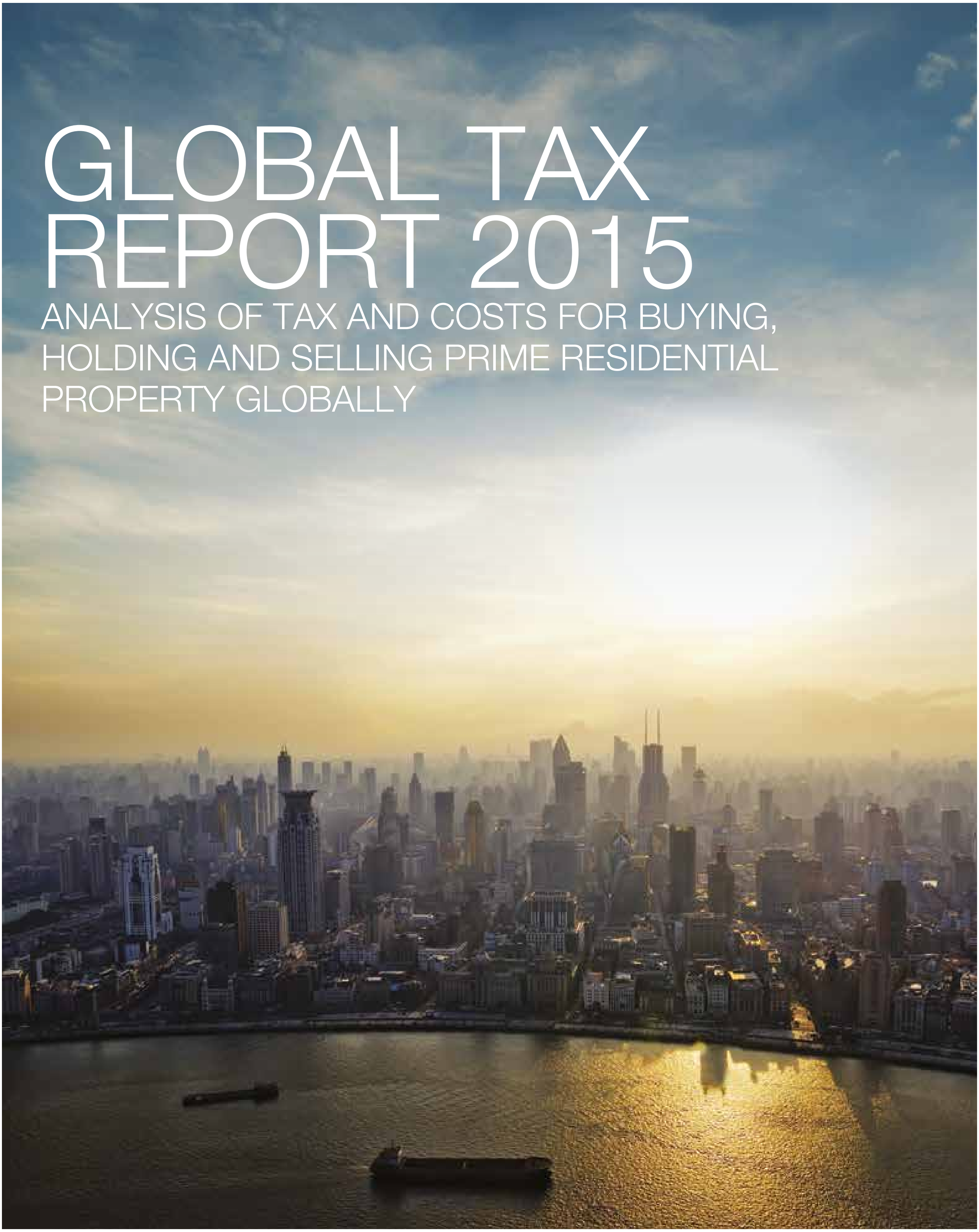
EY
Building a better working world

Knight Frank

GLOBAL TAX REPORT 2015

ANALYSIS OF TAX AND COSTS FOR BUYING, HOLDING AND SELLING PRIME RESIDENTIAL PROPERTY GLOBALLY



HIGHLIGHTS

With slower price growth forecast in a number of prime city markets, **investors are looking more closely at the cost side of the investment equation.**

On pages 4-5 we set out the **change in prime prices** recorded across key global cities over a one and five-year timeframe.

On pages 6-7 we compare the **purchase, holding and disposal costs** for a non-resident investor owning a US$1m and US$10m property in 15 cities around the world.

PROPERTY MARKET OVERVIEW

As the rate of price growth slows in many global city markets, transaction costs and taxation are becoming increasingly important considerations for investors, according to Knight Frank.

In the years following the financial crisis low interest rates helped to boost new investment in residential property, with key global urban hubs being a particularly popular option for many investors. Following several years of strong growth, affordability has become a limiting factor in many locations, meaning that price growth has moderated. In the year to September 2015, 73% of cities in our Prime Global Cities Index recorded positive price growth, two year's earlier this figure was closer to 91%.

In a slower growth environment, investors unsurprisingly become more focussed on the cost side of the investment equation. In this report we have worked with EY to provide an overview of tax and non-tax costs in 15 key global city markets. While actual costs will vary between properties and individuals we intend our analysis to provide a useful benchmark for investors considering international property.

On the cost side, some of the biggest differences between markets, examined on page 6, are due to cultural differences between those markets like London where transactions tend to be undertaken by agents, and those like New York or Singapore where a broker system operates.

There are some considerable differences between different centres in terms of management fees. To a degree this is influenced by prevailing levels of service expected of property managers, but regulation is a growing influence. Those markets with higher levels of regulatory oversight on issues such as health and safety and money management will tend to display higher annual costs – it would be a brave investor who prioritised low cost over service offering in every case.

Our research confirms that cost levels don't tend to change radically over time. Incremental variations in fees and charges tend to reflect growing competition between property agents or local rule changes.

In reality, tax variability is a much larger influence on overall costs; in particular as the rate of change of property taxes has increased in recent years. While Singapore and Hong Kong have been high-profile advocates of macro-prudential measures aimed at reducing speculative investment interest, many other countries have seen increasing taxes and charges being placed on property investment. Australia has seen a number of reforms in recent months, the UK has seen considerable reform to prime property taxation, and even Dubai, a famously low tax jurisdiction has seen an increase in purchase costs in recent years.

In our experience tax is rarely the driver for purchase, investors generally focus on the economic and employment backdrop of the cities they invest in – they want to understand who their tenant will be now and in the future. If they are planning on using their investment in the future they will be equally interested in lifestyle, education and the wider offer of prospective markets. Nevertheless, the cost of entry and exit from a market remains a critical component in the decision-making process. We hope you find this report a useful guide.

LIAM BAILEY
Global Head of Research
Knight Frank

TAIMUR KHAN
Senior Research Analyst
Knight Frank

TAX OVERVIEW

When purchasing property as an investment, tax is not necessarily the first concern but it is important because it is often the after-tax return that measures the success of the investment.

