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The Property Round

In This Issue

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EDITORIAL

It is my pleasure to provide the content for this edition's editorial. I trust that all our readers had a relaxing time over the festive period and hope 2026 will provide a more promising outlook for all sectors but most especially for the real estate sector.

With that in mind, I thought it would be appropriate to set out some interesting views relating to the current challenges facing the UK residential property sector.

The UK's property market entered 2025 with a familiar mix of resilience and strain, whilst prices held up in places, there was an array of structural and short-term headwinds to make buying, selling and renting harder for many households.

Mortgage costs and affordability

After a period of rapid increases in Bank Base Rate in 2022–24, mortgage borrowing costs remain materially higher than the rock-bottom levels of the 2010s.

Lenders' quoted rates have stabilised somewhat although mortgage rates remain in the mid-single digits. The result is that first-time buyers face steeper deposit and debt servicing hurdles, and many homeowners on rolling or maturing deals are (or will be) exposed to higher payments. These affordability pressures continue to suppress some buyer demand and slow household moves.

Weakness in transaction volumes and caution among buyers

Higher borrowing costs and stretched household budgets continue to weigh on housing demand, leading to fewer mortgage approvals and more cautious behaviour from potential buyers. Lenders and brokers report that many purchasers are still "sitting on the sidelines," waiting for greater clarity on interest rates, tax changes, or policy shifts before making a move.

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This subdued activity has dampened transaction volumes, making the market less fluid and, in some areas, widening the gap between current market values and sellers' expectations.

Chronic supply shortfall

It has been well documented in the press that the UK is not building enough homes. Development activity and completions have consistently lagged government targets for years with concentrated shortfalls in high-demand regions such as London and the South-East.

In turn, this exacerbates affordability issues, and planning-system bottlenecks slow delivery even when funding and demand exist. That structural undersupply keeps upward pressure on prices and rents over the medium term, despite periodic softness in sales volumes.

Rising costs for builders and skills shortages

It has been widely reported that housebuilders face higher input costs including materials, labour, and net-zero compliance expenses. Such higher costs inevitably feed through into the higher prices for new homes.

Combined with tighter planning and higher financing costs for development, many developers are reluctant to boost volumes or move into lower-margin projects, thus further constraining supply. The sector also reports acute skills shortages which means slow build times and inflated costs.

Pressure on the rental market and landlord exits

The rental market has become the pressure valve for many would-be buyers shut out by affordability constraints. High demand for private rented sector properties has pushed up the level of rents in many areas, intensifying cost-of-living pressures for tenants and prompting scrutiny of landlord taxation and regulation.

At the same time, some smaller buy-to-let investors have been driven out by tax changes and higher borrowing costs, thereby reducing available stock and adding to rental tightness.

Policy uncertainty and tax/headline risk

Housing policy remains an area of active political debate ranging from planning reform to potential incentives for first-time buyers and changes to landlord tax treatment. Markets dislike uncertainty especially when such uncertainty includes talk of new property taxes or regulatory changes. Such uncertainty can freeze activity as buyers and sellers will want to wait to see the details, and this 'policy risk' can amplify short-term volatility.

> **Development activity and completions have consistently lagged government targets for years.**

Outlook

The near-term outlook is mixed. If Bank Base Rate and mortgage pricing ease further over the coming months, some affordability relief could stimulate transactions. But without a sustained uplift in homebuilding and targeted measures to tackle skills and planning constraints, the UK will continue to struggle with a two-speed market. This will manifest itself into localised price growth where supply is tight, and constrained activity where affordability is worst.

Policymakers and industry alike face the twin task of stabilising finance conditions and fixing supply-side frictions otherwise the structural pressures that have defined the UK market for a decade will persist.

Richard Kleiner

Sources: Lloyds Banking Group analysis; CBRE UK real-estate outlook; Reuters housing forecasts; Financial Times reporting; sector commentary on supply and policy.

REAL ESTATE MARKET UPDATE

The UK real estate market has continued to show resilience in 2025, with both residential and commercial sectors demonstrating steady growth.

HOUSE PRICES

House prices across the UK have remained resilient throughout 2025, though growth has moderated compared with previous years. According to the latest HM Land Registry / Office for National Statistics (UK HPI), the average UK house price stood at approximately £272,000 in September 2025, representing a *2.6% increase year-on-year.*[1]

Following on from the official figures, metrics from Zoopla show a similar trend of moderated but positive growth. Activity levels, however, have softened. Zoopla notes a decline in buyer demand in the second half of 2025, partly influenced by the Autumn Budget and more cautious purchasing behaviour. Sales agreed have also fallen compared with earlier in the year, and the average "time to sell" has lengthened as stock levels have risen. This increase in available homes, particularly across southern England, has eased upward pressure on prices and created more balanced conditions between buyers and sellers.[3]

Looking ahead, most forecasters expect modest price growth going into 2026. For instance, Savills recently revised its forecast, anticipating UK house price growth of around *2% in 2026.*[4]

AVERAGE UK HOUSE PRICES, JANUARY 2005 TO SEPTEMBER 2025

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

RENTAL MARKET

The rental sector remains very active, but the pace of rent inflation has eased from the peaks seen in 2023–24, with average UK monthly private rents rising by 5.0% to £1,360 in the 12 months to October 2025, the lowest annual increase since August 2022 and down from 5.5% a month earlier.

