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Savills World Research
UK Residential

Policy Response
Additional Homes Stamp Duty Surcharge

November 2015

Policy summary

In the 2015 Autumn Statement the Chancellor announced a higher rate of stamp duty on the acquisition of "additional properties" such as (but importantly not limited to) buy-to-let properties and second homes.

It will apply to such properties located in England, Wales and Northern Ireland but not currently Scotland (although the Scottish Parliament may introduce similar measures). It appears that the purchase of an additional home will be liable for the additional tax irrespective of the location of a buyer's first home, thereby bringing overseas investors into the scope of the tax.

The additional rate will be three percentage points above the current rate of SDLT. It will apply to purchases of residential properties for more than £40,000 when the acquisition **completes** on or after 1 April 2016.

For the acquisition of a property worth £125,000, that means a stamp duty cost of £3,750 where currently none is payable and an additional cost of £15,000 for the acquisition of a property bought for £500,000.

At the top end of the market an "additional" property acquired for £2,000,000 will bear an effective rate of stamp duty of 10.7% equivalent to £213,750 from April next year.

Technical considerations

Current indications are that where a property has exchanged before 1 April 2016 but completes on or after that date, the additional property surcharge **will** apply. This is likely to mean there is a rush to complete the acquisition of properties within the scope of the surcharge prior to April.

However, there will be a number of circumstances where this is not possible, for example the purchase of new-build buy-to-let properties which have been bought off plan but are not going to be completed until after 1 April. To reflect this, there are indications that the new surcharge **will not** apply where a property exchanged prior to 25 November 2015.

It is also worth noting that where an individual purchases a new home for their use as a main residence but retains an existing property, it appears they will still be liable for the additional tax. However, we understand that if they then sell their original home within 18 months of the purchase of their new home they may be able to reclaim the additional stamp duty they have paid.

The policy documents currently available provide relatively little further information in relation to the operation of the policy, there being proposals to consult on its detail. The extent of this consultation is not clear, however we expect it will be confined to relatively technical issues; the only certainty being that it will include whether an exemption for corporate and funds with more than 15 properties is appropriate.

Commentary

As extracts from his speech make clear, the Chancellor has introduced these measures to alleviate the impact of buy-to-let investors and second home buyers in *"squeezing out families who can't afford a home to buy".*

However, it will also go some way to plugging the gap in stamp duty revenues that have resulted from the stamp duty give-away of December 2014 (that has been compounded by transaction levels seemingly having reached a plateau). Notably the OBR is forecasting that in 2016-17 it will generate an additional £625 million in tax receipts.

Buy to Let

Primarily, however, the measures are set against a wider policy context of trying to level the playing field between first-time buyers and buy-to-let investors in support of home ownership. In this respect they follow measures announced in the July budget which restrict the tax relief on mortgage interest payments for those buy-to-let investors with debt set against their property.

Though the stamp duty surcharge will also affect properties bought using cash, we anticipate it will have the greatest impact on those with recourse to mortgage finance, as they will be affected by both measures.

This is likely to limit the ability of some investors to expand their existing portfolios or buy their first investment property.

We also believe it will cause committed investors to increase their focus on less expensive properties, with a lower overall stamp duty liability that also delivers a higher income yield and are therefore better able to generate a cash surplus (excepting markets heavily dependent on welfare support).

This is likely to limit the amount of new stock brought to the rental market, particularly small family homes in more affluent parts of the market, thereby contributing to upwards pressure on rents. In itself, the policy is unlikely to substantially increase access to home ownership, meaning that unless other Government policies achieve this goal, it may also contribute to greater house and flat shares among renters.

