



THE IMPACT OF NEW STAMP DUTY RULES FOR FIRST-TIME BUYERS



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SUMMARY

Following the Government’s announcement in the 2017 Autumn Budget that first-time buyers will pay zero stamp duty on the first £300,000 of any home that costs up to £500,000, L&C Mortgages, the UK’s award-winning fee free mortgage adviser, set out to investigate how many

homes in England are available for £300,000 or less. By applying current trends in rising property prices over the next five to ten years, L&C has identified how this is set to change and what the availability of housing under the threshold will be in the next ten years across the country.

KEY FINDINGS



By 2028 four million homes across England could move out of the stamp duty relief threshold, due to rising house prices



Help to Buy ISA regarded by FTBs as more effective than stamp duty exemption



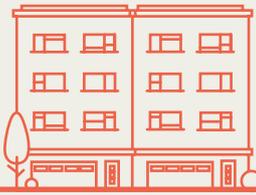
Southampton, Norwich, Bristol and Plymouth currently best places to buy to benefit from stamp duty relief



A fifth (21%) have changed the area in which they want to buy, to avoid stamp duty



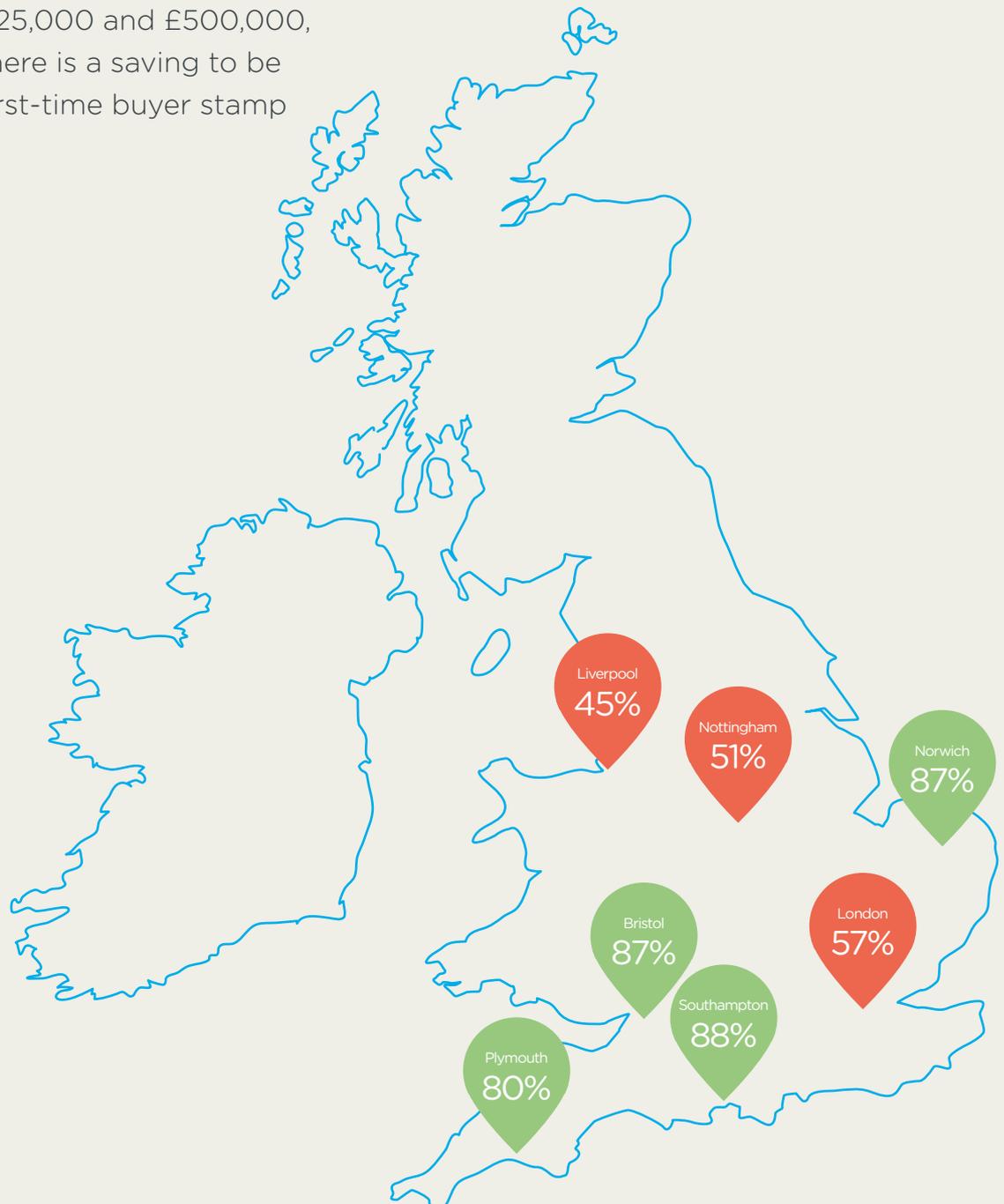
L&C Mortgage calls on Government to consider abolition of stamp duty for all first-time buyers



