Resolution Foundation

The Resolution Foundation Housing Outlook

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Welcome to Housing Outlook Q3 2021.[1] In this spotlight we turn our attention once again to the uncanny performance of house prices over the past year. In particular, we focus on the effect of transaction tax holidays across the UK. Introduced to stimulate the housing market in July last year, the Scottish and Welsh transaction tax holidays have now ended (on 31 March and 30 June respectively), while the stamp duty holiday in England and Northern Ireland is currently being phased out (it is due to elapse on 30 September).

House prices have defied expectations over the last year, rising dramatically in the face of the Covid-19 economic crisis. While many commentators have blamed transaction tax holidays for this trend, analysis in this Housing Outlook suggests this is somewhat wide of the mark. Instead, there appear to have been stronger forces at play within the housing market over the past year such as enforced savings during lockdowns, changing housing preferences and super-low interest rates. We conclude that the transaction tax holidays have been problematic less because they were inflationary, and more because they have been wasteful (the Government has forgone an estimated £4.7 billion of tax revenues in England and Northern Ireland as a result).

Spotlight | The effect of transaction tax holidays on house prices

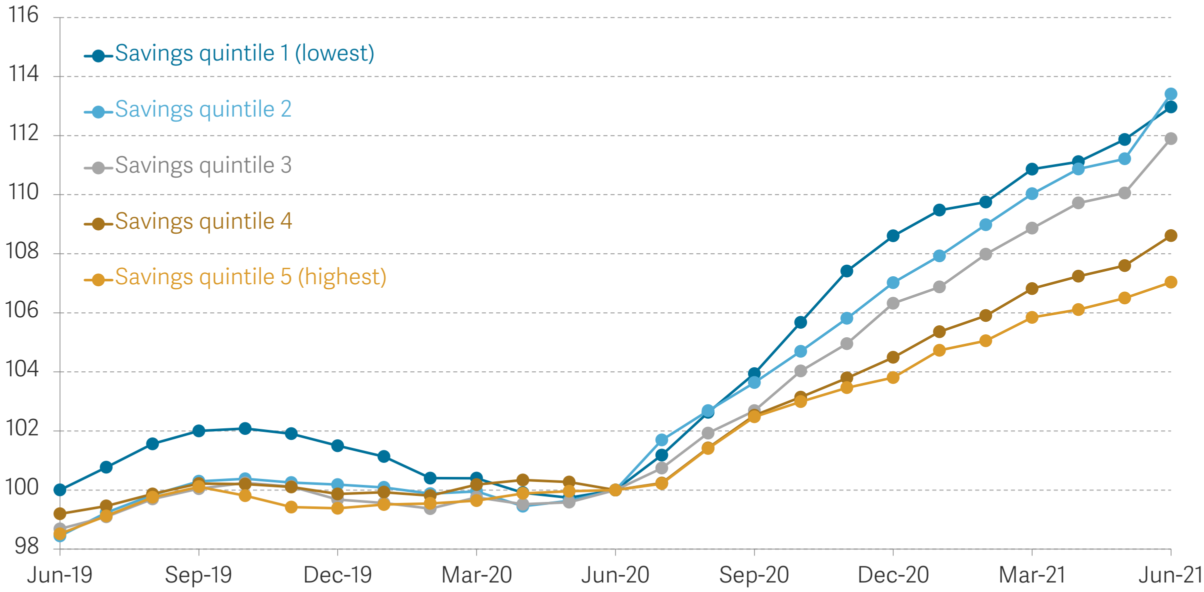
Over the past year, house prices have consistently bucked expectations (not least ours): data released this week shows the average value of a UK home increased by 13.2 per cent from June 2020 to June 2021.[2] To state the obvious, such price behaviour is highly unusual in a recessionary period: as the economy contracts, we would normally expect pressure on both incomes and consumer confidence to drive down house prices. So, what has been different this time around?

