Spring Budget representation to HM Treasury
From Propertymark
February 2020

Background

1. ARLA Propertymark is the UK's foremost professional and regulatory body for letting agents; representing over 9,500 members. ARLA Propertymark agents are professionals working at all levels of letting agency, from business owners to office employees.

2. NAEA Propertymark is the UK's leading professional body for estate agency personnel; representing more than 11,000 offices from across the UK property sector. These include residential and commercial sales and lettings, property management, business transfer, auctioneering and land.

Suggestions for new policy ideas for inclusion in the Spring Budget 2020

<u>Make the retail discount for business rates available to estate agents</u>

3. Estate and letting agent businesses should be able to access the existing and proposed business rates relief available for retail in order to support towns and local highstreets. They should not be classed as "offices". The rise of on-line estate agents with lower operating costs are gradually eroding the bricks and mortar estate and letting agent. Faced with the current level of costs associated with running a traditional estate or lettings agency, smaller agents are reporting that they are being squeezed out of the market.

Sectoral Impacts

4. Maintaining agents with a physical presence on the high street benefits communities in four ways. Firstly, house sellers and Landlords retain a choice of which agency they wish to engage to sell/ rent out their property. Choice and competition will contribute in the drive to improve standards. Secondly, tenants who rely on their letting agency for property management will retain that vital face to face relationship. This is particularly important for those tenants who may be more vulnerable. Thirdly, High streets remain vibrant with fewer empty shops, encouraging more shops and businesses, and shoppers into the town or local centre. Lastly, face to face contact

between agent and clients/ consumers facilitates agents in making robust judgments around suspicious activity for the purposes of the money laundering regulations.

5. The current business rates policy discriminates against traditional bricks and mortar agents. In effect it subsidises online agents – agents who operate from public facing premises are subsidising online agents. Business rates have a negative impact on the ability of high street-based businesses to offer their services at lower prices and forces them to charge higher prices making them less competitive. With both higher operating costs, and reduced competitiveness in the market, traditional agents are being squeezed from both sides and finding it a financially untenable position, leading to decisions to leave the market. By reducing the rates bill in line with others operating on the high street and the on-line estate agency businesses, traditional bricks and mortar agents will be able to afford to remain on the high street and provide competitive services providing consumers with the ability to choose which agent to engage.

Revenue implications for the exchequer

6. Each of the devolved nations has developed different policies to applying business rates to estate and lettings agents. Whilst all are based around the rateable value of the premises, in England an agency may be eligible to utilise the small business multiplier but is extremely unlikely to meet the requirements for Small Business Rate Relief. In Wales, Small Business Rate Relief is offered on a tapering scale, offering most agents a significant level of relief. Furthermore, Welsh local authorities have the discretion to offer High Street and Retail Rates Relief to estate and letting agents to the amount of £2500 per annum. The scheme applies to retailers occupying premises with a rateable value of £50,000 or less. Unlike in England, Welsh "Retail properties" include estate and letting agents as 'Hereditaments that are being used for the provision of services to visit members of the public".

7. Whilst inclusion of estate and letting agents in any high street rates relief would come with a cost to local authorities, these are outweighed by the economic benefits of maintaining bricks and mortar agents. ARLA Propertymark commissioned Capital Economics to undertake research that included estimating the economic contribution made by real estate activities. It showed that Real estate activities, including commercial and residential lettings and sales, as well as management, support

240,000 jobs and add £13 billion of value added to the United Kingdom economy. This includes VAT of £2.8 billion, and employee taxes of £1.7 billion.[1]

8. The Capital Economics report found that Residential lettings activity undertaken by agents turns over around £4 billion each year and adds £2 billion to the economy. This is achieved through the 58,000 jobs provided by such activity, which generates employee taxes in the order of £400 million for the exchequer each year. This activity is spread across all regions of the UK, with 73% of residential lettings jobs being outside of London and the South East. Furthermore, the spending of agents on suppliers supports a further 17,000 jobs while the spending of employees within the sector supports 20,000 jobs.[2]

Exempt downsizers from stamp duty or give them incentives to encourage them to "right-size"

9. Pensioners wanting to move to a home to better suit their needs should be exempt from paying stamp duty. To compliment this policy, there should be a programme of building for specialised homes for older people, and the Government should introduce over-65s bonds for downsizers.

