Regulating Property And Probate Lawyers

PROPERTY AND LAW ROUNDUP

Date of Meeting:	**28 July 2022**
Purpose:	**For noting**
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Recommendations

The Council is asked to note the contents of this report.

Summary

The regular round up of key developments affecting the legal services regulated by the CLC.

Risk management

Information and insight compiled by the CLC informs the work of the staff and Council.

Financial impact

N/A

Diversity and inclusion impact

N/A

Communications requirements

N/A

Publication status of this paper

This paper is for publication.

THE HOME BUYING AND SELLING MARKET

Transaction volumes

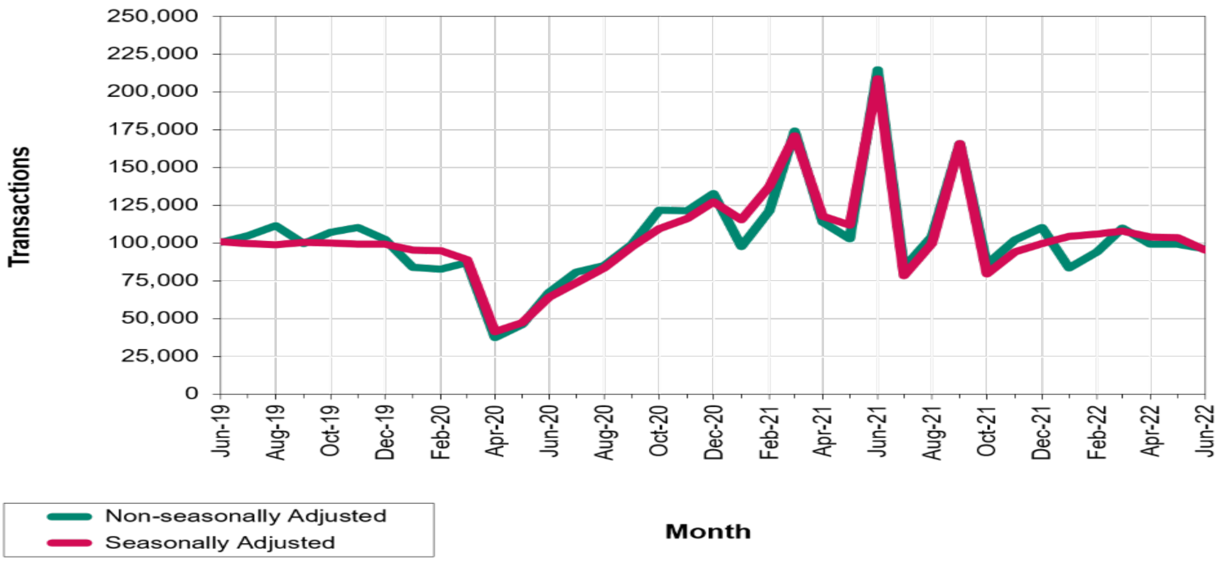
The latest available transactions data from the ONS demonstrates the following[1]:

- The provisional *non-seasonally adjusted* estimate of UK residential transactions in June 2022 is 96,290.
- This is 55.1% lower than June 2021, and 3.1% lower than May 2022.
- The provisional *seasonally adjusted* estimate of UK residential transactions in June 2022 is 95,420.
- This is 54.3% lower than June 2021, and 7.9% lower than May 2022.

This variance should be treated with caution as transactions from a year ago in June 2021 were significantly impacted by forestalling caused by temporarily increased nil rate bands of SDLT and LTT. (Following substantial decreases during the spring of 2020 due to impacts caused by the ongoing coronavirus pandemic, UK residential transactions gradually increased in subsequent months, alongside large peaks in March, June, and September 2021).

Taking a longer view, between June 2019 and March 2020 UK residential transactions followed a seasonal and stable trend, with higher transactions during summer and autumn seasons, and lower transactions during the remaining months.

Chart 1: UK Residential Property Transactions By Month (Between June 2019 & June 2022)



Source: ONS

[1] HM Revenue and Customs (HMRC) National Statistics are based upon records by HMRC, Revenue Scotland and the Welsh Revenue Authority (WRA) for Stamp Duty Land Tax (SDLT), Land and Buildings Transaction Tax (LBTT) and Land Transaction Tax (LTT) respectively. The latest release was published on 22 July 2022

Chart 2: UK Residential Transactions: Mid-Year Comparisons (From 2013 to 2022)

Key: Non-seasonally adjusted
Seasonally adjusted

	Non-seasonally adjusted	Seasonally adjusted
June 2013	91,270	89,000
June 2014	108,460	102,900
June 2015	114,770	105,330
June 2016	102,090	95,960
June 2017	118,090	103,550
June 2018	111,840	101,260
June 2019	100,340	100,890
June 2020	67,430	64,220
June 2021	214,530	208,750
June 2022 [*provisional estimates]*	96,290	95,420

Source: ONS

ECONOMIC OUTLOOK

Bank of England (BoE) Base Rates

The Bank of England has hinted at the steepest interest rate rise ahead in nearly 30 years. Governor Andrew Bailey said a 0.5 percentage point rate increase, to tackle soaring inflation, would be 'on the table' when the Bank's monetary policy committee next meets on 4 August.[2] That would be the biggest rise since 1995 and take rates to 1.75 per cent, the highest since December 2008.

