

A Guide to Investing in the UK Property Market

Investment and Fund
Management Presentation

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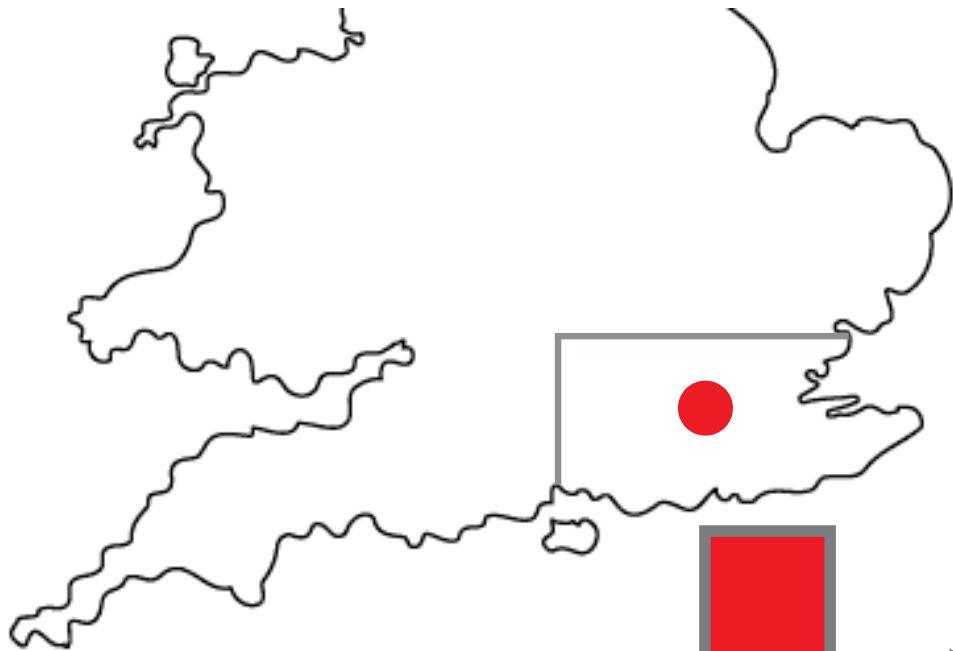


Introduction – Why the UK?

- Strong professional infrastructure
- Protected through – Codes of conduct/ Indemnity/ Legal framework
- Legal system advantageous to landlord
- Currency arbitrage – Sterling currently weak
- Central global location
- Established institutional transaction market

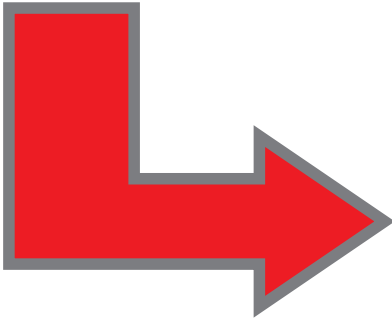


Where in the UK?



London

South East



Why London / South East?

UK Property hotspots

Why London?

- Aligned to global GDP – twice UK growth
- International business centre of the world
- No.1 Global Financial centre (MasterCard)
- European HQ – home to $\frac{1}{3}$ world's companies
- 50% of listed companies on London Stock Exchange
- Established domestic and international institutional market
- London property akin to 'gold' in the eyes of foreign investors
- Increased presence of HNW individuals
- Highly liquid market

Why South East?

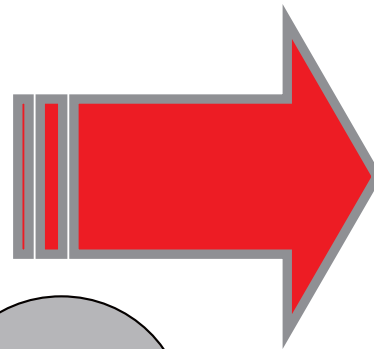
- Close proximity to London and associated GDP drivers
- More affordable
- Higher income yields
- Excellent communication links to London
- Tourism hotspot (e.g Oxford)



Seek good advice



'Good advice, good investment'



1. Real estate advice

‘A good real estate advisor always understands the investment criteria and the best method of capital deployment’

Good real estate advice includes..

- Whether to invest on an individual, syndicated or fund basis.
- Amount of money to be deployed, equity or debt required.
- Risk & return expectations.
- Advice on stock selection.
- Identify and source appropriate property.
- Advice on pricing.
- Co-ordinate and undertake pre-purchase due diligence, negotiate and secure purchase.
- Co-ordinate and manage all third party advisors.
- Managing the asset.



