AUDIT • TAX • ADVISORY

Real Estate Matters

Issue 21

Construction & Real Estate Newsletter

December 2021

Now, for tomorrow

Introduction

Welcome to the latest issue of Real Estate Matters from MHA.

Welcome to our latest edition of Real Estate Matters ahead of the upcoming festive period.

The Construction and Real Estate sectors continue to experience a mixed bag in terms of growth. The construction sector is enjoying strong demand for both residential building and large public infrastructure projects but is being hampered by both supply chain issues, labour shortages as well as lower demand for office and retail space. UK Real Estate has been helped by the stamp duty holiday which came to an end in September, leading to a sharp drop in transactions in October and November, but the ongoing imbalance between supply and demand will continue to underpin growth and the 'Build-to-Rent' market is also gaining strength.

However, supply chain issues, increased costs and the impact of both Brexit and Covid are starting to bite. Quarterly insolvency statistics indicate the level of company insolvencies were 43% higher than at the same point last year, 17% of which were construction businesses. As we head into the new year, careful planning to manage cash flow and working capital will be crucial over the coming months for many firms.

In this publication we take a look at several issues which businesses in the construction and real estate sectors should be aware, such as, 'Plastic Packaging Tax', 'Sustainability in Construction' and 'Cyber Security' along with a whole host of other topics.

If you would like further information on any of the issues covered, please do get in touch. In the meantime, we would like to wish you all a Merry Christmas.

MHA Construction & Real Estate team

VAT fraud and labour providers

Construction businesses are well versed with the Domestic reverse charge and the reasons why it was bought in – to prevent missing trader VAT fraud. However, we know that HMRC continue to actively tackle fraud in the labour provider markets. Employment businesses and labour providers are not covered by the DRC and therefore as VAT is still chargeable on the supply of staff it continues to be a risk area, both to HMRC and to businesses that become embroiled in this issue.

HMRC have a number of fraud cases listed for hearing and we have seen a number of "notice of tax loss" letters sent from HMRC's Fraud Investigation Service (FIS) to construction companies and temporary work agencies warning of potential risks associated with supply chain fraud. It is important that these letters are not ignored and that businesses ensure they have robust due diligence policies in place to demonstrate that they are not involved in a high-risk supply chain, where a supplier goes "missing" owing HMRC significant VAT.

HMRC is using the same "Missing Trader Intra-Community" (MTIC) case-law to disallow input tax recovery by businesses who purchase labour supplies without undertaking sufficient precautions to satisfy themselves that the supplies are genuine and do not involve VAT fraud. This is often referred to the "knew or should have known" test or Kittel Principle, the lead ECJ case back in 2008. If your business does receive this type of approach it is important to take swift and robust action.

If an assessment is raised and the business is not able to get this withdrawn at an early stage with direct dialogue with HMRC during the initial review stages, it could unwittingly find itself in the Tax Tribunal hearing regime and incurring significant costs and time in defending itself.

In terms of precautions, sufficient due diligence **must be undertaken** on all labour suppliers if a challenge from HMRC is to be successfully defended. The evidence that HMRC need to prove that a business has been knowingly involved in a fraudulent supply chain is high due to the criminal nature of this area.

As a minimum - businesses should check

1. That the VAT registration numbers of its suppliers are valid, on a regular basis.
2. That it is a valid business and check Companies House.
3. Check annual accounts and credit worthiness.
4. Within the terms of business an acknowledgment that the supplier is registered for VAT and has/is submitting all VAT returns on a timely basis.

We recommend that there is a written policy to deal with due diligence checks.

Any reference by HMRC to suppliers should be dealt with at once by speaking direct with the provider.

Please note that if HMRC open such an enquiry they will also be looking at National Minimum Wage, Modern Slavery and CIS too.

Sustainability in Construction

2021 - 2030 will see Sustainability in focus like never before, with significant increases in legislation, investor focus and reporting requirements hitting all sectors. For the construction sector, which already see's higher levels of media scrutiny and activist attention than other sectors, the additional focus is likely to be disproportionally high, particularly so, given much of the PM's Ten Point Plan for a green industrial revolution is aimed squarely at the construction sector.

Will your business be pro-active or reactive in dealing with green compliance?

The Future Home Standard was published earlier this year and applies to any new homes built from 2025, which will need to be zero carbon ready. The plans include phasing out fossil fuel heating systems and improving energy efficiency standards for both new and existing homes as well as commercial buildings. There is also a consultation on The Future Buildings Standard with similar goals aimed at non-domestic buildings. The industry will have to adjust, which will bring additional challenges and costs as these new standards will drive up demand for low carbon construction processes and products such as heat pumps, energy efficient lighting, enhanced insulation and improved ventilation etc.

Backdrop

The World Economic Forum's 2021 Global Risk Report indicates extreme weather, climate action failure and human environmental damage are the top 3 risks in terms of likelihood, with the risk of climate action failure having the 2nd biggest global impact, closely behind infectious diseases.

The challenges were bought into greater focus following a year of floods, droughts and fires that ravaged Australia, the Amazon and the US. High profile individuals such as David Attenborough, Prince Charles, Al Gore, Barrack Obama and the teenage climate activist Greta Thunberg have all used their platforms to encourage governments across the globe to take climate change seriously.

The UK government revised its Greenhouse Gas reduction target to 'Net Zero' by 2050 and COP26, the UN Climate Change Conference, brought parties together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change. Even China, the world's largest emitter announced its own carbon neutrality target by 2060.

Influence on business:

In order to achieve these ambitious targets, businesses in industrial sectors will be faced with increased regulation and reporting requirements, while licences to operate, consumer demand and access to finance are all likely to become contingent on the company's carbon reporting and 'green' credentials.

