Connells group

The Housing Brief

SUMMER 2026

Contents

Executive Summary

A MARKET IN WAITING: POISED FOR RECOVERY, BUT RELIANT ON RATES, REFORM AND CONFIDENCE

Helen Charlesworth
Chief Executive

There are moments in the housing market when the direction of travel feels obvious, and others when it feels as though everyone is waiting for the same thing. This is one of those moments.

The desire to move remains strong, but activity is being held back by a familiar mix of high borrowing costs, stretched affordability, tax barriers, policy uncertainty and a shortage of confidence.

Our latest Housing Brief shows a market that has not stalled, but one increasingly driven by needs-based movers. Sales agreed in the second quarter were 4.2% lower than a year earlier, while new buyer registrations fell more sharply. Discretionary buyers remain on the sidelines, waiting for borrowing costs and market conditions to feel more predictable.

The picture is also highly regional. Lower-priced northern markets continue to outperform, while London and parts of the South remain constrained by affordability pressures, stamp duty and growing caution around future taxation. Higher transaction costs continue to act as a brake on mobility, particularly in markets where support is needed most.

Pricing power has softened, but this is not a market characterised by widespread price falls. However, buyers are negotiating harder and fewer homes are achieving above-asking-price sales. In this environment, realistic pricing from the outset matters more than ever.

The rental market tells a different, but connected, story. The Renters' Rights Act will reshape how the sector operates, but it does not address its underlying challenge: supply. There were around a third fewer homes available to rent in the first half of this year than a decade ago, and without more rental homes, the pressure on tenants is unlikely to ease. Scotland's experience also suggests that rent caps are unlikely to be the answer: they may change when and how rents rise, but they do not create more homes or keep tenants' costs down in the long run.

Mortgage conditions remain central to the outlook. Greater regulatory flexibility is beginning to support first-time buyers, but it can only go so far while borrowing costs remain elevated. If mortgage rates continue to drift lower, some of the demand that has built up over the past few years should begin to return.

Policy will matter too. A new political agenda offers an opportunity to take a fresh approach to housing, but reforms should be judged on whether they help more people move, invest and access a home.

Stamp duty remains a clear example of a tax that restricts mobility, particularly in higher-value markets. Recent proposals continue a broader pattern of asking more from higher-value homeowners, even though many have not experienced the wealth gains that policymakers often assume. Yet alternatives such as annual property or land value taxes would create difficult trade-offs and require careful design, transition planning and clarity over who ultimately bears the cost.

> **"The housing market is not short of people who want to move. It is short of the conditions needed to turn that desire into activity."**

The ingredients for recovery are there: lower and more predictable borrowing costs, proportionate reform that reduces friction rather than creating uncertainty, and a sustained commitment to increasing the supply of homes to buy and rent. But until then, this remains a market in waiting: resilient, but cautious - and ready to move when the barriers begin to fall.

Sales Market

A MARKET MOVING ON NEED

> **"Higher interest rates, alongside broader economic and political uncertainty, could reduce completions across Great Britain by around 100,000 this year."**

Rates take the edge off demand

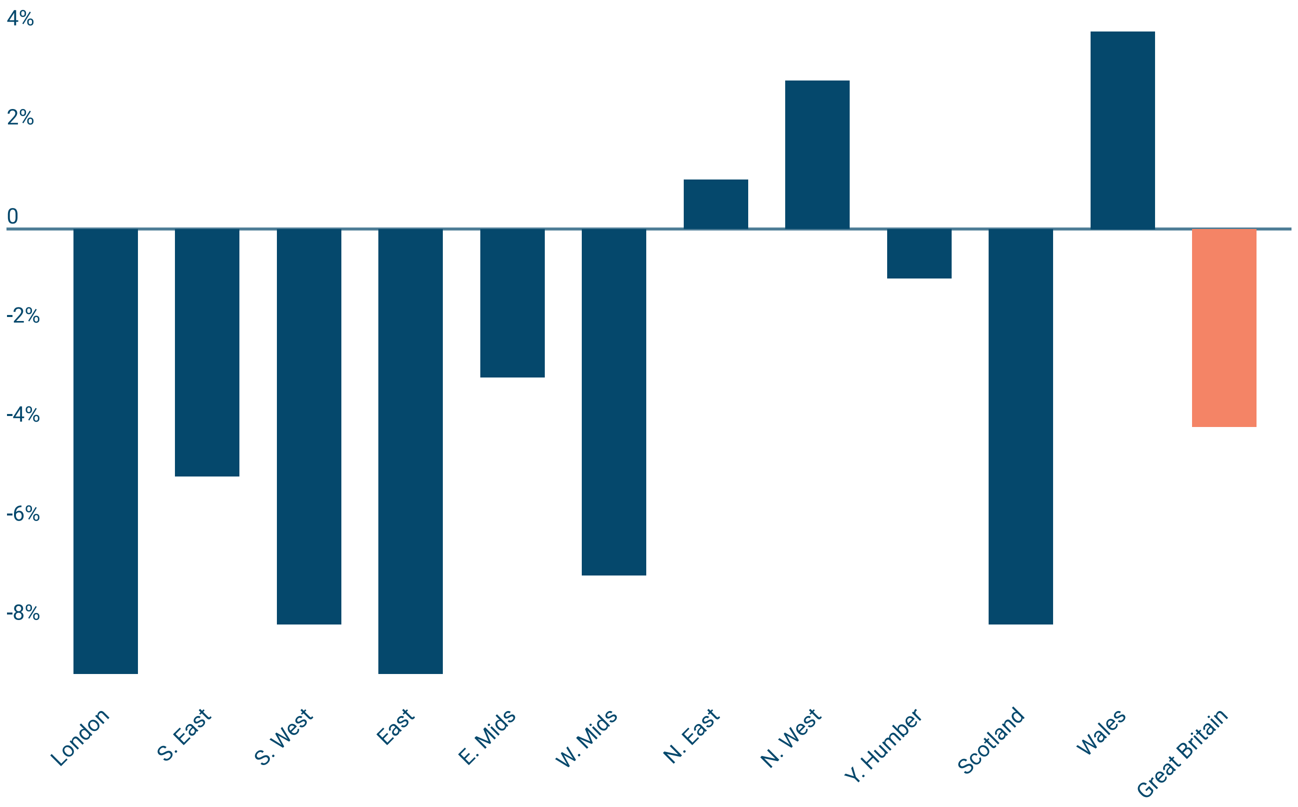
The sales market lost some momentum through the second quarter, having started 2026 on a firmer footing. Mortgage rates had fallen enough to help confidence improve early in the year, but that recovery was tested through the spring as borrowing costs edged back up and political uncertainty at home gave buyers another reason to pause.

Our data shows that mortgage rates taken out by home buyers peaked at 5.17% in mid-April, taking them broadly back to late 2023 levels. They have since eased to around 4.87%, but the move was a reminder of how closely buyer confidence is still tied to the cost and availability of debt.

In that context, the number of sales agreed has remained relatively resilient. They have held up better than the wider demand indicators might suggest, because the people who still need to move are, in many cases, continuing to do so. Sales agreed in Q2 were 4.2% lower than a year earlier, with the sharpest falls across the Midlands and South, where affordability is more stretched and buyers have had less room to absorb higher borrowing costs.

The bigger drop-off has been in new demand. Applicant registrations have fallen by double digits across Great Britain, though declines have been smaller in Scotland and northern markets.

CHANGE IN THE NUMBER OF SALES AGREED (Q2 2026 V Q2 2025)



Source: Connells Group

Supply has also held up a little better, with 1% more homes coming onto the market across Great Britain in Q2 2026 than in Q2 2025. That suggests needs-based moves are still happening, while more discretionary, tentative or less urgent demand has been squeezed out by higher mortgage costs and wider uncertainty.

Taken together, we now think the move back to higher interest rates, alongside broader economic and political uncertainty, could reduce completions across Great Britain by around 100,000 this year, down from our previous forecast of 1.15m.

Pricing power has softened, but not disappeared

There is still demand in the market, but buyers have become more price-sensitive and more cautious about stretching their budgets. In Q2 2026, 17% of homes sold above their initial asking price, down from 20% a year earlier and well below the 46% peak recorded in 2022.

That makes pricing realistically from the start increasingly important. So far this year, homes that have been reduced are still 27% less likely to receive an offer than homes that have not been reduced, suggesting that many cuts are coming from a starting point that was too high rather than reflecting weaker conditions.

The squeeze is visible at both ends of the price spectrum. Of those homes priced below £250,000, the share selling above asking price fell from 21% in Q2 2025 to 17% in Q2 2026, the largest year-on-year fall across all price bands. This reflects the pressure on more affordability-constrained buyers, many of whom have less room to absorb higher mortgage costs.

At the upper end, £1m-plus sellers were the least likely to achieve more than their asking price, with the share doing so falling from 18% in Q2 2025 to 16% in Q2 2026. Here, affordability is only part of the story. Buyers tend to be more exposed to wider economic and political uncertainty, and many of the property tax proposals currently being mooted by the new government would be felt most acutely here.

Meanwhile, the middle price bands have been more resilient. Around 17% of homes priced between £250,000 and £500,000 sold above asking price in Q2, only slightly below the average, while the £500,000 to £1m bracket saw the smallest year-on-year fall.