2. Legal advice

'A strong legal team is crucial, choose a firm with global capacity and an understanding of legal/ tax systems in the UK and country of origin'

Legal advice might include..

- Property holding and fund structures.
- Joint ventures/ club transactions.
- Trust arrangements for individuals.
- Agreements for teams involved.
- Giving advice on tax structuring, mitigation and finance.
- Co-ordinating tax accountants, offshore agents and lending banks.
- Corporate advice on purchasing property holding companies.
- Opinion on finance.



3. Tax & accountancy advice

‘Most overseas investors look to offshore structures, an accountant would be necessary to assist in tax structuring and mitigation’

Tax & accountancy advice might include..

- Property holding structures.
- Tax mitigation.
- Finance.



The property process



Step 7 – Exchange Contracts

Step 6 – Due Diligence

Step 5 – Heads of Terms

Step 4 – Offer

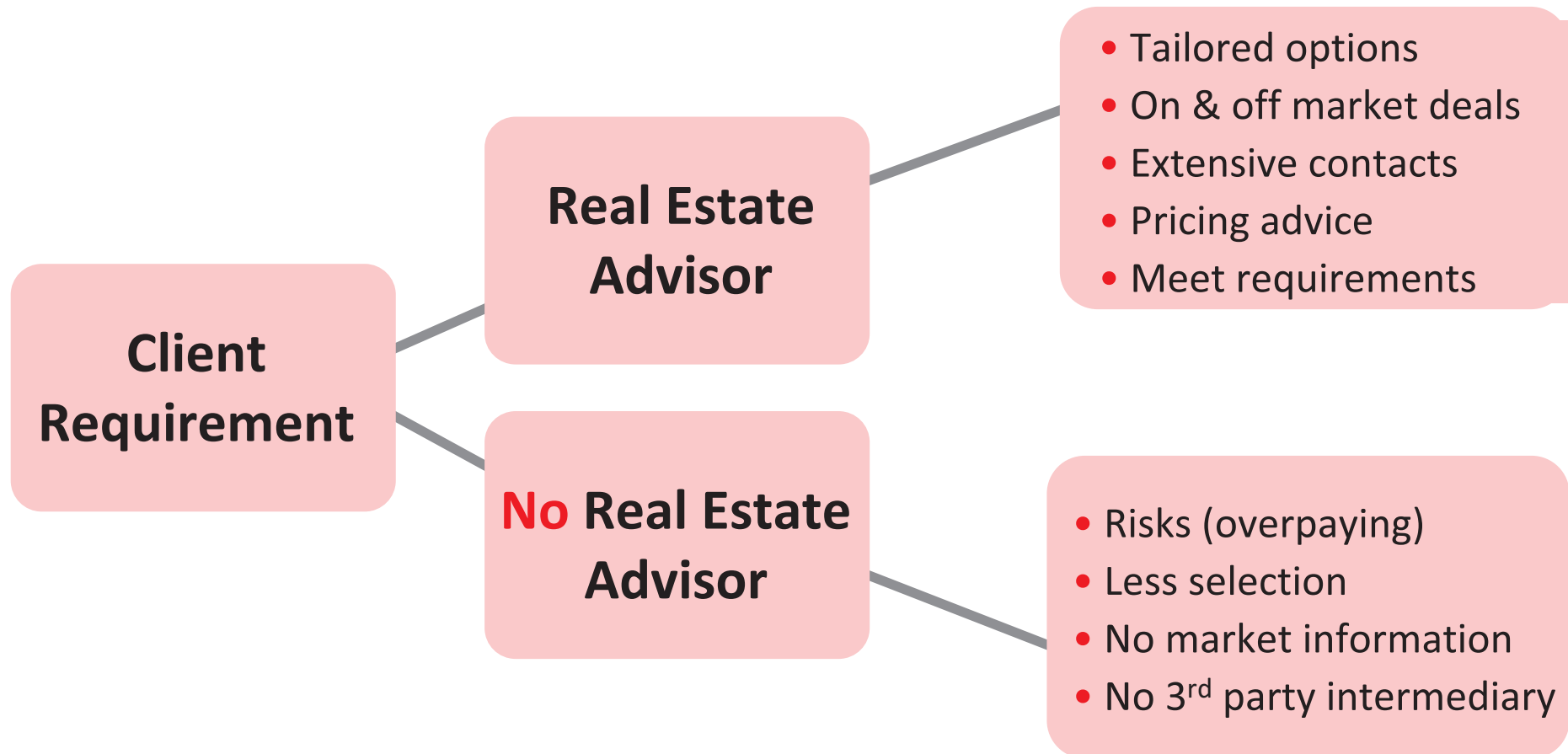
Step 3 – Negotiation

Step 2 – Property Analysis

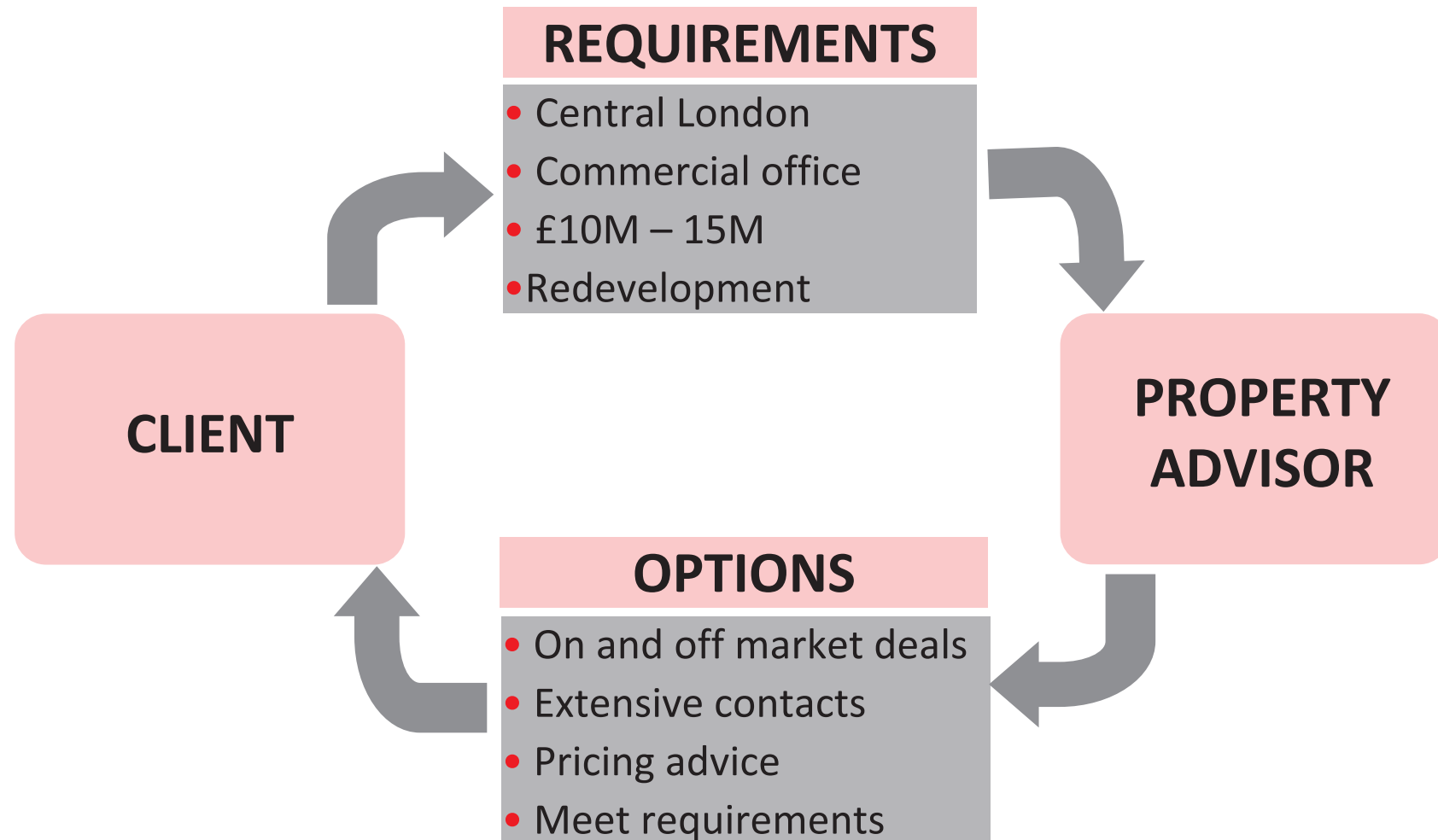
Step 1 – Identify and Source



The property process – Step 1. Identify and source



The property process – Step 1. Identify and source



The property process – Step 2. Property analysis

In analysing the property investment your advisor would assess and report on the following criteria: -

- Location.
- Building fabric.
- Income profile and tenant covenant.
- Occupier market – Rent analysis and tenant demand.
- Investment market – Yield analysis and investor demand.
- Opinion on value.
- Internal Rate of Return analysis.
- Asset management opportunities.