Impact on investment & insurance

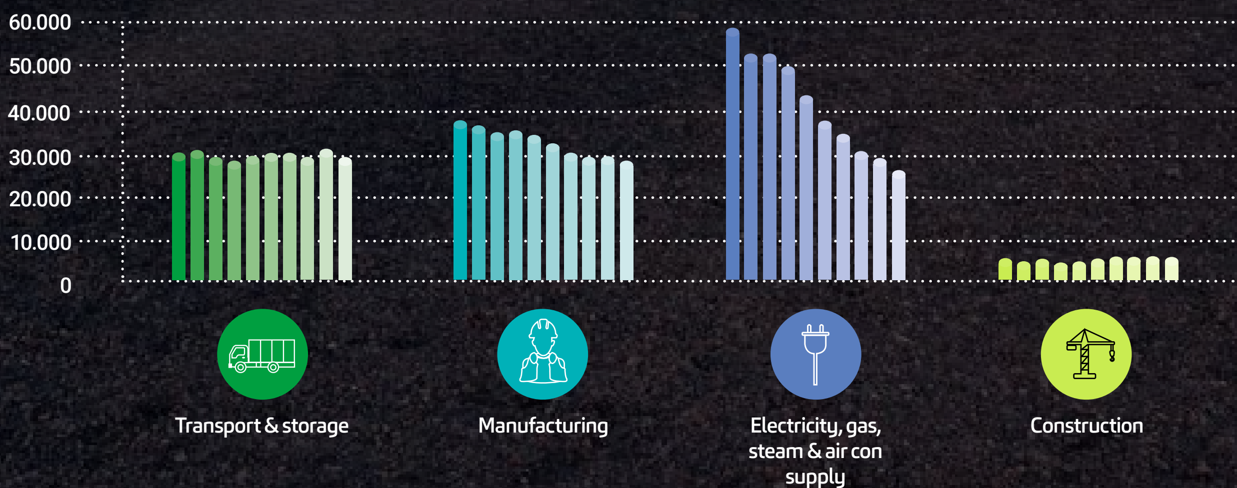
Another consideration is the sectors relationship with the investment and insurance community. The Principles for Responsible Investment (PRI), a UN supported network of investors saw a 20% increase within their signatory base, which includes investors with over $103.4 trillion of assets and the UN convened Net Zero Assets Alliance, with 30 of the world's largest investors, has committed to Net Zero their portfolios by 2050. Several banks have also publicly committed to cease financing carbon intensive industries and sectors.

This translates to insurance companies and financiers increasing their "Environmental, Social and Governance (ESG) screening at pace and pushing for climate related TCFD disclosures within annual reports and accounts in order to use these disclosures to benchmark businesses against their competitors.

The increasing and rapidly evolving regulatory environment

- Streamlined energy and carbon reporting (SECR) was introduced from 1 April 2019 for all large organisations. This scheme builds on existing requirements, such as greenhouse gas reporting for listed entities, who have had to report on their carbon emissions since 2011.
- The Task force on Climate-related Financial Disclosures (TCFD) is being brought in for all large UK companies in a phased approach from April 2021 –2025. All organisations will have to look in detail at their governance on climate change, their risks and how they impact on their business as well as their carbon strategy and how they are going to quantify it over the short, medium and long term
- A ban on petrol and diesel car sales has been brought forward to 2030, with the sale of smaller diesel heavy goods vehicles (HGV's) banned from 2035 and heavier HGV's (over 26 tonnes) and diesel lorries banned in the UK from 2040.

UK use of carbon based fuels 2010-2019



Gross calorific values, Million tonnes of oil equivalent (Mtoe)
Source: Ricardo Energy and Environment, Department for Business, Energy and Industrial Strategy, Office for National Statistics

Impact for Construction

- Fundamental change to the way we power buildings and infrastructure
- Technology shift e.g. natural gas to ground source heat pumps
- Increasing use of the natural environment coupled to more modest energy consumption
- Rapidly increasing demand for data harvesting with buildings becoming 'smart entities' talking directly to a 'smart grid re demand dynamics'
- Leaders will create and protect new IP and gain competitive advantage

Opportunity for Construction

- Fundamental change to the way we power buildings and infrastructure
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We can support clients to:

- Ensure financial reporting is compliant with existing and emerging legislation such as streamlined energy and carbon reporting and the imminent task force for climate related risks disclosures (TCFD).
- Keep you abreast of wider emerging legislation such as Future Home Standard, providing our view of the potential impact to tax and finances.
- Support you to ensure that you governance, risk management processes and associated non-financial controls and data are robust enough to meet external reporting requirements including where applicable wider social and economic benefits.
- Help you to assess and meet voluntary reporting standards that may aid stakeholder relationships and transparency on sustainability and climate change impacts.
- Provide independent assurance across key non-financial metrics providing greater transparency and increased trust and confidence with key stakeholders.

If you would like further guidance on sustainability, please get in touch with your local office

Unlocking sustainability in Construction through R&D

There are incentives in place that reward the development of sustainable processes, materials, devices, products and services through new and emerging technology. However, technological development in construction is often overlooked when considering qualification for UK Research and Development (R&D) Tax relief, which has a much wider reach than many people appreciate.

UK R&D tax reliefs are split into two schemes that run in parallel, both of which allow you to look back retrospectively for a maximum of 24 months from your Financial Year End:

1 The SME Scheme:

25p – 33p for every £1 spent on R&D projects

The SME scheme is more generous, but has more strings attached. The business must be a UK company within a charge to UK Corporation Tax, it must currently be a Going Concern and to be recognised as an SME the business must have fewer than 500 full time employees and a turnover of less than €100m, or €86m in balance sheet assets. (LLP's cannot claim, unless they have a corporate partner).

It is also important to note that businesses in receipt of other forms of notifiable state aid, such as Innovate UK grants, the Coronavirus Business Interruption Loan Scheme (CBILS) or Bounce Back Loans, may not be eligible for the SME scheme. This is a complex area, as for example, companies that used CBIL's to fund expenditure such as rent or business rates for a specific time period that was completely separate to the R&D project being claimed, may still be eligible. Detailed planning that isolates any state aid to a specific timeframe or project in your company accounts may optimise your position.