Regional patterns remain uneven: the North East posted the fastest annual rent growth in England at 8.9%, compared with just 3.8% in Yorkshire and The Humber, and London continues to have by far the highest average rents at £2,265 per month even though annual inflation there has slowed sharply to 4.3% after peaking at over 11% in late 2024. Despite this cooling, rents remain considerably higher than a few years ago, and pressures are still acute in high cost urban areas.[2]

COMMERCIAL PROPERTY

The UK commercial property market is still subdued, with higher inflation, borrowing costs and uncertainty around fiscal policy making both occupiers and investors more cautious.

Recent survey evidence shows tenant demand easing across offices, retail and industrial, more space coming back to the market and landlords having to offer larger incentives, particularly on older or secondary properties. Expectations for the next 12 months have been scaled back, but there is still some modest growth forecast for prime office and industrial space, with London expected to outperform the UK average.

By contrast, secondary office and retail assets are now widely expected to see little or no rental growth and further downward pressure on values, as occupiers continue to trade up into better quality, more energy efficient buildings.[5]

Retail demand and rents have seen some decline, particularly in secondary locations, reflecting broader structural challenges and changing consumer behaviours.

Despite this, investor interest remains strong in experiential, convenience-led, and mixed-use retail schemes that adapt to how people now shop. Retail parks and convenience stores are performing better than traditional high street shops and shopping centres, offering some resilience in an overall difficult market. Industrial and logistics remain one of the stronger parts of the market, supported by demand for modern warehousing and distribution space, although rental growth and capital value gains are now expected to be more modest than in the boom years immediately after the pandemic.[5]

Construction

The construction outlook into 2026 is cautiously positive, supported by planned housing delivery and major infrastructure and energy projects, alongside a push towards greener, more efficient building.

Forecasts point to steady medium term growth, but firms continue to grapple with acute skills shortages, rising labour costs and the need to invest in training, technology and modern methods of construction. Government-backed skills and training initiatives, together with easing credit conditions in some segments, are helping confidence, yet access to finance and capacity constraints remain key risks for project timelines and margins.[6]

MERGERS AND ACQUISITIONS

Date Acquired	Target/Company	Acquirer	Acquirer HQ	Deal Type	Deal Size (£m)
17/11/2025	Thameside West	Arada Developments	UAE	Acquisition	2,630
14/10/2025	The Oxford Science Park	Ellison Medical Institute	USA	Acquisition	890
22/09/2025	Regal London	Arada Developments	UAE	Buyout/LBO	504
14/08/2025	Empiric Student Property	The Unite Group	UK	Acquisition	1,019
12/08/2025	Assura	Primary Health Properties	UK	Buyout/LBO	1,790
11/07/2025	Warehouse REIT	Blackstone	USA	Buyout/LBO	762

M&A activity in the UK real estate sector through 2025 has remained active, with a number of high-profile transactions setting the tone for the year. While the full picture for the year is still emerging, early data indicates that deal volumes are down 28.7% LFL compared with 2024, while average deal values have increased by 73.1%.

This pattern mirrors wider UK M&A trends, suggesting a more selective market in which investors have focused on fewer, higher-value opportunities as confidence in the macroeconomic landscape begins to improve.

> Early data indicates that deal volumes are down 28.7% LFL compared with 2024, while average deal values have increased by 73.1%.

Across both residential and commercial markets, activity has been shaped by more favourable investment conditions and shifting investor priorities. In the run-up to the recent Budget, house prices declined for the first time in 18 months, creating openings for opportunistic buyers. In the commercial real estate sector, cross-border investment has noticeably increased. Overseas buyers have been prominent, capitalising on a more favourable exchange rate and the easing of inflationary pressures.

These dynamics have helped push average deal values higher, particularly at the prime end of the market, as illustrated by the high-profile London-based investments completed this year by Dubai-based Arada Developments.

Looking ahead, the outlook for 2026 is cautiously optimistic. Following the Budget, there should be greater visibility for investors surrounding the UK macroeconomic environment. Combined with expectations of lower interest rates and improving credit conditions, we expect to see greater appetite for M&A and more favourable valuations across the market.

These dynamics should also sustain cross-border activity in the lower mid-market, whilst fiscal incentives driven by the latest Budget, including the proposed removal of stamp duty on UK public listings over the next five years, could provide additional incentive for activity at the premium end of the market. Against a backdrop of stabilising macroeconomic conditions, the sector appears well placed for a steady, more balanced flow of M&A through 2026.[8,9,10]

