Newsletter

Real Estate Matters

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About Us

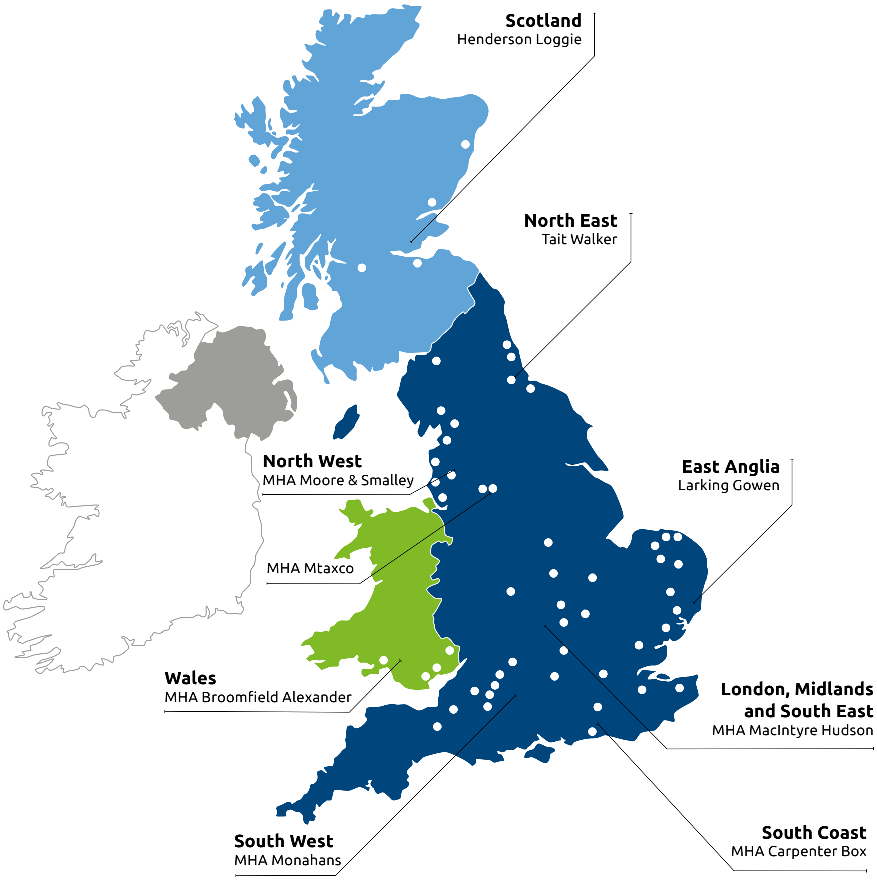
MHA is an association of progressive and respected accountancy and business advisory firms with members across England, Scotland and Wales. Our member firms provide both national expertise and local insight to their clients. MHA members assist clients with their needs wherever they are in the UK, as well as globally through our membership of [Baker Tilly International](), which has a network of trusted advisors covering 147 countries worldwide.

National Reach

£140m
Combined turnover

9
Member firms

50+
Offices



Baker Tilly International

An independent member of bakertilly INTERNATIONAL

Global Reach

US$3.2bn
Combined revenues

147
Territories

126
Member firms

UK Construction Sector: 2019 Predictions

The sector's **confidence** has suffered more than most in the last couple of years

"A week is a long time in politics" is a famous quote attributed to British Prime Minister Harold Wilson which now seems more relevant than ever.

Given this was said many years before the invention of the internet and Britain's entry in to the then European Common Market, it seems outdated in these fast paced 24-hour-news-cycle times in which we currently find ourselves.

With Brexit due to take place on 29 March 2019, and with such an unpredictable economic and political climate, it would be both brave and foolish to accurately forecast conditions in the construction sector for 2019.

However, there are some trends already evident in the construction sector that are likely to continue to shape the confidence of the market – the likely Government stimulus that will undoubtedly follow Brexit, refurbishment of the safety of high rise buildings after the Grenfell tragedy, to the development and the greater use of data in construction projects.

This article briefly explores these topics and is not meant to be an accurate forecast of events for 2019 which should be relied upon for investment decisions.

