GERALD EDELMAN

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The Property Round

In This Issue

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GERALD EDELMAN

EDITORIAL

As we publish this edition of our biannual property newsletter, the landscape of real estate investment and management continues to evolve at pace.

Political uncertainty, shifting tax regimes, and a more complex regulatory environment are reshaping the way investors, developers, and occupiers make decisions.

This issue tackles several of the critical developments facing the industry, from the rising impact of council tax premiums on second homes and serviced apartments, to the implications of UK pension reforms for real estate portfolios. We explore the relevance of specialist finance, including later life lending and international debt structuring, as investors seek to navigate a high-interest-rate environment with strategic agility.

We also look at the tightening of tax rules, from ATED and SDLT to VAT issues arising from the cladding crisis, and consider how landlords and property owners can stay compliant while maximising returns. Meanwhile, negotiating Heads of Terms in today's market has become as much about managing risk as it is about securing opportunity, and our feature provides insight into laying the right legal and commercial foundations.

At a time of complexity, good advice is not just helpful, it is essential. I hope you find the insights in this edition both thought-provoking and practical, and I encourage you to speak with our team if any of the topics resonate with your current strategy.

Finally, if clients and other readers would like us to cover any particular topics in future editions, then please let me know.

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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 continued their upward trajectory, albeit at a more moderate pace than seen at the start of the year. As of April 2025, the average UK house price stands at £268,250, reflecting a 1.6% increase year-on-year according to Zoopla.[1]

The Office for National Statistics reports a slightly higher annual growth rate of 6.4%, with average prices reaching £271,000 in March.

England remains the most expensive region, with average prices at £296,000, while Wales and Scotland have seen average prices of £208,000 and £186,000, respectively.[2]

The housing market experienced a brief slowdown in completed sales during April, largely attributed to changes in Stamp Duty Land Tax thresholds. However, this was quickly followed by a resurgence in activity. Both Zoopla and Rightmove reported that May 2025 was the busiest May for sales agreed in the past four years.[3]

AVERAGE UK HOUSE PRICES, JANUARY 2005 TO MAY 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 dynamic, though rent inflation has started to level off after reaching record highs in 2024. Over the 12 months to April 2025, average private rents across the UK increased by 7.4%. This represents a cooling from the 9.1% rise recorded in March 2024. London continues to lead the way in rental growth, though the pace has slowed compared to last year. Affordability, however, remains a concern for many tenants, particularly in major urban centres.[2]

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

Buyer demand

After a sharp drop in transactions in April, demand rebounded in May, with sales agreed 13% above the 2017–19 average.[1]

Income growth

Continued wage growth has supported affordability, though the gap between earnings and house prices remains a challenge in some regions.

Mortgage rates

The Bank of England's recent 0.25% rate cut to 4.25% has contributed to slightly cheaper fixed-rate mortgages, supporting buyer confidence. Markets anticipate further rate cuts this year, which should underpin demand.[4]

COMMERCIAL PROPERTY

The office market remains polarised, with prime office spaces, particularly in London, continuing to attract strong demand, while secondary spaces face ongoing challenges.[5]

On the flip side, retail and industrial sectors led real estate returns, with both posting 8.3% total returns in 2024.[5]

Retail, despite ongoing structural changes and the continued rise of e-commerce, is showing signs of stabilisation. Experiential and mixed-use retail developments are increasingly popular as retailers adapt to shifting consumer preferences.

The industrial and logistics sector remains robust, with strong occupier demand and rental growth, particularly in warehousing and distribution hubs.

> **After a sharp drop in transactions in April, demand rebounded in May, with sales agreed 13% above the 2017–19 average.**

MERGERS AND ACQUISITIONS

Date Acquired	Target/Company	Acquirer	Acquirer HQ	Deal Type	Deal Size (£m)
23/06/2025	Urban Logistics REIT	LondonMetric Property	UK	Acquisition	699
21/05/2025	Highcroft Investments	LondonMetric Property	UK	Acquisition	33
12/05/2025	Care REIT	CareTrust REIT	USA	Acquisition	618
05/03/2025	Slate Yard (Legal & General)	Kohlberg Kravis Roberts	USA	Buyout/LBO	83
03/02/2025	St Modwen Homes	Apollo Asset Management	USA	Buyout/LBO	215
10/12/2024	Capital & Regional	NewRiver REIT	UK	Acquisition	151

Construction

The outlook for the construction industry remains positive. Infrastructure investment and an easing in credit conditions are supporting growth, and both private residential and non-residential construction show improved confidence among industry professionals.

Nevertheless, the sector continues to navigate challenges such as financial constraints and skills shortages.[5] M&A activity in the UK real estate sector has continued to build on the momentum established in 2024.

While the full picture for H1 2025 is still developing, early data indicates that deal volumes are up 8% year-on-year, pointing to sustained confidence in the market. As with the broader UK M&A landscape, activity has been weighted towards small and mid-cap transactions, with larger firms remaining relatively cautious in the face of ongoing economic uncertainty.

Nonetheless, stabilising house price inflation and easing mortgage rates have helped to revitalise the residential property market, offsetting the initial slowdown following the end of stamp duty relief. Encouragingly, house sales are now at their highest level since the post-Covid boom of 2021, buoyed by greater mortgage availability and improving consumer sentiment.

Concurrently, overseas investment, in particular from US-based investors, continues to play a key role in driving deal flow in the larger commercial real estate market. Collectively, these factors have contributed to a broadly optimistic tone across the sector.

