



SNAKES & LADDERS

Game of chance for buyers and
sellers as General Election looms

Prime Watch Analysis by Sterling Private Office
Published Q4 2019



STERLING PRIVATE OFFICE



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The end is in sight. The long-drawn-out Brexit saga that's plagued the UK property market should soon come to a head. And already, there are signs that confidence is returning.

That's the line estate agents are peddling as we canter towards January 31st. However, it's not quite the whole story. While it's true supply has been constrained, for many of our clients this has been a period of feast rather than famine. With the political uncertainty effectively priced in, those who were prepared to be bold have found good value acquisitions in this market. This is particularly true in the case of foreign investors, who enjoyed a significant boost in their buying power, against the backdrop of a weakened pound.

The truth is, most investors simply haven't been as worried about Brexit as the headlines suggest. What they are concerned about is a Corbyn government, and with good reason. If the General Election returns a Tory majority, those who have been bold will be rewarded for their pluck, having caught the bottom of the market and inherited favourable conditions to see their investment climb. However, if Corbyn does find a way to power, it's a long slide towards the bottom...





LIFE UNDER LABOUR



Policies already announced, together with statements made by Corbyn and his senior shadow cabinet ministers, give a good indication of the direction of travel under a Corbyn government.

And it's a hostile one for those invested in UK prime property – with punitively high taxes, stamp duty hikes, and the abolition of non-dom status all in scope. With purse strings squeezed tight, activity will grind to a halt. Domestic investors will be frozen into inaction and foreign investors forced to look elsewhere.

The impact on foreign investment would be particularly bleak. UK Prime Property has always attracted international interest. However, with stunted house price growth, painful stamp duty reforms and increases in taxation, the UK's attractiveness on the world stage has been diminished in recent years. And under a Corbyn government, the things that have historically attracted foreign investment – thriving business opportunities, stable markets and acceptable taxation – would all be under threat, further exacerbating the decline.

Abolition of Non-Dom Status

Abolition of UK resident non-domiciled status in Labour's first Budget – recently announced by John McDonnell

SDLT Reform

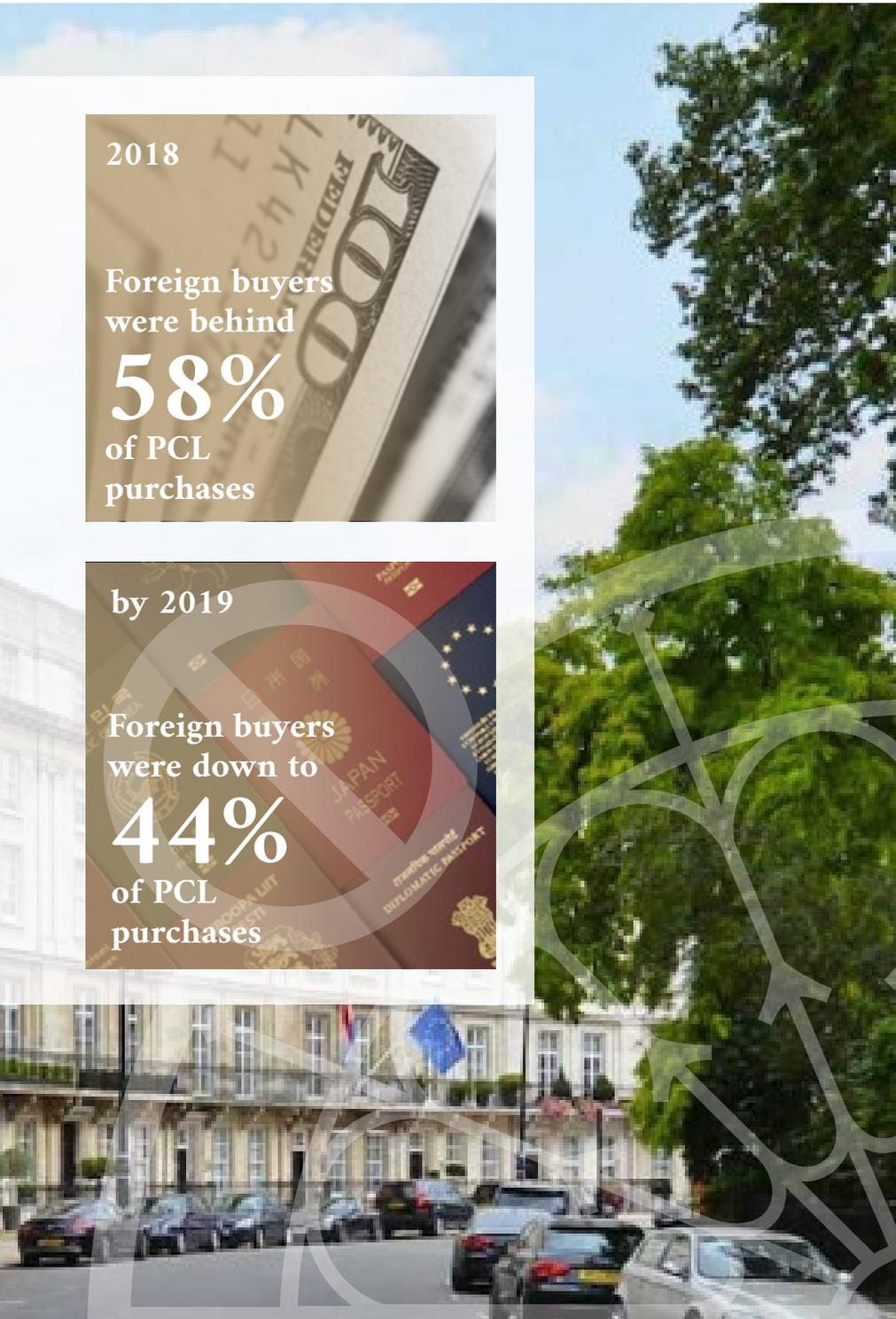
Abolished for those buying as owner-occupiers, but will remain in place for non-doms, companies, and on second homes and investment properties

