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Autumn Budget representation to HM Treasury
From NAEA Propertymark
September 2018

Background

1. NAEA Propertymark is the UK's leading professional body for estate agency personnel; representing more than 10,000 offices from across the UK property sector. These include residential and commercial sales and lettings, property management, business transfer, auctioneering and land.

2. NAEA Propertymark is dedicated to the goal of professionalism and by appointing an NAEA Propertymark agent to represent them consumers will receive in return the highest level of integrity and service for all property matters. NAEA Propertymark agents 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 organisation.

Suggestions for new policy ideas for inclusion in the Autumn Budget 2018

<u>Exempt downsizers from stamp duty or give them incentives to encourage them to move</u>

3. Pensioners wanting to downsize to a smaller home should be exempt from paying stamp duty, there should be a programme of building for specialised homes for older people, and the Government should introduce over-65s bonds for downsizers.

Sectoral Impacts

4. By offering last time buyers a stamp duty exemption, it will encourage them to downsize their homes freeing up properties for larger families. Under occupancy is a key element of the housing challenge that the Government faces. NAEA Propertymark's Housing 2025 report outlines that 1.1 million households in England and Wales (4.5% of the total) are overcrowded. Whereas, 16.1 million households (69% of the total) are under occupied. By making it easier for older people to sell their homes it will free up family-sized homes for the next generation and boost much needed housing supply[1].

5. One of the main barriers for older people and pensioners wishing to sell their family home and relocate is the lack of suitable choices. In 2015, Legal & General commissioned a report which found that when last time buyers are looking for a new home, the most common preferences are being close to family and friends (32%), being near their current neighbourhood (18%), having easy access to healthcare (16%) and being located near shops

[1] http://www.naea.co.uk/media/1043988/housing-2025.pdf

(10%)[2]. Therefore, any stamp duty exemption for downsizers must be combined with a programme of housing building for older people. The UK currently has only 162,000 privately owned retirement properties, making up 0.6% of all housing stock[3]. Even though an additional 48,000 private retirement homes are set to be delivered by 2022, there will still be a significant shortfall of property for the growing number of those at retirement age[4]. Furthermore, we don't think that traditional retirement homes and senior living centres, which often require residents to move far away from their existing home and may limit access to community facilities, are offering a great enough incentive for older people to downsize. To encourage the development of more suitable properties, the Government should offer tax relief on the development of specific properties that are suitable for pensioners looking to downsize.

6. The Government should also explore additional incentives such as access to over-65s bonds with market-beating returns for downsizers. For example, the Government could permit only funds obtained through property downsizing to be converted into the bonds. Given that it has already been proven that there is a strong appetite among the over-65s for bonds such as these, reintroducing them, but with the added qualification tied to downsizing, would boost the supply of properties on the housing market.

Revenue implications for the Exchequer

7. By addressing under-occupancy of homes and encouraging older people to downsize, it takes some strain away for the need to build 300,000 new homes a year, which is forecast to cost the Exchequer around £44 billion[5]. Our analysis from the Housing 2025 report reveals that in most regions, the number of larger homes (i.e. those with three or more bedrooms) being built, far exceeds projected growth in households with two or more dependent children. This suggests that making pre-existing properties available would not only be an easier and achievable solution but takes away the need to build larger properties where they already exist but are under-occupied. Consequentially, more housing stock will be made available in the market and through sales to those not exempt from stamp duty, taxation revenue to the Exchequer will increase.

<u>Abolish the 3% surcharge on additional residential property</u>

8. To boost housing delivery the Government should remove the April 2016[6] 3% surcharge on additional homes and buy-to-let properties. The policy disadvantages those buying their first property with the help of Guarantor Mortgages as well as homeowners who must purchase a new main residence before sale completion of their previous property. The policy has also

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[2] https://www.cebr.com/reports/uk-last-time-buyer-market-worth-820-billion/
[3] https://www.knightfrank.co.uk/resources/retirement-housing-market-update-q1-2018.pdf
[4] https://www.zoopla.co.uk/discover/property-news/48-000-private-retirement-properties-to-be-built-by-2022/#bIJVgrEclSmTU41I.97
[5] https://www.thetimes.co.uk/article/budget-2017-in-brief-44bn-for-300-000-new-homes-a-year-8zz2rzswv
[6] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf

contributed to a stagnation of the private rented sector, which is now the second largest housing tenure apart from owner-occupiers.

