July 2023

The Property Round

In This Issue

This Issue's Contributors

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GERALD EDELMAN

EDITORIAL

Welcome to the latest edition of Gerald Edelman's Property Round. This edition coincides with yet another interest rate hike, which now puts the base rate at 5%, the highest it has been for 15 years.

Moreover, in this month alone, the short-term nominal yield curve has increased 80 basis points. The impact of the latest hike is yet to be seen, but we expect people will have even less confidence in the market and it is certain that some investors will be weighing up their options.

CURRENT TRENDS

Presently, the most talked about point in property circles is the effect of interest rates on the UK real assets market. Historically, investment property yields move in line with bond yields, albeit with less volatility. So, whilst the recent interest rate hikes are expected to place upward pressure on real estate yields, the yield changes from peak to trough are generally not as pronounced as the bond yields. This suggests that whilst interest rates are an important driver of the change in yields, they are not the only one. These other reasons may limit the degree of yield softening that the market experiences, where supply and demand is one such variable that drives yields in the property market.

The property investment market in London remained strong throughout the latter stages of 2022 and the first quarter of 2023, beating other European capitals, including Paris, on the amount of investment attracted. This was backed up with strong rental growth in this market, although this is against the backdrop of a year on year decline in the uptake of space.

The UK faces some unique economic headwinds. Whilst other global economies are experiencing a decline in inflation, recent UK core inflationary data, (mainly excluding food and energy prices) remains sticky. Other economies arguably made sharper, quicker interest rate rises which helped quell high inflation sooner (for example the US market), with the UK being slower to do so. Although it should be noted that the UK real estate market tends to be less exposed

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XLNC FOUNDING MEMBER

to short term interest rate rises due to the practice of hedging floating interest costs, both in the institutional and retail markets. The cash flow pain is then deferred until the hedging term expires or residential fixed interest rate mortgages require renewal.

The UK property investment market has experienced yield softening in the second half and the first quarter of 2023 particularly noted in the secondary and tertiary office sector. Surprisingly, a number of asset values have remained stable through the first half of 2023, including data centres, student accommodation, hotels, and high street retail. This partly shows an underlying resilience in the strength of consumer spending despite the prevailing economic conditions and fewer tenant delinquencies than might have been expected.

Similarly, in the residential market, following the shock of the budget fiasco during the second half of 2022, the residential market has returned to more normal levels of activity, which includes the amount of stock on the market. Albeit, the absolute levels of sales are expected to remain supressed due to the high interest rate environment, with an increase only forecast to return in 2025. Residential letting levels in popular locations remain strong.

One of the longer-term trends is understanding the full impact of the new ways of working, following the pandemic. In particular, the longer-term office space demands of employers in key office locations, with their needs being assessed as lease terms or break options approach, and is generally expected to result in a downgrade of space for a number of UK companies.

Although, this outlook is being clouded by the number of working days trending upwards for employees coming into the office, so the model is yet to be worked through and fully understood, particularly on a national level.

Despite the economic headwinds, and a mixed investment outlook, opportunities remain. Longer term trends, sustainability, employees seeking better workspace experiences and other pressures present prospects for development, change of use and both investment and occupational flight to quality. An additional upside is that this environment may result in a greater choice of financing options as property debt funds may prove a popular choice for institutional investors. The medium-term impact of some long term asset allocators choosing to invest through debt rather than equity is yet to be seen.

As we navigate through yet more uncertain times in the property market, sharing knowledge and insights are critical. We're therefore delighted to bring you insights from James Andrew International Group and Henry Dannell, as well as my fellow Partners at Gerald Edelman.

We hope that you find this edition informative, engaging and useful. As always, if you would like to contribute to our next edition, contact one of the GE team.

Grant Lee

PROPERTY SECTOR UPDATE

The property sector is set to face more turmoil with the latest interest rate hike. This is expected to have a further impact on the residential and lettings sector.

In more positive news, some sub-sectors of the commercial sector are seeing growth once again with businesses encouraging employees back to the office and the property services sector has seen an upward trend due to the resilience of infrastructure.

