £20 million	£116,100
Above £20 million	£232,350

Options for acquiring and structuring UK property

- Direct ownership – de-enveloping has become popular to achieve this.
- Ownership through a single purpose, foreign-registered holding company, the shares of which are owned by an individual or individuals.
- Ownership through a foreign-registered holding company, the senior of which are owned by non-UK resident trustees of a discretionary trust created by a non-UK resident and non-UK dominated individual or individuals.
- Direct ownership by non-UK resident trustees of a discretionary trust (as above).

The Leadenhall Building

Restructuring options – tax considerations

- Collapsing holdings structure – remove taxes and administration fees.
- Transfer of underlying property to shareholders UBOs or from trustees to an individual beneficiary.
- Tax needs to be avoided on restructuring – SDLT – if debt – CGT – including ATED related CGT.
- CGT – IHT – Trusts entry charge and 6% charge on transfer to beneficiary may arise.

Proposed disclosure of beneficial ownership

- With effect from 2021 it is proposed most foreign companies be required to disclose their beneficial ownership before they are allowed to buy real estate in England and Wales.
  - Those already holding real estate will need to make and file a disclosure.
  - Disclosure will be needed to buy of sell property.
  - Annual update filing.
  - Restriction on property title preventing sale unless compliant.
  - Penalties for non-compliance similar to PSC Register for companies.
  - Removes one of the main non-tax advantages of indirect property ownership: privacy.
- The result of this is likely to be far fewer properties held by companies.

Opportunities with residential property structures

- Opportunity to review existing structures.
- Succession planning.
- Rebalancing of portfolio with mix of residential and commercial property.
- Establish trust as protection against civil forms of forced heirship.
- Fund structures.

Prime central London prices

- Average price of prime central London (PCL- now £1,812,051 a fall of 6.2% over the month and 12.7% over the last quarter (source LCP).
- Price grown at its lowest since 2013 – NB – Tax changes since 2012.
- Transactions in the New Build Sector continue to drop off 46.1% on last quarter which does not sit well for housebuilders (source LCP).
- London Residential Market frozen out, the rest of the UK now starting to catch a chill.
- Investors may have been waiting to see if the Pound weakens further.

87 Cadogan Gardens

Commercial property trends changing the landscape

- Co-working – e.g. WeWork etc.
- Assisted care accommodation.
- Co-living schemes e.g. The Collective.
- Build to Rent.
- Peer to Peer Lending
- Modular Housing.
- Retail – CVAs, vacant units and new rent terms.

Brexit

- London's housing market has largely frozen up.
- Year on year house price growth has reached a 10-year low.
- Not clear to what extent due to Brexit or tax charges that have impacted on market activity.
- Differing reports on commercial property investment sales but Brexit uncertainty is likely to have had a bigger impact on investment by commercial occupiers
- Bank of England has set an extreme 'hard Brexit' scenario that would involve spiralling interest rates and house price falls up to 35% over three years – NB previous Bank of England predictions on Brexit have been wrong.

Brexit (continued)

- Commercial property has over the past three years basked in overseas investors' indifference to any perils that may accompany Brexit.
- As 2018 drew to a close, investors began to lose their nerve.
- Investment down 17% year on year in last quarter of 2018.
- Even the City Office Investment Market, which was amongst the busiest sectors since the June 2016 referendum, has quietened.
- Viewed in different ways, some exercising caution but a lot see it as an opportunity because of the weaker currency.

Brexit (continued)

- Underpinning resilience of the London commercial property market is the shortage of Grade A office space.
- The flight of finance workers from the City has not happened yet.

Disclaimer

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Thank you

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“Phillip has a huge wealth of experience in the real estate sector...He is always a pleasure to work with.”
Chambers UK, 2019

"Timely and very thorough. They have always exceeded our expectations. Fox Williams have been excellent partners.”
Chambers UK, 2019