2 The Large Company R&D Scheme:

10p for every £1 spent on eligible R&D projects

The Large Company R&D Scheme, termed as the R&D Expenditure Credit (RDEC (LC) provides a benefit of 10p for every £1 spent on eligible R&D projects. As well as not being as generous as the SME scheme, it excludes any sub-contractor costs. However, large companies shouldn't be deterred as the reliefs can often still amount to quite significant sums!

What is meant by R&D?

R&D for tax purposes is based on the concept of an uncertainty or an advance. So, if your team is trying to achieve something scientific or technologically feasible, or achievable in practice that is not readily deducible by a competent professional, it is likely to be considered R&D.

It would include any time your team spend trying to develop something new, faster, stronger, safer, or more sustainable, such as a process, a material, a device, a product or a service.

Some examples:

- You are trying to calculate the cost and time of a construction sequence, changing one aspect by 5% to improve efficiency, but there is complexity and uncertainty on the effect across the whole process.
- A business wants to improve its ability to capture and process data from Smart Buildings to support future reporting requirements and highlight their green credentials, so want to invest in developing a seamless platform for capturing and processing data from sensors to measure the overall efficiency and carbon emissions.
- A company that usually uses a heavy carbon material for its bespoke flooring solution such as polished concrete would like to invest time and expertise to engineer and develop a more sustainable alternative material to look and feel similar.
- A Building Controls firm believe they can engineer a new solution that improves the efficiency of an older buildings temperature regulation and ventilation by making bespoke modifications to existing equipment, which will require extensive research to overcome particular challenges.

Time spent developing the process, a material, a device, or a product and experimenting and analysing results would all come under the remit of R&D; as would any failures along the way, as each iteration of development is extending your teams knowledge, expertise and capability.

What costs can be claimed?

Subject to some exclusions, the main aspects of an R&D project that can be claimed include: staff costs, consumables (including relevant materials and utilities), consultations with external specialists, such as a structural engineer, agency staff working under your supervision and software licences for packages such as CAD / FEM or code software.
SME's are also able to claim the cost of sub-contractors.

Summary

Just because problem solving is part of your day-to-day job and overcoming challenges comes naturally to you, doesn't mean it's not R&D! It is worth looking back at your projects over the past 24 months to see where there were challenges that you, or members of your team invested time and effort to resolve and try to capture and summarise the corresponding cost.

For an informal chat to discuss what may be eligible for R&D please get in touch with your local office.

Land matters

For many centuries, the purchase of land has been essential for the economic and social development of land – we only have to reflect on all the canals, road, railways, electricity generation station, schools and hospitals that have been built and continue to be built. The current Crossrail and HS2 projects are a continuation of that history. But it is not just national infrastructure projects that require land to purchase – it is the public and private developers of commercial and residential property also.

Whether by private agreement or through the powers of compulsory purchase orders, the purchase and development of land owned by others can have a significant impact on the individuals, communities and businesses in situ on a personal and/or commercial level – the historical status quo is altered. We have seen this at first hand in our work on HS2, Crossrail and other city centre regeneration projects – whether those affected are a small family business or part of a FTSE-quoted multinational.

The expropriation of land comes with a cost - payment has to made to provide financial equivalence for the loss suffered by the landowner. For a business owner, it will be entitled to claim compensation for what is called "disturbance" – perhaps somewhat understated legalese in the circumstances. Indeed, depending on those circumstances – and every claim has its own particular nuances - compensation may include elements such as:

1. loss of profit
2. plant & equipment
3. the value of the business as whole or in part
4. relocation costs
5. double overheads
6. acquisition & fit-out costs of alternative premises.

It is primarily the loss of profit and business value that we focus on as forensic accountants, commonly working alongside surveyors and other property and industry experts in assisting both claimant businesses and developer /acquiring authorities on the financial impact of the purchase and possession of commercial property.

Across a wide range of industries including retail, manufacturing, technology, hospitality and professional services, we work both in an advisory role (working with land-owners and land-acquirers to establish likely business values) and an expert role (if and when matters proceed within the circuitry of the Lands Tribunal). In our experience, early appointment is key as scenario-planning for different options can be undertaken.

As to the level of compensation due, broadly speaking this flows from the decisions the business makes. If a business finds under order of compulsory purchase, generally it will want to find a way to continue trading, whatever its size, and will strive to find an alternative trading location at the earliest available opportunity to reduce potential losses. Indeed, a business will be under a duty to take all reasonable steps to mitigate such losses.

If it can relocate, then the losses may prove only be temporary but that is not to say its trading levels could not fall on a longer term and more permanent basis, if the alternative premises are not as suitable. Comparison of a business where location is critical (think of a retailer and its footfall demands or a distributor dependent on easy access to transport networks) with that where it is typically not (think a professional services company in a generic office building) shows how important this re(location) can be.

If the search for suitable relocation premises falls short, the business cannot relocate and there are no other mitigating possibilities, the business becomes "extinguished" – it is forced to close and cease trading. Then, broadly, the compensation is based on the value of the business as a whole, following traditional methodologies and metrics for valuing the same that accountants – not just forensic ones – use.

Overall, in considering what compensation is due, the overriding principle is that of "equivalence" - a business should be in the same position after being acquired as it was before, in monetary terms. It is a common principle within many arenas of compensation (restitutio in integrum as the Romans would have it) and aims to ensure that a business (or individual) is compensated fairly and fully for their loss.

For a landowner or business that finds its land or premises being compulsorily acquired, it is undoubtedly an unsettling time and, although monetary compensation may be an unwelcome alternative, it is good to know that the root of the process values fairness and compensates for what is lost to get that business back on the right track.

