



Welsh Government

Consultation response form

Consultation Number: 49299

Consultation on land transaction tax reliefs.

Overview **The Welsh Government wants to hear the public’s views on proposals to abolish land transaction tax (LTT) multiple-dwellings relief, and to extend an existing LTT relief to Welsh local authorities when purchasing property for social housing purposes. The Welsh Government is also interested in views on the option of amending the rules related to the purchase of six or more dwellings in a single transaction, and options to review or amend other LTT reliefs.**

How to respond Please respond to this consultation by answering the questions set out within this document by **19 May 2024**. Responses can be submitted in a number of ways:

Online: [Respond online](#)

Email: LTT.Reliefs.Consultation@gov.wales

Post:

Land transaction tax reliefs public consultation
Tax Strategy and Intergovernmental Relations Division
Welsh Treasury
Welsh Government
Cathays Park
Cardiff. CF10 3NQ.

Responses to this consultation should arrive by 19 May 2024

Contact details

For further information:

Email: LTT.Reliefs.Consultation@gov.wales

Telephone: 03000 256802 / 03000 253 570

Please complete:

Date:

Name:	Rachel Kelly
Your Position <i>(if applicable)</i> :	Assistant Director (Finance Policy)
Your Organisation <i>(if applicable)</i> :	British Property Federation
Preferred contact details: Email address / Telephone Number / Address:	rkelly@bpf.org.uk / 0207 8020 120

Confidentiality

Responses to consultations are likely to be made public, on the internet or in a report.

If you would prefer your response to remain anonymous, please tick here:

Type <i>(please select one from the following)</i>	Business	<input type="checkbox"/>
	Local Authority	<input type="checkbox"/>
	Local Authority Councillor responding in a personal capacity	<input type="checkbox"/>
	Government Agency / Other Public Sector (including Community / Town Councils)	<input type="checkbox"/>
	<u>Professional Body / Interest Group</u>	<input type="checkbox"/>
	Voluntary sector (community groups, volunteers, self help groups, co-operatives, enterprises, religious, not for profit organisations)	<input type="checkbox"/>
	Other groups not listed above	<input type="checkbox"/>
	Responding in a private capacity	<input type="checkbox"/>

Introduction and background to the Build to Rent (BTR) sector



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. Our members are invested in commercial and residential real estate 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.

The Build to Rent (BTR) and Purpose Built Student Accommodation (PBSA) sectors provide high quality professionally managed rental accommodation at scale. They are still relatively young asset classes in the UK - indeed, the combination of the introduction of Multiple Dwellings Relief in 2011 and Montague Review in 2012 is widely acknowledged to have marked the birth of the modern BTR sector. Over a decade later, as at Q4 2023, £40bn has been invested into the BTR sector, 100,300 completed homes and a further 166,620 in the planning and delivery pipeline. While the sector still represents a small proportion of new housing delivery, it is growing rapidly with the number of completed BTR homes increasing by 17% year-on-year in Q4 2023.

Developers and investors initially focused on London, but since 2017 there has been a shift towards other core UK cities, led by Manchester, Birmingham and Leeds. Local authorities are now planning more effectively for the delivery of BTR homes, with 47% of local authorities now having BTR in their housing pipelines, versus just 20% in 2017.

In Wales, investment in Build to Rent is more recently kicking off and has been focussed on Cardiff to date - with 650 units already completed, a further 1,600 in construction, and over 1,200 units currently in planning.

More information on BTR in the UK is available here - <https://bpf.org.uk/about-real-estate/build-to-rent/>

Executive summary

The abolition of MDR would be a retrograde step for investment in the private rented sector at scale in Wales. It would also be counter to the levelling agenda given the MDR relief is far more impactful at stimulating investment in areas of lower land values, such as many parts of Wales. We would recommend retaining MDR for Build to Rent and Purpose-Built Student Accommodation, to ensure that MDR can continue to be an effective policy tool at supporting and stimulating the construction of new homes in the private rented sector.