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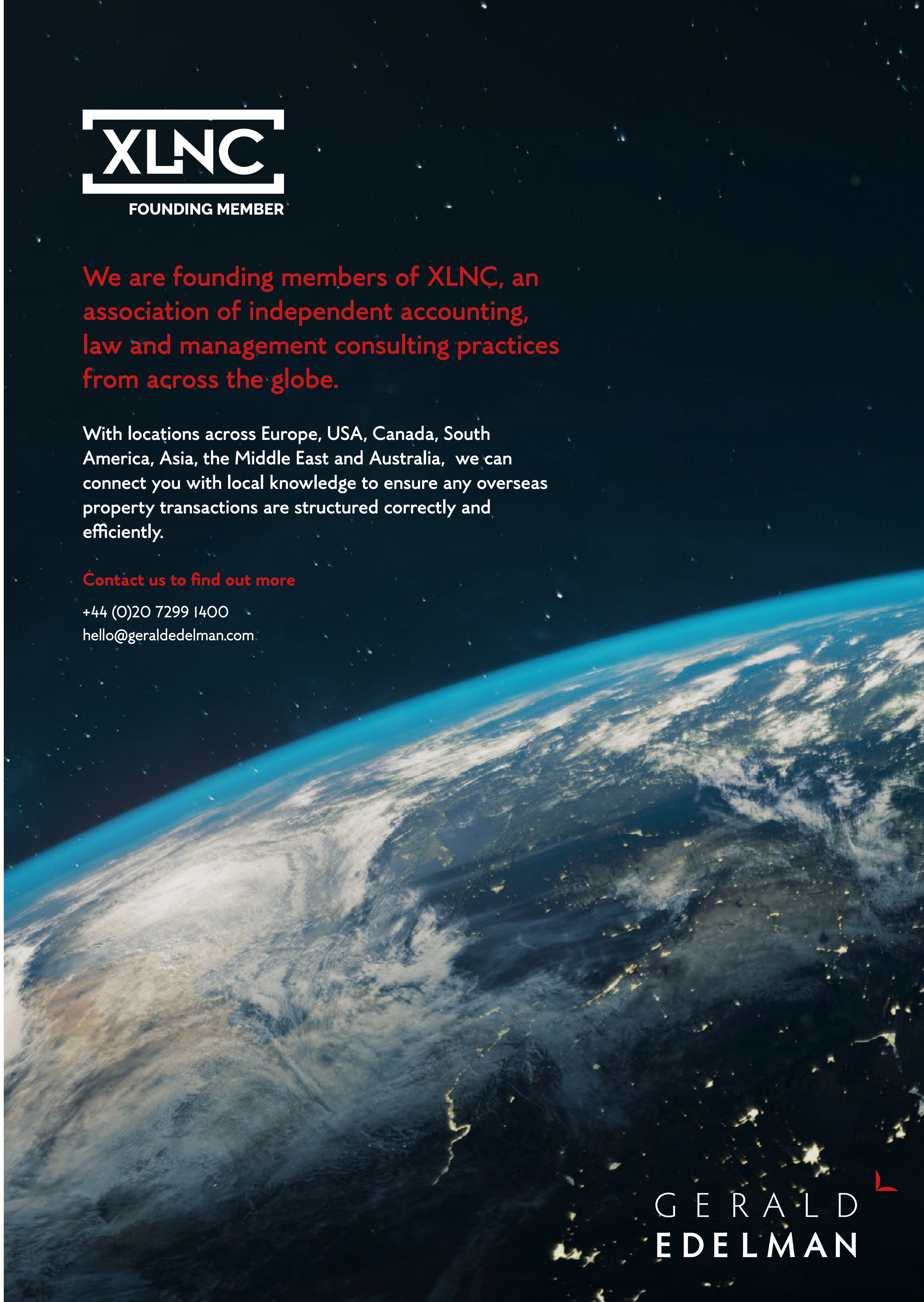

LONDON PROPERTY IN 2025: WHY A SLOWER MARKET IS A GIFT FOR SMART LANDLORDS AND INVESTORS

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London's property market is doing something unusual, it's being calm. Not crashing, not overheating, just taking a breather. And whether you're a landlord, buyer, investor or developer, this kind of market is far more useful than it looks.

From the estate agency side, we're seeing a lot less panic and a lot more planning. 2025 has been where smart decisions create long-term advantages.

LANDLORDS FINALLY HAVE ROOM TO REVIEW THEIR ASSETS

The last few years have been about reacting for landlords. New rules, huge interest rate swings, endless EPC rumours. Now, for once, landlords finally have time to look property at:

- The performance of their rental portfolio.
- What refurbishments or improvements are genuinely worth doing.
- Whether the property is being managed efficiently.
- How upcoming regulatory changes might affect returns.

What's interesting is how many landlords are using quieter market conditions to make improvements they'd been putting off, modernising interiors, increasing energy efficiency, refreshing tired layouts.

These aren't just cosmetic decisions; done well we are seeing an increase in rentability, reduction in voids and of course these works support long-term tax planning around depreciation and allowable costs over the course of the investment.

> What's interesting is how many landlords are using quieter market conditions to make improvements.

BUYERS AND INVESTORS ARE SEEING HIGHER QUALITY OPPORTUNITIES

When the market is fast, everyone rushes, there is a sense of get this done yesterday in the market. When the market slows, the quality rises, the ability to sift through and be left with the gold is present.

Investors also now have the space to think about a variety of things:

- How will this acquisition sit within my wider strategy?
- Is an SPV better for future plans?
- Should I factor in renovation costs before completion?
- What does yield look like once the property is modernised or staged properly?

