Property Insight

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HAWSONS CHARTERED ACCOUNTANTS

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Introduction

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Welcome to our Property Newsletter

Since our last edition of the Property newsletter Brexit has been confirmed, and the Autumn Budget was delayed. With Brexit being confirmed house price growth has continued to increased. But many investors are still holding off investing until the March Budget is announced.

In this Edition of the property newsletter we will be covering how technology will change the property sector over the next decade. We will be discussing how you can use Equity Release to help your children/grandchildren onto the property ladder, and the changes of Private Residence Relief and much more!

We hope you find the articles in this newsletter herein interesting. If you would like to discuss any of the issues in the newsletter please do not hesitate to contact us.

Having an accountant who understands the challenges of this dynamic sector and is able to help you plan for the future is an advantage in a competitive environment. At Hawsons we have a great deal of experience in advising and helping businesses in property and construction and we can assist you as your business grows.

Our in-house tax team have advised in many aspects of taxation specific to the property investor including in the areas of VAT, Capital Allowances, Income and Corporation Tax and Capital Taxes.

Technology to dominate property sector in the next decade

The development of technology in the next decade will increasingly dominate the property sector. With all the focus currently being on Brexit the developing technology in the property sector seems to be going under the radar. But new technology has had a bigger impact on the property sector in the last three of four years than it had in the last three or four decades combined. This development in technology will continue to redefine the sector.

In the rental market we are seeing more and more investors move into this sector. The main reason for this is because the developing technology is enabling them to communicate straight to the operators. This means they can cut the middle man (the letting agent) which will reduce costs.

Furthermore, the development in virtual reality (VR) technology has allowed potential tenants or buyers to view the property remotely online. Additionally, new online booking services can organise physical house viewings without needing to call or email.

Rise in technology means bad news for letting agents

All of this could be bad news for letting agents, because as this new technology becomes more popular their property business model will be more at risk. But we don't expect that letting agents will disappear altogether. Rather, the market may contract potentially giving opportunities to those with the best customer service experience.
The development of apps has now made it easier for tenants to obtain services direct from their landlord. For example, making online payments, and reporting a maintenance problem. Additionally, online tools now enable operators, developers, and landlords collect data about their portfolios. This means they will be able to use this data to improve their portfolio to reach the market requirements.

Conclusion

Over the next ten years we expect to see technology to become increasingly important in the property sector. This is due to the development in online booking services, remote online viewings thanks to VR technology, and the development of apps.

UK house price growth increases by more than 1% for the first time in a year

In the year 2019 house prices rose by 1.4% according to the Nationwide. In December it was the first time in 12 months the annual price growth had increased by more than 1%. However, the uncertainty of Brexit could affect the housing market again in 2020.

Although the decrease in house price growth may be good news for many first-time buyers, statistics indicate that raising a house deposit still remains very challenging.

The Nationwide uses its own mortgage figures which said that house prices rose by 0.1% in December compared to November. This means that the average home is valued at £215,282.

However, despite the uncertainty in the economy high employment levels and relatively cheap mortgages has maintained demand in buying houses.

Jonathan Hopper, managing director of Garrington Property Finders said: "These are early days for a bruised and fragile market, but with plenty of pent-up demand and supply, price growth may quickly accelerate past 2019's modest annual pace"

"The property market has entered 2020 on a positive note but all eyes will be on how the economy holds up as we exit the EU."

Saving up enough money for a deposit

Saving up a deposit for a house is already tough enough for first-time buyers, therefore they will not want to see house prices soar in 2020. The Nationwide has said that saving for a house in the North of England and Scotland would take an individual 5 years if they set aside 15% of their take home monthly pay. According to the Nationwide This compares to:

- Seven years in Wales and Northern Ireland
- Nearly eight years in the West Midlands
- Ten years in the South of England
- Fifteen years in London

Subsequently due to the financial pressure many are relying on family and friends for financial help.