Looking ahead to H2 2025, the outlook remains cautiously positive. The recent trade deal between the UK and US should encourage further cross-border investment into the UK and the real estate sector. Meanwhile, interest rate stability has provided greater certainty in the debt market, supporting investor confidence.

Whilst geopolitical tensions in Eastern Europe and the Middle East, along with broader global macroeconomic uncertainty, are expected to keep dealmakers selective in their investments, the UK real estate sector enters the second half of the year with sustained confidence and a strong foundation for continued deal activity.[6,7]

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COUNCIL TAX PREMIUM FOR SECOND HOMES: WHAT IT MEANS FOR THE SERVICED APARTMENT SECTOR

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From April 2025, councils in England have gained powers to apply a 100% council tax premium on 'second homes' - furnished residential properties not used as a primary residence - under the Levelling-up and Regeneration Act 2023.

For many in the serviced apartment and flexible accommodation sectors, this could mean council tax bills doubling overnight.

WHO'S AFFECTED?

The premium applies to properties under the C3 residential use class, often including short-let homes, corporate stay units, or flexible accommodation not registered as a business. Properties already classified under C1 and registered for business rates (typically those let for 140+ days a year and actively marketed) are not affected.

Our recent survey of operator members revealed a roughly 50-50 split between those paying council tax under C3 and those paying business rates under C1. Aparthotels - entire buildings run as serviced apartments with amenities like reception or concierge - tend to fall under C1. But operators who lease individual self-contained units within a residential building are often subject to C3, and may now face substantial new costs.

In some cases, councils are proactively issuing notices to affected businesses. But our members have said, others are fulfilling the legal requirement with minimal visibility, placing small print ads in local papers then quietly amending Direct Debits. Several members only discovered the change when their payments jumped!

> From April 2025, councils in England have gained powers to apply a 100% council tax premium on 'second homes.'

WHY IT MATTERS

This move is part of a broader housing strategy to bring second homes back into residential use, particularly in high-demand areas. But for professional operators, it risks hitting those providing legitimate, essential accommodation for travelling professionals, corporate relocations, and longer-term temporary stays.

The economic and practical value of the sector is significant. Our research with Bonard last year put the sector's value in England at £1.7 billion, directly supporting over 6,000 jobs. Business travellers still account for 45% of all stays, and serviced apartments continue to serve sectors ranging from film production and corporate relocation to insurance and blended work-leisure travel.

In many regions, particularly those without strong hotel infrastructure, serviced apartments fill a vital gap. Piling additional tax burdens on operators risks reducing supply, increasing prices - or even pushing some out of the market altogether.

FINAL THOUGHTS

This upcoming tax change underscores the growing complexity of planning and regulation for the short-term rental sector. As councils attempt to rebalance housing availability, the distinction between residential and commercial usage becomes ever more important - and potentially costly if misclassified.

We continue to advocate for a proportionate approach, helping policymakers understand the value of this sector to the wider economy. The hope is that in the rush to reclaim housing, professional serviced accommodation providers aren't caught in the crossfire.

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED) – WHAT DO YOU NEED TO CONSIDER?

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Since 2013, Non-Natural Persons (NNPs) such as companies and partnerships with corporate members have been required to submit annual ATED declarations if they hold high value UK residential property. Here is what you need to know if you are investing in a UK residential property via a corporate vehicle.

THOSE SUBJECT TO THE CHARGE

ATED is relevant when a high-value UK residential property, referred to as a "dwelling", is held within a corporate structure, commonly known as being "enveloped." This applies to companies, partnerships with a corporate member, and collective investment schemes. The threshold for what qualifies as high value has changed over time: it was originally set at £2 million, reduced to £1 million from 1 April 2015, and further lowered to £500,000 from 1 April 2016.

A DWELLING, WHAT IS IT?

For ATED purposes, a dwelling refers to any UK residential property, or part of it, that is suitable for use as a residence. This definition focuses on the potential use of the property, not its current use. Therefore, a property may still be classified as a dwelling even if it is not actually being lived in.

WHO IS EXEMPT?

Certain types of residential property, such as hotels, care homes, hospitals, boarding schools, military accommodation, and guest houses, are not classified as dwellings for ATED purposes. If your company holds such properties, no annual ATED return is required.

Furthermore, charitable companies using the property for charitable purposes, public bodies and bodies established for national purposes are also exempt from ATED.

WHAT IS THE CHARGEABLE PERIOD

The ATED chargeable period runs from 1 April to 31 March, with returns due by 30 April of the same year. For example, the 2025/26 return was due by 30 April 2025.

WHAT ARE THE ATED CHARGES?

To calculate your ATED charge, you'll need to value your property. The valuation date is a fixed date that is updated every five years. Currently, ATED returns up until and including 2027/28 year are based on a property value as at 1 April 2022. If a property is acquired after 1 April 2022, the taxable value is its Market Value as at the date of acquisition.

Each ATED return reports the value of the property within a certain valuation band, based on which the annual ATED charge is applied. The annual ATED charges for the 2025-26 chargeable period can be found below.

Property value	Annual charge
More than £500,000 up to £1 million	£4,450
More than £1 million up to £2 million	£9,150
More than £2 million up to £5 million	£31,050
More than £5 million up to £10 million	£72,700
More than £10 million up to £20 million	£145,950
More than £20 million	£292,350

ATED charges increase annually in line with the previous September's Consumer Price Index.

