Bull & Bear

ST. BRIDE'S MANAGERS

Advising the Chancellor

Bear: What's up?

Bull: I'm hacked off, Bear. Inflation has risen further (to 3.5%) and last week it was announced that national debt has topped £3 trillion for the first time. This all seems very irresponsible to me, especially as the Chancellor claims to want to give consumers "breathing space" from cost-of-living pressures. He needs to get a grip.

Bear: He most certainly does, not least as he is being stuffed left, right and centre by the rise in bond yields (the Government's cost of borrowing). The 10-year gilt is currently at a whopping 5.35%. And it looks like an absolute shoo-in that the Bank of England's MPC will raise the base interest rate to 4.00% on Bonfire Night.

Bull: You might say that sparks will fly!

UK 10-year Gilt Yields



Source: FT

Bear: For you. Bull, I guess that was quite a good one! What I find really disheartening though, is how this is all now biting into the property market. Did you tune into CBRE's monthly index call last week? It was a gloomy half an hour or so.

Bull: Gloomy? That's probably the understatement of the year. Try … downright depressing. They moved out more yields this month than they have done in ages! Yields on prime Central London, South-East and Regional offices, distribution, regional hotels, multi-family (BTR) and student accommodation all suffered softer yields. Essentially, all UK property sectors, bar retail, are trending weaker.



Bear: It is just as well then that the occupational side is generally holding up okay, otherwise we would be in a right ol' pickle. And, by all accounts there is a respectable pipeline of investment deals going through at present.

Bull: I wouldn't be so sure of that. According to Savills, purchasers are now increasingly looking to chip the agreed prices.

Bear: I'm not wholly surprised to hear that and, all in all, it makes for a pretty tricky backdrop to the Budget on Wednesday.

Bull: Don't get me started on the Government, Bear. Every Chancellor from the Year Dot seems to have been compelled to fiddle around with the property market. Why can't they just leave it alone.

Bear: That may be true. But I actually feel quietly confident about what the Chancellor has in store for us on Wednesday.



Bull: Why? If the Chancellor has any sense, it'll be something of a non-event. Mr Healey can't afford to show any fiscal irresponsibility, or bond yields will wipe him out.

Bear: Possibly. But if the interview he gave to The Times earlier this week is to be believed, he might surprise a few of us. He seemed to be talking a rather big game about cutting regulation and introducing tax incentives so businesses can turn a profit …

Bull: A Labour Chancellor advocating wealth creation? And fat profit margins? You're having a laugh.

Bear: It's what he said. Besides, a reduction in regulation definitely wouldn't go amiss for the property market. What was it The Home Builders Federation said in May?

Bull: Oh yes … "regulation, taxation, levies and construction inflation have added around £76,000 to the cost of delivering an average new home since 2020." Outside of London and the South East, development is just not viable without significant state support. The system needs to be radically simplified.

Bear: Well, there you go. Plus, the talk of the new 'Your First Home' scheme and the possible support for pubs and restaurants sounds like pretty welcome news to me too.

Bull: Hmm ... I agree. But I've been burnt before.

Bear: What have you got there? A pen, paper and an envelope?

Bull: Yep. I am just drafting a letter to the Chancellor. I'll believe his positive moves for business when I see them. And, if God forbid, he's planning to put the boot in again, perhaps there's still time for us to talk some sense into him!



FAO The Chancellor of the Exchequer,
11 Downing Street,
London SW1

Dear Mr Healey,

RE: Some thoughts ahead of the Autumn Budget announcement on Wednesday

Please will you stop attacking the property sector. We know you have a tricky task on your hands and the economic backdrop to this Budget isn't great ... but our sector simply can't take any more bashing.

If you will allow us ... we have put together some thoughts that might guide you in your deliberations:

First thing's first. Don't even think about increasing Capital Gains Tax again. It will only further discourage tax-paying property investors from selling and the last thing we need right now are more illiquidity issues. In addition, we don't much like the idea of a Land Value Tax and, for the love of God, please don't increase stamp duty further. Just look at the receipts you've had from SDLT over the last five years! And that's from a slow market!

Stamp Duty Land Tax (SDLT) Receipts



Source: Statista

We hear that you and the Prime Minister aren't afraid to rethink some of the previous tax policies introduced by Ms Reeves. Bravo. Can I suggest you start by axing the Mansion Tax that's scheduled to come into force in 2028. Also, the increase in property income tax rates is already deterring private landlords, and, as for the removal of the inheritance tax relief for agricultural property ... well ... we're surprised that it hasn't already been axed. And, whilst you're at it, surely, it needs to extend to family business property too.

If you're considering taxing the banks, as has been widely rumoured, we would urge you to exercise considerable caution. Sure, the banks are raking it in and levies on them will always be a popular political move, but please be careful. The UK's financial services sector contributes around 10% of our GDP and it seems to be one of the few things going for the country at the moment. Be wary of biting the hand that feeds you.

On a more positive note, we think that 'Your First Home' is a great idea (even if it may have been better to have introduced it sooner). Let's get the residential market moving again. We are also big fans of your housebuilding targets. 1.5 million new homes by 2029 would be no mean feat. But realistically, you must know that it's not going to happen. If, by some amazing fluke, you can pull it off, then kudos. But let's face it, if you want to get the UK building again, you will have to get interest rates down, encourage people to buy and please, please, please, relax the proliferation of construction regulations. If you can streamline planning policy, as Andy has promised, to make it less expensive and complex, that would be great. We know of at least one South Yorkshire housebuilder who would be very relieved. (Please refer to The Weekly on 11 October)

And one last thing ... whatever you do, for goodness sake, don't borrow any more. We really need to start rebuilding some semblance of fiscal responsibility. Liz Truss's disastrous mini-budget is still used overseas as an example of what NOT to do. If you could exert some pressure on the Cowboy across the Pond to stop being such a clown, that would help. None of us can afford for bond yields to rise any further.

We hope you'll give the above some careful thought before Wednesday's announcement. We know it's not easy, but real estate has had a tough time of it lately. Our bottom line is ... please don't poke us in the eye anymore.

Yours sincerely,

Bull & Bear