

UK Budget 2011

Property Commentary



From a nation of home owners to a nation of tenants

KMG welcomes George Osborne's 2011 Budget. The Chancellor has recognised the acute housing shortage in the UK; he has recognised peoples inability to afford existing houses; he has recognised the role housing plays in the overall economy; he has recognised a potentially longer term shift in England away from being a nation of home owners to being a nation of tenants.

He has addressed these issues as best he can, even to the extent of using radical changes and experimenting with new ideas to increase the release of land and speed up the delivery of new houses. The measures announced will help first time buyers and will increase housing delivery; The changes to both planning policy and auctioning of land have also been welcomed by the industry and may be effective in getting UK development moving again.



However, the scale of the problem is huge, especially if viewed from the position of the back log over past years. We don't see the budget effecting house prices dramatically. The steps are positive but only slightly, we need Banks to start lending again to increase the level of property purchases.

Specifics

FIRST TIME BUYER INITIATIVE

Just over £200m of new money has been announced to fund around 10,000 new home sales to first-time buyers in the financial year 2011-12 on the basis of a 5% purchaser deposit and 20% second-charge equity loan, split equally between the HCA and house builder, for buyers on household incomes up to £60,000.

"This initiative is welcome and will hopefully increase the amount of properties being bought but the real issue is the general lack of mortgage finance available, a positive step but not going to make a huge difference to property purchases or prices in general". Michael Armstrong: **Garratt**

ENTERPRISE ZONES

The Chancellor announced the creation of 21 EZ's, these will feature; rate discounts, capital allowances and "radically reduced planning restrictions". The aim is to stimulate regeneration and sustainable long term development.

"Clearly this is a move that will provide short term assistance to areas in most need. The Government cost however can be high as related investment into public transport and infrastructure need to follow. We feel that longer term the EZ's may merely shift economic problems to neighbouring areas as they draw in development from other areas". Michael Armstrong: **Garratt**

STAMP DUTY and REITs

The level of stamp duty is set to rise from 4% to 5% on properties selling for over £1 million. Property portfolios will be taxed according to the average value of the properties not on the combined value.

For REITs there will be some relaxation on the barriers to entry and investment criteria designed to further support investment in house building.

"The above changes are likely to have the most profound effect on the market. Many people now choose to rent their homes

either as a flexible life style option or as a matter of necessity, the Budget changes encourage large investors including institutions such as REITs, pension funds and other residential property funds to enter the residential market, paving the way for something of a revolution in the way rental homes are supplied. Institutional ownership will encourage higher quality and greater choice and thus a genuine alternative to home ownership". Charles Hallett, **Cignet Capital Management LLP**

"Shorter term I suspect the Government is seeking to tempt buyers into the market to purchase portfolios of repossessions thus underpinning prices and freeing up the banks to lend". Michael Armstrong: **Garratt**

PLANNING

There will be a "powerful new presumption in favour of sustainable development, so that the default answer to development is yes".

The Ministerial Statement on planning for growth and jobs "is capable of becoming a material consideration in local planning decisions with immediate effect". It requires local authorities to "put in place development plans that are pro-growth". The Chief Planning Officer will write to all local planning authorities to outline the Government's intent. The Government will also write to local authorities requiring them to modify planning obligations to allowed stalled or delayed development to proceed. This also shows the requirement for Councils to look at and acknowledge project viability requirements for land delivery.

LAND AUCTIONS

"The Government will pilot elements of a land auctions model. This is radical; potentially land owners could state a price, the Council could buy, grant planning permission and then resell at development level prices, capturing a large gain for the local community. Clearly this could have unintended consequences and risks attached, but we cautiously welcome this experimental initiative from a Chancellor that seems to recognise that all avenues must be tried". Charlie Flynn, **Lucent Land Fund**

The changes to both planning policy and auctioning of land have also been welcomed by the industry and may be effective in getting UK development moving again.

Overall Views of KMG Managers on how the Budget Affects their Fund:

- Charlie Flynn, **Lucent Land Fund:**

"This is a very favourable Budget towards land delivery and pro-development; making a stated effort towards trying to align the supply and demand mismatch of land supply and housing requirement in the UK. Good for the UK and good for Lucent."

- Michael Armstrong, **Garratt Residential Property Fund:**

"The encouragement of REITs into the residential market is good news; short term they may become competitors, but in 5 years they will provide an exit route for our fund."

- Charles Hallett, **Cignet Capital Management LLP**, property advisors to the **London Actively Managed Property Fund** (LAMP Fund) - scheduled for launch Q2 2011:

"The change to Stamp duty means substantial savings for funds such as LAMP when acquiring portfolios. This makes residential investment at the institutional level far more attractive as high stamp duty costs have traditionally been a barrier to entry."

Contact us to find out more: support@pcpfunds.com, Tel: +357 25 817 488
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