THE HOUSING MARKET

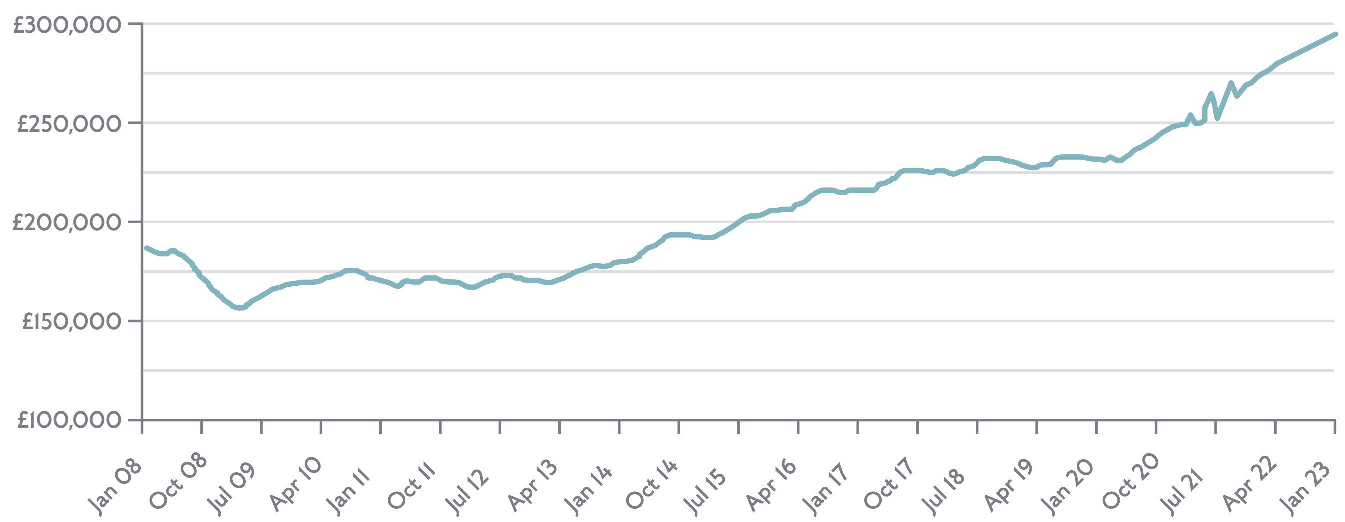
Property prices are continuing to fall, albeit at a slower pace. According to Zoopla, UK house prices have fallen 1.3% in the last six months. Compare this to a year ago when they were rising by 11%.

However, the glimpse of hope is that they are not falling as quickly as they were towards the end of 2022, suggesting that buyers and sellers are gaining confidence again in the market. Whether the latest interest rate hike by the bank of England will counteract this is yet to be seen.

THE COMMERCIAL SECTOR

According to RICS Commercial Property Monitor Q1, the market is subdued due to higher borrowing costs, but is beginning to stabilise.

AVERAGE UK HOUSE PRICES



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

CONSTRUCTION OUTPUT

(Sources: Office for National Statistics – Construction Output and Employment)

The outlook is positive for the industrial and prime office sector, which are seeing growth. The aftermath of the pandemic saw businesses opting for remote work, however with companies now reassessing this trend and encouraging employees back into the office it's having a positive impact. However, retail continues to struggle.

PROPERTY SERVICES

Global activity has increased with the UK seeing a positive rise in headline workloads, recording a net balance of +3% compared with – 1% in Q4 last year, according to RICS Global Construction Monitor Q1. This has been a result of the resilience of infrastructure, as the sector still faces the same concerns – labour shortages and rising costs.

MERGERS AND ACQUISITIONS

Date Acquired	Target/Company	Acquirer/Investor	Deal Value (£)
18/05/2023	Sancroft, 10 – 15, Newgate Street	Mitsui Fudosan (U.K) Ltd	315m
15/08/2023	45 Beech Street	Bridges Fund Management	30m
16/03/2023	Luton Shopping Centre	Frasers Group	58m
23/12/2022	Student Roost	Greystar Real Estate Partners	3.30bn
31/10/2022	One Valpy (Reading)	Forma Real Estate	27.6m
05/09/2022	Countryside Partnerships	Vistry Group	1.26bn
06/07/2022	UK Land Estates	GIC (Singapore)	425m

UK property markets have traditionally proved to be resilient, although it remains to be seen what the longer term impacts of rising interest rates and macroeconomic uncertainty might have on M&A activity in the sector.

Despite general decreased levels of confidence in investment in the European property market, the UK has been less affected than mainland Europe, with UK M&A property activity in Q1 2023 increasing from Q4 2022.

This is likely supported by opportunistic investors seeing macroeconomic challenges as an opportunity to acquire cut-price assets.

ONE MAN'S VIEW

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Last quarter I was asked whether property is a barometer of the UK economy, and I gave what I thought was a comprehensive response. *Subsequently* I have been asked whether my opinion has changed.

Before I was asked to do this, I was commenting to a colleague that I had now seen more downs than ups in the market in my long career. Of course, every trough is followed by a wave, despite everyone saying we won't make the same mistakes again, we all get caught in the moment.

WHAT ARE THE DRIVERS OF THE ECONOMY?

GDP, national debt, inflation, manufacturing output, productivity, interest rates; whilst the foregoing are important, the public's confidence remains the thing that controls spending. The UK, through the failure of all political parties to agree an industrial strategy or indeed a trade one and stick to it, now has very limited manufacturing.

Indeed, one of the unintended consequences of BREXIT could see motor manufacturing leave the UK, in part due to the import/export issues with the EU and part due to the government's failure to back a Giga factory to build electric vehicle batteries. These things, coupled with stubbornly high inflation and rising interest rates conspire to damage confidence. I remain certain that confidence drives the economy, and people's circumstances particularly around housing and employment drive the individual's confidence.

Press reports in June suggest a further 2.6 million mortgages have a fixed term expiry in the next three months. With rates in 2019 and 2020 as low as 1.5%, these homeowners face rates tripling. I think it is dangerous to use average mortgage debt across the country, as property values in the southeast and London are exceptionally high and thus these interest rate increases will disproportionately affect the southeast.

