propertymark

HM Treasury Autumn Budget 2024 representation from Propertymark
September 2024

Background

1. Propertymark is the UK's leading professional body of property agents, with over 18,000 members representing over 12,800 branches. We are member-led with a Board which is made up of practicing agents and we work closely with our members to set professional standards through regulation, accredited and recognised qualifications, an industry-leading training programme and mandatory Continuing Professional Development.[1]

Context

2. The UK Government has announced that the Chancellor of the Exchequer will deliver her Autumn Budget on the 30 October 2024. Propertymark has prepared deliverable and achievable spending commitments, which will save money for the UK Government over the parliamentary term and grow the economy sustainably. Our measures will support the UK Government increase supply of both privately rented accommodation and increase homeowners, will help the UK Government make a fairer private rented sector as part of its aims to improve access with the Renters' Rights Bill and will landlords and homeowners contribute towards the decarbonisation of residential and commercial property. Our proposals include:

    - Support for last-time buyers by reforming Stamp Duty Land Tax (SDLT) with consideration for wider SDLT reform when public finances allow.
    - Reversing Section 24 of the Finance Act.
    - Support for landlords and homeowners to meet the Minimum Energy Efficiency Standards (MEES) through interest free loans, grants and to extend VAT exemptions to commercial buildings.

Support for last time buyers by reforming Stamp Duty Land Tax with consideration for wider SDLT reform when public finances allow

3. Propertymark is calling for HM Treasury to abolish Stamp Duty Land Tax (SDLT) on all purchases made by buyers over the age of 55 years old in England and Northern Ireland and for the Welsh and Scottish Governments to consider similar measures as part of their budget considerations. Previous UK Government's have concentrated reform of SDLT on first time buyers. Current rates for first time buyers are set at a zero rate for property values up to £425,000 with five per cent levy charged for property value between £425,001 and £925,000[2]. These rates should remain, and further support for first time buyers is needed. However, we are proposing tax incentives to 'right size' for the over 55's looking to live in a smaller house as they approach or start retirement. This will have the benefit of freeing up much needed

[1] https://www.propertymark.co.uk/
[2] Stamp Duty Land Tax: relief for first time buyers - GOV.UK (www.gov.uk)

and in short supply family sized accommodation, and for those people looking to right size, will be able to continue to live inappropriately in potentially more accessible and easier to maintain accommodation.

Likely effectiveness and value for money

4. If a homeowner wishes to sell their property, they must pay SDLT at a 5% rate on all properties between £250,001 and to £925,000, a 10% rate at all properties above this value up to the value of £1.5 million with a higher rate of 12% for properties above £1.5 million[3]. There are no discounted rates for last time buyers resulting in many homeowners feeling financially unincentivized or able to afford to move even when they may live in a property that no longer meets their needs. Giving older people the opportunity and incentive to downsize by removing SDLT for householders over the age of 55 years old, would allow them to have the opportunity to live in property that they could manage, find easier to heat and access easier. This would also free up larger housing for families where the supply of larger housing is well below demand.

5. House sales transactions could be less complicated than the general market with a large proportion of older people owning their home outright. According to the English Housing Survey 2022/23, 35% of households are outright owners and 29% are mortgagors in 2022- 23 with many of these being older people. Furthermore, the English Housing Survey found that older homeowners were less likely to have a home rated EPC band C or above with just 29% of households aged 65 to 74 and 24% households aged 75 or over lived in. A-C[4]. Older people are particularly vulnerable to the cold and given the high proportion who live in fuel inefficient homes the UK Government could save money on grant funding otherwise spent in the Warm Homes Strategy. On average older people's homes span 110 sq. metres, yet a large proportion live on their own or are under occupying. With more older people living in smaller easier to heat properties, the UK Government could use Warm Homes funding to prioritise other vulnerable groups.

Revenue implications for the Exchequer

6. We recommend that the UK Government considers wider reforms of SDLT including consideration of abolishing the tax. However, realistically this could not be achieved under the current state of public finances and without more support for home buyers in place to safeguard against likely house price increases. We also recognise that SDLT continues to be an important source of revenue for HM Treasury. However, receipts for SDLT are decreasing with £11.61 billion British pounds collected in 2023/24, compared with £15.36 billion pounds over 2022.23[5], which might be a consequence of less large investors buying property following the scrapping of Multiple Dwellings Relief. However, by concentrating relief on purchases made by older people, HM Treasury could still draw on revenue from purchased made by the working age population with a long-term plan in abolishing SDLT.

[3] Stamp Duty Land Tax: Residential property rates - GOV.UK (www.gov.uk)
[4] EHS_19-20_Home_ownership_report_FINAL.pdf (publishing.service.gov.uk)
[5] UK stamp duty land tax receipts 2024 | Statista

How it supports growth

7. The home buying and selling process contributes significantly towards the UK economy. The latest data from 2022 reveals that the real estate sector contributed more than any other sector towards Gross Value Added (GVA.) Real estate contributes towards £270,093m in GVA with wholesale and retail in second at £238,068m[6] This could be maximised by opening the potential for more older people to be able to move should they wish to. Currently, home sellers aged over 55 years old account for less than 25% of housing transactions[7] and these levels have largely stagnated from 2022 to 2023.

