

MIDDLETON[®]

ADVISORS

ELECTION 2024

Prime housing markets under
a Labour government

Market Insights

2023 Vol. III

WELCOME

Our Market Insights reports investigate key trends and structural changes in UK prime housing markets.

As part of our ongoing collaboration with real estate researcher, Yolande Barnes, this volume considers the potential impact of the forthcoming general election. Should buyers of prime property feel threatened by the prospect of Corbynite mansion taxes, wealth taxes and death duties or would a Labour government under Sir Keir Starmer be altogether more benign?

Our analysis of 50 years of housing data and current Labour policy gives cause for optimism and - with real house prices at levels last seen in 2003 - a growing sense of opportunity across the UK's prime property markets.



A stylized, handwritten signature in black ink, appearing to read 'Mark Parkinson'.

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EXECUTIVE SUMMARY

■ The next general election in the UK must be held before the 24th January 2025 and many political observers and pundits are anticipating that Rishi Sunak will go to the polls in Autumn 2024. Given current opinion polls, there is a very real prospect of a change of government.

■ When adjusted for RPI inflation, real house prices have fallen by 7.5% since the coalition government took power in 2010 and by 6% since the last general election. This is a further ill omen for the Conservatives: falling real house prices have been a feature in 2 out of 3 regime changes since 1975, whereas there has been no change in the governing political party during a period of rising real house prices since 1979.

■ Since 1976, there have been 10 prime ministers. The regimes that have seen the highest percentage per annum real house price growth have been mainly Labour, whereas four of the five regimes which presided over falling real house prices were Conservative.

■ Tony Blair was the prime minister who saw the highest real house price growth during his premiership averaging 9% per annum compound while Liz Truss presided over an annualised equivalent of -5.4% per annum compound over her very short term in office.

■ Labour politicians are going out of their way to distance themselves from the former statements and policies of the Jeremy Corbyn

regime by allaying fears of additional taxation, property charges and wealth taxes. Prime property owners will be less affected by a change in government than they might have been at the 2019 election.

- Elections themselves have no discernible impact on the housing market. They have been held in bear markets, bull markets and markets in-between but there is no evidence since the 1970s that they have changed the direction of house price movements in and of themselves.

- There is some anecdotal evidence of a transaction hiatus in the weeks immediately before an election as buyers adopt a 'wait and see' approach but this

dissipates too quickly to show up in quarterly house price changes.

- The success or failure of any incoming government to curb inflation and rekindle economic growth could be far more important than specific housing policies. With real house prices currently at levels last seen in 2003, a return to the prospect of continuing real wage rises could make housing today look relatively cheap.

ELECTION 2024

Prime housing markets, particularly in London, have been in a fragile state since 2014 and enjoyed only a relatively short-lived post-pandemic fillip.

There is wide variation between properties, but generally prices have been softening in the face of rising interest rates and ongoing economic uncertainty.

Adding to this uncertainty is the prospect of a general election and, given current opinion polls, the very real prospect of a change of government. How threatening would this be to prime housing markets? Should prospective buyers of luxury London flats or country manors be put off by the prospect of Corbynite mansion taxes, wealth taxes and death duties or would a Labour government under Keir Starmer be altogether more benign? What about the market impact of an election itself,

regardless of outcome? Will buyers and/or sellers withdraw from the market until everything is settled?

In the past, the prospect of a Labour government has posed potential threats for the prime markets due to fears of additional taxation, charges and wealth taxes. However, Labour politicians under Keir Starmer seem to already be going out of their way to allay fears of these types of taxes and distancing themselves from the former statements and policies of the Jeremy Corbyn Regime. This could mean that prime property owners will be less affected by a change in government than they might have been at the 2019 election.

The next general election in the UK must be held before the 24th January 2025 but could be over a year away. This volume of Middleton's 'Market Insights' looks at the effect of elections on housing markets and attempts to sort out the real policies from the political scare stories in order to assess what impact a change of government might have on prime UK housing markets.