But weaker pricing is not the same as widespread price falls. Average prices on sales agreed were still 1.9% higher than a year earlier in Q2, with London (-1.9%) and the East of England (-0.7%) the only regions to record annual declines. That points to a market where buyers have become more cautious, but where price falls remain relatively contained.

Needs-based moves are doing the heavy lifting

Higher interest rates and moving costs are also changing the profile of who is buying. Movers accounted for 53% of purchases in the first half of 2026, the lowest share on record and down from 63% in 2021, before rates started rising. Many homeowners are still choosing to stay put unless there is a strong reason to move, whether that is a growing family, a new job, divorce or necessary downsizing.

First-time buyers have been a little more resilient, increasing their share from 33% in H1 2025 to 34% in H1 2026, helped by the fact they do not have to sell in a slower market. Investors also returned to a 12% share of purchases, up from 10% last year and broadly in line with

the post-pandemic average. Strong yield growth is helping the sums stack up again, but mainly in lower-priced markets where yields tend to be higher.

The result is a sales market increasingly shaped by need rather than choice. In practice, that means people moving because their household circumstances have changed, rather than because they simply want something different, whether that is needing another bedroom, relocating for work or moving after a separation. In Q2 2026, 47% of applicants registering to buy were looking for a home with three or more bedrooms. This reflects the highest share for five years, reflecting demand from households who need more space, often for family reasons.

Regional and tenure divides are widening

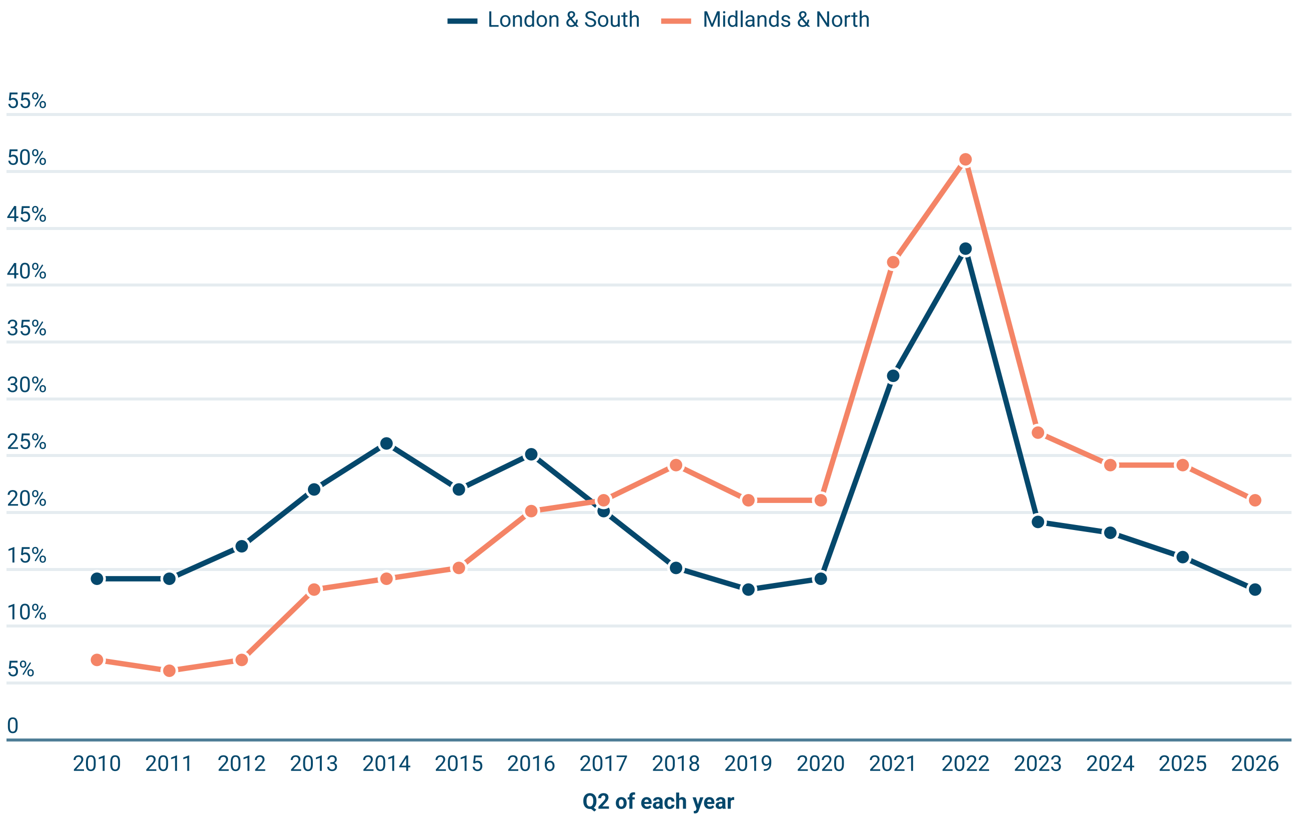
There is a clear regional pattern too. In Q2, 13% of homes sold in London and the South of England achieved more than their initial asking price, compared with 21% in the Midlands and North. Every region recorded a lower share than a year earlier, apart from the North East, Wales and the West Midlands.

These regional disparities reflect the same affordability logic that has shaped recent house price performance: prices in lower-priced markets have had more room to grow, even at higher interest rates, while higher-priced southern markets remain more constrained by borrowing costs, deposit requirements and a higher tax burden.

Leasehold homes continue to be one of the more exposed parts of the market. In England and Wales, just 20% of leasehold properties sold in Q2 went under offer within a month, down from 24% a year earlier.

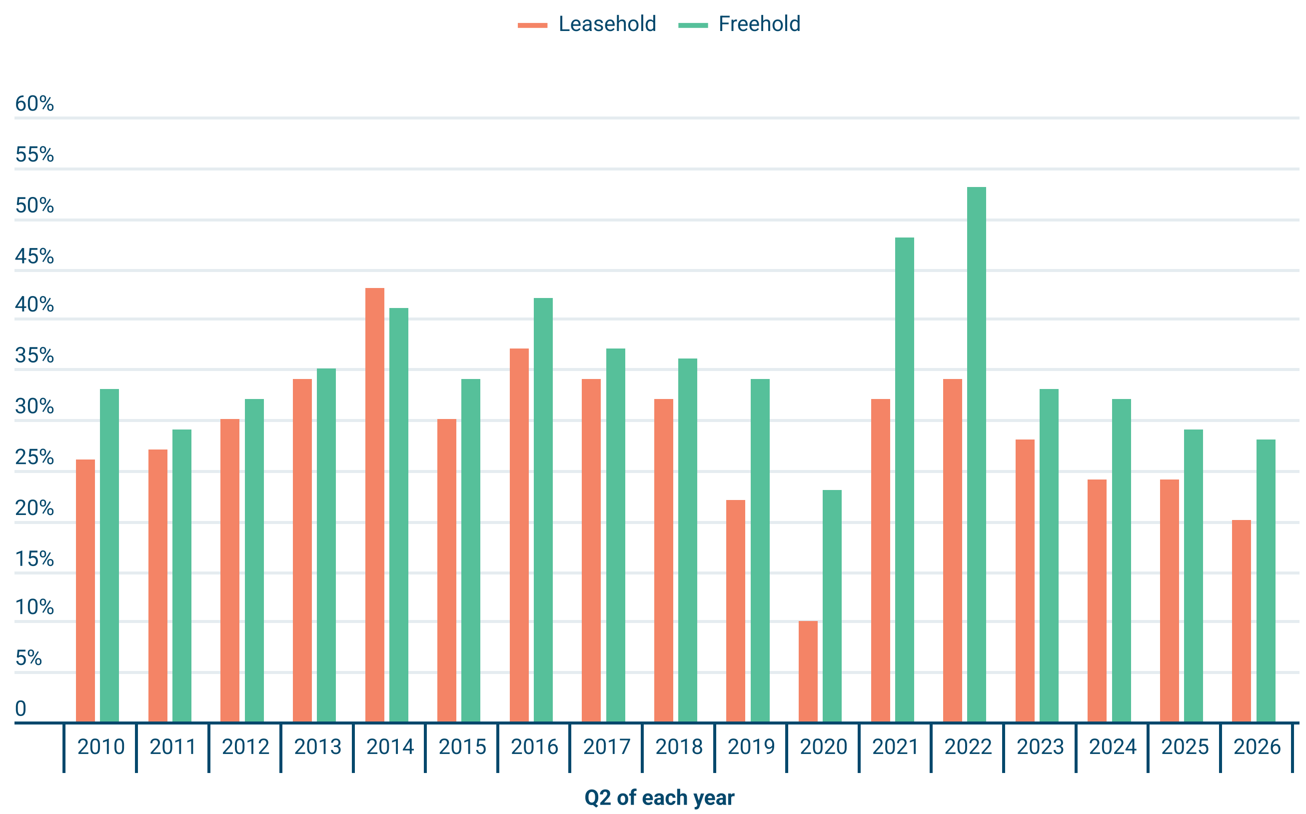
Freehold homes have held up better, with 28% selling within a month. Higher service charges, uncertainty around leasehold reform and the added complexity of some lease structures continue to weigh on buyer appetite. In a market where affordability is tight and buyers have more choice, any additional cost or uncertainty becomes harder to overlook.