We would also strongly recommend against the removal of the '6 or more' rule which allows commercial transaction tax rates to be used for transactions of 6 or more dwellings. The BTR and PBSA markets are attractive to large scale professional and institutional investors – investors that will often invest globally across many different real estate asset classes.

If the '6 or more' rule were to be abolished, the potential transaction tax rates on BTR and PBSA developments would have a chilling effect on institutional investment into new homes in Wales. It is important that barriers to invest in large scale rental accommodation developments are no higher than other real estate asset classes – and furthermore, it is important for Wales to consider its

relative competitiveness when seeking to attract professional and institutional capital into the private rented sector.

Consultation questions

1] LTT multiple-dwellings relief

Q1.1

The Welsh Government will make the final decisions on the proposal to abolish LTT multiple-dwelling relief (MDR) taking into account the responses to this consultation, any other relevant comments expressed elsewhere, ongoing analysis of impacts, and the Welsh Government's tax principles.

These tax principles state that Welsh taxes should raise revenue to fund public services as fairly as possible, deliver Welsh Government policy objectives, be clear, stable and simple, be developed through collaboration and involvement, and contribute directly to the Well Being of Future Generations Act goal of creating a more equal Wales.

Do you agree the proposal to abolish LTT MDR set out in this consultation aligns with the Welsh Government's tax principles?

Please tick one of the following:

Strongly Agree	Agree	Neither	Disagree	<u>Strongly disagree</u>
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Additional comment:

The original intention of the multiple dwellings relief (MDR) was to support investment in the private rented sector. Given we have seen over £40bn of investment in Build to Rent (BTR) since the introduction of MDR, we would conclude that MDR has been a very successful policy tool at stimulating investment in the PRS. Without the MDR treatment, investment in large scale build to rent developments is less viable than development of homes for sale – because MDR ensures that the appropriate rate of transaction tax is applied based on the average price of a unit in the transaction, regardless of the number of units in that transaction. Therefore, we expect to see housing supply fall if MDR is abolished – particularly in areas of the country where land values are lower, where MDR is typically even more effective.

Given housing supply is a critical issue which impacts on the health and prosperity of communities, we consider that abolishing MDR would be contrary to the wider aims of the Well-being of Future Generations (Wales) Act. The Act is intended to improve “the social, economic, environmental and cultural well-being of Wales” and also “make the public bodies listed in the act think more about the long term, work better with people and communities and each other, look to prevent problems and take a more joined-up approach”.

Removing MDR would exacerbate the housing supply crisis – and it would disproportionately penalise those who live in rental accommodation – because the supply of rental homes will decrease as a result. To that end, we consider that removing MDR would be contrary the aims of the Well-being of Future Generations (Wales) Act.

Q1.2

Do you think the abolition of LTT MDR will negatively impact the private rented sector in Wales?

Please tick one of the following:	<u>Yes</u>	No
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Additional comment:

The original intention of the multiple dwellings relief (MDR) was to support investment in the private rented sector. Given we have seen over £40bn of investment in the Build to Rent (BTR) sector since the introduction of MDR, we would conclude that MDR has been a very successful policy tool at stimulating investment in the PRS. Without the MDR treatment, investment in large scale BTR developments is less viable than development of homes for sale – because MDR ensures that the appropriate rate of transaction tax is applied based on the average price of a unit in the transaction. Therefore, we would expect to see supply of rental homes fall if MDR is abolished – particularly in areas of the country where land values are lower.

Q1.3

Do you think the abolition of LTT MDR will negatively impact any others in Wales?

Please tick one of the following:	<u>Yes</u>	No
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Additional comment:

Given BTR investments are often a catalyst or "anchor" for larger regeneration projects, there is a risk that abolishing MDR would indirectly have an adverse impact on investment in other asset classes that would form part of a wider regeneration project (including homes for sales, and other commercial asset classes).