Sectoral Impacts

10. By offering last time buyers a stamp duty exemption, it will encourage them to move into homes better suited to their changing needs (typically through downsizing), thus freeing up properties for larger families. Under occupancy is a key element of the housing challenge that the Government faces. NAEA Propertymark's Housing 2025 report outlines that 1.1 million households in England and Wales (4.5% of the total) are overcrowded. Whereas, 16.1 million households (69% of the total) are under occupied. By making it easier for older people to sell their homes it will free up family-sized homes for the next generation and boost much needed housing supply[3].

11. One of the main barriers for older people and pensioners wishing to sell their family home and relocate is the lack of suitable choices. The number of people aged 65 and over living in the UK is forecast to increase by 20% to 12 million by 2027. Significantly,

[1] https://www.arla.co.uk/media/1045728/letting-the-market-down-assessing-the-economic-impacts-of-the-proposed-ban-on-letting-agents-fees.pdf
[2] https://www.arla.co.uk/media/1045728/letting-the-market-down-assessing-the-economic-impacts-of-the-proposed-ban-on-letting-agents-fees.pdf
[3] http://www.naea.co.uk/media/1043988/housing-2025.pdf

it is the over 90's who will see the biggest increase over the next eight years, with more than 750,000 people, an increase of one third, living to be nonagenarians. Research into senior living by Knight Frank in 2019 found that for 56% of seniors, location is the most important factor when choosing a property. When selecting a location, the most single most important factor was affordability. For those aged 65-74 years, being close to friends and family was second most important, followed in turn by proximity to transport links, access to green spaces and having previously lived in the area. However, for the over 75's they were more concerned about being close to transport links, and then being close to family and friends. [4]

12. Knight Frank data indicates there are four people who would consider downsizing for every existing senior living property currently in use, therefore, any stamp duty exemption for downsizers must be combined with a programme of housing building for older people. The UK currently has only 162,000 privately owned retirement properties, making up 0.6% of all housing stock[5]. Even though an additional 48,000 private retirement homes are set to be delivered by 2022, there will still be a significant shortfall of property for the growing number of those at retirement age[6]. Furthermore, we don't think that traditional retirement homes and senior living centres, which often require residents to move far away from their existing home and may limit access to community facilities, are offering a great enough incentive for older people to downsize. To encourage the development of more suitable properties, the Government should offer tax relief on the development of specific properties that are suitable for pensioners looking to downsize.

13. The Government should also explore additional incentives such as access to over-65s bonds with market-beating returns for downsizers. For example, the Government could permit only funds obtained through property downsizing to be converted into the bonds. Given that it has already been proven that there is a strong appetite among the over-65s for bonds such as these, reintroducing them, but with the added qualification tied to downsizing, would boost the supply of properties on the housing market.

[4] https://content.knightfrank.com/research/1793/documents/en/senior-living-survey-2019-6459.pdf
[5] https://www.knightfrank.co.uk/resources/retirement-housing-market-update-q1-2018.pdf
[6] https://www.zoopla.co.uk/discover/property-news/48-000-private-retirement-properties-to-be-built-by-2022/#bIJVgrEclSmTU41I.97

Revenue implications for the Exchequer

14. By addressing under-occupancy of homes and encouraging older people to downsize, it takes some strain away for the need to build 300,000 new homes a year, which is forecast to cost the Exchequer around £44 billion[7]. Our analysis from the Housing 2025 report reveals that in most regions, the number of larger homes (i.e. those with three or more bedrooms) being built, far exceeds projected growth in households with two or more dependent children. This suggests that making pre-existing properties available would not only be an easier and achievable solution but takes away the need to build larger properties where they already exist but are under-occupied. Consequentially, more housing stock will be made available in the market and through sales to those who are not exempt from stamp duty, taxation revenue to the Exchequer will increase.

