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UK Property Investment Guide for Overseas Investors

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The UK: A Global Property Hotspot

The UK's buy-to-let market is generally accepted as one of the best asset classes. There are almost 5 million rental homes across the UK's property market, with property investors owning £1 trillion worth of homes.

In recent years, emerging regions, away from London, have allowed investors to achieve higher rental yields, with returns surpassing the average 4% rental yield in London.

5 million
rental homes in the UK

£1 trillion
worth of rental properties

Homeownership now stands at around
60%
of the population

46%
of people aged between 25-34 now living in rented homes

20%
of all UK homes are now rented in the private sector

"With a record amount of people living in the UK's private rental sector, dwindling homeownership levels have marked a rapid rise in the volume of private tenants."

Current Market Trends

At the height of the property market's pre-recession pomp, there was nowhere in the world that was quite like London for investors. With house prices high and rental demand pushing the cost for private tenants in a similar direction, London was the place to buy for short-term growth, long-term stability and overall fantastic returns.

However, a lot has changed in the UK since that time. Improved business conditions away from London have meant a migration of companies away from the capital, and many have taken skilled, young people with them, helping to create an all-new demand for rented property away from the area in which it previously appeared to be thriving.

The rise of Liverpool, Manchester, Luton and other towns and cities in the so-called regional England, has meant that the property market is now a more geographically diverse animal than it has ever been before, particularly when it comes to the private rented sector. And new data seems to suggest that this is increasingly the case, with London surprisingly becoming one of the least favourable places to invest in the modern market.

Northern Powerhouse

initiative is driving the revival of the property market in key northern cities

Commuter Belt Properties

outside of London which offer good transport links and better value for money

Value for Money

Properties in key locations in the north continue to attract investment as they are often much cheaper when compared to property in London.

Northern Cities

Strong market fundamentals mean that many investors can secure higher rental returns than southern counterparts

Tax Changes

Lower entry level properties allow investors to make upfront savings on Stamp Duty taxes

Alternative Assets

Student property, hotels investments, commercial offices and care homes remain a favourable choice for expanding property portfolios.

What is the Right Asset Class for You?

What are the best asset classes for those looking to invest their money in the UK markets?

Over the last couple of years, the government has seemingly gone a long way to make investment in the residential rental sector more challenging to say the least. More than any time in recent years, the government has been throwing barriers in front of investors in the shape of taxation alterations.

It all started last year, when the government decided to bring in a new level of Stamp Duty tax for those spending money on rental sector homes. It said that anyone who bought a second home would have to spend three per cent on top of the cost of the home in order to secure another property.

And in April this year, the government is going to go one step further again, bringing in new laws that will see landlords not being able to deduct mortgage interest from their taxable income, increasing the cost of buying rental homes nationwide.

As a result, many rental sector investors have been reassessing their choices, and looking at the options available when it comes to spending their money. Here, we take a look at various UK assets, and ask, is the rental market still the best place to invest your money?

Residential buy-to-let

Residential buy-to-let is one of the most common asset classes, offering buyers a tangible investment. It has also been preferred for its often high yields, compared to low savings rates and stock market instability.

However, the new tax changes are likely to see potential investors think twice about investing in residential properties.

Average price of investment:
As of January 2017, the average house price in the UK stood at £218,255

Average annual return:
According to Countrywide, the average monthly rental price in the UK is £921, resulting in an average annual return of £11,052.

Stamp Duty cost:
Most buy-to-let investments come with a Stamp Duty cost of three per cent on anything between £40,000 and £125,000. On those between £125,000 and £250,000, you will have to pay five per cent. You'll be paying eight per cent on a property between £250,000 and £925,000 and 13 per cent on anything between £925,000 and £1.5 million. Anything above £1.5 million will cost 15 per cent in Stamp Duty.

Off plan residential buy-to-let

Off plan residential buy-to-let offers benefits but can also present risks to investors. These properties are sold before they are actually built, which can lead to developers offering huge discounts. While the development is being built, property prices will rise in the surrounding area, allowing investors to capitalise.

However, it can be difficult for buyers to obtain mortgages for these properties, with lenders uncertain of the outcome of the development. They are therefore particularly attractive to cash buyers.

Average price of investment:
The average price of an off plan residential buy-to-let property varies depending on property type and region.

Average annual return:
Investors who purchase an off plan through Experience Invest can secure an assured rental return between 6% to 8% depending on the location and property type/ size.

Stamp Duty cost:
As with residential buy-to-let investments, investors will pay varying amounts of Stamp Duty on off plan property.