ARE THERE ANY RELIEFS?

There are several reliefs available, though a return must still be submitted in these cases to claim the relief.

Reliefs are available in the following circumstances, to name a few: using the dwelling in a property-rental business, in a property-development business or for occupation by employees or partners.

However, strict rules apply. Reliefs are usually *withdrawn* if a *non-qualifying individual* (typically the settlor, their relatives, or others connected to the trust or company) occupies the property. For example, if a company owned by a trust settled by Mr A holds a dwelling, Mr A or his family occupying it would invalidate any relief and may trigger both retrospective and prospective clawback of reliefs.

RESIDENTIAL OR COMMERCIAL?

Since ATED only applies to a dwelling which is capable of being used as a residence, it is important to first ascertain whether a property holds either a residential or a commercial status.

One of the exempt types of property from the ATED charge is a hotel, and this may extend to bed and breakfasts (B&Bs).

Each case must be assessed based on its merits by taking a holistic view of the factors in addition to the above, such as whether business rates are charged, whether the property has control of its own utilities, how the property is listed on the title deed.

UNINHABITABLE PROPERTY?

It would be logical to assume that a property that is uninhabitable is automatically not within the ATED charge. However, whilst this is true, the cases where this applies are limited. The damage to the building must be accidental or otherwise caused by events out of control of the owner in order for the property not to be within the ATED charge. Furthermore, the result of the damage must mean that the dwelling is unsuitable for habitation for at least 90 consecutive days.

BUILDING A NEW PROPERTY?

It is important to ascertain when a property becomes suitable for habitation. For instance, a popular question amongst property developers is when a newly developed property falls within the scope of ATED? The reference point is usually the earlier of:

- The day on which the property becomes chargeable to Council Tax.
- The day on which the property is first occupied.

If a property is converted, say from a standard four bed house into two separate flats, the relevant date is when the old property ceases to exist, and the conversion is completed.

WHERE DOES A PROPERTY END AND ANOTHER BEGIN?

A single-dwelling interest is central to how ATED is applied and valued. Where a property includes both residential and non-residential elements, or where multiple units are involved, it's essential to determine whether there is one dwelling or multiple separate ones.

If a company holds several properties in close proximity, it must consider whether these constitute one or multiple dwellings. Typically, if surrounding land or grounds are used with the property, their value should be included in the ATED calculation. Each case must be assessed individually.

Additionally, two separate dwellings may be treated as a single dwelling if they are linked. For example, by internal access, provided specific conditions are met.

CONCLUSION

In summary, the ATED position for corporate vehicles owning UK residential property can be complex and advice should be sought to ensure the correct tax treatment and reporting. If you require assistance with ATED, please get in touch with our team today.

UK PENSION REFORM AND REAL ESTATE INVESTMENT

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The most significant change in UK institutional capital for investment in real estate as asset class is the transition from defined benefit (DB) to DC pension provision.

BACKGROUND

UK corporate DB pensions were already in long-term decline prior to its dramatic acceleration by the Liz Truss mini-budget in September 2022.

DB schemes speeded up the process of de-risking, heading into run-off and transferring liabilities into the insurance bulk annuity market. This is of huge significance as DB pension investment has historically been a mainstay of UK institutional real estate investment. De-risking involves selling illiquid assets including their direct real estate and interests in real estate funds.

As DB declines, it is being replaced by DC pensions. The previous Conservative government had made significant progress in creating a new legislative framework for DC pension investment that should facilitate greater investment in illiquid assets. The Labour government has picked this up and moved forward.

THE MANSION HOUSE ACCORD AND THE PENSIONS SCHEMES BILL

The Mansion House Accord, announced on 13th May, which is backed by the Association of British Insurers (ABI), the Pensions and Lifetime Savings Association (PLSA) and the City of London Corporation, is a voluntary commitment by seventeen of the largest workplace pension providers in the UK to invest at least 10% of their defined contribution (DC) pension default funds in private markets by 2030, with 5% of the total allocated to the UK.

Further detail from the government side has been provided in its Pensions Investment Review Final Report published on 29th May. Although this is "voluntary", if it does not happen, the government has introduced the power to mandate this in the Pensions Schemes Bill, which was laid before Parliament on 5th June. This is controversial and unhelpful. There is a compelling investment case for investing in real estate and other illiquid assets.

The suggestion of coercion if this does not happen creates an unfortunate suspicion that the trustee's fiduciary duty is being overridden, regardless of what the government says.

WHAT NEXT?

Unlocking investment within the default option in DC schemes is vital. The overwhelming majority of policy-holders pick the default option where investment selection is undertaken for them by the manager. A lot of work has been undertaken on the technical aspects of this, for example through the introduction of the Long-Term Asset Fund (LTAF).

Now that the first few have been set up in practice and some glitches are becoming apparent, some focus is needed on snagging.

If this is done right, it should be possible to achieve the double objective of encouraging investment in the UK economy and improving long-term outcomes for policy-holders. The real estate industry should be a beneficiary.

> **If this is done right, it should be possible to achieve the double objective of encouraging investment in the UK economy and improving long-term outcomes for policy-holders.**

NAVIGATING INTERNATIONAL FINANCE, LATER LIFE LENDING, AND STRATEGIC DEBT STRUCTURING

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We are entering a particularly advantageous period for borrowers, especially those with complex needs or existing debt structures. Despite high inflation and cautious central bank policy over the past two years, we are seeing the times of a stable market as the new normal.

