

# CIRCA

L O N D O N

BUYER'S GUIDE FOR UK RESIDENTIAL  
PROPERTY



Buying a residential property in the UK can, at first glance, appear to be a fairly complicated process, especially if the buyer is based overseas. This guide is designed to provide a step-by-step explanation of the process, from putting down a reservation deposit through to taking ownership and managing the property thereafter.

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# WHY BUY IN THE UK?

London is one of the world's most coveted places to live.

London attracts a diverse range of people and cultures, giving the city a considerable amount of influence on the arts, commerce, entertainment, fashion, and tourism. London is a leading global educational hub, having one of the largest populations of overseas students from around the world.

Moreover, London is one of the financial centres of the world and now establishing itself as a new leader in the technology sector, making it a home to some of the major global companies such as Morgan Stanley, Google, Facebook, Apple and Amazon.

Whilst these are just a few reasons why London is an attractive place to live, **capital growth**, **strong rental yields**, and the **relatively weaker British Pound**, are also some of the reasons why now is a good time to invest in UK property.

UK property investment is not just about making your money grow, but it is often also about finding a home. Many buyers look for property for their children or other family members to use while attending school or working in London. In any case, London makes an excellent choice for investors with different property ambitions.



# HOW TO BUY AN INTERNATIONAL PROPERTY

## 01 IDENTIFY THE PROPERTY TO PURCHASE



You will need to make contact with an agent who has offices or associated offices in the location you are looking, and a thorough knowledge and understanding of the city and the local property market.

## 02 PUT DOWN A RESERVATION



Once you have chosen a property, you will normally be required to complete a reservation form that documents the full details of the purchaser(s) and the agreed price. The form will have to be signed by both the sales agent and the purchaser(s). In order to ensure compliance with UK's anti-money laundering (AML) legislation, you will need to provide valid photo identification and proof of address upon reserving your property. You may also be required to provide proof of funds for the purchase at this point.

## 03 PAY A RESERVATION FEE



If you are purchasing directly from the developer, a registration fee of between £5k-£10k, depending on the size of your unit, is normally required in order to secure your property. You can pay this fee by debit/credit card or by bank transfer. If you decide not to purchase after completing a reservation, your reservation fee may be lost.

If you are purchasing from a private seller, a reservation fee is normally not required. In fact, solicitors on both sides of the transaction typically advise that their clients do not pay nor accept a deposit because the agreement of the appropriate legal terms can often take as long as the transaction itself.

## 04 APPOINT A SOLICITOR



Your solicitor will handle the legal process which transfers ownership of the property to you. It starts when your offer is accepted and finishes when you collect the keys. We work with a number of solicitors who are familiar with every aspect of the buying process from an overseas buyer's point of view and would be pleased to recommend experts for this task.

Buyers should expect to pay legal fees of around 0.5-1% of the property price. However, we recommend you get a quote from the solicitor at the outset. Please bear in mind that they are in a competitive business and will negotiate on their fees.

## 05 EXCHANGE OF CONTRACTS



Exchange of contracts is often required to take place within 21 or 28 days of making the reservation. The seller's solicitor will issue a Purchase Contract to your solicitor who will check it and raise any questions. Your solicitor will investigate the quality of title and will provide a report based upon information held at the Land Registry. The report will also need to be provided to your mortgage lender prior to completion. Once your solicitor has fully reported, you will need to sign the purchase contract. If you are not available to sign, you can arrange for your Solicitor to have Power of Attorney and sign on your behalf, so travel may not be necessary.

Prior to the exchange of contracts, we advise buyers to have a mortgage agreement in principle lest they do not have the cash available to complete the purchase. If you are buying a completed property, solicitors will normally not allow the exchange of contracts without proof of funds for the completion of the sale, either by way of a formal mortgage offer or proof that the cash will be available on the date of sale.

**Immediate Exchange:** In the case where you attend an overseas property exhibition and are interested in purchasing a property, an independent solicitor will often be in attendance to arrange for an immediate exchange of contracts. In this instance, the exchange of contracts will be undertaken using the reservation deposit, with the remaining 10% exchange deposit due within 21 days of this date.

## 06 PAY THE EXCHANGE DEPOSIT



Once the contract is signed, you will need to transfer the exchange deposit, this is usually 10% of the purchase price minus the amount paid on reservation (if applicable). Once formal exchange has taken place, you will have formally secured the apartment you are purchasing

If you are purchasing an off-plan property which may not be completed for a number of years, you may be required to pay a further percentage of the purchase price at a fixed point during the construction. This is often when the building is confirmed to have the roof completed and windows installed, for instance.

## 07 KEEP IN TOUCH WITH THE DEVELOPER OR SELLER



Following the exchange of contracts, you should be in touch with the Developer's customer liaison or Seller, and he/she will keep you updated on the status of your apartment and dates for serving notice and completion.

## 08 PREPARE FOR COMPLETION (IF YOU ARE BUYING AN OFF-PLAN PROPERTY)



As you get closer to completion, secure a mortgage provider if necessary. Please note that mortgage offers are typically valid for 3-6 months, so be sure to plan accordingly. We would be happy to recommend banks offering mortgage products for overseas buyers.

# BEFORE COMPLETION

*The following steps only apply if you are buying an off-plan property.*

## 01 1ST NOTICE

When the property is fully constructed, a **Certificate of Practical Completion** will be issued to the developer to confirm that the property is ready for occupation. The developer's solicitor will then send a notice to your solicitor requesting completion take place within 10 days of the issue of the notice if you reside in the UK, or 21 days if you reside overseas. A completion statement which details the purchase price, ground rent, and service charge, which are payable on completion, will be sent with the notice.

**Most lenders will not release the funds for the purchase of a new home until the NHBC cover note is issued.**

## 02 COMPLETION STATEMENT

The developer's solicitor will outline a simple completion statement where you will see that the reservation fee, exchange deposit, and the advance payment are taken into account and deducted from the total purchase price payable upon completion.

- You will need to sign the lease that your solicitor will have sent to you. This needs to be signed in the presence of a witness and you will need to ensure that you have transferred the balance of the purchase price as well as any other sums owing at this stage.
- Failure to complete within the timeframe detailed in the first notice will incur penalty interest.

**Penalty interest is charged on the purchase price, less any reservation fee or deposit previously paid, and will continue to be charged daily until completion takes place.**

## 03 2ND NOTICE

If completion does not take place by the end of the first notice, a second notice is then issued to your solicitor providing a further 10 working days to complete your purchase. Interest will be charged during this period on a daily basis. If completion does not take place within this timescale, the Purchase Contract will come to an end, and any funds you have paid will be lost.

**By the exchanging of contracts, you are legally contracted to purchase the property. If you do not do so, the developer has the option to take legal proceedings against you, in addition to retaining the deposits you have paid.**



# COMPLETION

## 01 PAY ANY REMAINING FUNDS TO YOUR SOLICITOR

You will need to transfer any remaining funds which you have to pay directly to your solicitor. If you are obtaining a mortgage loan, your solicitor should contact your lender to arrange the drawdown of funds.

## 02 COLLECT YOUR KEYS

If you are buying a new build directly from the developer, the developer's customer liaison will be available on-site to ensure a simple handover of keys and provide an explanation of how everything works, including day-to-day security access and a demonstration of the other facilities available within the building and wider estate. If you are out of the country and unable to complete the handover, you can also instruct the developer's customer liaison to make arrangements to have your letting agent or another third party agent complete the handover on your behalf.

If you are buying an existing property from a private seller, your agent should make the necessary arrangements for the handover of keys and introduction to your new purchase.

## 03 GET INSURANCE

You will need to put in place insurance from the day you complete your purchase. If your property is a house, you will need to arrange buildings and contents insurance. If the property you have bought is an apartment, you will only need to arrange contents insurance if the developer has already insured the building as a freeholder.

## 04 PAY SERVICE CHARGE AND GROUND RENT

On completion, you will be liable for the payment of Service Charge and Ground Rent for your apartment. Please note that charges for electricity, water, and council tax will be charged directly to you by the service provider.

## 05 LETTINGS & PROPERTY MANAGEMENT

If you plan to let your property, you may consider instructing an agency or third party to look after everything for you, including all tasks involved in letting the property, management, tax arrangements, furnishing, and maintenance.