I was looking through one of the online property sites at the weekend, and the hike in interest rates since the autumn does not appear to have checked the asking prices, although a number of properties stubbornly fail to sell, suggesting either the picture tells a story that a viewing exposes as inaccurate or the valuation is wrong.

It never ceases to amaze me that estate agents continue to value land as if build costs had not risen

25+% in the past 12 months. Beware if you have to repair or improve your property, the labour and material costs have increased dramatically.

In my opinion the housing market is due to be squeezed. Housing costs are for the majority, the single largest monthly cost, add this to continually rising food costs and uncertainty over utility costs and confidence wanes. Ultimately, house prices will stall and in some cases fall substantially.

For flat owners, the new Building Safety Act has added a further nuance to the sales process. *Standard Pre-contract Enquiries* have been changed to reflect the new regulations, but this could delay sales as landlords gather the certification and information required. Beware, some of the guidance referred to in the Act has not as yet been issued by the government, with only a promise of things to come.

> **It never ceases to amaze me that estate agents continue to value land as if build costs had not risen 25+% in the past 12 months.**

Commercial property and buy-to-let owners face the same head winds, but with the added complication of regulation. Minimum Energy Efficiency Standards (MEES) have been around for a while, but solicitors I have spoken to are suggesting commercial occupiers will be looking at the Building Safety Act as best practice. *However*, as high-rise offices have required sprinklers and two means of escape as long as I can remember, many of the issues do not apply. How we reached a point where standards for housing were below those of offices is a mystery, but these issues are created by central government.

Turning back to MEES, the recalculating of the carbon factor for electricity and gas has altered the EPC calculations. For property with high electricity consumption this will be beneficial, for those dependant on gas the consequences could be severe. I mention this for two reasons, EPC certificates are valid for 10 years. If you think your EPC will be improved by these changes, then it may be worth seeking a new assessment, you can commission an EPC without this being registered. If your D rated EPC becomes a B, you could save considerable expenditure when the government makes it mandatory for commercial property to have a B rated EPC in 2030. If you are a tenant and have a rent review or lease expiry imminent, having a current EPC can be useful ammunition when comparing transactions and potentially seeking landlord commitments to expend their own funds to improve the property.

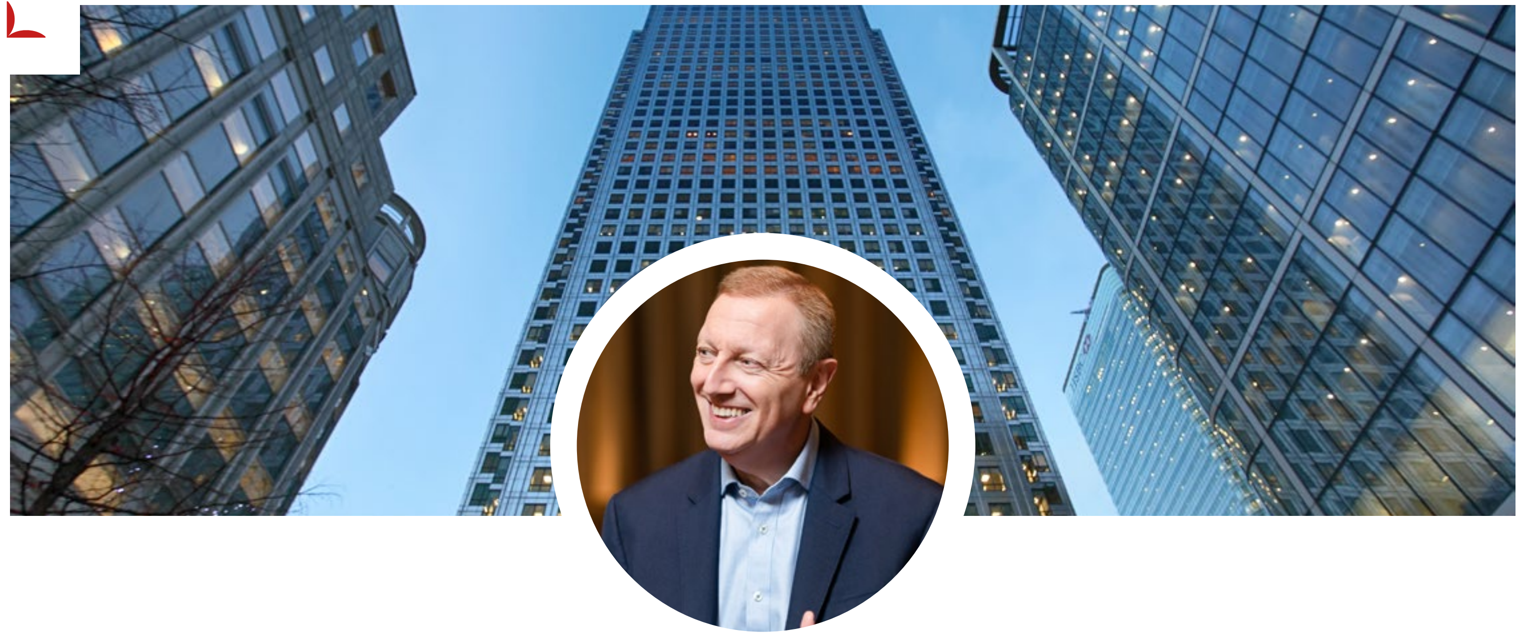
As for working from home, I am a strong believer that businesses work best with personal interaction, but I can see the five-day week in the office being eroded. However, there are signs even the London tech companies are pressing employees to return three or four days a week. *Have they learned a lesson about collaborative working?* Society needs people who can communicate face-to-face. I fear a lost generation of young professionals if we do not see a return to the office.

