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Osborne shoots Balls's fox

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You have to hand it to George Osborne, he has pulled off a political masterstroke. Having declared emphatically on Andrew Marr's BBC show this Sunday that The Tories would not introduce a Mansion Tax, he has taken all by surprise with a complete overhaul of the antiquated SDLT rules. The new rulings will mean that the vast majority of buyers will see a saving on their Stamp Duty (98% of UK transactions are below £950,000) with the intention that the shortfall in receipts to HMRC will be picked up by the very wealthy.

The new methodology gets rid of the pricing bands that had become so resented and introduces a more progressive, graded system. The basic changes are as follows;

- Nil SDLT payable at all on purchases up to £125,000
- 2% SDLT payable on the portion up to £250,000
- 5% SDLT payable on the portion up to £925,000
- 10% SDLT payable on the portion up to £1,500,000
- 12% SDLT for the portion thereafter.

The following is an illustration of the effects up to a purchase of £2.5m.

Basic Table

New SDLT		£	%		SAVING
£175,000		1000	0.6		£750
£200,000		1500	0.8		£500
£250,000		2500	1.0		£0
£300,000		5000	1.7		£4,000
£350,000		7500	2.1		£3,000
£400,000		10000	2.5		£2,000
£450,000		12500	2.8		£1,000
£500,000		15000	3.0		£0
£525,000		16250	3.1		£4,750
£600,000		20000	3.3		£4,000
£700,000		25000	3.6		£3,000
£800,000		30000	3.8		£2,000
£850,000		32500	3.8		£1,500
£900,000		35000	3.9		£1,000
£930,000		36750	4.0		£450
£950,000		38750	4.1		-£750

£1,000,000		43750	4.4		-£3,750
£1,250,000		68750	5.5		-£6,250
£1,400,000		83750	6.0		-£13,750
£1,500,000		93750	6.3		-£18,750
£1,650,000		111750	6.8		-£29,250
£1,750,000		123750	7.1		-£36,250
£2,000,000		153750	7.7		-£13,750
£2,500,000		213750	8.6		-£38,750

For those who want to look at the detail, please find below a link to HMRC Website

https://www.gov.uk/government/publications/rates-and-allowances-stamp-duty-land-tax/rates-and-allowances-stamp-duty-land-tax

There has of course been a great deal of coverage since yesterday's announcement in the Chancellor's autumn statement. Unsurprisingly, given that the average UK house price stands at around £285,000, most of the reaction has been very positive, with the new arrangements delivering an outright saving in the SDLT charge on purchases sub £950,000 (approx.) As a result the UK housing market is expected to benefit from more demand, more transactions and consequent upward pressure on prices over the next year or two well above the levels previously being forecast for this sporadically recovering segment. However for the 1- 2% who transact over £1.5m or so, there is no doubt these are fundamental changes which will have lasting effects. The further one goes up market beyond this level, the more opinions differ about what happens next.

Looked at pragmatically, the effective increase in the SDLT rate for properties around the £2 million price level, for example, is only marginally more (a blended 7.7% rather than the old 7% which equates to an additional one-off £13,750 charge on the transaction) and we could rationally expect that the market will absorb that, however we fully expect some horse-trading renegotiation of prices immediately to share the burden between buyer and seller before settling down to accept the new reality.

Further up the chain still and the financial impact becomes significantly greater. At £10 million the additional SDLT amounts to a £413,750 increase and the effective rate is 11.14%. At first glance one would suppose this would be a whopping disincentive for new buyers. However, the pragmatist can point to comparison with the cost of transacting in other prime real estate markets such as New York or Paris and reflect that London is simply being brought more in line having historically been an exceptionally cheap location for investment/property ownership. We also know from experience that prime property buyers can be resilient in the face of transaction costs when there are stronger motivators for their long term investment strategy/property needs – when the 15% penalty rate of SDLT was introduced for enveloped properties the conventional view was that no-one would pay, but in fact many investors preferred to take the up front hit in order to manage more significant tax or risk exposures over their holding period, and today's top slice rate of 12%, whilst far from welcome, doesn't look so extreme in comparison.

TRANSACTION VOLUMES WILL BE THE KEY IMPACT.

