RESIDENTIAL RESEARCH

GLOBAL DEVELOPMENT INSIGHTS

Q2 2013

THE COST OF BUYING:

A comparison of the fees and costs associated with buying and living in a new-build prime residential property around the world

Comparative costs

Global political and economic turbulence, evident since the start of the financial crisis, has created a new impetus for investment in prime residential property across the world.

"While the financial crisis contributed to growing cross-border demand for property, it has also led to a more febrile tax and regulatory environment."

Liam Bailey, Global Head of Residential Research

This interest in cross-border investment should perhaps come as no surprise as wealthy individuals look for safe haven investments in the light of on-going economic uncertainty, with a rising emphasis on investing in tangible assets.

This was reflected in the number of people searching for luxury residential property last year. Our data showed that in 2012, the total number of web searches for prime homes on Knight Frank's global website rose by around 35% on an annual basis. It's a trend we expect to continue; as shown by our extensive survey of HNW advisers in The Wealth Report 2013.

However, as governments target property taxation to try to deflate market bubbles, or pay off swelling budget deficits, individuals need to be mindful about the taxes and charges they face when buying a new-build residential property. Our analysis of 15 global cities reveals a striking variance in charges and fees when purchasing in each location.

For our analysis we have compared the purchase costs for non-resident buyers purchasing a new-build property valued at US$3m. This includes stamp duty, legal costs, transfer fees and agency fees (where these apply for a purchaser). Additionally, we have looked at the annual cost of ownership for these properties; our assessment covers wealth taxes, council or municipal taxes and property taxes but excludes ground rents and community service charges, which only apply to specific properties.

35%

Increase in online prime property searches in 2012 (knightfrank.com)

Purchase costs

Given recent efforts by policy makers to cool residential markets in Hong Kong and Singapore by increasing property taxes for high-end residential real estate, these two destinations top the list by some margin for purchase costs.

Hong Kong is the most expensive location to buy a home, once all the associated costs have been factored in. Non-residents can expect to pay 25% on top of the purchase price when buying a $3m home. The bulk of this consists of stamp duty costs and a property tax levied on foreign non-permanent residents.

In Singapore buyers pay purchase costs of 19.3%. The city-state's 18% rate of stamp duty for non-residents is the highest of all the world cities we analysed (an Additional Buyers Stamp Duty of 15% plus the standard rate of around 3%), having been increased in January 2013 as policymakers stepped in to try and reduce property price growth.

"Buyers need to be mindful of the taxes and charges they face when buying a property, especially given recent interventions by governments."

London and Sydney sit in third and fourth places respectively with buying costs making 7.9% and 7.2% of the total purchase price in each city respectively.

Despite being one of the more expensive locations to buy a new-build home, London property remains popular with international investors who are attracted by the UK's political stability, good communications and the city's top schools. Our research shows that 73% of prime central London's new-build homes in 2012 were bought by overseas buyers, with Singaporeans making up the largest proportion of international purchasers.

In New York there is no stamp duty, but the purchase of a $3m new-build condominium will incur a 1% mansion tax. Unlike previous discussions in the UK, the mansion tax in the US is a purchase cost that becomes an annual charge after one year of ownership and the rate is usually a lesser amount, based on the neighbourhoods'average property price.

