60 second property poll

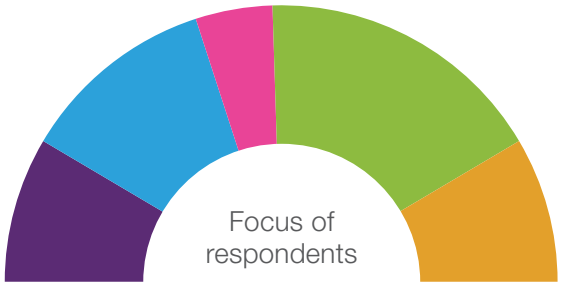
Kingston Smith

October 2017

Welcome to the results of our latest quarterly property poll. As always, thank you to our clients and contacts who provided responses and comments, it is very much appreciated.

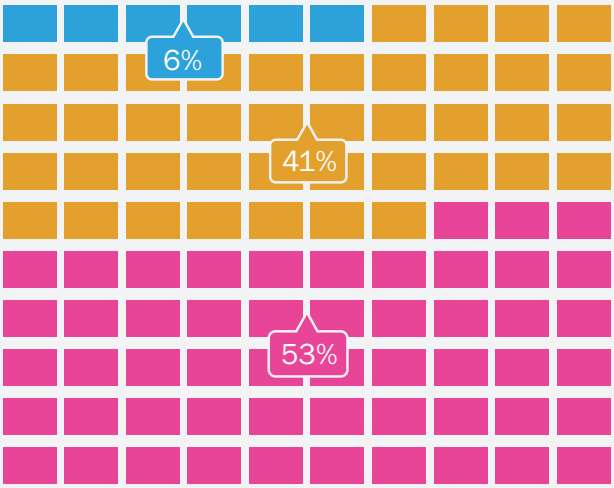
Responses came from a variety of property businesses, service providers, asset managers and funders.

Investment | Developer | Funder | Service provider | Other



Q1. What is your view on the current SDLT system?

There has been much comment ahead of the forthcoming Autumn Budget (confirmed for 22 November 2017) around Stamp Duty Land Tax (SDLT) for residential property. Recent academic research suggests that the high cost (compared to historic rates) of residential SDLT is putting the brakes on owner occupier transactions. Is the time right for a root and branch reform of residential SDLT? Is it right to tax owners repeatedly simply because they choose to move home or is there a better way to levy SDLT in the residential owner occupier space?



The current, banded approach to SDLT is fair, it is simply a cost of moving home.

SDLT is ripe for reform, but fundamentally it is right to tax those that can afford to move home.

SDLT is unfair and should be wholly abolished or at the very least replaced with a more progressive form of taxation.

Perhaps unsurprisingly the vast majority of our respondents felt owner occupier SDLT was ripe for some degree of reform. Barely a day goes by without some form of comment on this subject in the press. It seems likely that some form of reform or relief, perhaps for first time buyers or for lower value transactions might be forthcoming, but there have been no concrete pronouncements. The are many different views as to what reform might look like here is one: https://www.kingstonsmith.co.uk/insights/time-scrap-stamp-duty/

Selected comments from our respondents:

"SDLT on first time buyers should be reformed either by amount or size of property especially in city areas"

"It's not the banding that is unfair - just the rates of tax"

"Charge SDLT on the seller not the purchaser"

"Mobility of labour should be encouraged but SDLT works contrary to this"

Q2. How will rising interest rates impact the property sector?

In the most recent meeting of the BoE Monetary Policy Committee, the strongest hint yet was given that interest rates may soon begin to rise. Property is traditionally an asset class funded principally by debt, from a traditional homeowner mortgage through to multi-billion pound property investment funds. Does the promise of a potentially better yield on a historically safe asset (cash) mean funding will start to flow away from riskier asset classes such as property? Will a stronger pound, driven by higher interest rates, mean the UK is a less attractive place to buy for foreign investors?

Moderate interest rate rises over the coming 12/18 months will have little or no effect on the UK property market.

In certain circumstances (i.e. in situations of high gearing, little headroom etc.) interest rate rises will cause difficulties, but there will be limited overall impact on the market.

Low interest rates have been around for so long that the market regards it as normal, any increase in rates will have a significant impact on the market.