Inflation is at a 40-year high of over 9 percent and is expected to rise further. In response Mr Bailey also recently claimed that the Bank would 'act forcefully' if it saw signs of inflation starting to embed itself in the economy. This will naturally impact the affordability of mortgages for new buyers, along with existing mortgage payers on variable rates.

[2] See attached for a list of 2022 BoE rate setting meetings: [Monetary Policy Committee dates for 2022 and 2023 | Bank of England]

In related comments, other commentators have also noted the risk that ongoing rate rises by the ECB and US Federal Reserve (amongst others) could also lead to further calls to raise UK rates, to avoid a possible run on sterling.

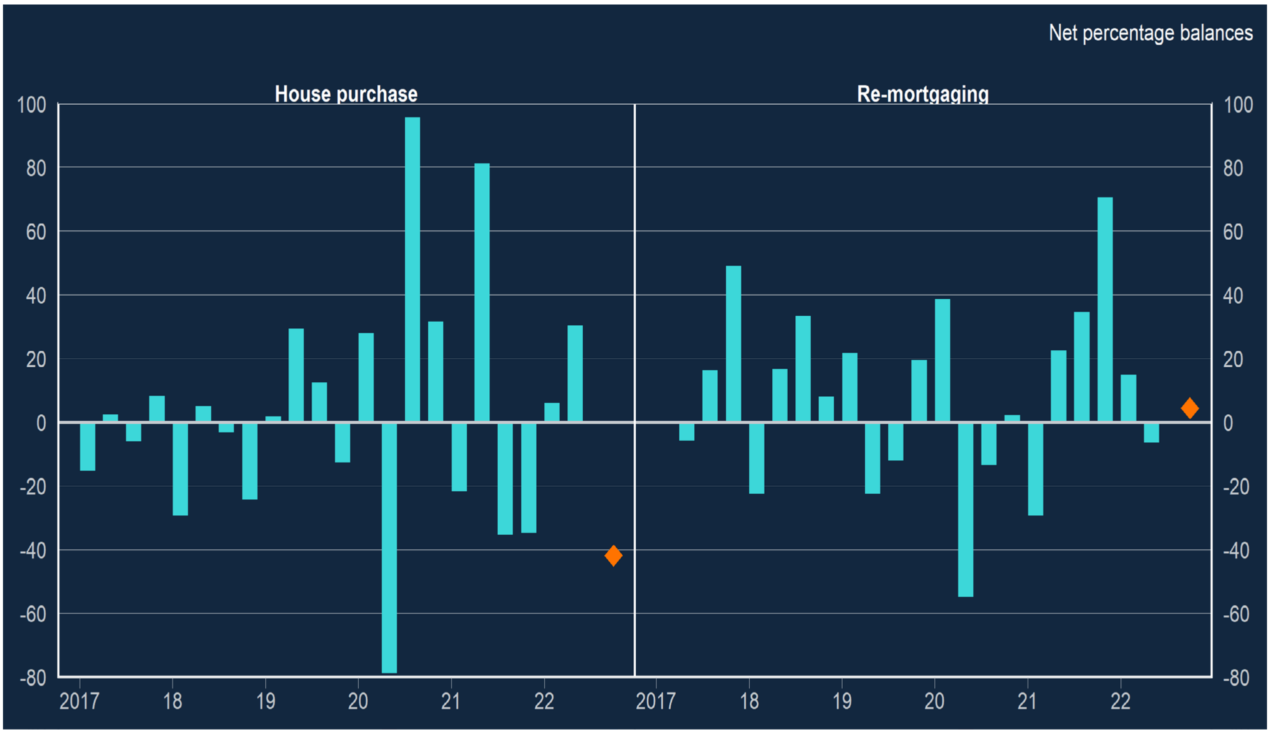
Mortgage Lending

On 1 July the BoE also released its most recent data on mortgage levels (covering May 2022). Net lending jumped to £7.4bn during that month, up from £4.2bn in April, which is the highest level since September 2021. This also sits above the 12-month pre-pandemic average, calculated up to the period February 2020, of £4.3bn.

