60 second property poll

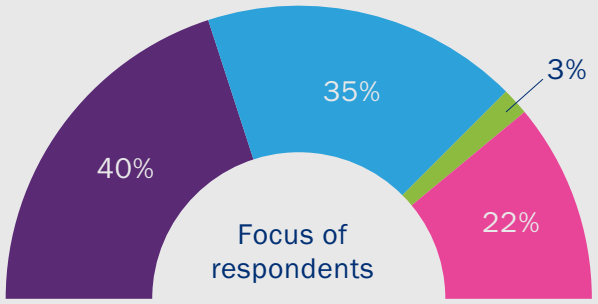
Kingston Smith

May 2017

Welcome to our second quarterly property poll designed as a short check on topical property and associated financial issues.

Thanks very much to our clients and contacts who responded. Our property clients and contacts tend to be based primarily in London and the South East, but also have business interests around the country and overseas.

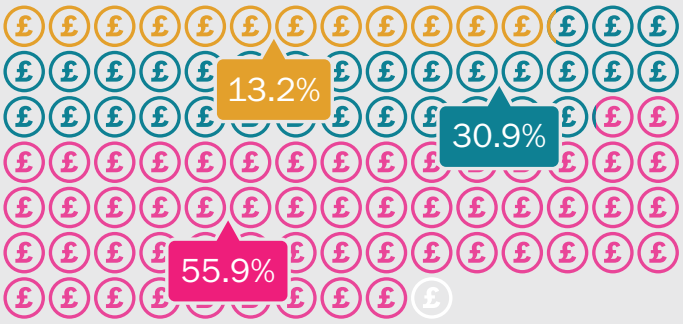
Responses originated from a variety of property businesses, service providers, asset managers and funders.



- Investors
- Commercial
- Infrastructure
- Other

Q1. What is your view on the way business rates are currently assessed?

In the Spring Budget, the Chancellor announced measures to mitigate the impact of the change in business rates valuation on commercial properties. Despite that, many property occupiers, particularly in London and the South East, will see a very significant increase in their rates bill. What is your view of the way business rates are currently assessed? Would it be better to levy this tax based on a percentage of profits generated from the premises in question, or is there some other way in which rates could be assessed?



The current system is fair, businesses occupying higher value properties should pay more.

The current system is fundamentally reasonable, but the measures announced to reduce the impact of increases do not go far enough.

The current system is flawed. It is not fair to raise revenue from businesses just because they happen to operate in a location where the property market means their premises are worth more.

Selected comments from our respondents:

With the changing face of business, in particular retailing and leisure, a system that is based on VAT generated at each property would seem fairer in the changing world.

This acts against any prospects of a mixed economy for a particular area and will squeeze out smaller businesses.

Prefer a turnover-based system.

Will continue to destroy high streets.

Perhaps unsurprisingly, the majority of our respondents felt that the current system of business rates charges was flawed. With some properties seeing a potential 100% hike in business rates over the period of phasing in there is going to be pressure on rental yields. Our landlord and investor clients are already reporting that business rate costs are being specifically cited in lease negotiations far more than ever before.

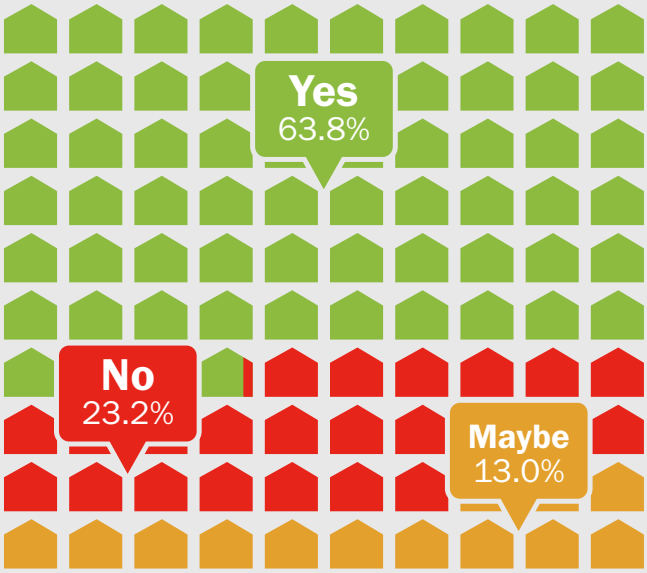
The changing face of retail in the UK is perhaps one of the biggest sectors where the rates increase will be felt the most. If you have expensive (in rates terms) retail premises on a high street do you make more money than an internet retailer with cheaper premises? Difficult to say, but the argument for a root and branch reform of the rating system seems strong. Hopefully one for the new government, whoever they are.

Q2. 'Prop Tech' is increasingly being seen as a disruptor in the property sector. What is your view?

Do you see online estate agents, research tools, crowd funders and other net-based property businesses fundamentally changing the way the property market operates?

Clearly the internet and associated technology have the potential to massively change the way the property sector operates. It is difficult to see where these changes will manifest themselves (we'd all be rich if we could pick the next 'big thing'!), but no doubt change is coming, if it is not already here.

Respondent comments and the answers to the question aside, it might be that we see a hybrid approach to technology in the property sector. Property is obviously a physical asset; deals can be very complex and in commercial and residential contexts it will often be a significant purchase for a buyer. In the short to medium term there still seems to be a place for the skilled human adviser or property professional with potentially years of experience which cannot (yet!) be replicated, but can be enhanced by a machine.



