



## **Response to Scottish Parliament's Finance Committee Call for evidence: Land and Buildings Transaction Tax from National Association of Estate Agents (NAEA)**

**August 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 more than 16,000 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 impact on both the residential and commercial property market of the various rates and bands**

3. We know from NAEA members Your Move and figures from the Your Move / Acadata House Price Index that the average house price in Scotland rose from £163,773 in June 2015 to £170,404 in June 2016. This is an annual change of 4%.<sup>1</sup> This compares to the UK Government House Price Index figures for June 2016 of an average house price in Scotland of £143,282, equating to an annual change of 4.6%.<sup>2</sup>
4. We also know from NAEA's sister organisation the Association of Residential Letting Agents (ARLA) that the Land and Buildings Transaction Tax (LBTT) surcharge that was introduced in April 2016 by the Scottish Government for the additional purchase of

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<sup>1</sup> [https://s1-assets.s3.amazonaws.com/your-move/uploads/asset\\_file/Your-Move-Acad-Scotland-HPI-News-Release-June-16-Christine-Campbell.pdf?ts=1471363006605](https://s1-assets.s3.amazonaws.com/your-move/uploads/asset_file/Your-Move-Acad-Scotland-HPI-News-Release-June-16-Christine-Campbell.pdf?ts=1471363006605)

<sup>2</sup> <https://www.gov.uk/government/publications/uk-house-price-index-summary-june-2016/uk-house-price-index-summary-june-2016>



buy-to-let properties has pushed up rents. According to the latest Scotland Buy-to-Let Index from Your Move, one of Scotland's largest lettings agent networks, average rents in Scotland have increased by 1.3% from April after the introduction of the new LBTT surcharge. This is the fastest month-on-month growth on record.<sup>3</sup>

**The extent to which the rates and bands are consistent with the principles of “fairness, equity and the ability to pay”**

5. The LBTT rates mean that for purchasing property priced up to £325,000, purchasers are paying less tax in Scotland than they would on the same priced property under UK Stamp Duty Land Tax (SDLT). Conversely, purchasers buying property priced from £500,000 to £1,000,000 in Scotland pay more tax than they would on similar priced property outside of Scotland under UK SDLT. This makes Scotland a more affordable place to invest for first-time buyers and middle-income earners. However, whilst policy makers may believe that those buying prime property are less sensitive to tax changes, we know that property sales in the high end of the market have slowed since the introduction of LBTT.

**The level of receipts for residential and non-residential transactions in relation to forecasts**

6. Before LBTT was introduced by the Scottish Government in April 2015, NAEA believed that the start of 2015 would be a busy period at the higher end of the market as buyers looked to beat tax increases. This was certainly the case from figures we received from members in the prime residential market in Edinburgh as outlined in our response to the Finance Committee in October 2015.<sup>4</sup>
7. We also felt that the changes would ease the burden for first time buyers. However, as we also outlined in our evidence to the Finance Committee in October, residential sales figures from our members showed that slightly fewer properties costing up to £145,000 were sold in the period from April to August 2015 in comparison to the same period in previous years.
8. When looking at specific areas of Scotland, in October 2015 a member organisation commented that increases in house prices in Glasgow and Edinburgh had a significant

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<sup>3</sup> [https://s1-assets.s3.amazonaws.com/your-move/uploads/asset\\_file/160622-Scotland-Buy-to-Let-Index-Final.pdf?ts=1466592669503](https://s1-assets.s3.amazonaws.com/your-move/uploads/asset_file/160622-Scotland-Buy-to-Let-Index-Final.pdf?ts=1466592669503)

<sup>4</sup> <http://www.naea.co.uk/media/1043549/naea-scottish-parliaments-finance-committee-call-for-evidence-on-lbtt.pdf>



effect on the West Lothian market for example. Over a quarter of workers living in West Lothian work in Edinburgh and the area has become increasingly popular for house hunters who saw that they can get more for their money. Importantly, transport links into Edinburgh, Glasgow and Stirling have improved dramatically over the past five years and according to West Lothian Council statistics local residents are now within an hour's drive of more than half of all Scottish businesses.<sup>5</sup>

9. In March 2016 a member organisation in Perth reported a surge in activity across the region since January that year, with a near 60% increase in the firm's own sales compared with the same period in 2015. In some parts of the city properties valued up to £250,000 were selling within days of going on the market.<sup>6</sup>
10. The same organisation said that in Edinburgh throughout January and February 2016 they were selling homes within two weeks, which is unusual for that time of year. They also reported that six out of 10 properties they were selling in Edinburgh were going to a closing date, representing the scale of demand. Additionally, at the beginning of March 2016 they reported that they had 2,000 people registered with their organisation who were looking to buy a home.<sup>7</sup>
11. Comments from a different member organisation's Second Quarter Report 2016 for the area of Ayrshire said that the only price point which continues to be testing is above £500,000 where purchasers remain scarce.<sup>8</sup> Otherwise this year's second quarter has been characterised by a continued pattern of increased volume of sales and steadily increasing values.
12. Although these examples only present a snapshot of activity in the property market in Scotland, essentially NAEA members have seen both the number and the value of purchases increase around March in both 2015 and 2016 and then a reduction in sales volumes and average prices in the following months. This was mainly due to buyers of higher-value properties bringing forward their purchases to avoid paying the increased LBTT in April 2015 and a lack of high value transactions taking place after the additional surge charges came into force in April 2016.