We're seeing far more off market deals and value add opportunities across Prime Central London, the kind of stock investors couldn't even get near when the market was frantic.

DEVELOPERS ARE WINNING THROUGH PLANNING, NOT PACE

With build costs rising, timelines stretching, developers are becoming far more strategic. Slight adjustments to design, specification, layout, or positions can significantly affect both end value and tax efficiency.

We're seeing a shift toward:

- Clearer project planning
- Early conversations with advisors
- More thoughtful design and staging decisions
- Stronger alignment between acquisition, renovation and eventual disposal

The schemes and products that are performing the best right now are the ones where each part of the process supports the next.

THIS IS THE TIME TO "GET SET" BEFORE THE NEXT CYCLE

We must remember that London always cycles. History has been saying that for 200 years.

The owners, investors and developers who benefit the most in the upswing are the ones who use quieter years to:

- Tighten strategy
- Get accurate and accountable valuations
- Refresh, refurb and reposition assets
- Review their rental performance
- Plan disposals and expansions
- Work closely with a variety of advisors before making moves.

> If you own, let, invest in or develop in London, the decisions you make in this cycle will set the tone for the next decade.

WE ARE IN THAT TIME RIGHT NOW

If you own, let, invest in or develop in London, the decisions you make in this cycle will set the tone for the next decade.

At Druce, we're working closely with clients to review portfolios, identify opportunities, improve assets, and align plans with the wider financial landscape.

If you want a clear view of where you stand and where the opportunities really are, get in touch with your Druce agent or pop into your nearest office. We're here to help plan your next move with confidence.

INSOLVENCY RESCUE CULTURE VS LANDLORDS' RIGHTS: A DELICATE BALANCE

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The UK insolvency framework has undergone a profound transformation since the Cork Report (1982) and the Insolvency Act 1986, shifting from a punitive approach to one that prioritises corporate rescue.

This "rescue culture" aims to preserve viable businesses, safeguard jobs, and maximise returns for creditors. However, this philosophy often collides with the entrenched rights of landlords, creating friction that has intensified in recent years with the rise of Company Voluntary Arrangements (CVAs), Part 26A restructuring plans, and statutory moratoriums introduced under the Corporate Insolvency and Governance Act 2020.

While rescue mechanisms are designed to offer struggling companies breathing space, landlords frequently find themselves bearing a disproportionate share of the pain. This article explores the tension between these competing interests, highlighting pitfalls and areas of concern for landlords.

THE RISE OF RESCUE CULTURE

The rescue culture is underpinned by the principle that insolvency should not automatically mean liquidation. Tools such as administration, CVAs, and restructuring plans allow companies to reorganise their affairs, often under the protection of a moratorium that halts enforcement action. The rationale is clear: preserving a going concern generally yields better outcomes for creditors than a fire-sale liquidation.

Recent reforms have strengthened this approach. The Part 26A restructuring plan, introduced in 2020, enables companies to impose compromises on dissenting creditor classes, if sanctioned by the court.

Similarly, CVAs have become a popular mechanism for retailers and hospitality businesses to reduce rent obligations and exit unprofitable sites while continuing to trade.

IMPACT ON LANDLORDS' RIGHTS

For landlords, these developments present significant challenges:

1. Moratorium Restrictions

During administration or a restructuring moratorium, landlords cannot forfeit leases or commence proceedings without court consent. This curtails their ability to recover possession or enforce payment, even where arrears are mounting.

2. Rent as an Expense

While post-appointment rent is generally payable as an administration expense, disputes often arise over occupation and liability. Landlords may face delays or uncertainty in recovering sums due.

3. Lease Compromises under CVAs

CVAs frequently target landlords by imposing rent reductions, switching to monthly payments, or terminating leases. Although landlords can vote and challenge proposals under section 6 of the Insolvency Act 1986, recent case law (e.g., New Look and Debenhams) confirms the courts' reluctance to interfere with restructuring efforts, even where landlords suffer disproportionate impact.

4. Restructuring Plans

Under Part 26A, landlords may find their rights overridden if the court deems them "no worse off" than in the relevant alternative (usually liquidation). This judicial discretion introduces uncertainty and limits landlords' negotiating power.

PITFALLS FOR LANDLORDS

The rescue culture creates several practical and financial pitfalls:

Information Asymmetry

Landlords often complain of inadequate disclosure during CVA or restructuring negotiations. Without full visibility of the debtor's financial position, assessing proposals becomes difficult.

Unequal Burden

Critics argue that landlords shoulder more compromise than other unsecured creditors, particularly where lease liabilities are aggressively restructured while trade suppliers remain largely unaffected.

Valuation Uncertainty

In business rescue scenarios, determining whether landlords are "no worse off" than in liquidation involves complex valuation exercises, often contested and costly.

Legal Costs and Challenges

Statutory challenges under section 6 IA 1986 or objections to restructuring plans entail significant expense, with limited prospects of success given judicial support for rescue objectives.

Impact on Investment Decisions

The perceived erosion of property rights may deter investment in commercial real estate or lead to demands for higher security deposits and guarantees.

AREAS OF CONCERN

1. Fairness and Pari Passu Principle

While insolvency law enshrines equal treatment of creditors, rescue tools can create differential outcomes. Landlords question whether CVAs and restructuring plans truly respect this principle when lease obligations are singled out for compromise.

