INREV response to HMT Residential property developer tax: Consultation on policy design

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About INREV: the European Association for Investors in Non-Listed Real Estate Vehicles

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. We provide guidance, research, data and information related to the development and harmonisation of professional standards, reporting guidelines and corporate governance within the non-listed property funds industry across Europe.

INREV currently has approximately 460 members. Our member base includes institutional investors from around the globe such as pension funds, insurance companies and sovereign wealth funds, as well as investment banks, fund managers, fund of funds managers and advisors representing all facets of investing into non-listed real estate vehicles in the UK and the rest of Europe. Our fund manager members manage more than 500 non-listed real estate investment funds, as well as joint ventures, club deals and separate accounts for institutional investors.

Introduction

INREV welcomes the HMT consultation on the Residential Property Developer Tax (RPDT) and the opportunity it presents to provide reassurance to homeowners and restore confidence in the housing market while raising revenue to help fund the government's vital remediation work.

Over the last decade the residential rental market has evolved considerably in the UK, prompted by investment from large institutional investors that are seeking long term stable investment returns. Purpose Built Student Accommodation (PBSA) and Build-to-Rent (BTR) assets are the most established rental asset classes, with investors now also showing increasing interest in a rental model which could be appropriate for the retirement living communities.

The BTR market is still relatively new in the UK, and still represents a small proportion of both new housing supply and of the total residential rental sector. Approximately 5,000 new BTR homes were developed last year, which accounts for around 2-2.5% of total new housing supply in the UK. However, it is growing strongly and has the potential to contribute even more, with BTR representing 20% of London's new housing supply last year. We are deeply concerned that this tax could stymie the potential of this sector to continue to grow and contribute to the UK's housing supply.

As the tax has been designed with traditional volume build-to-sell (BTS) trading business models in mind, as proposed it will have a penal impact on the rental sector – particularly in light of the proposals to impose a dry tax charge where a building isn't even sold. These proposals will disproportionately impact on the viability of new high quality, professionally managed rental homes in the UK. Everyone would like to see more homes built, but this tax indisputably works against that. Furthermore, it would be counterproductive to several of the government's wider objectives around sustainability levelling up through residential led investment regenerating of UK towns and cities.

In particular, we would highlight the following benefits of BTR and PBSA that would be undermined by this tax:

Counter-cyclical housing delivery
The BTR business model is counter-cyclical – because investors are seeking returns over very long time horizons, investment and development will happen (and will often be more common) during a recession. To that end, this sector can play an increasing role in helping meet the government's housing targets in the UK, and will complement the more traditional build-to-sell (BTS) model, where construction typically reduces during a recession and government support is more prevalent.

Sustainability and quality
As long term owners and investors, the quality and longevity of the homes being built today are of paramount importance in this sector. Investors are not only mindful of the sustainability standards of today – but also seek to future proof their assets for the future. As long term owners and operators of these assets, the quality of the design and build is absolutely paramount to their business models – by investing up front in high quality buildings, they can reduce the potential maintenance and retrofitting costs in the future – which will improve returns in the long run. This does mean that upfront costs are high, and margins are tight in this sector – making viability more marginal than for other residential developers, like traditional housebuilders.

As part of the drive for quality and efficiency, the sector is playing a leading roles in supporting the innovation of new construction methods – notably, Modern Methods of Construction, which involves significant amount of manufacturing offsite, enabling greater quality control over the final build quality and faster delivery times.

Levelling up – regenerating the UK's towns and cities
BTR and PBSA assets are drawn to town and city centre locations, with good access to jobs, universities and transport links. Quite often, BTR investment is the catalyst for the regeneration of inner-city brownfield sites – areas which are often difficult to generate viable investment propositions because they are inherently more complex and riskier to build out. Encouraging this investment will support the government's levelling up agenda by stimulating investment in the UK's towns and cities – as well as wider benefits of limiting urban sprawl. Over 50% of BTR investment in the UK is now in the regions and this percentage is increasing.

The UK residential investment sector competes globally for institutional and international capital and this tax will reduce investor appetite for the sector and reduce the viability of new development. This tax has not been designed with rental asset classes in mind, which is why the proposals are particularly complex and penal when applied to the rental sector. This is not justified given the limited tax revenues that will be generated by the rental sector from this tax.

Conclusion

In light of the considerable benefits that BTR brings to the UK's housing supply and wider government priorities, INREV strongly urges HMT to keep investment asset classes such as BTR and PBSA outside the scope of the RPDT.

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