A number of distinctive features of this crisis spring to mind. First, the Covid-19 period has been marked by a dramatic increase in the aggregate saving rate as households' ability to eat out, holiday abroad and the like have been severely constrained. Second, the pandemic appears to have affected housing preferences, with evidence of increased demand for larger homes and less populous areas. Third, mortgage rates have got cheaper and cheaper (at least for those with lower loan-to-value ratios). But fourth, many have pointed the finger at policy, suggesting that the transaction tax holidays introduced across all nations in summer 2020 have been inflating house prices.[3]

It is reasonable to expect at least part of the savings from any transaction tax holiday to be capitalised into house prices (an HMRC evaluation of the stamp duty cut introduced for first-time buyers in wake of the financial crisis estimated that between 50 and 70 per cent of the value fed through into higher house prices, for example). But logically, if the cuts to transaction taxes have been the overwhelming driver of the house price trends observed over the past 12 months, we would expect to see higher growth in areas where the savings from the change in policy have been most significant as a share of the house price (although we recognise that the housing market works in chains so we would expect the effect to be somewhat dispersed). But as Figure 1 shows, that is not what we observe at all. Prices have grown by more in those local authority areas where the average buyer experienced negligible, if any, savings as a result of a transaction tax holiday, compared with areas where far higher savings were achieved (13 per cent in savings quintiles 1 and 2 compared to 7 percent in quintile 5).[4]

FIGURE 1: **House prices have risen faster in areas where the savings from transaction tax holidays have been negligible**

Index of average house price growth, by transaction tax saving quintile (June 2020=100): UK



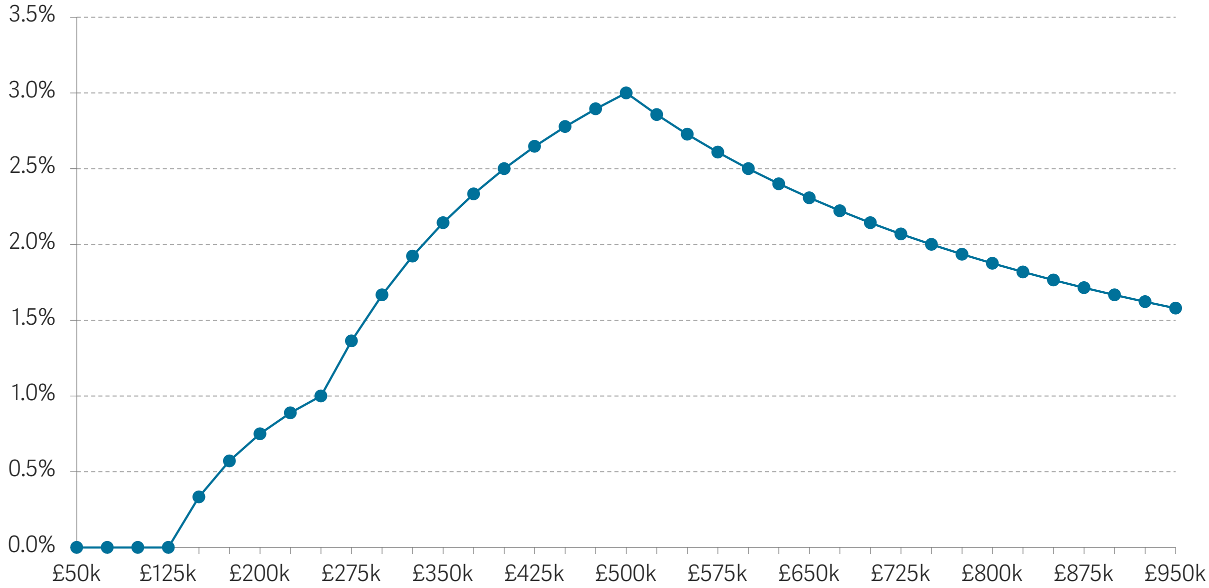
NOTES: The transaction tax saving is the amount saved as a result of the transaction tax holiday expressed as a percentage of the average house price per local authority in June 2020.

SOURCE: RF analysis of HM Land Registry, UK House Price Index; national transaction tax thresholds.