Confidence

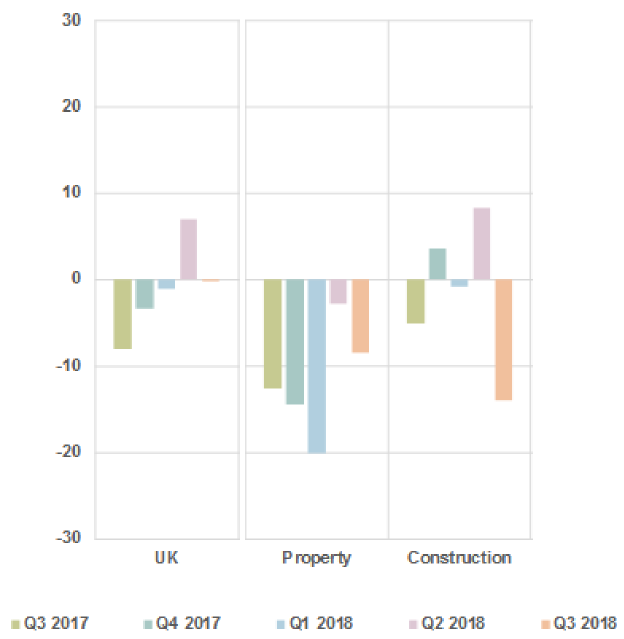
Firstly, the one thing that always remains vitally important to the construction industry is confidence.

The construction and property sector's confidence has collectively suffered more than most in the last couple of years. The quarterly ICAEW UK Business Confidence Index shows this clearly in the recent five quarters to Q3 2018. The survey is based upon 1,000 interviews of Chartered Accountants and Financial Directors. Whilst the UK as a whole has shown a gradual return to confidence after the 2017 General Election, this evaporated in the third quarter of 2018.

However, the property sector has remained in the doldrums during this time, evidenced by the reported fall in housing prices in London and the South East in 2018. The weak state of retailers on the high street and the many Creditors Voluntary Arrangements (e.g. House of Fraser, Poundworld and Carpetright) will not help landlords to be confident.

The construction sector's confidence showed a very mixed picture in 2018 and this is expected to continue until the Government's Brexit position has settled and all industries can benefit from a stable economic environment.

ICAEW UK Business Confidence Index



Continued growth in the mergers and acquisitions market is expected to continue

Brexit and Public Spending

Regardless of the exact nature of Britain's withdrawal from the EU, the Government is likely to invest in infrastructure as a stimulus to the UK economy.

The large investments in HS2, the nuclear industry (new build and decommissioning), roads and housing will continue to drive demand and shape the market regionally.

Anecdotally, the fall in demand for plant hire in London and the South East has shifted focus of plant hire companies to serving HS2 in the Midlands driving down prices and margins. Similarly, the over capacity in the civil engineering sector has resulted in significant changes in regional pricing and many large players will be hoping that this doesn't develop into a sustained price war.

On a more positive note, the announcement that Local Authorities will be able to borrow more to build good quality affordable homes and address the housing shortage is very welcome and should see more developments planned for 2019. Again, not all Local Authorities have announced that they will make use of these new powers and so there will be regional variations.

Grenfell Fire Tragedy

The construction sector is still coming to terms with the aftermath of the Grenfell fire tragedy and the lessons that must be learned. The inquiry does not have a fixed timeframe and may continue throughout the whole of 2019. Phase two of the inquiry will include a focus on the lessons to learn which will necessitate a planned programme of replacement of existing fire doors, passive fire protection systems and external cladding etc., will identify procedural improvements around fire safety evidence and will determine new building development regulations.

Such changes in legislation will require the market to adapt and will lead to new investment in the sector to meet the expected demand and greater funding for ongoing facilities management and maintenance.

Mergers and Acquisitions

2018 saw continued growth in the mergers and acquisitions market in the construction services sector which is expected to continue, however, there was one notable exception. The liquidation of Carillion plc sent shockwaves through the industry, with ripples impacting smaller contractors who suffered bad debts and a general knock to industry confidence.

On a more positive note, the sector continued to attract investors. A prime example includes, the £30m investment by LDC in NBS, the market-leading provider of technology, data and content services to the architectural, engineering and construction industries.

Based in Newcastle, NBS employs more than 200 people and has successfully developed a standardised approach to Building Information Modelling (BIM) that allows construction professionals to use the most up-to-date information to make the correct decisions quickly and minimise risks on projects.

This deal was one example of how private equity investors can be attracted to the construction services sector if companies can embrace technology and develop their own intellectual property that can capture data which is relevant for the market and its professionals.

Summary

In conclusion, the Government, Local Authorities, private equity and the confidence of all of us in the construction services sector will as usual be key drivers for the sector in the year ahead.

As for making new year predictions, British Prime Minister Harold MacMillan once said in reply to a question on what would knock the Government off course "Events, dear boy, events."

Such unforeseeable events that could impact the construction market include those which affect the UK's attractiveness to foreign property investors (i.e. the value of sterling) or which affect home owners and the ability to fund long term projects (i.e. interest rate hikes).

We can only wait to see what events will happen in 2019 and hope that the sector can re-establish its confidence and continue to adapt and thrive.

These views are the personal views of Steve Plaskitt, member of the MHA Construction & Real Estate team, and are not the official views of MHA Monahans.

