

Property, Politics and Punting

Bear: What have you got in there, Bull?

Bull: All my clothes and things for next week. Given how changeable the weather is at this time of year, you never quite know what you will need.

Bear: I didn't know you were heading off on holiday. Where are you off to?

Bull: It's not a holiday, Bear. It's work. I am joining the stampede of thousands of real estate professionals heading to their annual mid-March gathering.

Bear: What? How on earth did you manage to convince St Bride's that you merited a trip to MIPIM? And more to the point, why am I not going with you? I could do with some rays. And some cocktails on the beach ... and some ...

Bull: Who said anything about MIPIM? I'm off to Cheltenham for the Festival! The number of property people attending is always off the chart. I've got my tweed jacket, cap and salmon-pink trousers all packed, plus my Racing Post. I'm heading down tonight after the big Liverpool vs Manchester City game to beat the crowds and to ensure I'm all ready for the first race at 1.30pm on Tuesday.

Bear: Phew. For a minute there I thought I was missing out on some international jet-setting. Rather you than me at Cheltenham, though. I'd much rather watch it on the TV than battle against the other 65,000 daily punters.

Bull: You truly are a miserable so-and-so, Bear.

Bear: Maybe. But there isn't a great deal to be happy about with life at present, is there?



Bull: Of course there is. The countdown has started. Soon we'll be soaking up enough daylight to sneak in those evening rounds of golf we've been dreaming about over the winter months!

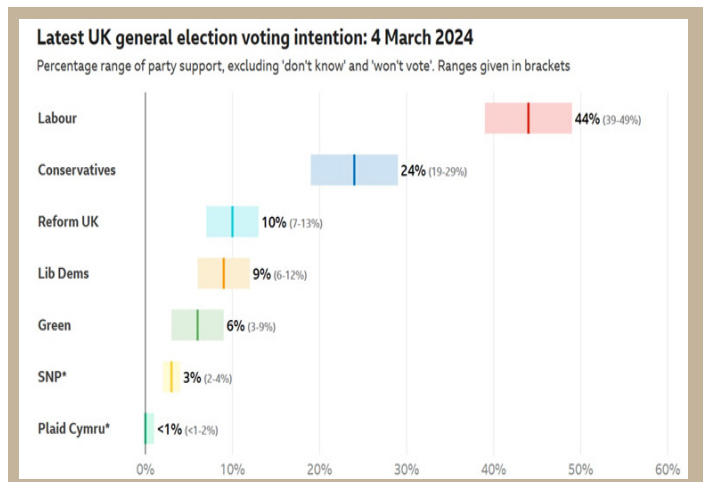
Bear: Come on, Bull. Be serious for a moment. The Spring Budget your mate Jezza delivered on Wednesday hardly wowed, did it? Bored us more like!

Bull: I can't argue with your assessment of the Budget. It was certainly a fiscal non-event in terms of the overall impact it is likely to have on the UK economy. And the boost to demand from the cut in National Insurance will be mostly offset by a package of tax increases.

Bear: Indeed. It was a case of giving with one hand and taking away with the other, resulting in a net stimulus of just a few billion pounds.

Bull: A few billion pounds? That's not to be sniffed at!

Bear: Nope, but we need far more than that, and dare I say it, I suspect so do the Conservatives too. The opinion polls still make grim reading. The Budget was viewed by many as a key opportunity for them to persuade the public to give them another chance. However, the mood-music I've heard since Wednesday suggests that the measures introduced won't shift the dial.



Source: BBC

Bull: That's what I've heard too. And what's more, if the Government was thinking of accelerating the timing of the election, I am sure they have already had second thoughts. Autumn now seems to be a shoo-in.

Bear: Absolutely. Waiting until then may offer Jezza and Rishi a little more time to make some further tax cuts or for Sir Kier to trip over his shoelaces.

Bull: And if the financial markets come to the view that interest rates will actually be cut sharply in 2025, then the Chancellor's fiscal headroom may grow over the summer.



Bear: Exactly. But there wasn't any particularly good news for the UK property industry in the Budget was there? The consensus appears to be one of disappointment, especially as you'd have thought that property markets would slow down in the lead up to an election. Investors don't like the uncertainty surrounding possible policy changes.

Bull: We can talk about the Spring Budget's property implications in a minute. But I must first correct you on the impact of impending elections. CBRE have found that property markets are, in fact, quite resilient ahead of elections, with very little change to overall investor, developer or occupier' behaviour.

Bear: Are you sure?