Guest article by James Stanbury, who works in the London office of Baker Tilly. He has been working for Claimants, property developers and acquiring authorities on CPO matters for the past 10 years.

UK Residential Property Prices: The COVID-19 Impact

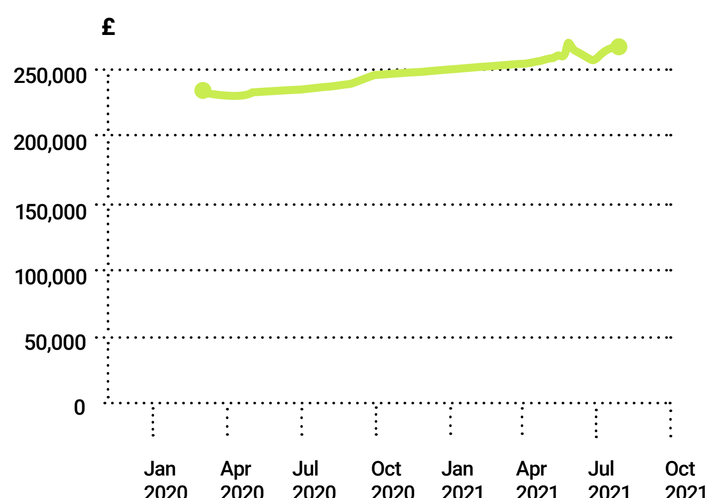
Is the boom over? Will prices continue to rise or perhaps even fall? One thing we have all learnt from the last 18 months is how unpredictable life can be. Over the course of this case study, we will consider the movements, the trends, the incentives and even a little from my own personal experience of the market in the recent months.

Property prices

Let's consider where the average UK property price stood at the start of the pandemic. In March 2020 H M Land Registry published the average UK property price at £232,684. In contrast at August 2021, the average price was £264,244.

This is an increase of 13.6%. Safe to say that property during the pandemic was a much more lucrative investment than that of your typical savings account or pension plan invested in shares.

On 19 March 2020 the Bank of England dropped the base rate to 0.1% and it has remained there ever since. Inevitably, for those who had sufficient borrowing capacity this was a great time to borrow cheaply and also benefitfrom solid capital gains.

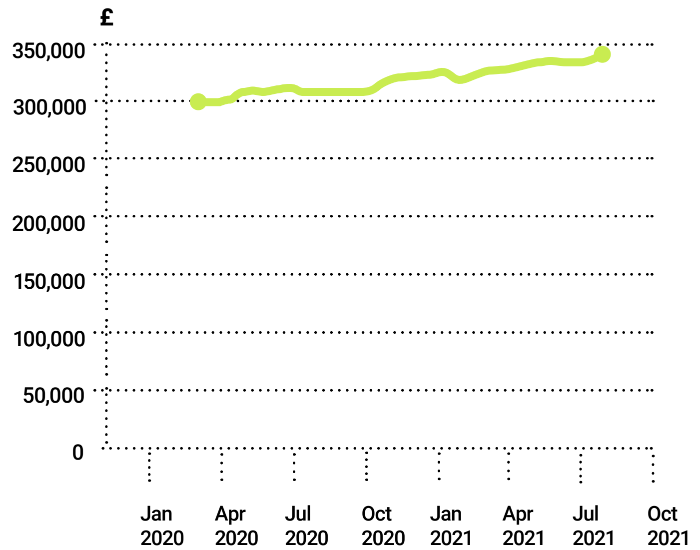


Seaside/Rural

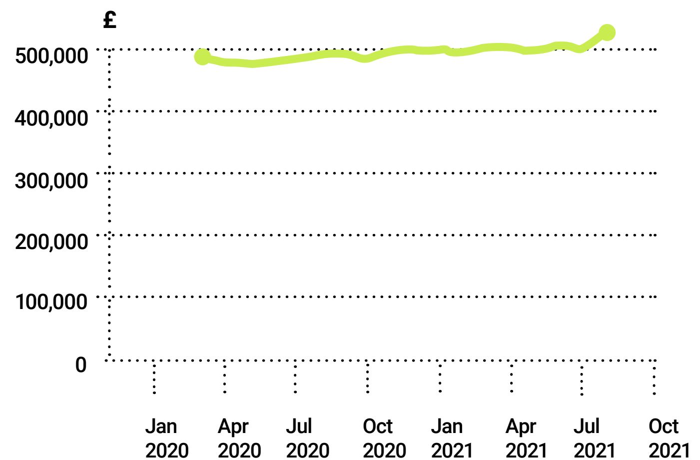
Over the course of the pandemic, it is clear to see that people's priorities have drastically altered. As home working was enacted and has continued at least on a part time basis up until today, central city living has no longer been on the top of homebuyers' wish lists. Central London residents have looked for greener grass quite literally on the outskirts, with Kent being a hot choice. With a commute of 34 minutes on the highspeed from Ashford to St Pancras, the part time requirement for office-based working is easily accessible.

Let us now look at the variations between the average house price rises in Kent vs. London over the last 18 months, to consider this further.

The average house price in Kent, specifically, the Canterbury Borough which includes coastal towns such as Whitstable and Herne Bay, has risen to £339,946 in August 2021, compared to £296,522 in March 2020. This is an increase of 14.6%, which is a rate even greater than the increase over the whole of the UK, over the same period.



By contrast the average London property price is certainly higher than both Kent and the rest of the UK, the growth rate over the same period (March 2020 – August 2021) gives a very different picture. The London average has moved from £482,605 to £525,893. That is an increase of 9.0%; significantly lower than both the Kent and the UK average % increase, thus supporting the shift in homebuyers' priorities from city living to greener locations.



