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Property Owner

What the end of rate rises means for mortgages and house prices.

Property prices across Britain will have fallen 6% by the end of 2023 and 3% the year after, figures from real estate group JLL suggest. However, it said the housing market had remained 'more resilient than expected' in the face of rising interest rates and cost of living pressures, meaning the falls will be 'less significant' than at the height of the 2008 global financial crisis. More stringent lending rules post-2008 and higher levels of equity mean that while the housing market has come under pressure, 'we are yet to see significant signs of distress,' it said in a report. The group expects UK property prices to bottom out in 2024 but maintains there will be annual falls in most markets at the year-end. After that, it says house prices will start to rise again in 2025. The report added: 'We are forecasting a return to growth in our 2025 forecast as fixed rates begin to fall and we have more certainty on the outlook.' On mortgage deals, JLL expects fixed rates to become cheaper as the prospect of further rate rises recedes but says households will still face higher rates than many are used to for some time. Separate data from the Bank of England last month revealed mortgage approvals for house purchases, which is an indicator of future borrowing, fell from 45,400 in August to 43,300 in September, marking the lowest level since January. A lack of homes coming to the market for sale looks set to remain a thorny issue. Looking ahead, most commentators forecast a bottoming out of prices in 2024, with single-digit annual falls likely. The UK housing market still faces challenges in terms of supply, with a cumulative shortfall of 720,000 homes expected between 2023 and 2028. Addressing these structural barriers is crucial for achieving meaningful increases in supply and mitigating affordability issues.

Property Owner

House prices defy doom-laden predictions.

UK house prices have registered their first monthly increase since March, according to data published recently, as cautious sellers put fewer properties on the market. House prices rose 1.1% between September and October, mortgage provider Halifax said, ending a run of six consecutive monthly falls. However, they were still down 3.2% compared with October last year.

Kim Kinnaird, director at Halifax Mortgages, said prospective sellers had held back from marketing their homes, leading to a lower supply. This is likely to have strengthened prices in the short-term, rather than prices being driven by buyer demand, which remains weak overall. Despite strong wage growth, higher interest rates and wider affordability pressures continued to pose challenges to buyers. Last week, mortgage provider Nationwide reported UK house prices rose by 0.9% between September and October but remained 3.3% lower than the same period in 2022.

A more resilient housing market could be less of a drag on economic growth as it increases confidence and spending on housing-related goods. House prices boomed during the pandemic when historically low interest rates boosted demand, but they have declined since August last year on the back of higher borrowing costs. At the same time, a strong labour market and a low supply of housing have supported prices. The typical UK home now costs £281,974, down £11,000 from the August 2022 peak but still £42,600 above the level in February 2020, before the pandemic. Halifax reported an annual decline of 2.4% in prices for first-time buyers, indicating more resilience than the overall market. Although house prices rose month on month, it said all UK nations and regions reported prices dropping on an annual basis; south-east England registered the biggest fall of 6%. Prices in Scotland were the most resilient, down 0.2% annually. In London prices fell by 4.6% but remained the most expensive, with the average home costing £524,057. House buyers and mortgage holders are set to face continued pressure until at least the middle of next year, with financial markets expecting the Bank of England to hold interest rates at or around their current level of 5.25%.

All

Reinstating Lifetime Allowance 'fraught with difficulties'.

In his March 2023 Budget, the Chancellor announced plans to abolish the Lifetime Allowance (LTA), a lifetime limit on the cumulative amount of pension savings which can be drawn without incurring an additional tax charge. Within hours of the announcement, the Labour party said that it opposed this measure and would reverse it if it were to win the next General Election. Labour also said that it would introduce separate measures to ensure that senior NHS doctors were not encouraged to retire early as a result of the reintroduction of the LTA. New analysis from consultants LCP, published today, has found that reinstating the LTA would be far from straightforward and that the Labour party may need to take steps both before and immediately after the election to make sure that large numbers of people do not rush to tap into their pensions to avoid any LTA tax charges. The paper assumes that Labour would reinstate the LTA at its 2022/23 level, though the party has yet to specify a level. This is not just an issue for 'the top 1%' – research shows that that 4-6% of those in the run up to retirement with pension savings are potentially affected, perhaps around a quarter of a million people.

Key issues for a new government to consider on reintroducing the LTA include:

- Would 'transitional protection' be needed for those who had, in good faith, taken advantage of the LTA changes from April 2023, to build up their pension savings beyond this level but could now face a tax charge if the LTA was reintroduced before they accessed their savings?
- More generally, would everyone start under a re-introduced LTA regime with the 'LTA used up clock' re-set to zero. Or would the government – as seems likely – try to estimate how much of the LTA people might previously have used up and use this as a baseline for how much remaining LTA was available to them?
- Given how long it might take from an Election to passing detailed legislation in this space, would it be necessary to pass urgent 'anti-forestalling' legislation straight after an Election to avoid a rush of people crystallising their pensions to avoid a potential LTA charge?