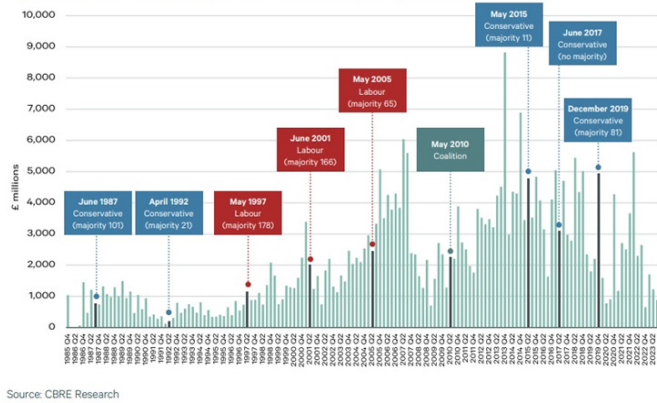
Bull: How dare you doubt me, or CBRE for that matter! Their report shows that manifesto policies are typically general in nature. And even where they are specific, policies take time to implement, can change over time, are invariably subject to negotiations and compromise, and, in fact, may just be binned!

Bear: So, are you saying that the period around an election may not be any more risky than other times during a political cycle.

Bull: Spot on. CBRE's report looked at the impact on the Central London office market (both take-up and investment volumes), the residential market (house price growth and mortgage approvals) as well as the impact on planning decisions. My key takeaway is that the market will take it in its stride.

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Figure 2: Central London office investment transactions vs general elections



Bear: That's encouraging. So, going back to be previous question, what did you make of the Budget for the UK property market?

Bull: I haven't quite made up my mind yet. The most relevant announcements focused on changes to property capital gains tax, multiple dwellings relief, non-domicile tax reform, devolution of power and levelling up the economy via major developments, such as a commitment to a life sciences and homes scheme in Canary Wharf. There was also the decision to end a policy of letting local authorities keep 100% of the revenues from sales of council homes. Whitehall insiders say internal calculations submitted to the Treasury showed that the policy delivered £180mn-£200mn a year to local housing budgets.

Bear: But there was nothing on the sector's main 'beefs' - business rates and planning. The Chancellor spoke of creating a pro-business tax regime designed for further levelling up and competing on the European stage. Yet nowhere else in Europe do businesses pay approaching 60% of the rental of their premises in property taxes. It's just not sustainable.

Bull: Hear, hear.

Bear: But it gets worse. Inflation is expected to fall to 2% within the next few months, but yet 220,000 properties, including 43,000 retail sites, will receive rates bills next month that will increase 6.7% in line with September's inflation figure. Small businesses will also pay increased business rates tied to a multiplier that will rise from 51.2p to 54.6p. And the reset period for which properties must be occupied before a landlord can again qualify for empty property relief once a tenant leaves is being extended from six weeks to 13 weeks. That's yet a further kick in the teeth for landlords who are unable to find long term tenants for their properties.

Bull: I never knew you were quite so passionate about business rates, Bear!

Bear: I'm not really but reforming them would surely help the UK (and our retailers especially) to become more competitive.



Bull: I'm all for that. And that's why I was particularly pleased to see the Government's announcement that it will begin legislating for the Reserved Investor Fund (RIF).

Bear: Really? I must have missed that.

Bull: That's very unlike you, Bear. Yes, it was announced that it will start to process the tax rules in the Spring 2024 Finance Bill. As we discussed last year, there is real hope that the RIF will be a conduit to attract new capital and stimulate growth in the UK economy. The UK should therefore be a more attractive location to set up, manage and administer funds.



Bear: And don't forget the advantages it will bring for fund managers and investors alike. Lower fund structuring and set-up costs, whilst investors will have access to a highly flexible, unauthorised UK domiciled fund structure that is closed-ended and tax transparent.

Bull: That sounds like a potential vote winning policy for some.

Bear: For some, maybe, but the axing of multiple dwellings relief on stamp duty land tax may have offset that, especially for those institutional investors who are looking for high quality rental housing. Giveth and taketh away springs to mind.

Bull: Very much so.

Bear: Shall we finish on the theme of giving and taking? Do you have some tips for any of the races at Cheltenham next week? With Constitution Hill now not racing, I'm struggling.

Bull: On the firm understanding that neither you, nor any of our loyal readership come looking for me if (or when!) it goes wrong - Galopin Des Champs in the Gold Cup and State Man in the Champion Hurdle.

Bear: Understood. Have a great week!