2] Transactions involving six or more dwellings

Q2.1

The Welsh Government will make the final decisions on whether to review and/or abolish the six dwellings rule taking into account the responses to this consultation, any other relevant comments expressed elsewhere, ongoing analysis of impacts, and the Welsh Government's tax principles.

These tax principles state that Welsh taxes should raise revenue to fund public services as fairly as possible, deliver Welsh Government policy objectives, be clear, stable and simple, be developed through collaboration and involvement, and contribute directly to the Well Being of Future Generations Act goal of creating a more equal Wales.

Do you agree the proposal to abolish the six dwellings rule alongside the abolition of LTT MDR, aligns with the Welsh Government's tax principles?

Please tick one of the following:

Strongly Agree	Agree	Neither	Disagree	<u>Strongly disagree</u>
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Additional comment:

Transaction taxes are generally considered a bad thing by economists; they discourage economically useful transactions and by eroding land value can hurt the viability of new investment and development. In other words, for commercial investors in large scale residential developments, there will be a level at which transactions tax make an investment or development unviable and the lower the land value, the lower the SDLT rate that a piece of land or property can realistically sustain.

Given large scale professional and institutional investors will often have an allocation to invest in real estate which could be flexible in terms of which asset class, or even which geography, it's important that transaction taxes associated with investment in large scale Build to Rent investments can, at the very least, remain comparable to other commercial asset classes, and indeed, remain competitive compared to other geographies.

In our view, the 6 or more dwellings rule provides a sensible cap on transaction taxes for transactions of a certain scale – which provides investors with greater certainty on their transaction costs, and will help ensure that the market stays liquid.

Without this '6 or more' rule, we would see less investment in rental homes in Wales, which would exacerbate the housing crisis and disproportionately penalise those in society that live in rental accommodation. We therefore do not consider that this measure would align with the Welsh Government's tax principles because it would not contribute to the Well Being of Future Generations Act goal of creating a more equal Wales.

Q2.2

Do you think the abolition of the six dwellings rule, alongside the abolition of LTT MDR, would discourage or prevent buyers from entering into multiple-dwelling transactions?

Please tick one of the following:

Yes

No

Additional comment:

See response to Q 2.1. If BTR transactions in Wales are suddenly subject to a transaction tax rate of 15%, compared to single digits elsewhere, investment in BTR in Wales will become comparatively less attractive to other asset classes in Wales and BTR in other geographies.

By way of further context, if we assume that a BTR investment could generate a yield of approximately 4% per annum. If the transaction was subject to the top residential LTT rate of 16%, it would take 4 years for that investment to recover the transaction tax – and that's assuming no returns have been paid out to an investor! This is an unrealistic level of tax and would make investment in residential rental homes in Wales a far more risky and less attractive proposition.

Q2.3

Do you think the abolition of the six dwellings rule, alongside the abolition of LTT MDR, would negatively impact the private rented sector in Wales?

Please tick one of the following:

Yes

No

Additional comment:

Yes, we would see less investment in Build to Rent and Purpose Built Student Accommodation in Wales. See responses to Q2.1 and Q2.3.

Q2.4

Do you think the abolition of the six dwellings rule, alongside the abolition of LTT MDR, would negatively impact others in Wales?

Please tick one of the following:

Yes

No

Additional comment:

Yes – these measures combined would stymie or potentially cut off investment in rental homes at scale, so this measure would disproportionately impact on those who live in rented accommodation.

Given investment in BTR can also act as a catalyst for wider brown field regeneration projects, we would also expect this measures to have a negative impact on investments in other asset classes within a regeneration project – and also a negative impact on jobs and growth.

3] LTT and social housing

Q3.1

The Welsh Government will make the final decisions on whether to propose this change to LTT reliefs, taking into account the responses to this consultation, any other relevant comments expressed elsewhere, ongoing analysis of impacts, and the Welsh Government's tax principles. These tax principles state that Welsh taxes should raise revenue to fund public services as fairly as possible, deliver Welsh Government policy objectives, be clear, stable and simple, be developed through collaboration and involvement, and contribute directly to the Well Being of Future Generations Act goal of creating a more equal Wales.