2.0 THE CURRENT STATE OF THE UK PROPERTY MARKET UNDER THE NEW STAMP DUTY RULES

The cities that currently look most likely to benefit from the first-time buyer tax break are the cities in southern England outside of London. The majority of properties in London fall outside of the new tax break threshold.

Southampton (88%), Norwich (87%), Bristol (87%) and Plymouth (80%) have the largest proportions of property sales between £125,000 and £500,000, which is where there is a saving to be made from the first-time buyer stamp duty cut.

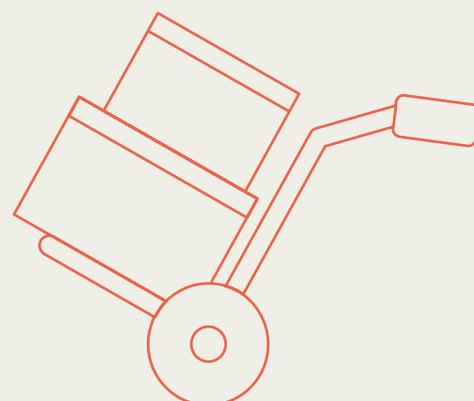


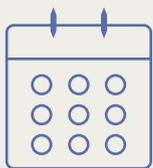
On the other hand, and unsurprisingly, London has a relatively low proportion of properties within the band that qualify for a cut (57%), primarily because just over two fifths (43%) of sales are over £500,000 and therefore not applicable for the stamp duty benefit.

However, outside of these cities the proportions of properties it applies to falls, mainly because many properties simply drop below the threshold for paying stamp duty at all. For example, only 45% of properties in Liverpool fall within the band, mainly because over half (54%) of property sales were for less than £125,000, which is when stamp duty kicks in.

	City	Up to £125k	Up to £300k	Up to £500k	More than £500k	% of properties that could benefit
1	Birmingham	25%	62%	10%	3%	72%
2	Brighton and Hove	1%	34%	43%	23%	76%
3	Bristol	3%	62%	26%	9%	87%
4	Leeds	29%	57%	10%	3%	67%
5	Liverpool	54%	40%	5%	1%	45%
6	Manchester	30%	59%	9%	2%	68%
7	Newcastle upon Tyne	35%	53%	9%	3%	62%
8	Norwich	11%	74%	13%	3%	87%
9	Nottingham	48%	46%	5%	1%	51%
10	Plymouth	19%	73%	7%	1%	80%
11	Sheffield	37%	51%	10%	2%	61%
12	Southampton	10%	76%	13%	2%	88%
13	London	1%	16%	41%	43%	57%

Source: Opinium Research, Land Registry and Rightmove





3.0 THE FUTURE LANDSCAPE

Over 30,000 sales that have been in line for a cut in stamp duty, will not be eligible to do so in the next 10 years.