Sectoral Impacts

9. The legislation has created issue where buyers purchase their new home through a Guarantor Mortgage. Typically, these mortgages are guaranteed by family members wanting to help a first-time buyer to get on the housing ladder. The consequence of such, is that that due to the involvement of the guarantor who will not live in the purchased property (already a homeowner), the buyer will be subject to the additional 3% stamp duty. This is despite first-time buyers being exempt from stamp duty up to £300,000. This contradicts the Government's intentions to help first-time buyers, and results in them not benefitting from stamp duty exemption.

10. There is also an issue where homeowners are looking to buy a new main home whilst trying to sell their own, if they purchase the new property before completing the sale of the old property, they too will be subject to the 3% additional rate. These cases can apply for a refund where they sell the original property within three years, but the process is complicated, and refund can take around two months to process, adding further strain to HMRC. The consequence of the delays is costing the Government 0.5% automatic interest on top of each refund, the average refund is worth £27,205[7]. This also has a negative impact where a partner is fleeing domestic violence and must purchase another property as their main residence, whilst remaining on the mortgage of the previous address. Only where these individuals are in the process of a divorce do they receive relief.

11. By failing to offer exemptions to institutional investors, the policy has stifled the private rented sector where rents are rising. In February 2018, the Intermediary Mortgage Lenders Association estimated that buy-to-let investment fell from £25 billion in 2015 to only £5 billion in 2017[8]. Furthermore, increasing the taxation burden on landlords' results in costs being passed back to tenants through higher rents. In August 2018, our sister organisation ARLA Propertymark, who represent letting agents, reported 40% of agents witnessed rent increases[9], up from 31% the previous month[10] and the highest level on its record. This means that people have less money to save and it is harder for them to get on the housing ladder.

Revenue implications for the Exchequer

12. Abolishing the 3% surcharge on additional properties will encourage further investment into property. Whilst the surcharge has been a valuable source of income to the Exchequer, it has also resulted in a drop of sales on second and buy-to-let property which contribute towards

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[7] https://www.theguardian.com/money/2017/dec/22/uk-government-taking-two-months-to-refund-stamp-duty
[8] http://www.imla.org.uk/resources/publications/buy-to-let-under-pressure.pdf
[9] http://www.arla.co.uk/media/1047342/prs-report-august-2018.pdf
[10] http://www.arla.co.uk/lobbying/private-rented-sector-reports/july-2018/

the economy in tax amounting through letting activities, as well as providing homes to those who cannot afford to, or do not wish to buy their own home. It will cement the Government's intention to help first-time buyers by exempting Guarantor Mortgages from being subject to a surcharge of stamp duty with 1 in 4 housing transactions involving lending from family members[11]. Additionally, the Exchequer will benefit from not being subject to reviewing and issuing refunds on stamp duty surcharges, this is a costly process which requires extra resources and staff to HMRC. A secondary impact of removing the 3% surcharge could see an encouragement for private rented tenants to spend less of their income on rent (where their landlord is saving money through a lower stamp duty), and more on saving for their own property or spending on local goods and services.

Extend Help to Buy beyond 2021

13. The Help to Buy equity loan scheme and ISA should be extended beyond 2021. The scheme has made property purchase more accessible. To further this work the Government should consider extending the equity loan scheme to the purchase of pre-owned property.

Sectoral Impacts

14. The Help to Buy equity loan scheme allows buyers to pay smaller deposits, meaning that the purchase of property has become more accessible, and according to the Home Builders Federation (HBF) it has been hugely successful in boosting output. Since the launch in April 2013 to 31 December 2016, HBF report that 112,338 properties were bought (legal completions) with the support of the scheme[12].

15. We would also like to see a scheme introduced to support the purchasing of pre-owned property through the Help to Buy equity loan. Where first-time buyers can use their Help to Buy ISA on new and existing builds, the equity loans can only be used on new build property, this means they cannot take advantage of the smaller deposits available where the equity loans are used to purchase new builds. As aforementioned in paragraph 4, under-occupation of existing properties outweighs overcrowding. In addition to suggested measures regarding last-time buyers, Help to Buy Equity loans should be eligible for first-time buyers wishing to purchase pre-owned property.

