

Stamp duty and residential development

Greater demand where finance is not a barrier

The stamp duty holiday the Chancellor announced in July will reduce costs for home buyers. This should help to support transactions across the market, including new homes. The impact will be greatest where access to mortgage finance is less of a barrier, such as for downsizers or those using Help to Buy. However, it puts further pressure on developers to complete transactions before 31st March 2021, when the holiday ends.

Until 31st March 2021 there will be no basic stamp duty on property purchases below £500,000. Purchases above that will only pay stamp duty on the value above £500,000. Someone buying the average new build home in England, worth £323,532, would pay no stamp duty, saving over £6,000.

Stamp duty holidays can inflate prices, but buyers still save money overall. London School of Economics' analysis of the 2008/09 stamp duty holiday shows buyers enjoyed 60% of the benefit. Buyers made an average £900 post-tax saving out of an average tax reduction of £1,500.

Impact on new build demand

Reducing the barriers to buying a home should support transaction activity at a time when the market is still in a fragile stage of recovery. We should expect to see an increase in new home enquiries as a direct result. Buyer enquiries for Savills New Homes teams rose 51% on the day of the Chancellor's announcement. Enquiries in the week to 28th July were still 15% higher than the week before the stamp duty holiday began.

The impact of the stamp duty holiday will be greatest for buyers who do not face other obstacles. Accessing mortgage finance remains a barrier for most; downsizers, who tend to buy homes outright, will benefit directly from the stamp duty changes. This could lead to higher demand for homes in retirement villages.

First-time buyers

First-time buyers (FTBs) see less benefit from the stamp duty holiday than other groups. People buying their first property already enjoyed some level of stamp duty relief in the form of First Time Buyers' Relief. The nil rate stamp duty threshold for FTBs was £300,000 and any purchases between £300,001 and £500,000 paid no stamp duty on the first £300,000. That meant their stamp duty liability jumped from £10,000 to £15,000 for purchases just above the £500,000 threshold.

The stamp duty holiday renders First Time Buyers' Relief temporarily redundant. That's good news for FTBs buying properties above £300,000, who will save more than before. It is especially helpful for those buying above £500,000, who save the maximum £15,000. However, it makes no difference for those buying properties under £300,000, as they wouldn't have paid stamp duty anyway.

In 2019 the average mortgaged FTB property was £240,000, according to UK Finance data. Most FTBs won't see any tax benefit from the stamp duty holiday. They no longer enjoy a greater tax saving than other buyer types, such as home movers, eroding the advantage they once had.

That's not to say there are no benefits for FTBs. Home movers will benefit from the stamp duty saving; as they move more frequently, there will be more properties available for FTBs to move into. And FTBs in more expensive parts of the country, such as London, will benefit if they buy a property over £300,000.

However, access to mortgages at high loan-to-value (LTV) ratios will remain a greater constraint for FTBs than stamp duty. Banks have withdrawn high LTV loans from the market due to concerns about price falls putting buyers into negative equity. The number of mortgage products available at 90% or 95% LTV fell by more than half between June and July.

Help to Buy offers a way for FTBs to buy a home with a low deposit without needing a high LTV mortgage. We discuss the stamp duty holiday's impact on Help to Buy demand in greater detail below.

Figure 1 Stamp duty savings for different types of purchasers

Example property price	First Time Buyers			Home movers			Second home purchasers & investors		
	Old	New	Saving	Old	New	Saving	Old	New	Saving
£100,000	£0	£0	£0	£0	£0	£0	£3,000	£3,000	£0
£200,000	£0	£0	£0	£1,500	£0	£1,500	£7,500	£6,000	£1,500
£500,000	£10,000	£0	£10,000	£15,000	£0	£15,000	£30,000	£15,000	£15,000
£600,000	£20,000	£5,000	£15,000	£20,000	£5,000	£15,000	£38,000	£23,000	£15,000
£750,000	£27,500	£12,500	£15,000	£27,500	£12,500	£15,000	£50,000	£35,000	£15,000
£1,000,000	£43,750	£28,750	£15,000	£43,750	£28,750	£15,000	£73,750	£58,750	£15,000
£1,500,000	£93,750	£78,750	£15,000	£93,750	£78,750	£15,000	£138,750	£123,750	£15,000

Source Savills

Home movers

The stamp duty holiday will have a greater impact on home movers than FTBs. Upsizers can take advantage of the savings while still being able to access mortgages because they have accumulated equity in their current homes; downsizers often buy their home outright, letting them bypass mortgage hurdles entirely.

