



## OAK INVESTMENT MANAGEMENT GROUP

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***It's not about rich or poor it's just wrong.***

*Decreasing the efficiency of how the real estate market works may seem like good politics but it is no way to run a mature and vibrant economy. The politics of envy has taken over sensible appreciation of what drives value in the economy.*

Increasing in the inefficiency of exchanging the biggest value asset that most people have ever developed and are most likely to develop is just wrong. During the last recession of the early '90s in the UK the price of trading real estate was 1% now for any real estate over £2,000,000 it is 7%. This is unacceptable. Few people have been brave enough to say this – but we are.

We are real estate investment managers and therefore will always fight the corner of real estate as an asset class. But we do not think that the economy at large is served by placing this artificial and non-necessary tax on the costs on the exchange of the most basic value of exchange – real estate. The fact that this is the highest value is beside the point. The fact that this affects a few people is also beside the point. These are the reasons why:

1. *The UK economy, indeed, all economies are driven by most people putting most of their income into real estate;*
2. *The top echelons of real estate have a bigger 'pull' on the rest of the real estate asset class and on the economy than any other;*
3. *Artificial monetary (and liquid) thresholds placed on long lived (and illiquid) assets are arbitrary, create perverse incentives and destroy smooth running value creation to the detriment of the home owner as well as the state.*

As with all other tax initiatives in this era of restraint, the emphasis should be placed on tax maximisation not on political grandstanding. Business needs to make the case for business, but responsible politicians also need to make the case for business. Although most people do not regard residential real estate as a business it is. It is, second only to human capital, the biggest sector in the economy. Treat it sub-optimally and it will have profound consequences for all of us. Residential real estate is now the most taxed sector of the economy, with a 7% going to the exchequer at exchange. In the case of investment property, capital gains tax is also applicable should there be an appreciation in the value of the investment. This naturally stifles investment in a much needed area of the economy.

What George Osborne has done is increase the friction in the most basic commodity of exchange. Our hope is that other people's governments in Europe do not follow this misguided lead.