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Knightsbridge Wealth

technical news

For professionals working with international clients

Knightsbridge Life™ launched

International clients need life assurance as much as anyone else. It provides capital to beneficiaries in the event of death or illness, repays mortgages, and is an essential inheritance tax planning tool for non-domiciled individuals.

However, few mortgages are protected and little inheritance tax provision is made, simply because it is virtually impossible to obtain assurance for international clients. This is because premiums are based on mortality tables and these are not published for the vast majority of countries.

It's why we have taken control of the life assurance process, by launching Knightsbridge Life, to ensure a bespoke service tailored to your needs. We organise all the underwriting and medicals. Using this information we can take the client's unique needs to the entire market of insurers.

The global life assurance market is complex, with the underwriting risk ultimately held by a group of global re-insurers. Understanding where risk is, being able to deal directly with those deciding terms, sets Knightsbridge Life apart from other life insurance brokers.

Since cover is under-written on an individual basis, it can be arranged regardless of the country of residence of the client – which includes jurisdictions carrying perception of risk, such as Pakistan or Libya, or a countries like Russia and Turkey, where mortality tables are not available. In addition, cover can be put in place even where no need exists in the UK and it is to protect a need elsewhere.

Life assurance companies face real difficulties when dealing with international clients. A client's doctors may be slow in responding to requests for medical evidence. Even where it is provided, the source may not be trusted or may be in a different language. Based on this information, the company will usually request a number of tests by a nurse on a home visit, or a more thorough medical. This needs to be carried out in a restricted time frame, by a nurse or doctor recognized by the insurer.

We arrange all the medical examinations at a client's convenience, and in the country and location of their choice. A comprehensive report will be available to both the client and the insurer.

As independent advisers, we are able to select any life company from the whole of the market. But what matters most is our experience, expertise and depth of knowledge. In common with all high value transactions, it is important to build an understanding of each client's unique needs and circumstances, matching these with the insurance company that will provide the best combination of cover and price.

Virtually all clients, with a UK connection will have a need for life assurance, in addition to the more usual requirement to protect a family. This could be to ensure a mortgage debt is paid, or to cover inheritance tax for a property.

We work directly with solicitors, accountants, immigration lawyers, estate agents and mortgage brokers to provide a high quality, seamless service to our clients, in partnership with our professional connections.

Trading suspended in commercial property funds

Commercial property funds offer investors a good way of diversifying portfolios to include property exposure. They are particularly attractive to international investors who want access to the sector, without physical ownership which gives rise to income tax, capital gains tax and inheritance tax, which can be avoided using offshore vehicles.

In recent weeks, however, many commercial property funds have suspended all trades in the wake of

the UK vote to leave the European Union (EU). It follows the decision by a number of funds to rebase the price of their units, and by the Henderson UK Property Fund to write down the value of its portfolio by 4%, or £160m.

Property funds have been experiencing high outflows, both in the run-up to and in the wake of the EU referendum, with a £360m net outflow in May alone. Trading in Standard Life's UK Real Estate Fund, Aviva Property Trust, Henderson UK Property, Threadneedle UK Property and the M&G Property Portfolio have all been suspended. The situation will be reviewed each month and reinstated when possible.

The decision was taken following an increase in redemption requests as a result of uncertainty following the referendum result. Unlike investing in equities, the selling process for real estate can be lengthy, as the fund manager needs to offer assets for sale, find prospective buyers, secure the best price and complete the legal transaction. Unless this selling process is controlled, there is a risk that the fund manager will not achieve the best deal for investors in the fund, including those who intend to remain invested over the medium to long term.

This is part of the problem with investing in open-ended property funds. Property offers diversification, and a reasonable yield compared with government bonds, but investors must be willing to accept high costs and a lack of liquidity when the market turns down.

Given the outflows commercial property seems to be experiencing, this could well put downward pressure on prices. The risk is that this creates a vicious circle, and prompts more investors to dump property, until such time as sentiment stabilises.

But is not like 2007-08 when some funds also suspended dealing. At that time, property prices had been inflated by too much debt and speculation. Those two features are largely absent now.

Some analysts expect commercial property returns to be lower in 2016 as rental growth has been slowing. It is important to remember that over the longer term 75% of the return from commercial property comes from rental income and rental income growth – not capital appreciation.

Long-term investors in the asset class, who would otherwise not change their investments, should not be panicked into making a move. Property is still a good diversifier in an overall portfolio and yields on these funds may also increase, which will be a positive for income investors.

Brexit's affect on the housing market

Prior to the EU referendum, the Treasury warned that prices would be 10%–18% lower than they would otherwise have been by 2017/2018.

Was George Osborne right to be so pessimistic? At first sight, it may seem so. Estate agency Foxtons set the tone early, warning immediately after the vote that its full-year profits would be significantly lower. They announced "the upturn in the second half of this year is now unlikely to materialise." The company saw its share price fall by more than 20% as a result.

Various mortgage brokers and estate agents are warning that they've seen deals cancelled. For example, London- based private residential developer Galliard Homes said that one buyer had taken advantage of a 'Brexit clause' that it had offered, "allowing a get-out if the UK voted to leave." And vague concerns about job security and falling prices seem to have persuaded a few people to drop deals, or at least consider renegotiating.

One mortgage broker told the FT "one client said they weren't going to go ahead because they were worried about negative equity. The other one said they were going to postpone because they wanted to be in a more stable position... If a lot of people start thinking like that, it could be house-price readjustment day."

So the Treasury was right? Perhaps not.

