BPF

The Rt. Hon. Jeremy Hunt MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

13 Oct 2023

Dear Chancellor

BPF 2023 AUTUMN STATEMENT REPRESENTATION

The British Property Federation (BPF) represents the UK real estate sector, an industry that contributes £137bn a year to the economy and supports 2.3m jobs – one in 12 of all jobs. We are invested in communities across the UK – revitalising our cities and shared spaces, re-imagining our town centres and creating vibrant new places designed for the way we live today.

Our members invest for the long term across all commercial property asset classes (including retail, offices and logistics hubs) – and increasingly in residential asset classes as well, notably 'Build to Rent' and Purpose-Built Student accommodation, and more recently in homes specifically designed for elderly people.

Some of our sector's main challenges and priorities mirror those of the wider economy and the communities we invest in – and we share a number of the Government's key priorities:

1. **Growth**: delivering sustained growth across the UK to improve living standards, providing certainty and stability to encourage investment, and driving economic growth to our local high streets.
2. **Housing**: increasing housing supply across all tenures and ensure access to decent accessible homes for everyone at all stages of life.
3. **Town centres**: revitalising our towns and high streets across the country through partnership to create long-term growth plans and thriving communities.
4. **Green economy**: decarbonising the built environment; reducing our tenants' energy bills through more efficient buildings; delivering clean energy to the grid; creating new jobs and healthier places to live.

A summary of our policy recommendations is set out on the following page, with further details included in the appendix. We would welcome the opportunity to discuss our proposals in more detail, please do not hesitate to get in touch for further information or to arrange a meeting.

Yours sincerely

Melanie Leech

Melanie Leech CBE
Chief Executive, British Property Federation

Summary of policy recommendations:

1. **Growth**
    a. ***Capital allowances*** *– make full expensing permanent - with a 'Green Super Deduction' to turbo boost green investment.*
    b. ***Ringfence additional increases in planning fees for local authority planning departments*** *– the planning system is the key enabler to deliver more homes, revitalise our high streets, and accelerate economic growth and investment. Our planning departments need sufficient resourcing to help deliver growth an investment in our towns and cities.*
    c. ***Facilitate Defined Contribution pension schemes to invest in commercial real estate*** *– capital from defined contribution pensions schemes are critical sources of finance for our regional towns and cities – the regulatory framework must support this investment.*
2. **Housing**
    a. ***Zero rate VAT on repairs and maintenance*** *of residential buildings – the tax system should not create barriers to people improving the safety, quality, or energy efficiency of their homes. Furthermore, by improving the investment proposition for long term investors in residential asset classes, such as Build-to-rent; purpose-built student accommodation; and social housing – more housing can be developed. (If the cost of this measure is challenging in the short term, at the very least, Government should address the shortfalls with the current VAT relief for Energy Saving Materials).*
    b. ***Use CIL exemptions to facilitate more Key Worker Housing*** *– bring 'discounted market rent' within the CIL exemption to facilitate greater provision of Key Worker Housing.*
3. **High streets**
    a. ***Business rates*** *– short term policies to better support businesses:*
        i. ***Freeze the tax rate for another year*** *– it's already over 50% - don't uplift it further by inflation.*
        ii. ***Extend Empty Property Relief to 12 months****, to better reflect true vacancy periods.*
        iii. ***Introduce a 'fresh start' style relief to incentivise take up of long-term vacant units*** *- a 12-month business rates relief for new occupiers of vacant units will remove barriers to occupiers taking on vacant space – and help breathe new life into our high streets.*
    b. ***Construction Industry Scheme (CIS) – remove landlord to tenant payments for fit out works*** *– as recognised in Government's consultation this summer; the CIS scheme inadvertently imposes a huge cash flow challenge when some businesses lease new space – this barrier to new businesses taking on space on our high streets must be urgently addressed.*
4. **Green economy**
    a. ***Set out a long term plan with clarity on the regulatory milestones*** *– real estate investment has long term time horizons - certainty on the regulatory milestone will enable property owners to invest with confidence.*
    b. ***Enable REITs (Real Estate Investment Trusts) to invest in renewable energy generation for their tenants*** *– tenants are increasingly demanding that their buildings are supplied with renewable energy - REITs are perfectly placed to respond to this and even contribute capital to invest in renewable energy supply for their portfolio - the REIT rules should ensure that this investment in renewable energy generation can be harnessed.*

Further details on each of these policy proposals are set out in the following appendices.