NEXT ELECTION TIMING

If economic conditions and polling sentiment remain unfavourable to the Conservatives, it might be expected that Prime Minister Rishi Sunak will postpone the election date for as long as possible. Having said this, there have been few politicians in recent decades who have risked low voter turnout and even lower voter mood by

forcing polling in the inclement winter weather (Boris Johnson was alone in taking this risk in December 2019). The most likely time for the 2024 election is therefore in the Autumn of 2024 and probably no later than early November. This would give Rishi Sunak as much time as possible for the economy to recover before going to the polls.

The signs are that the opposition is gearing up for a 2024 election and they have started to 'set out their stall' with regard to both the housing market and fiscal policy directly and indirectly related to it. The October 2023 political conference season will likely see all parties gearing up for a 2024 election battle.

WHICH PARTY IS THE HOMEOWNERS FRIEND?

There is no clear relationship between the political colour of a government and the performance of the UK housing market.

Looking back to 1975 (and inflation-adjusting house prices for comparison purposes), elections have had no discernible impact on the market. Elections have been held in bear markets and bull markets and markets in-between but there is no evidence that they have changed the direction of house price movements.

There is some anecdotal evidence of a transaction hiatus in the weeks immediately before an election as buyers adopt a 'wait and see' approach but this dissipates too quickly to show up in quarterly house price changes.

It is also possible that rising real house prices favour an incumbent government.

There has been no change in governing political parties under these circumstances since 1979. Falling house prices on the other hand have been a feature in 2 out of 3 regime changes since 1975.

When it comes to the colour of the political party in power and real house price change, it may come as a surprise that the regimes that have seen the highest percentage per annum real house price growth have been mainly Labour. Similarly, four of the five regimes which presided over falling real house prices were Conservative.

Tony Blair was the prime minister who saw the highest real house price growth during his premiership averaging 9% per annum compound while Liz Truss presided over an annualised equivalent of -5.4% per annum compound over her very short term in office.

TABLE 1: REAL (RPI ADJUSTED) HOUSE PRICE CHANGES BY PRIME MINISTER 1976 - PRESENT

Prime Minister	From:	To:	Total real house price change over premiership	Annualised real house price change over premiership (% PAC)
James Callaghan	05-Apr-76	04-May-79	14.3%	4.2%
Margaret Thatcher	04-May-79	28-Nov-90	21.5%	1.7%
John Major	28-Nov-90	02-May-97	-11.82%	-1.92%
Tony Blair	02-May-97	27-Jun-07	136.76%	9.00%
Gordon Brown	27-Jun-07	11-May-10	-14.34%	-5.03%
David Cameron	11-May-10	13-Jul-16	3.19%	0.74%
Theresa May	13-Jul-16	21-Jul-19	-4.09%	-1.19%
Boris Johnson	21-Jul-19	06-Sep-22	7.36%	2.39%
Liz Truss	06-Sep-22	25-Oct-22	-1.38%	-5.39%
Rishi Sunak	25-Oct-22	Present	-11.75%	-12.96%

Source: Nationwide Building Society / YBC

GRAPH 1: REAL (RPI ADJUSTED) HOUSE PRICES AND GENERAL ELECTIONS SINCE 1975



Source: Nationwide Building Society / YBC

Base: 2023 Q2

- Real (RPI adjusted) House Price

THE IMPACT OF POLITICAL POLICIES ON PRIME MARKETS

With house prices so dependent on economic growth and in particular real household income growth, it is reasonable to question the extent to which any policy or house building target can make much additional difference to the value of a home. However, there are some particular issues for the prime housing markets in London and the country. Of particular concern for owners and would-be owners is taxation. This can take many forms which can or will affect home ownership: capital gains tax, stamp duty land tax, other land taxation, inheritance tax and the ever-dreaded spectre of the never-before-implemented 'mansion tax'.

The Labour party has recently gone out of its way in an attempt to allay fears that the wealthy would be taxed in these ways. In an interview with The Daily Telegraph on the 26th August 2023, Rachel Reeves, the Shadow Chancellor stated explicitly that her party would not introduce "any version of a wealth tax if Labour forms the next government". She

said she will not introduce a levy to target wealth or expensive properties and will not increase capital gains tax.

This announcement is designed to distance the party from the hard-left policies of the former Labour leader Jeremy Corbyn and even some statements made under Keir Starmer's leadership in recent months. It seems to end speculation of a discrete wealth or "mansion" tax as well as higher levies for those earning money from stocks and shares or buy-to-let properties – despite earlier statements to the contrary. Even an increase to the top rate of income tax seems to have been shelved.

