

Proposed LBTT supplement on additional residential homes: Shelter Scotland's response to the Finance Committee's call for written evidence

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Introduction

Shelter Scotland helps over half a million people every year struggling with bad housing or homelessness through our advice, support and legal services. And we campaign to make sure that, one day, no one will have to turn to us for help.

Shelter Scotland's comments are limited to the impact that the Land and Buildings Transactions Tax (LBTT) supplement on additional residential homes is likely have on people who are poorly housed or at risk of homelessness. In particular we will assess the impact of this policy on the private rented sector.

Key points

- Shelter Scotland is broadly supportive of the introduction of the LBTT supplement on additional residential homes.
- The LBTT supplement could reduce instability in the buy-to-let sector, identified as being particularly vulnerable to economic turbulence by the Bank of England, protecting private renters.
- The LBTT supplement could also play an important role in reducing house price inflation, to the benefit of first time buyers.

The impact of the LBTT supplement on private renters

Shelter Scotland notes that the Bank of England has raised concerns about the stability of the buy-to-let sector, with the lending criteria perceived to be less stringent than for owner occupiers. The Bank of England asserts that buy-to-let landlords may be more vulnerable than other borrowers should they experience a drop in income or there is an

unexpected rise in interest rates.¹ This, of course, could have significant consequences for private renters who rent from landlords with buy-to-let mortgages: should a landlord fall behind with their payments and their lender seeks to repossess the rented property, it is likely that the lender will also seek vacant possession of the property in order to sell it, potentially making a private renter and their family homeless.²

In relation to private rents Shelter Scotland is aware that concerns have been raised in relation to a potential increase in private rents as consequence of this change. Shelter Scotland would caution against this analysis of the impact of the LBTT supplement given that private rents are determined by more than just the expenses incurred by private landlords. Integral to rent setting are other factors such as rents in the locality for comparable dwellings and the quality of the accommodation. Further, this additional tax could have a mild deflationary effect on the market, reducing or at least surprising prices. Consequently, this should not have an adverse impact on private rents across the board. However, the Scottish Government should closely monitor changes in private rents, along with other trends in the private rented sector, by increasing the role of the Rent Service Scotland in collecting and publishing private sector rent data. The impact of this policy on house prices should also be examined by the Scottish Government's Centre for Housing Market Analysis.

The impact of the LBTT supplement on the housing market

Credit which is relatively easy to access for buy-to-let landlords and those seeking second homes has the potential to increase house prices. This is likely to be to the disadvantage of first time buyers, who may have stricter lending criteria and access to less capital. Given that a combination of strict lending criteria and house price growth relative to income growth has already acted a barrier to homeownership for many first time buyers, giving second home purchasers and buy-to-let landlords an advantage over first time buyers could be perceived as unfair. In this sense the introduction of an LBTT supplement could level the playing field for first time buyers, by tempering the market for second homes and buy-to-let properties. As we recommend above the Scottish

¹ Bank of England, Financial Stability Report, December 2015, <http://www.bankofengland.co.uk/publications/Pages/fsr/2015/dec.aspx>

² This is explored in Wallace, A & Rugg, JJ 2014, Buy-to-Let Mortgage Arrears: Understanding the factors that influence landlords' mortgage debt, Centre for Housing Policy, University of York [https://pure.york.ac.uk/portal/en/publications/buytolet-mortgage-arrears-understanding-the-factors-that-influence-landlords-mortgage-debt\(2b3f3830-8c28-4cdc-b93b-664ea2bb4a03\)/export.html](https://pure.york.ac.uk/portal/en/publications/buytolet-mortgage-arrears-understanding-the-factors-that-influence-landlords-mortgage-debt(2b3f3830-8c28-4cdc-b93b-664ea2bb4a03)/export.html)

Government's Centre for Housing Market Analysis should analyse this section of the market carefully once the LBTT supplement is introduced.

Conclusion

Shelter Scotland is supportive of the additional LBTT supplement on additional residential homes. We are of the view that this could add an important element of stability into a potentially unstable buy-to-let market and reduce pressure on house prices, to the benefit of first time buyers. In both of these respects Shelter Scotland believes that, in answer to the Finance Committee's call for evidence, the LBTT supplement is likely "to complement the Government's commitment to supporting home ownership in a balanced and sustainable way." However, the Scottish Government should pay close attention to the impact of the policy on private rents, by expanding the role of the Rent Service Scotland and monitoring the impact of the policy through the Centre for Housing Market Analysis.

Contact:

Debbie King, Public Affairs Officer

Email: Debbie_King@shelter.org.uk

Tel: 0344 515 2447