SAVILLS RESEARCH

Residential development in the 2022 “Mini” Budget

Financial markets in turmoil, but supply-side reform to follow

Last Friday morning the new Chancellor, Kwasi Kwarteng, announced a series of changes to tax, economic, and planning policy in the 2022 Growth Plan.

Three of the changes he announced are directly relevant to the residential market: the cut in stamp duty, investment zones, and public sector land release. There were four further changes that may affect the residential market indirectly: the energy bill cap, changes to personal tax rates, planning reform for infrastructure projects, and removing the banker bonus cap.

On balance, the immediate response from the global financial markets looks like it will have a far more dramatic impact on the residential market and development activity than the Chancellor’s policies themselves. Since the Mini Budget, 30-year gilt yields briefly rose to 4.99%, the highest they have been for at least the last decade, and the Bank of England has been forced to resume quantitative easing to reassure the UK government’s creditors. Substantial base rate rises are expected to follow at the next Monetary Policy Committee meeting, whether that is at its next scheduled session on 3rd November or at an emergency meeting sooner. Rising interest rates will make mortgages less affordable, negatively impacting transaction activity and increasing the likelihood that house prices fall next year.

Much still rests on the announcement of supply-side reforms, including to planning for large-scale infrastructure and housing. The Department for Levelling Up, Housing and Communities will publish further detail on these policy changes in the coming weeks.

Stamp Duty cut

Starting immediately, the Chancellor raised the nil rate threshold for stamp duty land tax (SDLT) from £125,000 to £250,000 in England and Northern Ireland. This effectively removes the 2% SDLT band. This move benefits all purchasers buying properties over £125,000, with a maximum tax saving of £2,500.

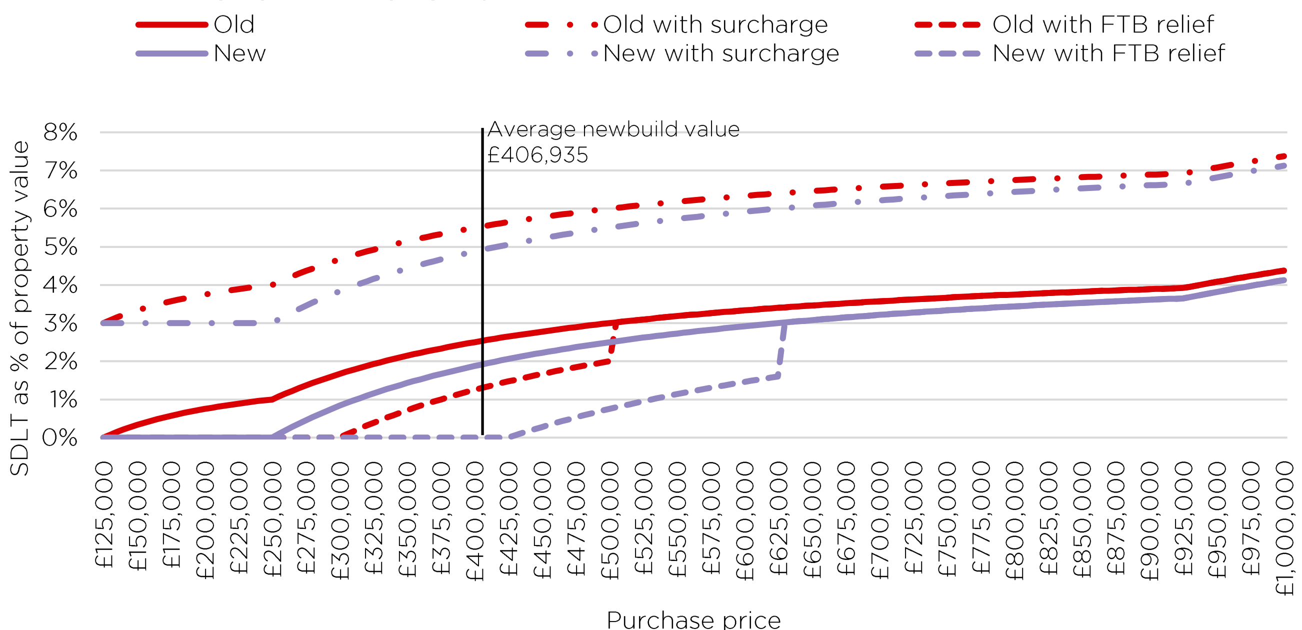
There were also changes to First-Time Buyers’ Relief (FTBR). First-time buyers now pay zero stamp duty on transactions below £425,000 (up from £300,000) and receive a discount of up to £8,750 relative to former homeowners on transactions between £425,000 and £625,000 (up from £500,000).

These SDLT changes are permanent, unlike the temporary holiday introduced in response to the Covid-19 pandemic. While the announcement triggered a small spike in interest from potential buyers – Rightmove reported a 10% jump in web traffic in the hour following the mini-budget – the lack of a deadline means we are unlikely to see distortion in sales volumes as we did in 2021.

The biggest beneficiaries of the stamp duty changes are likely to be first-time buyers in London and the more expensive parts of South East England, where the savings on offer will make their deposit requirements look a little less daunting. However, given a combination of recent house price growth and increased interest rates, this is not going to result in a surge of first-time buyer home-buying activity.