Revenue implications for the Exchequer

16. The Help to Buy schemes have boosted property sales significantly for first-time buyers, by February 2017 the equity loan contributed to one in three new build sales outside of London[13]. First-time buyers making use of the Help to Buy ISA are homeowners who would not

[11] http://www.naea.co.uk/news/june-2018/bank-of-mum-and-dad.aspx
[12] http://www.hbf.co.uk/policy-activities/help-to-buy/
[13] https://www.bbc.co.uk/news/uk-england-38330552

previously have been able to purchase their property and are often now spending less on their mortgage than they previously did on rent, which in turns provides them with more income to spend elsewhere in the economy. The schemes have worked as an encouragement for first-time buyers to purchase property and have contributed significantly to the Government's intention of increasing home ownership.

Legislate to ensure developers remedy leaseholders with onerous clauses

17. To support those who have been impacted by onerous leasehold clauses, the Government should legislate to ensure that developers find remedy for those affected. This will encourage mortgage lenders to borrow to buyers of these properties and further encourage the sale of existing leaseholder properties.

Sectoral Impacts

18. Where leaseholders have been subject to onerous clauses in their lease contracts, our report 'Leasehold: A Life Sentence?' highlighted that the consequence of such has resulted in down valuing of their properties, and not being able to sell or remortgage due to lenders deeming the risk too high[14]. The Government should legislate to prevent the doubling of ground rents and ban increases above inflation.[15] Through Deed of Variation developers can remove or amend clauses. They can also change the ground-rent clause so that it rises against inflation, rather than having ground rent increase in a way that is not linked to the market. As the developer Taylor Wimpey has done developers should be made to set up a Ground Rent Review Assistance Scheme[16]. Taylor Wimpey's scheme has been designed to 'alter the terms of the doubling lease' for buyers who bought one of their properties which have a lease with a 10-year doubling ground rent clause. Where the developer has sold the freehold, the developers and the Government should be working with the organisations that now own the freehold of the properties to convert the doubling leases to an alternative lease structure. The Government must act and stipulate requirements on developers to allay the concerns of existing leaseholders and increase the saleability of their homes.

Revenue implications to the Exchequer

19. By ensuring that developers find remedy for leaseholders with onerous clauses, further sales of leasehold properties will be encouraged, thus fortifying the type of tenure. A consequence of this will mean that leaseholders will have less of their income dedicated to paying onerous ground rents and more money to spend elsewhere in the economy, or the purchase of a new property providing Stamp Duty Land Tax to the Exchequer. Additionally, as the Government has stated that Help to Buy equity loans will mostly not be used for the purchase of leasehold

[14] http://www.naea.co.uk/media/1047279/propertymark-leasehold-report.pdf
[15] http://www.naea.co.uk/media/1047302/leasehold-reform-inquiry-hclg-committee-response.pdf
[16] https://www.taylorwimpey.co.uk/leaseholdfaq

new-build houses, this will mean that the Exchequer can focus this capital elsewhere. Finally, through the removal of onerous clauses, existing leaseholders will be able to sell their properties or remortgage should they wish to, contributing to both churn and home ownership.

Introduce a strong approach to enforcement and prosecution for non-compliance of Money Laundering Regulations 2017

20. To take a strong approach to enforcing the Money Laundering Regulations 2017[17], the Government should ensure two things. Firstly, that prosecution and penalties act as deterrents to non-compliance, and secondly, that fines and penalties are made public for each sector under supervision. Through strong enforcement of compliance of the Regulations, it will increase the number of quality SARs and consequently further the Government's aim to crack down on money laundering.

Sectoral Impacts

21. Purchasing property in the UK is a common method used by serious organised criminals to launder the proceeds of criminal activity. The sheer size of the property market in the UK and the high value of property assets means that extremely large amounts of criminal funds can be 'cleaned' in a single transaction. Currently, estate agents need to keep records of suspicious activity reports and any other internal or external reports and decisions as well as customer due diligence checks and business transactions for at least five years. Those agents found to have broken the law can face unlimited fines from the National Crime Agency (NCA) and Her Majesty's Revenue and Customs (HMRC) and imprisonment depending on the crime[18]. However, it is unheard of that agents have been put out of business as a result. Fines are an effective deterrent and we know of several agents who have been fined by HMRC. Enforcement is essential. Furthermore, we believe that the NCA and HMRC should be able to retain fines and ring fence the money, putting it back into further enforcement.

