



RESIDENTIAL MARKET REPORT

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PORTSMOUTH PROPERTY MARKET: **IS IT TIME TO STAMP OUT STAMP DUTY?**

Most people pay Stamp Duty Tax when they buy a property, house, apartment or other land and buildings over a particular price in the UK. The Chancellor, Rishi Sunak (quickly followed suit by the Welsh and Scottish Governments), announced last July that Stamp Duty was partially being suspended on all English property transactions up to **£500,000 (£250,000 in Wales and Scotland) – a Stamp Duty Holiday.**

That meant only 1 in 8 English buyers would pay any Stamp Duty Tax on their home purchase (if it was over £500,000), saving any buyer up to £15,000 in tax on the purchase. The problem is the property needs to have been purchased and bought by the **31st March 2021**. Complete the transaction a day later, and those buyers will have to pay Stamp Duty.

The issue is local authorities are snowed under with local search requests, mortgage companies and conveyancing staff are working from home, so property transactions are taking much, much longer. This means many Portsmouth (and UK) buyers who have currently sold (subject to contract) will miss out on the stamp duty saving.

Most (not all) estate agents have been warning the buyers and sellers in their property chains that some deals might not make the **31st March 2021** deadline and pleasingly, most people aren't moving because of the Stamp Duty Holiday (they are moving because they need extra space because of the pandemic).

However, it only takes one person in the chain not to be 'singing off the same hymn sheet' for the whole chain to collapse ... so keep in touch with your estate agent.



A campaign by one of the national newspapers and an online petition to extend the stamp duty holiday has meant the topic could be debated in Parliament in the next few weeks, after **100,000 home buyers and sellers signed that petition**, asking for **an additional six-month Stamp Duty Holiday**. **The home buyers and sellers are worried the property market will collapse after March 31st when the Stamp Duty Holiday is removed.**

The last time British home buyers were conscious of upcoming Stamp Duty changes, it distorted the number of properties sold. The bigger question though is, did it change the overall number of people moving home?

In **November 2015**, the then Chancellor, George Osborne, announced in his Autumn Statement that buy to let landlords would have to pay **an additional 3% in Stamp Duty (over and above owner occupiers) for all property bought after the 1st April 2016**. As shown in the graph below, this caused a surge in property buying (which we have seen since this summer with the Stamp Duty Holiday), with many Portsmouth buy to let landlords completing their property purchase in **March 2016**, as they dashed to complete their property purchase before the tax increase.

In the **3 years of 2015/6/7**, the average number of Portsmouth properties sold (transactions) per month was **298 per month**, yet in the month before stamp duty was changed in **March 2016, transactions rose to 577, an uplift of 93.9%** from the average or an extra **279 transactions** in that month alone.





So, if the Stamp Duty Holiday isn't extended, what will that mean for the UK and Portsmouth property market?

London and the South East seem to be particularly exposed to the removal of the Stamp Duty Tax break because it has such a high proportion of property priced between **£300,000 and £500,000**. These areas benefit from the highest tax savings relative to house price.

Yet, with the average value of a Portsmouth home at £252,300, the stamp duty cost if the sale is delayed after the 31st March 2021 is £2,615 – a figure that shouldn't break the bank

So, if the Stamp Duty Holiday isn't extended – it might not be such the nightmare scenario as some people believe.

My advice to all buyers and sellers is to be constantly talking to your estate agent, your solicitor and your mortgage broker. With your estate agent to ascertain if they have asked every person (or asked the other agents in the chain to ask the question), **“What if we don't meet the stamp duty deadline?” With your mortgage broker and solicitor to give them all the information they need to ensure there are no delays with any information they request from you.**

One final thought, some mortgage providers allow insurance policies to be purchased by your solicitor in case your searches (from the local authority aren't back in time) ... the cost of those will be much lower than the cost of the stamp duty ... again, speak with your solicitor. **Irrespective of whether you are a client of mine or not, if you would like a chat about anything mentioned in this article, don't hesitate to contact me.**

14,350 PORTSMOUTH HOMEOWNERS TO BE 'UNCHAINED' FROM TOXIC LEASEHOLD AGREEMENTS IN BIGGEST SHAKE-UP OF PROPERTY LAW IN DECADES

When William the Conqueror invaded our fair shores in 1066, like all good kings, he needed to buy loyalty and raise cash to build his castles and armies. He did this by feudal law system and granted all the faithful nobles and aristocrats with land. In return, the nobles and aristocrats would give the King money and the promise of men for his army (this payment of money and men was called a 'Fief' in Latin, which when translated into English it becomes the word 'Fee'... as in 'to pay').

