Ashbridge PARTNERS INSIGHTS

AUTUMN 2024

Personal perspective

My working life now runs to several decades, and in that time my key observation is that we experience phases of stability and then periods of great change. I believe we are currently navigating one of those dynamic shifts.

In order to make sense of what might be coming next, we are wise to look beyond the patterns and precedents of recent years and take a much broader view, as we attempt to predict the nature and consequences of the changes ahead.

In the finance market, most people now recognise that the ultra-low interest rate environment of 2009 – 2022 was an exceptional period caused by the determination of central banks to save the economy, protect jobs and avoid recession. Looking ahead, we are certain that the picture will be markedly different.

A new Labour government – what does it mean for your finances?

The last six months have seen a major political shift, not only in the UK but on a global level. Electorates worldwide are taking the opportunity to effect change. We have yet to see how the new UK government navigates the challenging fiscal environment, but we can be sure it has the mandate to effect significant change.

In the run up to the general election, Rachel Reeves focused her tax-raising manifesto on several small but headline-grabbing groups, including non-doms, private equity executives and independent schools. She also committed to protect the 'working man' from increases to income tax and NIC, thus saving the vast majority of the electorate and ensuring that the 'broadest shoulders' bear the greatest burden.

VAT on school fees – a stringent approach

The government plan to act quickly and comprehensively to fulfil their election pledge of applying VAT to school fees. The charge is due to take effect part way through this academic year and will apply across all services. Before the election, when it seemed likely that Labour would win, we highlighted the opportunity for parents to pay multiple years of school fees in advance to avoid the VAT. Several of our clients did just this and many used our services to raise the monies.

One of the knock-on effects of higher school fees, for some clients, will be restricted access to mortgage finance. Lenders assess affordability based on a client's financial commitments, including school fees, so loan amounts may be reduced or their available pricing and repayment terms may deteriorate.

Talk to us if you would like to discuss the funding of your child's education, or to understand how your mortgage raising capability may be impacted.

Plugging the £20bn public finance black hole – who will pay for this?

Capital taxation is firmly in the firing line as we await the Autumn Statement.

The last 30 – 40 years has been a period of great prosperity for middle to higher income families due to the accommodating tax environment, incredible asset appreciation and long-term trend of lower interest costs. Significant stores of wealth have been amassed and this wealth is a prime target for a government with a fiscal deficit.

To date, capital taxes have been benign. For example, inheritance tax (IHT) can be mitigated by careful tax planning and use of the seven-year gifting rule. Alternatively, business property relief (BPR), agricultural property relief (APR) and principal private residence relief (PPR), facilitate the efficient transfer of wealth to the next generation.

There has been much speculation about the prospect of increasing capital gains tax (CGT) and aligning it with income tax at an individual's marginal rate, i.e. 40% or even 45%. This would be an extreme measure and would likely result in many asset sales being postponed, which could be a drag on economic activity.

Making lifetime gifts under the current regime can trigger a CGT charge, so talk to us about funding options if you plan to effect any transfers before 30th October.

What are clients doing before the Autumn Statement on 30th October?

We have seen an increase in the strategic disposal of assets, including investment portfolios, buy-to-let properties, family businesses, holiday and second homes and other investment property. Those with multi-generational businesses and assets which they will ultimately wish to transfer to the next generation are bringing forward their plans.

Apprehension about what may occur on 30th October has driven a good deal of recent activity and brought forward several asset sales and transfers of ownership, where we have delivered funding for the buyer.

Our view of what might happen to capital taxes

It is possible that lifetime limits for the major capital tax reliefs will be introduced, allowing individuals the opportunity to transfer a maximum sum for IHT, BPR or APR purposes during their lifetime. This route could protect small businesses, small farmers and the modestly wealthy, whilst focusing on those with more substantial asset bases. Alternatively, the seven-year rule for IHT transfers may be increased to ten or even twelve years.

Talk to us about reviewing your family and business finances to assess the prudence of bringing forward the sale or transfer of assets.

Availability and cost of money – where to next?

Although the base rate has reduced to 5.00%, from its recent high of 5.25%, many clients are still reeling from the rapid increases that have taken place since 2022. For commercial borrowers this typically equates to a 7.00% variable pay rate, which is a significant hike to the favourable 2.00% lows we saw pre-2022.

The residential market has experienced similar changes. What might have been a 1.50% 5-year fix prior to 2022 has increased to between 4.50% and 6.00% for a comparable fix over the last 12 months.

