TURNBULL

QUARTERLY SPECIAL
Autumn 2012

At Turnbull we recognise that prime property often forms part of a wider investment portfolio and work closely with independent experts across all sectors of both the property and investment markets. In this, the first of our quarterly special reports, Turnbull welcomes Alistair Bailey of Seymours Art Advisors to give an expert view on one of the key aspects of high net worth expenditure, the fine art market. We also welcome both Paula Higgleton, Senior Tax Partner at Deloitte and Tristan Ward, Partner at Macfarlanes LLP, to comment on the highly contentious proposals on changes to the taxation of properties held in corporate vehicles.

29%
increase in house prices in Kensington & Chelsea compared with the previous 2007/08 peak

£300 MILLION
the asking price for a 45 bedroom mansion currently being marketed in Knightsbridge

53%
of income tax generated in 2011 came from the top 10% of earners

ART MARKET UPDATE

A recent report by Barclays Wealth Management stated that collectibles now accounted for up to 10% of portfolios held by individuals with more than US$1.5 million in investable assets. Of those holding collectibles as part of their overall portfolios, 85% hold Fine Art & Sculpture.

As a result of poor performance of some more traditional asset classes, High Net Worth Individuals have looked to tangible and alternative assets, such as Fine Art, as part of their portfolio. Certainly the recent sale of a Munch for a record US$120 million earlier in the year would suggest that the precedent set way back in February 2010 by the Giacometti L'Homme qui Marche II (which sold for a then world record price of US$104.38 million) shows no sign of deviation – the road is straight and true it would appear.

With every major auction, art history is being made. Record prices are being achieved with such consistency that auction houses are running out of superlatives to describe the sales. As Barclays Wealth go at lengths to point out though, boom times for auction houses don't necessarily translate to boom times for investors.

Art, like all good things in life and all investments, carries risk and it hasn't all been plain sailing in 2012. As we embark upon the major art fairs of Frieze, Frieze Masters and PAD as well as the London sales in October, we are also very aware that the art market is consolidating on the enormous gains it has made in the auction rooms since 2009.

The very top-end of the market has remained strong however overall we are starting to see the auction market plateau. The Mei Moses World All Art Index was tracking down 3.5% at the half-year marker compared to the 10.23% increase for the same period last year. Minor increases in Contemporary (2.7%) and Impressionist & Modern (3.5%) have been offset by a decline in the Chinese Art Index of 3.9%. The softening of the Chinese art market was, like it's economic counterpart, inevitable. Extraordinary growth was always going to be unsustainable.

With thanks to Alistair Bailey - Seymours Art Advisors alistairb@seymoursart.com

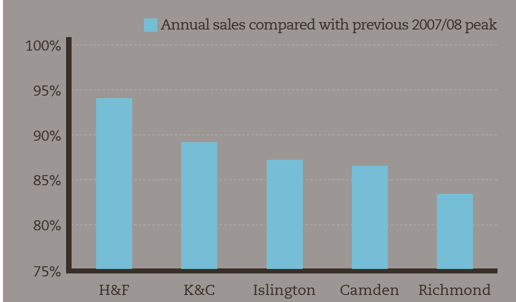
Market Update

Following the summer's many distractions, sales activity in prime London dropped in July and August, with the number of transactions falling by 18.7% compared with the same two month period in 2011. Whilst the flat market fared better (sales only 13% lower), the house market was particularly quiet, with transactions down 40% over the same period.

Despite lower levels of transactions, prices in prime London have increased by 1.7% in the last three months compared with the previous three, with flats now commanding £ per square foot values 10.2% higher than in Q3 2011 and houses 11.5% higher.

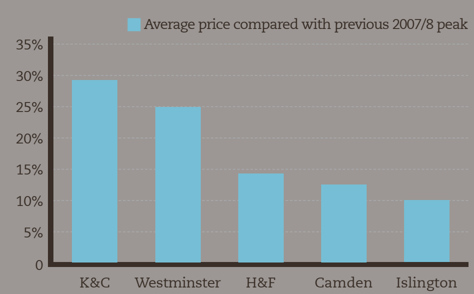
As we move into the autumn market, we are seeing an increase in both new vendor instructions and buyers looking for homes in prime postcodes. London is still the star performer nationally, with prices in 18 of the 33 London boroughs now exceeding the previous peak (including all inner London boroughs).

Top 5 - Boroughs with sales closest to peak



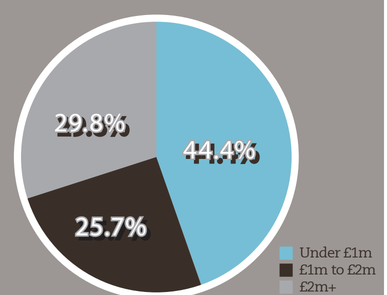
Source: Land Registry

Top 5 - Boroughs with prices higher than peak



Source: Land Registry

Sales by priceband - Prime London 2012 YTD



Source: Lonres

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TAX CHANGES FOR PROPERTIES HELD IN COMPANY VEHICLES

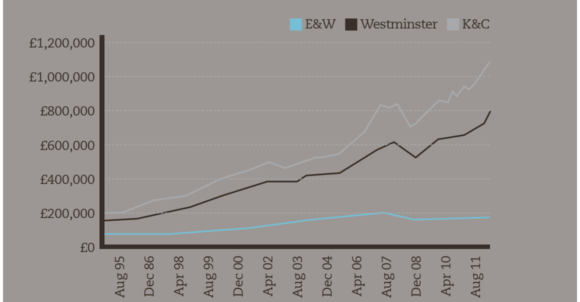
As part of the March Budget the coalition announced a raft of changes to the cost of owning a property as a 'non natural person', this specifically targets properties held in corporate vehicles, both by UK nationals and from overseas. In the past, if you were an offshore buyer, you would not pay any ongoing capital gains or inheritance tax. A typical structure would involve putting money into a company that would then buy a property and perhaps take some borrowing (particularly if the property was let as you could offset some of the rental income).

As well as the 15% stamp duty levy, introduced in March, for properties bought within company vehicles for over £2 million, the consultation period on further changes, applicable from 6th April 2013 has recently ended. Whilst the Government has yet to clarify the exact details, we are advising our clients to seek tax advice on the potential implications and the best options going forward.

The proposals include an annual levy on properties held in company vehicles worth in excess of £2 million. The levy is expected to range from £15,000 per annum for properties valued at between £2 million and £5 million to £140,000 for properties valued at in excess of £20 million. These charges will increase in line with the consumer price index (CPI), with revaluations required every five years for qualifying properties. In addition, homes valued at over £2 million held in corporate structures and trusts could become eligible for capital gains tax on disposal (the rate of which has not yet be announced).

Those looking to re-evaluate the way in which they hold their properties should consider that any changes to property ownership will take time, deeds need to be found and if there is a lease owners will need to obtain the landlords agreement for an assignment. Many properties held within corporate structures will be mortgaged, so time will be needed to deal with the bank and get consent to alter the terms.

Prime London prices more than doubled in the past decade



Source: Landreg/Dataloft

With thanks to;

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Tristan Ward - Partner, Macfarlanes LLP

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EXPERT ADVICE

With conflicting announcements by the Conservatives and Liberal Democrats at their latest party conferences, we will unfortunately still have to wait until the Autumn Statement on 11th December before we have more clarity on the proposals.

At Turnbull we work closely with legal professionals to ensure we are always giving the best advice to our clients. We have been working with Paula Higgleton at Deloitte and Tristan Ward at Macfarlanes who are both looking at new options and approaches for their clients.

Clients who already own properties in a corporate structure should start planning as soon as possible. There is not a one size fits all solution, particularly as clients own properties through corporate vehicles for a number of different reasons.

For those holding properties within corporate vehicles as a way to maintain their privacy, the most simple approach could be to own the property through a nominee company. Under this arrangement the Company has legal ownership, but actual value of the property is owned by somebody else (separation of economic interest and legal ownership).

For some clients it may be advantageous to remove the properties in questions from the corporate structure, putting them into their own name, however this does also carry potential tax and stamp duty land tax implications.

Another approach to mitigate tax liabilities could involve borrowing against the property or taking out an insurance policy to cover inheritance tax costs in the future.

Comparison of national indices

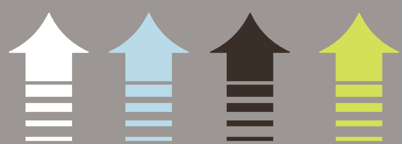
	AVG HOUSE PRICE	MONTHLY GROWTH	ANNUAL GROWTH
Nationwide	£163,964	-0.4%	-1.4%
HBOS	£159,486	-0.4%	-1.2%
DCLG	£234,000	1.1%	2.0%
LandReg	£163,376	0%	0.7%
Rightmove	£234,858	-0.6%	0.7%

Key housing market statistics

	LATEST DATA	QUARTERLY GROWTH	ANNUAL GROWTH
M'ge Approvals	47,665	-6.3%	-9.9%
Resi. trans	77,000	-3.0%	1.3%
Gross mtg	£11.3bn	-7.1%	-4.8%
Inflation	2.5%	n/a	n/a
Base rate	0.5%	n/a	n/a

Source: Bank of England, HMRC, ONS

Latest annual growth in average sales values



0.7% ENGLAND & WALES
5.0% LONDON
18.3% WESTMINSTER
17.9% KENSINGTON & CHELSEA

Source: Land Registry

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