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July 2024

The Property Round

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EDITORIAL

Welcome to the July 2024 edition of *The Property Round*, your definitive source for the latest insights and trends in the UK real estate market.

As we traverse the mid-point of 2024, the real estate sector is being shaped by a myriad of economic shifts, policy changes, and evolving market dynamics. This issue is dedicated to highlighting these developments and the impact they are having on both residential and commercial property sectors.

RESIDENTIAL MARKET OVERVIEW

The first half of 2024 has been characterised by stability in the residential property market, despite ongoing economic pressures. House prices have seen a modest decline of 1.8% over the past year, a trend influenced by regional disparities. East Anglia has experienced the most significant price drops, while Scotland has shown slight growth. These regional variations highlight the complex nature of the market, where affordability pressures in the South contrast with more resilient price trends in the North and parts of Wales.

Mortgage rates have been a pivotal factor in shaping market dynamics. The steady decline in rates has not only made borrowing more affordable but has also spurred an increase in mortgage approvals. This uptick, coupled with stabilisation of inflation, has bolstered market sentiment and buyer demand.

The rental market continues to exhibit robust growth. The housing market continues to be constrained by supply driving high asset prices, which has boosted the strength of the co-living market especially among young adults.

COMMERCIAL MARKET OVERVIEW

The commercial property sector is navigating through a phase of cautious optimism and recovery. Investor confidence is on the rise, reflected in increased transaction volumes and renewed interest in prime office spaces and industrial properties. The industrial and logistics sectors are particularly buoyant, driven by the ongoing growth of e-commerce and the need for optimised supply chains.

Plus articles from Robert Swann at Druce & Co, John Webber at Colliers, and Stephen Webb at Brecher LLP.

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Strategic investments in warehouses and distribution centres highlight this sector's resilience and continued attractiveness.

The office market is witnessing a significant shift towards high-quality, flexible workspaces that cater to hybrid working models. Demand for office space in prime locations, especially in central London, is rebounding, though the overall market remains influenced by the broader adoption of remote working. Companies are increasingly seeking spaces that offer enhanced amenities and sustainability features, aligning with new workplace preferences.

SUSTAINABILITY IN RESIDENTIAL AND COMMERCIAL PROPERTY

Sustainability continues to play a part in the residential market, with increasing demand for energy-efficient homes. Certain buyers are prioritising properties with high energy performance ratings, solar panels, and other green features. The government's push for greener homes, through incentives and stricter building regulations, is also driving this trend. Developers are increasingly incorporating sustainable materials and technologies to meet these new standards and appeal to eco-conscious buyers.

Sustainability is equally influential in the commercial sector. There is a marked increase in demand for green buildings that offer energy efficiency and lower carbon footprints. Companies are recognising the long-term benefits of sustainable practices, not only for cost savings but also for meeting corporate social responsibility goals. Green certifications, such as BREEAM and LEED, are becoming standard requirements for new commercial developments and major refurbishments.

This edition of The Property Round delves into these sector-specific trends and legislative updates, offering commentary on the market, mortgages and lettings, business rates, co-living and tax benefits for residential landlords.

Explore these insights and more in our summer edition.

Grant Lee



REAL ESTATE MARKET UPDATE

Whilst the UK property market faces headwinds from economic pressures and tighter lending conditions, strong rental demand and targeted investments in regeneration and sustainable development offer areas of opportunity.

HOUSE PRICES

As of June 2024, according to the Office for National Statistics (ONS) average UK house prices increased by 1.1% in the 12 months to April 2024 (provisional estimate), to £298,000 in England.

This was up from 0.9% in the 12 months to March 2024 (revised estimate) and was the second consecutive month with an annual increase in prices following eight months of annual falls in prices.

Despite these increases, many still predict that overall market activity will cool, with house prices forecast to fall by 2% to 4% during 2024 due to inflationary pressures and high interest rates (Lloyds Banking Group).