While there may be a number of factors behind the choice of location, our research shows that the tax burden across the cities in this report varies considerably both in amount and extent. Thus, the tax costs range from as low as 3.5% or 3.6% of the property price in year five in Monaco and Dubai respectively, to over 30% in Sao Paulo.

Despite encompassing a wide variety of cities and policies, a number of common themes and trends have arisen throughout our research. For example, in some cities (most notably in Geneva and in Mumbai), there are significant legal restrictions for non-residents who wish to purchase property so it will be important to consider these before an investment decision is made.

In some jurisdictions, the tax costs are represented primarily by acquisition taxes (notably in Monaco and Dubai), while in most other jurisdictions, tax costs usually comprise:

- acquisition duties payable when purchasing the property
- wealth or yearly taxes when holding the property
- taxes on rental income, and
- taxes on disposal of the property (including tax on gains and/or duties at the point of the sale of the property).

While in some countries the relative/percentage tax costs are almost equal for both US$1m and US$10m properties, in others the tax costs of holding the US$10m property are almost double those for US$1m property.

Finally, it is important to note that some taxes, such as inheritance/gift taxes have not been taken into account in this analysis. Nor were home country taxes. Moreover, we have assumed that investors purchase in their personal name but that might not necessarily be the most efficient from a host or investment country's tax perspective. As such, bespoke advice is always recommended.

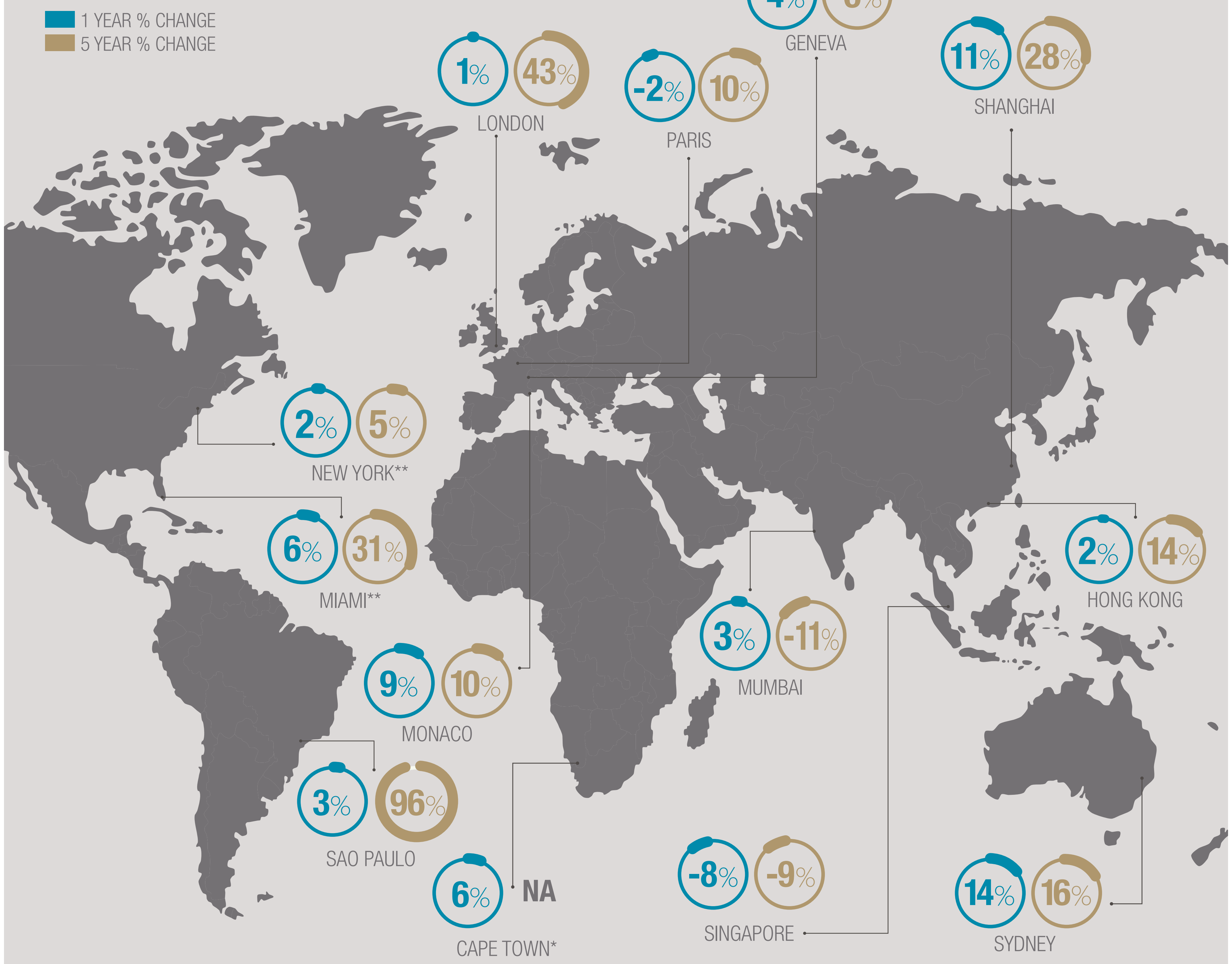
One trend that shows no sign of slowing is a focus on property as an ongoing target for taxation. Our global private client practice regularly advises our clients on cross-border matters where it is necessary to consider more than one tax regime and we are delighted to partner Knight Frank in this report.

MARNIX VAN RIJ
Global Private Client Leader
EY

CAROLYN STEPPLER
Partner, Private Client Services
EY

Analysis of market performance

Prime price change to Q3 2015*



Source: Knight Frank Research, S&P Case Shiller, Fipezap

Price changes calculated in local currency * Data to Q1 2015
** Data to Q2 2015 Based on top-tier of mainstream market in metro area (prime market has outperformed).

ANALYSIS OF MARKET PERFORMANCE

Currency shifts, wealth flows, tax changes and fluctuating levels of supply and demand have all had a bearing on the performance of prime residential markets worldwide.

The data on the adjacent map measures the performance of each city's luxury residential market over a one and five-year period (2010-2015). Although this excludes the initial phase of the global financial crisis, Lehman's shadow inevitably casts itself over most of the five-year period under examination.

As we explain on pages 6-7 our analysis has assumed an annual growth rate of 5% per annum, although in reality, as this map shows, the actual rate varies significantly between cities.

After 2008, prime prices in many markets saw strong growth but for different reasons.

As government asset purchases reduced yields on alternative investments, so investors targeted tangible assets in safe haven markets such as New York and London.

The weak pound in 2008-09 further boosted London's appeal, particularly as it coincided with the Asian economic boom.

Meanwhile, an expanding middle class with access to more mature mortgage markets, fuelled luxury price growth in cities such as Sao Paulo and Shanghai, here five-year price growth equalled 96% and 28% respectively.

Over the past three years, however, the tussle between the globalisation of wealth on the one hand and market regulation on the other has emerged as a key determinant of market performance.

