The problem with the new stamp-duty premium for overseas buyers

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Many property developers are against the new SDLT premium, saying that a drop in demand from overseas investors will hamper their ability to build new homes © Eyevine

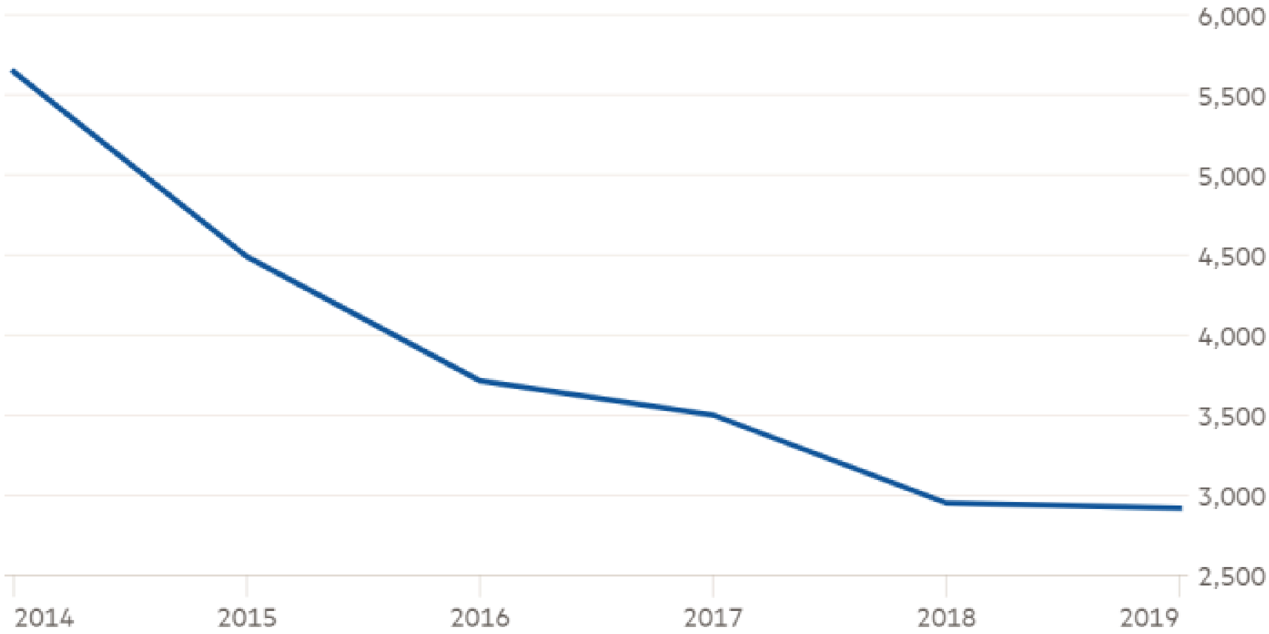
With all the high-profile spending packages he included in the budget to combat the economic fallout from the coronavirus, UK chancellor Rishi Sunak may have hoped his new stamp-duty premium on property for overseas buyers may have passed under the radar this week. It did not.

The new 2 per cent surcharge, which will apply to all buyers of homes in England and Northern Ireland resident outside the country regardless of nationality, was met with howls of horror by estate agents and developers. It is expected to help first-time buyers and eventually to raise £105m a year, which the government will spend on tackling the rough-sleeping problem.

Judging by the reaction from the property industry, it looks like Sunak, who took up his post in January, has made a lot of enemies in a short space of time, all for the sake of a relatively small amount of revenue.

Sales have declined in London areas favoured by international buyers

Property sales in Westminster and Kensington and Chelsea



Source: Savills

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Dean Clifford, co-founder of Great Marlborough Estates, a leading central London luxury property developer, says the surcharge is likely to "turn the Boris bounce into a belly flop" — referring to the recent surge in market demand after Johnson was elected prime minister in December.

"It's just daft," adds Trevor Abrahmsohn of Glentree Estates, which specialises in selling London mansions to wealthy people.

He thinks the new premium will deter foreign entrepreneurs from coming to the UK, affecting not only the amount of money the government wants to raise from the charge, but also revenues from the VAT on goods and services that they would have bought, and the taxes of the people they would have employed.

The new premium will be felt most keenly in the swankier parts of the capital, where the concentration of overseas buyers is at its highest. According to data from Hamptons, in the last half of 2019, some 55 per cent of sales in prime central London went to overseas buyers.

Notting Hill, London: the new premium will be felt most keenly in swankier areas, where the concentration of overseas buyers is highest © Alamy Stock Photo

And the new costs are significant. Anyone who lives outside the UK buying a £1.5m property today could expect to pay £138,750 in stamp duty — including the 3 per cent premium that has been in place on all second homes since 2016. Under the new rules, that will rise to £168,750.