SHARE OF HOMES SOLD ABOVE THEIR INITIAL ASKING PRICE



Source: Connells Group

SHARE OF HOMES THAT WENT UNDER OFFER WITHIN A MONTH (ENGLAND & WALES)



Source: Connells Group

Outlook: Rates hold the key

What happens next depends heavily on mortgage rates. Our base case is that rates continue to drift lower from here, but only gradually, as inflation eases. That should start to release some of the pent-up demand that has built up over the last couple of years and provide a little more support for pricing, particularly in markets where affordability is most stretched.

With few signs of widespread price falls, we expect house prices to keep rising across the mainstream market, albeit fairly modestly, by around 2% year-on-year. Northern markets are likely to continue outperforming, supported by lower prices, a lower tax burden and a little more room for buyers to absorb high borrowing costs.

There are risks in both directions. A faster fall in mortgage rates would bring more buyers back into the market and could put more upward pressure on prices.

But if rates remain stickier for longer, or escalation in the Middle East stokes inflation again and delays further rate cuts, activity could stay subdued.

There is also some policy risk to factor in under a new Prime Minister and a new political agenda. The measures mooted so far are, if anything, more likely to weigh on values in southern markets, where prices, tax exposure and affordability pressures are already highest.

Rental Market

FROM ANTICIPATION TO REALITY: HOW THE RENTAL MARKET IS RESPONDING TO REFORM

> **"Rental growth is edging up again: newly let rents are up 1.6% year-on-year - the strongest growth for 13 months."**

After years of debate, the commencement date for the Renters' Rights Act finally arrived on 1 May 2026.

For landlords and tenants, it marks a significant change in how the private rented sector works, particularly around tenancy structures, rent increases and the end of Section 21 'no-fault' evictions. But in practice, it is landing in a market that has already been through a long period of adjustment.

Tax changes and rising mortgage rates have been the bigger forces reshaping landlord behaviour because they hit profitability directly. They have forced many landlords to reassess whether the numbers still stack up: some have sold, while others have stayed with a much sharper focus on cash flow and risk. The Act may have encouraged a few to bring forward a sale, but for those who remain, it is more likely to reinforce, rather than redirect, the changes already taking place.

Rental growth: steady on the surface, shifting in structure

Rental growth is beginning to pick up again. Across Great Britain, the average rent on a newly let home reached £1,392 per month in June, 1.6% higher than a year earlier and the strongest growth for 13 months. But by recent historical standards, this still looks fairly muted. With no-fault evictions ending, landlords are likely to be more cautious about choosing their tenants, prioritising certainty over pushing rents as far as they can.

As ever, the national picture hides some sharp regional differences. Northern markets are doing more of the running, with rents in the North East up 4.3% year-on-year in June. Inner London, by contrast, has continued to lose momentum, although Outer London returned to positive annual growth for the first time in 12 months.

Existing-tenancy rent increases tell a slightly different story. Most landlords were already reviewing rents annually at most, so the headline change may be less about the frequency of rent reviews and more about their size. Scotland's experience provides a useful indication of what could happen.

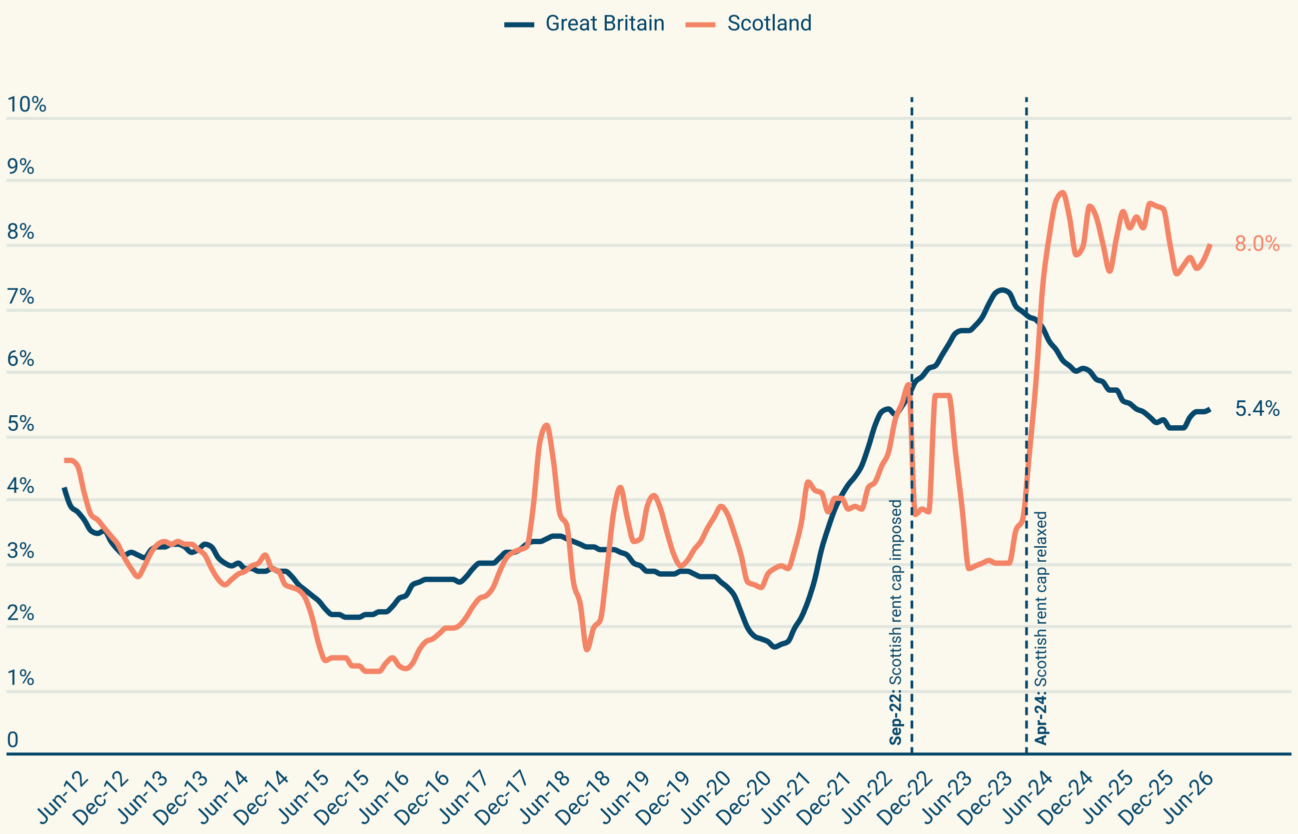
Since the introduction of periodic or rolling tenancies in 2017, rent increases have tended to be less frequent but more substantial when they occur. In June, sitting tenants in Scotland who saw their rent rise faced an average increase of 8.0%, compared to 5.4% across Great Britain. As a result, some tenants may experience longer periods without a rent increase, but face larger adjustments when rents are eventually reviewed, particularly where rents have fallen below prevailing market levels.

Supply remains the dominant force

The harder truth is that the rental market's biggest problem has not changed: there are still too few homes available to rent. Across Great Britain, there were around a third fewer homes on the market in the first half of 2026 than a decade earlier, a fall seen in every region except the East Midlands. Part of this reflects tenants staying put for longer, meaning fewer homes return to the market each year. But it also points to a sector that has failed to grow in line with housing need.

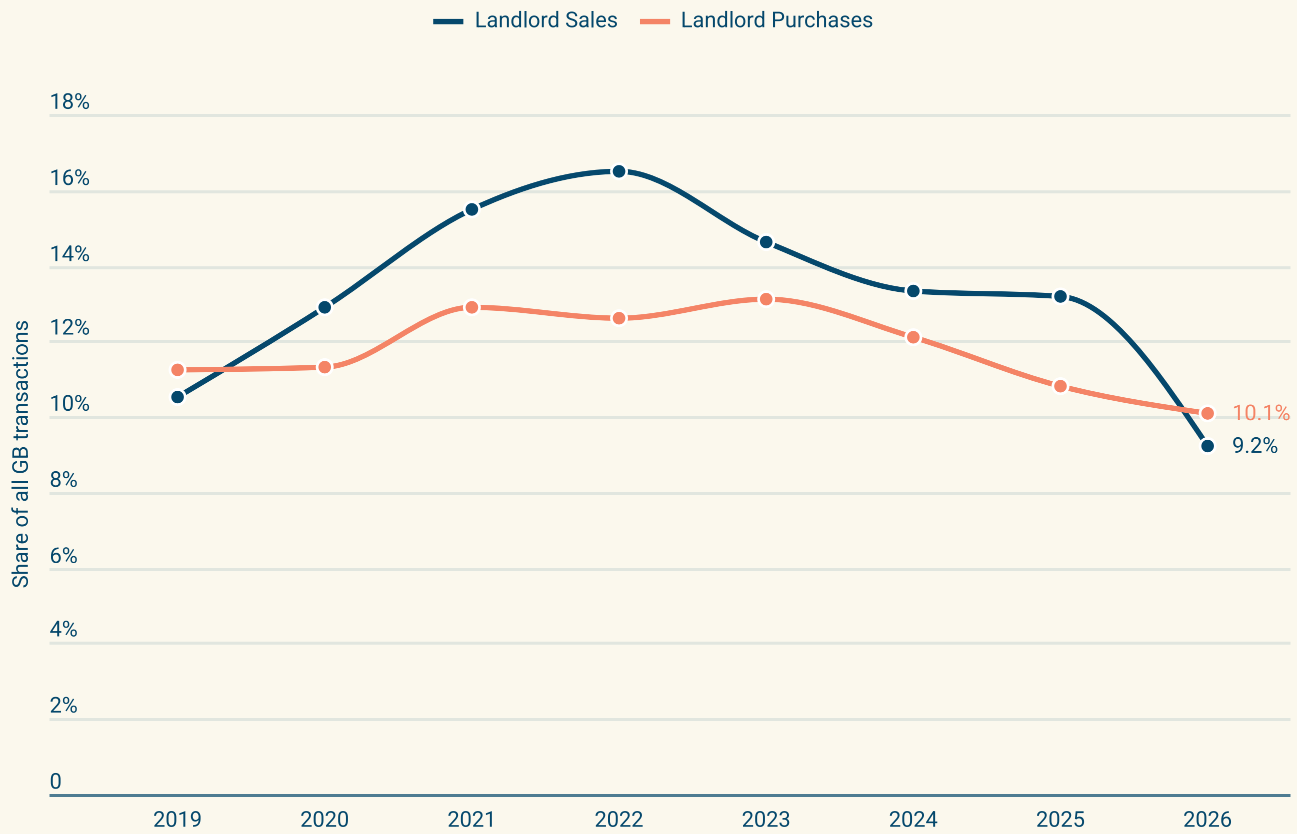
England's rental stock has remained broadly unchanged at around 4.8 million homes over the last decade,