MORTGAGE MARKET

While there are signs that mortgage rates are past their peak and are slowly decreasing, they remain considerably higher than the historically low rates people enjoyed just a few years ago. Back in 2022,

AVERAGE UK HOUSE PRICES, JANUARY 2005 TO APRIL 2024



(Sources: HM Land Registry, Registers of Scotland, Land and Property Services Northern Ireland, and Office for National Statistics)

rates hovered around 2-3%, with some even dipping below 1%. However, those looking to remortgage in the coming year can expect rates to be closer to 4% or 4.5%. As a consequence, borrowers are likely to seek longer term mortgages to make their monthly payments more manageable. This trend is expected to hold steady throughout 2024.

This environment is making it harder for prospective buyers to secure financing, and lending activity has fallen compared to previous years due to the higher interest rates and more cautious economic climate.

RENTAL MARKET

The latest ONS data shows a slight slowdown in the rise of UK private rents. While average rents across the UK still increased by 8.7% in the year to May 2024, this is down from the 8.9% increase seen in April. England saw the highest average rent increase at 8.6%, reaching £1,301. Wales and Scotland had slightly lower increases of 8.5% and 9.3% respectively, with average rents reaching £736 and £957.

The rental market is robust, driven by high demand and limited supply. The rising cost of mortgages is also leading more people to rent, while regulatory and tax challenges are causing some landlords to exit the market, further constraining supply.



The latest ONS data shows a slight slowdown in the rise of UK private rents.



THE COMMERCIAL SECTOR

As of May 2024, the UK property market is showing signs of recovery and transformation, although challenges remain.

Offices

The office market is experiencing a mixed recovery. Prime office spaces in central locations like London are seeing a resurgence in demand, driven by the need for high-quality, sustainable, and energy-efficient buildings. This demand is partly due to companies prioritising employee well-being and productivity, as well as meeting ESG (Environmental, Social, and Governance) goals.

The RICS UK Commercial Property Survey for Q1 2024 noted the first positive net balance for office occupier demand since 2022, primarily due to a marked improvement in central London. However, regional markets have not seen the same level of recovery. Prime rental levels have been resilient, with notable benchmarks set in cities such as Bristol, Birmingham, Leeds, and Manchester.

Retail

The retail sector remains under pressure, though there are signs of cautious optimism. Some retailers are expanding their footprints, benefiting from rebased rents and rates. Despite higher operational costs, retail spaces in prime locations are attracting interest, although overall investment volumes in retail properties are still lower compared to pre-pandemic levels.



Industrial and logistics

The industrial and logistics sector remains a bright spot in the commercial real estate market, even as the broader economy faces headwinds. While 2023 saw a moderation in activity compared to the record-breaking pandemic boom, demand for high-quality warehousing space continues to be strong. This is fuelled by e-commerce growth, as well as:

- ▶ “Flight to Quality”: Occupiers are prioritising modern, well-located space with features like automation capabilities and energy efficiency. This trend is pushing rents for Grade A space upwards.
- ▶ New entrants: Sectors, such as electric vehicle manufacturing and third-party logistics providers are creating fresh demand for industrial space.

While some experts predicted a slowdown in 2024, early signs suggest continued leasing activity and rental growth, particularly for prime logistics facilities. However, rising energy costs and potential future rate hikes could pose challenges for the sector later in the year.

Investment market

Investment volumes in UK commercial property have declined, with £8.1 billion traded in Q1 2024, down 14% quarter-on-quarter and 25% year-on-year. The office and industrial sectors saw continued falls in investment volumes, while alternative sectors like hotels and built-to-rent experienced an uptick. Investor interest remains high for high-quality, sustainable assets, particularly in central London and other prime locations.

PROPERTY SERVICES

The construction sector continues to navigate a complex economic landscape. The latest data from RICS Construction and Infrastructure Market Survey Q2 2024 shows a mixed picture. While overall construction output remains slightly below pre-pandemic levels, there are some positive signs. Repair and maintenance activity continues to grow, driven by a backlog of works and ongoing investment in energy efficiency upgrades. (ONS)

Infrastructure projects continue to show resilience, buoyed by government investment and a focus on long-term development plans. However, regarding private residential, housebuilders are experiencing a decline in the pace of work due to financial pressures and a softening housing market. This is contributing to a decline in new work output.

Financial constraints arising from tightening credit conditions are a significant concern for construction firms. The ongoing skills shortage, exacerbated by an aging workforce, also poses a challenge to project delivery and future growth. Although, there is some positive news on building material costs. While prices remain elevated compared to pre-pandemic levels, they have fallen slightly over the past year.

The future trajectory of the construction sector will likely depend on the broader economic climate and government policies. However, infrastructure development appears to be a bright spot, while the outlook for private residential construction remains cautious.

MERGERS AND ACQUISITIONS

Date Acquired	Target/Company	Acquirer	Acquirer HQ	Deal Type	Deal Size
16/05/2024	UK Commercial Property REIT	Tritax Big Box REIT	UK	Acquisition	£924 million
11/04/2024	Lok'n Store Group PLC	Shurgard Self Storage	Belgium	Acquisition	£378 million
07/03/2024	Belvoir Group	The Property Franchise Group	UK	Acquisition	£104 million
05/03/2024	LXi REIT	LondonMetric Property	UK	Acquisition	£1,900 million
13/02/2024	Redrow	Barratt Developments	UK	Acquisition	£7,500 million
23/12/2023	Junction 32 Shopping Outlet	Fraser's Group	UK	Acquisition	£50 million

2023 was a challenging year for real estate investors and dealmakers. While UK real estate M&A activity remains somewhat suppressed due to the lingering effects of high inflation and borrowing costs, the first half of 2024 has seen several larger deals completed. This activity has been driven by demand for high-quality assets, an influx of international capital, and growing optimism as interest rates stabilise and the valuation gap between buyers and sellers narrows.

Market segments on a positive growth trajectory include student housing and data centres, while office spaces face weakened demand due to the ongoing hybrid working environment.

Despite potential challenges such as more complex due diligence processes and deal hesitation, opportunistic investors remain cautiously optimistic and are adapting to the new operating environment. Looking forward, the trend of large REITs and new entrants pursuing M&A strategies to expand their portfolios is expected to increase. This is due to a mismatch between the net asset value (NAV) and the market value of REITs, leaving many companies vulnerable to potential takeovers.

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The outlook for 2024 suggests opportunities for tactical buyers, especially as inflation and borrowing costs are expected to fall.

CONCLUSION

The outlook for 2024 suggests opportunities for tactical buyers, especially as inflation and borrowing costs are expected to fall. However, challenges such as high borrowing costs and tenant demand shifts will continue to impact the market. The undersupply of prime office and industrial spaces will likely drive rental growth, particularly in key markets.

In summary, while the UK commercial property market is navigating through a complex landscape, there are areas of robust demand and potential growth, especially in prime office and logistics spaces. Investors and occupiers are focusing increasingly on high-quality, sustainable properties to meet evolving market and regulatory demands.

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MARKET WATCH: A DEEP DIVE INTO THE HOUSING MARKET

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The macro-economic backdrop across HI has at first glance provided the housing market with a cautious, yet promising foundation.

Inflation has fallen steadily, with the Consumer Price Index measuring price rises at 2% in the 12 months to May, down from 3.2% announced only 2 months ago, measuring the 12 months to March. In turn, swap rates have also fallen in expectation of the first cut to the base rate by the Bank of England, with the five-year SONIA swap currently below 3.9%, having been as high as c.4.8% a year ago.

SONIA Swaps

	26 Jun 2024	28 May 2024	27 Jun 2023
1 Year	4.843%	4.989%	5.888%
2 Year	4.470%	4.676%	5.817%
3 Year	4.214%	4.421%	5.531%
5 Year	3.926%	4.102%	4.983%

Interestingly, the latest Monetary Policy Committee meeting in May recorded 7–2 members in favour of keeping the base rate at 5.25%, compared to 8–1 members in March.

Consequently, the mortgage market has become increasingly competitive, borrowing rates have significantly improved over the last 12 months, providing both affordability and optionality for buyers in contrast to surging rental prices. Furthermore, the looming financial strain on landlords forced to remortgage at higher rates has begun to ease.

Activity though has been uneven at best, with the data across central London highlighting the gap in expectation between sellers and buyers. Across the most valuable postcodes in City of Westminster and the Royal Borough of Kensington and Chelsea, LonRes observed an annual increase of 16.1% more properties for sale, offset by a 7.8% decrease in transactions and 3.7% decrease in achieved price across the same period.

Moreover, 47.8% of properties have been marketed for more than six months, with only 15.7% of available properties currently under offer. Add in the distraction of what was a predictably unexciting Spring Budget, and more recently the impending General Election, the first six months has required sellers to be pragmatic enough to cut through the

lethargy. The lettings market has also established a new equilibrium following the imbalance of demand to supply seen throughout 2021-23, with 2024 adjusting to more seasonal patterns last seen in 2019.

The dramatic change in prices from immediate post-Covid lulls had seen increases by as much as 30-40%+ to early 2024. Beginning with returning demand to Central London, then normalising volumes of tourism, supply levels also fell in the face of longer average tenancy lengths, keeping rental properties off the market for longer and a migration of landlords to the more lucrative and tax efficient holiday let market.

According to LonRes, despite a 14.5% increase in transactions across the last 12 months, price rises have since been tempered by a 33.1% increase in available properties in the same period, as landlord expectations have outpaced affordability, resulting in the average time on market lengthening to 81 days and prices in the last three months increasing by a mere 1.6%.

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The lettings market has also established a new equilibrium following the imbalance of demand to supply seen throughout 2021-23, adjusting to more seasonal patterns last seen in 2019.

Moreover, the return of AirBnB landlords because of steadily diminishing returns given over-supply, and removal in the Spring Budget of the favourable tax status previously enjoyed by a Furnished Holiday Let, has helped increase supply levels as a ratio to tenants, encouraging rental prices to start levelling out.

NEW LEGISLATION, ALMOST...

The upcoming election has also relegated two highly significant pieces of UK property legislation to the back benches.

Despite receiving royal assent and becoming law, the **Leasehold and Freehold Reform Act 2024** has not yet come into effect. The Act requires further legislation to define and implement several key provisions relating to the calculation of the deferment and capitalisation components necessary to calculate the cost of extending a lease.

The Act introduced sweeping changes to reduce costs to leaseholders, increased lease extensions to 990 years and eliminated the two year ownership rule. However, while the abolition of marriage value significantly reduces the premium paid by leaseholders with less than 80 years remaining on their leases, the consequent and significant loss in value borne by freeholders is unlikely to escape legal challenge.

To add further confusion, depending on the revised rates defined by the next Secretary of State for deferment and capitalisation, should they reduce from today's commonly adopted rates of 5% and c.6% respectively, the cost to extend a lease above 80 years would increase significantly.

Falling at the last hurdle though was the **Renters Reform Bill**, which failed to make it through the dying days of Parliament. The legislation proposed to end all fixed term tenancies, allowing tenants to end a tenancy as early as six months in, limit rent increases to once a year with two months' notice and make it easier for tenants to have a pet.

Moreover, all landlords would have been obliged to join a newly-established ombudsman, establishing a redress scheme for tenants which could have required landlords to submit anything from an apology, undertake remedial action or provide compensation to a tenant for as much as £25,000.

Furthermore, initial plans to ban 'no fault evictions' by removing the Section 21 Notice were subsequently delayed, pending a review of any necessary enhancement of the capability of the Section 8 Notice and an assessment of the potential impact on the capacity of the courts.

Given the recent dissolution of Parliament, the Renters Reform Bill has fallen victim to a legislative snakes and ladders and will be required to start again at first reading in whatever new format is deemed by the next government.

EURIBOR, SONIA, and Gilt Rates:

www.chathamfinancial.com/technology/european-market-rates



WHAT THE NEW GOVERNMENT MUST DO TO REFORM BUSINESS RATES

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By the time this is read we will probably know the outcome of the General Election. In our view, tackling the business rates issue should be an important priority for the new government.

The current system which provides £30 billion a year for local authority funding, has been widely recognised as “unfit for purpose”, deterring businesses from expanding and investing. Instead, it encourages downsizing or even closing bricks-and-mortar estates. The decimation of the high street has been well reported.

Business rates are too high and the system should be fundamentally reformed to create a fair property tax that would be affordable, transparent and easy to administer.

We believe any new government should have the following 10 key action points on its reform agenda.

1. Address the multiplier

The Uniform Base Rate (UBR) used to calculate rate bills should be re-based to a sensible level that businesses can afford. Currently at 54.6p it is just too high, and should be re-based to 35p, near its historical level. The 2023 list was the first Rating List that started with a multiplier over 50p.

As time moves on and the multiplier rises with inflation (CPI), this figure will continue to increase unless the next Government intervenes. This will lead to more business distress across all sectors. It certainly does not bode well for the high street.



Business rates are too high and the system should be fundamentally reformed to create a fair property tax.

Nowhere else in Europe do businesses pay half the rental value of premises in property taxes. A lower UBR would reduce the barriers to entry, expansion and innovation for businesses and encourage growth.

2. Reform the reliefs system

Re-basing the multiplier to something affordable means the whole question of reliefs can become simplified. Reliefs were introduced because rates bills were just too high. Now roughly 700,000 properties out of a tax base of 2.15 million, are exempt and in some places we have business rates deserts. More reliefs given, in turn, put pressure to increase the multiplier, creating a vicious circle. We believe everyone that benefits from public utilities and local services should pay something towards them-but at a fair rate.

3. Look at ways to make up the lost revenue

Ideally, the next Government would recognise that the burden of business rates is simply too high and would cover the cost of reducing the UBR with other fiscal measures.

However, if it decided to find the funding from within the business tax system it could consider a number of options including: looking at increasing the digital services tax on the global tech giants until the review on international corporation tax has been completed; some form of online sales tax or local sales tax; charging a low/reduced business rate to every small business that currently does not pay anything at all or receives relief; consider landlords/owners making a contribution to the business rates bill and finally reforming council tax, looking at a pooling system, so that some funds

can be redistributed nationally, as per the business rates system. The new government needs to be imaginative and help spread the load, so we don't end up with a small number of contributors, increasingly squeezed and ultimately unsustainable.

4. Extend empty property rates relief to 12 months for all sectors

The significant amount of long term empty commercial property in England is due to a lack of market demand and long-term socio-economic factors, not because property owners want to keep their premises empty. It takes a landlord on average one year to fill a property with a long-term tenant when it falls empty. Taxing them for that reduces the investment that they can make in upgrades.

The next Government should instead extend the three- and six-month empty rates holidays to twelve months for all property types, including retail and offices, to encourage owners to keep properties in the rating list and maintain the tax base for the future.

5. Introduce annual revaluations

The government should introduce annual revaluations so that business rates bills accurately reflect values, reducing the likely significant shift in liability following a revaluation, and allowing occupiers and local authorities to benefit.



6. Review plant and machinery

There should be a wholesale and then regular review of what is or is not rateable in relation to plant and machinery. All plant that is an integral part of the trade process should be exempted from business rates, as should investment in new technology that makes businesses more green/sustainable. We want to encourage investment not deter it.

7. Improve transparency from the Valuation Office Agency (VOA)

The valuation process that allocates properties their rateable values is not transparent. The VOA does not share the evidence that it uses to form the basis of its valuations. The only way occupiers dissatisfied with their rateable values can access this evidence is by challenging the valuation through the lengthy and costly "check challenge appeal" system (CCA.) This should be addressed.

8. Reform the appeal system

The current system makes it too difficult for businesses to appeal their assessments. Recent tinkering to remove the 'Check' part of the system has only added to confusion. The request for the annual provision of information from the ratepayer, also adds a significant administrative burden.

We believe the current system of appeals is not fit for purpose – only those companies that can afford professional advisors get to the right answer. The system should be transparent, easy to access for all and allow appeals to be resolved in 12 months.

9. Take a proper look at local authority financing

The government must investigate new funding sources for councils as confidence in the current system dwindles. It should also consider reforming council tax funding, a tax that has not had a revaluation for over 30 years. A funding model similar to Non-Domestic Rates where all receipts are largely pooled should be considered.

10. Address rogue rating advisors by regulating the ratings industry

Finally, unhappiness with rates assessments and a complicated appeals process has driven smaller businesses into the arms of rogue rating agents who promise to negotiate lower bills, but often disappear after taking an upfront fee. Unlike advisors in other financial disciplines, business rates advisors do not require a license to practise.

We urge the next Government to regulate the industry and set up a register of rating advisors, similar to the Financial Conduct Authority, to make sure the cowboy and criminal element that prey on such businesses are kept at bay.

THE TIME IS NOW

A new government has a real opportunity to introduce key reforms to the business rates system – a system which, in its current form, is not working. Over the past 30 years, various governments have over-complicated this tax, made it more opaque and increased its level disproportionately, leading to a growing chorus of criticism and contributing to destroying the high street. The time to tackle this is now. Let's hope the new government has the guts to do so!



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On 9 May, Gerald Edelman, Brecher and NatWest held the first Real Estate Connect event, which brought together 60 industry professionals for an evening of insightful discussions on market trends, planning strategies, and tax optimisation in the Build-to-Rent (BTR) sector.

MARKET OVERVIEW AND OUTLOOK

Economists from NatWest kicked off the event by outlining the current market landscape. While short-term interest rate cuts are anticipated, the long-term outlook remains stable. Investors and developers are advised to focus on medium to long-term strategies, as rates are expected to settle near current levels within the next two years.

The discussion highlighted promising investment opportunities across various real estate sectors, such as commercial, convenience retail, retail parks and warehouses and offices.

RESIDENTIAL MARKET DYNAMICS

Residential development faces short-term headwinds, with only a select segment experiencing strong transaction activity. While price corrections are expected, rental income is projected to remain stable. Build-to-Rent and co-living represent emerging trends catering to the evolving housing market.

CO-LIVING: A GROWING NICHE

Co-living, purpose-built shared housing, offers residents a sense of community and focuses on well-being. However, navigating planning regulations in this growing niche requires expert guidance. Brecher provided a great insight into the market; more can be read in their article on page 18.

EXPERT GUIDANCE ON TAX OPTIMISATION

Tax specialists from Gerald Edelman provided valuable insights on managing VAT and tax implications for property portfolios. This session ensured attendees were equipped to make informed financial decisions.

Real Estate Connect 2024 provided attendees with an opportunity to network and learn valuable strategies for navigating the Build-to-Rent sector. Want to join us at the 2025 event? Contact events@geraldedelman.com.



Our team had a fantastic time at UKREiif this year! The presentations were insightful, and we're excited to put our learnings to work.

But beyond the educational aspects, the real highlight was reconnecting with existing clients and forging new connections within the industry. Thank you to everyone who took their time to connect with us. The event provided a great platform for fostering valuable relationships and building a strong network.

We're already looking forward to UK REiif 2025! We hope to see you there.



CO-LIVING AND USE CLASS COMPLEXITIES

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'Co-living' has become a buzzword in recent years as the residential market adapts and diversifies in response to the continuing shortage of supply, rising prices and the desire for young adults (in particular) to have an opportunity to afford a home of their own.

Pre-pandemic, the concept of small studio/one bed apartments sharing facilities including kitchens, lounges and gyms had begun to be explored by pioneers such as The Collective. The Collective's Old Oak Common development provides affordable, flexible and sociable accommodation with shared facilities. The objective was to establish a community which would be so much more than a block of rented apartments. The intention being to foster wellness, social cohesion and affordability for the target market of recent graduates and young professionals.

POST-PANDEMIC SURGE IN DEMAND

Post pandemic, interest in Co-living products has increased significantly. Savills states that more than 2,000 Co-Living beds were completed in 2022 and more than 25,000 Co-living beds are now operational or in the pipeline. They estimate that 51% of European investors plan to invest in Co-living schemes over the next three years, ploughing in some 2.6 billion euros of capital.

So, what is Co-living? It means many things to many people, but fundamentally it comprises purpose built rented small units (typically 15-30 sq. m. in area), which are not self-contained and share a range of facilities including kitchens, dining rooms, co-working spaces, gyms, cinema rooms and outside spaces. Some also run activities such as yoga and movie marathons. They are usually for single occupancy and are managed by a single management company.

NAVIGATING THE PLANNING SYSTEM

As an innovative new form of residential accommodation, fitting the use within the confines of our lumbering planning system may be confusing. Questions are asked as to whether the new use is always a sui generis use (in a class of its own) or can it fit within a C1 (hotels) use class or even with a C3 (dwellinghouses) use class? The answer to the question is that it depends on what end use is required and how it is intended to operate.

For example, Re:shape's Wembley Ark Co-living development in Wembley operates within the C1 (hotels) use class following a conversion from the former hotel. Also at Wembley, Dandi/Dukelease converted a former office block under permitted development prior approval allowing the conversion to C3 residential use. Despite the fact that the units are self-contained (within C3) they still share a range of facilities and are marketed as a Co-living development.

POLICY AND PLANNING: LONDON'S APPROACH

In London, Policy H16 of the London Plan is very clear that the GLA considers Co-living, or Large-scale Purpose-Built Shared Living of 50 units or more to be a sui generis use. Consequently, London's large new build Co-living schemes fall squarely into a class of their own.



Post pandemic, interest in Co-living products has increased significantly.

They also benefit under the policy from being able to make a financial contribution towards affordable housing instead of providing it on-site.

While London leads the way on Co-living schemes due to affordability issues, schemes in other cities such as Manchester, Birmingham and Bristol are also now well established. Downing's First Street (sui generis) scheme in Manchester will be a "Co-living neighbourhood" comprising more than 2,000 bedrooms in four blocks, one of which is a 45 storey tower.

THE FUTURE OF CO-LIVING

Until such time as the supply of more affordable market accommodation for sale or rent becomes available, the Co-living model seems destined to continue to appeal to the target young adult market, providing flexible, affordable accommodation in a way that provides social inclusion and a sense of community.

New build developments will be regarded as sui generis uses, but the planning system is flexible enough to accommodate the Co-living model within other residential use classes depending on the existing use and proposed end operation.





MAXIMISING TAX BENEFITS FOR RESIDENTIAL LANDLORDS: UNDERSTANDING CLAIMABLE EXPENSES AND ALLOWANCES

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Investing in rental properties involves a number of financial obligations and possibilities to optimise tax savings. Landlords can still lower their tax obligation by being aware of and **claiming allowed expenses and tax reliefs**, even in the face of recent legislative changes such as increased Stamp Duty Land Tax (SDLT) and restrictions on mortgage tax relief.

This article describes the expenses that you can claim, the requirements for doing so, and the effect these claimed expenses have on your total tax obligation.

ALLOWABLE EXPENSES FOR LANDLORDS

Landlords are able to reduce their taxable income by **deducting a variety of costs** paid when renting out their properties. These costs, which may include the following, must be directly related to the rental activity and can include:

- ▶ **Utility bills:** Water rates, council tax, gas, and electricity. If you charge rent that covers these services, include the rent in your income but claim the costs as expenses.
- ▶ **Insurance:** Landlord insurance policies, including buildings, contents, and public liability insurance.

- ▶ **Service costs:** Wages for gardeners, cleaners, and other service providers are included in the rental agreement.
- ▶ **Professional fees:** Fees for letting agents, accountants, and legal services (for leases of up to a year or lease renewals of less than 50 years).
- ▶ **Rent-related costs:** Ground rents and service charges.
- ▶ **Direct costs:** Phone calls, stationery, and advertising for new tenants.



Landlords are able to reduce their taxable income by deducting a variety of costs paid when renting out their properties.