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<sup>5</sup> [http://www.westlothian.gov.uk/media/3887/West-Lothian-Economic-Profile/pdf/2014-04-30 Economic profile 2014 - final online low res.pdf](http://www.westlothian.gov.uk/media/3887/West-Lothian-Economic-Profile/pdf/2014-04-30%20Economic%20profile%202014%20-%20final%20online%20low%20res.pdf)

<sup>6</sup> <http://www.acandco.com/newswire/article/perth-property-surge>

<sup>7</sup> <http://www.acandco.com/newswire/article/edinburgh-property-market>

<sup>8</sup> [http://www.corumproperty.co.uk/html/assets/downloads/5575\\_Q2\\_2016\\_Market\\_Review\\_LRES.pdf](http://www.corumproperty.co.uk/html/assets/downloads/5575_Q2_2016_Market_Review_LRES.pdf)



## **The impact of forestalling and whether it is likely to have a short-term impact only or lead to longer-term changes in the market**

13. The decision by the Bank of England in August 2016 to cut interest rates is welcome news for many current homeowners, but it represents a body blow for savers and those hoping to get their first foot on the property ladder. For instance, homeowners with outstanding mortgages are currently enjoying some of the lowest fixed rate mortgages seen for a long while, with lenders battling it out to offer the cheapest deal.
14. Across the UK, NAEA's July 2016 Housing Market Report shows that in July the number of house hunters registered per member branch dropped to an average of 298, from 330 in the previous month. This is the lowest seen since November 2013, when 292 buyers were recorded and a third (35 per cent) lower than in July 2015, when 462 prospective buyers were registered per branch. In June 2016, the supply of houses available to buyers increased marginally, from 37 properties available to purchase per branch to 38 in July 2016.<sup>9</sup>
15. The cut in interest rates could improve confidence among those prospective house-buyers who may have put their search on hold, following the Brexit vote in June. After the result we said that in the short term we believe that both prices, and rents, will remain stable, but we cannot be certain about the next quarter as political instability, and market unrest, could lead through into prices in the housing market. However, a third (31 per cent) of NAEA members have reported that there has been no changes in the housing market since Brexit and everything is business as usual.

## **Whether there should be any changes to the rates and bands in the draft budget for 2017-18**

16. Here we would reiterate points five and 11 and the slowdown in activity for the high end of the market. In addition to this, NAEA would highlight the need for increased flexible lending criteria and support for first-time buyers. We know that one member organisation in Scotland recently ran a major nationwide campaign to help young people on to the property ladder. Between 1 February and 30 April 2016 they were offering a 50 per cent discount on their legal fees. Initiatives like these are welcome and can save first-time buyers hundreds of pounds.<sup>10</sup>

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<sup>9</sup> <http://www.naea.co.uk/media/1044985/number-of-house-buyers-falls-by-a-third-year-on-year.pdf>

<sup>10</sup> <http://www.acandco.com/page/off-legal-fees-for-first-time-buyers>



17. Additionally, NAEA continues to believe that measures such as the Help to Buy ISA are a step in the right direction to get more people on to the property ladder. However, following news reports on 22 August 2016 that the savings will now not be paid by the Treasury until the sale has completed, NAEA thinks that the UK Government must clarify the position and ensure that the rules are implemented fairly.<sup>11</sup> Following the interest rate cut in August many of those looking for help now will have to save harder for longer and wait for initiatives such as the Lifetime ISA to launch in April 2017, but this will then only help those under the age of 40 to save for a home.
  
18. In October 2015, NAEA welcomed the First Minister's commitment to build another 50,000 homes if the Scottish National Party were back in Government after the Scottish Parliament elections in May 2016. Scotland, like the rest of the UK, faces a chronic lack of housing supply and any additional increase in stock is to be welcomed. However, this cannot be a one off. We know from members that areas such as Haddington in East Lothian have seen a raft of new house builds with no fewer than three active sites delivering over 200 new homes.<sup>12</sup> Scotland needs at least 23,000 extra homes a year to match demand. NAEA calls on the Scottish Government to implement a long term house building programme that will sustain demand for years to come.<sup>13</sup>

### **The performance of Revenue Scotland in administering and collecting the tax**

19. We do not have any details about the performance of Revenue Scotland in administering and collecting the tax.

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<sup>11</sup> <http://www.naea.co.uk/media/1044989/naea-comments-on-the-news-that-the-help-to-buy-isa-is-only-available-on-completion-of-a-sale.pdf>

<sup>12</sup> <http://gilsongray.co.uk/east-lothian-housing-market-springs-into-bloom/>

<sup>13</sup> <http://www.naea.co.uk/media/1043581/naea-comments-on-scottish-first-minister-s-speech-at-the-snp-party-conference.pdf>