WORLD

New funds target cautious investors

There has been a rise in the number of companies launching property funds in the UK and European property sectors, many from existing agents that are exploring new ways to attract cautious investors. Although the idea of a property fund is not new, the models and the people behind them are bringing a new approach to the sector.

Timeshare-fractional models

One of the latest is Rocksure Property's Capital Fund, with a ground level half-share entry of €57,500, investing in high-end properties between €1 - €2m, across Paris, Cannes, London, Barcelona, Marbella, Venice, Rome and Vienna. From this investment, individuals are granted timeshare access to the property portfolio for seven nights and capital appreciation in ten years when the fund is liquidised. "Investors can rely on Rocksure's experience and leverage to access ten hideaways across Europe, alleviating the risk associated with one-off purchases," said a spokesperson.

RGM Fractional has also just launched its new fractional closed end property fund targeting Dubai, which is listed on the stock exchange to provide nervous investors with an affordable entry level into a secure fund.

"The main reason for launching the fractional fund is that it gives a greater access to other types of consumer funds," said Jeff Hankin, senior consultant from RGM Fractional. "SIPPs can be used in property investment but there are a lot of restrictions on it. Being listed means that we don't have to just target SIPPs investors, but people with ISAs, PEPs and SSAS can enter the funds, along with cash investors. We are adapting to market conditions by launching something that opens up a lot of new routes for money to come in.

"People are nervous, but as soon as you say it is a listed fund, an IFA will know the work has gone in and that provides confidence."

Meanwhile, in the UK, Graeme Grant from the overseas facing consultancy Resort Group International is in discussions with financial advisors to launch a UK distressed property fund to target European investors, active in the country at present.

"The advantages of starting a fund like this compared to typical property investment are very simple," explained Grant. "Many Europeans cannot afford to take advantage of the recession, even though a property might have dropped from £160,000 to £100,000, but £20,000 is affordable. This widens the pool of potential buyers. Alongside this, is the strength of the Euro against the Pound.

This is not purely a response to market conditions, but instead of sitting back and looking at how much money we will lose with the way things are going, we are thinking about how we can take advantage of the situation."

SPAIN

IHT 'timebomb' could hit Brit owners

Property owners in Spain hoping to provide some security for their children or spouses after their deaths could be leaving them a financial headache instead according to a Corporate property ownership specialist.

"Non-domiciled property owners in Spain are sitting on a ticking inheritance tax (IHT) time bomb," warns Mark Roach of Wincham Investments. "Most owners do not understand that their heirs and their estate may pay IHT in two jurisdictions, Spain and their country of domicile. In Spain, the individual inheritor is taxed, whereas in other countries it is the estate that is taxed.

"This could mean that on the death of an owner the surviving partner, or the owner's beneficiaries, could have a tax bill that virtually wipes out the entire Spanish inheritance. Added to this is the cost of probate in both countries too."

One solution proposed by Roach is for the owner/s to gift the property to a UK Private Trading Limited Company. "There would not be a 7% transfer tax in Spain on this transaction unlike other property transfer transactions," he adds. "This method may eradicate all taxes in Spain in the future, in respect of the property, as a UK Company, for example, is only taxed in one jurisdiction, the UK, and no taxes are payable onwardly in Spain.

"Shares in the UK company can be dealt with in a UK will and, depending on the structure of the company, the shares may be exempt from Inheritance Tax in the UK."

Planning | Agents must be fully aware of the implications when selling certain investment models

An alternative view

However, Peter Esders, partner at the International Law Partnership, disagrees with some aspects of Wincham's model.

"It is correct that tax rules in Spain and the UK work differently and UK domiciled owners of property in Spain may have to pay IHT in Spain," he told OPP. "It is also true that IHT may have to be paid in both jurisdictions. However, because of Double Taxation Treaties, tax paid in Spain is offset against tax due in the UK. Therefore, only any difference due in the UK is payable. The problem is therefore not as detrimental to property owners."

Esders added that the solution proposed by Wincham, in which owners gift the property to a UK Private Trading Limited Company, has been around for many years, but is not advisable for the majority of cases.

"Firstly, a gift of a property in Spain can give rise to gift tax which is taxed at the same rate as IHT in Spain – meaning there is no saving in Spain. Even if the transfer is carried out as a sale there will be taxes associated with the transfer (transfer tax, capital gains tax) and legal fees which could amount to more than the tax the owner is trying to save."

Not for everyone

"It is vital to remember there is not one solution for everyone, rather, any tax problems should be tackled on an individual basis taking personal circumstances into account," added Esders.

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