PROPERTY LANDLORDS: WHY NOW IS THE RIGHT TIME TO BORROW OR RESTRUCTURE DEBT

We are entering a particularly advantageous period for borrowers, especially those with complex needs or existing debt structures. Despite high inflation and cautious central bank policy over the past two years, we are seeing the times of a stable market as the new normal.

As of June 2025, forward guidance from both the Bank of England and the European Central Bank suggests that we could see gradual rate reductions over the next 12–18 months, particularly as inflation data softens. Markets have already begun to price in these expectations, leading to increased competition among lenders and a wave of product innovation across both residential and commercial finance.

Lenders, keen to regain market share following subdued transaction volumes, are responding with renewed vigour. We are seeing more flexible underwriting, improved affordability calculators, and in some cases, exclusive rates made available through broker channels. In the private banking space, to combat more challenger banks entering the space of high-value lending, bespoke lending arrangements are being created with competitive margins and covenants tailored to the borrower's financial architecture.

For those with existing debt, this creates an opportunity to restructure on more favourable terms. Clients with legacy loans, particularly those on high tracker or SVR-linked rates, stand to benefit significantly from refinancing, while clients seeking to release liquidity can take advantage of more borrower-friendly conditions to access capital without compromising their long-term plans.

We are also seeing a marked increase in clients seeking to transfer properties from personal to limited company ownership, driven by the increasingly punitive tax treatment of personally held portfolios. As more fixed-rate periods come to an end, the financial impact of reduced mortgage interest relief is rendering many personally held buy-to-lets commercially unviable, prompting landlords to reassess how their portfolios are structured. By guiding clients through the cost of switching ownership structures, we help them absorb the short-term friction to realise long-term tax efficiency. This is a clear example of where our strategic advice adds measurable value.

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Equally, for clients with multiple liabilities, we advise on debt structuring strategies that reduce monthly outgoings, streamline repayment schedules, and free up liquidity for portfolio growth. Structured correctly, this can play a pivotal role in long-term wealth planning.

Access alone is not enough; it's the ability to combine access with deep expertise that creates real outcomes. At Henry Dannell, our strength lies in uniting an extensive lender network, from high street banks and challenger institutions to private banks and family offices, with a precise understanding of credit policy and debt structuring. It's this synergy that allows us to navigate complexity, uncover opportunities, and deliver tailored solutions.

MORTGAGES FOR OLDER BORROWERS: BEYOND THE LATER LIFE LABEL

Age should not be a barrier to borrowing. Still, far too often, individuals in their eighties or beyond are led to believe that Later Life mortgage products (previously known as equity release) are their only viable option.

While Lifetime and Retirement Interest-Only (RIO) mortgages have a place in the market, it's misleading and potentially financially limiting to assume they represent the sole route forward.

The reality is more nuanced. A growing number of building societies and specialist lenders are challenging outdated lending policies, offering flexible mortgage products that cater to older borrowers with demonstrable income, strong asset positions, or ongoing professional involvement.

In particular, we have seen a marked increase in mainstream and specialist appetite for term-based interest-only and capital repayment products that extend well beyond traditional retirement age. Many lenders will now take a view on earned income and projected pension income to create a balance among lending into retirement and relying on the earned income for a reasonable period, and the background assets to satisfy affordability past a reasonable retirement age.

Many of our clients, especially professionals, entrepreneurs, and landlords, continue to generate income long into their 70s and 80s. They often have low leverage, considerable equity, and a sound financial management track record. Rather than steer them toward equity release as a default, we focus on identifying solutions that preserve optionality, intergenerational wealth, and future liquidity.

This is where bespoke advice becomes critical. Every later-life borrowing scenario is different: from releasing equity to gifting funds to family to downsizing into a more suitable home or unlocking liquidity for tax planning. A thorough understanding of income structures alongside lender appetite allows us to develop tailored strategies that reflect clients' true requirements rather than looking at a single solution.

At Henry Dannell, we advocate for reframing the conversation around later-life lending. It's not about limitation; it's about finding solutions.

THE LAUNCH OF HENRY DANNELL SWITZERLAND, AND THE DEMAND FOR INTERNATIONAL FINANCIAL EXPERTISE

Henry Dannell Private Clients, established in 2019, has now announced its expansion into Europe via the launch of a new entity, Henry Dannell Switzerland. We're proud to announce the launch of this new chapter in our mission to support internationally mobile clients with complex financial needs. This strategic expansion strengthens our ability to assist the trusted advisers our clients already work with, offering them access to specialist lending expertise that spans borders.

Today's high-net-worth individuals and families often lead global lives, whether driven by career, lifestyle, or legacy planning. With properties, income, and assets located across jurisdictions, accessing tailored borrowing solutions requires both international reach and local expertise.

Switzerland remains a cornerstone of global wealth management, and our new presence there allows us to work more closely with the private client advisers who support our clients day-to-day. Whether it's structuring cross-border mortgages, supporting UK property purchases from abroad, or navigating lending through international entities, our role is to ensure that our clients' advisers are equipped with the right tools and strategies to deliver seamless, fully informed solutions.

While we operate through our adviser network, the benefit to clients is direct: access to better-informed advice, more tailored lending options, and cross-border solutions that align with their global lives.