It is worth examining the price points in the market at which we would expect the inflationary pressure from a transaction tax holiday to be most acutely felt. In Figure 2, we plot the savings as a share of the house price at different price points for movers in England (the shape of the chart would be similar for Scotland and Wales, but we would see a different pattern for first-time buyers). As this shows, it is homes priced around the £500,000 mark where buyers benefit from the biggest savings relative to the price, and hence the sharpest stimulus should be found. However, when we look at the relative performance of more expensive sub-groups of the market, we find further signs to confirm that transaction tax holidays have not been the dominant force over the past year. Repeating the exercise we undertook in Figure 1 just for detached homes (which by their very nature are at the more expensive end of the market) our finding still holds – namely that house price growth of a higher-priced class has also been weaker in places where the pure economics suggests transaction tax savings should have had the strongest effect.

FIGURE 2: **Those buying a home around the £500,000 mark have seen the biggest savings relative to the house price during the stamp duty holiday**

Savings from the transaction tax holiday as a percentage of house price: 8 July 2020 to 30 June 2021, England



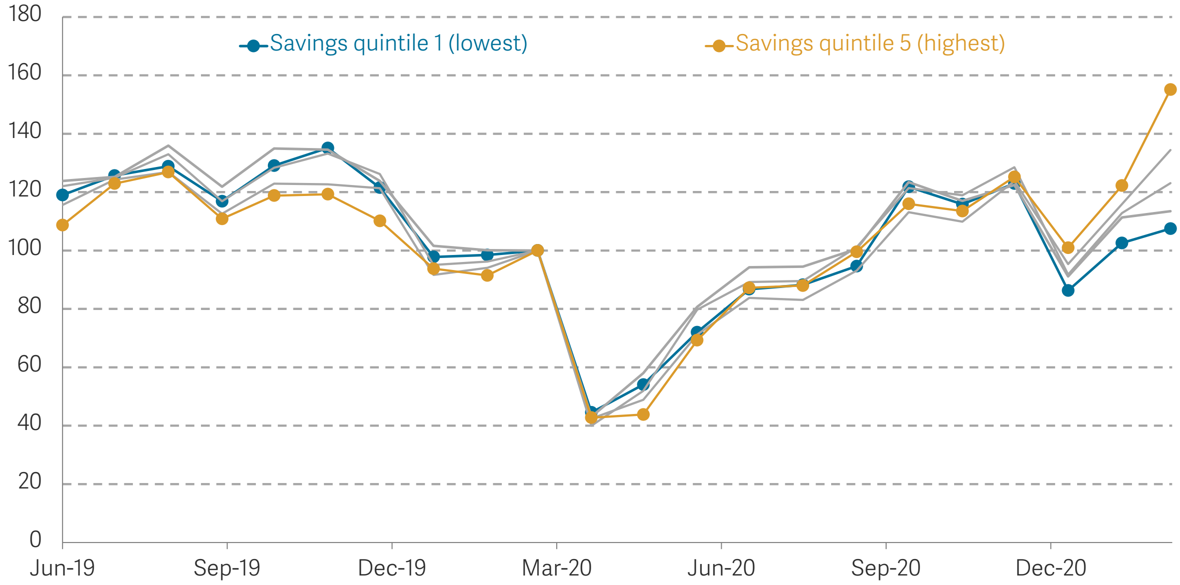
NOTES: Savings are shown for home movers. Different (lower) savings apply for first-time buyers. Likewise, different levels would apply for Scotland and Wales.

SOURCE: RF analysis of Stamp Duty Land Tax rates in pre-pandemic period and during full stamp duty holiday period. See gov.uk for more details.

Of course, it is plausible that transaction tax holidays have stimulated prices across the board simply by bolstering confidence in the housing market over the past year. Figure 3 shows the devastating effect the pandemic had on activity in the earliest days – when viewings were effectively prohibited – and makes plain why policy makers decided to reduce transaction taxes in July 2020. But the chart also shows that the recovery in transactions has been broad-based: areas where the savings from the transaction tax holidays have been significant have generally been no more likely to see an increase in activity than those where the gains have been very small or non-existent. (There is, of course, a short-term difference in transaction rates between different savings quintiles in the run-up to March 2021, something we would expect given the holidays across all four nations were expected to - and in Scotland, actually did - end on 30 March).