These nobles and aristocrats would then rent the land to peasants in return for more money (making sure they made a profit of course) and the promise to enlist themselves and their peasants into the Kings Army (when requested during times of war). The more entrepreneurial peasants would then 'sublet' some of their land to poorer peasants to farm and so on and so forth.

The nobles and aristocrats owned the land, which could be passed on to their family (free from a fee i.e. freehold), while the peasants had the leasehold because, whilst they paid to use the land (i.e. they 'leased it' which is French for 'paid for it'), they could never own it. Thus, Freehold and Leasehold were born (you will be pleased to know that in 1660 the Tenures Abolition Act removed the need of Freeholders to provide Armies for the Crown!).

4.3 million properties in the UK are leasehold

... and 14,350 properties in Portsmouth are leasehold. By definition, even when you have the leasehold, you don't own the property (the freeholder does). Leasehold simply grants the leaseholder the right to live in a property for 99 to 999 years. Apart from a handful of properties in the USA and Australia, England and Wales are the only countries of the world adhering to this feudal system style tenure. In Europe you own your apartment/flat by using a different type of tenure called Commonhold.





The average price paid for leasehold properties in Portsmouth over the last year is £181,324.

The two biggest issues with leasehold are firstly, as each year goes by and the length of lease dwindles, so does the value of the property (particularly when it gets below 80 years). The second is the payment of 'ground rent' - an annual payment to the freeholder.

Looking at the first point on the length of lease, the Government brought in the Leasehold Reform Act 1967, which allowed tenants of such leasehold property to extend their lease by upwards of 50 years. However, this was very expensive and as such only kicked the can down the road for half a century (when the owner would have to negotiate again to extend another 50 years - costing them more money, time and effort).

Ground rents on most older apartments are quite minimal and unobtrusive. The reason it has become an issue recently was the fact some (not all) new homes builders in the last decade started selling houses as leasehold with ground rents. The issue wasn't the fact the property was sold as leasehold nor that it had a ground rent, it was that the ground rent increased at astronomical rates.

Many Portsmouth homeowners of leasehold houses are presently subject to ground rents that double every 10 years.

That's okay if the ground rent is £200 a year today, yet by 2121, that would be £204,800 a year in ground rent, meaning the value of their property would almost be worthless in 100 years' time. One might say it allows for inflation, yet to give you an example to compare this against, if a Portsmouth leasehold property in 1921 had a ground rent of £200 per annum, and it increased in line with inflation over the last 100 years, today that ground rent would be £9,864 a year.



This is important because the majority of leasehold properties sold in Portsmouth during the last 12 months were apartments, selling for an average price of £179,319.

So, without reforms, the value of these Portsmouth homes will slowly dwindle over the coming decades. That is why the Government reforms announced recently will tackle the problem in two parts.

Firstly, ground rents for new property will effectively stop under new plans to overhaul British Property Law. Under the new regulations, it will be made easier (and cheaper) for leaseholders to buy the freehold of their property and take control by allowing them the right to extend the lease of their property to a maximum term of 990 years with no ground rent.

Secondly, in the summer, the Government will create a working group to prepare the property market for the transition to a different type of tenure. Last summer the Law Commission urged Westminster to adopt and adapt a better system of leasehold ownership - Commonhold. Commonhold rules allow residents in a block of apartments to own their own apartment, whilst jointly owning the land the block is sitting on plus the communal areas with the other apartment owners.

These potential leasehold rule changes will make no difference to those buying and selling second-hand Portsmouth leasehold property.

Yet, if you are buying a brand-new leasehold property, most builders are not selling them with ground rent (although do check with your solicitor). The only people that need to take any action on this now are people who are extending their lease. If you are thinking of extending the lease of your Portsmouth property before you sell to protect its value, your purchaser may prefer to buy on the existing terms and extend under the new (and better) ones later (meaning you lose out).





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