<u>Raise the property value for Stamp Duty Land Tax (SDLT) in order to stimulate the housing market</u>

15. In order to help stimulate the housing market the Government must raise the property value for Stamp Duty Land Tax (SDLT). Currently, the threshold is too low and must be adjusted to better reflect the value of property in England. NAEA Propertymark believe the value for property at which SDLT is paid should be raised to £150,000. This is consistent with the Government's aim of supporting people to realise the dream of homeownership.[8]

Sectoral impacts

16. Raising the threshold at which SDLT is paid to residential properties costing over £150,000 would help all purchasers of residential property, but particularly give a boost to the lower and middle end of the housing market. Due to the current tiered system of SDLT, where people choose to spend more, they will get the full £150,000 worth of benefit. This is important for two reasons. Firstly, the threshold for paying stamp duty has not kept up with the average house price. Secondly, average weekly earnings put pressure on people's ability to pay for deposits and solicitors' fees when they move or buy property. Through raising the threshold this would incentivise more

[7] https://www.thetimes.co.uk/article/budget-2017-in-brief-44bn-for-300-000-new-homes-a-year-8zz2rzswv
[8] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853886/Queen_s_Speech_December_2019_-_background_briefing_notes.pdf

people to buy, make it more affordable to purchase property and ensure more people keep more of their money to spend in the wider economy.

17. The threshold for paying stamp duty has not kept up with the average house price in England. In December 2014, the average house price was £203,346. Currently, SDLT is paid on purchases over £125,000 which is roughly 61% of the price. In January 2019, the average house price was £244,729.[9] This means that the when paying stamp duty, purchases are now paying approximately 51% of the price for SDLT. In order to maintain the 61% ratio for non-liable SDLT transactions, NAEA Propertymark believe the value for property at which SDLT is paid should be raised to £150,000. By introducing a higher starting threshold this would provide a fairer system for those purchasing at the lower end of the housing market and ensure that SDLT keeps up with average property prices.

18. Those able to purchase housing in England and across the UK still require large sums of money to pay for deposits and solicitors' fees. However, buyers cannot borrow to cover any costs of moving to a new house so the money must come out of people's equity. Slow rises to average weekly earnings put pressure on people's ability to pay for deposits and solicitors' fees when they move or buy property. In December 2014, the average weekly earnings in the UK excluding bonuses (nominal) was £447.46 and in June 2019 this figure only rose to £504.97 (nominal).[10] Furthermore, mortgage lenders must ensure that lending criteria is appropriate, and that sufficient lending is available to those looking to buy a home. In England, in 2014, the ratio of median house price to median annual earnings was 7.09[11] and in 2018, on average, full-time workers could expect to pay an estimated 7.8 times their annual workplace-based earnings on purchasing a home in England and Wales.[12] By introducing a higher starting threshold this would ensure that SDLT keeps up with weekly earnings.

19. Raising the initial threshold for SDLT would make purchasing a home more affordable and attractive to a greater number of people. This would be particularly impactful in the North East where the average house price in November 2019 was £130,712 and

[9] https://landregistry.data.gov.uk/app/ukhpi/browse?from=2014-11-01&location=http%3A%2F%2Flandregistry.data.gov.uk%2Fid%2Fregion%2Fengland&to=2019-02-01
[10] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/august2019
[11] https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/1997to2016
[12] https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/2018

Yorkshire and The Humber where the average house price was £165,362. In addition, those purchasing property in the North West where the average price is £169,362, East Midlands where the average price £197,7920 and West Midlands where the average price £204,238 would also benefit.[13] Raising the rate up to which buyers won't have to pay any stamp duty will mean that a greater number of house buyers will no longer have to pay any stamp duty or be able to invest more money in a property before having to pay tax.

Revenue implications for the Exchequer

20. NAEA Propertymark believe that there would be three main revenue implications for the Exchequer. Firstly, raising the threshold for SDLT would increase transactions at the lower and middle end of the housing market. HMRC figures show that UK Residential transactions in December 2019 have increased compared to the previous three years.[14] We believe that further measures, such as raising the threshold for SDLT, would reduce costs for buyers, support more people to purchase property and help maintain the increased trend in transactions. Secondly, more people moving to a new house would allow for more spending in the wider economy. For instance, we know that the main categories of expenditure linked with home moves include upgrading wiring and central heating, installing new kitchens and bathrooms, replacing windows and doors, plastering and general decorating. Thirdly, reduction in the tax home buyers pay would bring a big boost to those progressing up the housing ladder, particularly for young families, renters looking to purchase property and second steppers stuck in their starter homes.

<u>Abolish the 3% surcharge on additional residential property and review landlord taxes</u>

21. To boost housing delivery the Government should remove the April 2016[15] 3% surcharge on additional homes and buy-to-let properties. The policy disadvantages those buying their first property with the help of Guarantor Mortgages as well as homeowners who must purchase a new main residence before sale completion of their previous property. The policy has also contributed to a stagnation of the private

[13] https://www.gov.uk/government/publications/uk-house-price-index-summary-november-2019/uk-house-price-index-summary-november-2019

[14] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/858948/UK_Comm_Jan_2020__cir_.pdf

[15] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf

rented sector, which is now the second largest housing tenure apart from owner-occupiers.

