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

1 Feb 2023

Dear Chancellor

BPF 2023 SPRING BUDGET REPRESENTATION

The British Property Federation (BPF) represents the UK real estate sector, an industry that contributes more than £107bn to the economy and supports 2.3million 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.

Some of our sector's main challenges and priorities mirror those of the wider economy and the communities we invest in: cutting carbon emissions, reimagining our town centres and increasing the supply of good quality homes. Below we set out policies that can help our sector address these challenges more quickly – and at the same time, support our economic recovery by unlocking growth and investment across the UK.

1. **Accelerating the net zero carbon transition**
    a. *Radical reform to capital allowances*
    b. *Allow Real Estate Investment Trusts (REITs) to invest in renewables*
    c. *Zero rate VAT on repairs and maintenance of residential buildings*
2. **Thriving town centres across the UK**
    a. *Business rates reform*
    b. *Town Centre Accelerators*
3. **Delivering homes**
    a. *Supporting the development pipeline of new homes*
    b. *Building safety levy*

Our appendix provides more detail - please do not hesitate to get in touch for further information.

Yours sincerely

Melanie Leech

Melanie Leech CBE
Chief Executive, British Property Federation

Appendix: BPF proposals to harness investment and stimulate growth

1. Accelerating the transition to net zero carbon

80% of the property that will exist in 2050 has already been built, so it is essential that we work to improve the energy efficiency and sustainability of our existing homes and business premises. This will have the added benefit of reducing the cost of heating homes and businesses.

Many property owners are already developing net zero plans for their assets, but Government can accelerate this work and encourage investment through the following tax changes:

a. Radical reform to capital allowances

As we set out in response[1] to the Government's consultation on capital allowances last year, we need bold changes to the capital allowances regime to expedite retrofitting and energy efficiency improvement works for commercial properties. By way of example, some typical energy efficiency measures and sustainability features (like insulation and solar panels), can take more than 16 years to receive tax relief through the current capital allowances system. This is far too long to swing the dial on investment decisions - something radical is needed so that tax incentives play a larger role in investment decisions. Not only would that suggest accelerating the effective rate for relief (such as through using a first year allowance – i.e. providing full tax relief in one year) but also rethinking how that relief is given, recognising that a "tax expense" is of no value to some businesses – such as property developers - with a low level of initial profitability. We therefore propose an alternative form of relief for capital expenditure "above the line", using a repayable tax credit system (as applies to R&D costs).

b. Allow REITs to invest in renewables

As set out in our response to the UK Funds review[2] , 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.

One of the biggest challenges we face is the retrofitting of our housing stock. We support the Construction Leadership Council's National Retrofit Strategy [3] but would propose going further:

c. Zero rate VAT on repairs and maintenance of residential buildings

The National Retrofit Strategy proposes reducing VAT on building repairs and maintenance, to ensure that tax is not a blocker to anyone wanting to improve the energy efficiency of their own home. We would advocate going further and zero rating the VAT on these works. Existing targeted VAT reliefs for installing energy saving materials are not effective, because energy efficiency improvements are rarely carried out in isolation – therefore VAT relief should be across all repairs and maintenance works. This aligns the VAT treatment with building a new home – ensuring that the tax system encourages retrofit.

[1] https://bpf.org.uk/media/5209/220701-bpf-response-to-cas-consultation-may-2022-final-33.pdf
[2] https://bpf.org.uk/media/4003/uk-funds-review-bpf-response-20-april-2021.pdf
[3] https://www.constructionleadershipcouncil.co.uk/wp-content/uploads/2021/05/Construction-Leadership-Council-National-Retrofit-Strategy-Version-2.pdf

2. Thriving town centres across the UK

a. Town Centre Accelerators

We have been discussing with DLUHC our ideas for Town Centre Accelerators (TCAs), where councils, communities, businesses and property owners work together to improve town centres. There is a significant amount of private sector capital available to deploy and we would urge you to allocate a small amount of seed funding to get these off the ground, supporting planning and coordination capacity in local authorities on a pilot basis.

b. Business rates reform

Fundamental reform

The Government has taken some important steps on business rates, notably reducing the time between revaluations and abolishing the downwards phasing mechanism last Autumn. Further reform is needed to ensure that the amount levied on businesses is affordable and fair – through:

1. **More frequent revaluations –** ideally annual revaluations, to ensure businesses are paying rates bills which fairly reflects the value of their business space. As Government puts forward legislation to move towards three yearly revaluations from 2023, this legislation should be future proofed to ensure that a future Government can increase the frequency of revaluations more easily, without requiring primary legislation.
2. **Shorter AVD (antecedent valuation date) –** the time between valuing properties and the new rates bills coming into effect is currently two years in England and Wales. This should be reduced to a year, as currently in Scotland.
3. **A lower tax burden** – the tax rate of 50% is too high, and far higher than our peers in the OECD and G20. The tax rate should be reduced, and fixed (like other taxes), rather than being linked to inflation.

Short term reforms

Full reform will take time to implement - but there are immediate measures the Government should take to ensure that business rates are not a barrier to much needed investment in our towns and cities:

1. **Extend empty rates relief** – 3 months' relief is not enough time to find a new tenant, let alone reflect the time needed for refurbishments or deep retrofits to improve the energy efficiency of our buildings. As a minimum, increasing empty rates relief for retail and offices to 6 months would align with rates relief for logistics premises. Further support should be given to remove barriers to those seeking to retrofit or refurbish their properties – for example, allowing a property owner to reduce their empty rates bill when capital investment has been made.
2. **Roll out the improvement relief as soon as possible** – to incentivise much needed investment in upgrading and repurposing of town centre buildings rather than penalising a rate payer as soon as they make an investment in a property. To encourage investment in work to decarbonise buildings, Government should also consider a longer delay in any uplift in rates arising from improvement work that improves the environmental performance of a building.
3. **Resource the VOA to automate and digitalise** –the VOA must have the resource to automate, digitalise and streamline their processes now, in order to achieve the long term reforms we are advocating.

3. Housing – supporting the development pipeline of new homes

a. Housing supply

Long term investors in property have increasingly invested in residential property. Over the last decade, the professionally managed rental sector (Build-to-Rent), and Purpose Built Student Accommodation (PBSA) have become more established investment asset classes, and more recently, investment in higher quality rental options for older people has increased. While this sector has grown significantly over the last decade, it is still in its infancy relative to some international counterparts . Importantly, the sector still requires significant new development activity in order to grow – and development activity is often considered risky, and typically harder to attract investment in, especially during an economic downturn.

Government often supports the build-to-sell market during economic downturns (such as through SDLT reductions, and policies like 'help to buy'). Similarly, Government should support the Build-to-Rent market, to ensure that the approaching recession does not stifle the development pipeline. Policies that de-risk the investment and support the supply of debt and capital would include:

1. An SDLT refund for new residential developments of more than 100 units to increase liquidity in the market – and therefore 'de-risk' the development phase of these assets.
2. Reduce the cost of debt and provide meaningful leverage by extending the original Private Rented Sector Housing Guarantee to include development finance. This would add a debt funding option to Build-to-Rent developers and reduce the cost of debt, thereby helping to maintain the viability of Build-to-Rent developments.
3. The Government/Homes England offering potential open book and accelerated procurement processes would speed up delivery of Build-to-Rent homes lowering project costs and resulting in properties being completed and rented out more quickly.

b. Building Safety Levy (BSL)

Rental development (Build-to-Rent, Purpose-Built Student Accommodation and Older Peoples rental housing) is an increasingly important part of housing supply. The current consultation on the Building Safety Levy (BSL) leaves scope for exclusion of rental development. We support exclusion on several grounds:

1. The impact of the BSL on supply of rental accommodation, in a market that is already suffering from a severe shortage of property, putting upward pressure on rents for tenants, students and older people.
2. The detachment of rental sector from the problem the BSL is seeking to resolve, raising funds to support leaseholders. Rental developments do not have leaseholders, any remediation works are funded by building owners, who do not have access to the Building Safety Funds.
3. The complexities of incorporating sectors that tend to have small units and generous communal space.
4. The different nature of returns – build for sale developers make instant profits – rental developers generate most of their returns in the long term from rents, rather than development, and have ongoing costs of management.
5. The impact on the sectors' abilities to compete in the land market versus uses such as hotels, which will not be subject to the levy.