Residential buyers do not always do the pragmatic thing, though. There is clearly a short term risk, actually a likelihood, of a reaction of the kind we saw when rates were first increased and penalties imposed on enveloped structures back in early 2012. At that time a kind of emotional shock, and a herd nervousness, kept buyers on the side lines with optimistic opportunists predicting an imminent price collapse. That didn't happen to any degree, but there was a short period of semi-paralysis as buyer and seller expectations became mismatched and transactions got suspended. Over the past few months the upper market had already been noticeably quietening and cooling as Mansion tax concerns took hold with next May's election fast approaching (we referred to this in our last bulletin), and these new measures will likely only exacerbate this as the market waits to see the effects.

With the upper end of the market performing so strongly from 2010 onwards, together with the rises in SDLT introduced in 2012, the Government has enjoyed a Stamp Duty windfall in recent years. These new measures are surely going to stifle liquidity at the top end, something we were already seeing in fact, and it will be fascinating to compare the SDLT take over the next couple of years with the last couple. I suspect the result will illustrate how these new announcements are less about tackling the deficit and more about May 2015.

LOOKING IN THE CRYSTAL BALL

George Osborne will have done his electoral chances no harm. The old fashioned Tory principle of a home owning democracy runs deep across the country and house prices remain inexorably linked to economic performance. These new measures will undoubtedly provide a big shot in the arm to the domestic housing market, coming on the back of last year's Help to Buy scheme. If George isn't worried about the UK's growing debt burden (he announced yesterday the Government would borrow £91.3bn this year, as opposed to the £86.6bn he had projected, or £40bn he promised while in opposition!) he probably wont lose much sleep on rising mortgage debt.

No doubt some very influential people (London & home counties MPs and party donors?) will be very miffed by the heavy weighting of SDLT at the upper end, I wonder whether Osborne's tendency to play economic diplomacy (give with one hand and take with the other) will see the next Tory Government introduce their stated goals of top rate income tax reducing back to 40% and the Inheritance tax threshold increasing from its current £325,000 to £1m (as had been proposed when in opposition).

At the very upper end of the market, it is easy to see how the super wealthy will take this on the chin. After all, over the past 6-7 years we have seen them be quite willing to accept prices in the likes of Mayfair, Belgravia & Knightsbridge that have gone from £1,500psf to £4,500psf. Few at this level are pure investors, the greater majority buy for personal use.

I feel the £2-£2.5m bracket which had become so impacted by the old threshold may be less constrained going forward, although not entirely unaffected. The market that is likely to be most effected is most probably within the £3m to £6m bracket in affluent local markets like Wandsworth, Barnes & Chiswick and beyond in places like the Costwolds. With combined transaction costs before yesterday's announcement (buying & Selling) in the order of 10%, we had been seeing for some time an explosion of basement or roof extensions. Few visiting London will not have noticed all the various basement hoardings as owners look to add valuable square footage. Once all the basements have been built and the loft extensions added (this has more or less been seen) many owners will feel trapped simply by the cost to move.

The additional SDLT will now add further to the costs of moving to upgrade or even downgrade (let alone relocate for job reasons) thus stifling liquidity in the upper end of the domestic market.

By penalising high value homes, the Government has further encouraged investors to look towards the market sectors where the local end user demand/need is greatest. Already in discussions today, clients have been looking at where their money can be most effectively and efficiently employed and where Her Majesty's Revenue and Customs is not the key beneficiary…..a portfolio of sub £1m flats in central locations where supply constraints remain looks appealing.

Looking further forward, one other political result of yesterday's news is that the Mansion Tax proposals favoured by Liberal and Labour parties and touted as part of their forthcoming election pitch is now even less likely to be viable. Uncertainty about this has hung over the market for a considerable time and it is a relief to see this being out in the clear and most likely finally put to bed.

A TIME FOR THE BOLD

Seller's in the £1.5m plus bracket have received a hard knock within the last 24 hours. The market which was already stumbling will most definitely fall in the short term. For those looking for a 'blood on the streets' correction we simply don't see that happening, reference to the number of withdrawals from the sales market in our last bulletin being illustrative of how many 'sellers' will play the long game. However, these measures have most definitely weakened the sellers' positions and buyers now hold a strong hand. The bold will see opportunity and take advantage of others' nervousness and vulnerability. Last time around, the bold were right and profited handsomely.

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