AVERAGE RENT CHANGE AMONG TENANTS PAYING A NEW RENT



Source: Connells Group

SHARE OF HOMES BOUGHT & SOLD BY LANDLORDS ACROSS GREAT BRITAIN



Source: Connells Group

even as the total number of homes has risen by around two million. Most of that additional stock has moved into owner-occupation rather than the private rented sector.

> **"Supply remains the pressure point: there were a third fewer homes to rent in the first half of 2026 than a decade earlier."**

Recent landlord sales data offers a little more encouragement, but only up to a point. In June, 9.2% of homes listed for sale had previously been rented, down from 11.3% a year earlier, with every region recording a decline. For the first time since 2019, landlord purchases also exceeded sales, but only because fewer landlords were selling rather than because investor buying suddenly took off.

One reason landlord sales may have slowed is that selling now requires more careful thought. Under Ground 1A, landlords who serve notice in order to sell face a 12-month ban on re-letting the property, even if they cannot find a buyer. In a slower sales market, that raises the stakes. With just over half of landlord listings failing to sell last year, the risk of being left with an empty home that cannot return to the rental market has become much harder to ignore.

Landlords are adapting within tighter financial constraints

For those landlords who have chosen to stay, the market now demands a more careful approach. Higher borrowing costs, tax reform and tighter regulation have made cash flow more important than it used to be. It is no longer enough to assume that capital growth will do most of the work. The rent, the yield, the tenant profile and the running costs all matter more.

This is showing up clearly in the numbers. The average gross yield on a new buy-to-let purchase in England and Wales reached 7.3% this year, the highest level in more than a decade. Some of that reflects genuine yield growth, with rents typically rising faster than house prices. But it also shows how much harder new investors are having to work to make the sums stack up, targeting higher-yielding homes to give themselves more headroom over a higher cost base.

> **"Existing-tenancy rent rises may be fewer, but larger: a third fewer tenants saw a rent rise in June, but those who did faced an average uplift of 5.4%."**

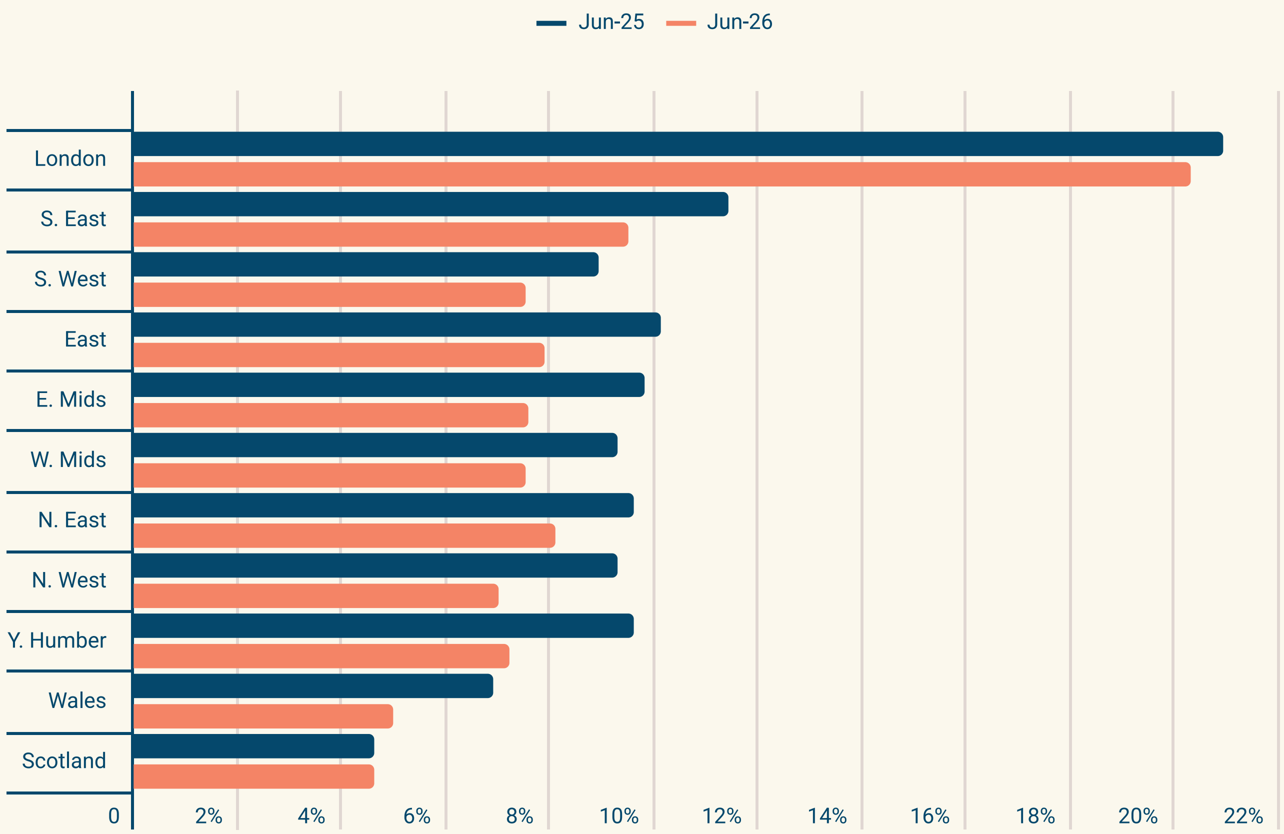
Today, 22% of purchases achieve a gross yield above 10%, more than double the 9% who achieved those returns a decade ago. The regional split tells the same story: in the first half of 2026, the North East recorded average yields of 9.7%, while landlords accounted for 24% of all purchases in the region. In London, where yields averaged 5.8%, landlords made up just 9.3% of buyers.

Investors are also becoming more selective about the type of property they buy. Leasehold homes, particularly flats with higher service charges, look less attractive when costs are already under pressure. So far this year, 27% of investor purchases have been leasehold properties, down from 44% a decade ago.

Incorporation is another sign of landlords trying to protect profitability. Around 32,000 buy-to-let companies were set up between January and June 2026, broadly in line with the same period last year and 335% higher than in 2016. For some landlords, a company structure offers a more workable route through a tougher tax and mortgage environment.

This points to a rental market that has already lost some landlords, but is also changing the type of landlord - and the type of property - that can operate comfortably within it. The accidental investor is under more pressure. Meanwhile, those with stronger balance sheets, tighter cost control or exposure to higher-yielding homes are probably better placed to weather pressures.

LANDLORDS AS A SHARE OF ALL SELLERS BY REGION



Source: Connells Group

Outlook: a more structured market, not a softer one

It will take time before we can judge the full impact of the Renters' Rights Act. But the early signs suggest it is unlikely to make the rental market cheaper for tenants in the near term. It changes the rules around tenancies and rent setting, but it does not change the underlying shortage of rental homes, or the financial pressures landlords are still working through.

That is why rental growth may continue to edge up from here, even if it looks different from the cycle we have just come through. Rents on newly let homes are likely to remain driven by the balance between supply and demand, while existing tenants may see fewer, but larger, rent reviews as landlords bring rents back towards market levels when they have the opportunity to do so.

For landlords, the bar for new investment has risen. Purchases are likely to remain concentrated in places where yields offer a clearer buffer against higher costs, particularly across parts of the Midlands and North. For tenants, the uncomfortable reality is that reform may change how the market works, but it does not create more homes. Until supply materially improves, the pressure on rents is unlikely to disappear.

