**Unit 5: Property & Alternatives**

**https://quizlet.com/gb/873378722/unit-5-property-alternatives-flash-cards/?i=9unaj&x=1jqt**

**Commercial Vs Residential: Initial capital**

Much higher on commercial.

Office block v student flat.

**Commercial Vs Residential: Typical Yield**

Higher on commercial­.

**Commercial Vs Residential: Lease length**

Longer on commercial

**Commercial Vs Residential: Maintenance Costs**

Easier to pass on to commercial tenants

**Correlation between commercial property and equities.**

Doesn’t follow same cycle – lag.

Not perfectly correlated > provides diversification.

**Main Risks with Property**

Income

Interest Rates/ Gearing

Liquidity

MGMT/ Maintenance Costs

**Liquidity Issues: Segmentation**

Unlike shares, can’t sell a portion of the property.

If need money, will have to sell entire thing.

**Void Periods**

No income but still incurring costs.

Even if have tenants: payment holidays etc.

**Maintenance Costs**

Can be 10% for agencies.

Tenants have little incentive to look after property.

**Student Properties Yields**

Will require higher yield to offset increased risk.

**Income Tax on Rent**

Deemed ‘Non-Savings Income’.

Can’t use PSA or DA

**Formula for Income Tax on Rent**

Total Rent x Marginal Tax Rate – 20% of Mortgage Interest.

**Tax- Relief on Mortgage Interest.**

Used to be at marginal tax rate.

Now can only deduct 20% ( basic rate)

**CGT Rates for Residential Property**

BRT: 18% > annual exempt amount.

HRT/ART: 28% > annual exempt amount.

**Timeline for CGT**

Mostly 8 months

However property must be paid within 60 days.

**Offsetting Capital Expenses for CGT**

Expenses when buying/selling: SD/ Legals

Improvements: New Kitchens

**IHT for Property**

Added to estate.

**IHT for Investment Properties**

Can’t use Residence NRB

**Private Residence Relief**

No CGT if have one home and lived there.

No rented out/ used for business purposes.

**Tax on Furnished Holiday Lets**

Viewed as business so some CGT relief.

Mortgage interest fully deductible.

**SD for First Time Buyers**

NRB = 425k

As long as property is less than £625k.

**SD Surcharge for additional properties**

3% Surcharge in all bands on properties more than £40k.

Even if property abroad.

**SD Surcharge Example**

0-250k – 3%

250-925k- 8%

**SD for Non-UK Residents buying UK Property**

2% surcharge in each band.

**SD on fittings/chattels**

Doesn’t apply if reasonably valued.

**SD on House-Swaps**

Cant dodge SD.

Will be applied to both purchases with market value.

**SD in case of Divorce**

Not due.

**SD for Limited Companies buying main residence**

15% on whole amount above 500k.

**SD on ‘Net Present Value’ of a Lease Formula**

Annual Rent x Length of lease - NRB x 1%.

40k rent x 10 years = £400k

Less 150K NRB

250k x 0.01 = £2500.

**SD Rates on ‘Net Present Value’ Leases**

1%

2% on leases above £5.

**SD on ‘Premium’.**

Premium = PP of Lease.

Normal Calculation.

**General Yield Formula**

Annual Rent/ PP \* 100

**General Yield Limitations**

Doesn’t factor in other costs/ expenses.

**Gross/ Net Yield Formula \***

Add initial costs to PP – e.g SD

Subtract expenses from income – e.g MGMT company.

**Rent a Room Scheme: Tax**

£7500 tax-free per residence.

Any above taxed at marginal rate

CANT deduct expenses.

**Rent a Room Scheme: Criteria**

Must both live there.

Must be furnished.

**Rent a Room: Goods & Services**

This can be included.

Laundry and Meals costs on top of rent.

**Commercial Property: 3 Types**

Retail

Office

Industrial

**Commercial Property: Who provides best Yield?**

1. Industrial: Warehouses/ Factories
2. Office
3. Retail

**Commercial Property: Tenants?**

Deemed higher quality than residential.

**Commercial Property: Maintenance**

More complex.

However, Maintenance and insurance normally paid by tenant.

**Commercial Property: Leases**

Often 3-5 years.

My have option to buy building based on multiple of rent.

**‘Pride in Possession’ assets**

Art/ stamps etc

**Correlation between Alternatives and other assets**

Little if any. Therefore good for diversification.

Sit outside normal ‘systemic risk’.

**Alternatives Risks: Specialization**

Require special markets/ knowledge

Harder to gauge value

Can be fickle.

**Alternatives Risks: High Costs**

Up Front Cost

Additional Fees- Auctioneers etc

Storage and insurance.

**Alternatives Risks: Income**

No dividend, rent, coupon etc.

**Alternatives: Main Risks**

Income

Liquidity

Currency

Fraud

Pollical/ Regulatory: e.g Oil.

**Alternatives: Income Tax**

Unlikely to generate an income.

**Alternatives: IHT**

Added to estate.

**Alternatives: CGT**

Chattels of less than £6000 are exempt.

**What is a chattel?**

Tangible movable thing.

Paintings, furniture, cars.

**What is a crypto-currency?**

Digital currency based on Blockchain.

**What is a Blockchain?**

Infrastructure that provides record of ownership.

**Crypto-currency: Key Features**

Anonymous

Unregulated

Not backed by FSCS/Gov.

**Crypto-currency: Key Risks**

Operational: Hacking/ Theft

No Regulator/ Supervisory Body

Currency risk: When converting to Sterling.

**Non Fungible Tokens (NFTs): What are they?**

Anything digital: Jpeg, MP3, Art.

Ownership recorded on blockchain.

**Non Fungible Meaning**

Unique: Can’t be replaced.

Unlike Bitcoin – which are identical.

**NFT Uses**

Income for creator.

Speculative asset – can be sold later for high price.

**NFT Risks**

Plagiarism

Volatile

**NFT Risks: Copyright Issues**

Even if own NFT, can’t print/ distribute the work without copyright holders permission.