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UK residential property: A window of opportunity | Perspectives from Singapore, Hong Kong and London

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In sudden downturns and times of uncertainty – in this case, exacerbated by a pandemic situation – investors lean towards stable returns. Growth in demand in UK property suggests it's still seen as a safe and secure asset.

Estate agencies have reported US$374 million worth of investment into Prime Central London housing between December 2019 and June 2020, representing 20 per cent of all property transactions worth more than £10 million (S$17.5 million) in the capital.

One agency reported that its Prime Central London sales for properties worth over £2 million were 85 per cent higher than the same period last year.

Investing in UK property is beginning to look good again as it has several things going for it: There's relative political stability now; lower than average prices compared to 2015; low interest rates and a weak sterling.

The UK General Election at the end of 2019 resulted in a substantial majority for Boris Johnson and the Conservative party, bringing with it an element of relative stability that had been sorely missing from UK politics ever since the 2016 EU referendum. This has not gone unnoticed by foreign investors. While signifi cant questions remain regarding the nature of the UK's future relationship with the EU and other world powers, the Conservative party will, in all likelihood, have control of the UK legislative agenda until 2024.

As the threat of a significantly more hostile UK tax regime has subsided, well-informed non-UK residents may now see an opportunity to invest in or restructure existing UK residential property interests, even as low interest rates continue to make fi nance options affordable. Prime real estate in particular may appear attractive with average prices reported as being more than 20 per cent lower than they were in 2015.

For foreign investors the situation may seem even better as sterling remains historically weak, having relinquished some of its immediate post-election gains. US dollar-denominated purchasers appear to consider UK residential property as especially good value and we have seen a notable increase in such transactions.

Nil-rate threshold for Stamp Duty Land Tax (SDLT) temporarily increased to £500,000

Although the Covid-19 pandemic momentarily put a dent in the frequency of UK prop erty transactions, many estate agents are now reporting a signifi cant increase in activity, not least from sophisticated Asian investors looking for a bargain, or a new place to call home.

The increase in activity has been catalysed by British Chancellor Rishi Sunak's announcement on July 8, 2020, that the nil-rate threshold for SDLT on residential property would temporarily be increased. This meant that for purchases completing between July 8, 2020, and April 1, 2021, the rate of SDLT applicable on values up to £500,000 would be zero (unless the purchaser already owned another home).

Where the purchaser already owns another home somewhere in the world, the additional 3 per cent supplemental charge would still apply on top of the standard rates, but the temporary reduction for the fi rst £500,000 in value should not be ignored. Especially as the government has confi rmed that from April 1, 2021, a further 2 per cent SDLT surcharge would be introduced for non-resident buyers.

This will mean that the top rate of SDLT on the most expensive properties will be up to 20 per cent for non-resident buyers. There is currently, therefore, a window of opportunity for overseas investors to acquire UK residential property at signifi cantly reduced rates of SDLT than will be possible after April 1, 2021.

Important considerations for foreign investors

Nonetheless, whenever a property purchase is made, some considerations will always remain relevant. One such issue is the UK inheritance tax (IHT) regime, which can apply a 40 per cent charge to the value of UK residential property interests. The changes to the IHT regime introduced in 2017 were well reported as making traditional holding structures inefficient but despite this, the proportion of non-residents subject to IHT charges remains small. With proper planning, the risk of incurring a substantial tax liability can still be considerably reduced.

Common solutions include spreading ownership among family members and making use of appropriate debt finance to reduce the net value of property in an individual's estate. These can be combined with suitable life insurance to ensure that any IHT exposure is managed effectively.

Furthermore, those looking for a pure rental investment property can still benefit from structuring the purchase through a company, which will pay tax on rental income at the lower corporation tax rate of 19 per cent compared to the top rate of personal income tax of 45 per cent. There will always be a myriad of considerations, however, and not every client's circumstances will be suited to a corporate structure.

Those who already hold UK residential property might also seek to make use of the relatively low property values at this time to restructure their ownership. This might involve incorporating an existing UK property rental business to reduce their exposure to income tax or transferring ownership to their children in order to shift the IHT burden down a generation.

Whatever the motivation, in order to maximise investment returns and reduce IHT exposure, investors should ensure they are sufficiently well informed by seeking professional advice on planning and structuring their investments.

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