In short, I remain confident that there will be opportunities to be had in the next few months, you just have to work harder to deliver them. Good luck.

Harvey M. Soning, FRICS
CHAIRMAN

ABOUT HARVEY M. SONING

- 63 years in the real estate industry
- Ambassador and Founding Member of the Royal Air Force Museum Fundraising Board
- Chair of the International Friends of the Natural History Museum London
- Founding Member of the Natural History Museum Foundation
- Trustee of JCoSS secondary school in Barnet
- Court Member and Managing Trustee of The Chartered Surveyor's Company



WHAT'S NEXT FOR OFFICES?

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Historically, offices were a relatively safe and secure investment. However, this was before the global pandemic and its impact on working practices, the effect of ESG requirements and the significant changes in the UK economy.

In this article, we look at each of these factors to understand what the impact has been on offices and what the future looks like.

CHANGE IN WORKING PRACTICES

The global pandemic vastly accelerated the move to remote working. As a result, many businesses concluded, that to a greater or lesser extent, they could reduce the amount of office space that they required and significantly reduce their occupancy costs with an element of remote/hybrid working.

What we are now seeing is that businesses are reducing the amount of office space that they utilise, but they are either significantly improving the quality of the space they occupy or are moving to better quality Grade A or Premium rated office space.

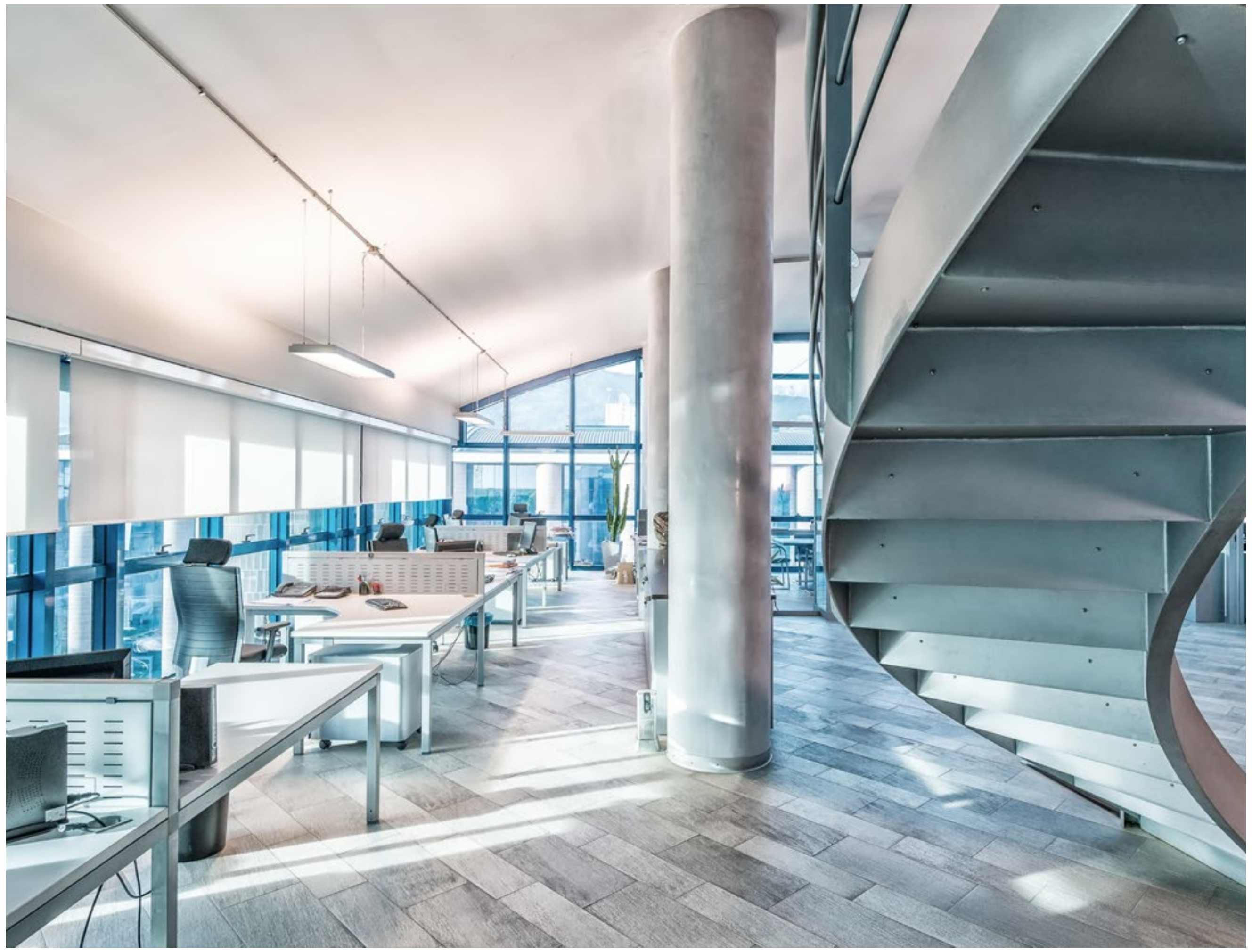
The requirement for businesses to occupy better quality space is, in part, to attract employees into offices, taking a greater consideration of their wellbeing requirements and to assist in attracting new employees in the current "war for talent".