FIGURE 3: **Residential transactions fell sharply in the early days of the pandemic, but rapidly returned to normal levels**

Index of residential transactions, by transaction tax saving quintile (March 2020=100): UK



NOTES: The transaction tax saving is the amount saved as a result of the transaction tax holiday expressed as a percentage of the average house price per local authority in June 2020.

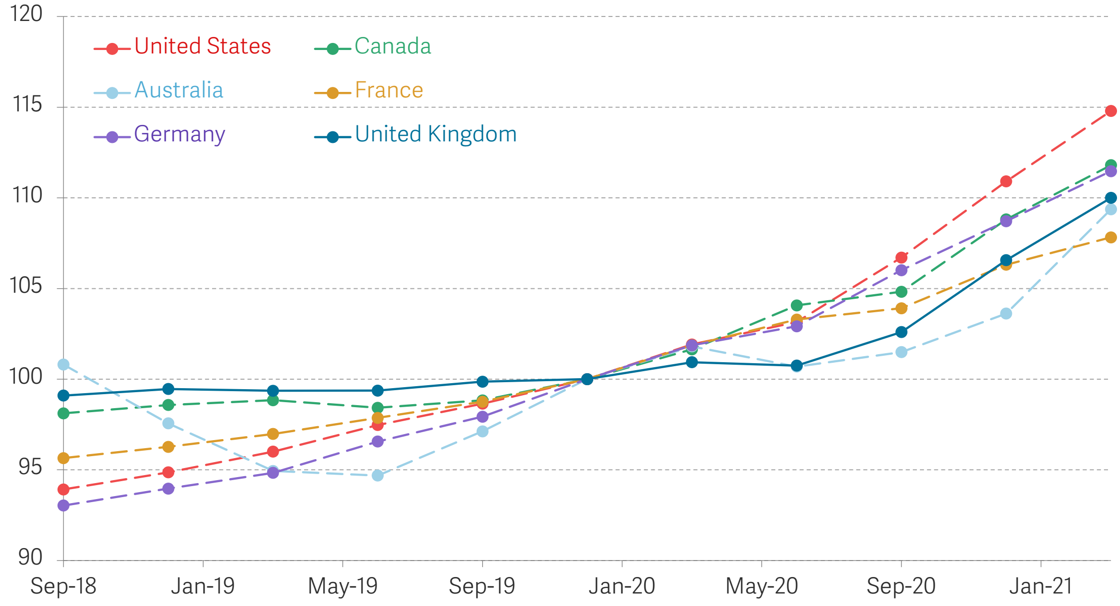
SOURCE: RF analysis of HM Land Registry, Prices Paid Data.

Finally, Figure 4 supports the view that there have been other equally, if not more powerful, forces at play in the UK housing market over the past year than the transaction tax holidays. Here we document house prices trajectories in five other developed economies over the pandemic period as well as the UK, and show clearly that we are no outlier when it comes to recent house price performance. Of course, there have been stimulus measures in each of these countries too, but the similar experience of comparable countries when it comes to house prices suggests we should look more to common factors such as historically low interest rates globally and changing housing preferences in the wake of the Covid-19 crisis for a large part of our explanation of recent trends.

Overall, then, our critique of the transaction tax holidays nationwide (and certainly their extension in England, Northern Ireland and Wales in March 2021) is less that they have been the dominant force pushing up house prices over the past year, and more that they have not been required given other drivers of activity in the market. But there are some real costs attached to the decision. In particular, the Office for Budget Responsibility estimates that the stamp duty holiday in England and Northern Ireland alone will see the Government forego around £4.7 billion of tax revenues in 2020/21 and 2021/22 – much needed cash as we come out of the Covid-19 crisis. Finally, at a more human level, the house price surge of the past year has left many aspirant first-time buyers ever-further away from realising their home ownership ambitions, and contributed to widening absolute differences in wealth.