Cooling measures across large parts of Asia have had their desired effect in halting speculative investment and boosting affordability for domestic populations. Singapore and Hong Kong for example, have seen more muted price growth. Prime prices in Singapore dipped 8% in the year to September 2015, whilst annual growth slowed to 2% in Hong Kong.

Sydney and Shanghai are the only two cities to have recorded double-digit price rises in the last 12 months. The weak Australian dollar, an undersupply of new homes and a strong local economy are behind Sydney's accelerating prices, whilst in Shanghai the reversal of strict housing policies, as well as tax and interest rate cuts, have fuelled demand.

Stamp duty rises in London, capital controls in Russia, a wealth tax in France and the Australian government's proposed fees on foreign investors are just some of the measures introduced to regulate cross-border capital flows, generate revenue and control affordability.

As a result of this more interventionist stance by policymakers, we expect investors to focus more on the underlying property and location characteristics in the next 2-3 years. Put simply, the rate of price growth seen across many prime markets over the past five years is unlikely to be repeated over the next five years.

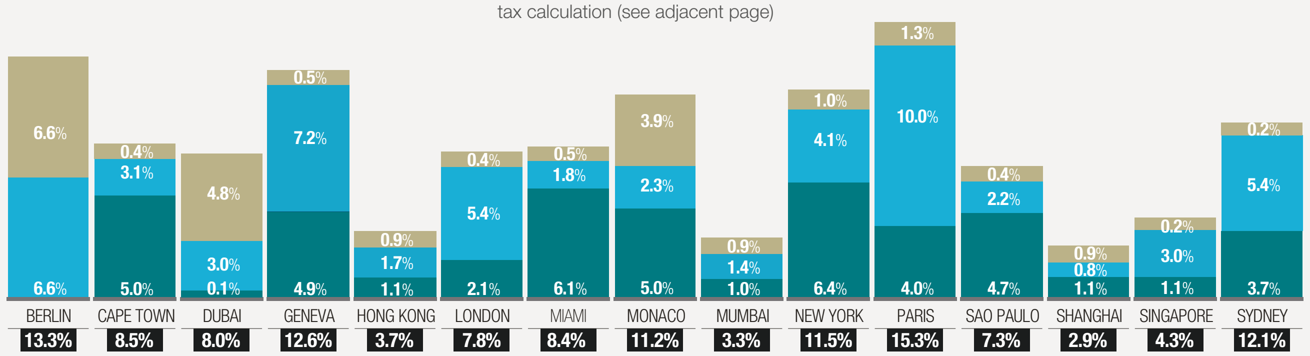
GLOBAL TAX AND COST ASSESSMENT

PROPERTY COSTS
As at Q3 2015

Percentages = cost as proportion of year 5 price
Purchase costs
Holding costs
Sale costs
Overall non-tax cost

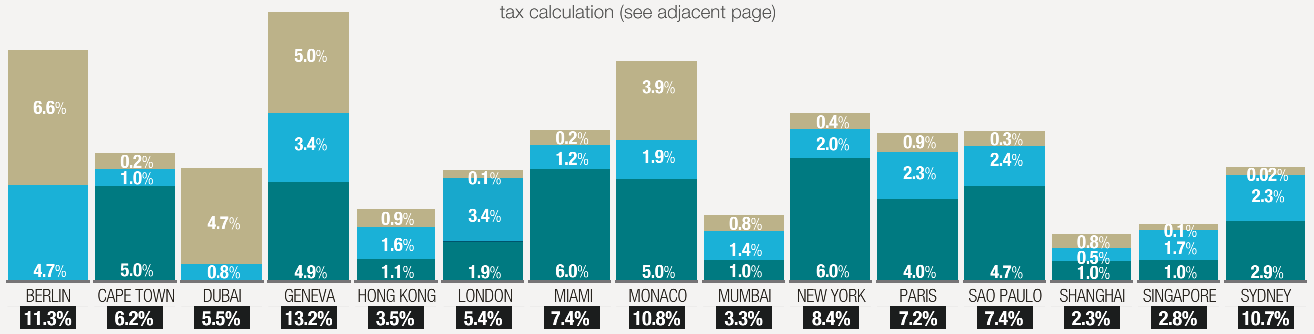
US$1M PROPERTY
Assumed year 5 sale price = US$1,276,282

Stamp duties and similar taxes are included within the tax calculation (see adjacent page)



US$10M PROPERTY
Assumed year 5 sale price = US$12,762,816

Stamp duties and similar taxes are included within the tax calculation (see adjacent page)



Source: Knight Frank Research, Douglas Elliman, BCZ Capital, Zabel Property AG, Clear Title Group LLC

Our analysis

One of the questions we are asked most often is "how do property costs and taxes compare around the world?" Drawing on the expertise of Knight Frank and EY's global network, on this page we look at non-tax purchase, management and sale costs across 15 cities, on the opposite page we examine taxation across the same markets.

We have assumed a **non-resident investor** has a sum of money to invest in a number of cities around the world, we have calculated the purchase, holding and disposal costs, assuming the property is owned for a five-year period.

This exercise has been carried out for a US$1m and a US$10m property.

We have split the property costs and taxes to allow readers to compare the figures in detail. Hong Kong and Singapore offer low property costs (3.7% and 4.3% respectively for a US$1m property) but the stamp duties for foreign buyers mean taxes are relatively high at (22.4% and 19% respectively for a US$1m property).

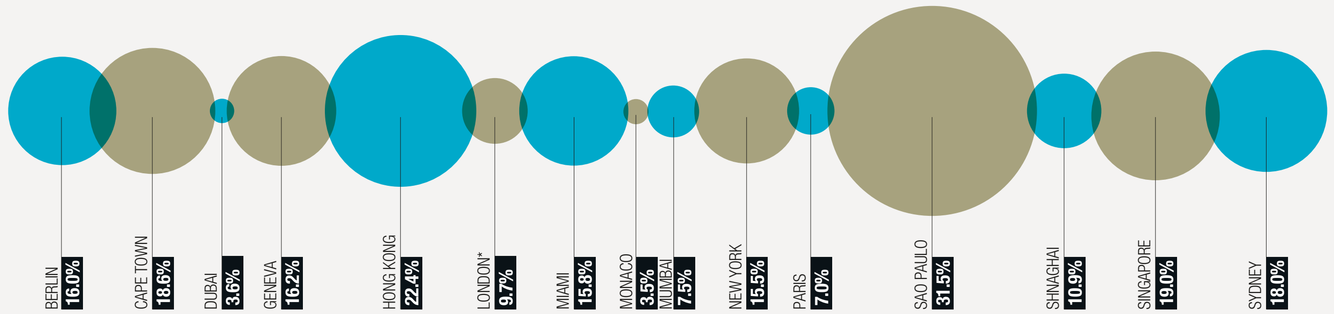
The overall non-tax cost remains largely the same for a US$1m and a US$10m property in some cities (Sao Paulo, Mumbai, Geneva) whilst others see a reduction in percentage terms at the US$10m level (New York, Paris).