Capital Gains Tax

CGT for second homes/ investment properties to be aligned, at least, with income tax rates. Principal private residence relief to be abolished

Progressive Property Tax

Replace council tax with a progressive tax based on property values, payable by owners rather than occupiers. Higher rates apply to second homes, empty homes, and properties owned by non-doms and non-residents



2018

Foreign buyers were behind

58%

of PCL purchases

by 2019

Foreign buyers were down to

44%

of PCL purchases

We see few winners if Corbyn does find a route to power. The market and the Treasury would be hit hard. Any promise of stability would be shattered, bringing fresh uncertainty over Brexit, along with punitive taxation measures – sure to silence domestic buyers and drive away foreign investment. However, for some, there could be silver linings...

TIME BUYERS

If prices soften and stamp duty is scrapped for properties <300k, first-time buyers may find it easier to get on the ladder (although stock and mortgages may be more difficult to come by).

UPSIZERS

People looking to trade up may find relative value in a downward market. For cash-rich buyers looking to move into their ‘forever home’, this may not be the worst time to do it.

“ From the ultra-high net worth perspective, a Labour government under Corbyn is a much greater threat to them and their businesses and their wealth than Brexit.”

Dominic Samuelson, CEO, Campden Wealth



TORY GOVERNMENT

Incumbents don't usually announce tax policies outside of Budget statements, and the first budget by Sajid Javid – originally set for 6 November – had to be cancelled due to the election. However, some policies have been announced. And while most are in line with Boris' laissez-faire style, overseas buyers will be disappointed to hear they face stamp duty hikes under both main parties. As will higher earners, with Boris recently dropping his pledge to raise the income tax threshold from £50,000 to £80,000.

SDLT: Lower Top Rate

Bringing the top rate of stamp duty land tax down to 7% and raising the threshold to £500,000

SDLT: Surcharge for Overseas Buyers

Non-UK tax residents to pay an additional 3% stamp duty on new purchase

Policy aside, simply having a mandate to get his deal over the line, coupled with a welcome return to 5-year parliamentary terms, will help provide the stability the market has been lacking. As confidence grows, we expect the pound to climb, as it did after Boris won. We can also expect buyers to grow in

number, and stock levels to increase as vendor confidence returns, causing transactions and prices to uptick. However, we may see some lag initially, with buyers and vendors failing to see eye-to-eye on just how much things have improved.



Whether you are a fan of Boris or not, the return of 'business as usual' alone will do the market, and the Treasury, some good. There are very few who stand to lose out in such a scenario. Although, a few may regret their cautiousness...

'WAIT-AND-SEE' BRIGADE

While things will be looking up for the market as a whole, those who held off on making purchases may well rue their caution – finding they've already missed the bottom of the market, as vendors harden pricing and more buyers come out of their shells.