22. In addition, HMRC reports that non-compliant firms have been fined six and seven figure sums[19], but these penalties imposed by HMRC are not broken down by sector and the fines are not made public. These should be made public to encourage compliance. HMRC supervises seven different industry sectors[20], including estate agents, but it only makes available overall figures. Furthermore, it is not known how many agents have been fined since HMRC took over anti-money laundering regulation from the Office of Fair Trading in 2015. Despite HMRC publicising its crackdown on the sector, we do not know what the average fine is or what the biggest fine is. In our response to the Treasury Committee's Economic Crime Inquiry we

[17] http://www.legislation.gov.uk/uksi/2017/692/made
[18] https://www.gov.uk/guidance/money-laundering-regulations-appeals-and-penalties
[19] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/704163/Report_on_Tackling_Financial_Crime_in_the_supervised_sectors_2015_to_2017.pdf
[20] https://www.gov.uk/guidance/money-laundering-regulations-who-needs-to-register

expressed that ineffective supervision affects the sector in three ways[21]. Firstly, it leads to inadequate compliance with the rules by firms within the sector. Secondly, it leads to low reporting of suspicious activity. Thirdly, it leads to poor-quality reporting. The result of this is that those laundering money will often continue to operate illegally, enabling and contributing to serious and organised crime.

Revenue implications to the Exchequer

23. In 2013 the Home Office estimated that money laundering costs the UK around £24 billion a year[22]. By taking steps to encourage further compliance of the Anti-Money Laundering Regulations 2017, the Exchequer and the UK as a whole could see a drop in serious and organised crime. Consequently, 'dirty', illegally attained and untaxed money would be redistributed throughout the economy legally and taken away from the hands of those who use this revenue to fund criminal activity. Through ring fencing of fines from the NCA and HMRC, the Treasury will benefit from allocating less funds to the running of both enforcement agencies.

Introduce a digital log-book for every property bought and sold

24. To cut down the number of failed property transactions and speed up the process of property buying and selling, the Government should introduce a digital property log-book. This would allow for a more interactive, streamlined and transparent process for both home buyers and sellers.

Sectoral Impacts

25. Currently, an issue as small as a missing piece of paperwork can set back a transaction by a substantial period or even cause it to fall through. On average it takes around six months from a property being listed to completion of sale[23], and 8-12 months between offer and completion in England and Wales[24]. Further, in the first quarter of this year 38.8% of sales fell through before completion[25] - the highest rate in a decade. These factors combined can act as a deterrent to both buyers and sellers, and ultimately slow down sales. Prop tech is becoming increasingly important, with HM Land Registry moving towards digitisation and the first digital mortgage being launched in April 2018[26]. In addition, a digital log-book documenting each stage of the transaction with deadlines for submission will simplify long and complicated property chains. Using blockchain technology, paperwork would be

[21] http://www.naea.co.uk/media/1047081/uk-parliament-treasury-committee-economic-crime-inquiry.pdf
[22] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/468210/UK_NRA_October_2015_final_web.pdf
[23] https://hoa.org.uk/advice/guides-for-homeowners/i-am-buying/how-long-does-it-take-to-buy-or-sell-home/
[24] https://www.ft.com/content/dff97140-6426-11e8-90c2-9563a0613e56
[25] https://www.propertywire.com/news/uk/number-property-sales-falling-uk-reaches-decade-high/
[26] https://www.gov.uk/government/news/hm-land-registry-launches-new-digital-local-land-charges-register

accessible for all parties involved and be passported when the property is sold on. The log-book would help to avoid delays and allow regular contact with the agent and buyer to help deal with any issues that arise.

Revenue implications for the Exchequer

26. Through the introduction of a digital log-book, the Exchequer would see an increase in property sales, and consequently an increase in revenue obtained through churn and the taxes associated with the purchase of property. To this end, less time, resources, and energy from all involved parties will be put into long or failed transactions and more revenue will be generated for spending on local goods and services.