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

24 January 2024

Dear Chancellor

BPF 2024 SPRING BUDGET 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. **Stronger 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. ***Increase investment by the private sector and the government in our 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 and investment in our towns and cities.*
    b. ***Introduce new Special Planning Zones for key regeneration projects on brownfield land*** *– a special planning regime should be designated by central Government in key urban areas that are ripe for growth and regeneration. This would mean that conditions for development were laid out at a zone-level, and permissions for individual buildings would not be required.*
    c. ***Facilitate Defined Contribution pension schemes investment 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 – Government should consider prioritising e.g. social/affordable housing in the first instance – and at the very least, Government should address the shortfalls with the current VAT relief for Energy Saving Materials).*
    b. ***Build-to-rent developments should pay the fair rate of SDLT for the price of units in the scheme*** *– the Multiple Dwellings Relief (MDR) was originally intended to support the supply of private rented housing by applying a fair rate of SDLT for the average price of units in a housing development. MDR has not worked as intended since the introduction of the SDLT surcharges for additional dwellings and overseas buyers – and developments outside of London and the South-East have been disproportionately affected. Fixing MDR will improve the viability of much needed new build-to-rent homes across the country.*

3. **Stronger town centres**
    a. ***Business rates*** *– increasing fixed costs on businesses at a time of continuing relatively high inflation will only exacerbate cost of living pressures. Short term priorities for business rates include:*
        i. ***Reverse the tax rate increase from 50% to 55%*** *– a tax rate of 55% is unsustainable and an unreasonable fixed cost to place on business. The tax rate should be frozen at 2023 levels for another year – and a plan must be made to bring the rate down to more sustainable levels over the medium term.*
        ii. ***Extend Empty Property Relief to 6 months****, followed by a 50% discount, 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. This would be a positive incentive to support high streets and SMEs, rather than the punitive 'stick' of High Street Rental Auctions, which in themselves do not increase demand for properties.*

b. ***Boost private investment in healthcare*** *– the Government should explore ways in which private sector investment can be encouraged into healthcare, for example through the provision of third-party solutions to primary care financing and investment into initiatives like the New Hospital Programme.*

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. ***Introduce a 'Green Super Deduction'*** *- to turbo boost green investment in retrofitting buildings.*
   c. ***Unlock the potential of property owners to invest in renewables:***
      i. *Introduce an effective incentive structure for private sector energy providers of surplus energy e.g. through rooftop solar*
      ii. *Ensure the REIT regime encourages property owners to capitalise on opportunities to invest in renewable energy generation for their tenants – and to capitalise on the opportunities that their properties provide e.g. roof tops for solar.*

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 investment and supporting growth** with the following policies:

Recommendation 1: Increase investment by the private sector and the government in the planning system

2. The BPF strongly supported the December 2023 rise in planning fees. However, despite this increase, the Department for Levelling Up, Housing and Communities (DLUHC) still expects there to be a shortfall between costs associated with processing planning applications and money raised by all application fees going forward.

3. 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.

4. Additional resource could come in a number of different forms:

   - **An enhanced planning service for larger schemes.**
   - **A refreshed system with the private sector paying higher fees in return for guaranteed levels of service, and strong incentives for local authorities to meet these improved service standards.**
   - **Through initiatives such as Public Practice which is doing excellent work increasing the pride of public sector planning and attracting high quality candidates to a variety of public sector roles across the built environment discipline.**
   - **Ringfencing additional planning fees in law for local authority planning departments.**

5. The private sector is prepared to put more resourcing into the system if it guarantees a better level of service for our largest development schemes. We look forward to engaging with the government's proposals on this when the DLUHC consultation emerges in the coming months.

Recommendation 2: Introduce new Special Planning Zones for key regeneration projects on brownfield land

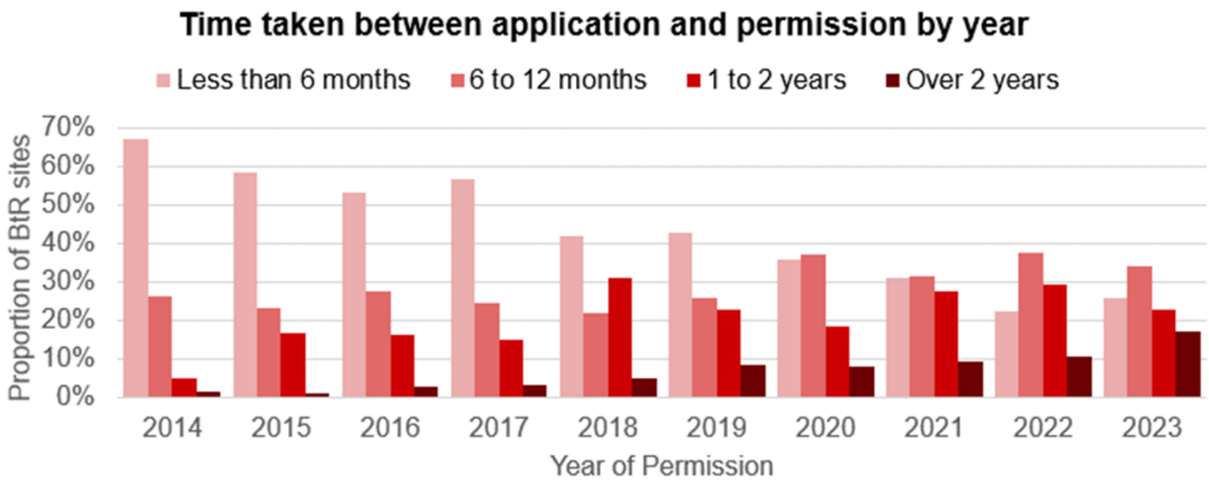
6. The planning system can be an enabler or blocker of growth. Time taken in securing permissions can add significantly to project risk, cost, and in some cases prevent development happening. In turn, this prevents the benefits flowing to the local community, and nation, in terms of new facilities and growth.