TAILORED SOLUTIONS BACKED BY ACCESS AND EXPERTISE

Whether navigating later-life borrowing, restructuring your portfolio or exploring international finance, the fundamentals remain the same: every client's situation is unique, and effective solutions require both access and expertise. We focus on understanding each client's financial structure and objectives in detail, then applying clear, strategy-led thinking to identify the right course of action.

With market conditions shifting and lender appetite evolving, the ability to act decisively, with the right structure in place, is more important than ever.

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As global markets evolve, so must the financial strategies of those with complex, cross-border requirements.

At Henry Dannell, we remain at the forefront of this dynamic environment, offering our clients insight-driven solutions that reflect market conditions, personal ambition, and lifestyle. From expanding our international footprint to rethinking borrowing strategies for older clients and identifying optimal moments for debt restructuring, our mission is to equip our clients with clarity, confidence, and access.

Disclaimer

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NEGOTIATING HEADS OF TERMS IN THE CURRENT MARKET: LAYING THE GROUNDWORK FOR A SUCCESSFUL COMMERCIAL LEASE

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When negotiating a commercial lease, one of the most crucial steps is agreeing clear, well-structured heads of terms (HOTs) from the outset. Though not legally binding, heads of terms set the foundation for the lease and it can be difficult to re-open terms once agreed.

For landlords and tenants alike, understanding their function and value is key to protecting interests and avoiding costly delays. This article looks at key points to consider based on current market trends.

IMPORTANCE OF HEADS OF TERMS

We are seeing more and more key lease terms (both of a commercial and legal nature) being negotiated and agreed at the HOTs stage, typically before legal advisors have become involved (particularly on the tenant side). They serve as a roadmap for both parties and their legal teams, guiding the drafting of the lease itself but can become problematic if not dealt with properly.

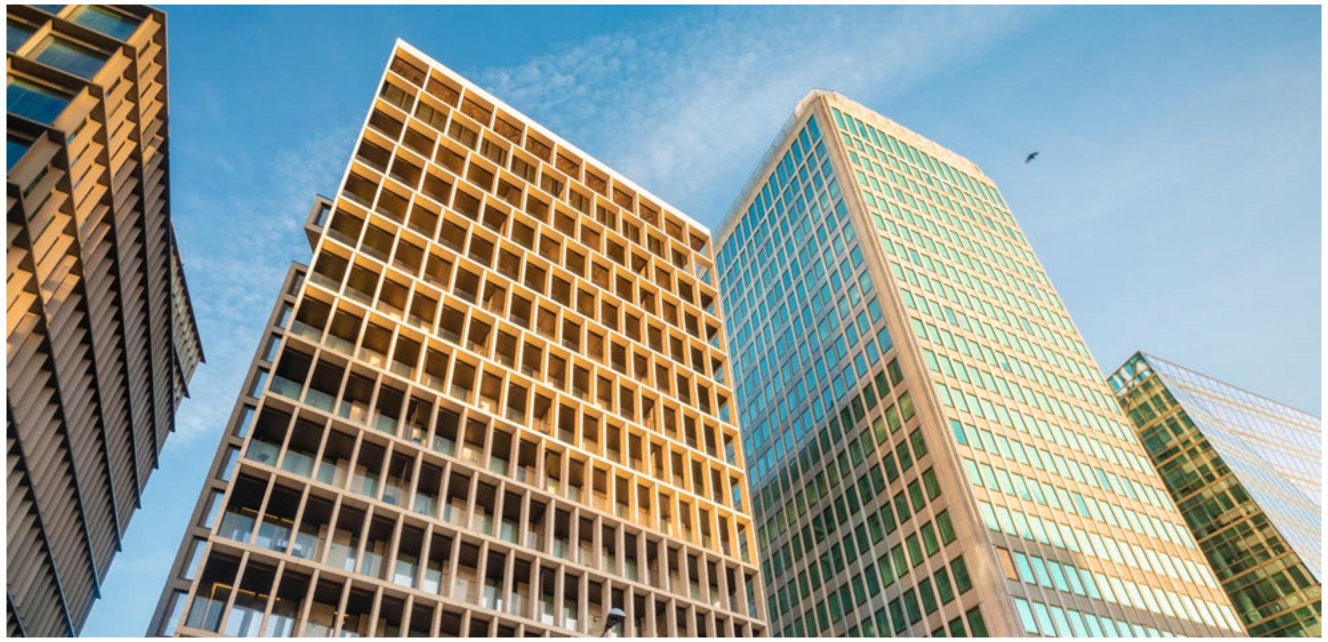
Properly drafted HOTs help manage expectations, streamline negotiations and prevent disputes later in the process. To the contrary, rushed or unconsidered HOTs from one party can lead to a weak starting point in negotiations on the legal documents, putting that party at a huge disadvantage. As HOTs tend to be prepared by the landlord's team, all too often this will end up being the tenant.

We are finding that landlords are typically showing an increased reluctance to engage in negotiation on terms covered in the HOTs at the lease negotiation stage when solicitors are involved. It is therefore more important than ever for tenants to consider their position carefully and take appropriate advice before signing off on HOTs and committing to lease terms.

BENEFITS BEYOND SPEED

Clarity and Consistency

With clearly defined and considered agreed terms at the outset, there is less room for misunderstanding further down the line.



Efficiency in Legal Drafting

Well-prepared and thought out HOTs can significantly reduce the time and costs associated with lease negotiations.

