London – 29 October 2018

2018 AUTUMN BUDGET RESPONSE

The Chancellor unveiled the 2018 Autumn Budget on 29 October, the last before Britain officially leaves the EU in March next year. Below we present our view on some of the key announcements.

ON THE ECONOMY....

Infrastructure spending spree – not a moment too soon. The £28.8 billion 2020-2025 infrastructure budget, the highest on record, includes further sustainable transport investment as well as a much awaited fund to explore future public transport technologies. This sudden and tremendous commitment to infrastructure upgrades has the potential to unlock economic growth as well as development sites, which should go some way to addressing the housing crisis, which is centred on London and the South East. For now, we still expect growth to slow to 1.3% this year, assuming a soft Brexit prevails.

ON THE PROPERTY MARKETS....

High street transformational fund critical to help unshackle sector. UK retail has suffered the brunt of rising Business Rates over a number of years, contributing to the demise of the high street. Subsequent declines in total returns and capital values have added to the woes of high street retailers, with only those in the best pitches, offering the best shopping experiences, such as Selfridges, bucking the trend.

While the £900 million immediate business rates relief pledge is headline grabbing, the £675 million high street transformational fund is likely to have an even bigger impact in helping retailers that have struggled with the rise of online retailing, poor transportation access and the need to shift towards customer experiences, which underpin dwell times. The conversion of some shops to homes and offices will also help to redress the oversupply of retail in many parts of the country.

For now, UK retail has seen rents slip by 90 bps over the last 12 months and total returns have eased to 3.5%, from nearer 11% in Q3 2015. Total returns are expected to end the year 3% down on 2017, dipping by a further 2% by the end of 2019. Whilst a sudden turnaround in performance is unlikely, the detail behind the high street transformational fund may well help in making what is essentially the black sheep of the commercial property market look more attractive once more.

CLUTTONS

Shared home ownership Stamp Duty relief – a step in the right direction. London faces an unprecedented affordability crisis. To encourage more housebuilding, developers need to be offered tax breaks and incentives. At the same time the government must act to encourage modern methods of construction such as offsite manufacturing and 3D printing to bring down build costs. Disappointingly, this was not addressed in what was otherwise a far reaching Budget.

However, the announcement of Stamp Duty free shared ownership purchases for homes priced up to £500,000, including retrospective purchases since the last Budget, is big a step in the right direction. This should help aspiring couples' transition to home ownership a little more attainable, provided their joint incomes fall below the £90,000 threshold in London. This is particularly significant given that transactions under £500,000 represent the largest proportion by far of all residential deals in London, standing at 47% in H1 2018. Undoubtedly, this change will drive up interest and activity in the shared ownership segment of the residential market amongst developers and purchasers.

Faisal Durrani
Partner – Head of Research, Cluttons

"There was a real danger that Britain was going to get left behind in the global technological revolution. However, the overwhelming focus of the Budget on infrastructure investment designed to help turn around high streets, funds to explore public transport solutions of tomorrow, as well as upgrading aging roads, will all be critical in helping to unlock economic growth going forward.

"Separately, with Stamp Duty exemptions for shared home ownership purchases of up to £500,000 being essentially waived, we are likely to see a spike in interest from developers and purchasers at this end of the market."

Peter Chapman
Head of Rating, Cluttons

"The £900m Business Rates relief is to be welcomed and will help small businesses with rateable values up to £51,000. However, this is unlikely to help the plight of most traditional High Street retailers which could have been addressed much earlier had the Government not imposed a self-funding transitional scheme where the gainers subsidise the losers following the revaluation which took place last year on all commercial properties.

"Unfortunately, following the revaluation, any substantial reductions in rating assessments on most multinational retailers in market towns throughout England did not result in similar reductions in business rate liability. The transitional scheme restricted the maximum reduction to 4.1% last year and 4.6% this year. Next year this will be limited to 5.9% less any UBR uplift for inflation".

Simon Latham
Chairman of Cluttons Investment Management

"Not for sometime have we seen this level of financial stimulus and it looks very much like a short term vote winning budget. However, the Brexit uncertainty may make it very difficult to implement the longer term five year financial strategies and a no deal Brexit will almost certainly require another budget, if not an election, despite the assurances that annouced improvements to Government spending will stand irrespective of the Brexit outcome."

James Hyman
Head of Residential Agency, Cluttons

"In an era of 'Generation Rent' the government really needed to encourage and support buy-to-let landlords in order to offer long-term renters a good selection of quality, well maintained accommodation. Right now, the lack of tax breaks means there is little incentive for BTL landlords. Furthermore, increasing maintenance costs means that the majority of landlords are now having to put money into their properties at the end of the year which is driving them to leave the market."

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