# TAXATION

When you purchase a UK residential property, you may be required to pay a number of taxes. There may be other tax considerations specific to your purchase and we are not qualified to provide tax advice. Please seek advice from your solicitor and/or tax advisor. We would be pleased to recommend experts who are able to provide the right advice.

The purchase of residential property in the UK is currently a tax rate of zero for the purposes of Value Added Tax (VAT), so VAT is not payable on the purchase price.

## STAMP DUTY LAND TAX (FOR INDIVIDUALS)<sup>1</sup>

Stamp Duty Land Tax (SDLT) is a tax payable on the purchase of a UK property and must be paid within 14 days from the date of completion. How much SDLT is payable depends on the purchase price. There are reduced rates for multiple acquisitions, but if you own more than one property worldwide or you are buying to let, an additional 3% surcharge will apply. Stamp duty on residential property is calculated on a progressive sliding scale.

### RESIDENTIAL PROPERTIES - 8 JULY 2020 TO 31 MARCH 2021

For example:

On a property priced at £625,000, stamp duty would be payable on:

0% on the first £500,000	= £0
5% on the remaining £125,000	= £6,250
Total	= £6,250

PROPERTY VALUE	BASIC RATE	2ND HOME / BUY-TO-LET RATE
Less than £500,000	0%	3%
The next £425,000 (the portion from £500,001 to £925,000)	5%	8%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%	13%
The remaining amount (the portion above £1.5 million)	12%	15%

### RESIDENTIAL PROPERTIES - FROM 1 APRIL 2021

For example:

In May 2021 you buy a house for £275,000. The SDLT you owe will be calculated as follows:

0% on the first £125,000	= £0
2% on the next £125,000	= £2,500
5% on the final £25,000	= £1,250
Total	= £3,750

PROPERTY VALUE	BASIC RATE	2ND HOME / BUY-TO-LET RATE
Up to £125,000	0%	3%
The next £125,000 (the portion from £125,001 to £250,000)	2%	5%
The next £675,000 (the portion from £250,001 to £925,000)	5%	8%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%	13%
The remaining amount (the portion above £1.5 million)	12%	15%

An additional 2% SDLT charge will apply for non-residents (NRSDLT) purchasing residential property in England and Northern Ireland from 1 April 2021. Contracts exchanged on or after 11 March 2020 are outside these new rules if they complete or are substantially performed before 1st April 2021.





INCOME TAX<sup>2</sup>

- If you generate rental income from your property, you will be required to pay income tax on the net rental income. It is calculated based on how much income you earn and is levied at rates between 20%-45%.
- Corporate tax in the UK is paid at the flat rate of 18%.

	TAXABLE INCOME WITH TAX FREE ALLOWANCE	TAXABLE INCOME WITHOUT TAX FREE ALLOWANCE	TAX RATE
Personal Allowance	Up to £12,500	N/A	0%
Basic Rate Band	£12,501 - £50,000	Up to £37,500	20%
Higher Rate Band	£50,001 - £150,000	£37,501 - £150,000	40%
Additional Rate Band	More than £150,000	More than £150,000	45%

COUNCIL TAX<sup>3</sup>

- Council tax is a tax levied on households by local authorities. It is payable annually and is calculated based on the estimated value of your property and the number of residents. You will have to pay Council Tax if you are 18 years old or over and own/rent a property. You will not have to pay any Council Tax if everyone in your home, including you, is a full-time student.
- If you let the property, the tenant is liable to pay the council tax.

CAPITAL GAINS TAX<sup>4</sup>

- Capital Gains Tax is payable on any profits you receive when you sell a property, and it must be paid within 30 days of sale. You have to pay CGT on residential property in UK, even if you are a non-resident for tax purposes.
- The amount you pay depends on how much you have earned from the property sale and your taxable income, which ranges from 18% to 28% of your capital gains.

PROPERTY VALUE	PROFIT	TAX RATE
Personal Allowance	Up to £12,000	0%
Basic Rate Band	£12,001 - £50,000	18%
Higher Rate Band	More than £50,000	28%

References:

1. <https://www.gov.uk/stamp-duty-land-tax>
2. <https://www.gov.uk/income-tax-rates>
3. <https://www.gov.uk/council-tax>
4. <https://www.gov.uk/capital-gains-tax>



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