*Notes and caveats: see pages 12-13

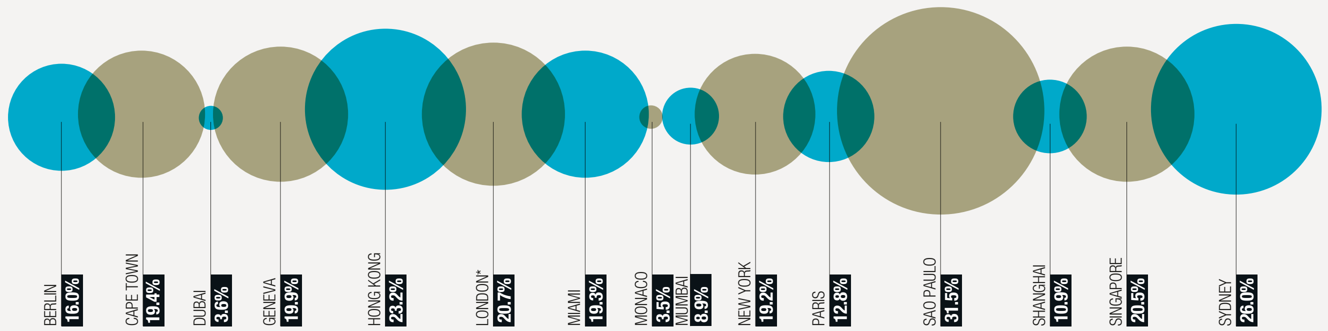
ILLUSTRATIVE TAX COSTS
As at Q3 2015

Tax as a % of year 5 sales price

US$1M PROPERTY
Assumed year 5 sale price = US$1,276,282



US$10M PROPERTY
Assumed year 5 sale price = US$12,762,816



Source: EY
*The illustrative tax costs shown above do not take into consideration: 1) the Stamp Duty changes announced as part of the 2015 Autumn Statement in the United Kingdom (effective as of April 2016) and 2) Australia's new fee structure for foreign investors (effective as of 1 Dec 2015)

THE INVESTMENT
- An individual (X) acquires a residential property in August 2015 for either US$1m or US$10m in a foreign country.
- The property is purchased in the investor's personal name.
- The individual is not a national, is non-domiciled, is a tax non-resident and does not intend to become a tax resident of the country where the property is located.
- An individual may spend some time in a country where the property is located in each tax year, but does not reside, set up a home or otherwise establish tax residence in the country where the property is located.
- Assume top tax rate for the taxpayer and no personal allowances.
- Tax rules and tax rates throughout the period of ownership are assumed to be the same as in August 2015.
- The effect of tax treaties is not considered.
- The purchase price is 100% cash financed by the individual.
- Calculations are made in local currencies and the exchange rate throughout is assumed to be as at 1 August 2015. The impact of fluctuations in exchange rates is not considered.
- The property is rented out on the open market to an unconnected person.
- Taxes reflects the percentage of year five sales price only (excluding rental income)
- The property is sold in August 2020.
- The property is not a new development.
- Assume no refurbishment costs are incurred and no capital improvements are made.
- Tax consequences in the home jurisdiction(s) of the purchaser must be considered separately.
- This survey does not cover inheritance/estate/gift taxes.
- Detailed and bespoke tax and legal advice must be obtained in each case.

PERFORMANCE
• Capital growth of 5% per annum, rental growth of 3% per annum, year one gross yield of 4%.

COSTS
• To facilitate tax calculations, non-tax costs (for example, legal fees, agency fees and other non-tax fees) were assumed to be fixed at: 3% for purchase costs, 10% per annum for management costs and 5% for disposal costs. In reality, and as demonstrated on the opposite page, the above costs vary substantially across the cities studied and it is therefore not possible to aggregate the tax and non-tax costs from this report. • For rental income assume no deductions are made, except 10% management charge.

CITY-BY-CITY ANALYSIS

How do the cities compare and what changes are on the horizon?

Policymakers are increasingly using tax and property costs as a means of regulating housing demand, controlling affordability and generating revenue. Below, our teams assess the current climate in relation to tax and property costs in each of the 15 cities and highlight any potential changes under discussion.

LONDON

EY. UK tax costs equate to approximately 9.7% (for the US$1m property) and 20.7% (for the US$10m property) of the assumed year five price. The UK taxation of residential property investments in London has changed significantly since 2013. Two key changes have increased the tax costs of investments into London residential property. Firstly, the introduction in December 2014 of progressive stamp duty land tax rates (up to 12% on acquisition by non-corporates) and secondly in April 2015, the taxation of capital gains on the disposal of property by non-resident owners (at a rate up to 28%). Furthermore, proposed inheritance tax changes from 2017 and the additional charges on corporate owners may mean that some existing property investment structures will become less attractive.

KF. The net impact of recent tax reforms in London has been to slow price growth and reduce transaction volumes over the past 12 months – that said tax has never been the primary driver for purchase in the city. The wider appeal offered by London's unique global business cluster, its world leading education provision, and its lifestyle offer should ensure that demand is only marginally impacted by recent reforms.

It would be a brave commentator who claimed that the era of reform is coming to an end, but our research suggests that there could be a limit in terms of how far tax can be pushed before it becomes counterproductive in terms of raising revenue.

NEW YORK

EY. US tax costs for New York property equate to 15.5% (for US$1m property) and 19.2% (for US$10m property) of the property price in year five. Of the total taxes payable, the New York State and City taxes account for approximately 68.3% (US$1m property) and 59.1% of tax costs (US$10m property), the biggest single tax cost being the New York property tax. Non-US individuals who invest in New York City rental properties could consider electing to be treated as engaged in a US trade or business for Federal income tax purposes, which allows the individual to deduct expenses incurred in producing rental income in determining taxable income.

DE*. The current New York City administration has been looking at ways to fund affordable housing initiatives for those looking to rent and purchase as incomes fail to keep pace with price growth.

The city appears concerned about implementing policies that could stem the tax revenue it currently receives from residential real estate but the need to fund affordable housing initiatives is becoming more pressing.

As the globalisation of wealth continues apace New York's luxury market, along with London's, remains at the top of most HNWI's wish lists but with an upturn in the local economy and a strong US dollar, US demand is again rivaling foreign demand.

MIAMI

EY. US tax costs for Miami property equate to approximately 15.8% (for US$1m property) and 19.3% (for US$10m property) of the property price in year five. Florida does not have a personal income tax. Accordingly, the major Florida taxes applicable are the annual ad valorem property taxes and the document stamp transfer taxes on the eventual sale of the real property. If the property were held by a corporate entity rather than directly by the individual, there would be additional tax considerations.

DE.** Miami ranks highly in terms of its investment appeal. Prices are below the average of most major markets, demand from US and foreign residents remains strong and the quality of new product is improving.

Prime prices have accelerated, fuelled in part by interest from Latin American purchasers seeking a safe haven beyond their more volatile domestic markets, a large proportion being cash buyers.

