The Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
1 Horse Guards Road
London
SW1A 2HQ

11 April 2024

Dear Chancellor,

Impact of abolishing Multiple Dwellings Relief on building new homes

We write as a group of owners, managers, developers and representatives of the UK's £125bn institutionally-backed residential rental sector who are deeply concerned that the abolition of Stamp Duty Land Tax Multiple Dwellings Relief (SDLT MDR) from June this year will result in fewer new homes being built and a drop in both domestic and overseas investment into UK housing delivery. In the context of increasing demand for additional housing, and for quality rental homes in particular, this measure appears counterproductive. This impact is likely to be most acutely felt in less economically successful parts of the country.

About the sector

The UK's institutionally backed residential Private Rented Sector (PRS) covers a range of housing types across the country; from single and multi-family build-to-rent (BTR) and affordable housing, through purpose built student accommodation (PBSA) to senior living accommodation. These homes cater to people from all walks of life, but what they have in common is a strong focus on customer service and professional management. Many of them also have high levels of on-site amenities.

This focus is illustrated by:

- Over 90% of BTR homes offering minimum three-year tenancies (providing security for renters who seek that);
- 73% of BTR homes allowing pets (90% if you exclude London); and
- 88% putting on a calendar of social events to make people feel part of a community.

In addition, BTR provides brand new, energy efficient homes – delivered at scale and at pace – of a higher quality than much of the existing private rental stock, while PBSA has provided an important underpinning to the UK's university sector and has freed up HMOs for use by other types of renter.

A success story

BTR was born out of the combination of the MDR's introduction in 2011 and the implemented recommendations of the Montague Review in 2012. Since then, £40bn has been invested into the BTR sector, which has resulted in 100,300 additional homes completed, 54,000 more under construction and a further 112,000 in planning. While the sector still represents a relatively small proportion of new housing delivery, it is growing rapidly with the number of completed BTR homes increasing by 17% year-on-year in Q4 2023. This should be welcomed and encouraged at a time when completed new build housing numbers are generally reducing.

Developers and investors initially focused on London and other core UK cities. But more recently the distribution of reliable and secure rental homes is spreading beyond major cities to every corner of the UK to meet local needs. Local authorities are now planning more effectively for the delivery of BTR homes, with 47% of local authorities now having BTR in their housing pipelines, versus just 20% in 2017.

By acting as an "anchor property" on large residential development schemes, BTR is also key to getting homes of other tenures (e.g. for-sale and affordable) built. A well placed and designed BTR building can be fully let relatively quickly, creating a sense of place and community. The cash flow boost to the developer makes it possible for them to also build out the affordable component of the scheme more quickly, with more homes than might otherwise be the case. For certain types of BTR property, every BTR home built unblocks a further two homes of other tenures.

Why MDR matters

MDR was specifically created to level the playing field of large-scale residential investment in SDLT terms when compared to an individual investor buying a single property to rent out. It is less of a "relief" than an equalisation of treatment as between large and small-scale property owners.

New-build BTR and PBSA developments are appraised based on the value for which they could be sold upon completion. This value will reflect any costs a purchaser would have to pay, including SDLT. The most important support that MDR has given BTR and PBSA is in allowing the development of new schemes to be appraised on the basis of a lower rate of SDLT than the commercial property rate that would generally apply in the absence of MDR.

Depending on the type of property and its location, this difference could be up to 4% of the scheme's final value and means that a scheme can be delivered at a lower cost for the institutional investor that will ultimately own the buildings. The amount of investment capital available for such schemes is also strongly dependent on projected scheme values, which themselves depend on whether MDR is available.

In other words, the real value of MDR is not in actually making a claim for it during the planning, development or construction phase, *but in being able to plan a new development scheme on the basis that such a claim may at some point be made*, even if future circumstances mean that it isn't in practice. MDR therefore supports the long term capital value of rental homes, which is critical to development viability and attracting large-scale investment.

As a result of this, more homes can and have been built. Lower property values outside of London and the South East mean that MDR is especially valuable in parts of the country that the Government is trying to level up.

Impact of abolishing MDR

The negative consequences of abolishing MDR are threefold. Firstly, it will increase the tax burden on building new rental homes, which will hurt viability through lower assumed sale values in investment calculations. Fewer homes will get built as a result. We conservatively estimate that the number of homes foregone could be between 13,000 and 25,000. Building these homes would have supported up to 60,000 jobs.

Secondly, it will impact developments in areas with lower property values disproportionately. Where MDR would have previously benefited development in less economically successful areas that otherwise may not attract private investment and development (such as regeneration areas), the loss of MDR will stretch viability even further making developments in those areas less attractive than higher property value areas.

And thirdly, it will disproportionately affect the availability of lower-value affordable rental housing in London and the South East, where MDR has made a big contribution to development viability. In addition, losing MDR will mean that new rental home developments can only support a lower Section 106 affordable housing contribution, resulting in a double hit to the development of such sorely-needed homes.

Clearly, the intention of abolishing MDR was not to crystallise these impacts. In this sense the focus of the MDR evaluation studies (on which the decision to abolish MDR was based) on the number and profile of claims *actually made to date* missed the larger and more significant point of just how important it is to be able to plan development on the basis that MDR will be available in the future.

It is not too late to avoid these unintended consequences and the loss of new homes they entail. Retaining MDR for large-scale residential property acquisitions typical of BTR and PBSA would support future home building across the country – not just the delivery of rental homes but also the affordable and for-sale homes that they facilitate. We would be delighted to work with you and your officials on what this retention might look like in practice.

Yours sincerely,

UK Single Family Association

British Property Federation

Association for Rental Living

BusinessLDN

CREFC Europe

Acre LLP

Airey Miller

Apache Capital

Campus Living Villages

CBRE

Chartway Group

Clearbell Capital LLP

Copping Joyce

Cortland

CRM Students

Dandara

Empiric Student Property

Evenbrook

Fresh Student Living

Get Living

Global Apartment Advisors

Goodstone

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Global Student Accommodation Group

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HUB Residential

Invesco

JLL

Leaders Romans Group

Letta Homes Ltd

Long Harbour

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