Absent from the interview was what a Labour government might do to inheritance tax which currently exempts family homes to the value of £500,000 and might be said in any case to already 'target' the prime markets. Capital gains tax was also not mentioned as exempted. However, it seems highly unlikely that a party which has stated a clear desire to increase owner occupation would start to charge this tax on main residences.

Labour policy under:

Jeremy Corbyn	Keir Starmer
Additional stamp duty for more expensive properties	Unlikely except for foreign buyers, trusts and companies
Second homes register	Welsh Labour policy, already under consideration by the Conservatives
Capital gains tax - ending exemption for main homes	Not specifically mentioned so far and highly unlikely
Second home levies	Specific levies ruled out, additional council tax already in some places under the Conservatives
Mansion tax	Ruled out
Ending of 'non-dom' tax status	Specifically stated as policy. Some fears of decreasing demand for London property as a result but Conservative reform in this area already enacted had little impact
Inheritance tax – reduced exemption for expensive properties	Highly unlikely
Council tax reform	Possible – increased number of bands could be popular to make tax more progressive
Stamp duty reform	A radical move to shift tax from buyers to sellers could be in line with stated aim of increasing owner-occupation but is unlikely at this stage

LABOUR'S DRAFT POLICY PROGRAMME

Labour's Draft Policy Programme of 11th May 2023 covers a very wide range of topics but summarised below are some of those which may have a bearing on prime housing markets. Underneath each policy is an assessment of what any changes might mean for prime housing markets.

NATIONAL WARM HOMES PLAN

Delivering this would mean upgrading every home that needs it to EPC standard C within a decade by installing energy-saving measures such as loft insulation. Even where such a simple measure may be possible on larger and particularly heritage and listed properties, it could be very expensive for some property owners. Subsidies are unlikely to be available for the wealthy. A 'one size fits all' solution is unlikely to be workable even on the mainstream properties which Labour talks of retrofitting "street by street in locally-delivered programmes".

More complex measures to achieve net zero targets like ground source heat pumps could be prohibitively expensive, particularly ineffective or too difficult to implement for some large rural properties or those with unusual architectural features, particularly ancient, and listed ones. These policies affect non-standard, prime and country properties disproportionately.

Even if devolved governments and local authorities are "given the power and the resources to bring every home in their area up to standard within a decade" as the draft document suggests, some practical problems associated with rural and 'different' properties will persist.

UK FARMING AND ANIMAL WELFARE

Delivering a land-use framework in England that supports sustainable farming, enables the country to reach its climate goals and improves national biodiversity is a potentially welcome initiative which will affect prime country property owners and rural landowners not only in terms of potentially increasing value but also by imposing potential cost burdens. Wise landowners with any involvement in agriculture would do well to get ahead of the curve now and take advice to become more sustainable and environmentally friendly before regulation is imposed.

ENSURE ECONOMIC STABILITY

The simple aim to “have iron-clad fiscal rules” may be one of the most important measures for real estate if it reduces inflation and prevents it from stripping out value while reducing the need for interest rate hikes, hence boosting asset values.

PROTECT AND IMPROVE UK FINANCE

The pledge to “protect the UK’s competitiveness and status as a global financial centre, through a commitment to high standards” is potentially important in London markets which have thrived on the back of a burgeoning financial services sector in the city of London. Having said this, the technology industry overtook finance as the larger employer long before Covid struck so finance isn’t the only generator of wealth and investment.

Giving financial services the certainty they need to invest in jobs and businesses was further reinforced in the 26th August 2023 The Daily Telegraph interview, when Rachel Reeves said she will do “whatever it takes” to attract private investment to Britain.

This could be of particular importance to London’s financial sector which has been losing ground to overseas bourses like New York and Amsterdam since Brexit. The City of London has traditionally been a major driver of prime London house prices and city bonuses have driven prime markets for some years.

REFORM THE UK TAX SYSTEM

The removal of what Labour calls “the non-domiciled tax loophole” could have a major impact on demand in some markets, particularly in central London where a higher proportion of prime property owners fall into this category. Without knowing what system will be put in place for “genuinely temporary” residents, it is difficult to say how many might be tempted to go elsewhere but its effect on demand will need to be considered in some markets.