NERVOUS FOREIGN INVESTORS

Foreign investors who held off buying will be triply disappointed. Over the last year, dollar-denominated buyers have been able to leverage effective discounts of up to 40%. But facing rising house prices, a stronger pound, and a 3% hike in stamp duty – we estimate they could face relative losses of 25-30%.



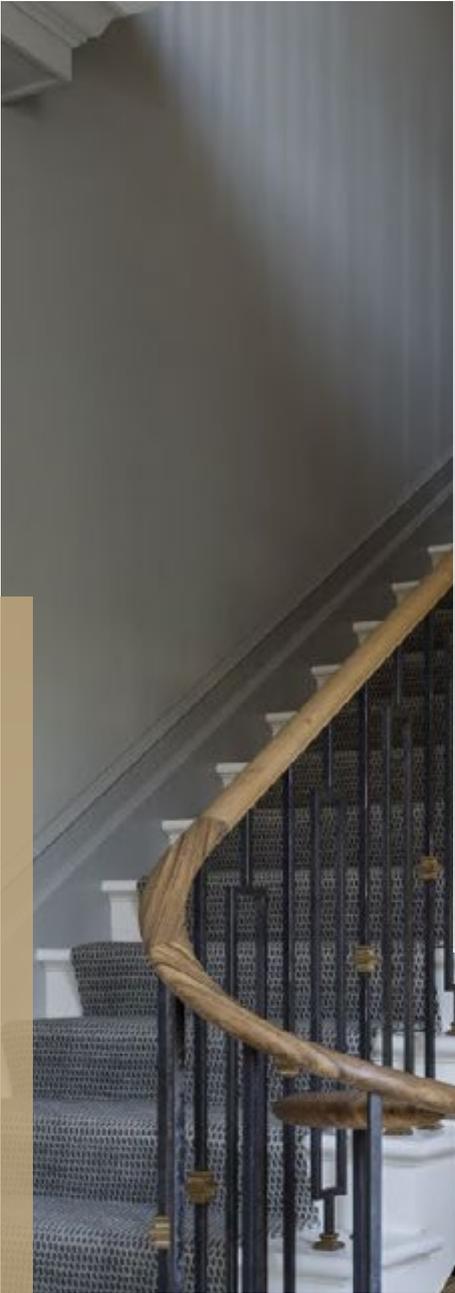
House prices predicted to rise by

3-5%



Pound predicted to rise by

10-15%



“ As political uncertainty recedes, this should translate into higher levels of activity. The extent to which pent-up demand is released in 2020 depends on the disappearance of the risk of a disorderly Brexit and the emergence of a stable government.”

Tom Bill, Head of Residential Property Research, Knight Frank



STERLING ADVICE

Typically, the result of a General Election has little bearing on the property market. But this is no ordinary vote. The front runners offer two very different worlds, both with significant impacts on the UK residential property market as well as the nature and timescale of Britain's departure from the EU.

As it stands, the polls point to a Tory majority. However, there is of course an element of risk. Particularly as Corbyn doesn't need a majority to upset the apple cart – while only a majority will do for Boris. The bottom line is, if you're currently buying or selling a property, you're playing a game of chance. Beyond casting your vote, which world you end up in after December 12th is not in your control. What is up to you is how you play your hand.



If you're buying (only)

Get on with it. Your price today will reflect no-deal uncertainty and the threat of Corbyn. If the polls are right, and that doesn't materialise, you'll want your price locked in.



If you're selling (only)

Conversely, if you're selling, it may be best to stall until after the election. If the polls are right, house prices will bounce, and you'll want to re-assess your valuation.



If you're trading (both)

If you're trading up, get on with it. If you're trading down, stall. You'll wear a hit on one transaction, but it will be more than offset by the gain you make on the other.

NB: This is general advice based on a number of assumptions, including that a Tory majority will be returned on Dec 13. However, as ever, tailored advice is essential. It's essential you speak to us in person before acting on any advice contained in this report.



INVEST WELL WITH STERLING PRIVATE OFFICE

The Premier in Prime



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Jonathan, Sam, Rachel, and Nick worked together in the acquisition arm of Knight Frank for the best part of 10 years before establishing Sterling Private Office: a full-service advisory firm offering first-rate representation to those invested in the UK prime property market. With 50 years' combined experience across UK prime residential property markets, the team offer a truly bespoke and specialist service ranging from acquisitions and development consultancy to fully managed sales and lettings.

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