property | reporter

Budget 2022: Property industry reacts to 'Austerity-lite' announcement

Following mounting speculation, rumours, and the occasional wild stab in the dark regarding exactly what would be unleashed upon the already battle-weary British public by this year's fourth Chancellor, we finally know. And despite their best attempts at soft-launching the latest financial kick in the pants for us all to enjoy via week's worth of mutterings in the press, a kick in the pants is still a kick in the pants.

Ahead of the Autumn Statement, Chancellor Jeremy Hunt, said: "Today we are having to take some difficult decisions to restore stability, bring inflation down and balance the nation's books. So this is our plan to build a stronger economy, protect public services and make sure we look after our most vulnerable.

"We're all going to be paying a bit more tax, but it's not all bad news..."

Here's some of the bad news:
Personal tax will have the threshold reduced at which the 45p rate becomes payable from £150,000 to £125,140, with those earning £150,000 or more paying just over £1200 more a year.

Reformed allowances on unearned income. The dividend allowance will be cut from £2,000 to £1,000 next year and then to £500 from April 2024.

The annual exempt amount for capital gains tax will be cut from £12,300 to £6,000 next year and then to £3,000 from April 2024.

From April 2025, electric cars will no longer be exempt from Vehicle Excise Duty.

Stamp duty cuts will now only stay in place until March 2025.

And some of the good?
Education and Social Care will receive extra funding, the NHS will have its budget for healthcare increased by £3.3bn, and the increase in social rents will be capped at a maximum of 7% in 2023-24 - with the Treasury adding that "This will help protect households across England from the rising cost of living."

With around 55% of the measures announced being spending cuts and 45% tax rises, this plan certainly had more than a whiff of austerity about it - austerity-lite perhaps? Whatever you decide to call it, it makes for grim reading and against the backdrop of the accelerating cost of living crisis, soaring interest rates, and collapsing affordability across the property market, landlords, tenants, first-time buyers, and homeowners are in for a rough ride.

In particular, for housing, the Stamp Duty cuts announced in the 'mini-budget' which will now be time-limited and end on 31 March 2025, will see many first-time buyers having to pay more to get onto the housing ladder.

HM Treasury says that this is to "help the jobs & firms that rely on the housing market through the current challenges while strengthening the public finances in the longer term." Those trying to save for a deposit amid an ongoing cost of living crisis and with the UK now in recession may feel slightly less optimistic.

As you can imagine, those in the property industry have been more than keen to voice their expert opinions. Here's what they're saying:

Tim Bannister, Rightmove's property expert, says: "The clock now ticking on potential stamp duty savings will bring a bit more urgency for people trying to get on the ladder or trade up in the next few years. As it's still in place for a couple of years we don't foresee a significant number of people bringing their plans forward to 2023, especially due to current affordability challenges, but we may see a jump in new sellers towards the end of next year and into 2024 to ensure they can move in time. The total time it takes to buy and sell a property is currently around six months, meaning people will need to be well on their way by late summer 2024.

"It's likely to be most challenging for first-time buyers with smaller deposits, as we know it's currently taking them an average of five years to save up enough for a deposit. The average monthly mortgage payment will be lower if they're able to raise a bigger deposit, so we may see more people looking to friends and family for help with a deposit to be able to bring their plans forward before the current stamp duty savings disappear in 2025.

"However, the current savings are lower than the stamp duty holiday of 2020, so we don't foresee the removal having a significant dampening effect in 2025, with factors such as mortgage rates and house prices likely to have a much bigger impact on activity levels."

Tom Bill, Head of UK Residential Research, said: "The cut to the capital gains tax exemption is a further disincentive for landlords but, like other announcements in the Autumn Statement, it could've been worse. It will disproportionately affect landlords of lower-value properties but CGT rates have

not been aligned with income tax, so a material drop in demand or a wave of selling is unlikely.
"Landlords have faced a series of tax hikes in recent years but privately rented property accounts for 1 in 5 of English households. At a time when living costs are rising so quickly, policy should remain rooted in economics, encouraging landlords to remain in the sector and keeping downward pressure on rents.

“By reversing the stamp duty cuts announced in September from April 2025, the government has effectively announced a 28-month stamp duty holiday. It may help stimulate activity closer to the deadline but it appears to contradict the message sent by the government during the pandemic that a liquid housing market was good for social mobility and had wider economic benefits.