Wider macroeconomic implications

8. The wider macroeconomic impact of increasing home buying and selling for older people can be illustrated in a variety of datasets. Data from the Home Builders Federation and Knight Frank reveals that for every home sale transaction, the economy benefits by £9,559. To put this into proportion, 100,000 sales transactions would generate £1m towards the economy[8] There could also be the potential for significant benefit to jobs in terms of removal services, estate agency services, conveyancing and home improvements.

Distributional impacts

9. In the fiscal year ending on March 31, 2022, residential property generated £10.2 billion in SDLT revenues. These revenues were not distributed equally across regions in England. London was the region with the highest amount of SDLT receipts in financial year 2022 to 2023, £5,600 million or 36% of total SDLT receipts. This was an increase of 10% compared to 2021 to 2022[9] By abolishing SDLT for older buyers, the opportunity to increase house sales volumes in other regions could be presented especially in regions where the demographic profiles are particularly aged. If the Government decided to abolish SDLT altogether then their may be positive impacts on areas where house sales are slower and would catch up with other more accelerated regions.

Reversing Section 24 of the Finance Act

10. Propertymark is calling for the UK Government to look as landlords as a small business and to allow them to claim 100 per cent of their mortgage interest when filling their tax returns. The phasing out of Mortgage Interest Relief (MIR) and other tax-deductible costs such as arrangement fees has significantly increased costs for landlords and disincentivised others from joining the market. Propertymark gave evidence to the government and drew caution to the possible impact of phasing out tax deductible savings if interest rates were to increase. Propertymark has also completed research on the level of supply in the Private Rented Sector (PRS). 53% of buy-to-let properties sold in March 2022 left the PRS. 84% of respondents told

[6] UK GVA by sector 2023 | Statista
[7] UK Stamp Tax statistics 2022 to 2023 - Commentary - GOV.UK (www.gov.uk)
[8] knight-frankhbf-economic-benefits-of-housing-market-activity-2020-7616.pdf (knightfrank.com)
[9] UK Stamp Tax statistics 2022 to 2023 - Commentary - GOV.UK (www.gov.uk)

us that the number of new investors in the PRS has decreased over the past three years and there was a 49% reduction in properties available to rent per branch in March 2022 compared to March 2019.11 The decision to phase out costs such as Mortgage Interest Relief from deductible tax may have been the correct decision at the time of implementation in 2016. However, the economic climate is remarkably different in the present day with record high interest rates. At the time of implementation, interests' rates were close to zero. Although the policy was reviewed in 2019, interest rates remained low.

Likely effectiveness and value for money

11. The decision to implement Section 24 of the Finance Act has rapidly accelerated the decrease in supply of PRS properties with many landlords selling their properties and leaving the sector. This has impacted the most vulnerable people looking to access the PRS. According to data from CBRE, there has been an estimated net reduction of 400,000 rental properties from the private rented sector since 2016, with 126,000 being sold since 2022.[10] The research has also shown a strong correlation between the base rate increasing and the number of landlords exiting the market as their taxation payments increases.

12. As the supply of PRS property has decreased, the costs incurred to local authorities in England and Wales and HM Treasury have escalated. Analysis from the Local Government Association reveals that the number of households living in temporary accommodation has risen by 89 per cent over the past decade to 104,000 households at the end of March 2023 – the highest figures since records began in 1998 – costing councils at least £1.74 billion in 2022/2311. The cost to local authorities in London has seen the most dramatic effect, with the surge in homelessness and the increased reliance on B&B properties have led to soaring costs for London's councils, now collectively reaching a staggering £90 million per month for Temporary Accommodation[12]. Despite reductions in costs to the UK Government in housing related benefit, housing related benefits cost the UK Government £15.6 bn in 2022/23[13], which although is a reduction from £16.8 bn the previous year, the level remains significantly higher than before the full implications of Section 24 reversal.

13. Data from HMRC reveals that finance costs for landlords have not increased as much as anticipated. The overall expenses declared was £22.4 m in 2017/18 and £23.4 m in 2021/22[14]. This is likely to be due to less landlords remaining in the market. Looking at data over a five yearly period, mostly because of Section 24 and additional 3% Stamp Duty Land Transaction changes, housing support payments are up by 39% or by £10Bn whilst declared rental income is up by a much lower £1.35Bn or 2.93%. Given our comments of the escalating welfare and housing costs, the reversal of Section 24 has led to increased costs to the Treasury with very little financial savings in comparison.

14. HM Treasury should also consider increasing Capital Gains Tax on profits made on the sale of buy to let properties to be line with the higher rate of 24% regardless of landlord's income bracket. This will further deter landlords exiting the market and is on provision of removal of Section 24.