The result of the move to better quality space is a surplus of sub grade A space which will have to either be upgraded or repurposed. Whatever option is taken will result in a significant investment by the owners of these properties. Fortunately, there are Government incentives for some capital works to bring buildings up to standard in the form of Capital allowances.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Developers of office buildings must now consider ESG during construction. Occupiers will increasingly insist on energy efficient and sustainable buildings, both in terms of ongoing costs and their business's perception to the world at large.

In addition, institutional investors will only invest in sustainable buildings and lenders, particularly when looking at long term facilities, and will now take into account the sustainability of a building in terms of its construction when considering whether to make an advance and the cost of that borrowing.



Furthermore, Government policy is pushing the industry towards considering ESG with the introduction of Minimum Energy Efficiency Standards (MEES), and the requirement for energy performance ratings to assess a building's energy efficiency ranging from A (most efficient) to G (least efficient).

From 1 April 2023, it has been unlawful to let a property with an F or G EPC rating, and from 2025 all newly rented properties must reach an EPC rating of C or above, with any existing rented properties having to meet this standard by 2028.

THE UK ECONOMY

The current position of the UK economy is impacting on values and the ability to raise finance. At the time of writing this article, Base Rate is 5% and five and 10-year gilt rates are 3.6% and 3.9% respectively.

When considering these rates against prime yields for offices in The City and West End of London, which are 3.5% – 4%, and provincial offices of 5% – 5.5%, the yield gap between a risk – free return and investment in prime office looks marginal and suggest that yields will start to lengthen with the resultant negative impact on values.

Given the current uncertainty around values, it is no surprise that investment volumes have reduced over the last several months. A further reason that investment volumes have fallen is likely due to lenders being more cautious with conservative lending covenants in terms of loan-to-value and interest cover requirements.

CONCLUSION

In my view there remains a strong argument to invest in premium/grade A offices as there is still demand for these buildings by occupiers, despite the current uncertainty around values. What is clear is that any office buildings not meeting the highest standards will require significant investment to bring them up to standard or to be repurposed.

MORTGAGES IN LATER LIFE: UNLOCKING FINANCIAL FREEDOM

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Utilising Later Life mortgages to release equity enables borrowers to enjoy their many years of hard work without compromising their current lifestyle or future aspirations.

As life unfolds, we consider what our retirement will hold for us and the level of financial security required to support our desired lifestyle.

However, as we live longer, the financial assets we once relied upon may no longer offer the stability we anticipated.

THE POWER OF LATER LIFE MORTGAGES

Fortunately, there are options available that can help us navigate this stage of life: Retirement Interest Only (RIO) and Lifetime Mortgages. These financial products allow homeowners aged 55 and over to access the value built-up in their homes.

A RIO mortgage provides a lump sum based on the income of the lowest-earning borrower. With an open-ended term, this option requires monthly interest payments. Homeowners can access a significant amount of money, without the need to sell their property. This can be key for those seeking financial flexibility while remaining in their home.

Borrowers can benefit from low payments and the capital is usually repaid from the sale of the property when the last borrower has passed away.

THE BENEFITS OF EQUITY RELEASE

Another effective solution to consider is equity release. There are two types of equity release available: Home Reversion and Lifetime Mortgages – with the latter being the most popular.

The loan amount available is determined by the age of the youngest homeowner and the property's value. Funds are released tax-free as a lump sum, with the option to keep additional funds in reserve for future use, all while retaining the right to reside in the property for life. Payments towards the fixed interest charge are voluntary, and any unpaid interest rolls up.

This unique solution offers access to a substantial sum of money regardless of income, allowing borrowers to utilise the funds as desired – whether

for home renovations, paying off an existing mortgage, or supporting loved ones and mitigating an inheritance tax liability. Equity release enables borrowers to enjoy their many years of hard work without compromising their current lifestyle or future aspirations.

For those interested in exploring the available later life mortgage options, we discuss all possible scenarios and provide illustrations that can be shared with any beneficiaries, as appropriate.

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RESIDENTIAL MORTGAGES: SIMPLIFYING THE COMPLEX

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Over the past 12 months, the residential mortgage market has been ever-changing, and the need for specialist advice to navigate this rapidly evolving market has never been more crucial.

INTEREST RATES

Over the last decade, interest rates have reached record lows. However, when considering average rates over the past 20 years, we still remain to be in a highly favourable position.

Over the past four months, tracker mortgages have gained popularity, with market projections suggesting a potential decline in interest rates by the second quarter of next year – a tracker margin as low as 0.14% over the base rate for the next 24 months is proving to be an attractive option for borrowers.