“For anyone buying or re-mortgaging, the message is that mortgage rates should continue to edge downwards in coming months and the stability of recent weeks will continue. However, the spike in borrowing costs that followed the mini-Budget in September was a reminder that a 13-year period of low rates is over, which we expect to put downward pressure on prices as they fall back to the level they were at last summer.”

JLL Head of EMEA and UK Living Research Nick Whitten, says: “The financial markets have already responded positively to the Chancellor’s attempts to ‘balance the books’ with the cost of debt, and ultimately mortgage rates, falling steadily in the past week.

“But households are going to feel even more of a squeeze through the current cost of living crisis as a result of the belt-tightening measures introduced in the Autumn Statement.

“However, we do not see a house price crash occurring in the UK, more of a correction. The next 12 months will see a sluggish market in which buyers and sellers haggle over price and ultimately less transactional activity occurs. The supply of new homes for sale will gradually become constrained.

“Against this backdrop, JLL is forecasting that UK house prices will fall in value in 2023 by 6% which equates to an average discount of £17,500 from the average UK house price of circa £290,000.”

Will Matthews, Head of UK Commercial Research said: “Despite Chancellor Hunt’s rapid reversal of September’s mini-budget giveaways, many worried that today’s Autumn Statement would contain a few more nasty surprises. The timing

was hardly fortuitous, with recent data showing UK output in decline and inflation running at 40-year highs. In the event, however, there were few changes to what had already made its way into the public domain.
“The need for tax rises and spending cuts has been clearly articulated in recent weeks, calming domestic financial markets and reining in spiralling UK 10-year gilt yields, which have risen to a peak of 4.5%, are now back to slightly more palatable levels of around 3.3%. With much of the renewed fiscal restraint already priced in, further significant reductions in gilt yields were never on the cards today, but in uncertain times, maintaining the status quo is enough to count as a win for real estate debt markets.

“Neither were there any major surprises for corporate occupiers or the wider business sector, the planned rise in corporation tax to 25% by April 2023 having previously been confirmed. The real estate industry will have been watching out for updates on the previously announced investment zones – areas designed to stimulate regeneration in local economies. Another particular focus for the industry will be the significant investment announced to help reduce the UK’s energy demand over the next decade, for which at least some of the responsibility will fall upon those in the built environment.

“This was always going to be a statement full of difficult compromises, but it leads to two potential opportunity areas for the real estate sector, one practical and one structural. Firstly, as government departments come under even greater financial pressure, there will be an added incentive to release assets or sites for sale or redevelopment. Secondly, although the government recommitted to a number of investment projects and growth in capital spending, there will also be a growing role for the private sector to drive economic, technological and social infrastructure, should it wish to. Is that an attractive proposition? The real estate sector’s contribution to the success of UK life sciences, health care, education, data centres and countless other areas suggests that for the right opportunity, it certainly can be.”

Matt Cowen, a Senior Associate at the law firm Winckworth Sherwood, comments: “No doubt there remain tough times ahead for many social housing tenants squeezed by the cost-of-living crisis, but the introduction of this rent cap will partly mitigate the 11.1% rent increases that would have otherwise taken effect from next April, being September’s CPI rate of 10.1% plus 1%.
“Social housing landlords also face their own financial pressures, particularly in relation to meeting development targets and decarbonisation commitments. They will need to consider how this cap on their main source of income impacts

those plans whilst ensuring, as far as possible, that a reduced income does not lead to less and lower quality housing stock over the medium to long term. This requires careful consideration and, in some cases, will involve RP boards making difficult trade-offs.

“It should also be remembered that the rent cap announced today does not apply to shared ownership rents or private sector rents.”

Tomer Aboody, director of property lender MT Finance, says: "Higher taxes, combined with continued increases in mortgage rates and the cost of living, will undoubtedly cause concern for households as to how they will cope over the next couple of years.
"Although the bad news keeps coming, the long-term outlook should be brighter on the other side of the recession as consumers look to manage their outgoings.

"The Government is maintaining the stamp duty reduction for now in the hope that banks can also be more flexible when it comes to mortgages. This will enable the housing market to continue to perform, along with associated businesses within the sector, which is so important for the wider economy. By the time the stamp duty cuts are phased out by 31 March 2025 the UK should hopefully be in a much better place, particularly as long-term interest rates should be lower as inflation is brought under control."

Kay Westgarth, Sales Director at Standard Life Home Finance, comments: “The Government’s decision to freeze the inheritance tax threshold for two more years, which essentially amounts to a rise on future inheritance tax, was expected by many but will be welcomed by few, with more people finding themselves sitting above the tax threshold when it comes to the value of their estates. Having set the nil-rate band at £325,000 in 2010, even the introduction of the nil-rate residential band in 2017 will not stop some ordinary homeowners from needing to pay inheritance tax.