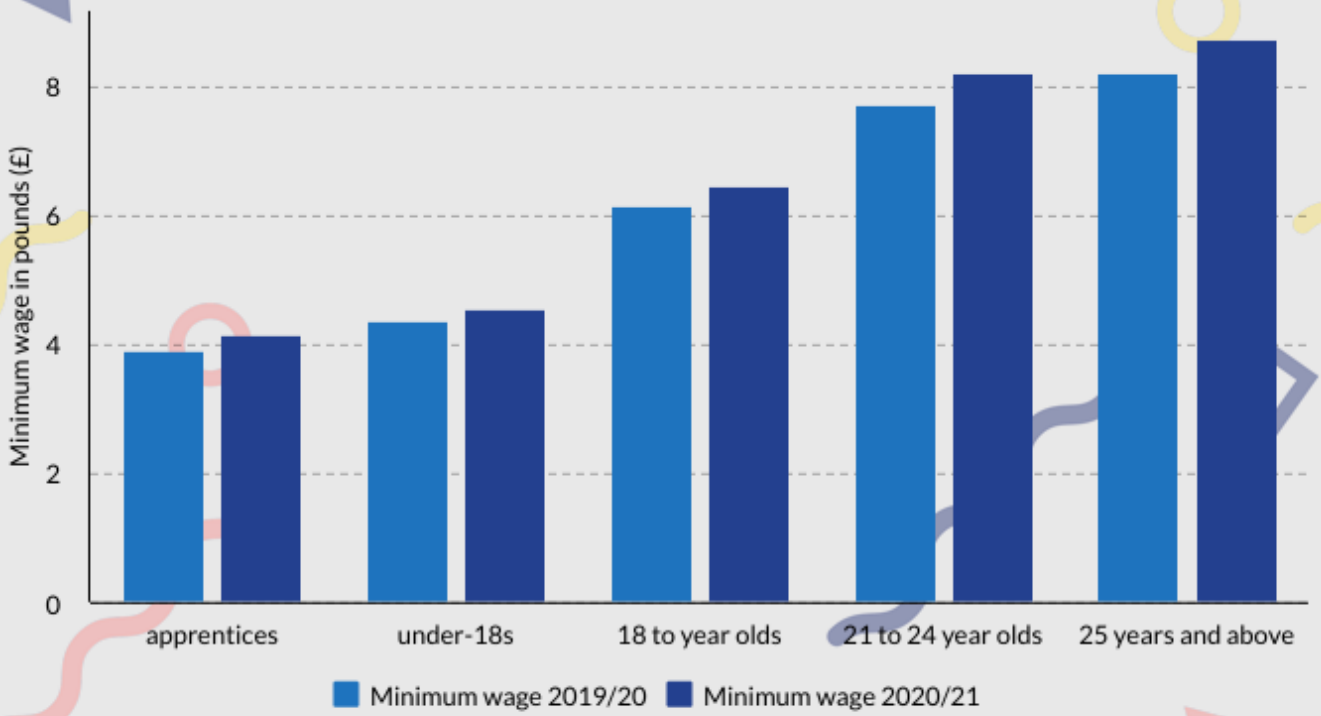
National Minimum wage rates

The government has announced a 6.2% increase in the National Living Wage (NLW), which applies to workers aged 25 and over.

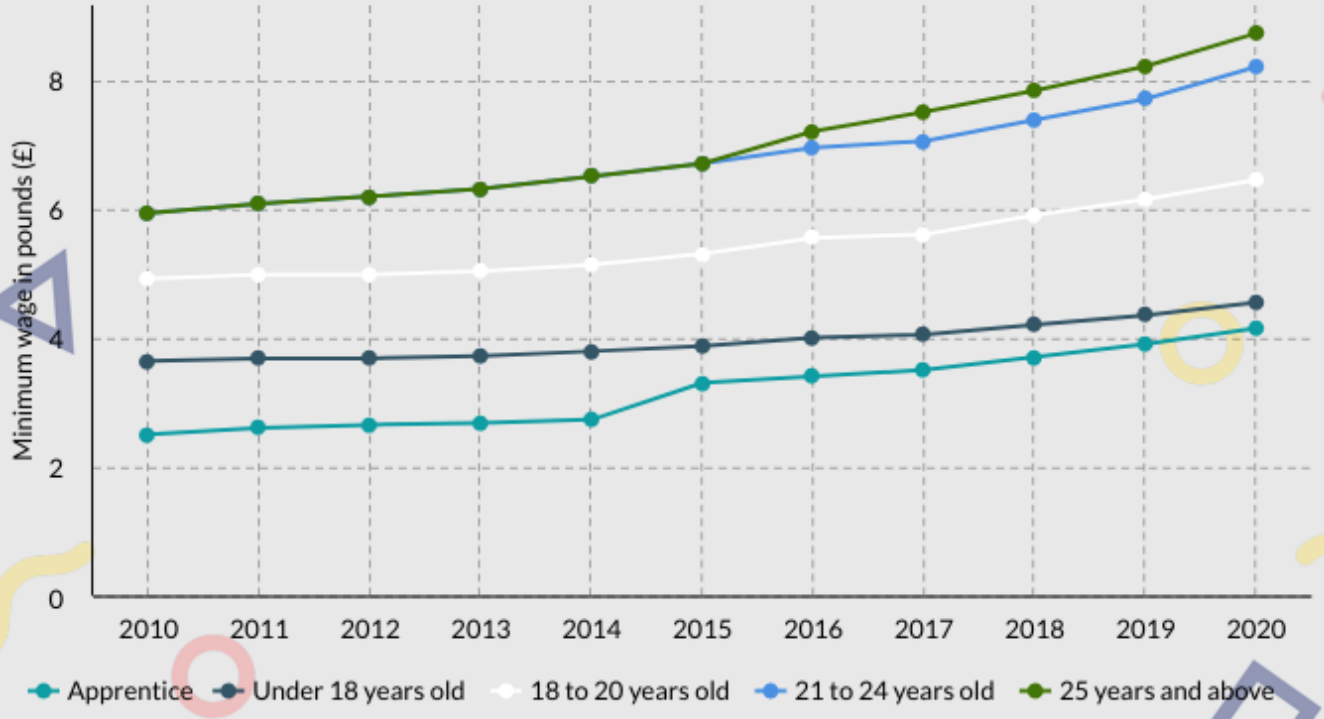
From 1 April 2020 the NLW will rise from the current rate of £8.21 to £8.72 an hour, in the largest increase since it was introduced two decades ago. The new rate will result in an annual increase of £930 for 2.8 million full-time workers earning the NLW.