Unlike FTBs, home movers enjoyed no special stamp duty relief before the holiday announced on 8th July. That means a home mover buying a £500,000 saves £15,000 in stamp duty, rather than the £10,000 saving a FTB would see.

Home movers will also be able to take advantage of Help to Buy for the next few months. Housebuilders could see an increase in demand from home movers taking advantage of the government’s equity loan before the scheme is restricted to FTBs in April 2021.

Investors and second home purchasers

Buy to let investors and people buying second homes will still have to pay the 3% stamp duty surcharge for additional homes. However, they will pay less stamp duty because of the holiday. Housebuilders could therefore see increasing demand from both buy to let landlords and second home buyers.

The stamp duty holiday will make the difference between a home being a profitable or a loss-making purchase for many, so we expect to see a flurry of investor demand. Many investors will have built up housing equity over the last few years as activity has been lower. However, mortgaged investors may face constraints if they’ve taken a mortgage payment holiday to help their tenants.

The stamp duty holiday is unlikely to affect bulk deals to large-scale investors in the short term. Most block deals agreed now would likely complete long after the holiday ends in March 2021. We may see greater appetite for block deals later on as housebuilders seek to reduce their exposure to sales risk in the longer term.

Help to Buy (HTB)

HTB remains one of the few ways for people to buy a home with a 5% deposit, particularly now as mortgage lenders have raised their deposit requirements. So the stamp duty holiday will increase demand for new homes through HTB too.

Following an extension, to qualify for the current version of HTB new homes must complete practically by 28th February 2021 and legally by 31st March. Housebuilders will face intense pressure to complete homes swiftly to hit these dates. We anticipate a spike in demand from people taking advantage of HTB before the price caps and eligibility criteria change on 31st March – the same day the stamp duty holiday ends.

Housebuilders have consistently lobbied government for an extension of the current HTB scheme. Following a two month extension of the practical completion deadline to mitigate construction delays, it seems unlikely that government will extend the current version of HTB further.

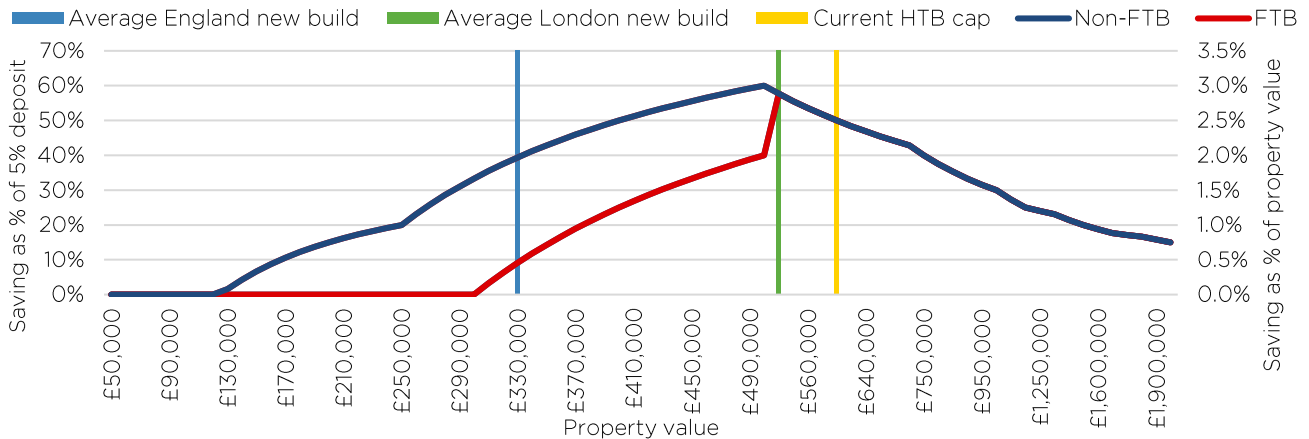
The stamp duty holiday will increase HTB demand most in London, where the equity loan is more generous and the mortgage LTV smaller. The average value of a London HTB property in 2020 Q1 was £455,000; the stamp duty saving on that home would be £12,750 for a home mover (56% of a 5% deposit) or £7,750 for a FTB (34% of a 5% deposit).

New build marketing strategy

Housebuilders sometimes offer to pay the buyer’s stamp duty as a sales incentive. This lets them effectively offer a discount while recording they have achieved 100% of their asking price. Now that the stamp duty threshold has been raised, this tactic will no longer be effective for home sales below £500,000.

Some alternative incentives being offered by housebuilders include deposit contributions, contributing to legal costs and furniture packages.

Figure 2 Stamp duty savings compared to average new home values



Source: Savills using HMRC and MHCLG

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