

**The Association of Real
Estate Funds
Representation
2025 Autumn Budget**

Executive Summary

AREF¹ represents real estate funds responsible for about £50bn of investment in UK commercial and residential property.

We welcome, under the Mansion House Accord, the pledge by Defined Contribution funds to invest at least 5% of their value in UK private markets. Real estate funds are ideal investment vehicles for pension funds and overseas investors. These funds invest in the building of new homes, including affordable housing, and the infrastructure to support them, such as high streets, workplaces, leisure and healthcare facilities.

We welcome the new legislation and regulations that have come in over the last year, including for the Reserved Investor Fund (RIF). However, to fully enable our sector to assist the Government in achieving its goals, there are still some changes to legislation, regulations, tax policies and operational practices required in relation to:

- Daily-traded real estate funds
- Platforms
- Collective DC
- RIF 2.0
- VAT on fund management.
- Multiple Dwellings Relief (MDR).
- SDLT
- Stranded Assets – VAT
- CIS on Landlord Tenant Contributions

We have provided more details on these in our submission.

¹ **About the Association of Real Estate Funds (AREF)**

AREF is the trade body that represents UK commercial real estate fund managers, those firms that support them and the end customers that invest in commercial real estate funds. Our membership includes around fifty funds spanning the leading commercial real estate fund management houses in the industry, through to smaller specialist boutiques, with a collective net asset value of about £50bn in the UK.

AREF's Submission

1. Unlocking the UK Pensions Market for Growth

AREF fully supports the aim of the Government's Pensions Investment Review to boost productive investment by pension schemes. AREF considers "productive investment" to include investment in commercial real estate and infrastructure, as well as other illiquid assets such as venture capital, private equity and private debt. Real assets such as infrastructure and commercial real estate are large, indivisible and illiquid. In order to construct a properly diversified real assets portfolio, which must be at least around £100 million, a pension scheme must therefore itself be of significant size, probably at least £1 billion. We therefore support the outcome of the Pensions Investment Review to drive scale and consolidation of defined contribution workplace schemes, which should increase the capital available for illiquid assets, and also the quality of the resources available to the teams managing such capital.

Defined contribution schemes and Local Government Pensions Schemes are already major investors in real estate funds. By expanding their investment in these types of funds they will be able to increase their investment in productive investments not only nationally but regionally too.

We are pleased to see that the Pension Investment Report acknowledges the importance of value for money over focusing just on costs.

UK DC pension funds are an important source of investment in productive assets in the UK alongside other sources of investment such as from charities, private individuals and overseas institutions. The sector is constantly growing following the introduction of opt-out auto-enrolment, ; it has a long-term investment horizon and is thus very "sticky"; it is willing to invest in regions of the UK where international investors may not venture; and its cost of capital is lower than that of overseas investors. We therefore welcome the pledge by major pension providers in the Mansion House Accord to increase investment in private markets.

In our view, the areas which remain to be addressed in order to open the tap on DC investment are:

1.1. Daily-traded commercial real estate funds

1.2. Platforms

1.3. Collective DC and Defined Ambition

1.1. Daily-traded real estate funds

We are still awaiting the FCA to consult further on possible notice periods for authorised property funds. They originally consulted on the mismatch of liquidity for authorised property funds over 5 years ago. Due to there being no conclusion most of the authorised property funds have either closed or converted to hybrid funds. The result has been the withdrawal of pension fund capital from the sector with the closure of a number of the largest daily-traded funds, the loss of over £20bn of investment from UK sources into UK property, and the large-scale transfer of ownership to overseas private equity players who focus on short-term value extraction rather than long-term local placemaking. Many of the daily-traded UK property funds are moving to a model that will not necessitate notice periods by selling their UK direct property and instead investing the majority in listed REIT shares. However, to reduce volatility, investment is generally in global rather than UK REIT shares.

Technically DC pension schemes can also invest in listed Real Estate Investment Trusts (REIT) and Real Estate Operating Companies (REOCs) but these provide an undesirably high level of volatility and low level of diversification against other listed equities. To reduce volatility, investment is generally in global rather than UK REIT shares.

The demise of many of the authorised daily-traded funds, that are usually structured as Property Authorised Investment Funds (PAIFs) has led to less choice for retail investors who wish to invest indirectly in property. We are pleased to see that the Government confirmed, in the Financial Services' Growth and Competitiveness Strategy, published in July 2025, that from April 2026 investment in the LTAF can be through a Stocks and Shares ISA. If the eventual outcome of the FCA's review of authorised property funds leads to these funds requiring notice periods, we would ask that investment in these can be via Stocks and Shares ISAs too.