New build market

Anecdotal evidence suggests that buy-to-let investors have historically been particularly active in new homes markets. Reduced demand from these buyers therefore means that developers will be increasingly reliant

FIGURE 1

Prospective rates of stamp duty from 1 April 2016

Purchase Price £	Sole Property		Additional Property		Difference £
	Effective Rate	SDLT £	Effective Rate	SDLT £	
125,000	0.0%	-	3.00%	3,750	3,750
250,000	1.0%	2,500	4.00%	10,000	7,500
500,000	3.0%	15,000	6.00%	30,000	15,000
1,000,000	4.4%	43,750	7.4%	73,750	30,000
2,000,000	7.7%	153,750	10.7%	213,750	60,000
5,000,000	10.3%	513,750	13.3%	663,750	150,000

Source: Savills Research

on demand that is underpinned by other Government initiatives such as Help to Buy, Starter Homes and, following the Autumn Statement, an expanded shared ownership sector.

From a developer's perspective much then depends on the extent to which demand from these different buyer groups is interchangeable. This will be dependent on the nature of the product they offer to the market and, where necessary, the ability of house builders and developers to alter their product offering.

This may be a particular issue where overseas investor buyers have played an important role in forward funding development of large sites in the middle and upper tiers of the London market.

In the mainstream market the changes may create opportunities for institutional investors (unaffected by these stamp duty changes and keen to expand their exposure to private rented residential stock) to make some bulk acquisitions.

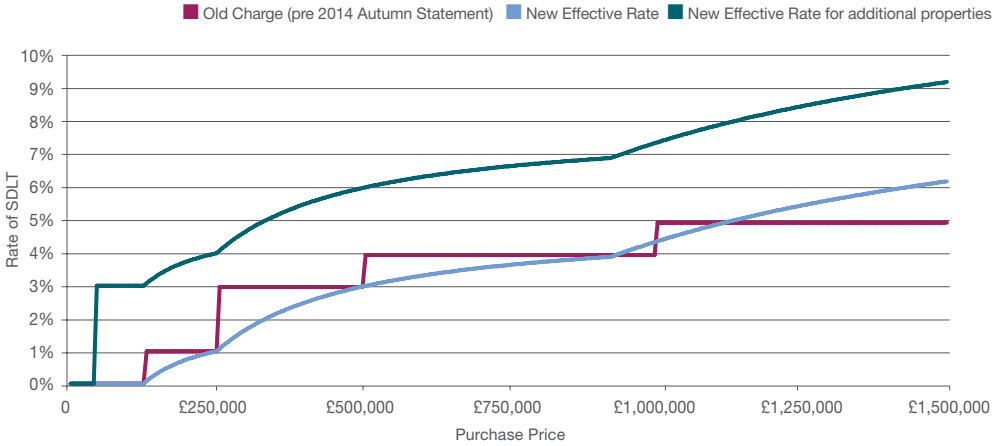
Second home hotspots

The changes are also likely to impact markets with high concentrations of second homes. In the short term we would expect this to dampen buyer sentiment in a largely discretionary market, with a consequential impact on pricing and transaction volumes.

Over the longer term we believe transaction volumes will recover once the additional stamp duty is fully priced into the market.

FIGURE 2

Effect of change in stamp duty rates



Source: Savills Research

Prime London

The prime central London market has historically been supported by high levels of investment and second home buying activity, and so is more exposed to the latest tax changes than the wider mainstream housing market.

This sub-market was able to absorb successive increases in stamp duty until the changes introduced in the Autumn Statement of last year. However, values of prime London property largely fell in line with the stamp duty increases that were introduced in December 2014. Thereafter they have failed to gain any traction in a post-election environment where transaction levels have been suppressed by around 20%-25%.

These further changes are likely to have an ongoing impact on buyer sentiment in a market that is likely to remain price sensitive over the short to medium term. There seems very little chance of a cut in stamp duty rates at the top of the market in the prevailing political environment, indicating that the market will have to factor in any additional transactional costs.

ADDITIONAL DISCLAIMER

This note has been prepared on the basis of the limited details provided in the 2015 Autumn Statement and reports of discussions held with HMRC regarding the application of these measures. Accordingly, the precise application of the rules are liable to be reviewed, particularly once the consultation process is complete. It should therefore only be regarded as indicative. No liability can be accepted for relying on the contents of this note.

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