2. Judicial Attitude

Recent rulings suggest courts prioritise rescue over strict contractual rights, reinforcing the policy shift towards business continuity. For landlords, this signals a need to adapt strategies rather than rely on traditional remedies.

3. Future Reforms

The Insolvency Service's review of CVAs concluded that landlords are broadly treated equitably, but acknowledged scope for improved transparency and safeguards. Proposals include enhanced disclosure requirements and clearer voting thresholds.

MITIGATING THE RISKS

Landlords can take proactive steps to protect their interests:

Lease Drafting

Incorporate robust forfeiture clauses and break options triggered by insolvency events. Ensure guarantees and security deposits are structured to withstand challenge.

> While insolvency law enshrines equal treatment of creditors, rescue tools can create differential outcomes.

Early Engagement

Monitor tenant financial health and engage early in restructuring discussions to influence outcomes.

Legal Advice

Seek specialist advice on voting strategies, potential modifications, and grounds for challenge where proposals appear unfair.

Portfolio Diversification

Reduce exposure to sectors prone to CVAs and restructuring, such as retail and leisure.

CONCLUSION

The UK's rescue culture reflects a policy choice to prioritise business survival over rigid enforcement of contractual rights. While this approach may deliver modest economic benefits, it places landlords in a vulnerable position, often requiring them to absorb significant compromises. The challenge lies in striking a fair balance between facilitating corporate recovery and preserving property rights—a debate that will continue to shape insolvency law and practice.

For landlords, vigilance, adaptability, and informed negotiation are essential to navigate this evolving landscape. Rescue culture is here to stay; the question is whether landlords can secure a seat at the table rather than remain collateral damage.

RENTERS' RIGHT ACT

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The Renters' Rights Bill has now become the Renters' Rights Act, following Royal Assent, officially making it part of UK law.

While this represents change, it also presents a positive opportunity for well-managed properties and professional landlords. As long as customer service remains high and your property is well managed and looked after, there is nothing to be concerned about. These changes further emphasise the importance of instructing the right agents, those who prioritise quality tenants, clear communication, and proactive management.

Equally, by ensuring that the right tenants are selected, through thorough qualification, understanding their reasons for moving, and assessing their likely tenancy length, landlords can continue to enjoy stable, well-maintained tenancies and positive relationships.

KEY CHANGES IN THE RENTERS' RIGHTS ACT

Below is a summary of some of the main reforms:

Abolition of Section 21 evictions

Landlords will no longer be able to serve "no-fault" eviction notices. Possession will instead be managed through expanded and updated Section 8 grounds.

End of fixed-term tenancies

All tenancies will become rolling, periodic agreements, offering more flexibility for both landlords and tenants.

Fair and transparent rent increases

Rent can only be reviewed once per year using a Section 13 notice, giving tenants predictability and landlords a clear framework.

Ban on rental bidding wars

Properties must be offered at the advertised rent, ensuring a fair and consistent process for all applicants.

Introduction of a Landlord Ombudsman

A new, impartial service to resolve disputes between landlords and tenants.

Launch of a national landlord database

A central Private Rented Sector register will provide greater transparency, helping responsible landlords stand out.

Minimum property standards

The Decent Homes Standard will now apply to all rental properties, raising the overall quality of accommodation.

Protection against discrimination

Landlords will no longer be able to refuse tenants based on benefits or family status.

Right to rent with pets

Tenants can request permission to keep a pet, and landlords must have a reasonable justification to refuse.

The Government will release detailed implementation guidance and a timeline for these, and we'll ensure our clients are kept informed every step of the way.

> "The Government will release detailed implementation guidance and a timeline for these, and we'll ensure our clients are kept informed every step of the way.

THE EVOLVING ROLE OF THE DEBT ADVISER: DEBT STRUCTURING, LEGACY PLANNING, AND THE SCIENCE OF LENDING

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In a world where personal wealth, business ownership and multigenerational planning increasingly converge, the debt adviser's role has expanded far beyond transactional finance.

Today's clients, entrepreneurs, professionals, international families and multi-generational wealth holders seek more than access to capital. They require a strategic framework that aligns borrowing with ambition, structure and long-term intent.

The traditional model of securing a loan, completing a transaction and moving on has given way to a more nuanced expectation: that lending decisions form part of the architecture of enduring wealth.

At Henry Dannell Private Clients, we view lending not as an isolated activity but as a vital instrument within a broader financial narrative. When thoughtfully structured, borrowing becomes part of a client's long-term strategy, enabling preservation, opportunity and continuity across generations.

It is this shift, from transactional to strategic, that defines the evolving responsibilities of the modern debt adviser.

DEBT STRUCTURING AS A STRATEGIC WEALTH TOOL

Debt has moved beyond its historical role as a straightforward means of financing. Today, it is a mechanism that shapes liquidity, supports capital efficiency and opens pathways to future opportunity. For sophisticated clients, the question is rarely whether borrowing is possible; the real consideration is how to structure borrowing to serve wider objectives.