7. The Planning White Paper had suggested a nationwide approach to zoning. We can see why such a radical step was not taken forward. Legislation, however, already makes provision for Simplified Planning Zones (SPZ). An example is the Slough Trading Estate, where an SPZ has been in existence since 1995. It provides a specialised planning permission that applies across most

of Slough Trading Estate. It sets out a range of conditions that must be met in order that some types of development can be built without the need to apply for an individual planning permission. As a result, the Trading Estate is able to be more responsive to growth opportunities, allowing the owners of the Estate to invest with confidence, and attract business occupiers, who know the development process will not be prolonged.

8. The Government could take a similar approach with key brownfield urban development areas it has designated. Planning conditions would be set at the level of the zone, rather than individual buildings. Speeding up the process of delivery, cutting risk and cost, and driving growth in areas in need of regeneration.

9. The need for additional resource and simplified planning procedures is well illustrated by recent research we have conducted which shows that the proportion of Build-to-Rent developments in planning for over a year has increased from 7% in 2014 to 40% in 2023 – see graph below. This is a worrying trend which will add further cost and risk to potential new developments.



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

10. 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 Budget representation form the Association of Real Estate Funds (AREF).

Appendix 2: Housing – improving standards and boosting supply

11. **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.

12. 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

13. 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.

14. 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.

15. 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'.***

16. 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.

17. We recognise that at an estimated cost of £3.75bn, this measure may be challenging in the short term – so Government may want to consider rolling this measure our piecemeal – e.g. focussing on social and affordable homes in the first instance.

18. At the very least - Government should address the shortfalls with the current VAT relief for Energy Saving Materials. As we noted in response to Government's consultation on Energy Saving Materials (ESM) earlier last 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. This would ensure that the tax relief reflects that energy efficiency works are typically carried out alongside other works.

Recommendation 5: Ensure Build to Rent pays the fair and appropriate SDLT rate by fixing the Multiple Dwellings Relief

19. The Multiple Dwellings Relief (MDR) was originally intended to support the supply of private rented housing by applying a fair rate of SDLT for the average price of units in a housing development. However, MDR has not worked properly since the introduction of the SDLT surcharges for additional dwellings and overseas buyers. These surcharges reduce liquidity and viability of new housing developments in the build-to-rent market – particularly outside of London and the South East. Multiple Dwellings Relief must be fixed to ensure that build-to-rent developments can access to appropriate SDLT rates - thereby improving the ability of the build-to-rent sector to contribute to our housing needs across the country.

Appendix 3: Reviving our high streets and town centres

20. 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.

21. 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

22. 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. **Reverse the tax rate increase from 50% to 55% and freeze for another year** – a tax rate of over 50% is anti-business and places a huge fixed cost on businesses before any profits have been made – which in turn will be passed on to consumers and exacerbate cost of living pressures. A plan must be made to bring the tax rate down to more sustainable levels over the medium term.

    b. **Extend Empty Property Relief (EPR) to 6 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. However, data on vacancy periods suggest that it typically takes closer to 12 months for most commercial buildings 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. We note the Government's High Street Rental Auctions (HSRA) policy as one measure to reduce vacant units. However, the level of business rates is often cited by property owners as a key barrier for tenants to take out leases, and HSRAs do not make units any more viable for potential tenants to occupy. In addition to the ‘stick’ of HSRAs, the ‘carrot’ of a fresh start rates relief should be offered to long-term vacant units to help SMEs and community organisations, who are least able to afford rates, take out leases on properties and support vibrant high streets and town centres.

Recommendation 7: Boost alternative investment into healthcare

23. NHS progress and resourcing is being hindered by a lack of capital investment, preventing the Government from delivering on its ambitious healthcare priorities. While we support initiatives such as the Primary Care Infrastructure Fund, these do not provide sufficient capital to allow the NHS to meet the UK's growing healthcare needs and undo decades of relative underinvestment. Investment in primary care would offer excellent value for money for the public sector.

24. Private sector investment has the potential to fill this gap and bolster NHS resourcing across the board, however, this can only be done through Government facilitation. We suggest the Government explore ways in which private sector investment can be encouraged into healthcare, for example through the provision of third-party solutions to primary care financing, and investment in initiatives like the New Hospitals Programme.

Appendix 4: Supporting a Green economy

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

26. 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.

27. 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.

28. A number of the policies already set out above will support growth and investment generally, as well as the green economy, notably:
    a. ***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).
    b. ***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.

29. 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

30. 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: Introduce a Green Super Deduction

31. We welcomed Government's decision to make permanent full expensing the Autumn Statement. 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. While we recognise that this measure will not be without cost, Government may be minded to roll it out to a limited number of asset classes in the first instance, such as social and affordable housing, or heritage properties, where viability of retrofit works is particularly challenging.

Recommendation 10: Unlock the potential of property owners to invest in renewables:

32. With access to land, property and capital, as well as relationships with tenants, property owners are well placed to invest in renewable energy generation – either as part of their buildings, or offsite, to provide green energy for their tenants. Government should support property owners to make the most of this opportunity by:

    a. Introducing an effective incentive structure for private sector energy providers of surplus energy e.g. through rooftop solar.
    b. Ensuring the REIT regime encourages property owners to invest in renewable energy generation for their tenants – and to capitalise on the opportunities that their properties provide e.g. roof tops for solar.

33. Harnessing greater private sector investment in renewable energy generation infrastructure will allow us to decarbonise the grid more quickly.