Workers aged under 25 earning the National Minimum Wage (NMW) will also see increases of between 4.6% and 6.5%, depending on their age.

New minimum wage rates



Minimum wage rates last 10 years



Help to buy ISA closes making it harder for first-time buyers

Thousands of people have missed out on free money as the help to buy ISA closes. The Help to Buy ISA was a government incentive where they gave first time buyers an extra 25% on top of what they had already saved when they are ready to buy a house. However nearly 50% of adults were unaware of this scheme and other schemes that help people get on the housing ladder. Even with this scheme it would take individuals at least three and half years of saving to have the amount of money to buy their first home. This is because you could only save up to £200 per month into this scheme with a maximum of £12,000 giving you a £3000 boost.

If you are a first-time buyer and have not opened a Help to Buy ISA there are other options available such as the Lifetime ISA and shared ownership.

Shared Ownership

In this scheme homeowners purchase a percentage of the home and pay rent and service charge on the part they do not own. For this scheme you must be at least 18 years old and your household income must be less than £80,000 outside London and £90,00 inside London.

More details available here: https://www.helptobuy.gov.uk/shared-ownership/

Lifetime ISA

To open a lifetime ISA you must be between the age of 18 and 39 years old. If you enrol into this scheme you can save up to £4,000 and receive a 25% government boost each year. You can save this money for retirement or your first home. But you can only withdraw the money if you are aged 60 and over, buying your first home, or you are terminally ill and have less than 12 months to live. If you withdraw the money for any other purpose you will pay a 25% charge.
More details available here: https://www.gov.uk/lifetime-isa

Benefits of using Equity Release

You may want to consider Equity Release for a number of reasons but one of the most common reasons is too help your children/grandchildren increase their house deposit, this could benefit you and your family. To apply for equity release you must be over the age of 55 years old, and own your own property. The amount of loan available depends upon the value of your home and your age.

Benefits of Equity Release

- Gifting money to children/grandchildren means they will have a bigger deposit therefore get a better mortgage deal.
- A debt is created on parents/grandparents' estate therefore reducing the potential inheritance tax bill.
- Children could pay of the interest on the Equity Release so the debt doesn't increase.

Common Misconceptions

1) We will not be able to move home.

False. All equity release plans approved by the Equity Release Council guarantee the right to move your plan to a new property as long as the property meets lending criteria.

2) Our debt may exceed the value of the property.

False. All plans approved by the Equity Release Council have a no negative equity guarantee This means that you will never owe more than the value of your home. Therefore, excess debt will not be passed on to your beneficiaries.

3) We will no longer own our home

False for lifetime mortgages. You will always own your home with a lifetime mortgage – the most popular type of Equity Release plan.

4) We will have monthly repayments

False. You are not obliged to make monthly repayments with a lifetime mortgage. The mortgage interest rolls up until death of the applicants (or permanent movement into long-term care). When the plan comes to an end, the capital and rolled up interest will be repaid. Plans that allow partial capital or interest payments to be made are available depending on your circumstances.

How we can help

If you think you are eligible for an Equity Release facility and would like to discuss further, please contact Hawsons Wealth Management today. Click here to book your first free initial meeting.

Changes to Private Residence Relief (PRR)

When an individual disposes of a property that is their only or main residence under PRR rules usually an exemption on their capital gains tax applies. The exemption applies if the relevant conditions are met throughout the period of ownership. This relief is supplemented by ancillary reliefs that aim to deal with related situations.

What are the proposed changes?

The Government has previously announced and issued draft legislated to reform two of the ancillary reliefs to better target PRR at owner-occupiers. The reliefs which are being amended are:

Where a person moves out of a property but does not immediately dispose of the property, then PRR continues to apply in full for a period. This is very useful when a property may be difficult to sell. From April this final period exemption will be reduced from 18 months to nine months. Although the special rules that give those with a disability, and those in care, an exemption of 36 months will not change. If a property is held beyond the 9-month period it does not mean that PRR is lost entirely rather the relief will start to reduce according to the length of time after the 9 months compared to the whole period of ownership.

Lettings relief, which has been a valuable relief which gives up to £40,000 of additional relief where a property which was previously a PRR is then let out, will be reformed so that it only applies where an owner is in shared occupancy with a tenant. This is relatively unlikely so this change may increase tax liabilities on a sale of a dwelling by up to £11,200, or £22,400 for a couple.

These changes are intended to take effect from 6 April 2020, but the legislation is not yet enacted and so is subject to change.

Get in touch...

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