Selected comments from our respondents:

Traditional agents will have to re-double their efforts to persuade customers that they give value for money.

Most of these are simply a distraction which will fade and be replaced by the latest fad.

"Disrupted" practioners need to catch up.

Better access for smaller investors into the market is always a good thing.

Q3. Are you aware of the changes in property business taxes?

Tax rules have changed/are changing regarding the deductibility of interest in property businesses. This applies both in the buy-to-let sector for individual landlords, and for larger corporates as a result of a new law driven by the OECD to reduce global tax avoidance. Are you aware of the new rules? Have you assessed how they might impact your business/activities? What actions are you taking?

Selected comments from our respondents:

Yes, more of our clients are buying property in Limited company names and lenders are reacting by reducing rates and coming up with new BTL products for companies.

Reviewing portfolio with advisors to assess impact.

Yes, aware-reviewing impacts on surplus available for debt service / amortisation.

The buy-to-let interest restriction changes are a policy tool to discourage individuals from maintaining highly geared buy-to-let portfolios. The drive behind this is to help free up housing supply for owner occupiers. Buy-to-let has been a very popular asset class for many years and those impacted by the tax changes are well advised to look at their holdings to make sure they are still commercially viable. Many people are looking at incorporating their portfolios into limited companies, but this is not a solution for everyone.

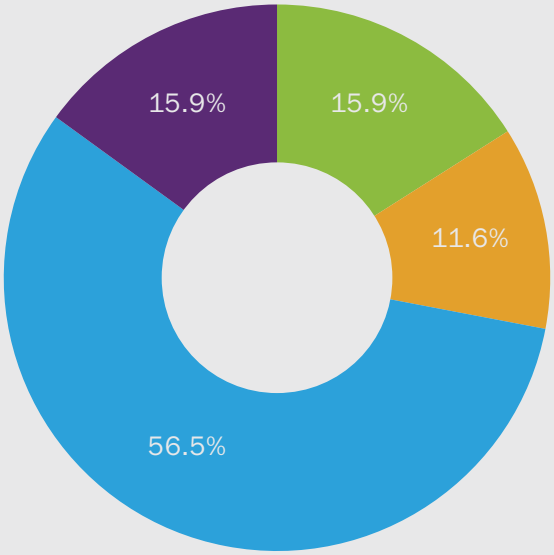
At the other end of the scale, the UK is likely to introduce restrictions to deductible interest for large corporates in an attempt to reduce large company tax avoidance. Given transaction values and interest costs associated with many larger commercial property transactions, these rules have the potential to have significant impact on financing choices. The corporate interest restrictions were due to apply from 1 April 2017 but, because of the dissolution of Parliament, there is uncertainty as to when they will apply. The smart money, however, remains on a 1 April 2017 start date, once a new government is in position.

Q4. Do you agree that Brexit is bad for the UK property industry?

Last, but not least, Brexit. On 29 March, the UK formally commenced the two year countdown to leaving the EU. Some property commentators have forecast that this is very bad news for the UK property industry in terms of future investment in UK infrastructure and the requirement for office space in London. Do you agree?

When we put the questions together for this poll, Brexit was the biggest macro political event on the horizon. However, the snap general election announced for early next month could be even bigger, and what are the implications for the property sector? Many political commentators are predicting a Tory win. That is not for us to comment, but assuming it does come to pass and we revert to (just!) looking at Brexit, what are the prevailing thoughts on how this will impact the property sector? A selection of comments received best illustrates current thinking from the people we surveyed:

- Yes, Brexit is bad for the UK property industry.
- No, Brexit makes no difference to the fundamentals of the UK property sector.
- Brexit is too big and complex to answer Yes or No, there will be winners and losers depending on many factors.
- Other



Brexit has been a massive shock to the UK property market and I believe it has had a negative affect on it, certainly in the short-term. If our future negotiations with Europe result in a positive outcome I believe that the property market will pick up again, as it always does.

I am optimistic about Brexit and property, there will be some impact, but I feel the fundamentals are sound in what is probably the most landlord friendly economy in the world. Money remains cheap and decent returns difficult to come by. The pound has been overpriced for a long time and weakness will also offer greater opportunity in areas outside the south east in manufacturing, for example, and hopefully moves us away slightly from such a service reliant economy. However, do not underestimate one bit the benefit London and the City provides the wider UK.

Arguably the value of sterling matters more in the south. In the north there may be localised impacts, but Brexit may be less relevant to the property sector than other impacts with knock ons.

The general mood amongst British developers and investors that we talk to is just to get on with what they are very good at - namely investing in, developing, building, managing and operating good quality premises that are fit for purpose, appropriate to the 21st century and that meet the demands and requirements of modern users. The property industry has seen many changes and has coped very well with whatever difficulties the politicians have thrown at them - the industry will continue to do so.

How Kingston Smith's Property team can help

We all believe that, for any property business, getting the right advice at the start of a project from advisers who understand a business's goals, as well as the issues affecting the sector, can make a significant difference to the financial results of any project.

We therefore provide clients with a dedicated property partner who is accessible and who will co-ordinate a team of property tax, accounting and audit specialists to help our clients realise their potential.

Kingston Smith's property team brings a new dimension to their clients: a fresh perspective, additional information and suggestions on how to move their clients' businesses forward.

We'd love to hear your thoughts on our poll, please do get in touch on Twitter @kingstonsmith