Residential Research Update

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In the run up to Wednesday's budget, we saw almost fervent speculation over potential pre-election giveaways. From a housing perspective, the two biggest carrots dangled in front of the electorate were the possibility of 99% loan-to-value government-backed mortgages and cuts to stamp duty for downsizers.

The first of those carrots was essentially withdrawn in the days before the chancellor gave his speech, while the clamour for the latter also went unheeded, reflecting the financial constraints faced by the neighbours at numbers 10 and 11. So, what are the key takeaways when it comes to the property market?

The property headlines

The chancellor tightened the tax net for those with holiday lets, abolished the multiple dwellings relief (that had allowed purchasers of properties with ancillary dwellings, and some property investors, to mitigate their stamp duty bill) and reduced the capital gains tax rate for buy-to-let and second home owners.

While these measures may temper future investor activity and tip the balance for a few landlords who've been questioning their commitment to buy-to-let, they're unlikely to be major game changers: the main risk being they limit future rental supply.

Similarly, the abolition of non-dom tax status has hung over the prime central London market for some time, and has arguably already been priced into the market to some degree. Though reform has been brought forward, the impact will, in part, be offset by transitionary measures during the first four years of residence, during which time new arrivals to the UK will not pay taxes on foreign income.

Full detail is available on the gov.uk website.

Housing market performance

Meanwhile, last week Bank of England data **showed a 7% increase** in seasonally adjusted mortgage approvals, bringing them back to 84% of a normal pre-pandemic market. The average mortgage rate on new lending **fell to 5.19% in January**, down from 5.34% in November.

While lagged completed housing transaction figures remained subdued in January, more up to date indicators reflect an uptick in activity in the first two months of this year. This pick-up in mortgage approvals reflects more stability in the mortgage markets in the early part of the year and an easing in the cost of fixed rate mortgages.

Real time data from TwentyCi indicates that the improvement in underlying housing market conditions continued in February, following an increase in new buyer enquiries in the most recent **RICS housing market survey**.

Activity levels were 13% above the pre-pandemic average, even accounting for slightly higher-than-normal fall-through rates and the fact that some lenders increased the costs of their fixed rate mortgages back to where they were at the beginning of the year.

The biggest uptick in activity was in the £300,000 to £500,000 price band, where activity levels in the month were 33% up on the same time last year, while those above £1m rose by 27%.

However, that same data suggests that the market remains price sensitive, with the number of changes in the asking price of property on the market 56% above the 2017-2019 norm.

That means that while activity levels are rising, we shouldn't be getting carried away with headlines of a return to annual price growth in the UK housing market as **reported**

by the Nationwide. At the same time, annual rental growth continues to moderate, with Homelet suggesting that it stood at 7.4% at the end of February, down from over 10% in September of last year.

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