Looking at the potential rise in house prices over the next decade, using past L&C data on future first-time buyer deposits, L&C identified which cities are likely to benefit from the stamp duty cut in the future. The report finds that out of 100,000 recent property sales in line to benefit from stamp duty relief, 30,000 will drop out of the bracket to be eligible for a stamp duty tax break in the next decade. On top of this, when looking at the future of the housing market as a whole, by 2028, four million homes across England could move out of the stamp duty tax break bracket.

London in particular will be hit further by price rises. In ten years, over half (51%) of the 52,002 properties that currently qualify for a first time buyer stamp duty cut will not benefit. The total proportion of properties that would benefit from the stamp duty cut will have dropped from 57% to 28%. Another example is in Brighton; almost a third (30%) of properties that could currently be eligible to pay less stamp duty will not do so in ten years.

However, Nottingham will have the most houses within the price bracket for tax exemption over the next ten years. The proportion of properties here that could receive a discount from this tax change would rise from 51% to 73%.

	City	Up to £125k	Up to £300k	Up to £500k	More than £500k	% of properties that could benefit in ten years	Net change in the % of properties that could benefit in 10 years time	% of properties currently exempt that will move out of the band*
1	Birmingham	9%	65%	18%	7%	84%	+12%	6%
2	Brighton and Hove	0%	10%	44%	45%	54%	-22%	30%
3	Bristol	1%	30%	49%	20%	79%	-8%	12%
4	Leeds	14%	58%	21%	7%	79%	+11%	6%
5	Liverpool	38%	50%	9%	3%	59%	+14%	4%
6	Manchester	15%	60%	18%	6%	79%	+11%	6%
7	Newcastle upon Tyne	18%	60%	17%	5%	77%	+14%	4%
8	Norwich	2%	63%	26%	9%	89%	+2%	7%
9	Nottingham	24%	61%	11%	3%	73%	+22%	4%
10	Plymouth	7%	71%	20%	3%	91%	+11%	3%
11	Sheffield	18%	58%	17%	7%	76%	+15%	7%
12	Southampton	3%	57%	35%	6%	91%	+3%	4%
13	London	0%	5%	24%	72%	28%	-28%	51%

Source: Opinium Research, Land Registry and Rightmove



4.0 A FLAT OR A HOUSE?

In Manchester, Brighton, Southampton and London the stamp duty exemption will most commonly apply to flats. For example, 62% of properties in London that could benefit from the stamp duty exemption would most commonly be two bedroom flats. In Brighton 57% of properties that would qualify for the exemption are flats, and are equally likely to have one or two bedrooms. In Manchester (41%) and Southampton (31%) properties that qualify for the exemption are most commonly two bedroom flats.

Outside of these cities, it is three bedroom homes that are most likely to benefit from stamp duty exemption. For example, in Plymouth, Norwich, Newcastle and Bristol the properties that would most commonly benefit from the new stamp duty rules would be three bed terraced houses. Yet conversely, in Nottingham or Birmingham, three bed semi-detached homes would be most likely to benefit.



	City	Detached	Semi-detached	Terrace	Flat	Type of property	Typical number of bedrooms
1	Birmingham	11%	38%	35%	15%	Semi-detached	3 bedrooms
2	Brighton and Hove	5%	16%	21%	57%	Flat	1/2 bedrooms
3	Bristol	3%	19%	43%	34%	Terrace	3 bedrooms
4	Leeds	19%	44%	24%	13%	Semi-detached	3 bedrooms
5	Liverpool	15%	37%	27%	21%	Semi-detached	3 bedrooms
6	Manchester	5%	28%	25%	41%	Flat	2 bedrooms
7	Newcastle upon Tyne	16%	32%	32%	20%	Terrace	3 bedrooms
8	Norwich	11%	20%	47%	23%	Terrace	3 bedrooms
9	Nottingham	30%	34%	24%	13%	Semi-detached	3 bedrooms
10	Plymouth	14%	30%	46%	10%	Terrace	3 bedrooms
11	Sheffield	21%	39%	29%	11%	Semi-detached	3 bedrooms
12	Southampton	13%	27%	28%	31%	Flat	2 bedrooms
13	London	1%	11%	25%	62%	Flat	2 bedrooms

