

ANALYSIS

Budget: Chancellor moves on business rates, housebuilding and data centres in 'breathing space' address

Plenty for real estate to reflect on in the first Burnham Budget

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John Healey, the UK's Chancellor of the Exchequer, has delivered the first Budget of the new Andy Burnham Labour administration, terming it a Budget "for the working people of Britain, for British businesses big and small" that provides a "breathing space" on the cost of living and fresh hope for the future.

Repeatedly placing the fiscal address in the context of soaring energy prices and inflation sparked, in particular, by war in Iran, the headline announcements included Healey saying that 20 million households in council tax bands A to D in England will receive a £100 "household energy payment" with devolved governments in Scotland, Wales and Northern Ireland encouraged to follow suit.

In addition, shares in banks lifted after Healey said they will pay an extra "time limited" 3% on the banks surcharge, a smaller rise than expected. He also outlined a lower increase in the minimum wage than in the past two Budgets, of 3.9%.

For real estate, there were highly significant commitments on business rates, regulations for data centre development, and to encourage housebuilding.

The good news for the government is the 10-year gilt stayed at around 5.3%, hardly moving in response. For real estate however that means debt still typically costs more than the property income.

Vanessa Hale, chief executive of the industry lobby group, Real Estate:UK, said the Budget had fallen short of tackling the viability crisis blocking the renewal of cities and towns, which has seen development grinding to a halt across the country.

"It needs urgent and bold intervention and sadly this Budget did not deliver," Hale said. She said the industry supported the "positive measures around accessibility to homeownership, increased funding for affordable housing, accelerating devolution where real estate has an integral role to play, and the qualified ban on new building regulations".

But she said these gains are rapidly being offset by other regulatory burdens, additional taxes, and rising construction and operational costs, "all of which the government needs to urgently address over the coming months".

Oliver Kolodseike, head of research and strategic insight, Colliers, said the Budget offered some targeted occupier support, but did not materially alter the central challenge facing UK commercial property as financing conditions remain restrictive and growth is modest.

"The economic outlook has improved at the margin for 2026, yet prospective growth has been downgraded for 2027, while inflation and borrowing costs are expected to remain higher than predicted in March. That combination leaves limited fiscal room and little basis for assuming a rapid fall in property yields."

He said the most direct measure for the industry was the business rates relief for smaller firms, funded through higher gambling taxes rather than by increasing business rates for other real estate sectors such as offices and industrial as had been rumoured.

"For qualifying retail, hospitality and leisure occupiers, the relief should ease operating pressure and may support covenant resilience, although it will not offset weak consumer demand or elevated energy and wage costs. The distinction matters for offices and other high-value assets: they are not being asked to finance this particular relief through an additional rates charge."

He said it was a "measured Budget rather than a property stimulus" and placed its impact within the broader response from the markets. "The market impact will depend less on the headline giveaways than on whether investors judge the fiscal forecasts credible enough to steady gilt yields and financing costs."

Business rates

There was plenty to unpick on business rates, with the new Burnham government again seeing reform of the system as central to its plans to revitalise high streets and to give funds to the regions.

Healey confirmed the government's commitment to funding an extra 20% reduction for pubs, music venues and social clubs. He added that it would now increase the Small Business Rate Relief threshold so that a further 70,000 retail, hospitality and leisure businesses pay no business rates at all, according to Treasury estimates.

That would be made possible by increasing the Small Business Rates Relief thresholds to £18,000 for 100% relief from £12,000 and £21,000 for tapered relief from £15,000, for qualifying RHL properties in England from April 2027.



The government estimates that from next year, an additional 3,500 pubs, 3,900 restaurants, 2,200 cafés and 1,700 hairdressers and beauty salons will pay no business rates.

Healey also said government would deliver a real-terms freeze of business rates bills for qualifying RHL properties in England in 2027-28 and 2028-29. On average, over 14,000 restaurants will avoid an extra £7,500 paid over the two years and 120,000 shops will avoid an extra £3,250 paid over the two years.

Healey said the measures would be funded in part by increasing tax charged on gambling and online market places. There will be an increase in the rate of Machine Games Duty from 20% to 25% only for higher-stakes machine games, "protecting pubs and seaside arcades". They will also be partly funded by tackling non-compliance on online marketplaces through extending the online marketplace liability rules to UK businesses. Vape shops will be "carved out" from relief.

To go further, the government said it will also explore how the business rates system could better target online retailers in ways that minimise any indirect impacts for wider retail businesses, to fund support for the high street.