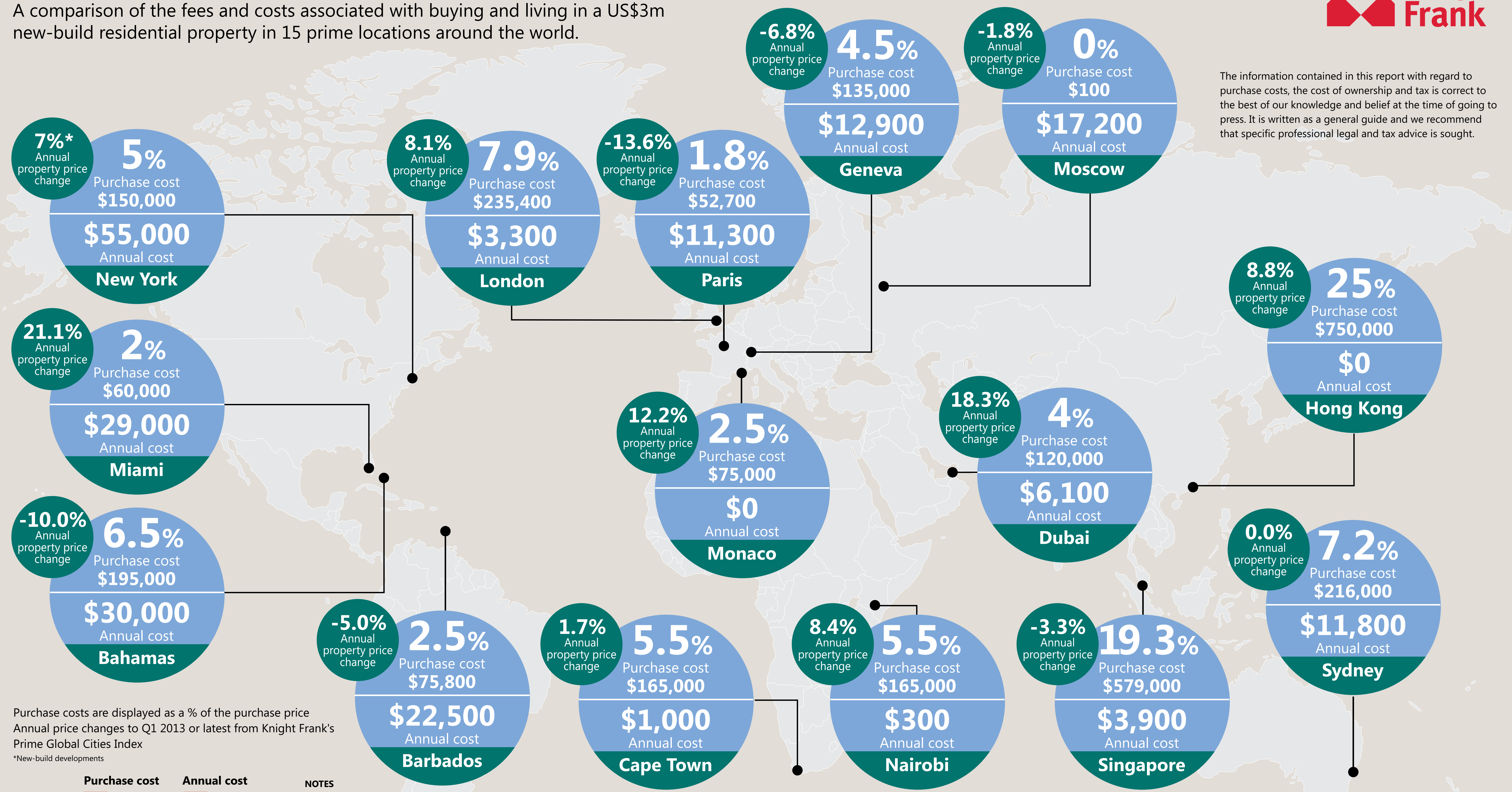
continued on page 5

The real cost of buying a new luxury home

A comparison of the fees and costs associated with buying and living in a US$3m new-build residential property in 15 prime locations around the world.

Knight Frank

The information contained in this report with regard to purchase costs, the cost of ownership and tax is correct to the best of our knowledge and belief at the time of going to press. It is written as a general guide and we recommend that specific professional legal and tax advice is sought.



Purchase costs are displayed as a % of the purchase price
Annual price changes to Q1 2013 or latest from Knight Frank's Prime Global Cities Index
*New-build developments

	Purchase cost		Annual cost	
Most expensive	1	Hong Kong	1	New York
	2	Singapore	2	Bahamas
	3	London	3	Miami
	4	Sydney	4	Barbados
	5	Bahamas	5	Moscow
	=6	Cape Town	6	Geneva
	=6	Nairobi	7	Sydney
	8	New York	8	Paris
	9	Geneva	9	Dubai
	10	Dubai	10	Singapore
	11	Barbados	11	London
	12	Monaco	12	Cape Town
	13	Miami	13	Nairobi
	14	Paris	=14	Hong Kong
Least expensive	15	Moscow	=14	Monaco