22. Furthermore, the Government should undertake a comprehensive review of all taxes relating to private landlords. Investment is falling because the phasing out of tax relief on mortgage interest for landlords, the additional SDLT surcharge on buy-to-let property and the repercussions of the Tenant Fees Act means that landlords costs have significantly increased and many landlords can no longer make ends meet.

Sectoral Impacts

23. The legislation has created issue where buyers purchase their new home through a Guarantor Mortgage. Typically, these mortgages are guaranteed by family members wanting to help a first-time buyer to get on the housing ladder. The consequence of such, is that that due to the involvement of the guarantor who will not live in the purchased property (already a homeowner), the buyer will be subject to the additional 3% stamp duty. This is despite first-time buyers being exempt from stamp duty up to £300,000. This contradicts the Government's intentions to help first-time buyers, and results in them not benefitting from stamp duty exemption.

24. There is also an issue where homeowners are looking to buy a new main home whilst trying to sell their own, if they purchase the new property before completing the sale of the old property, they too will be subject to the 3% additional rate. These cases can apply for a refund where they sell the original property within three years, but the process is complicated, and refund can take around two months to process, adding further strain to HMRC. The consequence of the delays is costing the Government 0.5% automatic interest on top of each refund, the average refund is worth £27,205[16]. This also has a negative impact where a partner is fleeing domestic violence and must purchase another property as their main residence, whilst remaining on the mortgage of the previous address. Only where these individuals are in the process of a divorce do they receive relief.

25. By failing to offer exemptions to institutional investors, the policy has stifled the private rented sector where rents are rising. In February 2018, the Intermediary Mortgage Lenders Association estimated that buy-to-let investment fell from £25 billion in 2015 to only £5 billion in 2017[17]. Furthermore, increasing the taxation

[16] https://www.theguardian.com/money/2017/dec/22/uk-government-taking-two-months-to-refund-stamp-duty
[17] http://www.imla.org.uk/resources/publications/buy-to-let-under-pressure.pdf

burden on landlords' results in costs being passed back to tenants through higher rents. In December 2019, our sister organisation ARLA Propertymark, who represent letting agents, reported 32% of agents witnessed rent increases, up from 16% in December 2017 and 18% in December 2018[18]. This is in contrast to only 1.1% of tenants being able to negotiate a rent reduction, the lowest figure since records began. This means that people have less money to save and it is harder for them to get on the housing ladder.

26. Before the Government decided to restrict Income Tax relief for landlords to the basic rate of tax, higher rate taxpaying landlords could claim tax relief at 40%, but the relief will now be restricted to the 20% basic rate of Income Tax by April 2020. The Government must recognise that in order to remain profitable, landlords will increase rents to cover the additional fees they are now faced with and as a result tenants will continue to pay higher deposits. This is important because if supply of rental accommodation falls further, tenants will only be faced with more competition for properties, pushing up rent prices on good quality, well managed accommodation and decreasing tenants' ability to negotiate rent reductions. Therefore, we believe the Government must consider launching a review of all taxes relating to private landlords in order to develop policies that promote long term investment in the sector and reduce costs for tenants.

Revenue implications for the Exchequer

27. Abolishing the 3% surcharge on additional properties will encourage further investment into property. Whilst the surcharge has been a valuable source of income to the Exchequer, it has also resulted in a drop of sales on second and buy-to-let property which contribute towards the economy in tax amounting through letting activities, as well as providing homes to those who cannot afford to, or do not wish to buy their own home. It will cement the Government's intention to help first-time buyers by exempting Guarantor Mortgages from being subject to a surcharge of stamp duty with 1 in 4 housing transactions involving lending from family members[19]. Additionally, the Exchequer will benefit from not being subject to reviewing and issuing refunds on stamp duty surcharges, this is a costly process which requires extra resources and staff to HMRC. A secondary impact of removing the 3% surcharge could see an encouragement for private rented tenants to spend less of their income on rent

[18] https://www.arla.co.uk/lobbying/private-rented-sector-reports/
[19] http://www.naea.co.uk/news/june-2018/bank-of-mum-and-dad.aspx

(where their landlord is saving money through a lower stamp duty), and more on saving for their own property or spending on local goods and services.