[10] UK's Private Rented Sector Records Loss of 400,000 Rental Homes Since 2016 (cbre.co.uk)
[11] £1.74 billion spent supporting 104,000 households in temporary accommodation | Local Government Association
[12] Cost of housing homeless people skyrocketing for councils | New Economics Foundation
[13] UK housing benefit expenditure 2024 | Statista
[14] https://www.gov.uk/government/statistics/property-rental-income-statistics/property-rental-income-statistics-2024#key-points

Wider macroeconomic implications

15. The alternative to adopting this proposal, will be that the supply of privately rented property will continue to decrease. This will put further pressure on private rental values for those who continue to access the private rented sector. The UK Government has already ruled out the adoption of rent controls, which we applaud. When rent controls were adopted by the Scottish Government as part of their Cost-of-Living measures, the average rent for a two-bedroom home in Scotland has increased by over 14%, reaching an average of £841 – an extra £105 per month compared to the previous year[15]. However, if the decrease in PRS supply continues with the likely outcome of rent increases, the UK Government may experience increased costs to welfare payments including Local Housing Allowance payments and Discretionary Housing Payments to support private renters in rent arrears.

Support for landlords and homeowners to meet the Minimum Energy Efficiency Standards (MEES) through interest free loans, grants and to extend VAT exemptions to commercial buildings

Likely effectiveness and value for money

16. Propertymark wants to see more energy-efficient homes, but new rules and requirements must be realistic and achievable. Without providing landlords and homeowners with incentives and access to sustained funding, it is unlikely that energy efficiency targets for the private rented sector and a reduction in emissions across the property sector will be met. The Department for Energy Security and Net Zero (DESNZ) has confirmed that private landlords will have to meet EPC C by 2030 subject to potential exemptions. Targets are also anticipated for the owner-occupied sector. The UK Government must provide a combination of grants, loans and help with survey costs to incentivise landlords and homeowners.

17. Following the closure of the Green Homes Grant scheme there needs to be a long-term financial plan to support homeowners and landlords with energy efficiency and combating climate change. The UK housing stock is amongst the least energy efficient in Europe and the Committee on Climate Change says that energy use in homes accounts for about 14 per cent of UK greenhouse gas emissions.

Revenue implications for the Exchequer

18. We have written to the Secretary of State for Energy Security and Net Zero, who confirmed that the UK Government are still considering incentives and support for landlords to decarbonise their property. He also confirmed that his department will liaise with banks, building societies and other financial institutions to produce financial products to support in the decarbonisation of property.

19. Energy efficient homes can reduce overall costs for the UK Government by improving health and reducing household bills. The benefits mean the UK Government can improve the country's housing stock, tackle fuel poverty, and reduce carbon emissions. Towards the end

[15] Rent controls distort the market and lead to discrimination | Propertymark

of 2022, the Department for Business, Energy and Industrial Strategy (BEIS) invested £1.5 billion to decarbonise 130,000 homes in the social housing sector[16]. However, the greatest need to decarbonise stock and tackle fuel poverty is in the PRS with around two thirds of stock fall below an Energy Performance Certificate (EPC) rating of C[17]. For England, the previous UK Government allocated £4 billion of funding for decarbonisation of housing from 2022-25. However, much of this was in the social sector and this is much less than the £9.2 billion highlighted in the Conservative election manifesto of 2022. This is also a fraction of the UK Government's estimate that £35-65 billion of investment is needed by 2035. We would recommend that this UK Government should learn from the lessons of the implementation of the Green Homes Grant and allocate a scheme for landlords and homeowners to make energy efficiency improvements to their properties. The Green Homes Grant was designed to improve 600,000 homes from a £1.5 billion budget. However, progress from the scheme was hampered by bureaucracy and difficult to achieve requirements. 47,500 homes were improved costing £256 million.[18]

20. We recommend that the UK Government considers a similar model currently being considered by the Welsh Government with collaboration with the Development Bank of Wales. The proposed scheme supported by the Development Bank of Wales, will offer a free assessment to homeowners followed by an application process for funding for energy efficiency measures for their property. Successful applicants will be awarded either a grant or a 0% interest free loan payable over ten years. Other than affordability checks, there are no eligibility checks, and the scheme will compliment over Warm Homes Funding such as ECO funding[19] which is aimed more at those on means tested benefits or face a vulnerability to the cold. While we are very supportive of the Welsh Government's scheme, we believe a UK Government version should be open to homeowners and private landlords.

How it supports growth

21. The proposal will help landlords and homeowners meet the UK Government's MEES targets and improve the energy efficiency of homes. This will put less pressure on grant funding from the UK Government's Warm Homes Plan and will support Net Zero by 2050. Improving energy efficiency in our building stock will not only contribute to decarbonising energy but also provide a stimulus to economic growth. Investment in retrofitting buildings will provide a substantial stimulus to jobs in the construction sector, as well as the wider economy. The measures will also reduce energy bills for individuals and families.

[16] £1.5 billion to improve energy efficiency and slash bills - GOV.UK (www.gov.uk)
[17] English Housing Survey, 2020 to 2021: private rented sector - GOV.UK (www.gov.uk)
[18] Green homes grant voucher programme (parliament.uk)
[19] Help from your energy supplier: the Energy Company Obligation - GOV.UK (www.gov.uk)