As set out in the government's fiscal devolution roadmap, the government also intends to increase the share of business rates retained locally with Healey confirming an intention for 100% of business rates to be retained locally by the end of the decade. Treasury documents said the government will seek views on how best to do this.

The government also intends to take forward the first wave of new Mayoral Strategic Authority Business Rates Retention Zones in Greater Manchester, East Midlands, Hull and East Yorkshire, Liverpool City Region, Tees Valley, West of England, North East, and York and North Yorkshire Strategic Authorities, and the Greater London Authority, subject to full business case approval and legislation. This will "unlock commercial development, support the delivery of Mayors' Local Growth Plans and projects in areas such as Stratford, Derby and Selby, and enable more tax to be spent where it is raised".

In London, Treasury documents confirm that the Greater London Authority and the borough of Camden are reviewing introduction of a "Tax Increment Financing" mechanism at Euston, based on a business rates retention zone to primarily fund London Underground upgrades, while the government continues to work with the Mayor of London to maximise the wider growth and development opportunity. A business rates retention zone would fund the ability of international rail services to stop at Stratford International station.

John Webber, head of business rates at Colliers, was unconvinced that the devolution of rates would occur in practice. "This would be a retrograde step. There are certain areas of the country where the amount of business rates collected subsidise other parts of the country. If the borough of Westminster, for example was allowed to keep all the business rates it raised rather than sending elsewhere, it could

probably pave its streets in gold. I would be surprised if this measure comes to fruition.”

Treasury documents say the government will abolish the £150 and £300 fees charged by the Valuation Tribunal in England for non-domestic rating appeals. This will apply to the 2026 rating list and in the future. Fees already paid for appeals on the 2026 list will be refunded.

There was clear relief that the reforms would not be paid for by increasing rates for offices and industrial, as had been suggested in the media.

Clare Bottle, chief executive of the UK Warehousing Association, said: “After weeks where it seemed almost inevitable that business rates on large properties like warehouses would go up again at the Budget, today was a bullet dodged for our sector.

“However, it is still the case that seven in 10 large distribution warehouses are being hit by the high-value multiplier for business rates, and our members face high costs across the board, including fuel and employment. By extending the Business Rates Transitional Relief Supplement, the Chancellor is maintaining the pressure on businesses outside favoured sectors like high street shops and pubs.”

Global tax firm Ryan said the significant package of business rates support for England’s high streets, including higher small-business relief thresholds and two years of protection from above-inflation bill increases, was welcome but warned

that part of the support will be funded by extending the separate 1p Transitional Relief Supplement.

It said the OBR estimates that the further retail, hospitality and leisure measures will reduce business rates receipts by approximately £1 billion across 2027-28 and 2028-29.

Alex Probyn, practice leader, EAP Property Tax at Ryan, said: “Replacing steep transitional increases with an inflation-only cap is a significant intervention. It gives retailers and hospitality operators a firmer basis to plan, invest and protect jobs. This is meaningful breathing space for businesses of different sizes across the high street.”

For the hospitality industry, James Shorthouse, Colliers’ head of specialist markets, said there was plenty for it to welcome, particularly support for smaller businesses and measures that leave consumers with more money in their pockets.

“But the big missed opportunity is National Insurance. The failure to reverse the NI threshold changes means one of the most damaging cost pressures on hospitality businesses remains firmly in place. With high wage bills, fragile consumer confidence and the prospect of an overnight visitor levy also weighing on the sector, there is still more to do to create the conditions for businesses to invest and grow.”

Property taxation

There were a series of new and previously announced property tax measures in the Treasury's Budget documents.

There was a further increase in property income tax rates, adding to financial pressures facing landlords and property investors.

Property income tax rates will increase by a further 2 percentage points from 6 April 2027, on top of previously announced increases. The property basic rate will rise to 24%, the higher rate to 44%, and the additional rate to 49%. These will apply across England, Wales and Northern Ireland.

Rob Williams, partner – real assets at tax advisory firm WTS UK, said it had been disappointing news for UK real estate investment trusts. “The UK's REIT regime has been a real success story for the UK property sector, particularly with relaxations to the regime in 2022 and 2023 resulting in a proliferation of new REITs being established in recent years. It is therefore disappointing to see a further 2% increase in the withholding rate on property income distributions, which reduces the attractiveness of the regime.”

Daniel Austin, chief executive at real estate lender ASK Partners, said: "The Chancellor's decision to increase taxes on property income and banks risks making an already difficult environment harder. The government has ambitious housebuilding targets, but increasing the tax burden on property investors and potentially adding to the cost of lending will make those targets more challenging to achieve."