It seems likely that rates will rise. The critical questions are to what level and over how long? On the basis that we see a gradual, pre-warned and moderate rise over the medium term then we might not see any particularly detrimental implications for the market as a whole. This could be regarded as a return to a historically more 'normal' situation on interest rates, and might even be welcome as inflation continues to rise. Many market commentators are making the point that a 'slow and steady' approach to interest rate increases is the only viable approach to an economy which, at all levels, has record levels of debt.

Selected comments from our respondents:

"Rates need to rise and should have done so already, but it is imperative that they do not rise too quickly, so people can have time to adjust"

"It will have a significant effect on the BTL (Buy to Let) market because of the appalling attack on private landlords by this Government"

"The market is already discounting a moderate increase, anything more will have serious implications for the overall economy as consumer spending needs to be encouraged. Average commercial property yields (according to IPD index) have compressed to levels not seen since 2007 so a correction must be on the cards"

Q3. What will the high street of 2030 look like?

Walk down any high street in the UK and often one of the most striking features is the number of empty shopfronts. With the ever increasing march of online retailing and out of town 'destination' shopping centres, many traditional real estate-based retailers are struggling to keep pace. What can owners of once prime retail property do to protect their investments? What type of businesses are less impacted by changes to shopping habits and perhaps make better bets as tenants?

Selected comments from our respondents:

"Core Pitches in affluent towns will survive, luxury and leisure will prevail as on line cannot deliver experience only convenience"

"Recreational spaces such as cafes and restaurants seem to remain popular in the town centre"

"Very difficult to find a solution. Lowering rents would help and is better than a void"

"Changing to more residential would be a way to regenerate city centres"

"I don't agree with the question. Prime retail is safe. It is secondary retail that is suffering, albeit only in some locations. The planners need to be more proactive- in locations that are "over shopped" they should be encouraging change to other uses, especially residential"

"Very different as the internet fulfils retailers dreams if they are capable at marketing. Individuals laziness will also cause high street shops to change in my opinion"

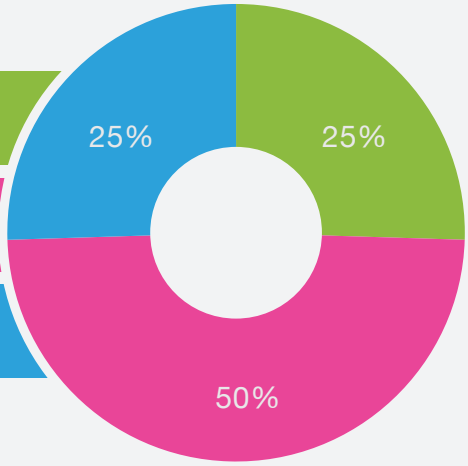
Q4. The Square Mile seems awash with building sites, when these buildings are complete, what will the impact of these new office spaces be on landlords and businesses?

Central London, particularly the Square Mile seems awash with building sites at present. Huge glass towers are emerging from the ground, or so it seems, on every street corner. Putting aside concerns around Brexit, interest rates, etc. one thing is clear, when these buildings are completed there is going to be a lot of new commercial office space in central London. What does that mean for landlords and their tenants? Is there likely to be a time in the not too distant future when landlords are going to have a lot of surplus space on their hands? If you were a reasonably flexible business looking for office space in central London with a 5 - 10 year horizon, what would you do?

Get the best space you can for your business now, cost is a factor but not the most important, get what is right for your business.

Find a reasonably permanent home now, but negotiate hard with your landlord to ensure you do not get caught out if there is fall in rents.

Find a temporary home (perhaps serviced offices). Wait. In a couple of years time it is highly likely that space will be cheaper and tenant incentives very attractive.



Negotiating hard now seems to be the option of choice for tenants, which would all be fine if it were not for landlords! Not being caught on the wrong side of a price or supply correction is no doubt important, but cost is not everything. Getting the right space for your business is very much also about customer and staff perception, certainty and stability, room to grow etc. There were some interesting comments from our respondents:

"I would not enter any long-term office lease at this time unless it was very advantageously priced"

"Basic supply and demand should apply. Tenants should seek to negotiate flexible leases"

"Rents are definitely stagnating"

"Yes, it is inevitable that City rents will be depressed as Brexit reduces demand and supply increases dramatically"

"Commercial spaces will evolve in the medium term, to the point where residential, commercial and retail offerings will mix fluidly with each other. There will be growth in the serviced office and residential sector"

"Moving offices is easier because of modern technology but still has a cost in management and staff time"

How Kingston Smith's Property team can help

We 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 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 them realise their potential.

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

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