Stamp duty holiday

As if the cheap borrowing and attractive capital gains were not enough for buyers, why not throw in a stamp duty exemption for good measure. On 8 July 2020 right up until 30 June 2021, the stamp duty land tax payable on residential property purchases up to £500,000 was scrapped. This meant anyone in the market for a new home for less than £500,000, had £0 stamp duty to pay. Assuming the property purchased was at a maximum of £500,000 and assuming this was your sole residence on 7 July 2020, your stamp duty bill would have been £10,000. Wait a day and that bill dropped to £0. Now there's an incentive to buy property.

Personal experience

Based on the above findings it is clear to see that the numbers do not lie. I have personally witnessed this in the last 11 months with my own property. In November 2020 I purchased my house on the Kent coast. Since my purchase, I have seen very similar properties on the same road come up for sale, with an asking price in excess of £50,000 more than I paid for my own property. However, now the market has become so hot, properties advertised for sale are often under offer within 48 hours of being listed, as demand exceeds the number of properties available.

October 2021 budget impacts

With demand for property now at dizzy heights, building contractors are expected to see a rise in operations. For the larger contractors whilst this brings good news, the government will be implementing a residential property developer tax, with effect from April 2022 at 4% on profits exceeding an annual allowance of £25m. This has been introduced to ensure that the largest developers make a fair contribution to help pay for building safety remediation. In addition, if inflation continues to rise, material costs are likely to follow the same path, so margins will be squeezed even further for construction firms. The budget did however make an allowance for investment into 180,000 new affordable homes outside of London, so a positive step in terms of the current issue with supply vs. demand for property.

Conclusion

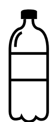
Looking back, it has been a period of drastic change for the UK property market. Whether prices will continue to rise is unknown. However, with talk of increased interest rates, lending is unlikely to remain as cheap as it currently stands. It is highly likely with increased borrowing costs and the removal of tax incentives such as the stamp duty holiday, the market will calm and therefore prices will become more stable with time.

Written by Laura Cogger, MHA, Kent

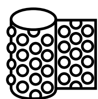
Plastic Packaging Tax – 1 April 2022

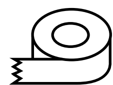
From the 1st April 2022, Plastic Packaging Tax (PPT) will be introduced in the UK as part of the Green agenda. By using recycled rather than new plastic within packaging the objective is to increase levels of recycling and collection of plastic waste, diverting it away from landfill, incineration or into the oceans.

PPT will apply to plastic packaging manufactured in, or imported into, the UK where the plastic used in its manufacture is less than 30% recycled. It includes obvious and not so obvious items.

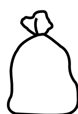

Plastic Drinks Bottles

Ready Meal Trays


Bubble Wrap


Sticky Tape

Re-useable plastic boxes and crates


Bin Bags

The tax will be calculated at £200 per metric tonne of plastic packaging.

Who must register and account for PPT?

If you manufacture or import 10 or more metric tonnes of finished plastic packaging over a 12-month (rolling) period, you are required to register for PPT. This is still required even if the packaging you manufacture, or import, contains in excess of 30% recycled plastic.

What is finished plastic packaging?

The packaging is in a format that it can be used to contain and transport goods. This may be packaging that is fully complete (e.g. plastic carton), or semi-complete packaging, such as a plastic bottle without a cap.

The goods become liable to PPT on completion of manufacture in the UK, or at time of import into UK. For the latter, the consignee named on the UK import declaration will be responsible for retaining records and registering for PPT.

Exceptions to PPT

There are 4 groups that are excepted from the tax. These are:

1. Transport packaging used when importing goods into the UK.
2. Plastic packaging used in aircraft, ship or railway stores for international journeys.
3. Plastic packaging produced or imported for use in the immediate packaging of a human medicine.
4. Components permanently designated or set aside for non-packaging use.

Even if your plastic goods fall under one of the above exceptions there will still be a requirement to register for PPT and retain satisfactory records.

So why is this important for the real estate and construction sector

The construction sector continues to import materials and finished items from Europe and the rest of the world. PPT may apply to items which are not immediately obvious. For instance, packaging components which contain, protect, are used in the delivery, handling or presentation of goods being imported. This means that items such as plastic crates and intermediate bulk containers will be caught.

Therefore, if your business is acting as importer of goods into the UK then bear this in mind or if you buy from a supplier that imports as PPT needs to be factored into pricing.

For example, in new contracts as suppliers or importers will want to be able to pass on the cost of PPT to their customers. Therefore, new agreements should include a statement on prices being inclusive or exclusive of PPT.

Another important aspect of the new tax legislation to be aware of is that there are secondary liability and due diligence requirements.

Although it is the importer or manufacturer of packaging components that is primarily liable for PPT, others in the supply chain can be made liable for the tax where they know or ought to have known that PPT has not been paid.

These provisions mean that any related business needs to conduct due diligence to ensure that it cannot be said that it ought to have known that PPT was not paid.

HMRC is expected to give guidance on the due diligence required. It is likely to include requirements for manufacturers to check whether suppliers of recycled plastic are accredited and to intermittently check the levels of new plastic and recycled plastic in each product run.

Cyber Security

Four in ten businesses (39%) reported cyber security breaches or attacks in the last 12 months . It is important to note the 'actual' number is deemed to be higher as attacks often go undetected or unreported. It has been recorded in the construction press that some notable names have been cyber attacked, in the past, including Bam Construct, Bouygues, Interserve and Amey.

Cybersecurity is the practice of protecting systems and information from internal and external threats which could result in:

- Theft of intellectual property and corporate information
- Cost of repairing damaged systems
- Fines associated with breaching GDPR laws
- Loss of consumer trust

Unfortunately, there aren't always any obvious signs that your organisation has been attacked or that data has been compromised, but users **might** notice slow running computers/servers, new/suspicious user accounts or accounts being locked out.

Most deterrents do not require large financial investment but a change in processes and mindset. Management should not rely on a single 'fix-all' approach but should create a good control environment which decreases the risk of being a victim of a cyber-attack or which can assist in identifying breaches.