First-time buyer (FTB) profile

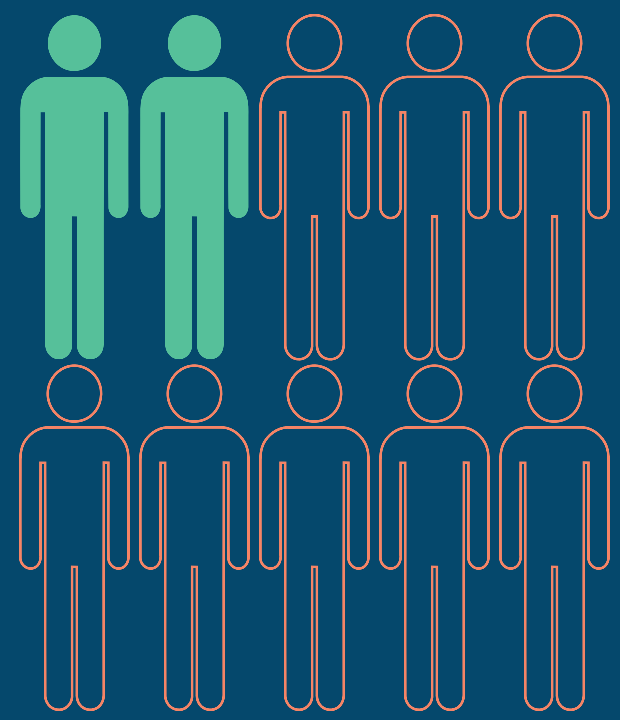
> **"The profile of a first-time has become older over the last decade, and they are more likely to have started families. They are increasingly able to access higher LTV mortgages, while their appetite for new build homes has softened."**

FTBs are more able to access larger mortgages relative to the value of the home they're buying.

AVERAGE FTB LOAN-TO-VALUE

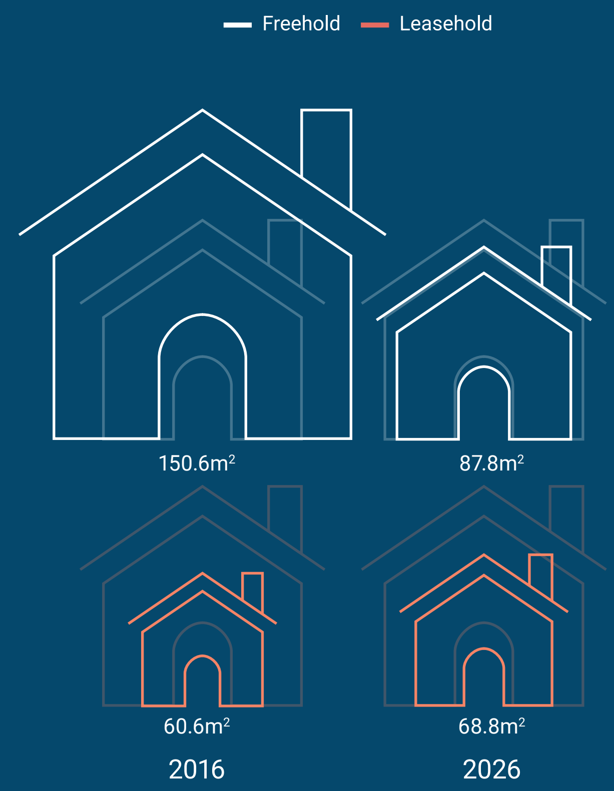
2-in-10 FTBs receive family support with their deposits.

SHARE OF FTBS WITH FAMILY SUPPORT FOR DEPOSIT

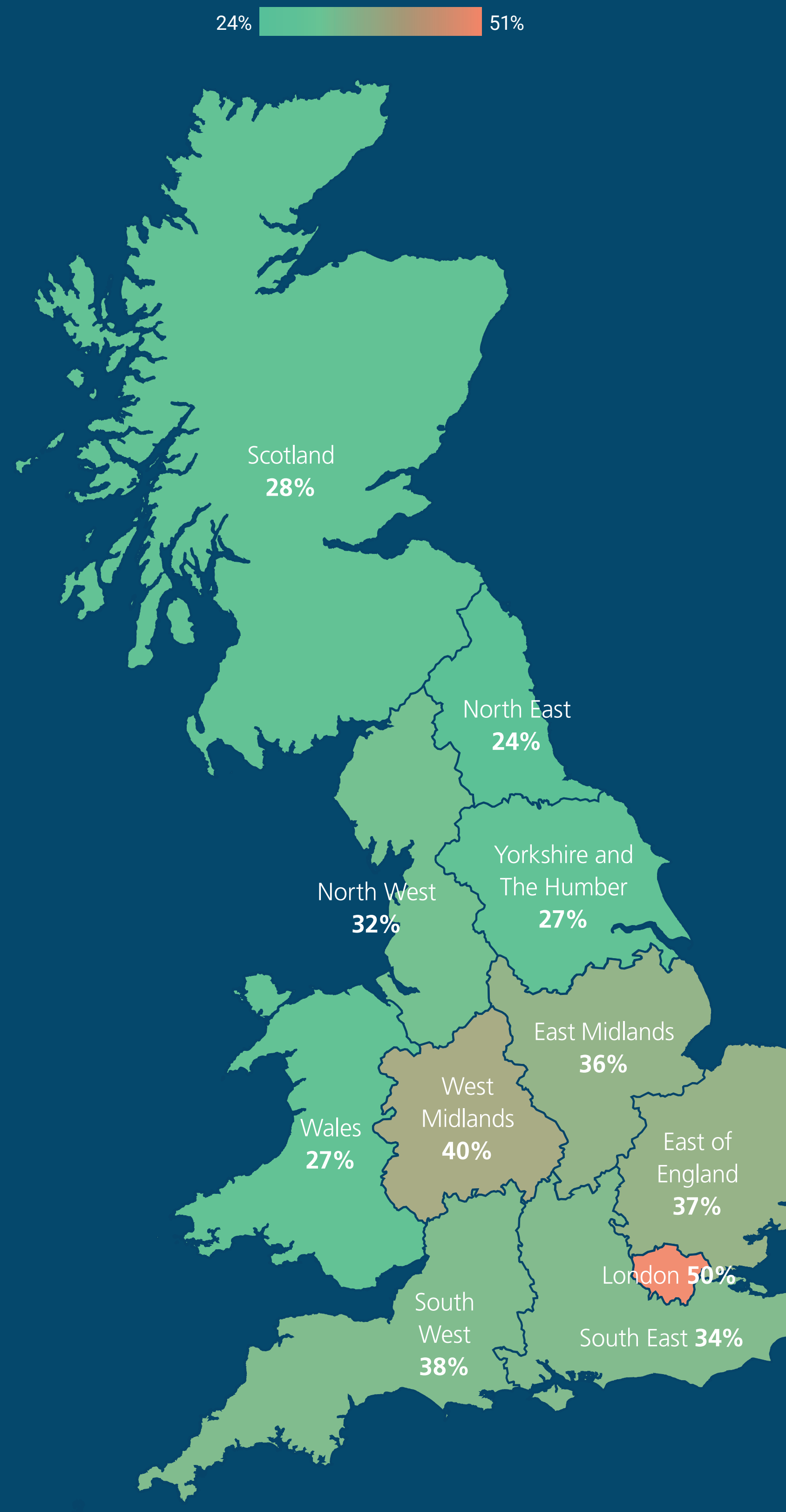


FTBs have lower space expectations when buying a home compared with a decade ago.

