



## **Response to the Scottish Parliament’s Finance Committee call for evidence on the proposed LBTT supplement on additional residential homes**

**From National Association of Estate Agents (NAEA)**

**January 2016**

### **Background**

1. National Association of Estate Agents (NAEA) is the UK’s leading professional body for estate agency personnel, being part of a group representing 14,600 members who practice across all aspects of property services both in the UK and overseas. These include residential and commercial sales and lettings, property management, business transfer, auctioneering and land. The NAEA is a sister organisation to the Association of Residential Letting Agents (ARLA).
2. NAEA is dedicated to the goal of professionalism within all aspects of property, estate agency and land. Its aim is to reassure the general public that by appointing an NAEA member to represent them they will receive in return the highest level of integrity and service for all property matters. Both NAEA and ARLA members are bound by a vigorously enforced Code of Practice and adhere to professional Rules of Conduct. Failure to do so can result in heavy financial penalties and possible expulsion from the Associations.

### **Questions**

**The Committee would welcome views on -**

**1. The Scottish Government’s overall policy objectives in introducing the supplement and, in particular, whether it –**

- **Is likely to “complement the Government’s commitment to supporting home ownership in a balanced and sustainable way.”**
- **“helps to ensure that the tax charge is proportionate to the taxpayer’s ability to pay.”**

3. The proposal by the Scottish Government in the Draft Budget 2016-17 to levy “a Land and Buildings Transaction Tax (LBTT) supplement on purchases of additional residential properties, such as buy-to-let properties and second homes” will bring Scotland’s buy-to-let sector and market in second homes in line with the rest of UK.



4. Similar to other parts of the UK, NAEA thinks that the three per cent additional homes supplement is likely to reduce the number of people looking to invest in buy-to-let properties and second homes in Scotland. However, anyone looking to purchase these types of property is likely to do so before April to avoid incurring extra costs because of the supplement.
5. Fewer people entering the buy-to-let market is encouraging for first-time buyers because they won't be in competition with as many individuals looking to invest in buy-to-let properties or second homes. We think this could be particularly helpful in areas such as Edinburgh, Glasgow or Aberdeen where supply and affordability of housing is limited.
6. However, in relation to the Scottish Government's overall policy objectives to increase homeownership in a balanced and sustainable way there are two factors which must be taken into consideration. Firstly, house prices are continuing to rise. The NAEA's Housing 2025 report released in December predicted that the price of the average UK home will rise by 50% in the next 10 years. For houses in Scotland the report outlines how we expect the average house price to be £199,807 this year and rise to £281,445 in 2025. Secondly, like in other parts of the UK, Scotland has a shortage of housing with Homes for Scotland saying in November 2015 that 100,000 new homes are needed in Scotland by 2020. Consequently, the lack of properties available across Scotland, combined with high demand means that house prices aren't likely to come down any time soon.
7. To ensure that homeownership in Scotland is balanced and sustainable we think that the Scottish Government must implement a nationwide housebuilding programme to even out the current differences between supply and demand. This will help to constrain upward pressure on house prices and allow more prospective buyers to enter the Scottish housing market.
8. Furthermore, those able to purchase housing in Scotland and across the UK still require large sums of money to pay for deposits and solicitors' fees. With house prices still outstripping wages people need support in accessing finance to purchase property once they are built. It's also vital that the Scottish Government works closely with



mortgage lenders to ensure that lending criteria are appropriate and that sufficient lending is available to those looking to buy a home.

**2. The proposed 3% rate for the supplement and the £40,000 purchase price at which it is proposed to take effect.**

9. The proposed purchase price at which the supplement takes effect will cover the vast majority of property sales in Scotland. We know this because the NAEA's Housing 2025 report shows that last year the average house price in Scotland was £196,799. Therefore we see the proposed 3% rate causing big problems for people purchasing additional homes for children or those who have to go on the mortgage with children and family in order to assist them on to the housing ladder.
10. As we outlined in point 4, NAEA thinks that the supplement could allow for more properties to become available for first-time buyers and those looking to move house. However, in our response to the Scottish Parliament's Finance Committee's call for evidence on the LBTT in October we said that we expected the new LBTT rules to help first-time buyers and the lower end of the market, but figures from members showed that fewer properties costing up to £145,000 were sold in 2015 since the new rules came in compared to the same period in the previous two years.
11. Furthermore, although in many cases members said that first-time buyers had been more active throughout 2015, some members suspected this was largely due to the availability of mortgage lending rather than the tax savings from purchasing a property at the lower end of the market. Therefore we feel that this underlines the importance for the Scottish Government and the banks of continuing to look at more comprehensive ways to improve access to funding for prospective homeowners, especially for the importance first time buyer market.
12. For those people who do decide to invest in second homes or in particular buy-to-let property after April, it is likely that may see rent rises as landlords attempt to recoup the cost of paying the additional homes supplement. These types of investors may also not have as much money to renovate or maintain property. NAEA believes access to good quality housing is essential to improve the sector and strengthen communities.



13. If the Scottish Government were to start a massive housing building programme (as outlined in point 7) this would not only bring down house prices, but also reduce the cost of renting as supply catches up with demand. As a result people who rent will have more money to save for a deposit, allowing them to become homeowners and part of the Scottish Government's plan for sustainable and balanced homeownership.

**3. The Scottish Government's estimate that the measure will raise between £17 million and 29 million in 2016-17.**

14. We would treat any estimates with caution. We know from information provided to us from members that 2015 sales figures for residential property sold at prices ranging from £250,000 to £325,000 in the period January to March 2015 were no different to the number of properties sold during the same period in 2014. In addition, last year a member reported that only two additional properties were sold from April to August than the same period in 2014.

15. Last year members also witnessed a significant reduction in sales for residential property sold over £750,000 in the two months after the new LBTT regime came in. Furthermore, in December Faisal Choudhry, Savills' Director of Scottish Research said that the amount of tax collected since the introduction of LBTT is down twenty five per cent on the amount raised during the previous stamp duty regime.

16. Regardless of the amount of money raised as a result of the additional homes supplement the NAEA would like to see the money used to build more houses and fund initiatives to help first-time buyers purchase more affordable housing. NAEA believes that the Help to Buy scheme is a positive step which has helped people to buy homes as well as provided support for the construction industry.

**4. Any reliefs or exemptions that you consider should form part of the legislation.**

17. On page 18 of Scotland's Spending Plans and Draft Budget 2016-2017, NAEA feels that greater detail is needed to define more clearly and outline examples of additional purchases which may constitute 'recreational purposes' or 'main residence'. This is because some purchases may be made to allow for work arrangements splitting a person's main residence. For instance, if they stay in a property from Monday to Friday for work but the family home (lived in on weekends or for a couple of days throughout the week) is somewhere else. If these types of purchases were to fall into the



definition of 'main residence' then we would recommend the Scottish Government look at providing some type of relief for buyers.

**5. The potential for tax avoidance under the supplement and how this should be addressed.**

18. People with a property portfolio might now consider swapping to a limited company structure and paying corporation tax instead.

**6. The likely impact of forestalling**

19. Anyone looking to invest in a buy-to-let property or second home will more than likely already be securing loans to cover the additional homes supplement before the changes in April.

**7. Any other comments you may have on the proposed supplement.**

20. We do not have any further comments to make on the proposed supplement.