RECENT MARKET SHIFTS

Several lenders have adjusted their criteria for interest-only mortgages, now permitting a larger percentage of the loan on an interest-only basis compared to previous guidelines. This shift offers clients the opportunity to reduce their payments in a higher interest rate environment.

Certain lenders have also begun providing income multiples of up to six times for professional clients, enabling immediate property purchases and saving on stamp duty in the long term.

Additionally, more high street lenders are adopting a holistic underwriting process. They now consider real-time income assessments to establish affordability. While this still remains to be non-standard practice, we are actively working with various lenders to refine their criteria and meet market demands more effectively.

These market shifts enable us to offer effective solutions to clients, making the current market more manageable in the short term while we anticipate the projected drop in inflation and interest rates.

NO TAXABLE INCOME? NO PROBLEM.

While certain banks limit lending solely to taxable income demonstrated through payslips or tax returns, we offer alternatives for lenders willing to consider available, but not yet drawn income or projected income.

For instance, we recently helped a client with a significant investment portfolio amounting $16 million to obtain a loan to redeem a costly Lombard loan against their investments. We devised a notional income from the portfolio to justify the lending, without requiring custody of assets.

> “These market shifts enable us to offer effective solutions to clients, making the current market more manageable in the short term while we anticipate the projected drop in inflation and interest rates.

SPECIALIST COMMERCIAL FINANCE: UNLOCKING OPPORTUNITIES

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Despite the current market turbulence, there is an overwhelming demand from clients seeking to explore credit options beyond the conventional mortgage market.

While the residential mortgage market is well-established and commoditised, the realm of commercial financing offers a wealth of opportunities. From Development Finance and Self-Build Mortgages to financing Buy-to-Let (BTL) portfolios and Bridging Finance, there is a diverse landscape awaiting ambitious individuals.

TAILORED FUNDING SOLUTIONS FOR PROPERTY DEVELOPERS

Development finance presents an avenue for self-builders to transform their vision into reality. We specialise in sourcing competitively priced funding options tailored to the unique requirements of each client. Whether it's securing funds to purchase the ideal site or obtaining financing for the construction process, we navigate through numerous structures to identify the most suitable option.

For those aiming to sell the development, similar principles apply, although the choice of funders may differ significantly. Aspiring developers, especially first-timers, need to demonstrate their expertise and instil confidence in lenders by surrounding themselves with experienced architects and project managers.

NAVIGATE THE EVOLVING LANDSCAPE OF PROPERTY INVESTMENT

Over the past 25 years, the market for Buy-to-Let (BTL) portfolios has experienced remarkable growth as clients sought viable alternatives to traditional pension planning.

> **While the residential mortgage market is well-established and commoditised, the realm of commercial financing offers a wealth of opportunities.**

As demand surged, an influx of lenders entered the scene, offering innovative solutions. However, recent tax changes have made this landscape increasingly complex, compelling many clients to transition their portfolios from personal names to limited company structures.

To facilitate this transition, existing lending arrangements must be restructured under the new corporate entity. Such a move can provide enhanced tax benefits and significantly streamline administrative tasks by consolidating multiple mortgage arrangements into a cohesive structure.

UTILISING BRIDGING FOR SWIFT FINANCIAL SOLUTIONS

In the realm of bridging finance, we are witnessing an unprecedented surge in demand. The allure of swift action drives clients who seek to secure their next home without the requirement of selling their current property.

In today's market, where the supply of quality properties remains limited, the ability to offer speed becomes the decisive factor in having an offer accepted. Moreover, astute investors utilise bridging facilities to swiftly acquire sites, effectively outpacing the competition.

Typically, these transactions involve securing facilities against multiple forms of collateral before transitioning to longer-term financing or being repaid through the sale of other assets within the first 12 months.

At Henry Dannell, we pride ourselves on our ability to identify high street solutions tailored to the unique needs of our high-net-worth clients. To find out more or to discuss your situation, contact Stephen, Courtney or Matt.

THE REGISTER OF OVERSEAS ENTITIES AND THE IMPACT ON PROPERTY TRANSACTIONS

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The deadline for registering registrable overseas entities with Companies House has passed. Here take a look at how the legislation affects different property transactions.

EXISTING OWNERS

- Registerable overseas entities should have registered online with Companies House by 31 January 2023.
- Failure to comply is a criminal offence, potentially subjecting the overseas entity and its officers to a fine or imprisonment. Current guidance says fines could be up to £2,500 per day, or a prison sentence of up to five years.
- An annual update must also be submitted to Companies House and failure to comply is also a criminal offence.
- Registerable overseas entities will have a restriction entered on the title deed. This will prevent them entering into a transfer, the grant of a lease for a term of more than seven years or granting a legal charge over the property, unless they have obtained an overseas identity number (OEID) from Companies House or statutory exceptions applies.

RECENT SALES/LETTINGS/CHARGES

- A registerable overseas entity should have, by now, notified Companies House of any disposals that it has made between 28 February 2022 and 31 January 2023 (inclusive) if this results in the overseas entity no longer owning any UK property.
- The notification was via a paper application and as with the online registration, the submission deadline was 31 January 2023.

