Landlord Newsletter 04/24

Steven Sim – Associate

Welcome to our Landlord Newsletter covering industry updates and insight.

Higher costs result in mortgage rate increases

In our February 2024 Property Newsletter ‘Mortgage Rate Outlook for 2024’ article, we discussed reasons for the significant mortgage rate cuts that we saw in January 2024. We predicted that 2024 would see lower funding costs and increased competition amongst lenders, leading to further mortgage rate cuts, although rates would still be much higher than those seen before 2021.

However, HSBC, Natwest and Virgin Money all announced that their rates would increase on Friday 23 February. Santander, Coventry Building Society and TSB all raised rates on new fixed deals earlier in the week.

This could be because lenders are responding to expectations that the Bank of England’s Monetary Policy Committee will make fewer and later changes to the base rate (currently 5.25%) this year than previously anticipated. Cuts to the base rate make borrowing less expensive.

However, Halifax, part of Lloyds Banking Group, cut the rates on some of its deals on Friday 23 February.

It is expected that lenders are struggling to identify the position at which rates should be set. The market is extremely competitive and relatively little notice has been given for the rate changes mentioned in this article. For those with fixed rate mortgages set to expire this year, quick decisions may be needed.

Scotland: Rent increases from April 2024

In Scotland, the 3% cap on all in-tenancy rent increases in the private rented sector, as well as protections against eviction, comes to an end on 31 March 2024. The emergency legislation was first introduced in September 2022, and was intended as a temporary response to the cost of living crisis.

The Scotland-wide tenants’ union, Living Rent, says that it is already seeing rent increases of between 30% and 60% in advance of the cap ending.

In January 2024, the Scottish government proposed changes to the process for rent adjudication which are intended to bridge the gap between the end of the emergency protections and the Scottish housing bill becoming law. **The bill includes a new system of rent controls, including a formula for assessing rent increases against market rates, and new rights for tenants.**

Living Rent is particularly concerned about the fact that tenants in Glasgow and Edinburgh are already paying over half of their take-home pay in rent; further increases could result in ‘evictions’ due to tenants being unable to afford increased rents.

Budget 2024: Key measures for property landlords

The UK Spring Budget took place on 6 April 2024. Several measures were announced that are of particular relevance to property landlords.

Capital Gains Tax

Gains on disposals of residential property made on or after 6 April 2024 will be subject to a main capital gains tax (CGT) rate of 24%. Prior to this date, such gains were subject to CGT at 28%. The main rate applies to gains on disposals of residential property that fall above a taxpayer’s basic rate band. If, after all of the taxpayer’s other income has been taxed, there is basic rate band remaining, any portion of residential property gains falling within the band will be taxed at the lower residential property CGT rate, which is not being changed and remains at 18%.

It should also be remembered that the CGT annual exempt amount will drop from £6,000 to £3,000 from 6 April 2024.

Furnished Holiday Lettings

Perhaps the most attention-grabbing headline from Spring Budget was the news that **the concept of Furnished Holiday Lettings (FHLs) will be abolished from 6 April 2025**. This is not good news for those who currently operate FHLs because it means that considerable tax benefits unique to FHL businesses will no longer be available.

Currently, the following tax advantages are available to FHLs:

- Interest incurred on borrowings is fully deductible against taxable profits
- Beneficial capital allowances rules allowing tax relief for fixtures
- Various capital gains tax reliefs, including the potential for business asset disposal relief (10% rate on the gain), rollover relief and gifts hold-over relief
- Profits from FHLs can be treated as relevant earnings for pension purposes and
- Income from a FHL held jointly by a married couple or civil partners is not caught by the default 50:50 split for income tax purposes

At the time of writing, the details of the abolition are unclear because we are waiting for draft legislation to be published. It has, however, been announced that **the legislation will include 'anti-forestalling' measures** that will prevent obtaining a tax advantage by using unconditional contracts to secure the CGT reliefs for FHLs before the regime is abolished.

If you own an FHL, there will be considerable tax implications, so planning will be key. Once we are party to the draft legislation we will be able to assist you with your planning.

Scotland: Housing Cladding Remediation

The Housing (Cladding Remediation) (Scotland) Bill was introduced on 1 November 2023 and aims to address the direct or indirect risks to human life created or exacerbated by external wall cladding, by facilitating the delivery of the **Cladding Remediation Programme**.

The Programme's scope is limited to multi-residential domestic buildings and is intended to prevent tragic events such as the fire at Grenfell Tower in 2017.

A recent report by the Local Government, Housing and Planning Committee states that while the risk of fire is relatively low, "the issue of cladding has consumed people's lives, causing long-term worry and stress about the safety of their homes and is having a financial impact on owners who are unable to sell or remortgage their properties."

"Of the 105 buildings within the Scottish Government's cladding remediation programme, only one has yet had any remediation works carried out, and only one has had mitigation works, although **the Scottish Government has committed to ensuring that all 105 buildings are on a pathway to a single building assessment by summer 2024**. In contrast, as of December 2023, in England 1,608 buildings (42%) have either started or completed remediation works. Of these, 797 buildings (21%) have completed remediation works." The full report can be viewed here.

If you would like to speak to us and find out how we can help you with any property-related issues, please contact Steven Sim on 0131 226 2233 or email ssim@thomsoncooper.com.

The newsletter is part of our online Property and Landlord Hub which also features factsheets and property-related articles.