Elsewhere the government is committing to Stamp Duty Land Tax Relief for the Local Government Pension Scheme. It says relief will be introduced for the pooling of LGPS debt assets,

situated in England and Northern Ireland, to support LGPS reforms, applying to transactions from 28 October 2026 and before 1 April 2032. This will be introduced through the Finance Bill 2026-27.

The government also said it would exclude VAT from land sold for social housing.

On what it terms the High Value Council Tax Surcharge, the government confirmed it will introduce a deferral scheme, a series of discounts and exemptions, and a 100% premium on properties left empty and unoccupied for 12 months or more.

It has also committed to "modernising taxation of foreign sovereign investments". It says that from 1 January 2029, the government will introduce a new statutory tax regime for foreign sovereigns. This will bring "certain real estate income and gains into UK tax", while providing for unique access to real estate investment trusts for investments in UK real estate.

Data centre covenants

Healey [outlined a "new deal for data centres"](#).

The government promised support for data centre projects that can evidence their positive contribution towards communities, through creating jobs and protecting water supplies. He said critical projects would get the power they need and be allowed to generate their own energy on site while they wait to be connected to the grid if they meet the "tests" set out in its new data centres covenant.

Healey argued the deal would help bolster UK data security, ensuring the country's most sensitive information held by the NHS and the military "stays under British control", while the government says it will "unlock the infrastructure Britain needs to lead on AI while ensuring communities share in the benefits".

Housing and getting homes built

Most eye-catchingly on unlocking home ownership and housebuilding the government announced the Your First Home scheme, similar to the Help to Buy equity loan scheme which ran between 2013 and 2022.

The scheme will work by providing homebuyers with an equity loan of 20% of the property price, which is interest-free for the first five years. The scheme will lend £4.7 billion government said.

The government also said it will introduce a new-first-time buyers ISA from April 2029. The product will replace the Lifetime ISA for new savers and provide a 25% government bonus, paid on withdrawal, towards the purchase of a first home worth up to £450,000. The maximum value of the bonus will be capped at £20,000. Existing LISA holders will be able to continue contributing to and using their accounts under the current rules. In addition, the government will reduce the withdrawal charge for existing LISA holders who use their savings to purchase a first home above the £450,000 property price cap.

In addition, from midnight on 29 October, the withdrawal charge for purchases of properties above the LISA property price cap will be reduced to 20%. The charge for unauthorised withdrawals will remain at 25%.

Tom Goodall, chief executive director at Related Argent, pointed out that helping first-time buyers on to the housing ladder only works if the homes they want to buy are there in the first place.

“Your First Home has the potential to stimulate sales and get developments moving, but the detail on price caps will be critical. The £500,000 cap for outer London needs an urgent rethink. The average price paid by a first-time buyer in the capital is already £473,000, so a cap at that level would leave very little headroom and risk excluding the kind of homes people can grow into. The final threshold needs to reflect the reality of the London market.”

Goodall added that a commitment to keep building regulations and major planning changes stable for the rest of the parliament is significant. "Major regeneration projects take years, often decades, to deliver, so giving developers and investors greater certainty over the regulatory baseline allows us to price risk and commit capital with much more confidence, while maintaining high standards of safety and quality."

Angus Irvine, residential partner at Rapleys, said the Your First Home announcement has been brewing for some time, with both national and regional housebuilders having made

representations to Government about the need for meaningful support for first-time buyers and the new-build market.

"An injection of £4.7 billion in equity loans of government backed lending is certainly a major step forwards. The devil will inevitably be in the detail included in the red book [Treasury documents] later, but in principle this is a positive move. Quite frankly, the government needed to do something to inject some energy back into the sector. Sales rates have slowed, viability is under pressure and housing delivery is moving in the wrong direction. Unless that trend is reversed, the government's housing target and aspirations are simply not achievable."

Elsewhere, Healey unveiled £1 billion of new life sciences investment in the UK, backed by £70 million of government support and said AI will help the civil service save £600 million in back office cost.

Vivienne King, chair of the Shopkeepers' Campaign said:
"Labour was elected on a manifesto to level the playing field between the high street and online giants. The Budget fails to achieve that. The revival of bricks and mortar retail depends on creating a tax environment that encourages private sector investment, growth, and entrepreneurship. There is still a long way to go to ensure that retail places in England and Wales can profitably compete on a global stage and in so doing serve the needs of their communities."