Appendix 1: Growth and investment

1. The British property industry's economic contribution is huge, adding more than £137.5bn a year to the UK economy – 7% of Gross Value Added (GVA). The sector also directly supports 1 in 12 jobs around the country and many millions more through the workspaces; industrial and logistics; retail and leisure buildings we develop, own and operate. Government can support our central role in attracting invest and supporting growth with the following policies:

Recommendation 1: Capital allowances – full expensing and a green super deduction

2. As we set out in response to the Government's consultation on capital allowances last year, we need bold changes to the capital allowances regime to expedite improvement works to commercial buildings - including retrofitting and energy efficiency improvement works.

3. We support calls to make permanent full expensing (which was introduced for three years at the Budget earlier this year). However, our investment incentives also need to recognise that capital allowances are currently of limited value to some businesses – such as property developers - with a low level of initial profitability. We therefore suggest the government introduces an alternative form of relief for capital expenditure "above the line", using a repayable tax credit system. This would be similar to the 'super deduction' measures – and could be targeted at government priorities, such as energy efficiency improvements, renewable energy generation, or other green improvements.

Recommendation 2: Ringfence planning fees for local authority planning departments

4. The planning system is the key enabler to deliver more homes, revitalise our high streets, and accelerate economic growth and investment. Our planning departments need sufficient resourcing to help deliver growth and investment in our towns and cities.

5. We were disappointed that the Government decided not to ringfence additional planning fees in law for planning departments, following the consultation earlier this year. As we noted on our response, we are supportive of the private sector investing more into local authority planning departments. We believe this additional resource should result in genuine additional resource being made available to local authority planning teams – to support them to provide a higher level of service - helping to deliver on development and regeneration projects for local communities.

Recommendation 3: Facilitate investment from Defined Contribution (DC) pension schemes into commercial real estate

6. We to need to remove barriers to defined contribution pension schemes investing in productive and illiquid asset classes, including commercial real estate. Our own UK pension schemes have traditionally invested significantly in towns and cities in our regions – and as defined benefit pension scheme investment falls away, we must make sure that the frameworks are in place for defined contribution pension capital to replace it – and even exceed it. Harnessing this institutional capital from DC pension funds will be crucial to financing a number of Government's key priorities, including levelling up, revitalising our high streets, creating new homes, and retrofitting our property stock. In this regard, we fully endorse the Autumn Statement representation form the Association of Real Estate Funds (AREF).

Appendix 2: Housing – improving standards and boosting supply

7. **Our sector has the potential to deliver more good quality homes even faster**. The Build to Rent market has grown significantly over the last decade – with 250,000 build to rent homes built and in the pipeline across the UK. Build-to-rent offers a secure high quality rental home to individuals and families and there is the potential for us to do much more – especially to deliver for parts of the housing market which are in desperate need of greater supply – in particular: **key worker housing; affordable housing; and older people's housing.**

8. The policies set out below will support greater investment from the private sector – to both improve the standards of our existing homes, and generate greater supply.

Recommendation 4: Zero rate VAT on repairs and maintenance of residential buildings

9. The tax system should not create barriers to improving the safety, quality, or energy efficiency of our homes. Furthermore, our tax system should be encouraging us to repair and recycle what we have – not encouraging us to knock down and rebuild from scratch.

10. As well as removing barriers to improving our existing stock - this measure would also improve the investment proposition for long term investors in residential asset classes, such as Build to rent; purpose-built student accommodation; social housing; and older people's housing – by improving the viability of these investments, more housing will be developed.

11. This policy also has the potential to drive positive change in a number of other areas – such as creating job opportunities in construction, and removing the incentive to use the shadow economy. When a similar policy was trialled in the Isle of Man, businesses reported a number of positive effects – including:
    a. ***Nearly all (96%) traders reported a rise in business.***
    b. ***Just under two thirds (64%) believed that the shadow economy had decreased.***
    c. ***Around 43% stated an increase in the number of employees.***
    d. ***Approximately 40% of firms indicated that customers were having work done that would have not been carried out under the previous VAT rate of 17.5%.***
    e. ***Around a fifth claimed that it had stopped customers from either carrying out work themselves; using rogue traders; or requesting 'cash-in-hand deals'.***

12. Further details on the merits of reducing the VAT on repairs and maintenance works – and the effects of the trial in the Isle of Man, can be found in this Cut the VAT coalition research by Experian.

13. We recognise that at an estimated costs of £3.75bn, this measure may be challenging in the short term. At the very least - more targeted VAT reliefs should be considered which focus on Government's priorities. For example, as we noted in response to Government's consultation on Energy Saving Materials (ESM) earlier this year, VAT relief associated with ESM works should be available where they form part of a broader project, and not just as part of a standalone 'ESM' installation/supply.

Recommendation 5: Use CIL exemptions to facilitate more Key Worker Housing

14. More key worker housing can be provided in Build-to-Rent developments if 'Discounted Market Rent' housing is brought within the CIL (Community Infrastructure Levy) exemption.