FIGURE 4: **House prices have risen significantly in other comparable countries over the past year**

Index of average nominal house price growth, by country (Q4 2019 =100): Various



Source: RF analysis of OECD, Analytical house price indicators.

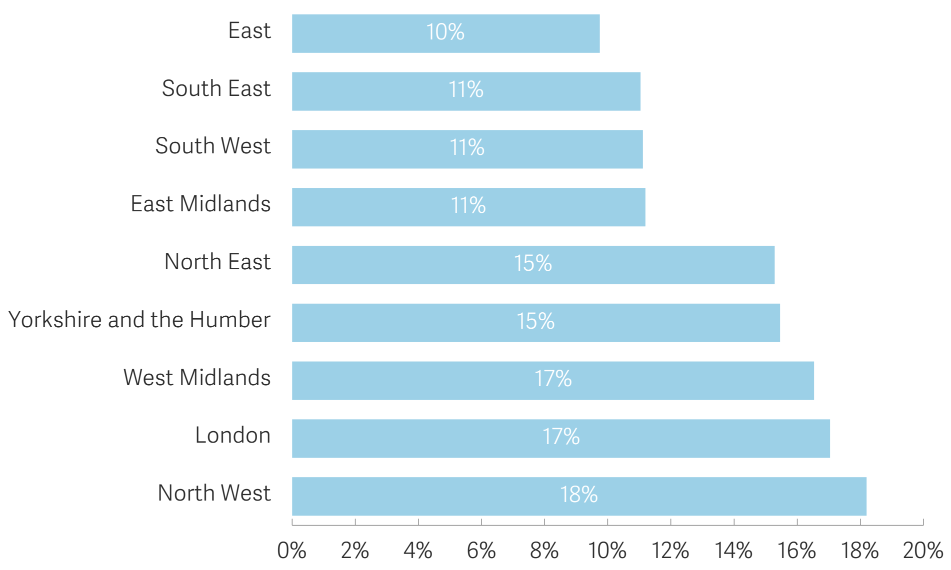
Regional focus – Heating our homes in England

Ofgem's recent announcement that it would raise the energy price cap in October 2021 means that many households will find it more expensive to heat their homes in the months to come. And it is those households who pay for their energy through a pre-payment meter who will be hardest-hit. Estimates indicate that the average household paying for its energy using this method will see its annual energy bill increase by £153 in October (compared to a £139 for those on a standard tariff, and a minimal increase for those on a fixed tariff).

As Figure 5 shows, there will be significant variation in the impact of the price cap across the regions in England. Close to one-in-five (18 per cent) households in the North West pay for electricity using the pre-payment method, for example, compared to one-in-ten (10 per cent) in the East of England (we see very similar figures when we look at the method of payment for gas). As a result, the price cap looks set to exacerbate regional inequalities: the North West has the highest share of households living in fuel poverty in England (12 per cent) of any region (compared to 8 per cent in the South East and 9 per cent in East of England for example).[5]

FIGURE 5: **Households in the North West are the most likely to be the hit hard by the energy price cap rise**

Proportion of households paying for electricity by pre-payment meter, by region: England, 2017-2019



SOURCE: RF analysis of MHCLG, English Housing Survey Fuel Poverty data.

Endnotes

1 With thanks to colleagues Mike Brewer, Jack Leslie, Jonny Marshall and James Smith for their advice and comments.

2 The ONS does caution that there may be more revisions to the June house price figures than 'normal' given the very high level of transactions in that month and the challenge of processing the data at speed. See: ONS, UK house price index: June 2021, ONS, August 2021 for further details.

