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Commercial Property



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Is life only really about preparing for death? A morbid question, I concede. But the way that some of us prepare ourselves for the inevitability of the property recession, I sometimes think so! However, whilst cycles as well as death are inevitable there is a lot of fun that can be had along the way.

Having advance knowledge of when the cycles will hit is always useful and indeed history tells us that if you get

this right there are huge fortunes to be made. But if all of us are looking out for the tell tale signs of the cycle I would suggest that a catastrophic changing point is unlikely to be caused by the factors that we are looking at. I would maintain that the competitive advantage that individuals thought they had through their particular knowledge will be arbitrated out. This is similar to, of course, “the efficient market hypothesis”.

“The efficient market hypothesis asserts that prices on traded assets such as property already reflect all

known information and therefore are unbiased in the sense that they reflect the collective beliefs of all investors about future prospects.”

Property is weakly correlated with equities and is much less volatile

Compared with 15-20 years ago, knowledge today is deeper and more widespread and the inter-relationship between property and other financial markets is much better understood.

When we look at history we can make the mistake of believing that at a particular point in time in the past there could always only be one outcome. Of course from the point of view of the observer at that particular time he would have no way of knowing what the outcome would be from the then events and actions. He would have no insight into which event would be the one that history would write about. I hope you are staying with me!

What I am coming to is that we do not know for certain that the recent rise in base rates will be the event that history will say precipitated the next phase in the property cycle but in my opinion
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Putting down part of your wealth for long term wealth creation in property is a good investment strategy

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Property Week Article (cont).



and following the efficient market hypothesis it is most unlikely.

The rise in base rate to 5.25% was not a shock (only the micro-timing was) It had been widely predicted for months in advance. Buyers requiring finance had already factored this into their prices. We know this; just look at the money market rates over the last year.

What about a rise later on in 2007 to 5.50% which some commentators believe is a possibility? This will be factored now into prices if we believe the efficient market hypothesis applies to property. Will we see an adjustment in prices? For those requiring high loan to value ratios the answer is "yes". But are the debt-driven pri-

vate investors dominating the auction market. The answer is "no".

The auction market today serves a vital function in bringing liquidity and transparency to the small lot market. The buyers (but not necessarily the under-bidders) are motivated by long term wealth creation rather than trading profit. They want an exposure to the property market. They have cash to invest from potentially a number of sources; from other investments they have liquidated; from businesses they have sold or; from cash that is being thrown off by their non-property businesses. There is a lot of cash around. Some of this will go into property investments.

So what if you are buying a property investment that yields less than your cost of debt? So what if you can get a better return if you stick the money in a building society? So what that the sea-

soned property people have been saying that it's been the top of the market for three years?

The current adjustment to base rates should produce a soft landing

Putting down part of your wealth for long term wealth creation in property is a good investment strategy. Property is weakly correlated with equities and is much less volatile. It's tangible and understandable. Let on a 20 year lease to a bank a property doesn't require much day-to-day management!

And they can get their equity back which is more than they got from their investment managers some six years ago.

Interest rates are going up for a reason, Consumer spending is still relatively strong with rising house prices; the economy is growing at close to capacity with

full employment and incomes and growing. Isn't this good for occupiers? I'd rather have this than deflation when interest rates might need to fall rapidly. In this scenario, the costs of borrowing would go down but there would be no occupiers to occupy my buildings!

The current adjustment to base rates should produce a soft landing and I would argue that checks such as these, which have been employed in the past, are important to prevent severe over-heating leading to severe over-correction. . The last thing the Bank of England wants is a collapse in the residential and commercial property markets.

Soft landings are fine but what about the hard landing. What happens when we can't get our equity back and the occupiers fail to pay the rent? I would argue that we can't forecast this. If we could, it probably will not happen! Watch out!

Maturing CTFs can roll over into ISAs



Last month's press gave a good deal of publicity to the proposal to permit maturing Child Trust Funds (CTFs) to roll over into ISAs, thus enabling the tax efficient nature of the investment to continue.

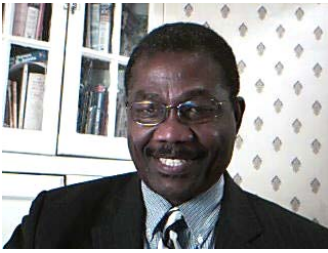
Depending on the extent to which the £1200 annual contribution limit has been made use of throughout the term of the CTF, this could

mean a substantial sum being moved across to an ISA at age 18. Clearly, at that point, many CTF holders may wish (or need) to access the funds within their CTF for various reasons, including the funding of higher education, but for others it may be a prudent move to leave some or all of the funds within a tax efficient environment by

way of a move across to an appropriate ISA.

In saving this money in a tax-free environment, all other things being equal and assuming that growth rates are reasonable, this could provide a deposit for a property purchase when someone is in their mid 20s. Alternatively, it could be used to fund travel or wedding plans instead.

Dismissal Is Not The Only Remedy



CASE STUDY

Roger Panton

Robert runs a company that gathers computer-based information from local authorities, assimilates it with other data before passing it on to other professionals. Much of the work has a strict time limit between the request for the information and providing it.