NOTES

PURCHASE COSTS
All figures are in US dollars
Sydney: figures are based on a non-resident without a permanent residency visa purchasing a new residential property. Stamp duty excludes Land Transfer Tax
Bahamas: Stamp duty of 10% applies above $100,000 but the purchaser pays 50%
Dubai: legal fees only apply if the purchaser chooses to appoint a legal representative. Registration fees apply to mortgages at a rate of 0.25% of the loan amount
New York: legal fees will vary. Transfer Taxes include a mansion tax of 1% (applies above $1m), a NYC Transfer Tax and the NY State's Transfer Tax. For condominiums in new developments, the purchaser will pay costs normally paid by the vendor (the vendor's attorney fees and transfer taxes).
Paris: VAT of 19.6% is usually built into the purchase price of a new property. The notary's fees include various formalities as well as the deed of purchase and the registration of the mortgage
Monaco: the figures above assume the new-build property is being purchased by an individual or a Monaco SCI. VAT/TVA of 19.6% is usually built into the purchase price
London: assumes no buying agent has been instructed
Geneva: costs can vary from location to location and the above is considered a guide only

ANNUAL COSTS
All: figures exclude service charges and ground rents but include wealth tax (where applicable)
Barbados & Bahamas: Property taxes tend to be levied on historic property values and in turn may end up being less than above
New York & Miami: Real estate taxes are levied by the local municipalities and counties of the U.S. states. The figures above are based on market wide average annual charge data (common charges and real estate taxes) for condos in both markets
Sydney: Local council tax levies vary across the city. The calculation of Land Tax is complex using sliding scales and the valuation can be subjective. Figures assume a 35% land component.
Dubai: 5% of rental value is paid to the municipality by the occupant whether owner or tenant. The figure assumes a £2m/AED11m property has an annual rental value of AED 450,000. There may also be an annual community and waste collection tax applicable, which is charged depending on the location and size of the property, at rates varying between 10 AED to 20 AED per square foot
Singapore: Figures assume an annual annual rental value of a £2m/SGD 3.8m property is c.SGD 106,400 and the property is occupied by the owner. Property tax applied on a graduated scale SGD 6,000 taxed at 0%, next SGD 59,000 taxed at 4%, above SGD 65,000 taxed at 6%
London: Figures assume purchaser is an individual and not a "non-natural person" hence Annual Tax on Enveloped Dwellings of £15,000-£140,000 pa is not applicable

Buying a $3m base in Paris is relatively low-cost. There are registration and notary fees to be paid, but it is cheaper to buy a luxury home in the city compared to other traditional locations.

Annual costs

While Hong Kong tops our purchase costs table, the opposite is true when it comes to the annual cost of owning a property. Buyers are not required to pay any ongoing property, land or council taxes. In Monaco, homeowners are able to benefit from the principality's benign tax environment and also face no annual charges for their property.

At the other end of the scale, New York's relatively low purchase costs are offset by high annual fees.

Tropical climates and a relaxed lifestyle are undoubted draws for Caribbean property, but the annual costs of owning a home in the Bahamas and Barbados are among the most expensive of the locations surveyed. Homeowners will pay $30,000 and $22,500 per annum respectively.

Clarification surrounding the taxation of French property was given in 2013, with the implementation of new wealth tax rules which apply to non-residents buying homes in the country and an increase to Capital Gains Tax. The wealth tax affects everyone who has net assessable wealth in France valued at or above €1.3m. Depending on an individuals' total net worth, rates of between 0.55% and 1.5% apply.

In London our figures assume that the purchaser is buying as an individual and not through a company. As such the Annual Tax on Enveloped Dwellings announced by the Chancellor in last year's Autumn Statement of £15,000-£140,000 is not applicable. Residents are required to pay council tax – a $3m property falls into band H and will incur the highest rate.

While the financial crisis contributed to growing cross-border demand for property, it has also led to a more febrile tax and regulatory environment, which we discuss in more detail below.

Rule change

Whenever we discuss government intervention in residential property markets, talk inevitably turns to Asia, where recent steps have been taken to deter speculative purchasers from driving prices even higher. However, Knight Frank's Oliver Knight says investors should be prepared for the possibility of further tax changes in other world regions.

"With demand for prime property only likely to rise we might expect a growing trend towards attempts at property market micro-management by governments."