BOOST HOMEOWNERSHIP

The setting of a target homeownership rate of 70% is higher than the current 64% and implies that certain measures, like exemption from capital gains tax will be maintained.

There are plans to help first-time buyers onto “the [housing] ladder” with a new, comprehensive mortgage guarantee scheme. Under this scheme, the state would act as guarantor for prospective homeowners who can afford mortgage repayments but struggle to save for a large deposit.

The stated draft policy to “scrap and replace the current system of business rates in England and Wales with a fully costed and funded system of business property taxation” indicates there may be a willingness in the party to re-examine other types of property tax - extending to residential property. ‘Watch this space’ over the coming year.

HOUSEBUILDING

Some of the stated aims around housing development, although intended for a completely different market, may have consequences for prime markets too. It is difficult to see how in some of London’s rarefied, international prime markets, giving first-time buyers ‘first dibs’ on new developments in their area would even work, let alone achieve the desired effect.

Another measure designed to “end the worst excesses and abuse of leasehold tenures” by some new housebuilders may also have unintended negative consequences in the choice and availability of apartments in cities, particularly London. At present, the draft policy is abolitionist - to “bring the present leasehold system to an end through fundamental reform of the tenure and to enacting legislation to that end as soon as possible.”

Also, under the heading of ‘housebuilding’ but with much wider potential impacts is another potential ‘draft’ policy to “raise stamp duty paid by foreign individuals, trusts and companies when they buy UK residential property.”

So, what isn’t mentioned in the draft policy? There has been a lot of talk by Labour MPs around second homes which are seen as inflating house prices in certain localities. One solution is seen as the creation of a ‘Second Homes Register’ in England, similar to those in Wales and Scotland.

This then opens the question as to how council tax will be treated on second homes. High multiples may be expected in some high-demand, supply-constrained locations. Prime property owners with more than one home might increasingly be tempted to rationalise their holdings.

This could result in an extended exodus to the country or the return of families to the city in bigger houses, or a combination of both.

Extending council tax banding and creating more bands, (not just updating valuations), could potentially help reduce inequality at a local level by making the tax more progressive but this might mean slightly higher bills for those who find themselves in a new higher band.

Finally, the taxation of property value, in almost any form is contentious because it is a call on income based on the notional value of an unrealised capital asset. There has been no mention of this type of land tax in Labour policy documents.

WHAT DOES THIS ALL MEAN FOR BUYERS, SELLERS AND OWNERS OF PRIME PROPERTY?

There seems to be a, sometimes stark, contrast between the draft policies which have arisen from grass-roots consultation in the Labour party and comments made very recently by the Shadow Chancellor to the press. These comments seem designed to reassure what might be described as traditional prime property owners. Some of the reassurances even go against comments and statements made very recently and briefed by senior shadow cabinet ministers and leaders. It looks like strong proof of a Labour intention to win over former Conservative voters in a long run up to the next general election. Whether this position would outlast any first term in power is open to interpretation...