PARIS

EY. French tax costs represent approximately 7% (for a US$1m property) and 12.8% (for US$10m property) of the property price in year five. French tax treatment for non-resident individuals investing into Paris property includes:

- Register tax at acquisition: 5.1%;
- Rental tax: between 20% and 45% (plus social surtaxes if applicable)
- Wealth tax: progressive tax rates from 0.5% to 1.5%
- Capital gain tax: between 0% and 29% (44.5% if social surtaxes applicable).

From civil and tax law perspectives it is usual to hold real estate in France via a company, incorporated in or outside France (e.g. French SCI).

KF. The anticipation of more benign taxes has helped foster a positive mood among international buyers keen to capitalise on lower property prices. The weaker euro and record low interest rates have combined to fuel a rebound in the number of sales across traditional hotspots in Paris.

With less than two years to go until the next general election, President Hollande appears to be following a more moderate path which could see France emerge once more as the lifestyle and investment destination of choice. As a result of relatively low acquisition costs and a taper relief on capital gains tax, France is looking increasingly attractive.

MONACO

EY. Tax costs in Monaco are comparatively low and equate to approximately 3.5% of the property price in year five. Non-residents benefit from a low tax regime when they invest in Monaco property since taxes are due only on acquisition (no taxation of the rental income and capital gains). The use of a holding company, notably a "Société Civile Particulière" (SCP), is usual to hold real estate in Monaco from a civil law perspective.

KF. Monaco's property market has historically benefitted from the trend towards higher property taxation in other jurisdictions driving wealth towards the principality from overseas. Although its low tax status is a key motivation for those relocating, the lifestyle on offer in Monaco is also an important driver. Located next to the Cote d'Azur and the Italian Riviera, Monaco offers a safe living environment with excellent international schools, and is situated within a two-hour flight of most European cities. Although stamp duty has been adjusted downwards from 9% to 6% and company transfers now incur a 4.5% tax (previously 0%) we do not foresee a radical shake up of Monaco's real estate costs.

BERLIN

EY. German tax costs for Berlin property (including Real Estate Transfer Tax) equate to approximately 16% of the property price in year five. A large part of the German tax costs is the capital gains tax. For German tax purposes it makes sense to hold property as a private estate for more than ten years since in this case no capital gains tax is triggered. Please note that if German residential property is partly used for private housing purposes, this could lead to an unlimited German Income and Inheritance/Donation tax liability (on worldwide income and private estate).

KF. In the absence of any restrictions for non-residents, Berlin is firmly on the radar of international investors, prices are low compared to other European capitals and even other major German cities.

Home ownership rates are relatively low compared to the EU average (52.6% compared to 70%) but demand is outpacing supply. Residential prices in Berlin are rising at an average rate of 7% per year. In 2015, Berlin became the first german city to introduce a rental cap preventing landlords from increasing rents by more than 10% above the local average.

RESIDENCY RESTRICTIONS APPLY

GENEVA

EY. The acquisition of certain real estate property by non-Swiss residents is generally restricted by law. The detailed regulations are complex and need to be analysed for each individual case. In the case of lawful acquisition, the total tax costs would equate to approx 16.2% (for US$1m property) and approximately 19.9% (for US$10m property) of the property year five price. This includes both taxes on acquisition and on disposal as well as yearly taxes during the ownership period of five years, including wealth and property taxes, as well as taxes on rental income. Private real estate operations should not be subject to VAT.

KF. Switzerland has always been recognised as an advantageous tax location for high net worth individuals and this continues to be the case. The recent decision to retain the lump sum form of taxation has led to a mood change amongst buyers.

The purchase of residential real estate in Switzerland has numerous restrictions for foreigners (otherwise referred to as "Lex Koller").

The law makes it almost impossible for non-Swiss residents to purchase residential property in Switzerland unless it is within the designated 'Holiday Zones'. These zones are predominantly found in the numerous ski resorts as well as the immediate areas surrounding specific towns, for example Montreux, Lugano, Interlaken and Luzern.

SAO PAULO

EY. Brazilian tax costs equate to approximately 31.5% of the property price in year five. The tax due by the

*New York: Douglas Elliman/Miller Samuel Inc **Miami: Douglas Elliman/Clear Title Group, LLC purchaser on acquisition (ITBI) is 3% of the fair market value of the property. The tax paid when registering the property is levied at a rate of approximately 3% of either sales proceeds or registration amount, whichever is highest. The biggest tax cost in Brazil is the yearly property tax (IPTU), which is levied at a rate of 4% of the property's fair market value (updated yearly). Rental income of non-Brazilian tax residents is taxed at a rate of 15%. Capital gain on disposal of the property in Brazil is taxed at a rate of 15%.

KF. Following several years of strong price growth – as a result of its expanding middle class gaining easier access to mortgage funding - Sao Paulo's housing market is now seeing a slowdown. Investors continue to focus on new build units but with interest rates at a nine-year high (14.25%) few analysts see prices recovering soon.

DUBAI

EY. The Dubai tax costs equate to 3.6% of the assumed property price in year five. This is quite low and is unlikely to change in the near future. The acquisition of property in Dubai by non-Gulf Cooperation Council citizens is restricted to freehold ownership, usufruct or leasehold related to properties located in designated areas for a period not exceeding 99 years. In practice, most high-quality residential properties are situated in communities that are located in freehold areas.

The main source of uncertainty for foreign investors is the potential application of Shari'a inheritance rules upon the death of the real estate owner, which can potentially be mitigated through the registration of a will with the DIFC (certain conditions apply) or if the property is acquired through a Dubai offshore company.

KF. The doubling of the transfer fees to 4%, combined with the introduction of mortgage caps, at the end of 2013 has helped to moderate demand for residential property in Dubai over the past 18 months. In early 2015 some commentators expected the Dubai Land Department to raise transfer fees again but this failed to materialise.

The softening of residential prices in the emirate has provided the authorities with little reason to increase the burden of transaction costs in the near-term. At 4%, transaction fees in Dubai remain low compared to other markets from which a significant number of residential property buyers originate, including India, Pakistan and the UK – making it an attractive investment destination.

CAPE TOWN

EY. South African tax costs equate to approximately 18-19% of the selling price of the property price in year five. The largest tax cost is the transfer duty that is paid on acquisition of the property (taxed on a sliding scale but with the maximum rate of 11%) and the income tax paid by the non-resident individual on the net rental income earned (maximum marginal tax rate of 41% applies). Although there are tax planning opportunities available to individuals, these need to be carefully considered where a non-resident is involved and to ensure that the other taxes paid throughout the property lifecycle are not impacted.

KF. The property market is aware that the South African Reserve Bank is normalising interest rates and, having had an increase in prime lending rate from 9.25% to 9.5% in July 2015, the market has already taken into account the next small increase in rates, expected towards the end of 2015.

The increase in transfer duty has had a noticeable effect on buyers' sentiment and buyers at the mid to upper end of the market are now more cautious, although it has not resulted in a major shift in the demand/supply relationship.