Oliver Knight, Editorial and Research Executive

In Asia mainstream property prices in two of the region's hottest real-estate markets – Hong Kong and Singapore – have soared in recent years; rising by 103% and 53% respectively post the collapse of Lehman Brothers in 2008.

As a result, policymakers in both locations have tried to suppress demand and control rising prices by implementing a range of cooling measures, from increasing stamp duty to curbing home loans.

In February, the Hong Kong government doubled stamp duty for properties valued at over HK$2m and placed lower limits on loan to value thresholds for mortgage lending. This added to a series of cooling measures in place since October 2009. The city also penalises those selling their properties within three years.

Government intervention in Asia has generally been geared towards the whole of the market, affecting buyers of both prime and mainstream properties. However, recent curbs have specifically targeted overseas purchasers at the top end of the market.

In Singapore, increased taxes for overseas buyers and tighter loan to value ratios were introduced in January. These formed part of the city state's seventh round of cooling measures in the past four years. The recent budget also set out an additional increase in property tax for high-end residential real estate due to be phased in over 2014-2015.

Elsewhere in Asia similar steps have been taken. In some of China's largest cities, including Beijing and Shanghai, local governments have tightened rules on home purchases. Beijing banned single-person households from buying more than one residence, while Shanghai prohibited banks from giving credit to those who already owned two homes. The two cities also enforce a 20% tax on capital gains from property sales.

But what impact have these measures had so far? In Hong Kong and Singapore, there has been a fall in purchases by overseas buyers. Singapore saw the number of international buyers drop by 24% in 2012 from 2011, while in Hong Kong's luxury market the proportion of mainland Chinese buyers dropped from around 30% in October 2012 to only 9% in January 2013.

The idea of policymakers intervening in residential property markets is nothing new, but ongoing challenging global economic conditions and the resulting growth in national deficits have led to an increasing number of governments assessing – and changing – policies.

In the UK, the taxation of high value property has been one of the key topics of discussion within the prime housing markets over the past two years. The raising of stamp duty in March 2012 for £2m+ homes from 5% to 7% was followed by attempts to hone stamp duty avoidance measures.

In April, the Government introduced the Annual Tax on Enveloped Dwellings (ATED) for properties worth over £2 million. The ATED was introduced to combat properties being bought through companies to avoid stamp duty. The annual tax starts at £15,000 a year, rising to £140,000 for properties worth £20m or more, although there are wide-ranging reliefs available.

The introduction of the higher rate of stamp duty and the initial discussions on ATED have had an impact on the market. Our data shows that price growth of properties valued at under £2m and over £5m has outperformed houses between these price bands.

But government intervention can have a positive impact on markets, as evidenced by the introduction of Help to Buy, a multi-billion pound scheme which UK policymakers hope will lead to a more active housing market and a wider economic recovery.

In 2012, we also saw the impact that indirect taxes and regulation can have. Following President Hollande's pledge to increase income tax for the richest inhabitants, there was a significant increase in the number of people from France searching Knight Frank's website for prime property in London. Similar spikes in search volumes have been seen from Greece and Italy, where increasingly tough austerity measures are being put in place.

It suggests that should tax policies become too punitive individuals are prepared to relocate.

Elsewhere, the UAE Central Bank flirted with the idea of limiting mortgage loans for foreigners to a maximum of 50% of the property's value. The bank said the curbs would prevent overheating in the market, deter speculative purchasers and reduce loan defaults. Prime residential property prices in Dubai climbed 20% in 2012, according to Knight Frank data. The plans have since been shelved pending the results of a consultation with lenders.

As prices and demand for prime residential property continues to rise around the world we might expect a growing trend towards attempts at property market micro-management by governments.

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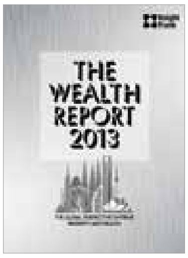

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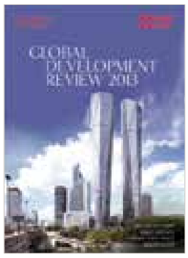

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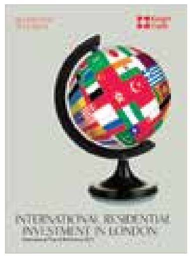

International Residential Investment in London 2013

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