1.2. Platforms

DC pension schemes mostly invest through third-party platforms ("fund supermarkets") which will only take daily-traded assets, making it impossible to invest in fund structures such as the LTAF which hold unlisted

assets such as commercial real estate, infrastructure, private equity and private debt (in other words most assets falling under the definition of “productive finance”). We understand the new Platforms Association is looking at ways to address this issue. It is important that this is addressed to enable DC pension schemes to increase their investment in LTAFs and other real estate funds that do not trade daily. The alternative would be the development of alternative DC scheme structures, such as Master Trusts, which do not need to invest through platforms or who can use custody-only platforms.

1.3. Collective DC and Defined Ambition

We are pleased that the Government is looking to extend legislation for Collective DC (CDC) pension schemes to multi-employer schemes. At the moment, most UK DC pension funds operate on the Individual Account model, whereby each saver owns a piece of every asset in the portfolio. Thus, if a saver decides to transfer to another scheme, their share of every asset has to be sold meaning that all assets have to be liquid. This eliminates the use of illiquid assets. Under a CDC structure, a saver owns a share of the value of the fund as a whole. If they decide to leave, their share of the value is paid to them out of the liquid assets (cash, equities, listed fixed interest) and the proportion of illiquid assets in the portfolio rises a little.

Australian superfunds use this structure and are a good model, owning around 20% of illiquid assets and allowing that proportion to fluctuate between, say, 15% and 25%. They are some of the largest owners of commercial real estate and infrastructure in the world and, as the Government will be aware, some Australian super funds are opening London offices to coordinate their UK and European investment programmes, including real estate, illustrating the potential that scalable DC schemes could have in the UK market.

Some UK Master Trusts are developing in this direction and this needs to be encouraged further.

2. Reserved Investor Fund (RIF)

AREF is delighted that regulations are now in place for the RIF. This plugs a gap in the UK fund offering, and attracts UK and international pension fund as well as institutional capital. The RIF is efficient to launch and operate compared with alternative onshore and offshore vehicles. The lower total expense ratios which will be achievable with the RIF means greater returns for RIF investors and therefore, ultimately, for members of pension schemes. The RIF should make the UK a more attractive location to set up, manage and administer funds, as well as supporting a wider range of more efficient investments better suited to investors’ needs.

We advocate further legislation to enhance take-up of the RIF (given comparison/competition with offshore structures like the Jersey unit trust or Guernsey unit trust). This should be for a RIF that services only professional (i.e. non-retail) investors and where the RIF manager and investors (meaning all investors) may opt for the RIF to operate as a collective investment scheme (CIS) only instead of being mandated to operate as a CIS and an AIF. There is industry demand for this, including from AREF members.

Along with other industry stakeholders and we look forward to discussing proposals for legislative reform that would enable the RIF manager and investors to opt for a RIF to have RIF 2.0 status.

3. Tax reforms

3.1 VAT on fund management

Prior to 1 January 2024, it was possible to rely on the direct effect of EU law to claim exemption for the management of funds that were not on the VATA list but which fell within the EU VAT Directive version of the fund management exemption as a result of being “special investment fund” (SIFs). However, since that date, it is no longer possible to rely on direct effect to quash or disapply UK VAT legislation (Retained EU Law (Revocation and Reform) Act 2023 section 2 and Finance Act 2024 section 28), although it is possible to rely upon direct effect for interpretation. This distinction leads to some uncertainty on the scope of the fund management exemption from 1 January 2024, which HMRC has sought to address.

In light of the broad VAT exemptions available for fund management in competitor markets, the current fund VAT regime, as well as the significant uncertainty over its interpretation, is likely to continue to make the UK a relatively less attractive domicile for funds and will drive further activity offshore.

As a RIF is a new vehicle and is not expected to be added to the list of fund vehicles in Items 9 and 10 of Group 5 of Schedule 9, it is assumed that management of a RIF will not fall within the exemption. Accordingly, supplies of fund management to a RIF will be standard rated (20%) for VAT purposes. This should allow fund managers to recover their related input VAT on these VATable supplies. It should be noted that CoACs are on the VATA list.

These consequences mean that for RIFs investing in residential real estate (and other asset classes which do not give

rise to input recovery for the fund), VAT charged on fund management fees will be a material commercial cost and, accordingly, reduce the RIF's attractiveness compared with offshore equivalents. This issue could be addressed for those RIFs by adding the RIF to the VATA list, however, this would make it a less competitive structure for RIFs investing in commercial real estate (and other classes which do give rise to input tax recovery for the fund), as fund managers would no longer be able to reclaim their own related input VAT. On the assumption that zero rating is not an option that the Government would consider, AREF would support a proposal that Government grants a RIF fund manager (on behalf of the RIF) the option for the management supplies to a RIF to be exempt. This would sit alongside the default option that the fees would be VATable absent exercise of the option.