“Indeed, older people in London and the South East who may have benefitted from a buoyant housing market are going to find themselves penalised by geography and worrying about what they can leave their loved ones. Over-55s who think this might impact them should speak to an adviser to ensure they are taking advantage of all their allowances to support their families when it matters the most. Whether that is helping them get on the property ladder by releasing housing equity via a later life lending product or ensuring that couples use their full joint allowance, there are plenty of options to ensure that people aren’t unfairly penalised.”

Marc Vlessing, Chief Executive Officer of Pocket Living, comments: “The fact that more than one-quarter of London renters aged 25 to 45 are effectively being purged from our nation’s capital due to a record high housing costs is nothing short of a tragedy and a national disgrace. Yet, that is precisely what our recent poll of 1,000 Londoners has found. Almost all want to own their own home, yet due to a chronic lack of supply, they are unable to do so. What can be done? Plenty – if the government had today been bold enough to announce in the Autumn Statement that it is acting to implement policies suggested by us which could deliver an additional 30,000 affordable homes each year at virtually no cost to the government.

“Over the past 10 years, London's councils have had their spending power eroded by 20%, resulting in around a third of staff being let go. With local government now expected to make their own efficiencies in line with growing inflation and with public spending set to grow by just 1% annually after the next two years, it is essential that the planning system becomes more effective, particularly around small sites if we are to experience a turning point for the SME housebuilding sector and the prospective homebuyers who depend on its ability to deliver.

“The Chancellor wants to tackle the current cost of living crisis but if we are serious about getting our economy back on track, we need to understand the real challenges facing those who desperately want to own their own home yet currently find the ladder of housing opportunity fundamentally broken. If we don’t then it will force a whole generation of Londoners to leave their city because the chance of owning a home or actually even renting one, is now such a bleak proposition.”

Simon Gerrard, Managing Director of Martyn Gerrard Estate Agents, commented: “While nobody craves spending cuts and tax rises, we should welcome the fact the grown-ups are now in charge and are acting to stabilise the economy. However, the Chancellor has missed a huge opportunity to inject confidence into the housing market.

“The big danger, as the economy freefalls into recession, is the expected drop in transactional volume. Put simply, if too few homes are sold we could see house prices tumble, fewer homes put on the market and ultimately, the very real risk of an entire generation of homeowners in negative equity.

“Confidence is everything, and Stamp Duty reform could stimulate the housing market – particularly in the face of more expensive mortgages. Let’s hope that Rishi Sunak and Jeremy Hunt both realise that a housing market in crisis is as detrimental to the economy as runaway inflation.”

Jatin Ondhia, CEO of Shojin, said: “Sunak and Hunt have been caught between a rock and a hard place. The pressure of plugging a £55bn fiscal hole has led to a Dickensian Autumn Statement, which left little room for any rabbits to be pulled out of the hat. While the main focus of these austerity measures is to attempt to patch up the country’s finances without rattling the markets, the giant elephant in the room is that the housing crisis is deepening.
"The affordability, quality and volume of homes is worsening for residents, as the upwards pressure on rent is being exacerbated by rising demand and a dwindling supply of homes. This is a national issue and one that can only be solved by taking decisive action to support housing development and boost the delivery of new homes. With housing representing the highest living cost for most, we cannot afford for this ongoing crisis to be once again swept under the carpet in the face of mounting fiscal pressures.”

Paresh Raja, CEO of MFS, said: “With a £55bn fiscal black hole to fill, Hunt’s task today was far from easy. Admittedly, the austerity measures announced in the Autumn Statement will contribute to reducing the deficit. However, the announcement will do little to settle the nerves of those in the buy-to-let sector.
“In the midst of rising interest rates and the aftermath of the mini-budget, buy-to-let landlords are seeing the value of their assets decline, while the cost of borrowing and property maintenance continues to rise. These issues have not been addressed today and are harming the viability of owning a buy-to-let property, which is forcing many landlords to consider selling their properties.

“In fact, according to MFS’ research, 40% of landlords are now planning on selling one or more of their properties in the next 12 months; such an exodus from the market would present an apocalyptic challenge to an extremely competitive private rental sector that is already grappling with rampant demand and a perennial undersupply of homes. Make no mistake, if the Government fails to support buy-to-let landlords in the months to come, such a situation would be catastrophic for renters.”