Appendix 3: Reviving our high streets and town centres

15. We are already heavily invested in town centres across the country, with almost 50% of property on the UK's top 22 high streets owned by institutional investors such as pension funds, insurance companies and collective investment schemes.

16. With national high street vacancy rates stuck at around 14% and an oversupply of retail space of between 25% to 40%, our town centres need rethinking and repurposing for the 21st Century. We want to work with local authorities to create 'coalitions of the willing' to drive private sector investment into town centres and create thriving economic and social hubs for the future. We welcome High Street Accelerators and the Long Term Plan for Towns, and call on Government to continue to work with property owners to consider the best ways to unlock private sector investment and capacity to regenerate our high streets and town centres.

Recommendation 6: Business rates

17. While we continue to advocate for a more responsive business rates system and a lower tax rate in the longer term, the following measures should be introduced to support businesses in the **short term**:

    a. **Freeze the tax rate for another year** – it's already at 50% - which is far higher than other taxes. This rate should not be increased further by inflation.

    b. **Extend Empty Property Relief (EPR) to 12 months** to better reflect true vacancy periods – followed by a 50% discount for vacant properties thereafter. Empty Property Relief (EPR) is intended to support a property owner while it markets and re-fits its property between tenants. It is currently available to retail and office properties for 3 months, and logistics properties for 6 months. Data on vacancy periods suggest that it typically takes closer to 12 months for most asset classes to find a new tenant. As we recommended in our response to Government's recent consultation, EPR should be extended to better reflect actual vacancy periods.

    c. **Introduce a 'fresh start' style relief to incentivise take up of vacant units** – while extending the Empty Property relief will support more viable properties during typical vacancy periods, there are acute challenges with persistent or long-term vacant units on our high streets which need to be addressed as well. Drawing on the 'fresh start' relief in Scotland, we suggest a 12-month business rates relief for new occupiers of vacant units, to remove barriers from occupiers in taking on vacant space.

Recommendation 7: Construction Industry Scheme (CIS) – remove landlord to tenant payments for fit out works from the CIS withholding tax scheme

18. As recognised in Government's consultation on CIS reform this summer; the CIS scheme inadvertently imposes a huge cash flow challenge on businesses leasing new space, where a landlord pays for some of the refurbishment works to their space. 'Landlord to tenant' payments for fit out works need to be clearly removed from the CIS rules – to remove this inadvertent barrier to new businesses taking on space on our high streets.

Appendix 4: Supporting a Green economy

19. Our sector's growth will support new green industries and generate new green jobs.

20. Our sector is working hard to improve the energy efficiency of our homes and buildings - and decarbonise our building stock. Real estate currently accounts for around 25% of carbon emissions – second only to transport, so addressing emissions from real estate is crucial to meeting the Government's net zero targets. Real estate investment has long term horizons – 80% of the buildings that will be around in 2050 have already been built – so we already need to be making decisions with that 2050 target in mind. With clarity over regulatory milestones, that investment can be unleashed more quickly.

21. Our investment will reduce our tenant's energy bills through more efficient buildings; deliver clean energy to the grid; and create new jobs and healthier places to live.

22. A number of the policies already set out above will support growth and investment generally, as well as the green economy, notably:
    a. ***Full expensing and a green super deduction*** will provide quicker tax relief for retrofitting works.
    b. ***Zero rating VAT on repairs and maintenance*** will encourage us to maintain and reuse what we have (rather than the tax rules favouring us to knock down and start again).
    c. ***Extending Empty Property Relief*** to better reflect actual vacancy periods will help provide property owners with some breathing room from business rates to carry out retrofitting works between tenants.

23. In addition to the above, the following policies will support the real estate sector to grow our green economy.

Recommendation 8: Set out a long-term plan with clarity on the regulatory milestones

24. Our sector is already working hard to improve the energy efficiency of our homes and buildings - and decarbonise our building stock, but this needs to be accompanied by clear policy and regulation by Government. Real estate investment has long term time horizons – providing a long-term plan with greater clarity on regulations and milestones will give investors' greater confidence to bring forward investment.

Recommendation 9: Enable REITs (Real Estate Investment Trusts) to invest in renewable energy generation

25. Broadening the asset classes that a Real Estate Investment Trust (REIT) can invest in to include renewable energy generation infrastructure, such as wind turbines or solar farms, will unlock finance for additional energy capacity and support the decarbonisation of the grid.

26. Tenants are increasingly demanding higher sustainability standards in their properties, and landlords are increasingly considering sourcing renewable energy for their portfolios, in order to differentiate their properties. REITs are well placed to respond to this demand directly – by investing in renewable energy generation infrastructure to provide energy to their portfolios. Government should capitalise on this - and broaden the asset classes that REITs can invest in to harness greater investment in renewable energy generation infrastructure.