Preventing Deal Drift

A major risk during lease negotiations is the gradual erosion of commercial positions due to unclear or missing provisions in early documentation. Clear HOTs help to anchor the negotiation and reduce the risk of shifting expectations.

KEY TERMS TO CONSIDER

The following provisions are key points which should be considered and covered in heads of terms for commercial property leases:

- **Premises**: A clear description of what is included in the property demised.
- **Rent Reviews**: Frequency and basis (for example, open market or RPI).
- **Break Clauses**: If either party can terminate early and, importantly, what conditions to a break will be acceptable to both parties.
- **Repair and Maintenance**: Tenant's obligations, for example a full repairing lease or limited by reference to a Schedule of Condition to document the position at the time the tenant took the lease?
- **Service Charge**: What is included and will any caps apply. What should be excluded from service charge. Is an estimate available?
- **Security of Tenure**: Whether the lease is contracted out of the Landlord and Tenant Act 1954, meaning that a tenant will have no right to stay in its business premises when the lease comes to an end.
- **Alienation**: Rules around subletting or assigning the lease in the future (particularly relevant on a long lease term).
- **Use**: Permitted use of the premises and whether this can be changed in the future to suit changing business requirements.
- **Fit-Out and Alterations**: Any landlord works, tenant's fit-out responsibilities and consents required.

PITFALLS TO AVOID

Heads of terms can become problematic if approached casually. Common issues include:

- **Overlooking Key Terms**: If something material (such as service charges or security of tenure) is left out of the HOTs, it can lead to major delays or disagreements later.
- **Ambiguity**: Vague language such as "subject to agreement" can undermine the usefulness of the document.

- **Binding Effect**: Although typically not enforceable, HOTs can inadvertently become binding if they are too detailed or improperly worded. Legal advice is recommended even at this stage.

- **Not Involving Lawyers Early Enough**: Engaging solicitors once the HOTs are already signed can result in backtracking, wasted time and increased costs whilst issues are unpicked.

MARKET TRENDS AND TIPS

With increased market uncertainty and pressure on both landlords and tenants, well drafted HOTs have never been more important. It is always useful to be aware of current trends in the market and use them advantageously when negotiating terms.

Although this will vary between sectors and locations (for example, there is currently a high demand for high spec, modern and sustainable office space as well as prime location retail space – landlords will be in a stronger position and likely to be less flexible in these areas), there are still some key trends which will apply to most properties.

We are currently a seeing greater emphasis on flexibility in commercial leases. Landlords do not want empty premises in the current market and as a result tend to be much more susceptible to short term leases and flexible break clauses with less onerous conditions than they have been previously.

Additionally, ESG (Environmental, Social and Governance) factors are appearing more frequently in heads of terms. These may include energy efficiency obligations, sustainability clauses or fit-out requirements.

Major and institutional landlords are tending to incorporate favourable sustainability provisions to attract and retain tenants and other smaller landlords are increasingly following suit and thinking about green provisions in leases. Tenants must however also be alert to more onerous obligations appearing; potentially restricting alterations, requiring works to be carried out to increase environmental performance, or requiring costly contributions towards works or compliance with green lease regulations.

TIPS FOR GETTING HEADS OF TERMS RIGHT

Be Comprehensive, Not Excessive

Include all material commercial terms but avoid detailed legal terms (particularly when unrepresented). Leave technical drafting for the lease itself.

Think Long-Term

Consider future business needs whether actual or potential, particularly in a long lease. Can the tenant assign the lease? Are there provisions for expansion or early termination?

Stay Commercial

Negotiating HOTs should not be seen purely as a legal exercise. It is at its core a business negotiation. Legal teams should work closely with agents and clients to balance risk and commercial practicality.

Use Templates Cautiously

While templates can be helpful, avoid a one-size-fits-all approach. Tailor each HOT to the specific deal.

Sustainability

Do not ignore sustainability considerations or kick them down the line – consider taking expert advice to reduce costs in the long term.

Market trends

Use current market trends to your advantage – as a landlord so as to attract the best tenants and as a tenant to negotiate the best deal for your business.

FINAL THOUGHTS

Getting heads of terms right is not just a procedural step, it is a strategic one. For both landlords and tenants, early investment in clear, thoughtful negotiation pays dividends in time saved, relationships preserved and deals completed efficiently. In a property market that is increasingly complex and fast-moving, this upfront clarity can be a major competitive advantage. It is worth putting the time in at an early stage to prevent complications, delays and costs further down the line.

VAT AND THE CLADDING CRISIS

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Since the Grenfell tragedy, the cladding crisis continues to impact thousands of buildings across the UK.

With an estimated 9,000 – 12,000 buildings over 11 metres still identified as having unsafe cladding, the financial burden of remediation has fallen heavily on landlords, developers and, most unfairly, residents. Yet amid the government's wider policy response, one lever remains underutilised: VAT.

THE FINANCIAL REALITY OF CLADDING REMEDIATION

"The cost to fix unsafe cladding on residential buildings over 11 metres in England could reach £12.6 billion to £22.4 billion." To date, the government has allocated £5.1 billion towards remediation efforts, leaving a significant funding gap.

Fire safety remediation is often a six- or seven-figure exercise for building owners and VAT is typically charged at the full 20% on most remediation works, with little scope for recovery.

This has had a material impact on affordability. In many cases, VAT adds hundreds of thousands of pounds to projects.