A set of recurring themes increasingly anchors these discussions:

- Should lending sit personally, or within a trust or Family Investment Company (FIC)?
- How can debt support gifting strategies, succession planning or intergenerational transfers?

- Does the borrowing complement long-term investment and cash-flow expectations?
- What structure best preserves capital while maximising flexibility?

Debt advisers now sit at the intersection of these considerations, ensuring that lending enhances rather than complicates the wider financial picture. When aligned with tax, legal and estate specialists, a well-structured loan becomes one of a client's most powerful strategic tools. It can protect investment growth, maintain liquidity in volatile markets and support complex family planning decisions that unfold over decades, not years.

> When aligned with tax, legal and estate specialists, a well-structured loan becomes one of a client's most powerful strategic tools.

FAMILY STRUCTURES, TRUSTS AND FICS: LENDING THROUGH A MULTI-GENERATIONAL LENS

Modern inheritance planning has shifted from the traditional focus on asset preservation to shaping the flow of liquidity, control and intergenerational intent. Trusts and Family Investment Companies have become central to this evolution, offering a framework for long-term ownership and tax efficiency.

Contrary to outdated perceptions, lenders, both challenger banks and private lenders, are increasingly comfortable lending into or alongside these structures when the rationale is clear, and the advisory team is coordinated. Borrowing through or in conjunction with a trust or FIC can be highly effective when managed with precision.

Strategic lending in this context can:

- enable early gifting without triggering asset disposals;
- reduce estate values in a controlled, tax-efficient manner;

- support property acquisition within trusts or FICs, aligning assets with generational plans;
- maintain liquidity without disturbing long-term investment positions.

Here, debt structuring and legacy planning converge. Families gain the ability to plan proactively rather than reactively, ensuring that future generations inherit not only assets but a coherent financial strategy. Lending becomes part of a longer-term vision, supporting both immediate needs and enduring intention.

MAINSTREAM LENDERS ADOPTING PRIVATE-BANK THINKING

One of the most notable developments in the lending landscape has been the evolution of mass-market lenders. Traditional challenger banks and building societies are increasingly adopting the flexibility once reserved by private banks:

- Higher income multiples, in some cases approaching private-bank levels.
- More sophisticated treatment of bonuses, vested stock and diversified income streams.
- Interest-only solutions supported by asset bases rather than rigid repayment criteria.
- Case-by-case underwriting that considers liquidity, investments and wider financial context.

The implications are significant. For clients, this shift means greater opportunity without the asset transfer requirements historically associated with private banks. For debt advisers, it demands a deeper understanding of lender criteria and a sharper ability to translate a client's financial narrative into a format lenders can recognise and underwrite.

Where one lender may see complexity, another, when presented with the right structure and rationale, may see strength. The debt adviser's role is to understand these differences and position clients accordingly, ensuring that opportunities are maximised in an increasingly flexible landscape.

THE SCIENCE OF LENDING TO BUSINESS OWNERS

Among all client groups, business owners are perhaps the most frequently misunderstood by mainstream lenders. Their income is often labelled "complex," yet in many cases it is more resilient and more diversified than that of salaried professionals. The challenge is not the income profile itself; it is how the profile is interpreted.

A lender's evaluation rests on a spectrum of interrelated factors:

- salary versus dividends;
- retained profits versus drawings;
- multiple income streams;
- ownership structures;
- liquidity events and their timing.

These components, when presented accurately, form a coherent demonstration of financial strength, discipline and long-term capacity. The debt adviser's role is to translate entrepreneurial income into a format that aligns with lender expectations, showcasing the business's durability, predictability, and underlying resilience.

For business owners, this translation is crucial. When done well, their financial profile becomes not a perceived risk, but one of the most compelling propositions available to lenders. Understanding this science is no longer optional for debt advisers; it is central to delivering successful outcomes for entrepreneurial clients.

BORROWING AS A COMPONENT OF LEGACY AND LIQUIDITY

Borrowing is often viewed primarily as a tool for acquisition. Increasingly, however, it is recognised as a tool for preservation and strategic control.

Many families choose to retain existing investments, business interests or global assets rather than liquidate them to fund property purchases or restructuring. The right borrowing strategy can make this possible.

Strategic lending can:

- protect compounding investment returns;
- prevent unnecessary liquidation of long-term portfolios;
- underpin gifting or estate-reduction strategies;
- maintain global liquidity and financial independence.

For clients with international interests, diversified assets or planned future liquidity events, lending often forms the bridge between present needs and a carefully designed future. The debt adviser's responsibility is to ensure that borrowing decisions complement, rather than compete with, broader long-term objectives.

THE DEBT ADVISER'S ROLE: ORCHESTRATOR, INTERPRETER, STRATEGIST

Advisory work today is architectural. Clients now expect debt advisers who can:

- interpret complex income and asset structures;
- align borrowing with tax, legal and estate planning;
- structure debt effectively within trusts, companies or family frameworks;
- anticipate generational needs;
- and access the full breadth of the lending market.

The debt adviser's value lies not only in securing lending but in shaping the purpose behind it, understanding the implications over time and guiding decisions with clarity.

As family structures evolve and lending criteria grow more sophisticated, the debt adviser becomes the essential bridge between opportunity and implementation. The most successful outcomes arise when lending is used with intent, as part of a coherent plan rather than a standalone solution.