Source: Opinium Research, Land Registry and Rightmove



David Hollingworth from L&C said “First time buyer relief can make a substantial dent in purchase costs depending on location. The initial HMRC statistics show that London, the South East and East of England currently account for the majority of the relief claimed. But if prices continue to rise at the rates we’ve seen in the last ten years, the upsides of first time buyer stamp duty relief may not last for long.

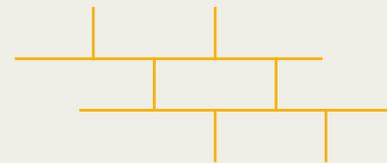
It’s alarming that in cities in the South, so few properties will see any type of benefit from the stamp duty changes in 10 years’ time. As a priority the Government needs to ensure that there is a plan in place to review SDLT relief bands, to guarantee sustained support for would-be home owners now and in the future. Going even further, abolishing stamp duty for first-time buyers altogether would help all those looking to get on the ladder, with one less expense to worry about. Our research shows that many of the first-time buyers, especially those based in southern England, who are set to pay less or nothing will need to act fast before many of the properties currently eligible fall out of the price bracket that qualifies for the cut.

In some cities, such as Plymouth and Southampton, the data shows that in future the number of properties eligible for stamp duty discount could rise considerably. This initially looks positive in terms of first time buyers paying less stamp duty but over time more homes are dragged into higher bandings. The cities where this rise can be seen over the next 10 years are the cities with the most property that currently fall under the £125k threshold – the amount at which property becomes eligible for stamp duty payments”

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Source

The majority of the relieved SDLT was from transactions in the South East, London and the East of England, accounting for £40m, £38m and £25m respectively.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/703081/Quarterly SDLT_2018Q1_Main.pdf