WHY VAT RELIEF RARELY APPLIES: THREE KEY BARRIERS

Not treated as "snagging"

Although cladding issues are often rooted in original construction defects, HMRC does not accept that remediation carried out years later can qualify. This rules out zero-rating or VAT-free treatment for many affected buildings.

Original developers often gone

Where the original developer is still trading, and had granted a major interest in the property, some VAT relief could potentially apply. However, many developers involved in the original builds have ceased trading or been wound up. Even where they remain, recent HMRC guidance offers limited clarity and further dampens any expectation of recovery.

Not considered energy-saving

There was brief hope that cladding might qualify for VAT relief under the zero-rating rules for energy-saving materials (Group 23, Schedule 8 VATA 1994).

However, HMRC maintains that cladding's primary purposes are structural, aesthetic, or protective, not thermal efficiency. As a result, zero-rating does not apply.

A POLICY TOOL LEFT ON THE SHELF

Initially, HMRC took a more lenient stance and there are probably a number of buildings which have had cladding replaced with little or no VAT cost. Through the years this changed both on a local and policy level. Today, most buildings undergoing essential cladding remediation face an unavoidable 20% uplift in cost.

WHAT COULD CHANGE?

The Grenfell cladding is in my opinion a missed opportunity. The burden on business and residents could have bene relieved of 20% of the financial cost at a stroke, by agreeing for example that cladding does have insulating properties. If that analysis doesn't work (and there are mixed views in that point) the post Brexit 'freedoms' means that the government could have introduced legislation to specifically zero rate the provision of cladding under certain strict conditions.

When the UK was within the EU this was almost impossible but now, as we have learned with private schools and VAT, the law can be changed fairly quickly if there is a political will to do so.

FINAL THOUGHTS

The cladding crisis has created significant financial and emotional distress for thousands across the UK. While regulatory and funding reforms have begun to address some of the challenges, the VAT and cladding system remains untouched – a missed opportunity for meaningful relief.

SDLT ADVICE FOR LANDLORDS AND PROPERTY INVESTORS

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Since 1 April 2025 when changes to Stamp Duty Land Tax (SDLT) rates were made, there is more interest than ever in mitigating the costs. We've noticed a large increase in the number of landlords and investors speaking to our tax advisers about the potential impact on their purchase plans.

SDLT RATES AND THRESHOLDS (RESIDENTIAL PROPERTY)

SDLT is payable to the government on the purchase of any land or property, subject to certain conditions. As a seasoned landlord or investor in residential property, we're sure you're familiar with how SDLT works. Nonetheless, there have been several changes recently.

> SDLT is payable to the government on the purchase of any land or property.

WHAT ARE THE SDLT RATES FOR UK RESIDENTS?

Purchase price	Rates for a main residence	Rates for an additional property
Up to £125,000	0%	5%
The next £125,000 (from £125,001 to £250,000)	2%	7%
The next £675,000 (from £250,001 to £925,000)	5%	10%
The next £575,000 (from £925,001 to £1.5 million)	10%	15%
The remaining amount (anything above £1.5 million)	12%	17%

WHAT ARE THE SDLT RATES FOR NON-UK RESIDENTS?

If you spend at least 183 days outside of the UK in the 12 months before buying a residential property, then you'll likely classify as a non-UK resident for SDLT purposes. That comes with an extra 2% surcharge on top of the rates listed in the table on the previous page.

Purchase price	Rates for a main residence	Rates for an additional property
Up to £125,000	2%	7%
The next £125,000 (from £125,001 to £250,000)	4%	9%
The next £675,000 (from £250,001 to £925,000)	7%	12%
The next £575,000 (from £925,001 to £1.5 million)	12%	17%
The remaining amount (anything above £1.5 million)	14%	19%

SDLT ADVICE FOR LANDLORDS AND PROPERTY INVESTORS

Adjust your property investment strategy

If higher SDLT rates make investing in property more expensive, then adapting your strategy can help maintain profitability. Here are three approaches you could consider:

Focus on lower-value residential properties

Since SDLT is a progressive tax, charged in bands based on price, then simply reducing your budget can offset the increase. Areas with strong rental demand but relatively affordable prices could become a more attractive option. Think regional cities and commuter towns as opposed to flashy city-centre apartments.

Consider commercial or mixed-use properties

SDLT rates for commercial and mixed-use properties are lower than residential-only (the highest SDLT rate for commercial properties is 5%). If you're open to diversifying your portfolio, look at retail units with flats above, office-to-residential conversions, or even full commercial assets.

Purchase off-plan properties directly from developers

Most landlords and investors stick to the secondary market, but property developers will offer incentives to attract buyers to new builds (usually before construction is finished). Incentives can vary but sometimes include discounts on the price that will offset the cost of SDLT. That said, due diligence is essential: check the developer's track record, ensure the project is progressing as planned, and make sure your funds are protected.

Consider derelict or uninhabitable properties

If a property is deemed uninhabitable at the time of purchase, it may be classified as non-residential, meaning it is subject to commercial SDLT rates (capped at 5%) instead of higher residential rates.

So, if you're the type of property investor interested in full-scale renovations and "property flipping", then this approach could save you thousands. Of course, buying a derelict or uninhabitable property comes with clear risks and issues, and HMRC may ask for solid evidence (e.g. surveyor reports) to justify non-residential classification for SDLT purposes.

> SDLT is a progressive tax, charged in bands and based on price.