Some controls include:

- Grant access using the "least privilege" approach
- Disable unused accounts (e.g., leavers) ASAP
- Regularly review user access to ensure it remains appropriate
- Disable administrative access across users' computers
- Limit the number of accounts with administrative privilege
- Review users' activity to identify unusual actions/activity
- Introduce multi-factor authentication
- Update (patch) Windows and Applications regularly
- Implement backup and disaster recovery plans to ensure operations can resume with minimal impact in the event of a cyber-attack
- Create network perimeter defences, particularly web proxy, web filtering, content checking, and firewall policies to detect and block executable downloads, block access to known malicious domains and prevent users' computers from communicating directly with the Internet.

As phishing accounted for 83% of all breaches among the organisations that had reported attacks in the last 12 months, the biggest form of protection is educating all employees on how to deal with phishing (e-mail), vishing (phone call), smishing (texts) and pharming (redirect a website's traffic to another fake site by installing a malicious program on the computer) threats. Some tips include:

- Pay attention to the sender and subject of the message – if unrecognised, delete these emails/messages
- Do not click the links in emails and messages
- Never reply to messages/calls requesting personal information
- Files attached to an unknown message that have .exe, .msi, .bat, .pif, .com, .vbs, .reg, and .zip extensions can install malicious software – **Do not open them**

If your organisation has been (or if you suspect has been) attacked:

- Alert the IT team or external service provider so that the situation can be assessed, and the loophole can be closed
- Perform an analysis of the environment to minimise the risk of further attacks
- Cybercrimes in the UK should be reported to Action Fraud (https://www.actionfraud.police.uk/)
- Contact your bank to protect your accounts and launch a fraud investigation
- Report compromised or stolen data to the ICO (https://ico.org.uk/) ASAP to minimise GDPR penalties

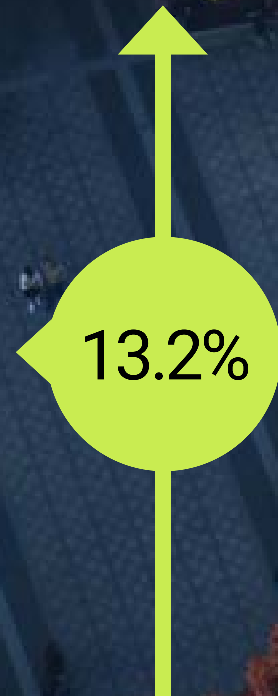
It is also advisable to add cyber insurance to your business policy and perform an assessment of your IT infrastructure and control environment.

[1] **Official Statistics:** Cyber Security Breaches Survey 2021 (Cyber Security Breaches Survey 2021 - GOV.UK (www.gov.uk))

[2] **Official Statistics:** Cyber Security Breaches Survey 2021 (Cyber Security Breaches Survey 2021 - GOV.UK (www.gov.uk))

House price growth

The latest house price data published on GOV.UK by HM Land Registry for September 2021 show that average house prices in the UK increased by 11.8% in the year to September 2021, up from 10.2% in August 2021.

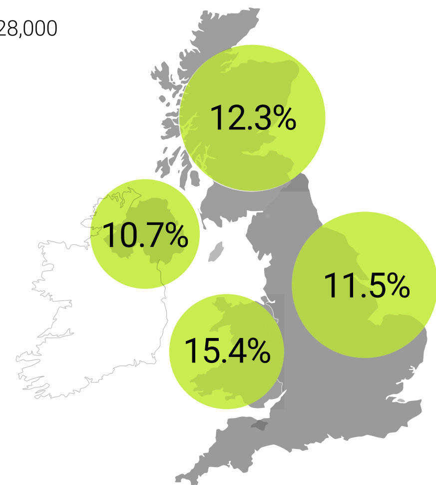


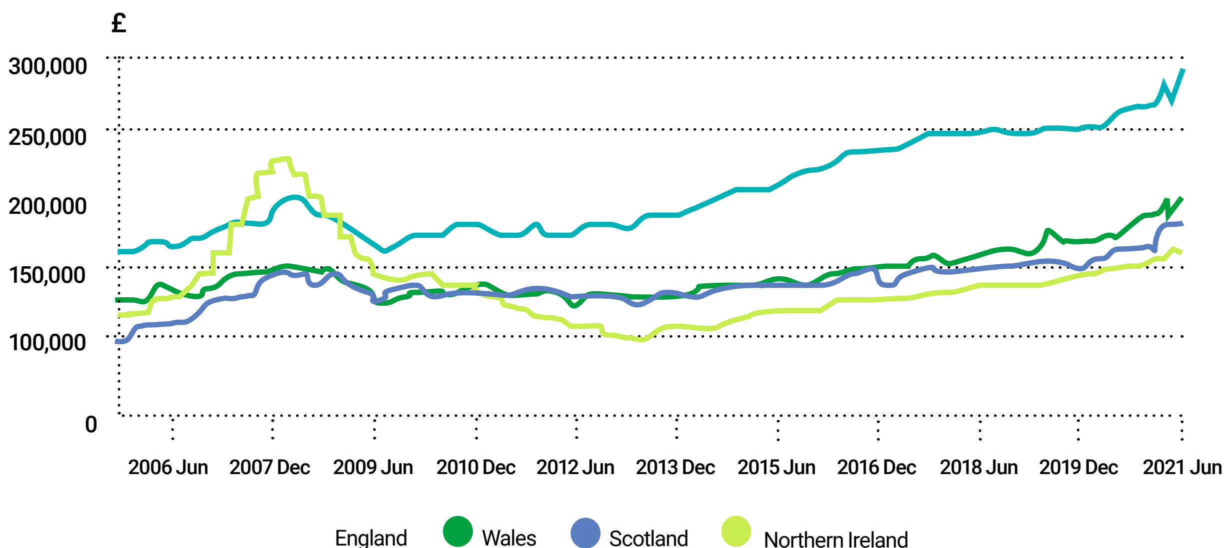
Monthly house prices changes across the UK and Ireland

The UK average house price was at a record high of £270,000 in September; which is £28,000 higher than at the same point last year.