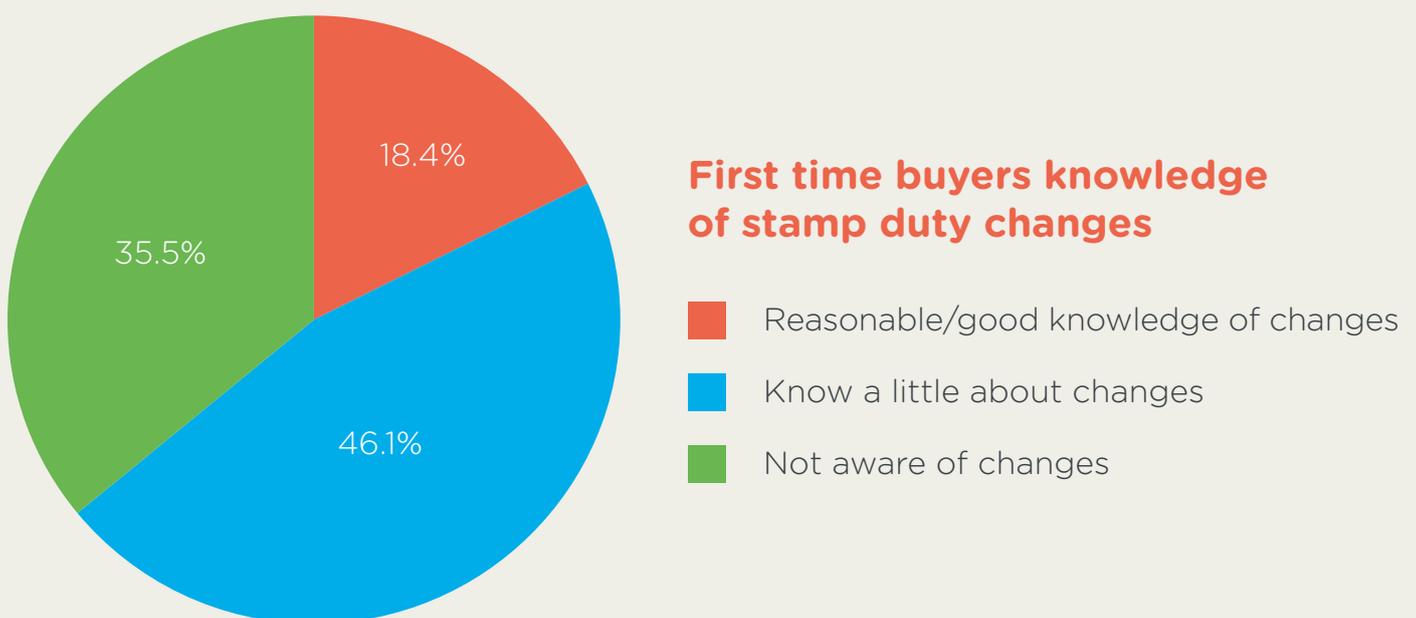


5.0 FIRST TIME BUYER ATTITUDES

THREE IN TEN DON'T KNOW IF THEY WILL BENEFIT FROM STAMP DUTY CUTS

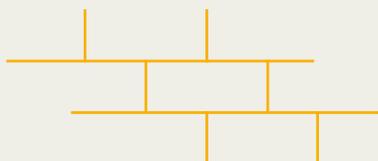
Two thirds (65%) of English first-time buyers know at least a little about the stamp duty changes introduced at the end of 2017 but only 18% know a lot or a reasonable amount. 18 to 24 year olds are less likely to have any knowledge of the stamp duty changes - affecting many first-time buyers (51%).

There is substantial uncertainty regarding the impact of the changes to stamp duty for first-time buyers. Almost a third (31%) don't know or are not sure if the new stamp duty rules will benefit them when they buy their first home. A fifth (22%) have not changed their mind on the price of house they want to buy because they do not know how the changes will impact the stamp duty for the value of property they want to buy.

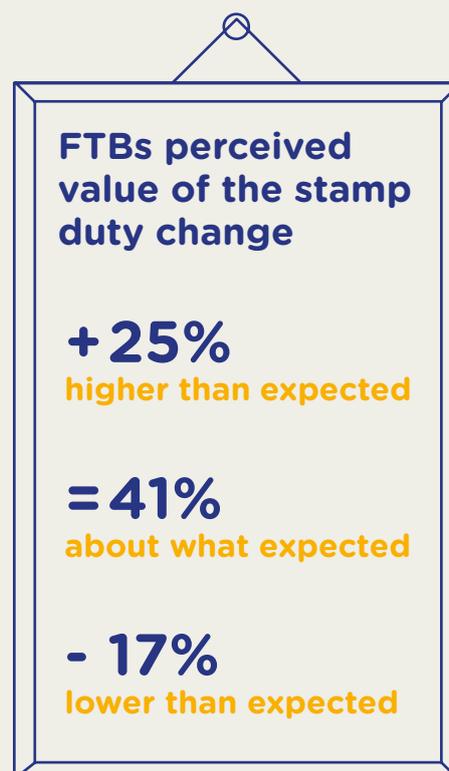


A QUARTER OF FIRST TIME BUYERS SAY THE SAVING FROM STAMP DUTY CUTS IS MORE THAN EXPECTED

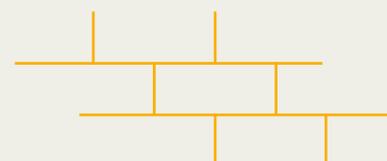
Prospective first-time buyers think they will save £3,315 on average. Those who live in the South East estimate the largest savings (£4,077), compared to the East Midlands who predict the smallest savings (£2,223). However, just over one in ten (13%) think they would save more than £5,000, which is impossible under the rules.