Back in 2014, before the constant tinkering with the tax began, anyone, regardless of residency, who bought a £1.5m property would have been met with a stamp duty bill of just £75,000.

Will the new premium hit demand? Not before it causes a rush in sales.

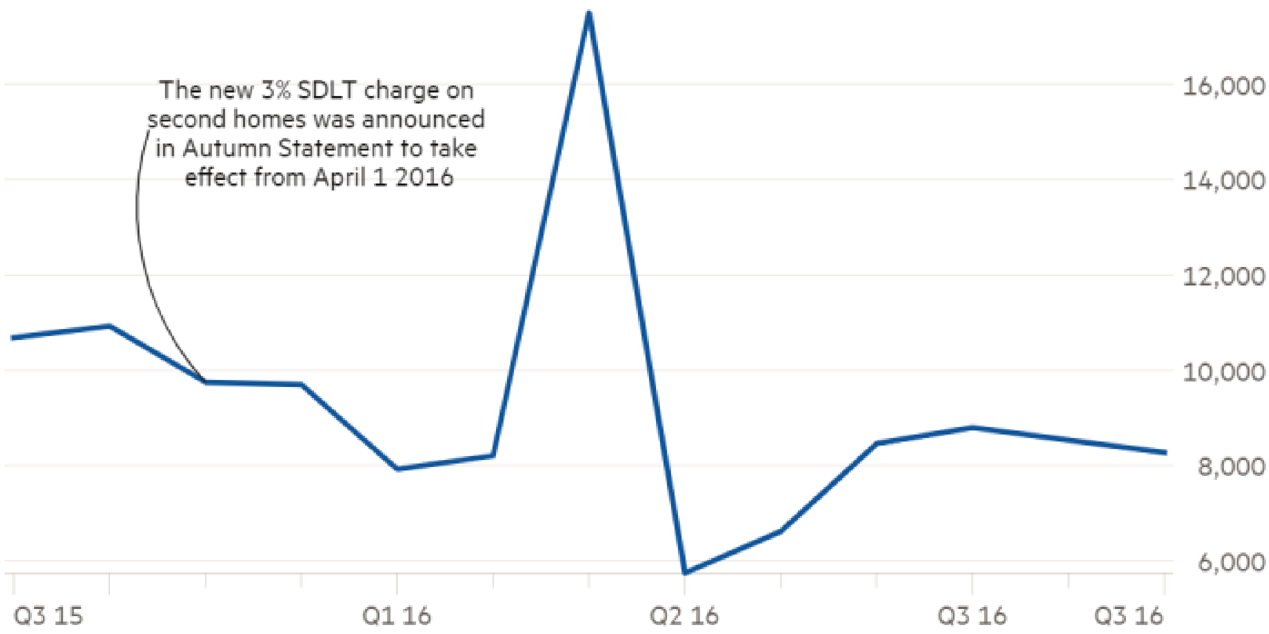
While the policy has been heavily trailed — albeit with proposed rates that have changed from 3 per cent to 1 per cent to "up to 3 per cent" — what was not known until last week was the date the new rule would be implemented: April 1 2021.

So brace yourself for a buying frenzy: any non-UK residents considering a property has the incentive to rush ahead with their purchase. That could push up prices.

The government expects this: the new stamp duty is likely to increase government revenues by £250m the year before it comes into force because of that predicted spike in sales. Then, in 2021-22 it is expected to cause a £355m loss.

Home sales spiked before the introduction of a stamp duty hike in 2016

London property sales



Source: Land Registry

Roarie Scarisbrick, a buying agent at Property Vision, expects the new tax to have an immediate impact on the property market once it is in place. He describes it as leading to a stand-off between buyer and seller that is reminiscent of an old Western: eyes narrowed, each of them tapping their wallets trying to work out who is really going to pay this thing.

"While it is the buyer who ultimately writes the cheque," he says, "they are going to want to do everything in their power to get the new stamp duty factored into the sale price."

The lasting impact of the overseas-buyer premium will probably be muted, says Richard Donnell, director of research at Zoopla. "Any added cost is going to affect the business case for investing in a property," he says.

"But when it comes to markets like central London, with all the discretionary reasons overseas buyers have to come here — the schools, the cachet — is an extra buying cost going to stop people from parking their money in bricks and mortar? I doubt it."

As for those struggling to buy their first home in one of the world's most expensive capitals, Sunak's gesture will probably be too little too late.

Nathan Brooker is deputy editor of House & Home