If it became widely expected that a change of government was imminent, we could see this driving a lot of financial advice and individual pension decisions. Possible behavioural impacts could include:

- Those with large defined benefit (DB) pensions retiring early; in the specific case of NHS doctors, the potential Labour government might need to specify with some degree of certainty and, before the General Election, how these doctors will be protected from LTA charges in the new regime; otherwise, senior doctors might prefer the more certain option of retiring when there is no LTA charge.
- Those with higher incomes and unused annual allowances from previous years might choose to 'pile' money into their defined contribution (DC) savings and then crystallise them before the LTA was reintroduced (or before a General Election); similarly, those who had already built up large DC pots might bring forward the point at which they crystallise them, to avoid potential LTA charges; this would reduce the amount of tax revenue a future government could expect to gain by bringing back the LTA.

All

Should income tax thresholds be raised?

Rishi Sunak is considering a tax cut for the 5 million highest earners and reducing stamp duty in an attempt to ease the pressure on his leadership after two historic byelection defeats, it has been reported. The Times reported that surveys have been carried out by Downing Street to ascertain which tax reduction could give the party the biggest political pre-election boost with the 2024 spring budget considered the earliest it could be announced. Sunak froze income tax thresholds in 2021 for six years while chancellor. The Conservatives are also planning to reduce stamp duty for their general election manifesto next year if the economy has strengthened, the Times reported. A source told the newspaper the Tories are planning to either cut stamp duty or abolish inheritance tax. A senior Tory told the Times that reducing stamp duty would be "aspirational" and improve the economy in addition to attracting middle-class voters who had left the party. Stamp duty in England and Northern Ireland is now 5% for a main residence bought for between £250,001-£925,000, and for more expensive properties, this rises to 10% for sums paid between £925,001-£1,500,000. Meanwhile, the pressure to announce tax cuts before the next election has increased after figures showed government borrowing was lower than expected last month on the back of a large drop in the Treasury's debt interest bill and strong tax receipts. Official figures showed that public sector net borrowing was £14.3bn last month, lower than the £20.5bn that had been forecast by the Office for Budget Responsibility.

Investor / Saver

UK investors pull more than half a billion from ESG funds in September.

September saw UK investors pull £544m from ESG (Environmental, Social & Governance) funds, the highest outflow on record, as more stakeholders back away from responsible investing in favour of sturdier ventures. Across the month, UK savers took a total of £1.4 bn out of funds, with nearly half coming from ESG-based investment vehicles. The responsible investment funds that monitor all ESG moves has been in decline all year, with the Investment Association recording only £95 bn in funds under management at the end of September, dropping from £95.9 bn in August. While responsible investing was down in September, other investment opportunities fared better: UK gilts drew in net retail sales of £237m and corporate bonds saw net retail sales of £209m. The pull away from ESG has been well documented all year, with big players such as BlackRock and Vanguard actively backing fewer ESG proposals during proxy season. Vanguard, which has $8tn in assets under management, supported only 2% of ESG-based proposals this year, compared with 12% in 2022. It says the decline in support is largely attributable to the nature of the shareholder proposals, pointing out that it evaluates the proposals case by case, 'assessing each on its merits and in the context of the facts and circumstances of the company in question.' Chris Cummings, chief executive of the Investment Association, says investors continue to be 'squeezed by inflationary pressures and the cost of living, as net inflows into funds experience their second quarter of decline. Despite £1.2 bn invested in funds between July 1 and September 30, this is down on the first quarter of the year, which saw almost £4 bn invested. UK gilts continue to be a favourite throughout the uncertainty and were the best-selling sector in September, and an increased inflow into mixed-asset funds was a bright spot in a challenging month.

Business Owner

Self-employed warned over sleepwalking to tax bill shocks.

Tax experts are concerned that the self-employed are unaware of an HMRC rule change on reporting profits, according to the Financial Times. The change, known as Basis Period Reform, will affect 528,000 sole traders and partnerships whose accounting years don't end on April 5 or March 31. From April 2024, they'll have to report their taxable profits to HMRC up until April 5, even if their accounting year ends at a different time. The Financial Times reports that the change has not been widely publicised, so businesses without tax advisors may simply not know of the new rule. The idea is that businesses are transitioning in the 2023/24 tax year – and the government will be charging more than 12 months' worth of profit. That means that you will need to report profit from the day after your accounting year end in 2022/23 up to April 5 2024. The start of the policy was pushed back from April 2023 to April 2024 following a backlash from business and tax professionals. If you're affected, you can lessen the impact by claiming any 'Overlap Relief' that you may be entitled to. This is for overlap profits, i.e. profit covering more than 12 months, otherwise known as transition profit. This means you'll be able to spread transition profit over the following years up to the 2027/28 tax year. About a third of partnerships are believed to be affected, says the consultation document on the change. It will also affect around seven% of sole traders such as hairdressers, construction workers and taxi drivers. HMRC said that the changes would prevent double taxation and make sure that profits are only taxed once: "This reform will simplify the current complex and confusing basis period rules with a single, consistent basis for all businesses," it said. "It is a revenue-neutral measure, and the Office for Budget Responsibility said the idea that is raises tax is a fiscal illusion."

Past performance is not a guarantee to future performance. You may get back less than invested.

Thresholds percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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