Similarly, a maximum upfront stamp duty saving of £2,500 for other buyers is relatively small in relation to the increase in ↠

SDLT rates due as a proportion of property value



Source Savills Research, Land Registry

mortgage costs seen since the beginning of the year.

The changes will undoubtedly be welcomed by those in the process of buying. But in the short term, they are unlikely to result in a further spate of house price growth and instead are more likely to temper the effect of the wider economic headwinds facing the housing market.

Investment Zones and planning reform

The Chancellor announced an ambition to introduce Investment Zones. Areas with Investment Zones receive tax incentives, relaxed planning regulation, and wider support for the local economy to help accelerate economic growth.

The tax and regulatory changes under consideration within Investment Zones include:

- Full stamp duty land tax relief for land and buildings bought for commercial purposes and for land bought for residential development;
- Streamlined processes for planning applications in progress; and
- Removal of legacy EU regulations that may limit development.

Government has received expressions of interest for Investment Zones from 38 mayoral combined authorities and upper tier local authorities in England. Government will also seek suitable areas for Investment Zones in Scotland, Wales and Northern Ireland. The eventual number of Investment Zones is likely to fall some way short of 38, as only a proportion of these early conversations will result in Investment Zone allocation.

Government has promised a more detailed update on the proposals for planning deregulation from the Department for Levelling Up, Housing and Communities shortly. This is expected to include measures to speed up major strategic infrastructure projects, with the aim of ensuring an increase in housing supply. This appears to also be grounded in continued commitments to Levelling Up where the Government will work with local partners including local authorities on the Investment Zones.

This is the third attempt at major planning reform since 2020. While efforts to boost economic group and simplify planning will be welcomed by the development industry in principle, the ongoing policy uncertainty is beginning to pose challenges. In the last 12 months, 18 Local Authorities have cited a lack of policy clarity as a reason to halt their local plan process. Consequently, land allocation decisions are being delayed, ultimately risking housing delivery.

Public sector land release

The Chancellor announced that the government will promote the disposal of surplus public sector land by allowing departments greater flexibility to reinvest the proceeds of land sales over multiple years. This has the potential to increase the supply of land, often in areas of intense residential undersupply.

While this may encourage more public sector bodies to release land for residential development, it is worth remembering that almost every Chancellor since Gordon Brown has made similar pledges to accelerate public land disposal.

Energy bill cap

Government has introduced an Energy Price Guarantee (EPG) to cap the unit price that consumers pay for electricity and gas. This is on top of the £400 support all households will receive from the Energy Bills Support Scheme over Winter 2022/23. Together, these two interventions will save the typical household £1,400 compared to the October 2022 Price Cap. There will also be support for businesses to help with their energy bills for the next six months.

Government estimates that reducing energy bills will reduce peak consumer price inflation by 5%. This will help to ease the cost-of-living crisis.

This policy is expensive. Between the EPG and relief for businesses, Government estimates it will have to borrow £60 billion in 2022-23, a little under 3% of GDP. Following this rapid increase in borrowing, investor confidence in the UK declined, causing the currency to depreciate: Sterling fell by 2.4% relative to the Euro, 2.9% relative to the Japanese Yen and 3.7% relative to the US Dollar on the day of the Mini Budget.

Currency depreciation will do two things. First, it will increase the cost of imports (including building materials), contributing towards inflation. Second, it will motivate the Bank of England to raise interest rates quicker to bolster investor confidence in Sterling. Any increase in rates beyond what markets were already anticipating will stretch mortgage affordability further, limiting future capacity for price growth and transaction activity.

Personal tax changes

The Chancellor reversed the recent increases to National Insurance Contributions from November and brought forward the planned 1p cut in the basic rate of income tax from April 2024 to April 2023. It also abolished the additional 45p rate of income tax completely. That lowers the highest marginal rate of income tax to 40%.

Income tax brackets and rates

Band	Income band	Marginal tax rate before	Marginal tax rate after
Personal allowance	Up to £12,570	0%	0%
Basic rate	£12,571 to £50,270	20%	19%
Higher rate	£50,271 to £150,000	40%	40%
Additional rate	Over £150,000	45%	40%

Source HMRC

These tax cuts disproportionately benefit higher earners, particularly people earning more than £150,000. Increasing disposable income at this level may unlock greater demand for prime properties. More than unlocking affordability for existing high earners, we expect to see a modest increase in demand from higher earners relocating to the UK to take advantage of the more favourable tax environment.

It is likely to have a negligible impact on demand and affordability for properties in the mainstream market.

Banker bonuses

Finally, the Chancellor announced he would remove the cap on bankers' bonuses. As with the removal of the additional rate of income tax, this may have a modest impact on demand for prime properties. It could also lead to bankers from other jurisdictions relocating to London, further supporting prime housing demand.

Savills team
Please contact us for further information

Lawrence Bowles
Director
lbowles@savills.com
07855 999466

Emily Williams
Director
emily.williams@savills.com
07971 880389

Frances McDonald
Associate Director
Frances.mcdonald@savills.com
07972 000186

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.