The Changing Landscape of the London Real Estate Investment Market

Phillip Hope – Fox Williams LLP
Partner – Head of Real Estate
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

<table>
<thead>
<tr>
<th>Property or Lease Premium or Transfer Value</th>
<th>SDLT STANDARD RATES</th>
<th>SDLT Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £125,000</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>£125,000 to £250,000</td>
<td></td>
<td>2%</td>
</tr>
<tr>
<td>£250,000 to £925,000</td>
<td></td>
<td>5%</td>
</tr>
<tr>
<td>£925,000 to £1.5 million</td>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>Above £1.5 million</td>
<td></td>
<td>12%</td>
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</table>

<table>
<thead>
<tr>
<th>Property or Lease Premium or Transfer Value</th>
<th>SDLT HIGHER RATES</th>
<th>SDLT Rate</th>
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</thead>
<tbody>
<tr>
<td>Up to £125,000</td>
<td></td>
<td>3%</td>
</tr>
<tr>
<td>£125,000 to £250,000</td>
<td></td>
<td>5%</td>
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<tr>
<td>£250,000 to £925,000</td>
<td></td>
<td>8%</td>
</tr>
<tr>
<td>£925,000 to £1.5 million</td>
<td></td>
<td>13%</td>
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<tr>
<td>Above £1.5 million</td>
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<td>15%</td>
</tr>
</tbody>
</table>
## ATED Rates

### ATED Rates (1 April 2019 – 31 March 2020)

<table>
<thead>
<tr>
<th>Property Value</th>
<th>Annual Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above £500,000 to £1 million</td>
<td>£3,650</td>
</tr>
<tr>
<td>Above £1 million to £2 million</td>
<td>£7,400</td>
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<tr>
<td>Above £2 million to £5 million</td>
<td>£24,800</td>
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<tr>
<td>Above £5 million to £10 million</td>
<td>£57,900</td>
</tr>
<tr>
<td>Above £10 to £20 million</td>
<td>£116,100</td>
</tr>
<tr>
<td>Above £20 million</td>
<td>£232,350</td>
</tr>
</tbody>
</table>
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).
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 or 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.
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

This overview is general guidance. It should not be relied upon without first taking separate legal advice. Neither the author nor Fox Williams LLP accept any responsibility for any consequences resulting from reliance on the contents of this document.
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