When respondents were shown the saving that they could expect to make on stamp duty, considering the various rules and the value of the property they expected to buy, a quarter (25%) said that the amount was more than expected, while two in five (41%) stated that the amount was about what they expected. Only 17% said it was less than they expected.



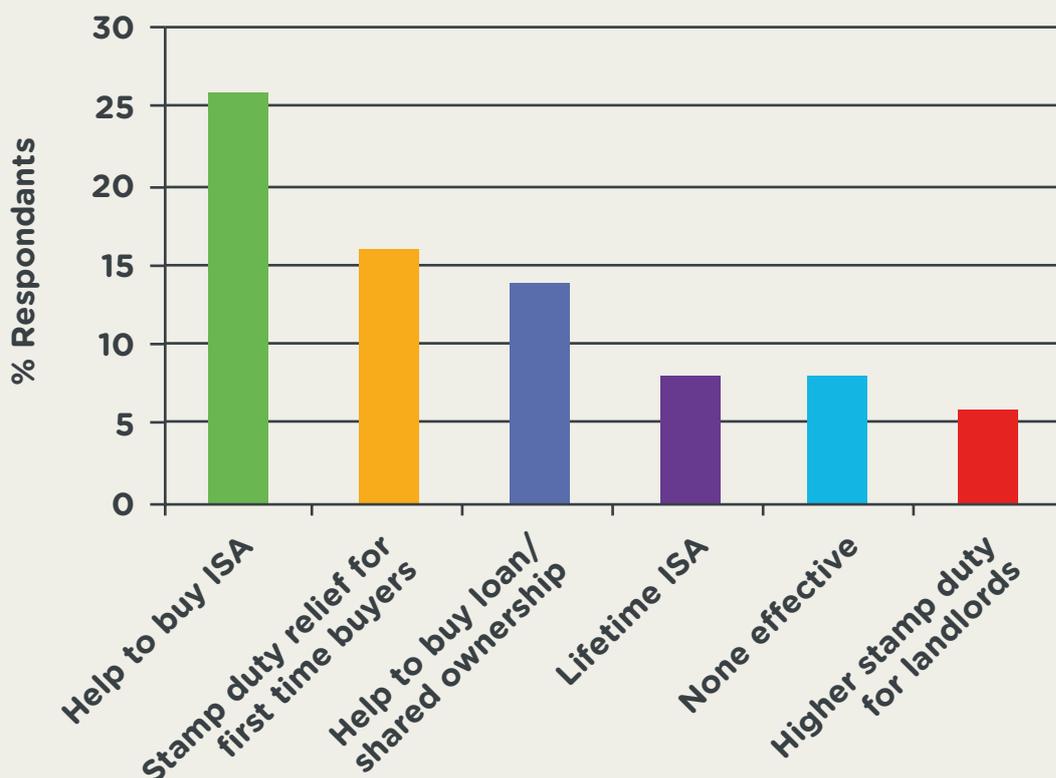
Many will not be able to benefit from any potential savings because of the ruling regarding buying with someone already owning property. Just under three in ten (29%) of those aiming to buy their first home within the next ten years will not be eligible for stamp duty exemption because they are planning to buy a property with someone who already owns a home or they already own a property – for example through inheritance.



THE HELP TO BUY ISA REGARDED AS MORE EFFECTIVE THAN STAMP DUTY EXEMPTION

The general attitude to the stamp duty changes for first-time buyers is positive. Almost two thirds (63%) support the changes to reduce or abolish stamp duty for some first-time buyers. Nevertheless, one in four (25%) prospective first-time buyers believe that the Help to Buy ISA is the most effective Government initiative to help them get on the property ladder. This compares to only 16% who think the stamp duty rules are valuable.

