

Public consultation response:
“Residential property developer tax:”

To: HM Treasury

By: The Intergenerational Foundation

Date: 01 June 2021

The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction

The Intergenerational Foundation (IF) is pleased to have the opportunity to respond to the public consultation on the proposed residential property developer tax (RPDT).

Since it was formed in 2011, IF can claim to have played an important role in leading the debate about intergenerational fairness in the UK – particularly with regard to the housing crisis, which has been one of our major areas of work – and we are regularly consulted by the media and policy-makers to give our expertise on this issue.

Research on those affected by the cladding crisis shows that 56.4% of leaseholders are first-time buyers, which is to be expected as this issue solely affects flats.¹ Flats are often the first step on the housing ladder, therefore many younger generations have purchased flats which are now unsellable and have high insurance costs due to safety issues. This is therefore an issue of generational unfairness, as younger first-time buyers who are affected by this crisis are denied the opportunities of previous generations to sell their properties and move up the housing ladder. IF’s research on the housing wealth gap between older and younger generations has demonstrated that older generations hold the vast majority of housing wealth in the UK², and this cladding crisis risks further increasing this generational inequality.

While it is difficult to assign fiscal responsibility for paying for this remediation work to any one party, IF would like to emphasise how important it is that the financial burden of removing this cladding should not fall to the leaseholders, as they are not at fault for this issue.

¹ Apps, P. (2021). What does Inside Housing’s survey of leaseholders impacted by the cladding crisis show? *Inside Housing*. 10 February 2021.

² Wiles, C. (2021). *Stockpiling Space: How the pandemic has increased housing inequalities between older and younger generations*. London: IF.

IF therefore welcomes the government's decision to introduce a new tax for the UK residential property development sector in order to raise revenue to help fund the government's vital remediation work. IF agrees with the decision that the tax should apply to the largest residential developers and with the principle that 'those with the broadest shoulders should contribute the most'.³

Our consultation response will answer the following questions in relation to these policy areas:

4. Question: Do you agree with this approach to student housing?

23. Question: Do you agree that these principles should guide the decision on the rate of the tax?

Chapter 8: Assessment of impacts

1. Student housing

As part of this consultation, it states that the 'government will be giving further consideration to the treatment of purpose-built communal accommodation intended for occupation by students'. It is IF's recommendation that all types of purpose-built student accommodation (regardless of whether they are self-contained) should be included within the scope of this new tax, for the following reasons.

As mentioned in the consultation 'this accommodation can have similar characteristics, and be in competition with, the wider rental sector'. It is also important to note that purpose-built student accommodation developments often generate high profit margins for developers,⁴ therefore it would be difficult to justify excluding them from this tax.

In addition, the main reason for the introduction of this tax is to raise revenue for the government to carry out remediation works on buildings with unsafe cladding. Purpose-built student accommodation is directly involved in the cladding crisis; as of April 2020, there were still 18 high-rise purpose-built student accommodation buildings with unsafe ACM cladding in England, with remediation work having not even begun on 6 of these.⁵ As well as the specific ACM cladding present in Grenfell Tower, there are also other types of unsafe cladding which are present in many student accommodations. Most notably, the 2019 fire in the Bolton Cube student accommodation was attributed to the HPL (high pressure laminate) cladding.⁶ Many students are paying extremely high rent prices for their accommodation; at the bare minimum they deserve to live in accommodation which is safe and not at risk of fire.

IF therefore strongly recommends that purpose-built student accommodation is

³ HM Treasury. (2021). *Residential property developer tax: Consultation on policy design*. p.21.

⁴ Savills. (2020). *Spotlight on Student Accommodation*. Savills. 23 September 2020.

⁵ National Audit Office. *Investigation into remediating dangerous cladding on high-rise buildings*. HC 370. Session 2019–2021 19 June 2020. p.24.

⁶ Ibid. p.5.

included within the scope of the RPDT tax. IF also stresses that rent prices for students should not be increased in order for developers to recuperate costs incurred by the RPDT.

2. Principles to determine tax rate

When discussing the principles that will be used to determine the final tax rate, one key principle mentioned in the consultation is that ‘the tax should raise at least £2 billion over a ten-year period, and the tax base would be an important factor in determining the final rate’. This £2 billion is part of a total of £5 billion which the government has pledged to invest in building safety.

However, this £5 billion sum is unlikely to be sufficient to cover the estimated total costs of these building safety remediations. The Housing, Communities and Local Government Select Committee has said that the total cost of the remediation works could be closer to £15bn, while another report by Colmore Tang Construction, a Midlands-based cladding specialist, concluded that the true cost could be closer to £50 billion.⁷

This raises concern that the RPDT will not generate enough revenue to cover the costs of remediation works and that additional financial burden could be passed onto leaseholders. Therefore, IF would support any extensions to the time period and increases to the total revenue target for the tax, in order to raise a greater amount of revenue which is more in line with the actual anticipated total costs.

3. Housing supply

Chapter 8 of the consultation discusses the potential impacts of the RPDT. One of the key concerns raised is that after the tax has been introduced, developers may build at a slower rate, as they may be incentivised to wait to build until house prices have risen high enough to compensate for the additional costs of the tax. However, there is uncertainty over whether this impact will be comparable to e.g. the impact caused by a general decrease in housing market prices.

IF appreciates the consultations effort to address this potential impact and agrees with the approach that the tax should be designed in a way which minimises impact on housing supply.

It should also be noted that the biggest residential property development companies are making substantial profits, well above the 25 million threshold to be eligible for taxation under the new RPDT. For example, despite the COVID-19 pandemic resulting in a 25% decrease in profits compared to the previous year, top-three UK housebuilder Persimmon still saw a pre-tax profit of £784 million for the 2020 calendar year.⁸

Residential property developers have also benefitted financially from the

⁷ Brady, D. (2021). Cladding crisis could cost more than £50bn, contractor says. *Inside Housing*. 20 April 2021.

⁸ Gardiner, J. (2021). Persimmon 2020 profit down by a quarter amid pandemic. *Housing Today*. 3 March 2021.

government-funded Help to Buy scheme, as this policy had the impact of driving up house prices and hence increasing profits for these property developers.⁹ In addition, the government's policy intervention to introduce the stamp duty holiday in 2020 also helped to keep house prices high despite the COVID-19 pandemic.¹⁰

Therefore, the impact of this tax should be negligible on the profits of large residential property developers and should not impact on their build-out rate as a result. The government has been incredibly supportive of the residential property development sector in recent years, and it is fair that this support should be repaid by contributing to essential building remediation works. These companies owe it to younger generations to provide safe homes and to continue building houses at an increased rate to mitigate the effects of the housing crisis for younger people.

If you would like to learn more about the work of the Intergenerational Foundation please contact:

Liz Emerson
Co-Founder
Email: liz@if.org.uk
Mobile: 07971 228823

⁹ Neate, R. (2019). Outrage as help-to-buy boosts Persimmon profits to £1bn. *The Guardian*. 26 February 2019.

¹⁰ Wiles, C. (2021). *Stockpiling Space: How the pandemic has increased housing inequalities between older and younger generations*. London: IF. pp.16-17.