

## **Alert** | Private Equity/Real Estate



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### **The UK Living Sector: What Might We Expect in 2026?**

As 2026 approaches, the UK living sector finds itself at a pivotal moment, shaped by an evolving and increasingly complex regulatory environment. Government priorities continue to centre around boosting housing delivery, strengthening tenant protections, improving building safety, advancing sustainability, and reforming planning systems. In response, investors, developers, and operators must remain agile, adapting to fresh compliance demands and legislative shifts. At the same time, macroeconomic headwinds – including persistent inflation, elevated construction costs, labour shortages, and slower-than-expected reductions in interest rates – pose significant hurdles. This GT Alert outlines some of the regulatory and commercial issues that may define the landscape for stakeholders within the sector in the year ahead.

#### **Building Safety**

##### *The Building Safety Act 2022*

The Building Safety Act 2022 (BSA) has transformed the sector, imposing more stringent duties and detailed compliance obligations related to building safety on stakeholders who now face a higher standard of accountability and must navigate a layered regulatory regime.

Heightened due diligence requirements under Gateway 2 have increased costs and caused substantial project delays, presenting operational and financial challenges for developers and threatening the viability of new developments. Such delays are particularly acute for time-sensitive projects like Purpose-Built Student Accommodation (PBSA), where occupancy must align with academic schedules and cash flow projections.

The final Gateway 3 stage adds further uncertainty, as higher-risk buildings cannot be occupied without approval from the Building Safety Regulator (BSR). These rigorous final-stage requirements may continue to complicate transaction timelines and financial covenant compliance, necessitating careful negotiation around what constitutes practical completion and management of the risk of and who bears the responsibility for delays — issues that should be carefully addressed in legal documentation.

In June 2025, the House of Lords Industry and Regulators Committee (Committee) launched an inquiry into building safety regulation, focusing on the BSR, which has faced criticism for overrunning approval timetables and persistent delays due in part to resource constraints. Although the BSR’s new “Innovation Unit” has made progress in expediting applications, legacy cases remain problematic and continue to raise concerns about the impact on new housing delivery. The Committee is expected to publish its findings on 11 December 2025.

Further reforms to come include establishing a new arm’s length BSR under the Ministry of Housing, Communities & Local Government. Under draft regulations<sup>1</sup>, building safety regulator functions will transfer from the Health and Safety Executive (HSE) to this new BSR corporate body from 27 January 2026, with transitional arrangements allowing the BSR to delegate functions to HSE staff until the end of 2026 to ensure continuity.

### *Building Safety Levy*

Developers operating in the living sector may need to incorporate the cost of the Building Safety Levy into their planning and viability assessments for projects completing from late 2026 onwards. Taking effect from 1 October 2026, this new levy will apply to most new residential developments in England comprising 10 dwellings or more—including student accommodation, build-to-rent (BTR), and senior living (unless deemed supported housing). Local authorities will collect the levy to fund the remediation of building safety defects, and developers must pay it prior to completion or occupation. The charge is calculated per square metre of floorspace of a development and varies depending on the size, use, and location of the building, with certain exemptions and discounts available. The Building Safety Levy (England) Regulations 2025, which set out the details of the regime, are currently awaiting parliamentary approval.

### *Remediation Acceleration Plan*

The government’s updated Remediation Acceleration Plan, published in July 2025, outlines progress and additional measures to accelerate the remediation of residential buildings with unsafe cladding in England. Central to the plan is a proposed Remediation Bill that would impose a legal duty on landlords to complete remediation works within strict timeframes, with criminal prosecution for non-compliance. The Bill would also introduce a Remediation Backstop, giving the government power to intervene and carry out necessary works where landlords fail to do so. The government has stated the Bill will be introduced as soon as parliamentary time allows.

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<sup>1</sup> The Building Safety Regulator (Establishment of New Body and Transfer of Functions, etc.) Regulations 2026 made under the Levelling up and Regeneration Act 2023.

