Proskauer

A Revolution in UK Housing?

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The UK Government published its long awaited White Paper on housing, "Fixing our broken housing market", on 7 February 2017. The paper aims to benefit would-be house buyers and occupiers – particularly "ordinary working class people who are struggling to get by". **But is it good news for those who seek to invest in the UK residential market?**

The paper presents a smorgasbord of proposals in a large number of areas. If enacted, the proposals will have an impact not only on residential property, but on all real estate investment in England. (Scotland has its own legal system, whilst in Wales and Northern Ireland housing policy is largely the responsibility of the devolved governments.)

Originally expected to be issued with the Autumn Statement in November 2016, the paper includes a number of proposals that have already been announced or hinted at. For example, the Chancellor announced in the Autumn Statement that letting agent fees for tenants would be banned; the paper restates this aim, but announces consultation before legislation can be brought forward "as soon as Parliamentary time allows".

Other parts of the paper state policy objectives which institutional investors are likely to support (e.g. longer term tenancies), but are short on detail of how these objectives will be achieved.

Diversifying the Market?

The paper frankly admits that the previous housing policy of successive governments has been inadequate, and that there are too few houses being built as a result. It is stated that Britain's ten biggest housebuilding firms build around 60% of new private homes, and investors will welcome the specific focus on diversifying the market as a way of increasing supply. The paper sets out ways in which the planning system might be streamlined, compulsory purchase powers beefed up and land banking exposed and made less attractive. This looks like good news for investors who may have plenty of funds to deploy, but who have nevertheless been historically faced with high barriers to entry.

A Welcome Focus on PRS

Investors or would-be investors in the private rental sector (PRS) will particularly welcome the many references to PRS as a way to increase supply. The focus of previous governments on home ownership and “starter homes” has been largely set aside. PRS investors should be aware that England does not have “rent control”, and the paper does not suggest that such a scheme could be introduced.

The British Property Federation has reported that there are more than 60,000 PRS units in the pipeline across the UK. However, this is far behind the build to rent stock in countries such as the United States, and there is much to do if the PRS is to make a significant contribution to the shortfall in housing, as identified in the paper.

The paper shows that the burden of stamp duty land tax (SDLT) on PRS investors has not been diminished. Since April 2016, the acquisition of residential property, which is not to be the purchaser’s main residence, has attracted a 3% SDLT surcharge. The paper defends this as a way to raise revenue for spending in areas adversely affected by second homes. However, the paper omits to mention that the surcharge is also levied institutional investors in residential property, including the PRS, simply saying “We will consider whether any additional measures are needed”. It is not clear whether this refers to additional measures to curb second homes, or additional measures to relieve SDLT.

Spotlight on Senior Housing

Government is introducing a new statutory duty on the Secretary of State through the current Neighbourhood Planning Bill to produce guidance for local planning authorities on how their local development documents should meet the housing needs of older and disabled people. In practice, this means a focus on issues such as accessibility, and those investors who specialise in this can expect an increasingly sympathetic hearing from planning authorities.

The paper optimistically hopes that if older people move into purpose built housing, it will help their quality of life whilst also freeing up larger housing stock for the next generation of homebuyers or renters. However, it recognises that emotional as well as practical factors will limit this. There is no commitment by the Government to reform the widespread practice of “event fees” in retirement property, which the Law Commission have been investigating and which have left some consumers angry and frustrated. Nor is there any attempt to look at delays in the conveyancing process itself, which may be particularly offputting to older homeowners contemplating a move.

Investors Have Cause to Hope, but Speed of Reform Uncertain

Overall, the paper is brimming with ideas. For those investors, including overseas investors, who want to increase their exposure to residential property in England, the tenor of the paper will be very welcome, and there are particular nods to the PRS and senior housing sector. However, with Brexit and geopolitical issues dominating Parliamentary time at the moment, it must be wondered how soon some of the proposals will make their way on to the statute books.

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