AVERAGE AREA OF A FTB PROPERTY

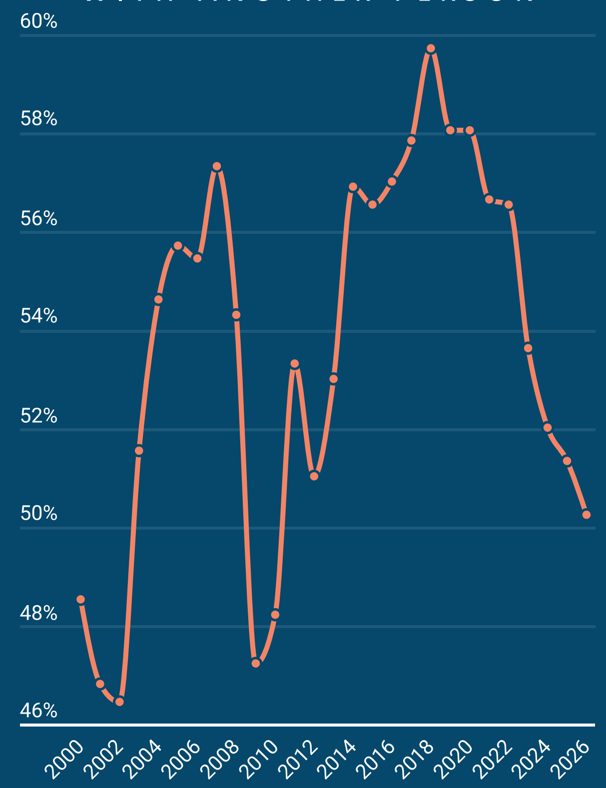


SHARE OF HOMES BOUGHT BY A FTB IN EACH REGION



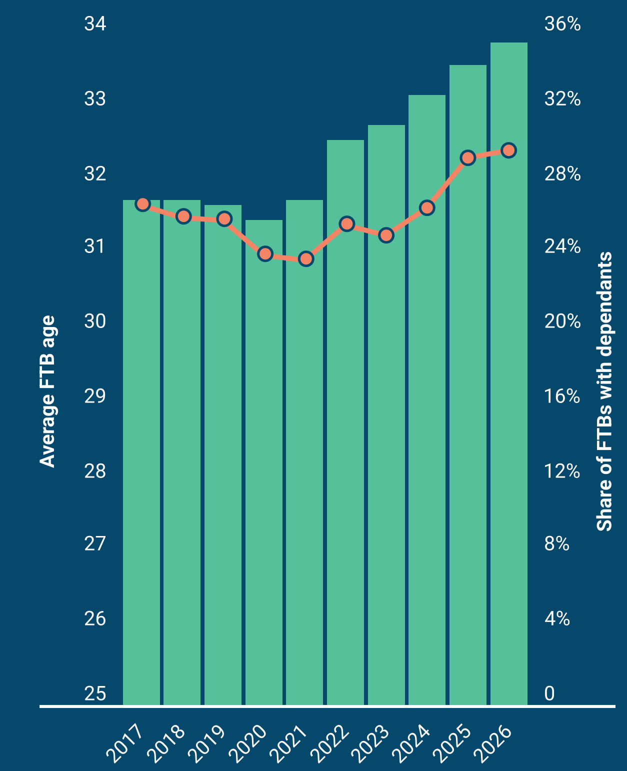
Around half of FTBs buy alone.

SHARE OF FTBS BUYING WITH ANOTHER PERSON



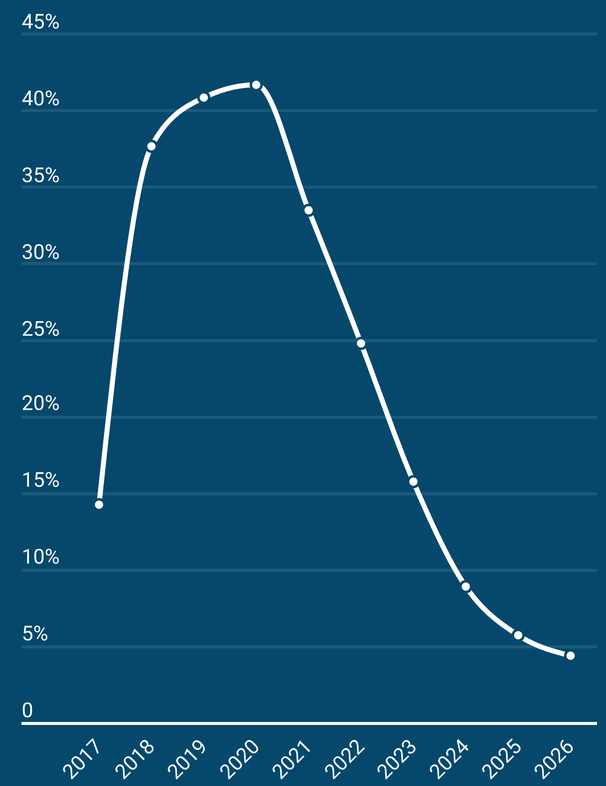
FTB's purchase later in life, increasingly with dependents.

AVERAGE AGE OF FTBS VS SHARE OF FTBS WITH DEPENDENTS



The appeal of new builds for FTBs has diminished.

SHARE OF FTBS WHO PURCHASE A NEW BUILD



Source: Connells Group

Mortgage Market

MORE FLEXIBLE LENDING IS OPENING SOME DOORS

> **"Across Great Britain, higher LTI mortgages accounted for 33% of first-time buyer lending in the first half of 2026."**

Mortgage lenders are responding to more flexible loan-to-income rules (LTI), giving some first-time buyers more room to borrow.

Among first-time buyers, average loan-to-income ratios have risen from 3.94 in H1 2025 to 4.08 in H1 2026, with increases recorded across every region.

This follows changes made last summer, which gave lenders more flexibility when assessing how much buyers can borrow. The Financial Conduct Authority (FCA) encouraged lenders to make fuller use of rules that allow some borrowers to take out loans above 4.5 times their income, while keeping the longstanding 15% cap on this type of lending. The review was timely, given that market conditions have changed materially since the LTI framework was introduced over a decade ago. A formal consultation was announced in April and concluded in early July.

The aim was to improve access to mortgage finance, particularly for first-time buyers, without compromising lending standards.

Mortgage access widens - but geography still matters

While lenders are making greater use of higher loan-to-income lending, the extent to which this improves affordability differs markedly across the country. In London and the wider South, higher income multiples often play a more important role in bridging the gap between earnings and house prices. Here, the gap between earnings and house prices is so large that many buyers are constrained by loan-to-income limits before they are constrained by mortgage rates.

London recorded the highest average LTI in H1 2026 at 4.67, up from 3.90 two years earlier. The capital also had the greatest share of higher-LTI lending, with 54% of first-time buyer mortgages taken out at 4.5 times income or above.

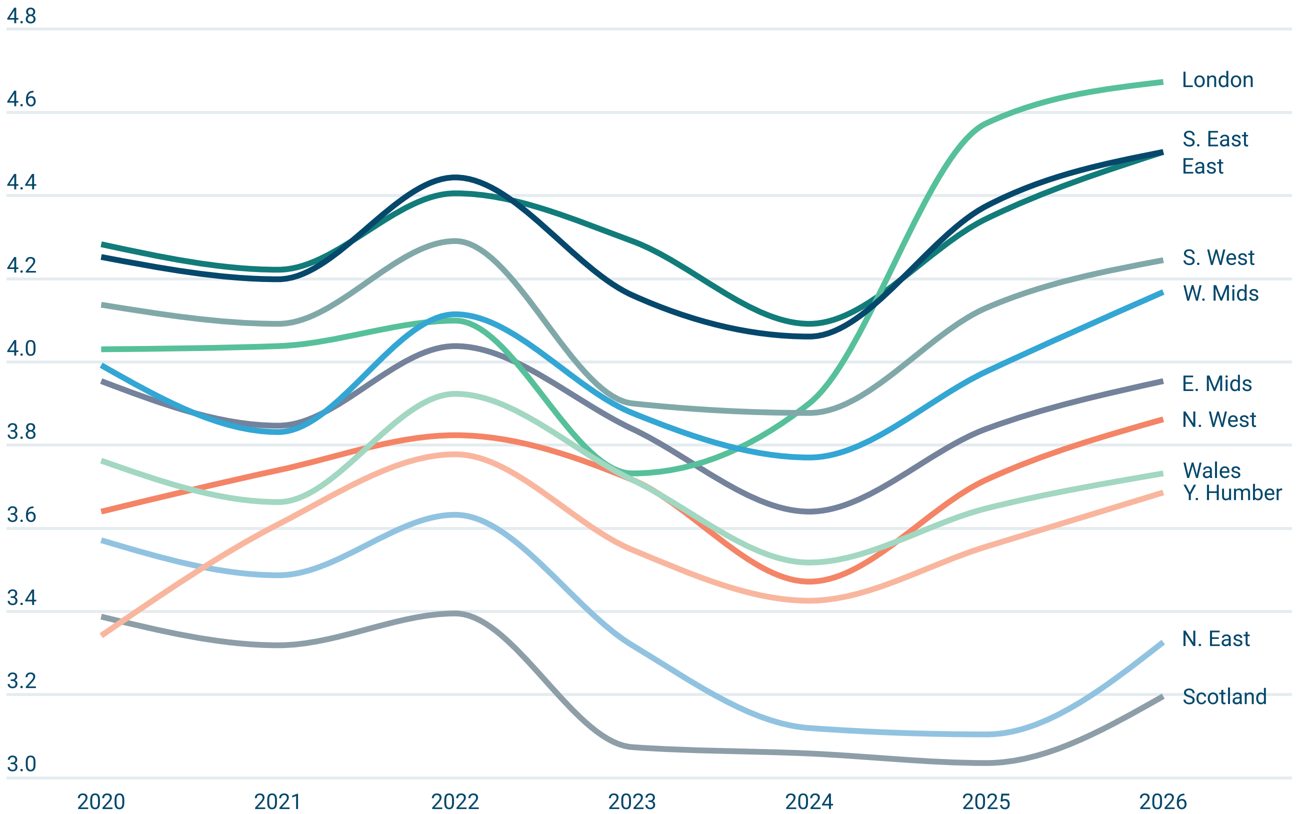
Across Great Britain, these mortgages accounted for 33% of first-time buyer lending in the first half of 2026, up from 27% a year earlier. These figures are based on Connells Group data, which tends to have a greater weighting towards first-time buyers than the wider market.

The second highest LTI multiples were found in Southern England, with the South East and South West both recording averages of 4.50. Over 40% of lending to first-time buyers in these regions was deemed high LTI.

Higher loan-to-income borrowing plays a much smaller role in Northern markets than it does in London and the South. Lower house prices relative to incomes means buyers are less likely to be constrained by LTI limits, with mortgage rates and saving for a deposit remaining the bigger barriers to homeownership.