### *Second Staircases*

As part of the updated BSA guidance issued in 2024, from 30 September 2026, all new residential buildings exceeding 18 metres in height will be required to incorporate two separate staircases in their design, enhancing evacuation routes and improving overall fire safety standards.

### **Tenant Protections**

#### *The Renters' Rights Act 2025*

The Renters' Rights Act 2025 (RRA) received Royal Assent on 27 October 2025 and brings significant reforms to the private rented sector, introducing new rights for tenants and obligations for private residential landlords.

The RRA will be rolled out in three phases. Phase 1, effective 1 May 2026, includes the abolition of section 21 “no fault” evictions and fixed term assured tenancies, requiring all new tenancies to operate on an open-ended periodic basis. Tenants may end their agreements at any time with at least two months' notice, while landlords must use section 8 grounds—such as tenant breach, selling the property, or moving in themselves—to regain possession. Phase 2, expected in late 2026, will introduce a national PRS Database and the PRS Landlord Ombudsman to improve oversight and resolve disputes. Phase 3 will follow further consultation and bring in measures to raise standards in private rented homes, including the Decent Homes Standard and Awaab's Law.

The RRA exempts PBSA tenancies, allowing fixed-term agreements to continue in line with the academic calendar. The exemption, covering both owners and managing agents who comply with an approved code (currently the ANUK/Unipol National Code for non-educational providers), comes into force on 27 December 2025 but will only take effect once further regulations are made - expected in early 2026. The exemption will not apply retrospectively, and therefore existing PBSA tenancies for the current academic year will convert to assured periodic tenancies, with transitional provisions in the RRA enabling PBSA providers to use a modified possession ground if needed, provided students are notified in writing within one month of commencement.

#### *Rent Controls*

Rent controls do not exist in England and Wales; however, recent regulatory changes pursuant to the RRA have introduced limits on rent increases and strengthened tenant protections. Landlords may now only raise rents once every 12 months, must provide two months' formal notice to tenants through a section 13 process, and may not accept offers above the advertised rent. Contractual rent review clauses are no longer valid, and tenants have the right to challenge excessive increases at the First-tier Tribunal, which sets a fair market rate from the decision date. Whilst these measures seek to offer greater security for tenants, they also introduce new administrative challenges for landlords and may well increase pressure on the tribunal system once the provisions become effective as part of Phase 1 of the implementation of the RRA (see above). Proposals for formal rent controls, particularly in London, remain a topic of discussion - a February 2025 report urged the Mayor of London to consider how rent controls might work in the capital - but have not been implemented.

In contrast and marking a clear policy divergence to rent regulation, Scotland's Housing (Scotland) Act 2025 has introduced private rent caps and empowered local authorities to designate Rent Control Areas (RCAs) with ministerial approval. Within RCAs, rent increases are capped at CPI + 1%—up to a maximum

of 6% annually. Exemptions apply for mid-market rent, BTR, and PBSA to encourage ongoing investment, but tenants may still challenge unreasonable increases.

### *Leasehold Reform*

Certain provisions of the Leasehold and Freehold Reform Act 2024 that strengthened leaseholder rights are not yet in force and will require further consultation and secondary legislation to be commenced. This includes a consultation on proposals to increase the transparency of buildings insurance fees charged to leaseholders, which closed on 24 February 2025, and a consultation, which closed on 26 September 2025 on measures to strengthen leaseholder protections, over other charges and services.

Following the publication of the Commonhold White Paper in March 2025, the government was aiming to publish a draft Leasehold and Commonhold Reform Bill (Bill) in the latter half of 2025. The Bill would aim to reinvigorate commonhold by introducing a comprehensive new legal framework and setting commonhold as the default tenure for flats, gradually phasing out new leasehold properties as well as propose key reforms to the current leasehold system, including tackling unaffordable ground rents, removing the threat of forfeiture, and consulting on improvements to the major works procedure, with the overall goal of delivering fairer and more sustainable home ownership. We await further updates on this Bill.