England house prices remain the highest in the UK

- England increased by 11.53% over the year to September 2021, with the average house price in England now at a record level of £288,000.
- Wales increased by 15.4% over the year to September 2021, with the average house price in Wales now at a record level of £196,000.
- Scotland increased by 12.3% over the year to September 2021, with the average house price in Scotland now at a record level of £180,000.
- Northern Ireland increased by 10.7% over the year to September 2021. Northern Ireland remains the cheapest UK country to purchase a property in, with the average house price at £159,000





As in previous updates, the impact of the coronavirus (COVID-19) pandemic on both the number and supply of housing transactions, may lead to larger revisions to the published House Price Index (HPI) estimates than usual. The monthly property transactions statistics published by HMRC show that the number of transactions in September 2021 were higher than average. As fewer processed transactions are available than expected for the September 2021 estimate, the proportion of transactions used in the compilation of the UK HPI is lower than usual. As a result, there may be increased volatility in this month's estimates.

The latter half of 2020 saw the UK's average house price growth accelerating. This trend continued into 2021 as the UK average house price for September 2021 was a record high of £270,000, up from £263,000 in August 2021, and £6,000 higher than the previous record seen in June 2021.

On 8 July 2020, changes to the tax paid on property purchases were announced with immediate effect in England and Northern Ireland. Similar changes came into effect slightly later in Scotland and Wales (15 July and 27 July respectively). In England and Northern Ireland, properties up to the value of £500,000 would incur no tax, while the thresholds for Scotland and Wales were £250,000. These changes in the tax paid on housing transactions may have allowed sellers to request higher prices as the buyers' overall costs are reduced.

On 3 March 2021, an extension to the Stamp Duty holiday in England and Northern Ireland was announced. This meant that the tax holiday was extended until 30 June 2021, after which the threshold decreased to £250,000 until 30 September 2021. From 1 October 2021, the Stamp Duty thresholds have reverted to what they were before 8 July 2020. The tax holiday for Scotland ended on 31 March 2021. The tax holiday in Wales ended on 30 June 2021.

As the tax breaks were originally due to conclude at the end of March 2021, it is likely that March's average house prices were slightly inflated as buyers rushed to ensure their house purchases were scheduled to complete ahead of this deadline. This effect was then further exaggerated in June 2021, in line with the extension to the holiday on taxes paid on property purchases in England, Wales and Northern Ireland. Following a decrease in July, average house prices increased in the months of August and September 2021 and have now surpassed the peak seen in June. Monthly property transactions statistics published by HM Revenue and Customs show that the seasonally adjusted number of transactions in September 2021 (when the last of the tax holidays came to an end in England) increased to 160,950, which is 67.5% higher than August 2021, and 68.4% higher than a year earlier.

Regional variation

The North West was the region with the highest annual house price growth, with average prices increasing by 16.8% in the year to September 2021. This was up from 11.6% in August 2021.

The lowest annual growth was in London, where average prices increased by 2.8% over the year to September 2021, down from 6.7% in August 2021. This represents the lowest annual growth in London since July 2020.

Despite being the region with the lowest annual growth, London's average house prices remain the most expensive of any region in the UK at an average of £507,000 in September 2021.

The North East continued to have the lowest average house price, at £153,000, having surpassed its pre-economic downturn peak of July 2007 in December 2020

London remains the region with the lowest annual house price growth

All dwellings annual house price rates of change, by English region, year to September 2021

18
16
14
12
10
8
6
4
2
12 month percentage change

News bites

16% drop in affordable housing starts

The impact of Covid 19 can be seen in the affordable housing starts in England, which were down 16% last year as local councils and housing association development were hit by pandemic restrictions. In the 2019/20 financial year there were 68,346 affordable home starts compared to just 57,417 in 2020/21.

Equity release is on a high

A surge in the equity release market is being driven by rising numbers of older homeowners taking out lifetime mortgages to unlock the value of their properties. Figures released by the Equity Release Council in its Q3 market statistics indicate equity release lending is up nearly one-fifth from 2020, with lending exceeding £1bn every quarter for each of the last four. Drawdown plans remain the most popular with an average initial advance of over £57k.

Government announces £96bn Northern rail investment

The Integrated Rail Plan (IRP) published in November sets out a £96bn plan to transform the rail network in the North and Midlands, merging HS2 Phase 2b, Northern Powerhouse Rail and the Midlands Rail Hub. It aims ensure towns and cities across the North and Midlands are better connected with more frequent, reliable and greener services and faster journey times. The government has committed to building 3 new high-speed lines, electrify and/or upgrade 3 existing main lines and progress options to complete the Midlands Rail Hub. It will also look at how best to take HS2 trains to Leeds, including assessing capacity at Leeds station and starting work on the West Yorkshire mass transit system.

New home owners to bear the cost of government decarbonisation targets

The cost of government plans to improve energy efficiency in homes will largely fall to home buyers under terms of their mortgage.

Lenders will be required to report on energy efficiency measures on the homes they lend on, with targets to improve the insulation of homes in their portfolios. New buyers will potentially be required to commit to making improvements, potentially creating significant barriers to home ownership.

Land Registry announces its first mandatory digital platform

Whilst the exact date is yet to be confirmed, HM Land Registry have announced that changes to existing titles will be fully digital from November 2022. From this date, Conveyancers will no longer be able to submit scanned or PDF copies of AP1s via the HM Land Registry portal. Designed to improve the end-to-end conveyancing process, it is anticipated this change will lead to quicker processing times and fewer errors. In order to fund this acceleration in digitalisation and automation, HM Land Registry has also announced an increase in fees for first registration and for the registration transfers, leases and mortgages, which are set to go up by 21% in January.