The property process – Step 3 - 5

Step 3. Negotiation

- Advisor will provide view on pricing.
- Deploy suitable negotiation tactic for best price and terms.

Step 4. Offer

- Deploy most appropriate bidding strategy.
- Formulate and submit a detailed offer letter to the vendor or their advisor.

Step 5. Heads of Terms

- Heads of Terms drawn up and agreed between client and vendor.
- Real estate advisor to act as main point of contact between lawyer and 3rd party advisor.



The property process – Step 6. Due Diligence

On agreement of Heads of Terms the legal process starts with your lawyer advising and reporting on the following main issues:

- Property title deeds.
- Public body searches, planning, use and environmental enquiries
- Verification of sales information provided
- Leases, Licences other relevant documentation
- Service charge matters
- Construction history – construction warranties if new build.
- Purchasing vehicle structure
- Purchase contract
- Transfer Tax (Stamp Duty Land Tax) mitigation schemes
- Capital Allowances
- Value Added Tax (VAT) election



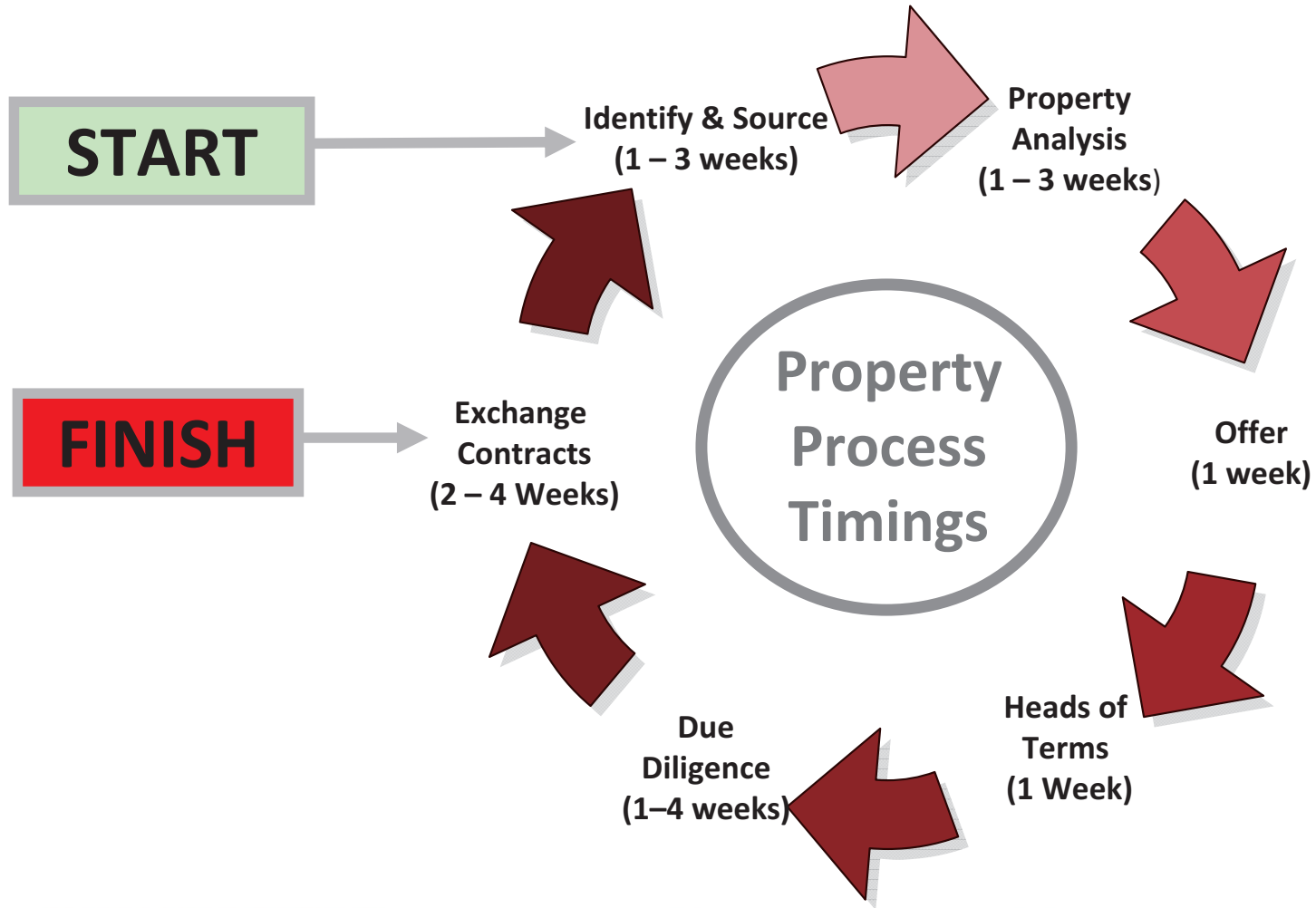
The property process – Step 7. Surveys

During the due diligence stage other consultants will normally be instructed. A key consultant would be a building surveyor to undertake a survey of the condition of the property. They would report on matters such as: -

- Building condition and construction
- Presence of deleterious material
- Health and Safety
- Disability legislation
- Dilapidations



Property process timings



Property process timings

Identify and Source (1 - 3 weeks)

- Can vary from a few days to several weeks.
- Depends on the investment criteria and prevailing market conditions.
- Normal timeframe 1-3 weeks.

Property Analysis (1 - 3 weeks)

- Initial pre-purchase analysis will normally take between 1-3 weeks.
- Dependant on the marketing timescale dictated by the seller.

Offer (1 week)

- If openly marketed, usual format for sale by way of a bidding process.
- Negotiation strategy deployed.
- Best bids offer letter formulated, agreed and submitted.



Property process timings

Heads of Terms (1 week)

- Heads of Terms negotiated and agreed.

Due diligence (1 - 4 weeks)

- Once under offer the normal due diligence period is 3 to 4 weeks.
- London market, exchange expected in 10 to 15 working days maximum.
- Timescales assume seller has the full legal sales pack in place.

Exchange of Contracts/ Completion (2 – 4 weeks)

- At exchange of contracts, a deposit of 5% or 10% of the total purchase price required.
- On exchange buyer is contractually bound to complete if the contract is unconditional.