GET IN TOUCH

If you have any questions or if you would like to discuss anything with us in more detail, please contact Martin Longmore on 01225 472800.

Capital Allowances

The Annual Investment Allowance increased from £200,000 to £1m

The Autumn 2018 Budget saw the chancellor give with one hand and take away with the other in many areas of taxation, with significant changes being announced to the Capital Allowances regime. By and large the new policy changes were designed to stimulate business investment in the economy by providing increased incentives for businesses to invest in capital assets.

The Annual Investment Allowance

The Annual Investment Allowance (AIA) is a 100% in year allowance which can be applied to qualifying expenditure up to the pre-set annual limit or restriction. Where qualifying capital expenditure exceeds the annual limit, this attracts relief in either the main pool or the special rate pool.

The 2018 Budget saw the AIA limit increase to £1,000,000 from the £200,000 it has been set at since 1 January 2016. The increase is deemed to be temporary and in place until 31 December 2021.

Although the increase to £1,000,000 is significant, it may not benefit everybody equally in the first year. This is because an accounting period which straddles the two allowances must be apportioned accordingly. For instance, where a business has a 12-month accounting period which ends on 31 March 2019, the first nine months of the accounting period fall into the period where AIA was £200,000 and the final three months of the accounting period fall into the increased AIA of £1,000,000.

Therefore, the available AIA will be:

(9/12 x 200,000) + (3/12 x 1,000,000) = £150,000 + £250,000 = £400,000

These complex transitional rules could catch out businesses who have accounting periods which straddled the date of the change. Even if they do not incur more than £200,000 of qualifying capital expenditure, they will have to pay attention to the timing of their expenditure to ensure the fluctuating limit does not result in an unintended consequence.

The New Structures and Buildings Allowance

Capital expenditure incurred on most structures and buildings have been excluded from the capital allowances regime. A new Structures and Buildings Allowance (SBA) has been introduced for expenditure incurred on new non-residential structures and buildings, where the contracts for construction works are entered into on or after 29 October 2018. The relief will be at 2% on a flat rate basis, essentially spreading the cost of construction over 50 years, which ties closely to the majority of depreciation policies for accounting purposes. If the allowances are not claimed, they cannot be carried forward to later periods and will be lost.

SBAs will not qualify for the 100% AIA. However, plant and machinery including integral features as defined by CAA 2001 s33A, will continue to qualify for Capital Allowances and benefit from AIA, and as such remains essential to segregate these for tax.

In many respects, SBAs sound similar to the Industrial Buildings Allowances (IBAs) that were abolished from 2011. Although the new SBAs will be more widely available than the former IBAs, the rate of relief is half of what IBAs attracted.

On sale, there will be no balancing allowances or charges. Buyers will simply inherit the residue of expenditure not yet written-off for tax and there will never be an uplift resulting from apportioning an increased market value. Unfortunately, the absence of balancing adjustments means that, in contrast to PMAs, claiming SBAs will reduce the owner's capital gains base costs. As such, relief may be clawed back on disposal by increasing a gain.

Capital Allowances are a complex area of tax, it is easy to miss out on available reliefs

Abolition of Enhanced Capital Allowances

Enhanced Capital Allowances (ECAs) were introduced for purchases of qualifying plant and machinery and listed on the Energy Technology List (ETL) in 2001 and Water Technology List (WTL) in 2003. The lists outline qualifying assets which are either energy efficient or environmentally beneficial.

A measure introduced in the 2018 Budget will update the lists of energy efficient and environmentally beneficial technologies and products which are eligible for first year allowances (FYA) known as ECAs. The measure will also end the FYA for products featured on the ETL and WTL including the associated first year tax credit for loss making businesses as of April 2020 onwards.

GET IN TOUCH

Capital Allowances are a complex area of tax, where it is easy to miss out on maximising vital reliefs. When investing in assets such as real estate, whether through acquisitions or development, it is important to seek professional advice to understand the reliefs available to you throughout the process.

If you have any questions or if you would like to discuss Capital Allowances with us in more detail, please contact Martin Longmore on 01225 472800.

VAT Treatment of Residential Service Charges

Service charges payable by the holder of a residential lease or tenancy are usually exempt from **VAT**

Many occupants of residential property are required to pay service charges in respect of shared costs for the estate or building in which they live. It is common for the person responsible for managing and collecting these service charges to outsource it to a property management company. HMRC has recently published updated guidance in respect of services provided by property management companies to the occupants of residential property.

Service charges payable by the holder of a residential lease or tenancy are usually exempt from VAT as they are consideration for the exempt use of land. The same treatment does not technically apply to service charges payable by a freeholder, therefore there is a long-standing concession which applies the same treatment. The concession was designed to put all occupants of residential property in the same position from a VAT perspective, that service charges in respect of shared costs would be exempt.