OVERSEAS ENTITY SELLERS

- Where a property was sold between 28 February 2022 and 31 January 2023 and the overseas entity seller is still named as the registered proprietor on 1 February 2023 then it will be subject to the requirement to register on the ROE.

- Failure to comply is a criminal offence and this situation could arise where there are delays in completing the Land Registry application to transfer ownership.
- An overseas entity will be obliged to provide an update if it remains named as the registered proprietor by the due date in respect of ongoing annual filings and failure to update is also a criminal offence.

OVERSEAS ENTITY BUYERS

- Overseas entities that acquire a qualifying estate must have an Overseas Entity ID (OEID) before they apply to the Land Registry to become the registered proprietor of the property.
- In the case of a legal charge, the overseas entity will need to have the OEID before executing the charge.
- Whenever the overseas entity transfers, grants a lease for more than seven years or grants a legal charge after acquiring the property but before it has been registered as the proprietor at the Land Registry, it must also register on the ROE.

OVERSEAS ENTITY BORROWERS

- The legislation only applies to borrowers, not lenders.
- Where an overseas entity buyer is obtaining finance to fund the purchase, the overseas entity must have an overseas entity ID before completing the charge.

LEASES

- This applies to the grant or assignment of any lease that was originally granted for a term of more than seven years. Please note, this will also apply to landlords and tenants.
- Although it will not apply to leases granted for a term of seven years or less, the parties involved should consider some of the wider consequences of a failure to comply e.g. If the landlord should have and has not registered on the ROE.

> **If you would like any further information or advice on the requirement to register, please contact Sonal Shah.**

CONSIDERATIONS

- It is very important that the legislation is considered carefully in relation to overseas entities and property transactions in the future (and whether it affects previous transactions).
- Overseas entities do not have to own an existing interest in UK property in order to register. Any overseas entity that is planning on acquiring UK property should think about registering early.

If you would like any further information or advice on the requirement to register or the annual updates, please contact Sonal Shah.

CHANGES IN THE OPTION TO TAX SYSTEM

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As regular readers to this newsletter may know this time last year I discussed the option to tax trial being undertaken by HMRC. I thought it would be appropriate to provide an update on the situation now that the trial is complete, and the new changes implemented. At least now we have some certainty on the process in place.

As a quick summary, land and property transactions are normally exempt under VAT Act 1994 Schedule 9 group 1. Notable exceptions are the first grant of a major interest in a new dwelling by the person constructing. This is zero-rated. In addition, the freehold sale of a new commercial property (three years old from date of completion) is standard rated. The most common way of taxing other commercial land and property is by waiving your right to exemption. This is via the option to tax mechanism.

An option to tax is a two-part process, firstly a decision is made to opt to tax, and secondly, HMRC are notified of that option.

HISTORICAL POSITION

Traditionally, the option to tax (OTT) process was to notify HMRC using a VAT1614A. This would include the details of the property concerned with the date of effect of the option. HMRC would then send an acknowledgement letter of this notification. This acknowledgment was used by vendors and purchasers in many property transactions as evidence that the supply was taxable. In addition, when a property was part of the sale of the business, the acknowledgment letter was used by the buyer to prove that they had opted to tax at the correct time ie by the relevant date which is normally completion.

CURRENT POSITION

Unfortunately, there were severe delays in receiving the acknowledgement from HMRC. They then decided to test a simplified process.

It seems that the answer to delays at HMRC is simply to withdraw the service; from 1 February 2023, HMRC have stopped issuing option to tax acknowledgement letters completely.

> The most common way of taxing other commercial land and property is by waiving your right to exemption.

The new process is that the option is notified to HMRC by email and an automated response will be received confirming the date the option was received by HMRC. A notification sent any other way than email will not get an acknowledgement or receipt. This response should be kept in your records. We consider this best practice and should avoid issues in the future. It is likely that other businesses may not keep this evidence. Until recently that would have been fine because HMRC would confirm whether a business had opted to tax. Unfortunately, HMRC will now only respond to questions on whether a property is opted under the following circumstances;

- the effective opted date is likely to be over six years ago or
- if a Land and Property Act receiver, or an insolvency practitioner has been appointed to administer the property in question.

Of course, if a property is sold without VAT being charged HMRC have complete access to their own records and won't hesitate to assess for any tax not declared, presumably even if the poor taxpayer asked for confirmation but was refused!!

We have had some experience now with how the new system is working in practice. One problem we have come across is when sending an option to tax notification with a VAT registration.

As HMRC no longer send any OTT acknowledgement letters, evidence of OTT notification is the client's notification email and the auto-acknowledgement from the option to tax unit. You will not therefore receive any acknowledgment email if you only upload the 1614A with an online VAT registration application. HMRC are looking at a solution but we do not know when this will be. We would advise clients to submit their VAT registration application and upload a VAT 5L and then, afterwards (so they have VRS ref), send an e-mail to the OTTU including:

- VRS reference
- 1614A
- Land Registry plan and title
- E-mail to OTTU – Subject line MUST include – property address, post code and effective date of option.