Robert contacted me because he was at the point of dismissing a long-standing employee, Glynis, for poor performance and attendance. He wanted to do it properly!

According to Robert, while Glynis' colleagues were

able to adapt to the new computer software, Glynis herself had difficulty coping. At the time of the introduction of the new software, Glynis was attending hospital weekly, for treatment. Robert believed Glynis changed her hospital attendance times from pm to am so she could have the whole day off instead of just being off pm. Also, in recent months, Glynis had been taking much more time off with less than convincing reasons for her absences.

During my discussion with Robert, it became clear that what he wanted was a worker he could rely on.

My strategy was to advise Glynis' line manager to meet with Glynis for the specific purpose of identifying the computer difficulties Glynis was facing and then to draw up a training programme to address the

specific difficulties. We also discussed the regular assessments that would be a key feature of the training programme. At the same time, management would discuss with Glynis the issues surrounding her hospital visits and her return to work afterwards.

A few weeks after my visit, Robert reported that Glynis was on the road to becoming a very competent employee with the only absences being for her hospital visits, which were still in the mornings and for which at the time, she still had the whole day off. Glynis was also described as being a happier person and that her team was more settled as a result. In addition, Robert said the training programme highlighted to management just how much they owed to those members of staff who managed to grasp the new pro-

cedures without the assistance of a formal training programme. He added that, should a similar situation arise in future, he would organize training for everyone to make them more efficient more quickly. He considered it cost-effective!

Robert was also very pleased that he did not run the risk of dismissing Glynis and probably end up with an employment tribunal claim for unfair dismissal. He was also delighted that he did not have to spend money on recruitment and 'taking a chance' on a new employee.

In essence, Robert was very pleased with what he described as my 'unusual approach to the problem.' My approach was in fact due to my 12 years Acas dispute resolution experience.

Artic systems

Artic systems is the case whereby a computer contractor employed his wife as part of his company. HMRC argued that the wife did not 'deserve' the earnings that she drew as most of the work and value was done by the husband. In other words, it was a tax avoidance scheme where whilst the form of the arrangement was not incorrect, the commercial substance was for purely tax avoidance purposes.

The Professional Contractors Group has stated that the Arctic Systems hearing in the House of Lords will not be until after the next self assessment filing deadline has passed (i.e. after 31st January 2007).

This is a far from ideal situation as it leaves a great deal of uncertainty for those with small family businesses and effectively means that, until the outcome of the hearing is

known, individuals who could potentially be affected need to tread carefully.

For further information and guidance, use the following link to the HMRC website:

[HM Revenue & Customs: Jones v Garnett: Further advice.](#)



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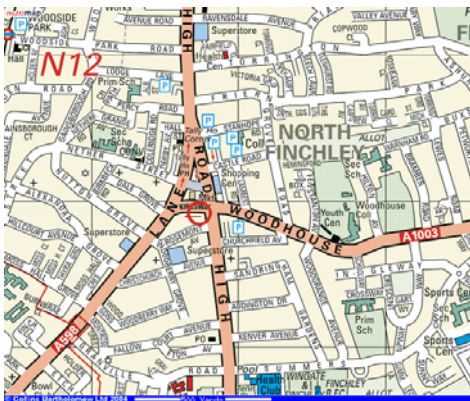
Clarity, focus, value

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*Kassius Financial Planners was incorporated in 2002 by Chirag Shah and Andrew McGovren, who between them have nearly 40 years experience in the Financial Services industry. **We are totally independent, dealing with every provider in the market.** In 2003 Chirag Shah achieved Certified Financial Planner status, the highest and most respected qualification within the UK market, with only 350 practitioners in the country.*

*Our aim is to bring a common sense approach to financial planning, offering **clarity, focus and value**, whether it be advice on residential mortgages, protection and pensions or more complicated investment, inheritance tax and commercial loan issues.*

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ISAs to remain as government announces shake-up of investment regime

The Government revealed at the Pima conference in London last month that ISAs will remain permanently (the previous commitment would have only seen them in place until 2010).

Ed Balls, Economic Secretary to the Treasury, announced that the government will make the ISA a permanent feature of the savings landscape in order that this open-ended commitment to the ISA will provide stability for savers and certainty for the industry. In addition, the Pre-Budget Report will confirm that the overall annual contribution

limit will continue to be at least £7,000 for each individual.

The government will also implement a number of reforms designed to simplify the ISA regime and increase its flexibility for providers and savers.

It is the government's intention to remove the mini/maxi distinction within the ISA in order to simplify the regime, make it easier for savers to understand and engage with ISAs and provide greater flexibility and choice for savers. It will also make ISA products cheaper and easier for the industry

to provide.

The government also intends to bring PEP schemes within the ISA wrapper with the assurance that the funds held in PEPs will continue to enjoy tax advantages. Again, this will simplify the savings landscape, making it clear to all that ISAs are this government's primary savings vehicle outside pensions, and it will enable the administrative burdens on providers to be reduced, leading to cost savings in future.

The government announced when the Child Trust Fund (CTF) was

launched that they would allow CTF accounts to roll over when they mature into whatever tax-advantaged vehicle exists at the time and now that they have announced the extension of the ISA regime, it is confirmed that this vehicle will be the ISA.