HMRC has identified that the concession has been wrongly applied in some circumstances, namely supplies made by certain property management companies.

It is common for landlords to contract a third-party, such as a property management company, to supply the goods and services they are required to provide to the occupant of the property. Certain property management companies have been incorrectly applying the concession and have exempted the supply of their services. Such supplies cannot fall within the concession as they are made to the landlord, not the occupant. Furthermore, the supplies cannot be exempted as a supply of land, as the property management company is not the landlord.

HMRC have confirmed that from 1 November 2018, all property management companies or similar must start accounting for VAT correctly where they may have previously relied on the concession. HMRC are not requiring companies to make adjustments for previous supplies that may have been accounted for incorrectly due to reliance on the concession.

Any property management company that has been exempting any element of their services should consider the impact of these changes.

More information can be found in the VAT information sheet 7/2018 and Revenue & Customs Brief 6 (2018).

GET IN TOUCH

If you are concerned about these changes and would like to find out how they affect you, please contact Steve Chamberlain on 01225 472800.

House Price Growth

In the past year, average house prices across the UK have risen by **3.5%**

The Office for National Statistics have recently released the House Price data for September 2018.

House prices have still been edging up in most areas, albeit that the overall annualised increase over the last 12 months is lower than the equivalent rate of increase for last year. The average UK house price in April 2018 was £231,000.

In the past year, average house prices across the UK have risen by 3.5%, up from 3.1% for the year to August 2018. In England house prices increased by 3% over the year to September 2018, with the average price now £249,000. Wales and Scotland both saw house prices increase by 5.8% over the latest 12 months to stand at £162,000 and £153,000 respectively. The average price in Northern Ireland is currently £135,000, which includes the strongest growth for the month of September.

In the Regions

On a regional basis, London continues to be the region with the highest average house price at £482,000, but London actually showed a reduction in prices with a fall of 0.3% in the past year. London is followed by the South East and the East of England, which stand at £328,000 (+1.7% for the year) and £294,000 (+2.0% for the year) respectively.

Highest Growth

The East Midlands and the West Midlands had the strongest growth at 6% and 6.1% respectively. As expected from the price data, sales volumes were down in the year to July 2018 (the latest data available) in all UK countries. A 17.2% reduction in England was the worst of them all.

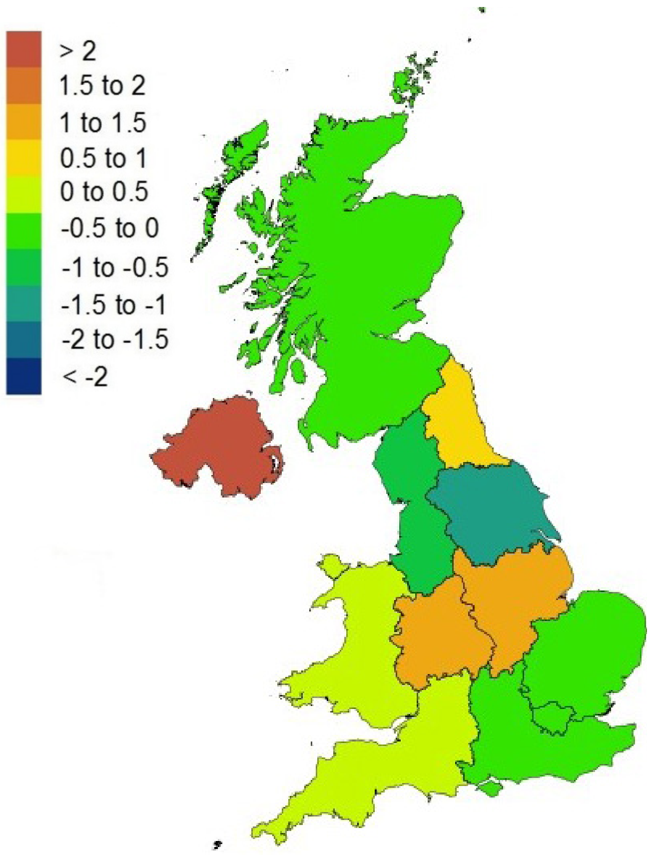
Property Type

All property types showed growth in the year; detached houses had the strongest growth at 5.2%. Flats and maisonettes showed the weakest performance, with a reduction of prices of £0.3% overall.

What is more concerning is a look at the growth figures for the isolated month of September – there isn't much in evidence! The graphic below does show that price changes were low or even negative in many of the regions in the month of September.

Monthly House Price Changes Across the UK and Ireland - September 2018

Growth (%)



Source: ONS

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