



RESEARCH ARTICLE

Time for some hard yakka

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RESIDENTIAL

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Deciding on a High Value Council Tax Surcharge was the easy bit, argues Lucian Cook, Head of Residential Research at Savills. Implementing it is where the hard work really starts.

Given the plethora of options that were floated, assessed and then – one after the other – discounted prior to last year’s Budget, you could be forgiven for thinking that government has done the hard yards when it comes to the reform of property taxation in England.

However, settling on the snappily titled “High Value Council Tax Surcharge” was arguably the easy bit.

A STROLL IN THE PARK

After all, once you worked out that the progressive nature of stamp duty and Inheritance Tax meant that top-end properties already bore a significant tax burden, it became much easier to focus your efforts on addressing the limitations of an outdated Council Tax system.

Once the penny dropped that ramping up property taxes could easily hit working families in London and the South East, it became clear that getting either the thresholds or the charges wrong could backfire both economically and politically. And once the media had flushed out the inadvertent housing market consequences of the

more revolutionary proposals, so evolutionary reform became more appealing.

PUTTING IN THE HARD YARDS

The hard bit is implementing it. Firstly, a consultation exercise will be conducted to determine which reliefs should be offered, to whom, and on what terms.

And then there is a valuation exercise to be undertaken, in a part of the market where the algorithms behind Automated Valuation Models quickly become less reliable than a manifesto promise.

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Lucian Cook, Head of Residential Research

Not only are properties much less uniform than in the mainstream, but there is also more elasticity in their values.

That is borne out by our assessment of achieved prices relative to asking price and spread in the size of properties marketed at or around £2 million. In addition, many of the properties being valued will not have changed hands for some time, limiting the amount of recent transactional data on which to base assessments of value.

STAFFING UP

Reports that HMRC are looking to recruit up to 1,000 valuers to help in this exercise are testament to the scale of the administrative challenge. They, much like our own valuation teams, are going to be busy.

Our best estimates are that there are in the order of 140,000 properties worth £2 million or more, but precisely identifying them is going to require an assessment of many more, given how quickly the pyramid of property values tapers at the top.

The exercise won't require those valuers to arrive at a precise property value. Instead, it will require them to make a judgment as to whether it fits into one of the four valuation bands.

But anything near a threshold is likely to be closely scrutinised and often challenged. This is especially the case as homeowners are likely to be fully aware that the balance between the art and science of valuation becomes more weighted to the former than the latter at this end of the market.

THE BALANCE BETWEEN ART AND SCIENCE

The exercise is made no easier by the date of valuation. In weaker market conditions, the impact of imperfections on property values becomes more magnified in what is already a discerning market. And the tea leaves tell us that the prime property market is likely to remain price sensitive this year.

A 2026 valuation date raises the important question of whether valuers will make their assessment in knowledge that the tax is coming (as appears to be the case) or whether they will be expressly directed to ignore that.

It is worth remembering that at the time it was announced, the Treasury suggested that the tax surcharge would have a 2.5% depreciatory impact on prices.

In theory, that brings a £2 million home down in value to £1.95 million, a £2.5 million home down to below £2.45 million, a £3.5 million home closer to £3.4 million and a £5 million home below £4.9 million.

So, the bunching of transactions spot on the proposed valuation thresholds seen in 2024 and 2025 is likely to fall below them in 2026.

WORTH THE CANDLE?

All of that begs the question as to whether the whole exercise is worth the candle, especially given the tax is due to be implemented in 2028, soon followed by a general election in 2029. But, in that regard, affected homeowners should perhaps be careful of what they wish for.