What FTBs believe is the most effective Government initiative to help get them on the property ladder



PRICE PLANS: A FIFTH WILL BUY A CHEAPER PROPERTY TO BENEFIT

According to the research, on average English first-time buyers plan to spend £203,772 on their first home. Maybe unsurprisingly, those who are older plan to spend more on their first home. The average price of the first home for those aged between 18 and 24 is expected to be £186,914, whereas those 35 years old and over foresee buying a property worth £206,991, on average.

A quarter (27%) of prospective first-time buyer's overall plan to spend under £125,000, while 61% expect their first home to fall between £125,000 and £500,000. Only 3% are aiming to buy a property over £500,000 and 9% don't know how much they will spend.

A quarter (24%) do not plan to change the price of the house they want to buy and instead will use the savings they make from paying no or less stamp duty to reduce the size of their mortgage. Almost a fifth (18%) will buy a cheaper property to be under the stamp duty exemption threshold, while 7% will buy a more expensive property with the savings they will make from the tax break.

Just over half (52%) think they will benefit from the new rules when they buy their first home. Those aiming to buy a property priced between £125,000 and £500,000 are more likely to believe they will benefit from the stamp duty changes (58%), compared to those planning to buy a home under £125,000 (47%) - demonstrating a further lack of knowledge about the new rules, as homes under £125,000 do not have to pay the tax.



9% of FTBs don't know what they will spend

up to £125k



27%

£125k - 500k



61%

500k +

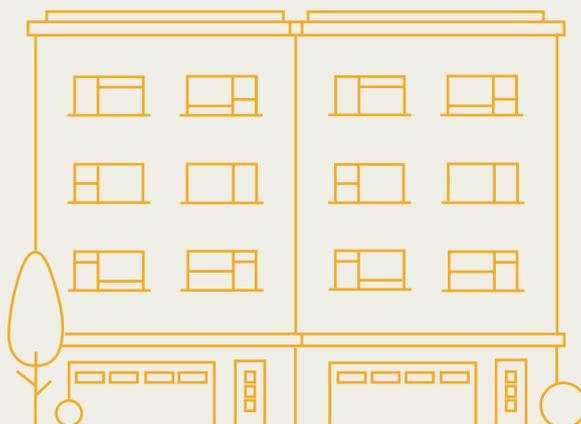
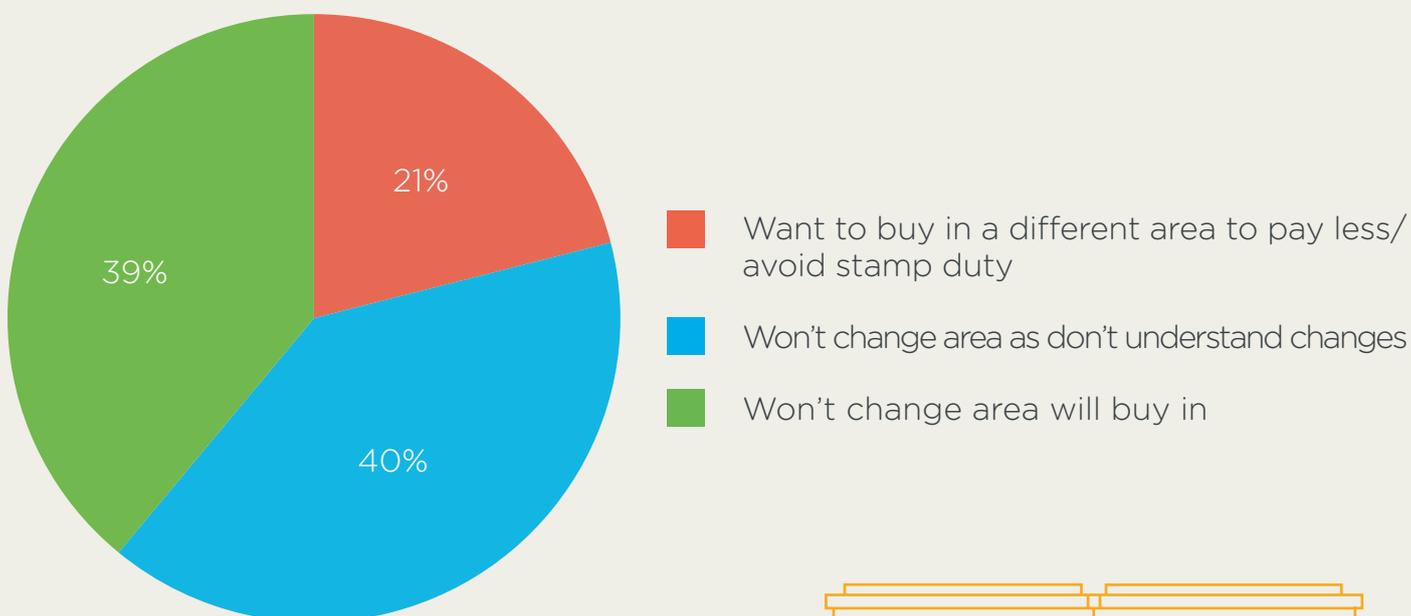