HONG KONG

EY. Hong Kong tax costs (including the stamp duty, property tax on rental income and profits tax on the disposal gains) equate to approximately 22.4-23.2% of the property price in year five. The most significant part of the tax cost is the 15% Buyer's Stamp Duty (BSD), which is only chargeable for non-Hong Kong permanent residents (PRs) and corporate buyers, but not on Hong Kong PRs. The BSD is aimed at curbing the skyrocketing Hong Kong property prices. However, property tax and profits tax implications are the same for both non-PRs and PRs.

KF. Since 2010, the Hong Kong Government has implemented various stamp duty measures to curb rising property prices. While their effectiveness in driving down property prices has been limited, sales volumes have reduced considerably. Buyer Stamp Duty, in particular, has had a significant impact on the number of residential purchases by non-Hong Kong residents.

A potential interest-rate hike in the US and concerns over China's economic slowdown have led buyers to adopt a "wait-and-see" attitude. When interest rates do rise we do not expect house prices to drop significantly and as a result the stamp duty policies could well remain in place for the time being. If this is the case, the tax environment in Hong Kong is expected to remain relatively stable in the near future.

SINGAPORE

EY. Singaporean tax costs equate to approximately 19-20.5% of the property price in year five. The largest tax costs are the stamp duties (Buyer's Stamp Duty and Additional Buyer's Stamp Duty) payable upon purchase of the property. There is no capital gains tax in Singapore. Upon the sale of the property in year five, if the gain is capital in nature, it should not be subject to tax and there should not be any Seller's Stamp Duty since the holding period is more than four years. The sale and lease of an unfurnished residential property is not subject to Goods and Services Tax.

KF. Stamp duties were introduced to cool accelerating prices between 2011 and 2013. Many developers, unnerved by their unsold stock, believe it is time for the government to review the measures. A number of them will face penalties if units in their projects are not fully sold within the stipulated time period. The government has repeatedly rejected such appeals to adjust the measures.

Significant reviews to the policies are not expected over the next six months, given that the government's key objective is to ensure that housing remains affordable.

Given the large housing supply in the pipeline, the impending threat of an interest rate hike, and a slowing global economy, the government must keep a close watch and ensure that the policies are tweaked at the right time.

SHANGHAI

EY. Chinese tax costs equate to approximately 10.9% of the assumed property price in year five. Individual income tax is a major tax burden which is levied on both rental income and the gain on disposal of the property. The other taxes and charges include property tax, business tax (BT), stamp duty, surtaxes and local education surcharge. Today, value added tax (VAT) is not a consideration. Nevertheless, China is introducing tax reforms to the property tax regime and developments in this area should be monitored. In particular, many items such as the transfer of property currently under the BT regime are likely to be covered by the VAT regime. In addition, the local practices of China tax bureaux may vary across regions.

KF. Since late 2014, the government has reversed its previous tight housing policies and introduced fiscal measures including various tax and interest rate cuts to encourage demand for residential properties.

These policies helped the residential property market to recover quickly. In 2015 sales activity and property prices have begun to rise.

The relaxation of cooling measures is already reviving the housing market and may attract more non-resident buyers. However, there are still constraints. For example, foreign buyers can buy only one residential property in Shanghai and with only a small market share this group is unlikely to push up the city's prices significantly.

MUMBAI

EY. Indian tax costs equate to 7.5% (for US$1m property) and 8.9% (for US$10m property) of the property price in year five. Out of these amounts, the maximum tax cost is stamp duty on acquisition and the tax on rental income. Assuming that permission is obtained and under the assumptions used, non-resident individual realises a loss on disposal of the property from an Indian capital gains tax perspective primarily due to indexation allowance. A foreign national (not being a person of Indian origin or a Non-resident Indian) must obtain permission from exchange control authorities before purchasing a property in India for the purposes of leasing.

KF. Muted property price growth and booming financial investment alternatives have weakened the investment rationale for Mumbai property, while high prices and low wage growth has deterred end users. Weak demand and rising unsold inventory suggests any adverse tax change is unlikely given it could further derail the sector.

A real estate regulation bill is currently under discussion. It would see the introduction of a single real estate regulator instead of multiple local regulators, improving market transparency and putting buyers on a more equal footing to developers when it comes to accessing sales data and market indicators.

SYDNEY

EY. Australian tax costs equate to approximately 18% (for US$1m property) and 26% (for US$10m property) of the property price in year five. The greatest taxation impost in Australia is in relation to capital gains tax). Capital gains tax is generally imposed on the net gain made by the vendor/seller on disposal of property. There may be tax planning opportunities by structuring the holding of property, for example via a discretionary trust vehicle. Importantly, although rental receipts are taxable, relevant deductions may reduce the amount which is subject to tax. Value added tax (or goods and services tax) is generally not a concern in relation to the existing residential property.

KF. After experiencing significant capital growth driven by investors since 2013, the property market has seen little change to the tax structure throughout this time; rather historic low interest rates and a long period of undersupply.

Prime prices in Sydney increased by 13.7% in the year to September 2015, it's strongest annual increase since the financial crisis.

Non-residents of Australia are currently limited to purchasing new or off-the-plan (OTP) property. Total investment in developer OTP property was AUD16.4 billion in 2013-14, almost three times higher than the AUD5.7 billion over the previous year.

NOTES AND CAVEATS

LONDON

Purchase costs

Stamp duty is excluded as a purchase cost however it is included in the tax calculations.

Holding costs

• Approx. 11% of yearly rent, has been calculated in the management cost as an average. • Average of 12% management costs used per annum, this includes the cost of the finder fee at renewal too.
• Local municipality costs not included as they are the obligation of the tenant.

Tax costs

No principal private residence relief (exempting a capital gain on disposal of the primary residence) is available.

In respect of rental income: assume Non-Resident Landlord scheme applies, assume no personal allowance, assume no other UK source income, assume 10% wear and tear allowance is abolished.

In respect of capital gain on disposal: assume no CGT personal allowance is available and the whole gain is taxable at a higher rate of 28%.

NEW YORK

Purchase costs

Stamp duty (Mansion Tax) is excluded as a purchase cost, however, it is included in the tax calculations.

Holding costs

• Costs are based on resale properties and not new developments. • Costs listed are based on purchasing a condominium, not a cooperative.
• State property taxes are excluded as holding costs, but they are included in the tax section of this report.

Sale costs

• Transfer taxes have not been included in the sale costs, however, they are taken into account in the tax section of this report.

Tax costs

Assumptions:

X does not have a US green card.

X does not work or perform services in NY City.

X is not married. His tax return filing status is single for Federal and NY purposes.

No NY property tax exemptions or abatements are available.

X does not itemise his deductions and does not take a standard deduction. X does not take a personal exemption.

X does not earn any US or NY source income other than income from the rental and/or sale of the property.

MIAMI

Holding costs

• Costs are based on resale properties and not new developments.
• State property taxes are excluded as holding costs, however, they are included in the tax section of this report.

Tax costs

Assumptions:

X does not have a US green card.

X does not work or perform services in Miami, FL.

X is not married. His tax return filing status is single.

No Miami property tax exemptions or abatements are available.

X does not itemise his deductions and does not take a standard deduction. He does not take a personal exemption.

