Progressive Property & Construction Daily

23 September 2022: 'Mini-budget' special – a property sugar-rush or the biggest ever budgetary gamble?

A round-up of market statements, news, economics and views from the property and construction sectors

NOTE: This marketing communication has been produced by Progressive Equity Research Limited (PERL) and is a Minor Non-monetary Benefit. It does not contain investment recommendations. The views expressed are those of the research department of PERL. To view the Progressive Property & Construction Daily archive click here.

In other news …

If that's a 'mini' budget, I'd like to see Kwasi Kwarteng's idea of a 'maxi' one. The wider building industry is one of the sectors most likely to be impacted directly or indirectly by the Chancellor's Growth Plan (links to speech and supporting documents). Here is a summary of the relevant announcements – including infrastructure boost, new Investment Zones, land and planning and Stamp Duty cuts – with some initial thoughts on their consequences.

Infrastructure

138 projects have been announced (link) that will be "prioritised for acceleration", in sectors like transport, energy, and telecoms. To aid this, there will be a new Bill set out in the coming months, to speed up delivery of infrastructure to "unpick the complex patchwork of planning restrictions and EU-derived laws that constrain our growth. We will streamline a whole host of assessments, appraisals, consultations, endless duplications, and regulations. We are getting out of the way to get Britain building".

Viewpoint: As ever with government announcements, the list contains mainly existing commitments, repackaged. But the list is dominated by road projects (86) – arguably roads are the most 'shovel-ready' of the various infrastructure sectors, with speed of delivery at a political premium. Other sectors are rail (10), local transport (15), oil & gas (5), digital roll-out and a range of decarbonisation initiatives. Companies most likely to benefit: major contractors; concrete, aggregate and steel construction product suppliers.

Housing, housebuilding

Two announcements, the highest profile of which was a cut in Stamp Duty. The threshold that no stamp duty is paid on has been raised from the first £125,000 of a property's value to £250,000 (maximum benefit, 2% of the increase, ie £2,500). First time buyers currently pay no stamp duty on the first £300,000, so this is being raised to £425,000 and the value of the property on which first time buyers can claim relief is being increased from £500,000 to £625,000. For a FTB buying a property between £300,000 and £500,000, the maximum saving is £6,250; from there to £625,000, the saving rises to £11,2500; a penny more and it drops back to £2,500 (thanks to Lawrence Bowles at Savills Research for hand-holding during the calculation!)

For housebuilding, the Growth Plan aims to increase housing supply and enable forthcoming planning reforms and the Government will also increase the disposal of surplus government land to build new homes.

Viewpoint: The Stamp Duty measures were one of two "rabbits" to escape early from the Chancellor's hat, but the actual savings are probably less than expected when leaked to the press in recent days. However, for most buyers and, indeed, first time buyers at average house prices, the saving of £2,500 will hardly be a 'deal breaker' – but it should present a useful reduction to up-front costs. Notably, it is permanent, which should prevent the rush seen during the Stamp Duty holiday – which arguably fuelled price growth above any resultant savings. Any first time buyer that can afford a £625,000 house would probably need a salary of around £200k – which begs the question, how many of this group haven't yet bought? The focus on land supply and speeding up of planning is a brave stand against 'blue wall' MPs. Companies most likely to benefit: estate agents, housebuilders, home improvement suppliers – probably all at the margins.

Investment Zones

"Early discussions" have been held with authorities in amost 40 locations, including Tees Valley, the West Midlands, Norfolk and the West of England, to establish Investment Zones. Planning rules will be liberalised, releasing land and accelerating development. For businesses in designated tax sites, for ten years, incentives will includ: accelerated tax reliefs for structures and buildings; 100% tax relief on for plant and machinery; no Stamp Duty on purchases of land and buildings for commercial or new residential development; and employment tax incentives.

Viewpoint: Reminiscent of the plan for post-Brexit 'free ports', but more widely based. It sounds like these could make a genuine 'levelling-up' difference to local economies. Companies most likely to benefit: industrial & logistics developers.

Investment

A range of initiatives, such as unlocking pension fund investment into UK assets. The Government will provide up to £500m new innovative funds and attract billions of additional pounds into UK science and technology. The controversial scrapping of bankers' bonus and an "ambitious package of regulatory reforms" to be unveiled later in the Autumn, with the justification that "we need global banks to create jobs here, invest here, and pay taxes here in London, not Paris, not Frankfurt, not New York". As well as the overall economy, companies most likely to benefit: investment funds, commercial real estate and infrastructure contractors.

Labour

Around 120,000 more people on Universal Credit will have to take active steps to seek more and better paid work, or face having their benefits reduced. Some of the more complex IR35 self-employment rules – an important issue in construction – will be repealed.

Viewpoint: Getting more people into full-time employment might help ease construction's skill shortages, especially if demand gets anything like the stimulus that Kwarteng is hoping for. But it will require a racheting up in training – always a bugbear for the industry.

The economy – the £64bn (and counting) question

The cost of the energy support package, huge investment *and* tax cuts (planned increase from 19% to 25% in Corporation Tax scrapped and income tax falling from 20% to 19%) make this probably the biggest gamble in budgetary history. If it pays off growth should hopefully reduce borrowing through a higher tax takes, but possibly fuelling further inflation; if it doesn't, we're probably all be facing penury. The market's taken it's own view of long-term prospects: the pound's fallen below $1.10. In the midterm, some in construction and property could benefit from a potential sugar rush of investment.

PERL does not hold any positions in the securities mentioned in this email. However, PERL's directors, officers, employees and contractors may have a position in any or related securities mentioned in this email. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this email.

The value of securities mentioned in this communication can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this communication may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this email. Past performance is not necessarily a guide to future performance.