Lenders approved 66,200 home loans during the month, slightly higher than in April (66,100) and beating economists' expectations of a decline. However, the Bank noted that secured lending for house purchase was expected to decrease in Quarter 3 of 2022.

Looking at the figures in more detail, demand for secured lending for *remortgaging* slightly decreased in Quarter 2, and was expected to be very broadly unchanged in Quarter 3 (see chart below).

Chart 3: Demand For Secured Lending For House Purchases And Remortgaging



(Key: Red Diamonds – indicate approximate predictions for the end of the next Quarter (Q3). These are general estimates and will be reviewed by the Bank).

Source: BoE

Affordability

Related to rate rises and other factors above, home owners this year could see their disposable income fall by more than a quarter as rising interest rates cause large jumps in some mortgage costs.

The Bank of England's five consecutive interest rate rises since December, combined with soaring inflation, mean that these households will see large drops in the money they have left over after tax and bills, a range of economists have warned.

A person earning £65,000 with a two-year fixed-rate deal that expires this year will see their disposable income fall by 23pc when they remortgage, after accounting for the increased cost of living and higher mortgage rates, according to some estimates of UK Finance figures.

This means the money they will have leftover after tax, basic household expenditure and credit commitments each year will fall from £27,086 to £20,839 – a drop of £6,247, or 23pc. If these borrowers do not remortgage, they will move onto their lender's "standard variable rate", which is likely to be far higher.

Lower earners will see even larger proportionate drops. A person earning £35,000 with a two-year fixed-rate deal that expires this year will see their disposable income drop by 27pc. Instead of having £12,222 leftover, they will have only £8,894 – a loss of £3,329.

During the 1990s, interest rates were climbing at a similar pace, but at that time rates were rising from a high base. However high street banks today appear more able to forbear on borrowers who are struggling.

This means there is probably less chance of forced sales, although mortgage arrears are likely to rise. Even if lenders do not push homeowners to sell, the affordability crunch may cause many to move anyway, i.e. rate rises of this magnitude may influence more people to consider selling their current property.

GOVERNMENT & LEGAL

Housing Legislation / Reform

There is uncertainty over the pace and direction of future plans on property legislation and related issues due to the changes in government. Following Stuart Andrew's resignation on 6 July (after less than five months in the role) Marcus Jones has become the 12th housing minister in as many years. (To note – before becoming an MP, he worked as a **conveyancing manager** at Tustain Jones & Co. Solicitors, based in Coventry and Nuneaton).[3]

[3] Political career – the MP was previously Vice Chamberlain of HM Household (Government Whip) from February 2020, Assistant Government Whip from July 2019 to February 2020 , and Parliamentary Under Secretary of State (Minister for Local Government) from May 2015 to January 2018. Prior to his election to Parliament in 2010 he was leader of Nuneaton and Bedworth Borough Council.

There are signs that this is making some of the market unsettled. Marcus Dixon, director of residential research at JLL, said that while worries over the economy might be exacerbated by this uncertainty, "of greater concern.. is the impact of political resignations and sackings on key issues impacting housing policy... [for example] with housing secretary Michael Gove sacked before he could finalise agreements with major housebuilders on cladding remediation”.

Their landlord property adviser, Adam Coffin, added he suspected this will only add time to wait to the already delayed EPC consultation release, as well as significantly slowing the changes to the private rented sector which were recently proposed. In addition, it may also affect delivery of recent changes on Right to Buy, and any other measures dependent on Parliamentary time and Cabinet priorities.

Even if no major policy changes are made by the new PM it is possible this hiatus may well carry on for a period past September, following the appointment of new Ministers (particularly those in their first post) and the possible organising of new/changed Departments.

Sanctions

Based on the earlier comments of the leading candidates to be Prime Minister (and their potential Cabinet members) there is the possibility of an increased tempo on sanctions, based around a shift in focus and resources.

While the policy details are currently light, and may be aspirational, some of the ideas floated include, for example, pushing for a stronger checks on funds from other states such as China. Or a stronger follow-up to the last Economic Crime Act than is currently planned, alongside more resources for OFSI (who are growing but currently only have c.70 staff to cover worldwide sanctions)

While we have established that the CLC’s regulated community currently has a low-risk profile we are ensuring that our recent guidance is regularly reviewed, and work is ongoing to engage with the (few) firms that fall in the higher risk categories again.

In the meantime the CLC has continued to regularly work with a range of partners, including other front-line regulators, the LSB, HMT, OPBAS and OFSI, to help collectively ensure that the UK’s sanctions regime is being monitored and implemented effectively. We will continue to do so, and closely follow future signs of renewed focus on this area.