Purchase costs

Commercial land or property tax rates and thresholds

This will have to be paid on completion of the contract. The tables below set out the current rates: -

Purchase price/lease premium or transfer value (non-residential or mixed use)	*SDLT rate (includes first time buyers)
Over £250,000 to £500,000	3%
Over £500,000	4%

* Stamp Duty Land Tax (SDLT)

Residential land or property SDLT rates and thresholds

Purchase price/lease premium or transfer value	SDLT rate	*SDLT rate for first-time buyers
Over £500,000 to £1 million	4%	4%
Over £1 million	5%	5%

* Stamp Duty Land Tax (SDLT)

Value Added Tax (VAT) This tax is payable on properties that are VAT elected. The current rate is 20% This tax can be recoverable in most cases. We would recommend taking professional tax advice on this point.



Purchase costs

Purchase costs	Fees expressed as % of price
Stamp duty/ property tax	4 – 5%
Real estate advisor fees	1 – 2%
Surveyor fees	0.1%
Legal fees	0.5%
Tax & accountancy fees	0.1%
Total fees	6 - 8%

- All fees quoted are exclusive of VAT.
- Commercial property sale or purchase circa 1% (discount over £20M).
- Residential property sale circa 2% of price achieved.
- Fund Management mandate = fee basis would be aligned to the mandate remit.



Professional fees

Once purchased the following associated fees would be applicable

1. Leasing of vacant space. Standard market practice would be 10% of the first year's rent. (This may vary case by case).
2. Rent review advice in relation to negotiating rental uplifts at review. This is normally 5% of the new annual rent agreed.
3. Lease renewal advice. Standard practice is 10% of the new annual rent agreed.
4. Property management. Standard market practice would be as follows although this may vary on a case by case basis:-
 - 2.5% of all gross commercial rents demanded to £250,000 p.a.
 - 1.5% of all gross commercial rents demanded above £250,000 p.a.
 - 5% of all annual gross residential rents demanded.



Professional fees

Building Surveyor

- Surveyor's fees charged at an hourly rate.
- Dependent on transaction size and work involved.
- Commercial transactions < £3,000.

Legal

- Commercial investment - Legal fees assumed at 0.5% of full purchase of sale price.
- Lawyers may charge less or more depending on the complexity of the deal.
- Fee basis for leasing or rent review normally in the region of 5% of the first years rent.

Tax and Accountancy

- Additional fees for tax advisors, accountants and offshore company agents if necessary.
- Individual quotes would be sourced if their input was required.



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