CAPITAL GAINS TAX ON INVESTMENT PROPERTY

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Whether you're a seasoned property investor or just getting started in the buy-to-let market, understanding the ins and outs of Capital Gains Tax can make all the difference when it comes time to sell.

WHAT IS CAPITAL GAINS TAX?

CGT applies to the profit (or "gain") made when selling assets like buy-to-let properties or second homes, not your main residence, which is usually exempt.

CGT RATES (2024/25)

The CGT rate depends on your income tax band:

- **Basic rate taxpayers**: 18% on residential property
- **Higher/additional rate**: 24% on residential property

Everyone also benefits from an Annual Exempt Amount, £3,000 in 2024/25, which reduces your taxable gain.

REDUCING CGT ON PROPERTY

Reliefs and exemptions

There's a variety of reliefs and exemptions that you may be eligible for:

Private Residence Relief

Reduces CGT if the property was your main residence for part or all of the ownership period. Your CGT liability is reduced proportionally based on how long the property was your main residence.

> CGT applies to the profit made when selling assets like buy-to-let properties, not your main residence.

Lettings Relief

Reduces CGT if you lived in the property at the same time as your tenants.

Business Asset Rollover Relief

If you sell a commercial property (or any other business asset), and reinvest the proceeds into a new, qualifying business asset (e.g. another commercial property), then the gain is "rolled over", meaning you won't pay CGT until you dispose of the new asset.

Business Asset Disposal Relief

If you dispose of a commercial property used in a business you own (e.g. as part of a business sale), then this relief can reduce the applicable CGT rate to 10% on the first £1 million of lifetime gains.

Spouse Transfers

No CGT is due if a property is gifted to a spouse or civil partner. This allows couples to make full use of both annual exemptions and potentially reduce the rate of CGT if one partner is in a lower tax bracket.

> No CGT is due if a property is gifted to a spouse or civil partner.

Other strategies for reducing CGT

In addition to the tax reliefs above, there are other means of reducing CGT on a property sale:

Make use of annual exemptions

If a property is jointly owned then both individuals can use their £3,000 tax-free allowances?

Consider tax-efficient ownership structures

Instead of owning a property personally, it can be beneficial to purchase and hold investment properties within a limited company. Limited companies do not pay CGT when a property is sold, they are instead charged corporation tax, which can be lower than the applicable CGT rates.

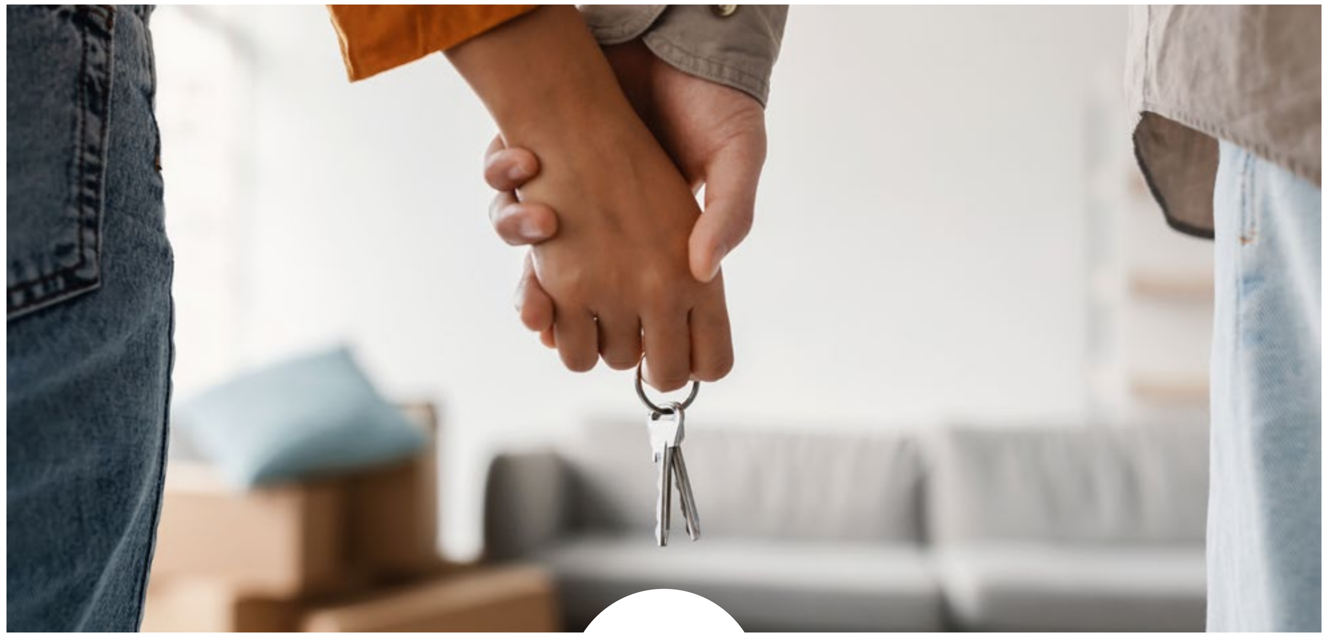
Furthermore, limited companies qualify for tax relief on a wider range of expenses than individuals (such as mortgage interest payments).

Time your disposal carefully

If you sell your investment property at a time when your income is lower (for example, during retirement), you could benefit from a lower income tax bracket and thus pay a reduced CGT rate.

Using capital losses to offset gains

You can offset any capital losses from the sale of other investments against the gains made from your investment property to reduce the total taxable amount.



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