LENDING AS A CATALYST FOR LONG-TERM WEALTH

The future of borrowing will not be defined by rates or product sets but by strategy. Debt structuring, legacy planning and the science of lending to business owners are no longer separate conversations; they form a single continuum of modern wealth management.

At Henry Dannell Private Clients, our purpose is simple: to bring coherence to complexity. By aligning lending with ambition, structure and legacy, we help clients turn borrowing into a strategic advantage, today and for generations to come.

> **The most successful outcomes arise when lending is used with intent, as part of a coherent plan rather than a standalone solution.**

A HIGH-LEVEL GUIDE TO FAMILY INVESTMENT COMPANIES (FICS) FOR UK PROPERTY-OWNING FAMILIES

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For families with sizeable UK property portfolios, planning how wealth will pass to the next generation is becoming increasingly important. Rising property values and frozen Inheritance Tax (IHT) thresholds mean more families are looking for efficient ways to manage succession.

Historically, offshore trusts were the favoured option for protecting UK property from IHT, but successive tax reforms have removed many of those advantages.

As a result, attention has shifted to FICs as an alternative structure.

WHAT IS A FIC?

A FIC is a limited company created to hold and manage family assets instead of owning them personally. Parents typically retain day-to-day control through voting shares, while children receive non-voting "growth" shares that allow them to benefit from the company's long-term value.

This helps future wealth pass to younger generations without immediately giving up control.

WHY FAMILIES USE FICS

1. Effective for IHT and wealth transfer

Gifting assets into a FIC, or giving children shares in it, is treated as a Potentially Exempt Transfer (PET). If the parent survives seven years, the gifted value falls out of their estate for IHT purposes. Because children often receive growth shares at the beginning - before the company's assets increase in value - most future growth accrues to them rather than the parents.

2. Favourable Tax Treatment on Profits

FICs pay Corporation Tax (CT) at 25% on profits and gains. Although this is higher than the small-profits rate, it is still significantly lower than top-tier personal income tax (IT) rates of up to 45% (increasing to 47% on property income from 6 April 2027).

For property-holding FICs, mortgage interest is fully deductible – unlike for individuals, who only get a 20% credit.

3. Flexibility on when money is taken out

Because wealth accumulates inside the FIC, families can choose when and how to extract funds via dividend payments, giving them more control over personal tax liabilities.

However, not all FICs are effective tax planning tools. The difference between a properly structured FIC and an accidental FIC can be the difference between a smooth, tax-efficient strategy and a structure that creates more problems than it solves.

This is why families should understand the distinction before transferring assets into a company.

WHAT IS AN "ACCIDENTAL FIC"?

An accidental FIC is a company that looks like a FIC on paper but has not been intentionally designed as part of a coherent wealth-planning strategy. These often arise when families:

- Purchase property through a limited company without well thought-out planning.
- Start a company for commercial reasons and later contribute investments.
- Add family members as shareholders informally.
- Transfer assets into a company without understanding the tax consequences.

The result is a structure that resembles a FIC but lacks the foundations needed to deliver the expected benefits from efficient tax planning tax and so exhibit some or all the "cons" of a FIC.

TYPICAL CHARACTERISTICS AND CONSEQUENCES OF ACCIDENTAL FICS

1. Shareholders added without strategy

Children or spouses may be added as shareholders "for convenience" without understanding:

- Whether the transfer is a gift
- Whether a PET has been created.
- Whether Capital Gains Tax ("CGT") has been triggered.
- Whether the family wants multiple generations involved.

This can create unexpected tax liabilities or disputes later.

2. No distinction between voting and growth shares

All shareholders may have identical rights, meaning:

- Parents unintentionally lose control.
- Children receive value they were not meant to have.
- IHT benefits are not achieved because growth is not allocated efficiently.

3. Assets transferred without understanding tax consequences

For example:

- Transferring property into the company and not considering the Stamp Duty Land Tax ("SDLT"), CGT and CT issues.
- Loans may be undocumented or treated incorrectly.
- Directors may extract funds improperly (creating IT charges or loans-to-participator issues).

4. Lack of governance and documentation

Without proper agreements and record-keeping, the company may:

- Be challenged by HMRC.
- Face dispute among family shareholders.
- Have unclear rules on extraction, voting, and succession.

5. No long-term plan for succession

Accidental FICs often fail to consider:

- What happens when parents die.
- How shares will pass down.
- How future tax charges will be managed.
- Whether children want to be part of a long-term investment company.

This often results in costly, avoidable complications.

WHY THE DISTINCTION MATTERS

1. Tax efficiency

A well-designed FIC can significantly reduce long-term IHT exposure. An accidental FIC may result in:

- Unexpected CGT bills.
- Double taxation – i.e. CT at 25% on profits payable by the company followed by IT payable by the shareholders on the dividends which can be a s high as 39.25%.
- Inheritance Tax inefficiencies.
- Problems unwinding the structure later.

2. Control and protection

Properly structured FICs allow parents to retain control while passing value to children safely. Poorly structured ones may give away too much control—or too little.