If clients do not carry out the above, they have no evidence of having made an OTT. They should also make sure the sent e-mail and auto-acknowledgement is kept somewhere safe for six years!! Unfortunately, there is no public register of options to tax and so OTT is often included in sales contracts to deal with the lack of certainty. It is worth noting that the wording in contracts should be amended from 1st February 2023 to reflect the change in the acknowledgment process.

THE FUTURE HOMES STANDARD

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The Future Homes Standard is a relatively new piece of legislation which became law following an extensive consultation period carried out by the government in 2020/21.

The new Future Homes Standard should ensure that all new homes built from 2025 will produce 75%-80% less carbon emissions than homes delivered under current regulations. The regulations, some of which will be subject to further consultation, will come into force in 2025.

The purpose of the Standard is to reduce the carbon emissions of new homes. To achieve this reduction in emissions, the Future Homes Standard will require new homes to be built with significantly higher levels of energy efficiency. This will be achieved through a combination of measures, including:

- **Improved insulation:** Homes will need to have higher levels of insulation in the walls, floors, and roofs, to reduce heat loss and improve energy efficiency.
- **More efficient heating systems:** New homes will need to be fitted with low-carbon heating systems, such as air source heat pumps or ground source heat pumps, rather than gas boilers.
- **Better windows and doors:** Homes will need to have windows and doors with improved thermal performance, to reduce heat loss and improve energy efficiency.
- **Solar panels:** Homes will need to have solar panels or other low-carbon technologies installed to generate electricity.

The Future Homes Standard will also require new homes to be fitted with smart meters, which will allow homeowners to monitor and control their energy usage more effectively.

Overall, the aim of the Future Homes Standard is to help the UK meet its carbon reduction targets and reduce its reliance on fossil fuels. It is expected that the Standard will lead to the construction of homes that are cheaper to run and more comfortable to live in.

Did you know, that to help businesses with reducing their Carbon Emissions NatWest are offering a Free Carbon Planner Tool? **Click here to access the planner**.

CHANGE OF PLANNING USE FOR SHORT TERM RESIDENTIAL PROPERTY LETTINGS

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Recently, the government issued a consultation into planning changes to use classes and permitted development rights to help give local communities greater control over the number of short-term lets in their area and support sustainable development. The consultation period ended on Wednesday 7 June.

Such a scheme will have huge and potentially lasting effects on the whole short-stay industry. There are many organisations and businesses within the short-stay industry that have broadly concluded that there should be a delay on the decision on the implementation of the new use class until the other consultations, such as the Registration Scheme, have been concluded and their impact is therefore better understood.

The Registration Scheme has been proposed in recognition of the growing issues and calls for further action relating to tourism accommodation as part of the Tourism Recovery Plan that came into effect in June 2021.

The government has announced that based on responses to date, the majority of respondents have indicated support for the Registration Scheme which may in fact include a form of licensing schemes as well.

Regarding the proposed changes that will affect short-term lets, the government consultation paper sought views on how homeowners themselves might be provided with flexibility to let out their sole or main home for a number of nights in a calendar year. There are a number of pertinent issues that the government included in the Consultation Paper which inevitably will have a bearing on the new legislation if enacted.

A few key issues that we've pulled from the government consultation document to be aware of include:

DEMAND FOR VISITOR ACCOMMODATION

In some areas, delivering for local housing needs is challenged by high demand for visitor accommodation. Short term lets can play an important part in supporting the visitor economy,

for example around tourist events. The recent Department for Culture Media and Sport (DCMS) call for evidence on a tourist registration scheme, set out the government's ambition to ensure that we sustainably reap the benefits of short term and holiday lets, whilst also protecting the long-term interests of holidaymakers and local communities.

The rise in the number of short-term lets in certain areas has however prompted concerns. High concentrations of short-term lets in areas such as coastal towns, national parks and some cities is impacting adversely on the availability and affordability of homes to buy or to rent for local people.

In recent parliamentary debates, several MPs have warned of the 'hollowing out' of communities, with the viability of local shops, schools and other local services impacted by the lack of a permanent population and properties being left vacant over winter. The **analysis of responses to the DCMS call for evidence** noted that ***'many respondents felt that short-term lets had negatively impacted the social dynamics and economic trajectory of local communities, in part by limiting the available housing stock and pricing residents out of the communities.'***

The government has already taken steps to help manage such uses. For example, from April 2023, they tightened requirements so that properties must be available to let for 140 days or more in the previous and current year and actually be let for 70 days or more in the previous 12 months to qualify for business rates.

HMRC has also set stringent conditions that properties must meet to qualify for the income tax regime covering Furnished Holiday Lets (which is more generous than that for long-term lets), including that properties must be available for commercial let for at least 210 days and actually let commercially for at least 105 days of the year.

USING THE PLANNING SYSTEM TO MANAGE SHORT TERM LETS

There is a wider public interest in supporting sustainable communities and providing homes to rent or to buy. The Consultation therefore considers giving local communities greater ability to control the number of short-term lets in their area and support the retention of existing dwelling houses to buy or to rent. Where particular areas want to use these planning tools to effect change, they will be able to do so, where it is justified locally. In those other areas where there is no local issue, the planning changes should not adversely impact on existing flexibilities for use of a dwelling house.

Subject to the outcome of the consultation, the changes would be introduced through secondary legislation and would apply in England only.

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