Some good news for borrowers

Fortunately, the cost of money appears to have turned a corner and has been edging down since June. Residential fixes over 5 years, are now increasingly available at below 4.00% and we've seen best-in-market commercial fixes over 10 years at below 5.00%.

In our 2023 Autumn Insights, we accurately predicted that the normalisation of the money markets would enable banks to return to more consistent profit levels, which would, in turn, give them greater scope to reduce interest margins. We believe this trend will continue as lenders compete for market share.

For some of our clients, the cost of money is not the most significant issue. It is often more of a challenge to find a lender who is willing to lend. However, we are finding that the pool of lenders is growing and, by presenting an application in the right way and to the right people, it should still be possible to secure the finances required. Our knowledge and lender relationships set us apart in this regard and dramatically enhance an application's chances of success.

Talk to us if you want to understand what challenges there may be to your financing needs.

What will happen to the base rate in the coming years?

The SWAP markets indicate that base rate could fall materially over this next 12 months, perhaps to as low as 3.50%. This will depend upon many factors, which are as yet unknown and outside of our control. Our view at Ashbridge Partners is that this may be overly optimistic and inflationary headwinds may keep base rate above that level for the next few years.

For those clients looking to minimise their risk, the current fixed rates available appear good value. Clients who are able to accept greater risk could ride the variable rate wave or take more of a portfolio approach and split the loan equally between a variable and fixed rate.

Property advisors and finance advisors - the increasing value of being professionally represented

Over the past 20 years, we have witnessed an astonishing growth in the number and reach of buying agents in the prime residential property markets. Ashbridge Partners works alongside many buying agents and we understand the multiple advantages they bring to clients purchasing a new home, farm or estate. The boom in buying agents has coincided with the growth of 'off market' or private market trading of property. This means that clients who are not professionally represented often find themselves severely disadvantaged or even excluded.

We see parallels with our own market and receive regular feedback from banks confirming that they much prefer applications presented by finance professionals, as they are reassured by our due diligence on our clients' financial backgrounds and satisfied that anyone we represent is serious and ready to deal. We believe that finance advisors are an essential part of any serious client's team, opening doors and opportunities that may not otherwise be available, much as the buying agents do for property transactions.

A final word

Change is in the air, so it's important to keep ahead of the crowd. Our experience shows that new opportunities and gaps in the market occur as a result of change, and this is borne out in our business on a regular basis. We are adept at identifying opportunities for our clients that they may not otherwise have considered. Over the last three years, Ashbridge Partners has significantly expanded its offering and today we are advising on mid to high value residential mortgages and also on multi-million pound commercial loans. We relish the challenge of navigating change and continuing to prove our worth to all our clients. In the current economic climate, the value of engaging a finance advisor is more evident than ever.

If you would like to review your financial arrangements with Ashbridge Partners, please contact our team.

Mark

Mark Ashbridge, Managing Director

Case study

RESIDENTIAL

A senior business executive of a London firm purchased a redundant farm barn with some land and set about obtaining planning permission for his family's dream home. Introduced by his architects, we quickly established the options and provided several competing offers of funding for this bespoke residential development project.

With a budget of £2m for the project and limited available cash, we raised the full amount against the development site on a 5 year interest only basis. The plan is to repay the loan in full within the loan period, once the clients sell their existing home. Without early repayment penalties, and including the flexibility to draw the loan down in stages, this facility meets all of our clients needs.

Case study

ENTREPRENEURS

A family of entrepreneurs invested into a hydro scheme via a corporate structure. At the outset the directors invested substantial amounts of their own funds along with taking bank funding and so after several years of successful operation they were keen to refinance existing bank debt onto best in market terms along with extracting the remaining original directors loans out of the business.

Ashbridge Partners were able to deliver market leading terms on an interest only basis along with raising additional monies to repay Directors loans and allow lump sum early repayments without penalty.

‘Ashbridge Partners were so helpful with both a bridging facility and a longer term mortgage. Their speed of response, relationships with banks and other professionals was key in us securing what was a complex transaction given the unusual title to the property.’

Residential Property Owner

‘Ashbridge Partner’s relationship with the bank was key to getting the loan agreed promptly so that we became the preferred bidder. This demonstrated to us the strategic advantage of having an expert finance partner in the competitive property market.’

Family Business

‘Ashbridge Partners allows the client to go to the market in a competitive way. ’

Entrepreneur

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