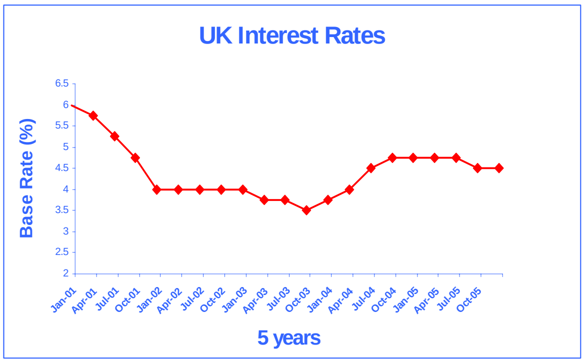
LT MONTHLY NEWSLETTER – XMAS 2005

Will house prices rise soon after you're bored of your new toys?

The Council of Mortgage Lenders is confident that the signs are good for the property market. The recent recovery in housing market activity has forced the CML to reevaluate its stance on house price inflation and mortgage lending for 2006/7.



The group forecasts a 2% a year increase in house prices for each of the next two years, the opposite to its previously prediction that prices would be flat for this period. They also predict fewer properties will be put on the market (920,000 in both 2006 and 2007 compared to 970,000 in 2005) yet are not expecting a surge in house prices or market activity with this restricted supply with a flat outlook for interest rates being partly responsible.

Meanwhile, Hometrack predicts house prices will rise by just 1% during 2006 and 2.1% a year for each of the following 3 years, agreeing that the number of properties changing hands will fall.

Is Gordon Brown taking the SIPPs ?!

Only a week ago, and just 4 months before they were to come into effect, Gordon Brown announced in his pre-budget statement that SIPPs (Self-Invested Personal Pensions) would no longer be a vehicle for residential property or holiday homes. This came as a shock to investors after more than a year of excitement.

Until Mr Brown made his announcement last Monday, investors were gearing up for 6th April 2006 (otherwise known as 'A-Day') and looking forward to the tax relief granted by placing buy-to-let property and holiday homes into their SIPP. Residential property investors were eager to gain tax relief of up to 40% but this will now only be feasible with commercial property, as was historically the case with SIPPs anyway.

So is Gordon Brown the bearer of bad news or did he simply save us a lot of hassle? Certainly there were some IFAs already warning residential property investors to take a good hard look at any deals before getting *trigger-happy*, particularly with overseas opportunities. This was borne out of the abundance of some of the property industry's more shady characters jumping on the bandwagon and offering tax loophole deals to SIPP providers, many of whom had no way of knowing whether they were legitimate or not.

It had been claimed that the proposed tax breaks would ultimately cost the Treasury of £2bn a year, which is as good a reason as any for Mr Brown to change his tune. However, indirect investment in residential property may yet be rewarded with tax relief. It is reported that the government will actually encourage and allow residential investment in Real Estate Investment Trusts (REITs).

For residential property within a SIPP it was proposed that gearing be limited to 50% of funds held, while gearing outside a SIPP can reach 80% and beyond. As yet, the level of gearing within a REIT remains unclear but even if it isn't as high as 80%, tax relief is still tax relief after all.

In summary, the Residential SIPPs chapter has been firmly closed while the property REIT debate shall receive clarity within months. However, are the public ever going to be as excited over putting money into a fund as owning a property for themselves?

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