Legislate to ensure developers remedy leaseholders with onerous clauses

28. To support those who have been impacted by onerous leasehold clauses, the Government should legislate to ensure that developers find remedy for those affected. This will encourage mortgage lenders to borrow to buyers of these properties and further encourage the sale of existing leaseholder properties.

Sectoral Impacts

29. Where leaseholders have been subject to onerous clauses in their lease contracts, our report 'Leasehold: A Life Sentence?' highlighted that the consequence of such has resulted in down valuing of their properties, and not being able to sell or remortgage due to lenders deeming the risk too high[20]. The Government should legislate to prevent the doubling of ground rents and ban increases above inflation.[21] Through Deed of Variation developers can remove or amend clauses. They can also change the ground-rent clause so that it rises against inflation, rather than having ground rent increase in a way that is not linked to the market. As the developer Taylor Wimpey has done developers should be made to set up a Ground Rent Review Assistance Scheme[22]. Taylor Wimpey's scheme has been designed to 'alter the terms of the doubling lease' for buyers who bought one of their properties which have a lease with a 10-year doubling ground rent clause. Where the developer has sold the freehold, the developers and the Government should be working with the organisations that now own the freehold of the properties to convert the doubling leases to an alternative lease structure. The Government must act and stipulate requirements on developers to allay the concerns of existing leaseholders and increase the saleability of their homes.

Revenue implications to the Exchequer

30. By ensuring that developers find remedy for leaseholders with onerous clauses, further sales of leasehold properties will be encouraged, thus fortifying the type of tenure. A consequence of this will mean that leaseholders will have less of their

[20] http://www.naea.co.uk/media/1047279/propertymark-leasehold-report.pdf
[21] http://www.naea.co.uk/media/1047302/leasehold-reform-inquiry-hclg-committee-response.pdf
[22] https://www.taylorwimpey.co.uk/leaseholdfaq

income dedicated to paying onerous ground rents and more money to spend elsewhere in the economy, or the purchase of a new property providing Stamp Duty Land Tax to the Exchequer. Additionally, as the Government has stated that Help to Buy equity loans will mostly not be used for the purchase of leasehold new-build houses, this will mean that the Exchequer can focus this capital elsewhere. Finally, through the removal of onerous clauses, existing leaseholders will be able to sell their properties or re-mortgage should they wish to, contributing to both churn and home ownership.

Introduce a digital log-book for every property bought and sold

31. To cut down the number of failed property transactions and speed up the process of property buying and selling, the Government should introduce a digital property log-book. This would allow for a more interactive, streamlined and transparent process for both home buyers and sellers.

Sectoral Impacts

32. Currently, an issue as small as a missing piece of paperwork can set back a transaction by a substantial period or even cause it to fall through. On average it takes around six months from a property being listed to completion of sale[23], and 8-12 months between offer and completion in England and Wales[24]. Further, in the first quarter of this year 38.8% of sales fell through before completion[25] - the highest rate in a decade. These factors combined can act as a deterrent to both buyers and sellers, and ultimately slow down sales. Prop tech is becoming increasingly important, with HM Land Registry moving towards digitisation and the first digital mortgage being launched in April 2018[26]. In addition, a digital log-book documenting each stage of the transaction with deadlines for submission will simplify long and complicated property chains. Using blockchain technology, paperwork would be accessible for all parties involved and be passported when the property is sold on. The log-book would help to avoid delays and allow regular contact with the agent and buyer to help deal with any issues that arise.

[23] https://hoa.org.uk/advice/guides-for-homeowners/i-am-buying/how-long-does-it-take-to-buy-or-sell-home/
[24] https://www.ft.com/content/dff97140-6426-11e8-90c2-9563a0613e56
[25] https://www.propertywire.com/news/uk/number-property-sales-falling-uk-reaches-decade-high/
[26] https://www.gov.uk/government/news/hm-land-registry-launches-new-digital-local-land-charges-register

Revenue implications for the Exchequer

33. Through the introduction of a digital log-book, the Exchequer would see an increase in property sales, and consequently an increase in revenue obtained through churn and the taxes associated with the purchase of property. To this end, less time, resources, and energy from all involved parties will be put into long or failed transactions and more revenue will be generated for spending on local goods and services.