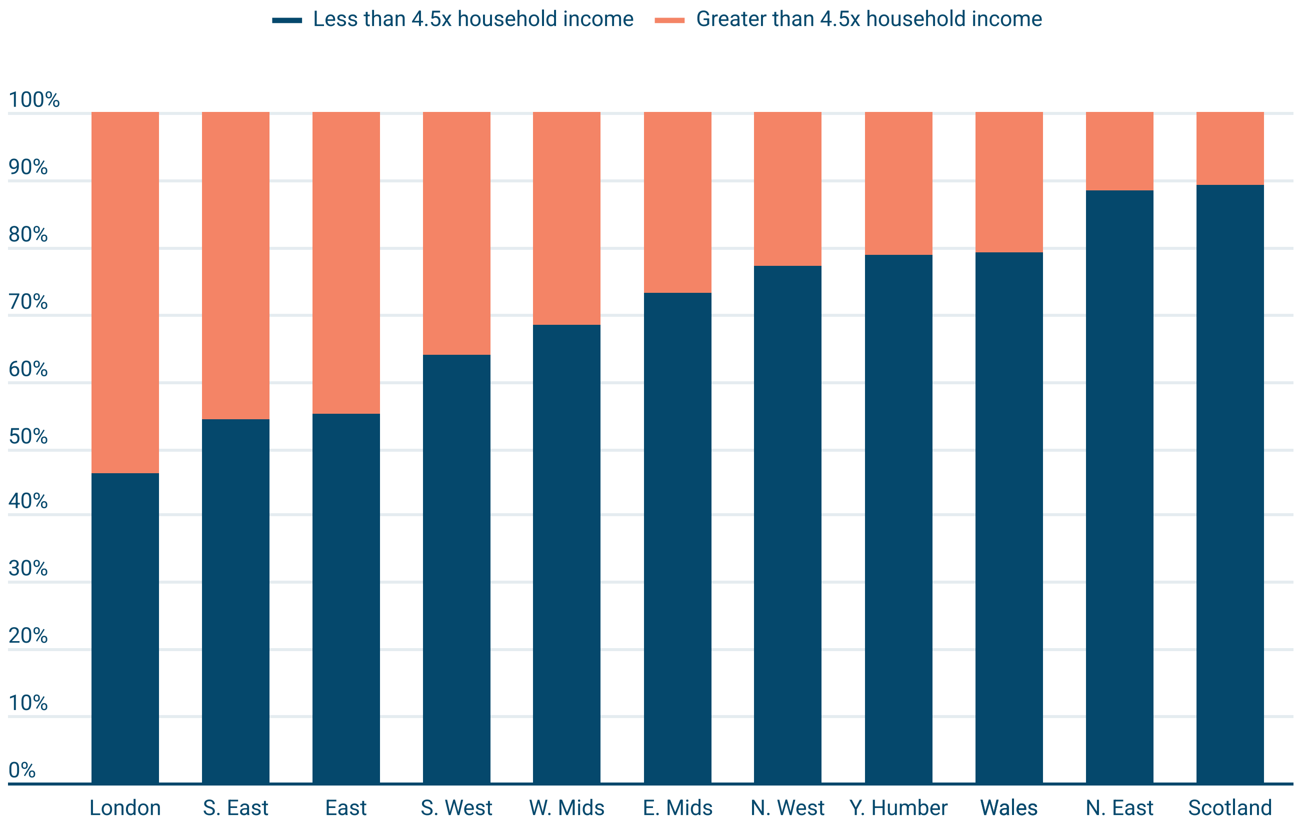
Even so, there are signs that greater lending flexibility is having an impact. The North East saw the largest uplift in average LTI ratios between H1 2025 and H1 2026, rising from 3.11 to 3.33. Similarly Yorkshire and The Humber and the East Midlands recorded the strongest growth in higher-LTI lending. This suggests that while the benefits are less pronounced than in London and the South, more buyers in less affluent markets are beginning to make use of higher income multiples.

AVERAGE FIRST-TIME BUYER LOAN-TO-INCOME RATIO BY REGION



Source: Connells Group

SHARE OF HIGHER LOAN-TO-INCOME RATIO FIRST-TIME BORROWING BY REGION, H1 2026



Source: Connells Group

Access widens to lower income thresholds

Once the preserve of high earners, accessibility to high LTI loans has widened across lower income brackets. Since the introduction of the more flexible approach, the lower-quartile salary threshold for higher-LTI lending has edged up only slightly overall, from £31,000 in H1 2025 to £31,200 in H1 2026. For first-time buyers, however, it has fallen from £31,737 in H1 2025 to £31,208 in H1 2026, suggesting these products are becoming accessible to lower-income borrowers.

Again, the picture varies across the country. Income thresholds for higher-LTI lending fell most sharply in London (-9.1%) and the South East (-8.2%), making these mortgages accessible to a wider range of buyers. In contrast, thresholds increased in lower-priced regions such as the North East (+8.9%) and the East Midlands (+6.1%), suggesting lenders remain selective where borrower incomes are lower and equity buffers are more limited.

At the same time, London's concentration of higher-LTI lending reflects the role of higher incomes in supporting larger loans, rather than a broad-based increase in risk appetite.

> "Overall, there is evidence that some lower-income households are gaining greater access to higher-LTI mortgages."

This year, the number of lower income households (earning £40,000 or less) that secured a higher LTI mortgage grew by 15% annually, reaching its highest level since the pandemic.

Second-steppers and remortgagers borrow more

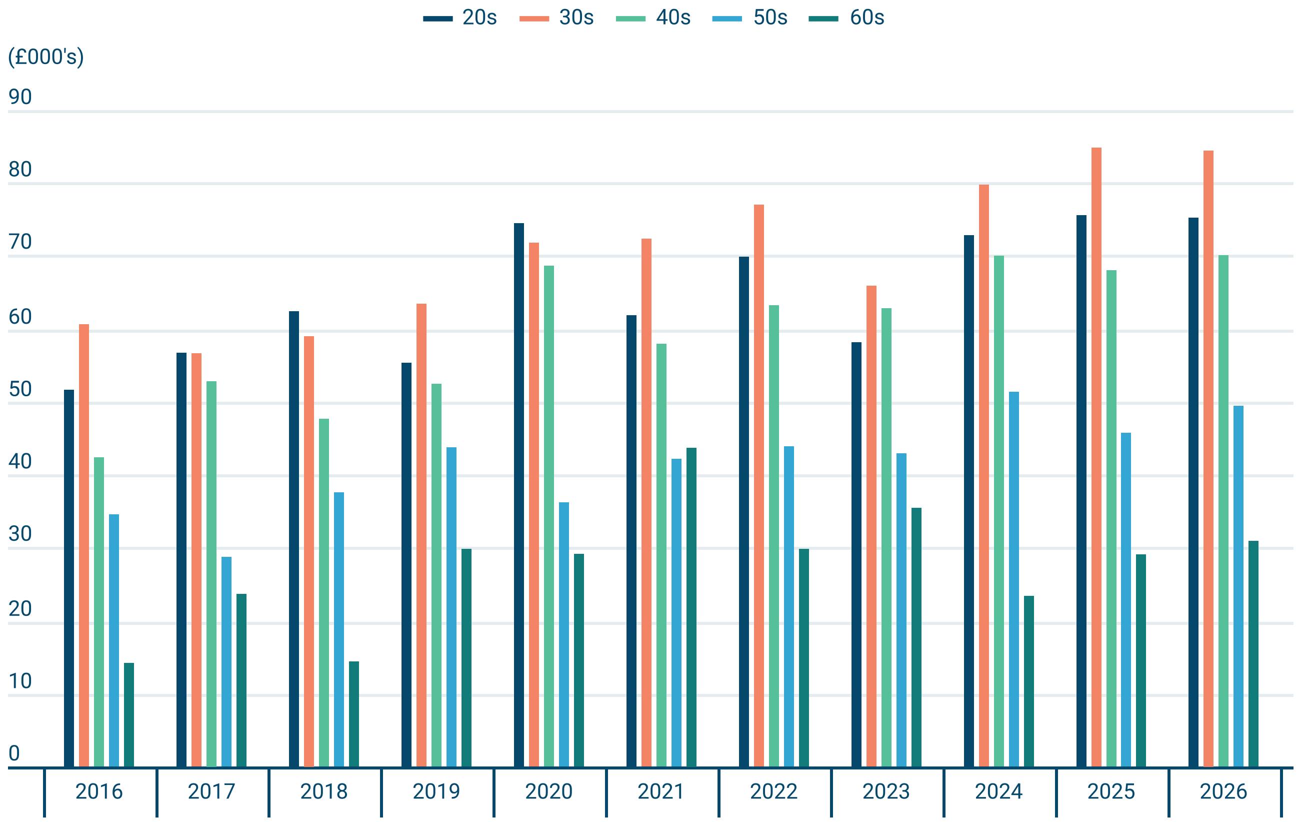
The effect of changing mortgage conditions on affordability is not limited to first-time buyers. While the share of second-steppers has trended upwards marginally, the average mortgage advance taken out by existing owner-occupiers has risen by 5% since January and by 8% since June 2025.

As interest rates have softened into June and July, current owner-occupiers could be taking the opportunity to borrow more, in some cases to fund refurbishment or improvement works rather than moving. This reflects the overarching cautious sentiment among would-be movers.