3%

A FIFTH OF FIRST TIME BUYERS WILL CHANGE THE AREA IN WHICH THEY WANT TO BUY TO PAY LESS OR NO STAMP DUTY

As location can influence how the stamp duty changes affect people, some are reviewing the area in which they plan to buy. A fifth (21%) have changed the area in which they want to buy in order to pay less or no stamp duty, which rises to 37% of Londoners. On the other hand, only 11% of those in the South West have changed the area they want to move to in light of the recent changes. There are objections to the way in which the stamp duty changes are biased towards certain areas. Over half (53%) feel that it's unfair that some areas of England will receive a greater discount than others as a result of the stamp duty changes. Moreover, two in five (41%) say that moving away from where they currently live is the only option to get more for their money.

Impact on choice of buying area





David Hollingworth concludes

“There’s still some work to be done by the Government and the wider market in educating first time buyers to address the lack of understanding of the benefit of the first time buyer relief.

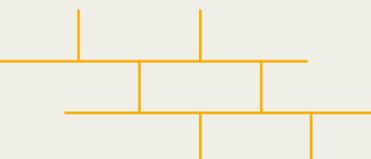
The lack of affordable housing means that people have to move away from where they currently live. Although the stamp duty changes are a good start and will help some first-time buyers save money when getting on the ladder, more will need to be done to boost affordability in the longer term.

First time buyers have been offered a small light at the end of what is considered to be quite a dark tunnel, but if the Government doesn’t work harder to illuminate what is on offer then many won’t even be aware that this help is available.”

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THE LACK OF AFFORDABLE HOUSING MEANS THAT PEOPLE ARE HAVING TO MOVE AWAY FROM WHERE THEY CURRENTLY LIVE

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NOTES TO EDITORS

Opinium Research examined the house price data covering the all 12 months of 2017 from the Land Registry and Rightmove and recorded the following for each city: the number of property sales, the number of sales within certain price bands (under £125,000, between £125,000 and £500,000, and above £500,000), and the type of properties that fall within each price band.

Findings from previous research from Opinium was used to apply trends in house prices to current sales to model how prices might change in 2028, and what effect this would have on potential eligibility for a stamp duty relief.

Calculation: 30,430 property sales in England's 13 major cities in 2017 currently sit within the stamp duty relief price band but could grow in value and leave the band by 2028. There were a total of 165,461 property sales in these cities in England. Throughout England there were a total of 22,063,368 owned properties according to the latest census. $30,430 / 165,461 \times 22,063,368 = 4,057,683$ or 4 million properties.

The percentage splits in tables may not add up to 100% due to rounding.

* the percentage of properties currently exempt that will move out of the band is calculated by taking the increase in the percentage of properties in the over £500k band in 10 years time and dividing by the percentage of properties that will currently benefit in the up to £300K and up to £500k bands.

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