The real property will be held directly in X's individual name and not via any corporate form.

For calculating the ad valorem taxes, we are assuming a reassessment of property value equal to the assumed capital growth rate of 5% per annum.

No depreciation deduction will be taken for calculating rental income.

PARIS

Purchase costs

• Legal fees taken at around 1% of purchase price.
• Stamp duty, registration fees and any wealth taxes are included in the tax calculations.

Holding costs

• Management costs are set at EUR 20,000 per annum. • Local municipality costs not included as they are an obligation of the tenant.

Sale costs

• No legal fees are assumed on sale of the property.

Tax costs

Assumptions:

X is married and has two dependent children.

X does not perceive his major source of income from his French rental revenues.

The property was purchased more than five years ago.

X is affiliated to the social security scheme of a European country on a mandatory basis.

The property is rented out unfurnished and no additional services are provided to the tenant.

MONACO

Purchase costs

• Legal fees are assumed at 2% of purchase price.
• Agent's costs are assumed at 3% of purchase price.
• Registration fees are not included in purchase costs but included in the tax section of this report.

Holding costs

• 10% management costs of annual rental. Service charge: tenant is assumed to pay 80% and the landlord 20%.

Tax costs

Assumptions:

X is married and has two dependent children.

X does not perceive his major source of income from his Monacan rental revenues.

X is not a French citizen.

The property is rented out unfurnished and no additional services are provided to the tenant.

BERLIN

Purchase costs

• Agent fees of 5.95%, 1% legal fees and 1.5% registration fees of purchase price, paid by the buyer. Please note that agency fees can range from 3-6% (exc. VAT).

Holding costs

• 20% management costs of annual rent, based on a furnished property. • Finder's fee of two months rent for the full five year period.

Sale costs

• No agent costs are applicable on sale of the property.

Tax costs

Tax rate for calculations is for simplification purposes marginal rate (45%) + solidarity surcharge in the amount 5.5% of German Income Tax.

X is not subject to church tax in Germany.

Rateable value is 30% of the Fair Market Value.

Assumption: no trade tax on rental income.

GENEVA

All costs are representative of purchasing a property in Lake Geneva area due to restrictions in place for investors purchasing property in Geneva.

RESIDENCY RESTRICTIONS APPLY

Purchase costs

Transfer duty is excluded as a purchase cost however it is included in the tax calculations.

Holding costs

• Local municipality costs assumed at 1.25% of Land Registry property value. • TVA is not included in calculations. • No service charge is assumed.

Sale costs

• No legal fees assumed on sale of property.

Tax costs

It is assumed that the purchase price is not less than the fair market value of the real estate.

It is assumed that the tax value of the house is not less than the acquisition value.

It is assumed that the notary and the register land fees are not included in the acquisition and sale fees.

It is assumed that the deemed rental value is equal to the net rental income.

Foreign investments in Swiss real estate are governed by a federal law (Loi fédérale sur l'acquisition d'immeubles par des personnes de l'étranger, LFAIE) known as the 'Lex Koller' and additional cantonal rules. The law restricts the acquisition of certain real property by non-Swiss residents. Unlawful operations lead to reverse and cancel the transaction.

The detailed regulations and restrictions are complex and need to be analysed in each individual case if applicable.

SAO PAULO

Purchase costs

• Stamp duty is excluded as a purchase cost, however, it is included in the tax calculations.
• Registration fee assumed at 0.2% of purchase price.

Holding costs

• Service charges are paid for by the tenant.
• Management costs assumed to be at 10% of rental income. • Municipality costs are aggregated in the property tax levied in Sao Paulo and are included in the tax section of this report.

Tax costs

In respect of capital gain on disposal: whole gain (sales amount – (acquisition costs + agency fees – if paid by the landlord)) is taxable at 15%. For non-tax residents, the income tax on capital gain transactions is due by the sales date. No reductions nor exemptions applicable to non-residents.

For rental income: For non-residents the net income (deductions established by local law) is taxed at 15% on a monthly basis. The tax is due by the date when the landlord receives rental income. If the tax is not paid by such date, penalties and interests will apply (Penalties are calculated at 0.33% per day, capped at 20% and interest in accordance with the SELIC interest date, i.e., approximately 1% per month).

DUBAI

Holding costs

• Finder's fee and management costs are paid by the tenant and therefore not included in these calculations. • Service Charge: This varies depending on the community or building in which the property is bought. Average figure of AED 15/sq ft has been applied, using Downtown Dubai as an example (where property can be bought for US$1m). Average of AED 5/sq ft at Al Barari/Signature Villas on Palm/Emirates Hills – where properties worth US$10m can be bought. In this case, service charges apply by plot size.

Tax costs

Assumptions:

The property is located in Dubai within one of the designated freehold areas.

X is not a UAE national or national of another Gulf Cooperation Council (GCC) country.

CAPE TOWN

Holding costs

• Management costs are assumed to be 12% of rental income and this includes the finder's fee.

Tax costs

The property is held as a capital asset and is not considered to be trading stock.

The property will not qualify for the CGT primary residence exclusion on sale thereof.

The property does not qualify for any tax capital allowances e.g. for use as a hotel.

VAT is not levied on the acquisition or sale of the property (therefore the transfer is subject to Transfer Duty).

Annual municipal rates in Cape Town are assumed to average around 1% per annum of the municipal value of the property.

HONG KONG

Purchase costs

• Stamp duty is excluded as a purchase cost, however, it is included in the tax calculations.

Holding costs

• Property rates (5% of estimated annual rental value) is excluded as a cost of holding property.
• US$1m property: Service charge includes insurance at HKD 1,476 with 3% yearly increase.
• US$10m Property service charge: includes insurance at HKD 3,956 with 3% yearly increase.

Tax costs

Assumptions:

• X has no other source of income (e.g. salaries or director's fee) derived in/arisen from Hong Kong.

• Assumes the tax rates in Hong Kong remain unchanged as of those for the tax assessment year of 2015/16.

SINGAPORE

Purchase costs

• The stamp duty rate applied is that which is applicable to foreigners (non-citizens and non-PRs). However, it has been excluded as a purchase cost and included in the tax calculations.

Holding costs

• No Goods and Services Tax (GST) has been added to any costs.

Sale costs

• No agent commission is incurred by the buyer when purchasing a residential property. In Singapore, agent commission is generally incurred and paid by the seller.

Tax costs

For the purpose of estimating the stamp duties, we have assumed that the purchase price of the property is equal or higher than its market value.

For the purpose of estimating the annual property tax, we have assumed that the gross annual rental income is the annual value of the property.

SHANGHAI

Purchase costs

• Buyers pay agent fee of 1% and notary fee of 0.2% of property value. • Stamp duty and deed tax are excluded as a purchase cost however is included in the tax calculations.

Holding costs

• Service charge for a US$1m property (c.120 sq m) is estimated at approximately CNY 84 per sq m. Service charge for a US$10m property (c.300 sq m) is estimated at approximately CNY 180 per sq m.

Tax costs

Assume X and his family owns one residential property only.