3. Multi-generational planning

A FIC is, by nature, a long-term structure. Without planning, the next generation may inherit shares with:

- Large unrealised gains.
- No liquidity to settle the tax liabilities.
- No understanding of how to run the company.

4. HMRC risk

Accidental FICs are more likely to attract scrutiny if the company appears to be:

- A substitute for a trust.
- Poorly documented.
- Inconsistent in how it treats shareholders and loans.

Proper structuring reduces risk and demonstrates genuine commercial purpose.

CONCLUSION

A FIC can be a powerful vehicle for wealth preservation and succession—but only when properly structured. Accidental FICs, created without guidance or planning, often lead to tax inefficiencies, loss of control, and administrative problems that undermine the very benefits families hoped to achieve.

Before transferring assets or involving family members, it is crucial to design the structure intentionally, with specialist advice, clear documentation, and a long-term plan.

IS THIS THE END FOR UPWARD-ONLY RENT REVIEWS?

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In a move that has surprised the UK property industry, the UK government has proposed plans to ban upward-only rent reviews (UORRs) in commercial leases.

According to the UK Government, this proposal, embedded within the English Devolution and Community Empowerment Bill (the "Bill"), aims to support small businesses, rejuvenate high streets, and rebalance power between landlords and tenants.

WHAT ARE UPWARD-ONLY RENT REVIEWS?

UORRs are provisions in a commercial lease that allow rents to increase—or remain static—at review intervals, but never decrease, even if market conditions deteriorate.

These provisions have typically been favoured by landlords and institutional investors for providing predictable income streams and safeguarding property valuations.

However, the UK Government argues that UORRs trap tenants into paying above-market rents, especially during economic downturns, contributing to business closures and vacant retail units.

> UORRs are provisions in a commercial lease that allow rents to increase—or remain static—at review intervals, but never decrease.

It is this imbalance that the UK Government appears to be addressing with their proposal although it is doing so without any proper consultation with the UK property industry.

HOW WOULD THE BAN OPERATE IN PRACTICE?

The Bill in its current draft form envisages that the ban would operate in the following manner:

- New Schedule 7A will be added to the Landlord and Tenant Act 1954 (a draft can be found in Schedule 31 to the Bill)
- Ban would apply to a lease which is a business tenancy and will apply whether or not the lease has been contracted out of the security of tenure rights under LTA 1954
- Ban would be prospective in nature, meaning that it would only apply to leases granted after the new law comes into effect. It will not apply to existing leases but will apply to renewal leases
- Any provision seeking to achieve an upwards only rent review by reference to a variable such as open market rent, inflation (or other form of indexation) or tenant's turnover would be overridden and the rent would be able to go up or down at review

The legislation will also contain anti-avoidance provisions to prevent the landlords from skipping a downward rent review. Tenants will be able to trigger reviews themselves in the event landlords do not act.

IMPLICATIONS FOR TENANTS

For tenants, the proposed ban will likely be largely welcome:

- Greater flexibility in lease negotiations
- Protection against market downturns
- Potential improved survival rates, for instance, for high street businesses
- Potential for fairer rent structures, such as turnover-based or index-linked rents

However, are UORRs that big of an issue?

In the current market, average lease lengths have gone down significantly with fewer leases containing any rent review mechanism. This is particularly true for the retail sector where smaller high street tenants increasingly prefer taking on short-term commercial leases without any rent review provisions to retain flexibility.

IMPLICATIONS FOR LANDLORDS AND INVESTORS

The proposal has sparked concern among landlords, pension funds, and property investors:

- Reduced income predictability, especially in volatile markets
- Potential impact on property valuations
- Challenges in securing financing, as lenders may view commercial properties as riskier investments
- Increased complexity in lease negotiations, with landlords possibly favouring shorter lease terms (to retain greater control over rent increases) or fixed/stepped rent increases (which would escape the ban).

It could also be argued that it is not in the landlord's interest to drive up rents to a point where it becomes unaffordable for its tenants and lose rental income. Also, for institutional and overseas investors, fixed or increasing returns are a crucial factor when deciding to invest in the UK property sector – would this not, therefore, deter such investment especially given the current economic climate?

> The Bill continues its path through the various parliamentary stages and is currently at the Committee Stage in the House of Lords.

WHAT HAPPENS NEXT?

The proposed ban on upward-only rent reviews would mark a significant shift in the UK's commercial property market. While it promises potential relief for tenants, it also introduces new risks and uncertainties for landlords and investors.

The Bill continues its path through the various parliamentary stages and is currently at the Committee Stage in the House of Lords.

No timing is set for when the Bill is likely to come into force but industry voices on both sides will likely continue to engage heavily with the UK Government to refine the scope and implementation of the ban although so far nothing in the proposals seek to address concerns expressed by the landlords.

In the meantime, both landlords and tenants are advised to:

- Review their leases and consider at a strategic level how the ban would impact their businesses
- Engage with agents and asset managers and seek legal advice before entering into new or renewal leases
- Monitor legislative progress and engage with industry representatives

If you have any questions or concerns in relation to the proposed ban on upward only rent reviews, then please get in touch with the commercial property team at Quastels. Quastels are monitoring the Bill closely as it moves through the Parliament and will publish any material updates as appropriate.

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