3.2 Multiple Dwellings Relief (MDR)

The abolishment of Multiple Dwellings Relief (MDR), from 1 June 2024, is making it more costly for the build to rent (BTR) sector, just at a time when the Government is trying to attract more investment in new homes. We understand that the abolition was driven largely by Government research indicating that MDR did not influence the decisions of private individuals to buy multiple dwellings, along with some potential abuse of the relief, largely by private individuals. However, the same research indicated that businesses are more likely to have taken MDR into account in their purchasing decisions, making the relief effective in stimulating investment in new homes.

We would like to see MDR reinstated, at least for property investment businesses acquiring property for rental.

3.3 SDLT for LGPS

In the Government's response to the LGPS: Fit for the future consultation. It was acknowledged that there are concerns regarding Stamp Duty Land Tax (SDLT) when transferring property investments from the administering authorities (AA) to the pool following the close of seeding relief windows in pool real estate sub-funds. We understand that the Government will be engaging with the LGPS pools to discuss this further. This is an issue some of our members are well aware of and we would like to assist in finding solutions to overcome the concerns.

Where property assets are held within a collective investment vehicle (CIV), these are typically structured such that unit transfers are outside the scope of SDLT, so (other than some due diligence to ensure that the CIV has been properly structured) transferring those CIV interests into a pool is unlikely to create an SDLT issue. There are, however, other tax and legal complexities that arise on transferring CIV interests into a pool so this may not always be an option. In such cases, SDLT may be a barrier to alternatives that might be considered (such as in-specie transfers of assets out of existing CIVs into a pooling vehicle).

For direct property, the available seeding reliefs are complex and meeting the relevant conditions may be difficult, especially if it requires several AAs to coordinate in order to reach the £100m threshold. These are also only available for a limited time following the establishment of the pool and therefore do not facilitate additional asset contributions or additional members to a pool. Where seeding relief is not available, SDLT presents a significant and often prohibitive cost barrier to the establishment and contribution of existing assets to LGPS pools.

A targeted SDLT relief on property transfers effected in connection with the contribution of those properties to an LGPS pool, as well as on merging or restructuring LGPS pools, would be a welcome measure in removing the barriers to property investment pooling caused by SDLT.

We are delighted that the Scottish Government has consulted² on equivalent LBTT reliefs (purchase of unit and seeding relief) to the reliefs that apply with SDLT and hope the Scottish Government will soon legislate for the LBTT reliefs. We also hope the Welsh Government will soon conduct a similar consultation for LTT reliefs.

3.4 Stranded Assets

We support the Government's "brownfield first" strategy and the initiatives the Government has put in place to enable decontamination, clearance and infrastructure improvements to brownfield sites. In a similar vein, we have been considering how to manage potential risks to the economic stranding of real estate assets³ so they can become productive assets and not become the abandoned brownfield sites of the future. From a sustainability perspective, it is often best to refurbish or retrofit stranded assets to meet modern environmental standards rather than knock them down and rebuild, due to lower resource requirements and significantly lower carbon emissions. However, currently there is a tax disincentive in doing this, which can make it only financially viable to replace the building with a new one. VAT is zero-rated for new build housing but is not when refurbishing a building. This can make the difference between it being viable or not to refurbish buildings, such as offices and high street shops, as new homes or other amenities required in communities. We ask that the Government consider zero-rated VAT for refurbishment of economically stranded assets. There would be little loss to the Public Revenue by implementing this because, currently, where it isn't viable to

² <https://www.gov.scot/publications/land-buildings-transaction-tax-property-investment-funds/>

³ <https://www.aref.org.uk/resource/defending-against-stranding-risk.html>

refurbish buildings, they are either left empty or replaced with new buildings (which may benefit from zero rating in any event). In either case, the Government is not receiving any revenue via VAT.

3.5 CIS on Landlord Tenant Contributions

New Regulation 20A of the Income Tax (Construction Industry Scheme) Regulations 2005 was introduced following a consultation exercise with an aim of removing ordinary landlord to tenant payments, normally paid as part of an incentive to take on a lease, from the scope of CIS, even where the payments were to be used to carry out construction. The purpose of these rules was to avoid the significant administrative and cashflow burden on tenants who are not actively involved in construction, if they were required to register as a subcontractor.

Although the Reg 20A amendments did reduce the number of tenant payments caught by CIS, there remain some practical issues around the uncertainty in interpreting the rules, particularly relating to who is the primary user and beneficiary of the works being undertaken, which can often be difficult to judge. This is leading to landlords having to take a conservative approach, significantly limiting the benefit of the change in the regulations. While we understand that it is necessary to include conditions for the exemption, to limit the scope for abuse, we consider that even after the new regulation was introduced, the conditions remain more onerous than is necessary. More detail is included in a letter sent by AREF to the CIS policy team on 10 September 2005.



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