3 Residential property transactions over certain price thresholds in England and Northern Ireland are subject to Stamp Duty Land Tax (SDLT); in Scotland, to Land and Building Transactions Tax (LBTT); and in Wales, to Land Transaction Tax (LTT). For ease, we refer to all three collectively as 'transaction taxes' throughout. In England and Northern Ireland, the nil-rate threshold for SDLT was extended from £125,000 to £500,000 on 8 July 2020, reduced to £250,000 on 1 June 2021, and will return to £125,000 on 1 October 2021. In Scotland, the LBBT nil-rate threshold was increased from £145,000 to £250,000 on 15 July 2020, with the holiday ending on 31 March 2021. Finally, in Wales, the LTT nil-rate threshold was increased from £180,000 to £250,000 on 27 July 2020, and returned to the original threshold on 1 July 2021. (Different rates prevail for first-time buyers in all nations except Wales.).

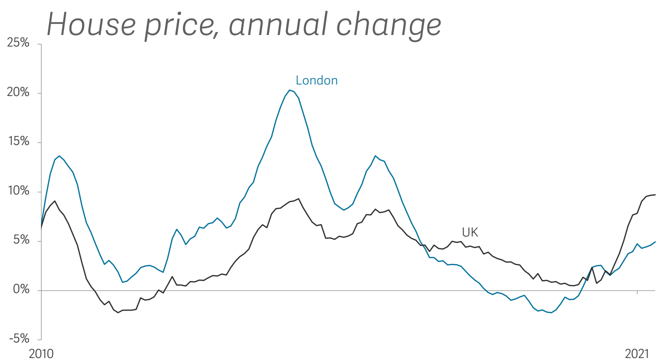
4 In July 2020, the average home was priced at a point which was already below the transaction tax threshold in 50 out of the 76 local authorities in transaction tax saving quintile 1. In contrast, the average saving across all local authorities in transaction tax saving quintile 5 was £10,974.

5 Source: RF analysis of MHCLG, English Housing Survey Fuel Poverty data.

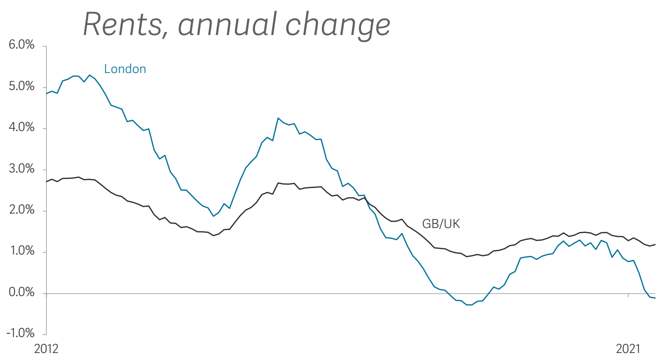
Housing indicators | Exploring key trends in the UK housing market, and what this means for households and policy makers

The charts below look at key trends in the UK housing market as a whole, as well as among regions, tenures and age groups where these trends have differed or been more pronounced. View notes, sources and the interactive data behind our indicators at resolutionfoundation.org/housingoutlook

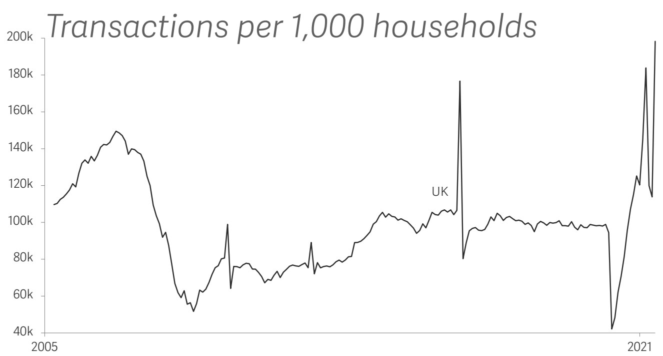
Housing market trends:



UK house price growth has boomed over the pandemic, despite a weak economy - supported by general monetary and fiscal stimulus and changing preferences.