Do you agree the proposal to extend LTT relief to Welsh LAs when purchasing property for use in social housing aligns with the Welsh Government's tax principles?

Please tick one of the following:

Strongly Agree	Agree	Neither	Disagree	Strongly disagree
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Additional comment:

Reducing LTT for local authorities will remove a financial barrier to investing in social housing, which should facilitate greater investment. Given investment in homes of all tenures will be critical in addressing the housing crisis, this policy seems to align with the Well Being of Future Generations Act.

We would point out however, that if Government recognise that reducing land transaction taxes will support local authority investment in social housing; it is not clear why the exact opposite policy, to increase transaction taxes, is being proposed for private sector investment in rental homes - given we need investment in homes of all tenures to address the housing crisis. Furthermore, by supporting and facilitating greater private sector investment in rental homes, this could also alleviate the pressure of local authorities to provide social housing for communities.

Q3.2

Do you agree that the current rules should be amended to provide broadly the same relief to Welsh LAs that is currently provided to registered social landlords?

Please tick one of the following:

Strongly Agree	Agree	Neither	Disagree	Strongly disagree
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Additional comment:

Q3.3

Do you agree that the impact outlined above would occur?

Please tick one of the following:

Strongly Agree	Agree	Neither	Disagree	Strongly disagree
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Additional comment:

Q3.4

Do you think the proposal to extend LTT relief to Welsh LAs when purchasing property for use in social housing would negatively impact anyone in Wales?

Please tick one of the following:	Yes	No
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Additional comment:

No comment

Impact on local authorities. We welcome all responses to question 3.5, and in particular those of local authorities.

Q3.5

Would the change described in consultation issue three be beneficial in terms of supporting housing plans for your local authority, or any other Welsh local authorities?

Please tick one of the following:	Yes	No
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Additional comment:

Q4.1

With the Welsh Government's aims and objectives in mind, are there other LTT rules, including reliefs, which you feel should be considered for review, for instance to support the Welsh Government's housing commitments?

Please tick one of the following:	<u>Yes</u>	No
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Additional comment:

In order to ensure that MDR is as effective as intended at stimulating investment in the private rented sector – the higher rate on additional dwellings (HRAD) should not be applied to BTR transactions. The HRAD was intended to help first time buyers compete against other buyers on their first home. Given BTR units are not for sale individually, and they will typically be owned by professional or institutional investors, this market is in no way in competition with first time buyers and should never have been caught by this surcharge.

Furthermore, applying HRAD adds additional costs to investment in BTR, which will reduce viability and limit supply. This is counter intuitive at a time when we need to support the delivery of new homes or all tenures, to resolve the housing crisis.

5] The Welsh language

The Welsh Government invites views on any likely effects on opportunities to use the Welsh language and on not treating the Welsh language less favourably than English. What, in your opinion, would be the likely effects of these proposals on the Welsh language?

Q5

Q5.1

Do you think that there are opportunities to promote any positive effects?

Please tick one of the following:	Yes	No
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Additional comment:

Q5.2

Do you think that there are opportunities to mitigate any adverse effects?

Please tick one of the following:	Yes	No
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Additional comment:

Q5.3

In your opinion, could the proposals be formulated or changed so as to have positive effects or more positive effects on using the Welsh language and on not treating the Welsh language less favourably than English?

Please tick one of the following:	Yes	No
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Additional comment:

Q5.4

In your opinion, could the proposals be formulated or changed so as to mitigate any negative effects on using the Welsh language and on not treating the Welsh language less favourably than English?

Please tick one of the following:	Yes	No
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Additional comment:

6] Other Comments

Q6

We have asked a number of specific questions. If you have any related issues which we have not specifically addressed, please use the space below to report them:

Responses to consultations could be made public, on the internet or in a report. If you would prefer your response to remain anonymous, please tick here: