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The Property Round

In This Issue

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EDITORIAL

In 2025, the real estate sector stands at a pivotal juncture, shaped by the ripples of policy changes, evolving market demands, and broader economic shifts. This edition of The Property Round dives into the transformative factors redefining our industry, a few of which are touched upon below.

THE HOUSING MARKET: RESILIENCE AMID CHANGE

2024 marked a recovery in the housing market, with sales and house prices both climbing after a subdued 2023. Trends suggest this growth will persist, supported by stabilising mortgage rates and rising household incomes. Yet, challenges loom, including higher Stamp Duty Land Tax (SDLT) rates from April 2025, which may keep house price growth in check. Regional disparities remain pronounced, with areas like the North-East and Northern Ireland seeing robust growth, while London's market lags.

Rent inflation and buyer demand

The rental market, fuelled by an 8.7% national rent inflation[1], faces pressure from limited supply and surging demand. Meanwhile, the home sales market is expected to grow by 5%, with first-time buyers taking the lead, thanks to favourable lending conditions and shifting demographics.

VAT considerations

VAT continues to play a crucial role in real estate transactions, one such example is in the context of landlord contributions for tenant refurbishments or development projects. Recent updates, including the April 2024 changes under SI2005/2045 Regulation 20A, have clarified that most payments made by landlords to tenants for construction operations are now excluded from the scope of the Construction Industry Scheme (CIS), which partly reduces administrative burdens. However, complexities around VAT treatment for refurbishment projects, property ownership structures, and rental activities persist. Professional advice is essential to ensure compliance and optimise tax outcomes.

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A mixed bag in commercial real estate

The commercial property landscape reflects cautious optimism. Office demand is improving modestly, with prime locations like London poised for rental growth. The retail sector, however, continues to refine its business models due to the dominance of e-commerce, with experiential retail and mixed-use spaces emerging as key trends. Meanwhile, industrial and logistics properties maintain strength, driven by supply chain adaptations and the continued success of e-commerce.

Policy shifts: A double-edged sword

Rachel Reeves' Autumn Budget introduced sweeping measures impacting the sector. A significant £5 billion housing investment plan aims to tackle affordability and stimulate construction, while SDLT surcharges and tweaks to business rates pose new challenges. Sustainability takes centre stage, with green building incentives and infrastructure upgrades aligning with broader environmental goals.

However, reform in critical areas like business rates remains underwhelming. Stakeholders are urging meaningful changes to address disparities and reduce the tax burden on businesses already grappling with inflationary pressures and rising operational costs.

Investment outlook

Investor sentiment is cautiously improving, with a pivot towards prime assets and resilient sectors like logistics and residential rental properties. Mergers and acquisitions in real estate continue to thrive, highlighting opportunities for long-term gains amidst market volatility.

Adapting to a new pension framework

The recent Pensions Investment Review signals a shift towards increased allocation to real estate within Defined Contribution (DC) schemes and the Local Government Pension Scheme. This could unlock significant capital for the sector, though practical challenges around illiquid investments and regulatory hurdles remain.

Opportunities for 2025

Looking ahead, the industry's ability to innovate, adapt to regulatory changes, and embrace sustainability will be critical. While challenges persist, from SDLT reforms to skill shortages in construction, the sector's resilience and creativity offer hope for sustained growth and transformation.

As always, the insights in this edition aim to inform, challenge, and equip you to navigate these complexities with confidence.

Grant Lee

I Office of National Statistics, October 2024

REAL ESTATE MARKET UPDATE

The housing market experienced a resurgence in 2024, marked by an increase in sales and rising house prices compared to 2023. This growth is expected to continue into 2025, with Zoopla expecting house prices to continue to rise by 2.5%[1]

HOUSE PRICES

UK house price inflation continues to rise, albeit at a slower pace. In the 12 months to September 2024, average UK house prices increased by 2.9%, up from 2.7% in the previous month. This translates to an average house price of £292,000 in September 2024, an £8,000 increase year-on-year.

While England and Wales saw modest price growth, Scotland and Northern Ireland experienced more significant increases of 5.7% and 6.2%, respectively.

The North East of England experienced the most substantial monthly increase at 2.4%, while also recording the highest annual price rise of 6.5%. In contrast, London saw the lowest annual price growth at -0.5%.[2]

AVERAGE UK HOUSE PRICES, JANUARY 2005 TO SEPTEMBER 2024

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

RENTAL MARKET

The latest ONS data shows that the average private rents across the UK increased in October 2024, with national rent inflation reaching 8.7%, a slight increase from 8.4% in the previous month.[3] Average rents increased to £1,348 (8.8%) in England, £766 (7.9%) in Wales, and £976 (6.6%) in Scotland, in the 12 months to October 2024.

Rent inflation varied significantly by region, with London experiencing the highest increase at 10.4%, while Yorkshire and the Humber saw the lowest rise at 5.9%.[4]

Key factors which have driven growth in the UK housing market:

Buyer demand

The property market saw a resurgence of activity in 2024, with sales agreements up 19% and buyer demand increasing by 25% compared to the previous year.[5]

Income growth

Between Q2 2022 and Q2 2024, household disposable incomes rose by 15%, significantly outpacing the modest 1.5% increase in house prices during the same period.7 This trend has helped improve housing affordability.[5]

Stabilising mortgage rates

Despite a slight uptick following the Autumn Budget, mortgage rates are expected to stabilise around 4.25% for a 75% loan-to-value five-year fixed-rate loan. This stability, coupled with potential innovations in affordability assessments for longer-term fixed-rate mortgages, is likely to support buying power and market activity through 2025 and into 2026.[6]

THE COMMERCIAL SECTOR

Offices

The office market is experiencing a gradual recovery, with demand showing modest improvement. Prime office spaces, particularly in London, continue to outperform other regions:

- London prime office rents are expected to rise, with a net balance of +68% of respondents forecasting increases over the next year.
- Regional prime office markets show more modest expectations, with net balances of +29%, +25%, and +29% for the South, Midlands, and North respectively.[7]

Retail

The retail sector continues to face challenges, although there are signs of stabilisation:

- High street retail remains under pressure due to the ongoing shift towards e-commerce.
- There's a noticeable trend towards experiential retail and mixed-use developments to attract consumers.[8]

Industrial and logistics

The industrial sector remains robust, although growth has moderated compared to previous years:

- Demand for logistics and warehousing spaces remains strong, driven by e-commerce growth and supply chain management needs.[8]
- The industrial sector shows the strongest momentum across traditional sectors, with a net balance of +14% for occupier demand.[7]

Construction

According to the latest RICS UK Construction and Infrastructure Monitor for Q4 2024, the construction sector's outlook remains positive. In the survey, +28% of respondents predict an increase in workloads over the next 12 months.

Key points from the latest RICS data include:

1. Private residential sector shows improved confidence, with +26% predicting growth.
2. Private non-residential construction is expected to gain momentum, supported by +17% of respondents.
3. Employment outlook remains positive, with +18% forecasting an increase over the next year, though down from the previous quarter's +23%.

The construction sector appears to be on a path of steady but slower growth, navigating challenges such as financial constraints and skills shortages while benefiting from infrastructure investments and a potential easing of credit conditions.[9]

MERGERS AND ACQUISITIONS

Date Acquired	Target/Company	Acquirer	Acquirer HQ	Deal Type	Deal Size (£m)
10/10/2024	Tritax EuroBox	Brookfield	UK	Acquisition	1,100
08/10/2024	PRS REIT	Pacific Century Group	UK	Buyout/LBO	565
18/09/2024	CALA Group	Patron Capital Advisors	UK	Buyout/LBO	1,160
20/08/2024	Quintain	Ares Management	UK	PE Growth	755
22/07/2024	Value Retail	L Catterton	UK	Acquisition	1,500
16/05/2024	UK Commercial Property REIT	Tritax Big Box REIT	UK	Acquisition	924

M&A activity in the UK real estate sector has gained momentum, driven by a resurgence in demand. Deal volumes in the first three quarters of 2024 increased by 15% year-on-year, while several high-profile transactions involving REITs during the first half of the year contributed to an impressive 489% surge in aggregate deal value in Q3 2024 compared to the same period in 2023.

Stabilising inflation and interest rates have bolstered the residential property market, while investor appetite for consolidation continues to shape the commercial real estate landscape. Together, these factors are fostering a sense of renewed optimism across the industry.

The outlook for 2025 therefore remains positive with further recovery in demand and sustained interest in M&A transactions anticipated. Stabilising macroeconomic conditions are expected to uphold investor confidence, supporting continued activity in the market.

Whilst some caution may stem from the recent Budget, particularly regarding changes to Capital Gains Tax and SDLT, current interest rate levels are likely to remain a key draw for investors. This positions 2025 as a promising year for buyers and sellers to come together and leverage strengthening market conditions.[10 11]

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AUTUMN BUDGET: IMPACT ON THE REAL ESTATE SECTOR

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Rachel Reeves' Autumn Budget in October 2024 has introduced several key measures aimed at addressing the pressing issues within the housing sector, broader real estate sector and the wider economy.

The Budget sets out a comprehensive plan to increase housing supply, promote sustainable development, and support infrastructure growth, all of which have significant implications for the real estate market.

HOUSING INVESTMENT

One of the cornerstones of the Budget is the substantial investment in housing.

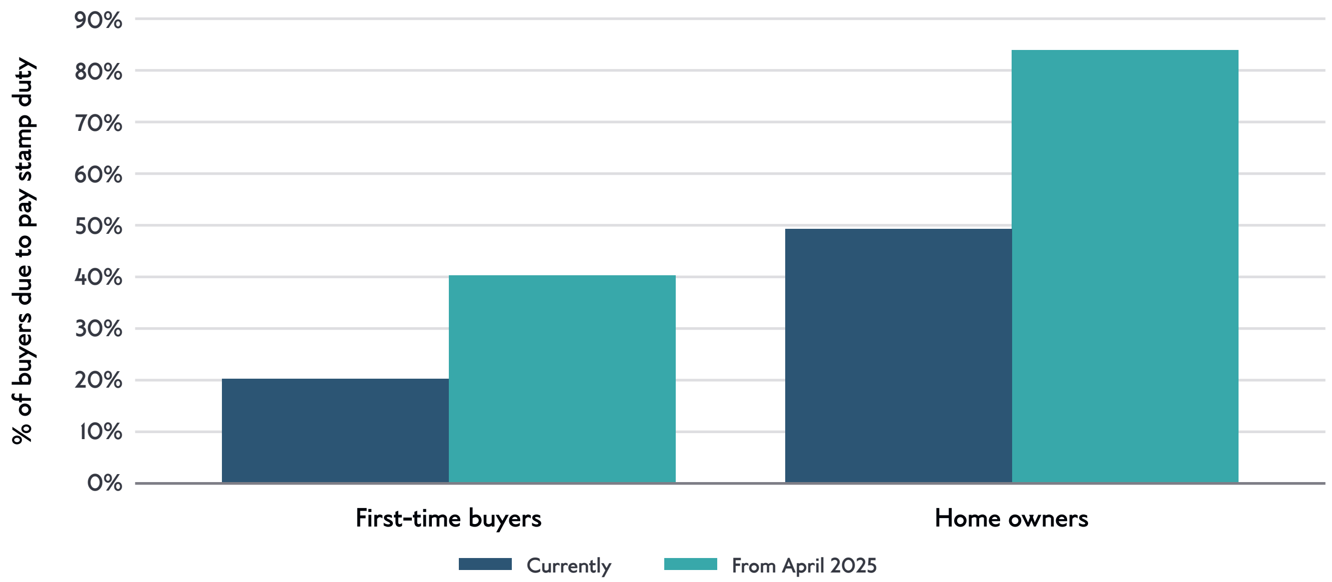
The government has committed a hefty £5 billion to Labour's housing plan, aimed at addressing the chronic shortage of affordable homes. This includes a £500 million boost to the Affordable Homes Programme, which will fund the construction of thousands of new affordable homes across the UK. This initiative is expected to not only increase the availability of affordable housing, but also stimulate the construction industry and create jobs.

STAMP DUTY LAND TAX (SDLT)

At the Budget, an increase in the stamp duty surcharge for second homes was announced, from 3% to 5%, effective 31 October 2024. This measure is aimed at curbing the purchase of second homes and buy-to-let properties, thereby freeing up more housing for first-time buyers and those seeking primary residences.

Furthermore, starting in April 2025, many home buyers in England and Northern Ireland will face higher SDLT, with the return of the 2% band for owner movers and reduced relief for first-time buyers. This change is projected to impact house price growth, as buyers will seek to have these costs accounted for in the purchase price.[1]

MANY SALES HIT BY HIGHER STAMP DUTY COSTS FROM APRIL 2025



Source: Zoopla Research (Analysis of buyer enquiries by price band, England & Northern Ireland only

CAPITAL GAINS TAX

The Budget has maintained the Capital Gains Tax on residential property, which comes as a relief to property investors who were concerned about potential increases. However, adjustments in other areas, such as Business Asset Disposal Relief and the removal of certain tax exemptions, could still impact property investment strategies. Investors will need to carefully consider these changes when planning their portfolios.

> The Budget has maintained the Capital Gains Tax on residential property.

GREEN INITIATIVES AND SUSTAINABILITY

A significant portion of the Budget is dedicated to green initiatives, reflecting a growing focus on sustainability. The government plans to support the construction of energy-efficient buildings, with incentives for developers and homeowners to adopt green technologies. These initiatives could lead to a surge in demand for eco-friendly homes and renovations.

INFRASTRUCTURE DEVELOPMENT

Infrastructure development is another key focus of the Budget. Significant investment is being directed towards infrastructure in key growth areas, such as transport links, schools, and healthcare facilities. This investment is expected to enhance property values in these regions, making them more attractive to buyers and investors. Improved infrastructure can lead to increased property demand, higher prices, and a boost to the local economy.

BROADER ECONOMIC IMPACT

The Budget also addresses broader economic issues that indirectly affect the real estate market. Measures to support economic growth, job creation, and wage increases can enhance the financial stability of potential homebuyers, increasing their purchasing power. Additionally, initiatives to tackle inflation and stabilise interest rates can have a significant impact on mortgage affordability and the overall housing market.

To conclude, the Budget aimed to create a more balanced, sustainable, and resilient housing market that can better meet the needs of the population while supporting economic growth and development. Time will tell if this comes into fruition.

House price Index: www.zoopla.co.uk/discover/property-news/house-price-index

WHAT THE BUDGET SHOWS US ABOUT LABOUR'S ATTITUDE TO BUSINESS RATES

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The October Budget came as a massive disappointment to anyone hopeful that Labour would be bringing in proper business rates reform and contradicted all their pre-election pledges of overhauling the system and "saving the high street."

RELIEFS

The Chancellor said she was heading off the knife edge that the retail/hospitality/leisure sectors might face, when the 75% discount relief that the sector currently enjoys, comes to an end in April 2025. However, by replacing it with a 40% business rates relief capped at £110,000, she is in fact inflicting a 140% increase in rates bills for those 250,000 retail, hospitality and leisure ratepayers who currently receive this relief.

THE MULTIPLIER

And although she will freeze the small business multiplier at 49.9p for 2025/26, the standard multiplier will increase with inflation by 1.7% from 54.6p to 55.5p. So far from rebasing the multiplier to something businesses can afford, medium and larger companies are facing a tax nearer to 60p in the £, rather than 50p, let alone the 34p we've been campaigning for.

The Chancellor did say she'd be introducing two lower multiplier tax rates for businesses in the retail, hospitality and leisure sectors from 2026/7. However, we believe many businesses in the sector will see their rateable values rise significantly because of the 2026 Revaluation, resulting in higher rates bills and cancelling the advantages given by the lower multipliers.

And whilst we welcome the acknowledgement that there should be lower multipliers for retailers and hospitality businesses, we are still of the view that there should be lower multipliers for all businesses to help UK plc be more competitive.

It is clear that together with freezing of the smaller business rates multiplier, these additional lower multipliers will be funded by introducing an even higher multiplier for larger businesses (those with an RV of over £500,000.) This will include businesses in the retail, hospitality and leisure sectors too, as well as the distribution warehouses, that so many of them use.

PUNITIVE BUDGET FOR HIGH STREET RETAIL

This means the bigger businesses, the ones that create jobs and employment will be "hit for six". No wonder many of them are making their voices heard in protest at these changes. Sainsbury's said half its total tax bill goes towards business rates, equal to about £500 million a year. Several businesses in the hospitality sector have been getting together to ask the Chancellor to think again about the planned tax increases.

> "Several businesses in the hospitality sector have been getting together to ask the Chancellor to think again about the planned tax increases.

Indeed, these punitive rises will come on top of the other Budget measures introduced that will impact the sector and increase costs, namely the increase in employer National Insurance Contributions and rise in the Minimum Living Wage. Sainsbury's and Marks & Spencer have said the employer NI contributions alone would cost their businesses another £100 million each. Such increased costs will inevitably feed through to the consumer- so we fail to see how any of these measures will help the high street in the long term.

GOVERNMENT DISCUSSION DOCUMENT: TRANSFORMING BUSINESS RATES

Of course the government is saying it is looking at reform, and has published a discussion paper (**Transforming Business Rates** setting the direction of travel). However, this is not a formal consultation and looks to be tinkering with the current system rather than overhauling it.

Labour's policy of tinkering rather than roots and branch reform is further borne out by looking at the OBR figures. According to the OBR, business rates are forecast to raise £32.1 billion in 2024/25, £34 billion in 2025/26, rising to £37.4 billion in 2026/27 and ultimately growing to a massive £39.8 billion by 2029/30.

There is therefore nothing indicating the Government is considering reducing the burden of this inequitable tax, if it is still expecting to raise nearly £40 billion from it by the end of the decade. We wonder how many businesses will go the wall in the meantime.

DISAPPOINTING OUTCOME

So all in all, we are very disappointed. Like the Conservative Chancellors before her, Rachel Reeves is so far failing to tackle the business rates issue. There has been no pledge for business rates reform across the board, no attempt to freeze the larger multiplier nor to bring it to a sustainable level that businesses can afford, nor to tackle the business rates deserts we see in some parts of the country, nor to reform the creaking appeals system.

Labour had 14 years in opposition to formulate a plan and their election victory in July gave them an overwhelming mandate to make a proper difference. Sadly, it looks like the civil servants at the Treasury have got to them first and any ambitious plans, if they had them, have been watered down. Colliers will be responding to the discussion document on behalf of our clients, but this is not anything resembling meaningful reform – it's disappointingly more of the same!

IMPORTANT CHANGES FOR LANDLORDS AND THE CONSTRUCTION INDUSTRY SCHEME

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Historically a landlord making payments to a tenant to carry out construction work meant that landlords were potentially required to consider the operation of the Construction Industry Scheme (CIS) depending on whether the payments related to CAT A or CAT B works.

CAT A, CAT B, AND THE CIS

Inducement payments made by landlords to tenants for CAT B tenant fit-out works were excluded from CIS under the reverse premium principles. Whereas, CAT A (landlord works) and any other payment for construction operations made by the landlord to the tenant were not excluded, and the operation of CIS needed to be considered.

This has created problems for both parties, as they were required to identify those payments that would be CAT B and therefore outside of CIS, or those payments that fall under CAT A fitouts, meaning that it would have been considered a landlord payments to the tenant but for the benefit of the landlord and therefore within the scope of the CIS.

Furthermore, where CAT A and CAT B payments are made under the same contract then all payments under that contract fall within CIS under the mixed contract principles. A mixed contract is a contract that includes some work that falls within the scope of the scheme and some that does not.

THE IMPACT OF CIS ON LANDLORD AND TENANT CASH FLOW

Ideally both the landlord and tenant should have taken both legal and tax advice to jointly agree and formally document that any payments made by a landlord to the tenant considered a payment to the tenant regarding construction work would either be treated as a reverse premium or general construction.

The importance of the correct advice and paperwork becomes obvious when you consider a payment considered a reverse premium was outside the scope of CIS but that any other type of payment by the landlord fell within the scope of the CIS.

Where required, landlords had to register as a contractor within CIS and operate CIS deductions on payments made to tenants that fell within the scope of the scheme. In addition, tenants had to register as a subcontractor within CIS, potentially seriously impacting cashflow especially where a tenant had to suffer a CIS deduction and is paying a contractor for the fitout work to be undertaken.

THE CIS AND LANDLORD-TENANT PAYMENTS: POST 6 APRIL 2024

Thankfully, some of the ambiguity around this has been reduced from 6 April 2024 with the introduction of a new regulation under SI2005/2045 Regulation 20A, meaning most payments made between landlords and tenants are now outside of the scope of the CIS.

From 6 April 2024, payments made by landlords to tenants are specifically excluded from the scope of the CIS providing certain conditions are met, these being:

- the payment is made by or on behalf of the landlord;
- the person receiving the payment is a tenant or prospective tenant of the landlord (this includes sub tenants);
- the payment is for construction operations agreed in connection with a lease or an enforceable agreement to enter a lease;
- the tenant that occupies or will occupy the property will carry out the construction operations itself, or a third person is contracted to carry out the construction operations; and
- the payment is for construction operations relating to works intended primarily for the benefit and use of the tenant that occupies or will occupy the property under the lease.

HMRC has produced some examples of what would and would not be considered to meet the requirements of the legislation and therefore benefit from the exemption, and these are included within its internal CIS reform manual at CISR14048.

There are some arguments from interested parties that suggested all payments between landlords and tenants should be removed from the scope of the CIS, but the Government feared creating a loophole which could be exploited.

NAVIGATING THE EVOLVING CIS LANDSCAPE

Care needs to be taken to ensure payments do in fact fall within the new exemption. This is because there remains uncertainty around how works will be assessed to be "primarily for the benefit and use of the tenant". The very fact that a landlord is prepared to contribute to the cost of tenant works may suggest that the landlord will derive a benefit from them – particularly if there is no requirement for the tenant to reinstate at the end of the term.

Further guidance from HMRC would be welcome on this point. In the meantime, if there is any doubt, tax specialist advice should be sought as to whether CIS deductions ought to be made.

PENSION REFORM AND UK REAL ESTATE

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Even before the change of government in July, UK institutional capital had been undergoing a period of dramatic change.

Regulatory, demographic and other pressures were having huge impact on pension schemes and life insurers, which in turn was having a significant effect on investment in real estate as an asset class. UK corporate defined benefit (DB) pension provision has been waning for decades. The long-term decline was accelerated by the Liz Truss mini-budget in September 2022, when the Prime Minister and the Chancellor of the Exchequer lobbed in a hand grenade triggering a Liability-Driven Investment (LDI) liquidity crunch. DB schemes are de-risking, heading into run-off and transferring liabilities into the insurance bulk annuity market.

> Even before the change of government in July, UK institutional capital had been undergoing a period of dramatic change.

TRANSITION FROM DB TO DEFINED CONTRIBUTION (DC) PENSION PROVISION

The previous government began to finally make progress before departure in creating a new legislative framework for DC pension investment that should improve outcomes for policyholders and facilitate deployment of capital into illiquid assets including real estate.

Reform of the Local Government Pension Scheme (LGPS) in England and Wales has been underway for many years. The 86 administering authorities for the LGPS have already combined, at least theoretically, into eight pools. Progress in actual pooling has been patchy.

The incoming Labour government arrived with a clear manifesto commitment to further institutional reform, a key component of which is increasing investment in illiquid assets. This took a major step forward when Rachel Reeves, the UK Chancellor of the Exchequer, delivered her first Mansion House speech on the evening of Thursday 14 November

2024. A key area that she covered was the next phase of UK pension reform. To coincide with the speech, HM Treasury (HMT) and the Department of Work and Pensions (DWP) published their Pensions Investment Review: interim report, consultations and evidence.

The package of documents focussed on two broad areas, reform of the LGPS in England and Wales and reform of DC pension schemes.

REFORM OF THE LGPS

The package of documents includes a consultation on proposed changes to the LGPS.

Accelerating LGPS pooling

The consultation conveys the new government's sense of disappointment over pooling progress. The proposals are not a doctrinal change from the reforms initiated by the previous regime, but a call for more vigorous flogging of the recalcitrants.

Although this is set out as a consultation, the government view on each aspect is made clear, and the ultimate objective is for the investment process to sit with the pools. The LGPS will remain major investors in real estate as an asset class, but the way in which they invest will continue to evolve, with more expertise being hired in-house.

This will represent a major challenge to the marzipan layer of consultants and multi-managers that currently sit between them and the ultimate investments.

Local investment

This has the potential to be the most controversial area, although at present the detail of how this will operate has yet to be published. The government want to encourage local investment by the LGPS.

The local schemes will need to work with the pools and local authorities to identify suitable local investments. It is important not to lose sight of the overriding fiduciary duty to the members of the scheme, rather than to the infrastructure priorities of local politicians. The consultation recognises the potential challenges and seeks to move the investment process and ultimate decision away from the individual schemes to the pools.

The government proposes to set out new requirements in regulations. It should create opportunities for investment in real estate, particularly for housing and regeneration and for investments that align closely with the government's industrial strategy, for example in data centres and life sciences.

Reform of DC

There is general consensus for the need for scale and consolidation in DC schemes. The report makes it clear that the government sees this applying to a lot more than just the smallest schemes. This is also particularly important for real estate as an asset class as it is easier for larger schemes to have an allocation to illiquid assets.

A key objective of the Pensions Investment Review is to promote a greater focus on the value provided by workplace DC pension funds rather than their cost.

The move to a focus on Value for Money has been a work-in-progress for several years. The framework is to be included in the forthcoming Pension Schemes Bill. This is an important step for investment in real estate and other illiquid assets that are relatively costly to manage.

There is an elephant in the room. Significant practical obstacles to investment in illiquid assets by DC schemes, particularly the role of the platforms, remain unsolved.

Much of the market is not set up to accommodate funds with notice periods. This is a problem for investment in underlying funds investing in illiquid assets. This is not addressed in the consultation. It is not clear when and how the government plans to address this.

There is also a role for the real estate industry in educating those running DC schemes on the long-term merits of investment in real estate as an asset class and how this might be effected in practice. The Association of Real Estate Funds and the Investment Property Forum are currently working on plans for this.

MORE DETAIL

For those wanting more information, a more detailed commentary **can be found here**.

VAT AND LANDLORD CONTRIBUTIONS: A CASE STUDY

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This case study highlights the importance of thoroughly analysing the nature of transactions to determine the correct tax treatment.

BACKGROUND

A client approached me regarding the VAT liability of a landlord's contribution towards the refurbishment of a building. The landlord was contributing over £1 million towards the project. The building was and will be used as a hotel. The landlord was not resident in the UK and did not charge VAT on the rental of the hotel i.e. they hadn't opted to tax the property and weren't VAT registered.

The client and the landlord had assumed that a contribution would be outside the scope of VAT, as often they are. If that was the case, any VAT on building work supplied to my client (the tenant) would be recoverable as input tax as my client makes fully taxable supplies of hotel accommodation.

As a side note, even if the hotel accommodation is for longer than four weeks and VAT is only charged at an effective rate of 4% all income is still considered taxable and not exempt.

LIABLE FOR VAT?

A good starting point to determine the liability is whether the works are considered (in construction language) Cat A or Cat B. The former are generally works for the landlord and the latter works for the tenant. However, this test isn't definitive. The issue that really needs to be considered in these cases is who owns the works.

For example, if a tenant took out a lease on a building and wanted to modify it extensively with the landlord contributing to part of the cost, that is likely to be the tenant's works, particularly when the tenant, as part of the terms of the lease, is obligated to return the building to its original state after they vacate.

In the case of my client, the building was always a hotel and because of the design of the building it was very likely that it would remain a hotel if my client ever left. The works were really to improve the appearance of the building. While there was still an argument that the works may belong to the tenant, the fact that the landlord was not VAT registered

meant there was a much higher risk that HMRC would see this as a supply from tenant to landlord. We recommended that the landlord registered for VAT and opted to tax, in order to recover the VAT charged to it in respect of the capital contribution. We explored the CIS issue as the tenant could be liable to submit CIS returns.

Luckily this was unlikely to be the case primarily because much of the expenditure was likely to fall out of qualifying works. The positive news is that the CIS rules have been simplified and from April 2024 landlords do not fall within the CIS under these circumstances.

CONCLUSION

The key message from this case is that it is dangerous to assume a VAT treatment based solely on wording.

As is always the case with VAT, one must examine the underlying nature of the transaction in some detail to arrive at the conclusion, and even then the answer may not always be simple.

> The key message from this case is that it is dangerous to assume a VAT treatment based solely on wording.

NON-RESIDENTS BUYING PROPERTY IN THE UK IN 2025

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Non-resident individuals and companies can buy property in the UK, but it's important to be aware of various tax implications and procedural requirements. Here we outline key considerations for non-resident buyers.

WHAT TO CONSIDER WHEN PURCHASING PROPERTY IN THE UK AS A NON-RESIDENT

The process is similar to that of UK residents buying property, but there are a few additional considerations:

1. Financing

If purchasing with a mortgage, investors will face higher deposit requirements especially in instances where the property is purchased for letting purposes. Lenders will also evaluate the buyer's financial situation more strictly, given that foreign buyers may have different financial regulations in their home countries.

2. Legal representation

It is essential to engage a solicitor or conveyancer familiar with property law in the UK. They will handle the paperwork, conduct title checks, and manage the exchange of contracts.

3. Stamp Duty Land Tax (SDLT)

All property buyers must pay SDLT, and the rate varies depending on how the property is purchased as summarised in the below table.

For transactions with an effective date between 23 September 2022 and 31 March 2025, the SDLT rates are as follows:

Purchase price	Standard rate	Higher rate
Up to £250,000	0%	5%
Above £250,000 to £925,000	5%	10%
Above £925,000 to £1.5 million	10%	15%
Above £1.5 million	12%	17%

*Additional 2% surcharge for non-residents

For transactions with an effective date on or after 1 April 2025 those rates are as follows:

Purchase price	Standard rate	Higher rate
Up to £125,000	0%	5%
Above £125,000 to £250,000	2%	7%
Above £250,000 to £925,000	5%	10%
Above £925,000 to £1.5 million	10%	15%
Above £1.5 million	12%	17%

*Additional 2% surcharge for non-residents

4. Ownership structure

Consideration should be given to whether property should be owned in individual name, UK company, offshore company, offshore trust or other.

5. Registering for Taxes

Non-residents who buy property to rent will need to register with HMRC under the Non-UK Resident Landlord Scheme to receive rental income gross. Without this, 20% tax will be withheld from rental income by the letting agent or tenant – this amount can be claimed back on the landlord's UK personal tax return.

Tax implications for individuals

In recent years, there has been a surge in foreign investment in luxury properties, particularly in London. Purchasing in your own name is the simplest ownership structure, however, the following taxes and obligations are relevant:

Stamp Duty Land Tax (SDLT)

- Non-resident individuals currently face an additional 2% surcharge to purchase property.
- If you already own a home anywhere in the world, an additional surcharge of 5% will apply to the purchase price.

Income Tax

- Rental profits are subject to income tax at rates of 20%/40%/45% above the tax-free personal allowance of £12,570, provided this is available.
- Annual personal tax declarations must also be submitted to HMRC on or before 31 January following the end of the tax year.
- A tax-efficient Furnished Holiday Lettings (FHL) regime is available, but will be abolished from April 2025.

Capital Gains Tax (CGT)

- Gains on disposal of residential properties are subject to CGT flat rates of 18% and 24% depending on the individual's income levels in the year of disposal.
- Disposals by non-residents must be reported on a 60-day CGT return within 60 days of completion and any tax due paid by the same date.
- Non-residents can rebase the value of their residential properties to 5 April 2015 if such properties were purchased prior to 2015.
- Since April 2019, gains made on disposal of commercial properties are also subject to CGT for non-resident individuals. A CGT return is also required if the seller is non-resident.

Value Added Tax (VAT)

Provided the UK investment property is let out as a holiday accommodation by a Non Established Taxable landlord (i.e. who is not based in the UK) the landlord will be required to register for VAT with HMRC and make the quarterly VAT submissions regardless of the level of rents collected.

Tax implications if purchasing through a company

Acquisition via a company is also a common ownership structure and can be via a UK company or an offshore entity. Specific considerations to note as follows:

1. SDLT

Companies are subject to SDLT on property purchases, but if a non-resident company buys a residential property valued over £500,000, they could face a 17% SDLT rate. There are exemptions for companies involved in property development or rental businesses.

2. Corporation Tax

Since April 2020, non-resident companies have been liable to annual Corporate Tax filings and Corporation Tax on all rental profits and property disposals of UK land and property at flat a rate of 25%. UK resident companies with low profits may be able to take advantage of lower rates – UK resident companies pay 19% on profits below £50,000 and companies with profits over £250,000 pay a rate of 25%. Companies with profits between £50,000 - £250,000 will pay a varying effective rate of tax depending on their profits.

NON-RESIDENTS BUYING PROPERTY IN THE UK IN 2025

3. Annual Tax on Enveloped Dwellings (ATED)

Ownership of residential property worth more than £500,000 is subject to the ATED charge. There are a number of reliefs from this charge – such as if the property is commercially let, though an ATED return must still be submitted.

4. Register of Overseas Entities (ROE)

Since August 2022, non-resident companies must be registered on the ROE and submit annual updates to Companies House.

5. VAT

As per section above, this is only applicable to businesses which have no UK fixed establishment and which let UK holiday accommodation.

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Tax implications of ownership by an Offshore Trust

Ownership via offshore trust is a common vehicle used for succession planning and asset protection, however tax implication to consider are as follow:

SDLT

Above SDLT rate applies.

Income Tax

Rental income subject to income tax at higher tax rate of 45% applies to taxation of discretionary trusts.

CGT

Gains from the sale of property are subject to CGT at a rate of 24%, with reporting requirements similar to those for individuals, including a 60-day CGT return.

Trust Registration Service (TRS)

Trusts that are liable to UK tax must register with the TRS within 90 days of the trust becoming liable and thereafter submit an annual declaration on the details of the trust.

Inheritance Tax (IHT)

Trusts have their own IHT regime and typically would need to consider chargeable lifetime transfer charge when gifting property into the trust, periodic charges at every 10 year anniversary of the trust and exit charge when property leaves the trust.

CONCLUSION

In summary, the tax position on the purchase of UK property can be complex and advice should be sought in advance if starting the process to ensure that the correct ownership structure is put in place at the outset.

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