More broadly however, homeowners have become increasingly wary of leveraging extra borrowing from their mortgage. All age groups have seen a decrease in the share of those taking out additional funds over last decade, as that borrowing has become more expensive to service. Following a mild uptick during the Covid-19 pandemic, these levels dipped significantly once subsequent inflationary pressures bit and rates rose. Those in their 20s and 30s, who have typically built up less equity in their home and are therefore more vulnerable to economic shocks, reduced their appetite to borrow more. Even so, after a mild rally through 2024, this group remain most likely to extend their borrowing, often to make home improvements rather than face the costs of moving.

Yet, while extra borrowing activity is less prevalent among older age groups, the average additional funds taken out has increased for these groups over the last year. So far this

AVERAGE ADDITIONAL BORROWING BY AGE



Source: Connells Group

year, those in their 30s took out the highest average extra borrowing at £84,444, followed by £75,196 for those in their 20's. However, these amounts have remained stable over the past year, falling by only -0.5% each. In contrast, older households have seen a marked increase in the extra amount borrowed over the last year, despite the overall values being lower. The average for those in their 50s grew by 8.0% to £49,410, and by 6.3% to £30,877 for those in their 60s. This illustrates the growing cost of living pressures even for households with stronger equity positions, and in some cases, could relate to older parents helping support adult children financially.

Borrowing costs remain the main constraint

Increased flexibility in lending criteria has clearly benefitted certain types of buyers. However, the near-term outlook will largely depend on the path of borrowing costs, which still represent the main constraint. For most borrowers, affordability is more likely to be constrained by lenders' affordability stress tests at high rates rather than by the LTI cap itself.

Lenders are seeking to remain competitive where demand persists, while continuing to manage affordability and credit risk.

This caution is mirrored by policymakers. With inflation remaining sticky, the possibility of a hike to the base rate this year cannot be ruled out. However, in the absence of further economic and political shocks, our view remains that the more likely path forward is a gradual, continued softening in interest rates. This trajectory will enhance the impact that more flexible LTI will have on improved buyer capacity.

Policy Focus

STAMP DUTY: BETTER THE DEVIL YOU KNOW?

> **"With a Land Value Tax... households could be charged somewhere between 0.4% and 1% of their home's value each year."**

Property has never been more heavily taxed in Britain.

Record stamp duty land tax (SDLT) bills have been further compounded by above-inflation council tax increases and, more recently, the introduction of a mansion tax. For homeowners and investors alike, the fiscal burden of bricks and mortar has reached historic highs.

But as the debate intensifies over how to modernise this system, the harder question is not whether stamp duty is damaging. The harder question is what should replace it - and who would end up paying instead?

How stamp duty became a serious revenue raiser

To understand how we arrived here, it is worth looking back. As recently as 1997, stamp duty was a relatively modest affair. It stood at a flat 1% levied on purchases above £60,000, raising around £740 million across England - equivalent to roughly £1.4 billion in 2026 prices.

Today, the fiscal reality is unrecognisable. The Royal Borough of Kensington & Chelsea and the City of Westminster alone now generate £1.3 billion in SDLT receipts, while England as a whole pulls in around £10.3 billion.

Top permanent marginal rate of stamp duty for owner-occupiers	
16 March 1993	1% above £60,000
8 July 1997	2% above £500,000
24 March 1998	3% above £500,000
16 March 1999	3.5% above £500,000
28 March 2000	4% above £500,000
6 April 2011	5% above £1,000,000
22 March 2012	7% above £2,000,000
3 December 2014*	12% above £1,500,000

*New rates coincided with a change from 'slab' to 'slice' system

That growth has largely been driven by higher tax rates on more expensive purchases. Today, buyers face tax rates of up to 19% on purchases above £1.5 million if they are buying a second property and live overseas.

The bulk of this revenue growth has come from deliberately targeting the top end of the market and non-primary residences. Nationally, around half of all stamp duty revenue is now generated by buyers paying one of the stamp duty surcharges, predominantly the second-home surcharge.

At the top end of the market, tax bills are actively weighing down house price growth. Indeed, these transaction costs are one of the main reasons why prices in Prime Central London (PCL) remain lower today than they were a decade ago. But there is a trade-off: these high rates, while damaging to this part of the market, have helped keep bills lower for others.

Why abolition is tempting

Unsurprisingly, calls to abolish stamp duty altogether are growing louder. The arguments in favour of its removal are compelling. Across the South of England where more than 97% of transactions are above £125,000, buyers routinely face handing over the equivalent of an entire year's average salary simply to move home.

Eliminating this transactional barrier would immediately unlock large parts of the market. If previous stamp duty holidays are any guide, removing the tax permanently could boost transaction volumes by 10% to 20%, with the size of stamp duty bills creating large behavioural distortions. Households are currently incentivised to move less often, while futureproofing their home as far as possible to minimise the size of tax bills.

The uncomfortable question: who pays instead?

However, replacing stamp duty and council tax with a Land Value Tax (LVT) that raises a comparable amount of revenue would not make the tax burden disappear. It would simply move it. In short, households could be charged somewhere between 0.4% and 1% of their home's value each year under such a system, meaning the average annual bill for someone who chooses not to move home is likely to rise significantly.

The often-overlooked advantage of stamp duty is that it is a transactional tax levied on a mutually agreed purchase price, and it is paid predominantly by affluent individuals buying more expensive-than-average homes. It is also avoidable: if you don't buy a home, you don't pay it.

By contrast, a LVT has little to no regard for an individual's ability to pay. Currently, council tax bills top out at around £5,000 a year for the highest bands. Under a fairly typical LVT model, many modest homeowners in the South of England could find themselves facing annual bills of £5,000 to £10,000. This represents a significant, recurring drain on post-tax income and is a particularly punishing prospect for asset-rich but cash-poor households.

The transition problem

Transitioning from the current system to an LVT would be administratively and politically difficult. Recent buyers could face the unfairness of double taxation, having already handed over tens of thousands in stamp duty, only to be hit by a new annual land tax. Meanwhile, it would take decades for the new tax regime to be fully priced into property prices.

To mitigate this, any implementation would require a long transition period where previous tax contributions are recognised, and annual bill increases are capped.

Ultimately, shifting away from stamp duty and council tax means ripping up a property taxation framework that has existed for decades.

The resulting shocks would be significant. For some homeowners, the sudden increase in their annual tax bill would be equivalent to putting 10p on the basic rate of income tax. Ironically, for many mid-market homes, this annual hike could end up being larger than the mansion tax bills levied on much more expensive properties.

Such a profound fiscal upheaval cannot be introduced via the back door. A structural change of this magnitude requires a national conversation and careful modelling. Stamp duty may be a deeply imperfect tax, but its political advantage is that most households do not pay it very often. Until there is a credible answer to who pays instead, it may remain the devil we know.

ILLUSTRATIVE COSTS OF A SHIFT TO AN ANNUAL LAND VALUE TAX

	Hartlepool	Oxford	Wandsworth
Band D council tax	£2,380	£2,442	£969
Band D price	£300,000	£600,000	£1,200,000
Average Mover SDLT bill	£5,000	£20,000	£63,750
0.48% annual tax bill	£1,440	£2,880	£5,760
Change in total tax bill over 5 years	-57%	-55%	-58%
Change in total tax bill over 10 years	-50%	-35%	-22%
Change in total tax bill over 20 years	-45%	-16%	39%
Change in total tax bill over 30 years	-43%	0%	86%

Source: Connells Group, Land Registry & HMRC

Contacts

Chris Rosindale
Chief Operating Officer
chris.rosindale@connellsgroup.co.uk

Adrian Scott
Chief Commercial Officer
adrian.scott@connellsgroup.co.uk

Ian Culbert
Group Lettings Managing Director
ian.culbert@connellsgroup.co.uk

Jason Howes
Managing Director, Group Land & New Homes
jason.howes@connellsgroup.co.uk

James Bilham
Corporate Property Services
James.Bilham@countrywide.co.uk

Graham Closier
Group Mortgage Development Director
graham.closier@connellsgroup.co.uk

Ross Bowen
Managing Director, Connells Survey & Valuation
ross.bowen@connells.co.uk

Matthew Cumber
Managing Director, Countrywide Surveying Services
matthew.cumber@cwsurveyors.co.uk

Daniel Kittow
Managing Director, Vibrant Energy Matters
Daniel.Kittow@vem.co.uk

Simon Matthews
Managing Director, AMG
simon.matthews@amgltd.co.uk

Kami Nagi
Group Consultancy Research Director
kami.nagi@connellsgroup.co.uk

Aneisha Beveridge
Group Research Director
aneisha.beveridge@connellsgroup.co.uk

About our data:

Our research draws on comprehensive, proprietary datasets that are unrivalled across the UK property sector. With more than 1,200 branches covering almost 90% of England and Wales postcodes and a 10% share of all property sales each year, our analysts have access to real-time, highly granular data beyond most competitors' reach. As one of the UK's largest mortgage businesses, we also analyse insights derived from around £33 billion of lending facilitated annually. Together, this gives us a uniquely detailed view of the residential market, spanning sales, lettings, mortgages, professional services and wider policy trends.