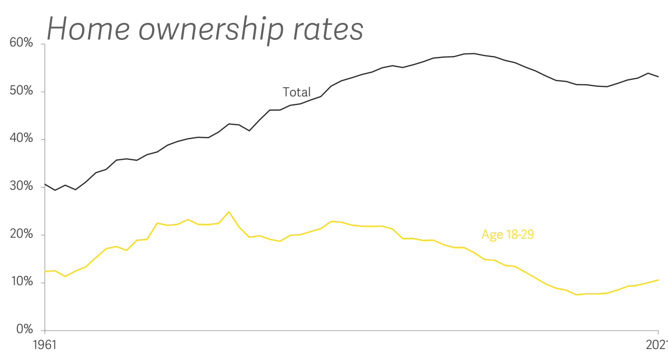
Rents were edging upwards pre-crisis, but rental price growth appears to be slowing in the most recent data, even declining in the capital.



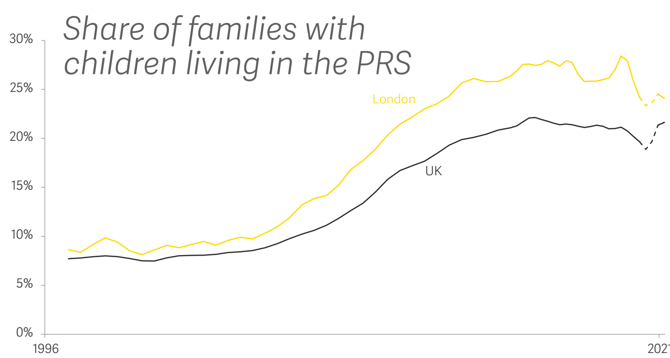
Transactions fell sharply over the lockdown period in April and May, but have now reached record highs in the month before the Stamp Duty holiday ended in Wales and was reduced in England.

Mortgage approvals fell sharply during lockdown, before a significant recovery in recent months, that appears to be slowed in the latest data despite the small recent uptick.

Housing and living standards:

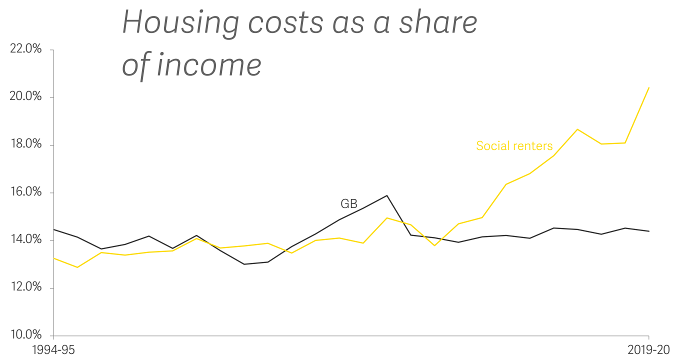


Home ownership rates have ticked up since 2016, a trend which has moderated in the latest data.



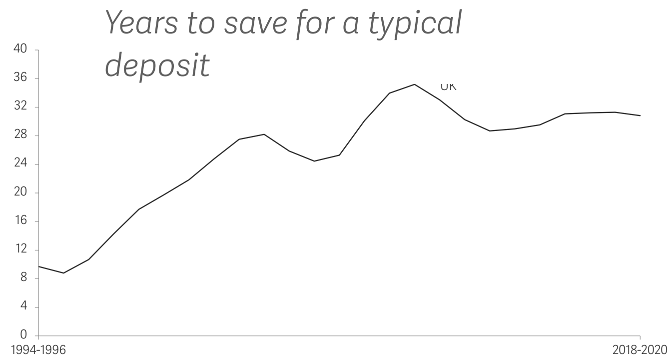
The share of families with children that live in the PRS has increased almost three-fold since the 1990s, although the latest data likely has crisis-related measurement issues.

Housing costs as a share of income



Housing costs as a share of income fell for mortgagors after the financial crisis, but have increased rapidly for social renters due to the impact of the crisis.