The residential property acquired from property developer by X is not an ordinary residential property.

No treaty relief is considered.

PRC policy on expatriates purchasing residential property may change from time to time. One needs to check the local practice to ascertain the policy and tax treatment on owning a residential property.

For rental income assume no deductions are made, except allowable statutory deduction.

Land use tax is not included in the calculations. It can be estimated once the area of land has be obtained.

MUMBAI

RESIDENCY RESTRICTIONS APPLY

Purchase costs

• Assumed from the perspective of a foreign national of non-Indian origin with a purpose to stay in India. Approval of Reserve Bank of India required. • Stamp duty excluded as a purchase cost however is included in the tax calculations.

Holding costs

• Ownership costs refer to the maintenance of the property.

Tax costs

An increase of 5% in the indexation rates has been assumed to compute the indexation rate for financial year 2020-21.

Stamp duty costs have been computed with the assumption of the property being located in Maharashtra.

Expenses for sale are taken as brokerage/commission paid, cost of stamp papers, obtaining of certificates etc.

Legal/regulatory implications pertaining to purchase of property by an individual have not been considered.

Property is held as a capital asset and not as stock in trade.

Fees on acquisition and sale are assumed to be legal fees (drafting of documentation etc and not obtaining opinions in connection with the acquisition/sale), agency fees and other non-tax fees.

Assumed maximum slab rate @30% for the taxpayer and no personal allowances.

For rental income, no deductions are made except for standard deduction of 30%.

Estimation of property taxes payable in a certain location is a fact specific exercise. The computation of the said taxes is a function of several variables which inter alia include capital value/market value of the property, total carpet area, user category, age of premises, etc. Hence, it would be difficult to estimate the same currently. For the purpose of the illustration, we have made certain assumptions with respect to the variables (based on secondary source of information) which are as under:

The property is situated at Cuff Parade with a cost of INR 71,000 per square feet, and is an RCC structure built after 1985 for residential purposes. We have also assumed that the the rate at which rooms, flats, apartments, tenements, etc are taxed is the property tax rate applicable in the instant case and all the factors like market value per square feet, weights to be applied, etc do not change for a period of five years.

SYDNEY

Purchase costs

• Non-residents of Australia are currently limited to purchasing new or off-the-plan (OTP) property.

• Stamp duty is excluded as a purchase cost, however, it is included in the tax calculations.

Holding costs

• No Goods and Services Tax (GST) has been added to any costs. • Council rates payable for services around the community/council area. A rate of 3.5% was added each year in line with previous growth per annum, these are paid for by the owner.
• New tenant is assumed each year.

Tax costs

Property is residential in nature, therefore no GST is required to be remitted to the Australian Taxation Office on rental income.

Land tax calculated assuming property in the State of NSW, based on threshold for 2015 year.

Land tax calculations are estimates only, and have been rounded to the nearest $AUD 100.

Tax rules and tax rates in August 2020 and throughout the period of ownership are assumed to be the same as in August 2015.

All amounts in the calculation are stated in AUD.

EY CONTACTS

EY TAX CONTACTS

Marnix van Rij
Global Partner
+31 88 407 3857
marnix.van.rij@nl.ey.com

LONDON AND RESEARCH COORDINATION

Carolyn Steppler
Partner
+44 20 7951 4968
csteppler@uk.ey.com

Konstantin Korobchenko
Manager
+44 20 7951 1869
kkorobchenko@uk.ey.com

BERLIN

Christian Reiter
Senior Manager
+ 49 89 14331 16539
christian.reiter@de.ey.com

PARIS

Pierre Mangas
Partner
+33 1 5561 1582
pierre.mangas@ey-avocats.com

Philippe Fernandes
Avocat
+33 1 5561 1539
philippe.fernandes@ey-avocats.com

MONACO

Vanessa Tubino
Partner
+37 7 9216 5400
vanessa.tubino@mc.ey.com

Pierre Mangas
Partner
+33 1 5561 1582
pierre.mangas@ey-avocats.com

DUBAI

Stijn Janssen
Partner
+97 1 4312 9325
stijn.janssen@ae.ey.com

Ismael Hajjar
Senior Manager
+97 1 4701 0756
ismael.hajjar@ae.ey.com

NEW YORK

Justin Ransome
Partner
+1 202 327 7043
justin.ransome@ey.com

Caryn Friedman
Manager
+1 202 327 6750
caryn.friedman@ey.com

SINGAPORE

Goh Siow Hui
Partner
+65 6309 8333
siow.hui.goh@sg.ey.com,

Sheryl Tan
Senior Manager
+65 6309 8254
sheryl.tan@sg.ey.com

GENEVA

Roland Suter
Executive Director
+41 58 286 3180
roland.suter@ch.ey.com

Martin Poletti
Senior Manager
+41 58 286 3183
martin.poletti@ch.ey.com

HONG KONG

Simon Wang
Partner
+852 2629 3233
simon-sm.wang@hk.ey.com

Dora Chu
Manager
+852 2846 9917
dora.chu@hk.ey.com

SHANGHAI

Simon Wang
Partner
+85 2 2629 3233
simon-sm.wang@hk.ey.com

Fay Ren
Senior Manager
+85 2 2629 3926
fay.ren@hk.ey.com

CAPE TOWN

Chanelle Beukes
Executive Director
+27 31 576 8115
chanelle.beukes@za.ey.com

Brigitte Keirby-Smith
Director
+27 31 576 8161
brigitte.keirbysmith@za.ey.com

SYDNEY

Chris Balalovski
Executive Director
+61 2 9248 5109
chris.balalovski@au.ey.com

Jonathon Wilkes
Senior Consultant
+61 2 9248 5369
jonathon.wilkes@au.ey.com

MIAMI

Justin Ransome
Partner
+1 20 2327 7043
justin.ransome@ey.com

Annette M. Rojas
Senior Manager
+1 30 5415 1739
annette.rojas@ey.com

SAO PAOLO

Erica Perin
Partner
+ 55 11 2573 3742
erica.perin@br.ey.com

Carolina Rotatori
Senior Manager
+ 55 11 2573 3013
carolina.rotatori@br.ey.com

MUMBAI

Avinash Narvekar
Partner
+91 22 6192 0220
avinash.narvekar@in.ey.com

Gauri Sharma
Manager
+91 22 6192 0726
gauri.sharma@in.ey.com

KNIGHT FRANK CONTACTS

RESEARCH

Liam Bailey
Global Head of Research
+44 20 7861 5133
liam.bailey@knightfrank.com

Taimur Khan
Senior Research Analyst
+44 20 7861 1436
taimur.khan@knightfrank.com

MIDDLE EAST

Maria Morris
+971 4426 7639
maria.morris@me.knightfrank.com

ASIA PACIFIC

Sarah Harding
+65 6429 3580
sarah.harding@asia.knightfrank.com

EUROPE, US & CARIBBEAN

Paddy Dring
+44 20 7861 1061
paddy.dring@knightfrank.com

UNITED KINGDOM

Michael Toogood
+44 20 7861 1242
michael.toogood@knightfrank.com