



YOUNG GROUP™

Property Portfolio Managers

# London Update

November 2005

Young Property | Young Finance | Young Lettings | Young Furnishing | Young Investment

## Focus on: SIPPs > London's Residential 10 Year Price Trend > Market Comment Market Environment > The 2012 Olympics and London House Prices

### SIPP Overview

There is much hype and speculation surrounding pension legislation changes due to come into force on 6 April 2006, known as 'A-Day'. A-Day is set to revolutionise the way in which people will think about and invest in pensions. The precise rules are still to be clarified, these are expected to become clearer in the months running up to 'A day'. Some of the comment in the public domain has been sensationalist and unbalanced, here we offer an unbiased view of what the changes will mean to individual buy to let investors.

### Why the Change

The government is aiming to both simplify current pension rules and to encourage greater pension investment.

### What Investments Can be Bought

Residential property, fine wine, art, racehorses and classic cars are among some of the more interesting assets that can be invested in a SIPP.

### Principle Considerations for UK SIPP Investors

- The pension fund can borrow up to 50% of the fund value to gear property.
- Investors should allocate pension funds to various asset classes according to their risk profile. There are ways to minimise exposure, for example through syndication.
- Tax relief of up to 40% on the property purchase price depending on an individual's earnings in each tax year.
- Income and capital gains will be sheltered from tax of up to 40%, but are locked into the pension fund until a pension is taken any time after 50 years of age (rising to 55 years of age from 2010).
- An individual can take 25% of the fund as a tax free lump sum on reaching 50 years of age (55 years from 2010) – the rest being used to provide a source of taxable income.

- Existing BTL property can be transferred into the fund, but will be subject to costs such as stamp duty, legal and administration costs. You may incur a capital gains tax liability when crystallising the asset, unless the property is your principle private residence.

- In general it makes no sense to transfer a principle private residence into a SIPP as selling it outside of a SIPP is not subject to CGT.

- Once inside a SIPP, property will be expected to rent for full market value. Any shortfall in monthly cash flows will need to be made good with additional pension contributions – the same applies if interest rates rise and running costs are not covered by the rental income.

- A property owned by the SIPP will be administered by the pension trustees in the best interests of the beneficiary, so they will retain complete and ultimate control over the investments.

### In Summary

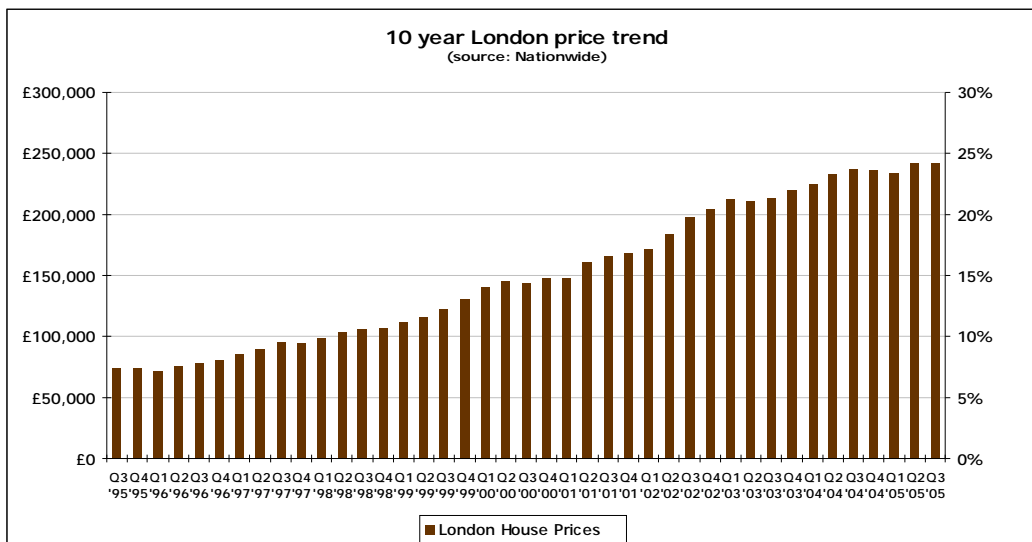
There is no doubt that the appetite for residential BTL property is set to be huge in the run up to and beyond 6 April 2006.

The main concern for us at Young Group is the fact that SIPP funds are unlikely to be regulated for a minimum of 12 months after A-Day. The potential for the mis-selling of SIPPs on the one hand and sub-standard property at inflated prices on the other is a very real threat. As and when the government issues clarification on SIPPs, Young Group will evaluate and comment on the impact for BTL investors.

As ever, buying quality property in the best locations for both capital growth and with excellent rental demand is vital for maximising long term wealth. Young Group specialises in acquiring property solely with these features.

Investing in residential BTL via a SIPP must always match your long term investment and exit strategy. Individuals should always seek professional advice from a renowned and established pension provider.

## Price rises in London for third consecutive month



### London Residential Price Trends

- The Land Registry's latest residential property price figures reveal the average greater London property changed hands for £300,329 between July and September - 4.47% higher than last year, the strongest performance for some time. Overall house price increases in England and Wales in the same period were up 3.52%.
- According to the Bank of England the number of mortgages approved but not yet lent, increased to the highest level since June 2004.
- Nationwide recorded a 1.3% increase in UK property prices for the month of October bringing the annual growth rate to 3.3%.
- House price inflation rose in October, for the third month in a row. Prices were up 2.9% on the previous quarter according to the latest survey from Halifax.
- Martin Ellis, chief economist at Halifax, said the market has been strengthening since earlier in the year.
- According to Rightmove, average property asking prices are up 0.5% from last month.

### Market Comment

- With interest rates remaining unchanged, property sales agreed upon were up for the third month running in October.
- Paragon research has stated that rents are rising at 10.5% per annum.
- Neil Young, CEO Young Group commented that October had seen the best performance for the Group in two years. With base rates being held in October and the outlook for interest rates stable, the London market has seen significant upturn in terms of buyer confidence and commitment to purchases.

### Market Environment

- The UK base rate remained at 4.5% after the MPC announcement on 10 November. The consensus is for it to remain at this level until early 2006. Reuters 8 Nov 2005.
- UK inflation hit 2.5% in September, well above its 2% target. Inflation may now be near the peak, said Ian Stewart, chief European economist at Merrill Lynch & Co. in London. He said he expects interest rates to be lowered next year.

### The 2012 Olympics and London House Prices

According to Halifax, London property prices are set to soar following the announcement of the 2012 Olympic Games. Tim Crawford, Group Economist at Halifax stated that hosting the games would encourage city regeneration. Halifax also stated that properties in East London, particularly the Hackney and Stratford areas, could gain most from the price growth as they will benefit most directly from improved facilities and transport links.

Residents in the borough of Tower Hamlets, one of the hosting boroughs to the 2012 Olympics have already seen a rise according to Rightmove. For October there was a 4.6% increase which followed 3.3% in September. Previous studies of the last four cities hosting the games found that house prices rose by more than 66% on average over the five year run-up to the games.

Commenting, David Mackenzie Portfolio Director at Young Group stated that "Much of the Olympic announcement upside has already been reflected in developer's prices in Stratford and neighbouring areas". However, David stressed that investors should not panic adding "The ripple effect from Stratford, the East London line extension and wider regeneration of East London will ensure that there remains a wealth of investment opportunities for our clients to build their portfolios in this area".