Government delays rental reforms

The Department of Levelling Up, Housing and Communities has announced that the long-awaited Rental Reform White Paper, which was due to be published this autumn has now been pushed back to 2022. The delay is to allow more time for ministers to consult with the sector and consider findings from the National Audit Office's review of regulation of the private rented sector, in order to avoid unintentional consequences as a result of the reforms. There has been concern about the planned ban on Section 21 notices, which are often referred to as no-fault evictions. While aimed to provide greater protection for renters, it needs to be balanced with support for landlords.

IFRS forms new International Sustainability Standards Board

In order to 'fulfil the growing and urgent demand' for streamlining and formalising corporate sustainability and climate disclosures, the International Financial Reporting Standards Foundation (IFRS) has launched the International Sustainability Standards Board (ISSB). The ISSB will be tasked with ensuring global financial markets have access to high quality disclosures on sustainability issues.

A swing to detached

According to the National House Building Council (NHBC), total new home registrations were up 14% to 33,779 in the third quarter of 2021 compared to the prior year. 36% of new homes were detached, up from 28%, while new flats accounted for only 13% of new builds, down 29% from the same period the year before.

Heat pump grants to kickstart low carbon heating

Grants of £5,000 will be available to homeowners in England and Wales from April 2022 to replace gas old boilers with low-carbon heat pumps as part of the drive towards 'net zero'. No new gas boilers will be sold after 2035. Heating buildings accounts for 21% of overall emissions so will be a crucial area for the government to focus on if they are the meet the ambitious target.

John Lewis announces move into residential propoerty development, with all existing retail sites under consideration

The John Lewis Partnership (JLP) have confirmed a review of all 365 department stores and Waitrose supermarkets as part of their private property development plans. JLP have set a target of 10,000 new build-to-rent homes over the next 10 years, which will be furnished with John Lewis products. These diversification plans are a bid to move their brand away from retail, with 40% of profits expected from non-retail sales by 2030.

Farmers are driving the rise in solar farms

Landowners are increasingly converting their land to be used as solar farms. Research recently published by EMW Law has revealed a 12% increase last year, from 2,250 in 2019/20 to 2,510 in 2020/21. Much of this growth can be attributed to farmers looking for a more stable income in the face of volatile crop prices and the phasing out of certain agricultural subsidies. Solar projects are benefiting from greater investment, relaxed planning rules and improving public opinion and agricultural landowners are becoming more open to using land for solar generation instead of crops, explained Marco Mauro, Legal Director at EMW

Charging forward with Electric Vehicle charge points

Charging forward with Electric Vehicle charge points

All new homes and other buildings such as supermarkets and offices in England will be legally required to have electric vehicle charge points installed and changes will be made to existing building regulations to enforce the legislation. The new rules, announced in November 2021 will also apply to buildings with over 10 parking spaces that are undergoing major renovations.

MHA Construction & Real Estate Team

Our Construction & Real Estate experts understand the challenges and opportunities within the sector, which remains a vital part of the UK economy.

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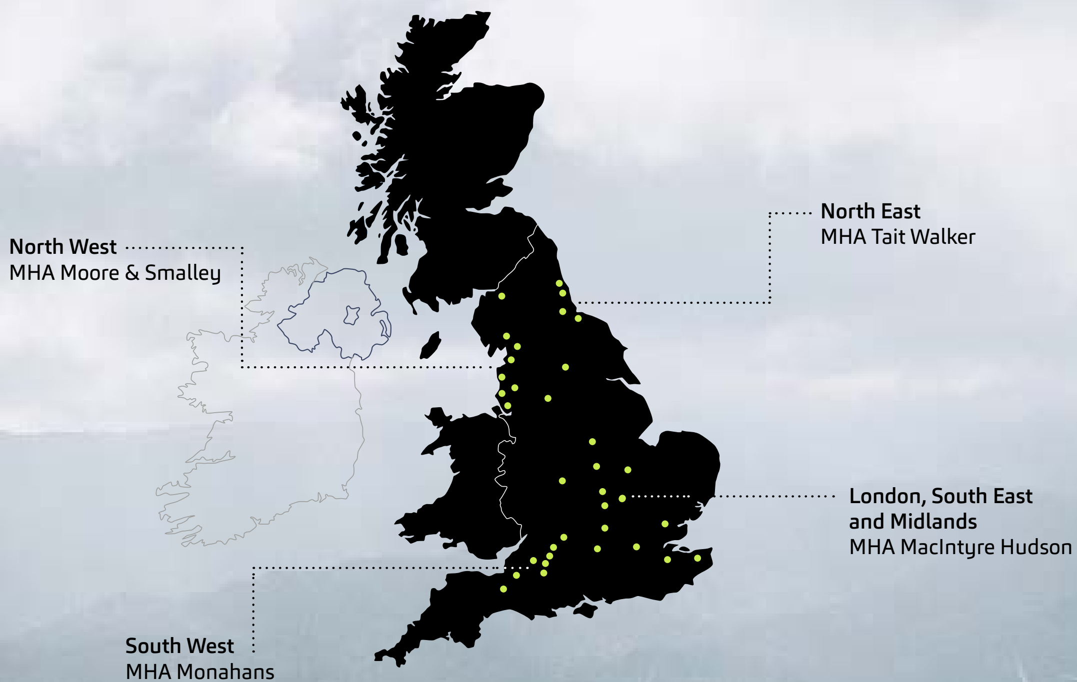

National Reach

136
Partners

1,375
Staff

£121.9m
Combined turnover

4
Independent accountancy firms

33
Offices nationwide

International Reach

148
Territories

US$4.04bn
Combined member firm revenues

An independent member of bakertilly INTERNATIONAL

37,000
Partners & Staff

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