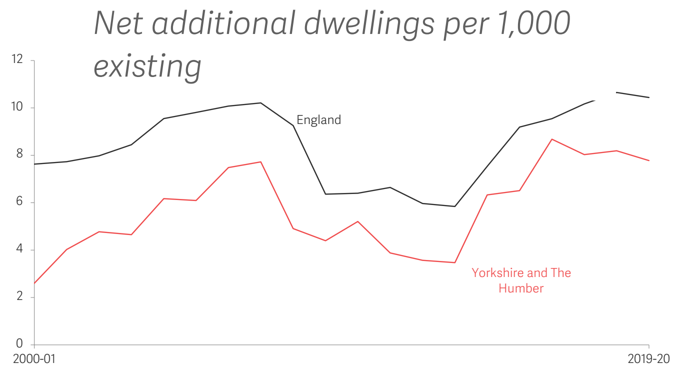
Years to save for a typical deposit



It would take 31 years for a typical young family to save for a deposit. This chart is not comparable with previous versions published given methodology changes due to data availability.

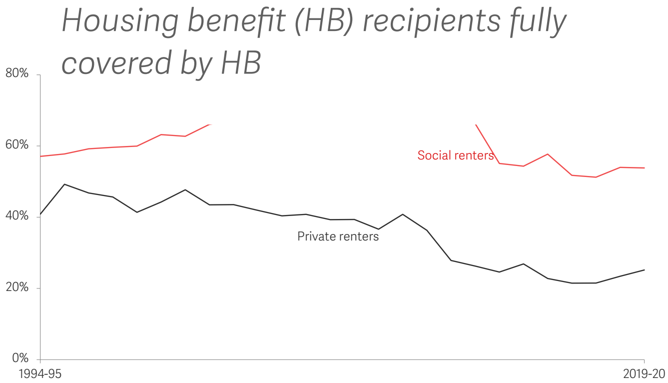
Housing and policy

Net additional dwellings per 1,000 existing



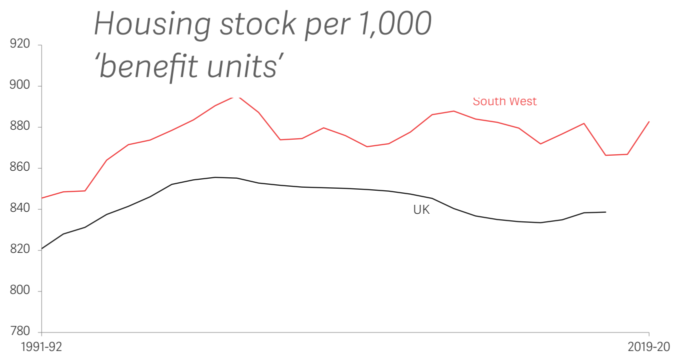
Overall net additions had recovered since the financial crisis, but not in all parts of the country - and we have yet to see the impact of the pandemic on house building.

Housing benefit (HB) recipients fully covered by HB



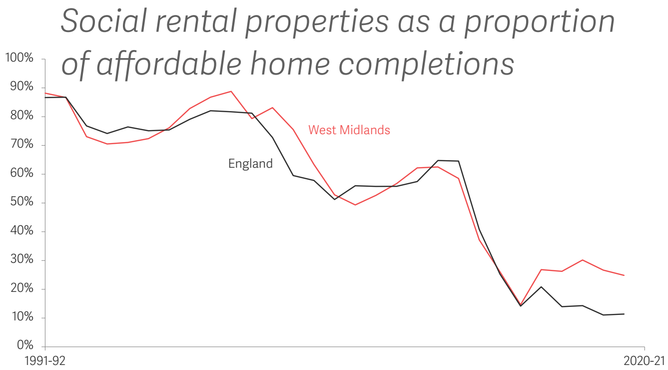
The share of families in receipt of housing benefit whose housing costs are fully covered fell throughout the 2010s - we do not yet have data reflecting the changes made to housing benefit in March 2020.

Housing stock per 1,000 'benefit units'



Relative to the number of families, the UK's housing stock has declined since the turn of the century.

Social rental properties as a proportion of affordable home completions



Social rental properties have fallen significantly as a proportion of the affordable housing built in England through the 2010s.

For more of our housing work and notes, sources and interactive data for this report, visit resolutionfoundation.org/housingoutlook.

Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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