### **Sustainability**

The government was expected to publish the Future Homes Standard (FHS) in Autumn 2025, with legislation expected to be laid before Parliament in December 2025 and coming into effect by December 2026. After a 12-month transitional period, all new homes started from December 2027 must meet the FHS, which requires zero-carbon readiness, high energy efficiency, and gas-free heating systems. The new regulations will also promote solar panel installation and low-carbon heating, such as heat pumps, to reduce energy bills and support sustainable housing.

### **Planning**

Although the government's Budget 2025 offered little by way of solution to development viability challenges, there was a pledge to budget £48 million to recruit 350 public sector planners with the aim of speeding up housebuilding and strengthening the planning system. Recent planning reforms include updates to the National Planning Policy Framework, introducing a mandatory Standard Method for housing need assessments, and new approaches to "grey belt" development, alongside proposals for greater transparency and accountability in housing delivery. The Planning & Infrastructure Bill - currently progressing through Parliament and expected to receive Royal Assent before the end of 2025 - seeks to streamline approvals, unlock sites, and boost housing supply, while draft London Plan Guidance, currently open for consultation until 22 January 2026, proposes urgent measures to speed up housing delivery and boost the availability of affordable homes in the capital.

### **Tax**

Budget 2025 was fairly quiet for real estate, but there were a few points worth noting.

On the investment side, a key point was the announcement that, from April 2027, the income tax rates for property income will increase by two percentage points for each of the bands (basic, higher, and additional rates). A knock-on impact of the property basic rate increasing is that the UK withholding tax

rate applicable to property income distributions (PIDs) from a UK REIT may also increase to 22% (up from 20% currently).

As is currently the case, many non-UK resident investors may be able to reclaim part (or, in some cases, all) of the withholding tax (WHT) on PIDs and get to an effective rate of 15% UK tax (or less). For those investors, the 2pp increase in WHT might be “just” a cash flow cost. For others, it may be a hard cost – though that may still be better than investing in a fully taxable structure that experiences 25% corporation tax.

The same knock-on change is also true for WHT on rental income under the non-resident landlord’s scheme and for WHT on yearly interest – in each case, the WHT rate is expected to be 22% from April 2027. However, in those cases there may be more scope to prevent the cash flow cost via relief at source (rather than reclaiming the WHT after the fact).

For developers and operators, there was little of note in Budget 2025 that directly impacts the living sector specifically.

One notable exception was the news that the government will consult on the VAT treatment of land intended for social housing, with a view to expanding zero rating in that area. The consultation document is yet to be published, so there is little detail for the moment. The consultation may be looking to address (for example) challenges around “golden brick” arrangements, but only time will tell.

HMRC may be getting wider powers to tackle fraud within the construction industry scheme (CIS). From April 2026, if a business makes or receives a payment that it knew or should have known was connected to fraud, HMRC will be empowered to remove gross payment status, hold the business liable for the tax loss, and charge a 30% penalty to the business or its officers.

Finally, the government plans to introduce an “international student levy” on higher education providers from August 2028, at a rate of £925 per student per year (above a threshold of 220 international students). The cost of the levy may be passed onto international students – it remains to be seen whether that will have any meaningful impact on demand from international students.

## **Conclusion**

While investors may still expect attractive, long-term opportunities supported by robust demand and resilient fundamentals, they must also navigate increasing market volatility and regulatory change with careful risk management. Developers, meanwhile, face acute pressure from planning reforms, building safety requirements, and sustainability regulations – making the delivery of new assets more challenging than ever. Despite these headwinds, the enduring need for new homes remains a key sector driving force, underscoring the importance of well-conceived, compliant developments. The ongoing shift towards operational real estate generally, alongside evolving preferences for flexibility, community, and service, continues to reshape the market. With ESG now central to value creation and risk mitigation, premium assets are attracting heightened demand, while lower quality stock faces obsolescence. Ultimately, success in 2026 may depend on balancing risk with agility and innovation, ensuring investment and development strategies are closely aligned with changing policy and market dynamics. Those who can adapt – and who maintain a clear understanding of the evolving legislative landscape and regulatory requirements – may be best positioned for sustainable growth in a sector where demand consistently outpaces supply.

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