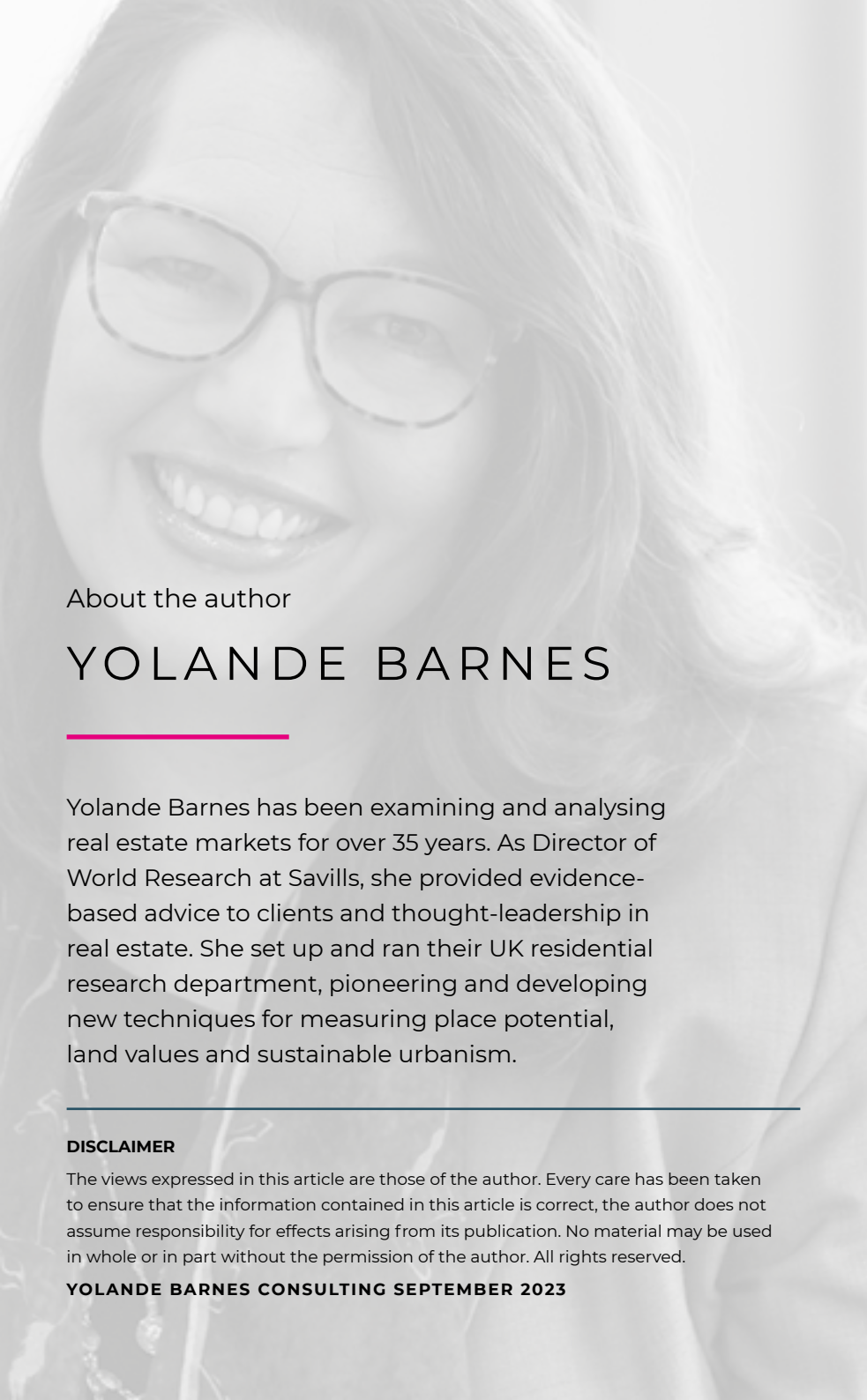
As far as the value of housing is concerned, details of housebuilding and tax policies may be much less relevant than the immediate macro effects on the economy of any change in government. Pronouncements

of fiscal responsibility may play a far greater role than housing specific policies in affecting the future trajectory of real house prices. Economic growth, lower inflation, higher household incomes and lower interest rates would all have a profound effect.

Right now, as so many times in the past, it is inflation that is stripping out the value of housing in the UK. This applies to prime as well as mainstream properties. While interest rates and yields rise, there can be no prospects of asset price growth. But a fall in inflation and consequent falling interest rates would make falling house prices much less likely and could even herald a return to modest growth, in line with household incomes.

It might be said therefore that the success or failure of any incoming government to curb inflation and kindle economic growth is far more important than the specific housing policies listed here. It is beyond the remit of this author to predict which political party is more likely to deliver such growth but a return to the prospect of continuing real wage rises could make housing today

look relatively cheap. Real house prices are currently at the same levels seen in 2003 according to the Nationwide Building Society. Bold optimists should seize the opportunity.



About the author

YOLANDE BARNES

Yolande Barnes has been examining and analysing real estate markets for over 35 years. As Director of World Research at Savills, she provided evidence-based advice to clients and thought-leadership in real estate. She set up and ran their UK residential research department, pioneering and developing new techniques for measuring place potential, land values and sustainable urbanism.

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YOLANDE BARNES CONSULTING SEPTEMBER 2023



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