CONDITIONS FOR CLAIMING EXPENSES

To claim an expense, it must meet specific criteria:

- ▶ **Exclusivity:** The expense should be incurred wholly and exclusively for renting the property.
- ▶ **Revenue vs. capital:** The expense should be a revenue expense (day-to-day running costs) rather than a capital expense (improvements to the property).

If an expense serves both rental and private purposes, only the rental-related portion can be claimed.

For example, if part of a home is used privately and part for renting, expenses like electricity and gas must be apportioned accordingly.

MORTGAGE INTEREST RELIEF

Due to recent changes, landlords' income tax relief on residential property finance costs—such as interest on loans, mortgages, and overdrafts—has been capped at the basic tax rate. Only the interest component of mortgage payments, not the full amount, may be claimed by landlords.

EFFECT ON TAX BILLS

In order to determine taxable profit, allowable expenses are subtracted from rental income, which reduces the amount of tax due. The majority of landlords submit cash basis tax returns, which include income received and costs paid throughout the tax year (automatic for those making less than £150,000).

As an alternative, projected income and expenses are included on the accrual basis.

CAPITAL EXPENSES AND INVESTMENT ALLOWANCE

Landlords are not permitted to deduct capital expenses, such as building extensions or significant renovations, from their rental revenue. When the property is sold, these expenses can be deducted from the Capital Gains Tax.

'WEAR AND TEAR ALLOWANCE' CHANGES

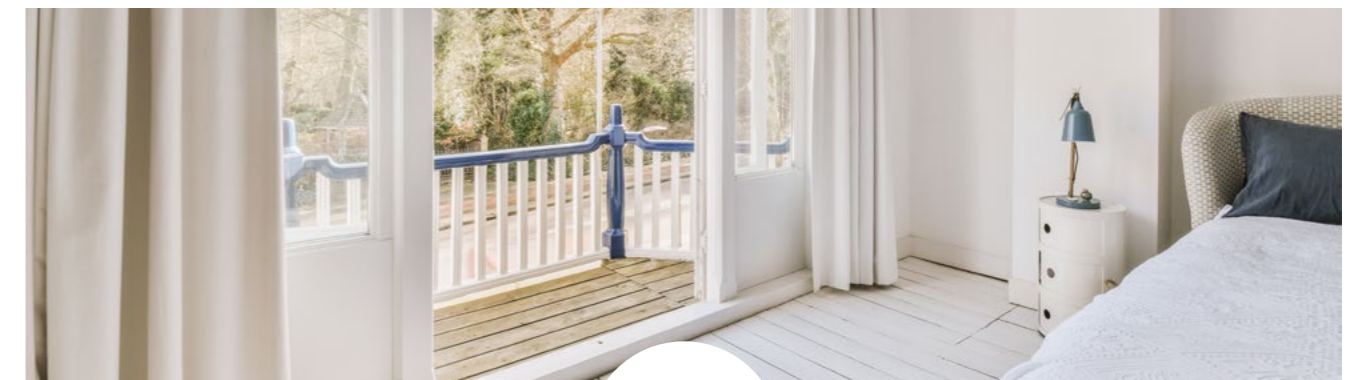
Previously, landlords could deduct wear and tear on furnished houses from their net annual rental income of up to 10%. The "replacement of domestic items relief" has taken its place, applies the like-for-like replacement of items like:

- ▶ Beds
- ▶ Carpets
- ▶ Crockery or cutlery
- ▶ Curtains
- ▶ Fridges, washing machines, etc.
- ▶ Sofas

'REPLACEMENT OF DOMESTIC ITEMS RELIEF'




This relief applies only to replacing items, not initial purchases. Landlords can claim the cost of the replacement item plus any disposal costs, minus any profit from selling the old item. For example, if replacing a fridge costs £500, and disposing of the old one costs £60, the total relief claimed would be £560.

In conclusion, understanding and accurately claiming allowable expenses and reliefs can significantly reduce a landlord's tax liability. By keeping detailed records and ensuring expenses meet the necessary criteria, landlords can optimise their tax savings even in a challenging legislative environment.





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