Student property

Student property is generally considered a safe investment option as it will always be in demand. Despite the threat of financial recession, there will always be students attending universities across the UK.

Knight Frank recently revealed that investors in purpose-built student accommodation are seeing better yields than they ever have, with the number of students living in these properties having doubled in the last decade. There are also more students than ever at university, with UCAS revealing on last year's A-level results that 424,000 had been accepted into higher education.

The price of purpose-built student accommodation does vary based on location. Investors should look for high quality developments which are close to an established university. Good transport links and city/town centre locations also provide good returns. Investors can pay from £68,000 per student room.

A zero per cent Stamp Duty tax is applicable to purpose-built student rooms.

Commercial property

Commercial property can include retail units, offices and restaurants, giving prospective buyers a wide choice. In January, the Telegraph reported that the number of buy-to-let investors who chose to focus on commercial property instead has tripled in the past three years.

A number of analysts think that Brexit will cause continued uncertainty in the commercial property market, which means that buyers should think carefully about whether this is the right time to invest.

Average price of investment:
The price of a commercial property depends entirely on the region you're looking to invest in, with London seeing the highest costs.

Average annual return:
Commercial property in London can cost an average of £52.50 per square foot per month, which can offer huge yields. It varies according to location, though, and Brighton will cost £3.38 per square foot per month in rent.

Stamp Duty cost:
Zero per cent on anything up to £150,000, two per cent on the next £100,000 (between £150,001 to £250,000) and five per cent on the remaining amount (above £250,000).

Hotel/Apart Hotel investments

The idea of investing in hotel or apart hotel rooms is a relatively new one. It can be an attractive option, with the owner often benefitting from a certain number of free nights in the hotel. It can also appeal to investors looking for something different to the residential buy-to-let investment in city centres that attract a great deal of tourism.

Average price of investment:
How much you'll be expected to pay for a hotel or apart hotel unit will vary on the region you're purchasing it in. With it being such a niche market, there are few average price statistics around so it's important to do your research.

Average annual return:
Developers promise returns of up to ten per cent so it's, again, vital to do your research and find the best yield prices.

Stamp Duty cost:
As they are classified commercial properties, hotel rooms up to £150,000 are exempt of Stamp Duty.

Care home investments

Investors wanting to diversify their portfolios are increasingly looking towards care home units as they offer real opportunities for capital growth and high returns. With an ageing population that will require more care homes, now might be a good time to consider investing.

These investments are offered on long-term leases so they do offer security, but if you're looking for something permanent, you might prefer a buy-to-let property.

Average price of investment:
Prices of these units differ but many will cost between £70,000 and £85,000 so investors should survey their options before buying.

Average annual return:
Some developers promise investors yields of up to 12 per cent so explore what returns are really being offered before going ahead with a care home investment.

Stamp Duty cost:
As with hotel rooms, care home investments are considered commercial property so are exempt from higher rate Stamp Duty.

UK Property Jargon Buster

Buying an investment property overseas may mean that you are faced with language, laws and rules which you are unaware of. Here is a list of terminology you might hear when you are purchasing a property in the UK.

Property Ownership:

What are the differences between Freehold and Leasehold investments?

In England, the two most important forms of property or land ownership are Freehold and Leasehold.

Freehold

As the property/land is essentially owned by the buyer on a freehold ownership, this form of property investment gives investors more control of their asset. Buyers are able to grant leases to structure and income, has a capital value and investors can take a hands-on approach to their investment.

Freehold ownership is still subject to certain restrictions and these should be considered when purchasing property.

Leasehold

Leasehold investment is restricted to a timeframe indicated on the term of the lease agreement. The lease will be granted out of a freehold or superior leasehold estate. Longer leases typically have a capital value. This form of a lease may permit the tenant to create under leases.

What is a lease?

A lease is a contract between a landlord and a tenant whereby the landlord has granted the tenant exclusive possession of the property/asset for a fixed period of time.

Typical lease for residential properties, a ground lease is a long lease usually over 99 years. Buyers pay a one off sum, sometimes referred to as a ‘premium’, with a nominal rent payable throughout the rest of the term.

Ground leases are considered closer to freehold as it holds capital value. Properties such as apartments or flats are usually sold or held on a long lease.

Registry of Land

A government department created to register the ownership of land in England and Wales, Land Registry is where evidence of ownership is documented including third party rights (mortgages).

Tax implications for non-residents

Tax on rental income

In general terms, an individual or company will be liable to tax on income generated by UK property whether or not that individual or company is UK resident for tax purposes. Under the “Non-resident Landlords Scheme”, the agent of a non-resident landlord or a tenant paying rent to a non-resident landlord, is required to deduct tax at the basic rate (currently 20%) from any rent payable to the non-resident landlord. When working out the amount of tax payable, the agent/tenant can take off qualifying deductible expenses. Agents/tenants are then required to account to HMRC on a quarterly basis for any tax due on rent payable to the non-resident landlord.

If they are non- resident they can take apply to HMRC to receive their rental income with no tax deducted. “Non-resident landlords can apply to receive their rent with no tax deducted on the basis that either: their UK tax affairs are up to date they have not had any UK tax obligations before they applied they do not expect to be liable to UK Income Tax for the year in which they apply they are not liable to pay UK tax because they are sovereign immunes (these are generally foreign Heads of State, Governments or Government departments)”

Please see the links below for further information.

http://www.hmrc.gov.uk/international/nr-landlords.htm#10 http://www.hmrc.gov.uk/international/nr-landlords.htm

Non-resident UK property owners are taxed on their properties located in the UK, subject to certain exemptions and reductions given in double tax treaties. Couples and registered same sex partners may be taxed either jointly or separately.

The tax year in UK is from 05 April of one year to 06 April of another year.

Taxation of Residential Property Lettings

Route 1: Pay income tax upfront (withholding tax).

Unless nonresidents take specific steps (see below) they will be taxed on net rental income sourced from the UK at a flat rate of 20%, which must be withheld by the tenant or letting agent, if there is one. In cases where the landlord does not have a letting agent, and the weekly rent exceeds £100 (€87), the tenant must usually withhold taxes from payments made to a non-resident landlord.
Certain expenses may be deducted from gross rental income, including costs incurred for business purposes and not of a capital nature. However, only expenses incurred by the tenant or letting agents may be deducted. Letting agents and tenants are sent manuals by the Inland Revenue to guide them through the process of taxing the landlord. In the case of vague expenses, the tenant or agent must be ´reasonably satisfied' that the expense is legitimate before deducting.
No personal allowances are available to those who choose this route.

Where there isn't a letting agent, the process could be a considerable burden upon the tenant and tenants may simply refuse to participate, in which case the landlord may opt for the second route.

Route 2: Receive untaxed income now and pay tax later.

A non-resident landlord may opt to receive his rent untaxed, and choose to file a tax return instead. He will need to fill in form NRL1 (for individuals) or NRL2 (for companies) or NRL3 (for trustees, from the Centre for Non-Residents). Note that each spouse receives the benefit of allowances.

This option may be rewarding for those non-residents eligible to claim UK allowances, who include:

- Commonwealth citizens (including British citizens)
- Citizens of a state within the European Economic Area (EEA)
- Present or former employees of the British Crown (including civil servants, members of the armed forces, etc.)
- UK missionary society employees
- Civil servants in a territory under the protection of the British Crown
- Residents of the Isle of Man or Channel Islands
- Former residents of the UK who live abroad for the sake of their health or the health of a member of their family who lives with them
- Widows or widowers of an employee of the British Crown
- Citizens of Bulgaria or Israel
- Individuals who do not fall within the above categories, but are entitled to claim by virtue of the conditions of a Double Taxation Agreement which the UK may have with their country of residence. Depending on the precise terms of the Agreement concerned, such an individual may be entitled to claim either as a resident national of the other country, or merely as a resident of the other country.

Capital Gains Tax

Individuals who are not resident in the UK are not liable to capital gains tax on the sale of UK property unless they have been resident in the UK within the past five years.

Council Tax

Council tax is a tax set by each locality on UK properties that may be used as dwelling, regardless of whether owned or rented. Fifty percent (50%) of the tax payable is based on the property band (A-H) to which the property belongs. The other 50% depends on the number of persons living in the property. If a person, of legal age, lives alone in the property, the taxpayer may avail of the Single Person Discount and the second 50% may be reduced to 25%.

Where there is an assured tenancy (the normal case) the tenant pays the tax. However, if there are no tenants, property owners are usually liable for this tax.

Value Added Tax ("VAT")

Commercial property transactions may be subject to VAT. Whether a commercial property transaction is subject to VAT will depend on a number of factors, mainly being whether it is regarded as a "new" property or whether the seller has opted to tax the property (formerly known as an election to waive exemption from VAT). Commercial property transactions may be subject to VAT if the value of the supplies exceeds certain thresholds. VAT is currently charged at 20%. Residential property transactions are currently "zero rated", which means that VAT is not generally charged on the premium or rent paid on a residential transaction.

Do I need to pay Council Tax?

No, the tenant is responsible for paying the council tax. If there is no tenant then the landlord may be liable for the council tax.

Tax implications for overseas buyers

If you are a 'non-resident' in the UK then you are classed as an overseas landlord and may apply to HMRC in the UK for exemption – the appointed solicitor can assist investors with this.

The benefits of using a property consultancy like Experience Invest for overseas investors

Overseas investment in UK buy-to-let property is, as it has always been, a popular venture for many people. Over the years, it's an asset that has been popular with Russian and other European investors, as well as those from the US. But in more recent years, it's those in the Middle East, and particularly the UAE, who have started to spend more money than ever before in what is considered one of the UK's, and indeed the world's, best asset classes.

There are many reasons that investment in UK property is a popular venture for those from the UAE, chief among which is the returns they can bring in. The most in demand homes in the UK are able to bring buy-to-let investors yields of more than ten per cent, which makes for a fantastic return on investment. On top of this, you've also got to consider other positives, such as the long-term health of the market, and the fact that you have a real chance of making strong capital gains over a number of years.

However, investment in property in the UK is not something you want to jump into alone. The market can be somewhat confusing, and knowing what to buy and where can be difficult, especially for newcomers to the market. Here, we take a look at a few reasons why it's always a far better idea to look towards investing with a consultancy if you're coming from overseas to buy UK property, and why companies like Experience Invest can be a real help along the way.

Market expertise

One of the main benefits you get from buying with Experience Invest is the expertise that we offer. Not only can we help guide you with the process of buying as a foreign investor, and answer any questions on financing, contracts and the legal ins and outs, we also have a wealth of experience when it comes to getting it right in the market.

Able to scope out new markets and developing rental hotspots, our off-plan developments allow you the chance to buy, safe in the knowledge that the buildings have been targeted at places where demand is sure to bring you in a healthy return. That sort of market expertise and insight is priceless when you are looking to get yourself a great return on investment.

Trust

If you are going to be working with a company overseas to invest in something that has not yet been built, you want to know that what you are spending your money on is going to come out as promised.

With a company like Experience Invest, however, you can rest assured that you will always be kept up to date with how things are going, so you can keep a close eye on proceedings, even from overseas. Regular progress reports and insights into how your development is going will keep you informed and let you know that things are going as you expect. This is especially important when you are geographically far from your assets and you don't want to feel miles away in terms of knowledge as well.

Returns

Returns are important to any investor, and working with a company like Experience Invest allows you the chance to lock your returns in for a set amount of time when you buy. This is perfect for international investors who have not purchased a property overseas before.

Locking in your returns for a set number of years removes the initial element of risk that you might associate with new investments overseas. This allows you to put your money into a market and feel safe in the knowledge that your returns are assured for a set period of time.

Passive option

Finally, it can also be beneficial as a foreign investor to know that the success and failure of your assets in the market is not solely on you, particularly when it comes to something like the rental market. Managing property is a very hands-on task that can require a lot of input from owners, and for those owners who not only don't live close, but actually live on a different continent, it's nearly impossible to be as active as you might need to be to find success.

With Experience Invest, however, you know that you are buying with a company that will manage your assets for you. They deal with lettings and other tenancy issues so you don't have to, and this leaves you able to sit back, relax, and welcome your returns without having to be an active investor.

FAQs

Buying a UK property with Experience Invest

How do I reserve my property with Experience Invest?

You complete a reservation form and pay a reservation fee.

The standard reservation fee for this development is £5,000 which must be sent to us with the reservation form. Upon verbal reservation of a unit, reservation forms must be received within 48 hours and fees must be received within 3 days. If we do not have reservation forms or fees we will have to release your unit.

When will contracts be issued?

Once we receive the reservation form and fee we will instruct solicitors. The contract will be sent to the investor once the money laundering and ID checks have been done and client care letter has been signed and returned.

We will appoint a solicitor on your behalf to hand the legal process for you. They will ensure all necessary legal searches have been done.

What are the legal fees?

Approximately £800 including VAT and £180 additional document fee.

When does the investor enter into a binding contract to purchase?

Once the purchase contract has been signed, the purchaser's solicitor will request for exchange funds to be released to the developer's account. The exchange funds form part of the total purchase price, minus any amount paid on reservation. The funds must be received by the purchaser's solicitor within 28 days from receipt of contracts.

How secure is my deposit money?

At first instance, all payments will be held by the solicitors.

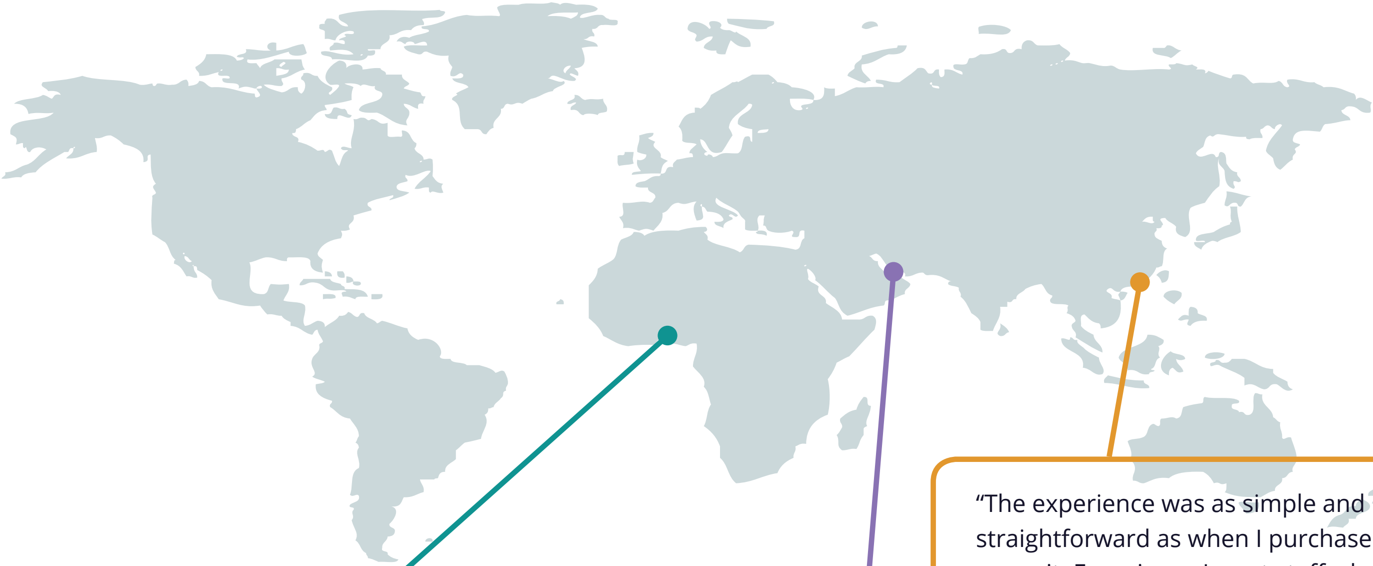
The terms of which funds are released are such that upon exchange of contracts funds can be released only for the purpose of transferring title of the Land to the Development Company and for the professional fees incidental to the acquisition together with the statutory payments to be made pursuant to the acquisition. Thereafter, funds can only be released to the Developer as the building works progress which release will be by way of Architects Certificate pursuant to the Developers building contract.

Upon completion of the works the Developer can call upon the completion of the various sales at which point the Buyers will receive their 250-year Lease together with a management agreement and occupational agreement to cover the management and income return.

Is the Unit transferable?

The Unit is freely transferable from completion and at any time whether during or after the 3 year rental guarantee period.

What our overseas clients say...



"When I decided I wanted to invest in properties to ensure I get a better return for my investment, I started to research, interestingly this adventure started in October 2016, then I came across the website of a developer and we started to discuss, for some reason I was not very convinced and ready... After months of doing nothing and just reading up here and there, started again in June 2017 researching and Experience Invest came up my first email request was responded to by Ed Scott on the 6th of June. He sent me a few of the developments in different areas and we started communicating from then.

"I have to say Ed walked me all the way through, he never pushed me to make me feel under pressure, he provided answers to any question I had, even when I would say but I read that student properties are not that good an investment particularly for exit for an investor, Ed would spend some time explaining things and how it works, value, articles and how student property investment works and why.

"There is nothing I asked Ed that he would not respond to or explain properly to ensure I understood and could make the right investment decisions, especially also for someone like me who is based abroad. I am glad I am here today with the purchase of the properties and look forward to expanding my portfolio with Experience Invest,"

Elizabeth Akinmoyo, Nigeria.

"The experience was as simple and straightforward as when I purchased my unit. Experience Invest staff who handled my case was on hand to answer all my queries and guided me through the entire process even following up after the sale to check if all went well.

"The ROI was excellent and on the higher end of my expectation.

"Their handling of my dealings with Experience Invest gave me comfort and confidence that my best interest was being taken care of. Experience Invest is definitely my preference for off-plan purchases in UK,"

Kevin Lim, Hong Kong.

"Very satisfied with the knowledge of the consultant and also the professional approach of Experience International on the aftersales service like update on the progress of the project.

"I would recommend to any would-be potential investor,"

Eric Teh, United Arab Emirates.