London property was already on the ropes before Foxton's profit warning. We reported it in April's *Technical News* and our *Update* client newsletter in February.

The Cadogan Estate, the largest landlord in Chelsea and Knightsbridge, warned pre-Brexit that commercial property prices in London were heading for a fall. "The very strong performance isn't going to continue forever. The downward trend in yields has got to reverse and that will put downward pressure on property values." But the company's residential portfolio was already feeling the squeeze – its value was virtually flat in 2015.

Foxtons itself reported that it saw sales volumes fall in the first half – partly because "higher stamp duty has led many buyers and sellers to sit on their hands".

This gives a clue as to what's really the biggest threat to the UK housing market – not Brexit at all, but the recent changes to the rules on stamp duty and taxing landlords. Between 2017 and 2021, landlords will gradually lose the ability to write off mortgage interest costs against their income.

In addition, The Bank of England plans to force banks to tighten lending criteria, forcing buyers to put down far larger deposits.

Most buy-to-let landlords have to raise a deposit of roughly 25%. Banks assume that borrowers pay interest at 5%, and that their rental income needs to be 25% higher than their mortgage payments. So if the average house costs £202,436 and tenants pay an average rent of £764 a month, the typical deposit is £55,741 (the minimum needed to reduce the size of the mortgage to a level where monthly rental payments will cover it comfortably). However, in March, the Bank of England recommended that interest-rate assumptions should rise from 4.99% to at least 5.5%. If confirmed, which could happen as soon as this autumn, this change would push the required deposit significantly higher.

Nationwide, has already tightened up its criteria, demanding that rental income be at least 45% higher than the mortgage. That would mean putting down £83,349 (including stamp duty) on the average house – a huge 41.2% of the total purchase price. Other lenders are expected to follow suit, and if the Bank of England does tighten its rules, Nationwide raise its requirements even further.

Deutsche Bank believes that the resulting squeeze on buy-to-let profits could result in London house prices falling sharply. On the one hand, buying to let will become less attractive, so demand will fall, and on the other, supply will rise as some landlords are forced to sell by negative cash-flow problems (in other words, their rent won't cover their costs any more as the tax on their profits increases).

This would have a surprisingly large impact on the market, says Deutsche Bank. That's because buy-to-let now accounts for around a third of all London residential property sales that require a mortgage. With house prices in London at near-record levels relative to first-time buyers' income, there is little support from that direction. A fall back to even 2012/2013 levels would imply a 20% fall in prices from here.

To add further pressure to the sector, the government is recruiting experts to track down property developers who use offshore companies to avoid paying tax on profits generated from developing UK property, ahead of new laws planned for later this year. The new task force has already identified around 100 projects where developers may be using offshore headquarters to avoid tax. The Treasury predicts it could raise nearly £2.3bn from this crackdown by 2020.

Our post-Brexit weaker Pound might, in fact, boost demand. Another London agent told the FT that "opportunistic overseas investors" were "scenting bargains". One Dubai-based financial worker said: "I sense a buying opportunity. The threat to the British economy has been totally overblown." Even with that caveat, buy to lets are unlikely to prove a good investment for now.

Blame Brexit

As Matthew Lynn pointed out in Moneyweek, everyone has been quick to point to Brexit as the reason for their economic woes. It is only a few weeks since the UK voted to leave the European Union, and nothing has actually happened yet. The UK hasn't triggered Article 50, which sets the process in motion, nor have talks began with the rest of Europe. We still have full access to the single market, and freedom of movement for workers.

Yet that hasn't stopped companies rushing out profit warnings. IAG, owner of British Airways, took less than 24 hours to say its earnings would suffer. Rival Easyjet quickly followed suit. You can expect to hear similar stories from many other companies – and finance ministers – in the coming months.

Some of these will be justified. Some banks may suffer as initial public offerings get pulled and some exporters may see orders cancelled.

However, the vote to leave the EU was mainly a political, rather than an economic event. The impact on businesses will be fairly small. The UK accounts for only 3.5% of global GDP, and exports to the EU are about 13% of our economy, so less than 0.5% of global output is affected in any way at all by the result.

Even UK exporters will find that World Trade Organisation rules mean that, even in the worst-case scenario, only very modest tariffs can be imposed by the rest of Europe – more than compensated for by the recent 10% drop in the value of Sterling.

Our trade relationship with Europe will shape the economy for a long time to come, but it will be many months – or probably years – before negotiations conclude.

Changes are inevitable. We may come to rely less on cheap immigrants, which will force companies to invest more in productivity. We may strike better trade deals with the rest of the world, which will help us tap into faster-growing markets.

Investors need to be alert to phoney Brexit – that is, rushing out bad news, and blaming it all on the Leave vote.

What should we watch out for in particular? The retail sector is in a lot of trouble. A few shops will be hit by higher import costs, but any retailer that blames Brexit for its problems was almost certainly in trouble before the vote.

Banks are wilting under competition from new technology-based rivals. The car industry faces huge challenges from electric and self-driving vehicles, not from our position on the EU.

On a bigger scale, much of the Eurozone – Germany in particular – was heading into a slowdown before last month. Brexit is hardly to blame for that, despite what you might be hearing from finance ministers over the new few weeks.

Whatever the changes, there is no doubt that the UK, and London in particular, will remain the global hub it is now, appealing to those all over the World, requiring a safe-haven to manage their funds. If anything, its stature will grow – as it is forced to look globally for influence and trade, rather than concentrating only on its European partners.

Contact us

If you require further information about our services and how we can assist your clients, then please call us on the number below, or send us an email about how and when we can contact you.

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