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South East Property Newsletter

Issue 2: Spring 2023

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Welcome to issue 2 of our South East Property newsletter!

This latest edition from the Construction & Real Estate team at Carpenter Box seeks to cover the latest news, trends, challenges and opportunities facing the sector.

This edition looks at a hot topic right now: sustainability. We cover sustainable investments, and the VAT relief available for the installation of Energy Saving Materials. Covering sustainability from different areas within the sector, we have two guest articles: Lloyds tell us how they are supporting the construction industry to achieve Net Zero, whilst Mackley give us insight into flood defence engineering to help the South East.

This issue also covers tax updates for the industry, the latest house and building materials prices, as well as construction output figures from the Office of National Statistics.

We hope you find the read informative. If you have any questions about the topics discussed, we're here and happy to help, so please don't hesitate to get in touch.



Robert Dowling

Head of Construction and Real Estate
Carpenter Box



Sustainable investing

It's a well-documented fact that the construction industry has a huge impact on the environment, and a major responsibility to look at ways that this can be mitigated.

Amongst the more widely known initiatives to make improvements in areas such as emissions or the use of sustainable materials, financial strategies can be overlooked, but are just as important.

Attracting talent

The construction industry is one of the largest employers in the UK with an estimated 3.1 million, or 9% of the working population employed in the sector. However, the Federation of Master Builders estimates that of the 15 key trades and occupations that they monitor around 40% are showing skills shortages. The industry also has an ageing workforce with the average worker being aged 42.

In order to attract young talent to the industry there must be an attempt to improve the work environment and to offer superior benefits. A key benefit for employees is the workplace pension, which has been an enormous success since its introduction in 2012. It's estimated that around 90% of eligible employees are enrolled in workplace schemes.



The Financial Times reports that a pension worth £100,000 invested in a sustainable fund could be the equivalent of taking five or six cars off the road a year.

Sustainable funds

More construction companies are moving towards providing a sustainable fund as the default option for their workplace pension schemes. This is part of their overall efforts to mitigate the impact their industry has on the environment, and in the hope that this will attract employees.

Employers may be unaware of the enormous impact their investment choices can have on the environment. Investing pension funds into a sustainable, or ethical fund, could significantly reduce an individual's impact on the environment.

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Construction companies are keen to attract investment from pension schemes, which can be a conflict of interest where a sustainable approach is being used. Where a pension fund invests in physical property, they will usually aim to purchase high quality premises which will deliver long term returns to their clients. Sustainable and ethical integration is key in determining which properties to buy and sell and minimising any negative impact on the local community and environment is crucial.



Gill Lynes Dip Cii
Senior Financial Planning Manager
gill.lynes@carpenterbox.com
01903 534587



Case study

Recently we have been asked by a local construction company to conduct research into the feasibility of changing their pension scheme to a provider offering a sustainable fund as their default option. The firm has actively sought the opinions of their staff and engaged them through interactive webinars and has had an extremely positive response.

Although staff were not actively seeking to change investment strategy prior to the firm's actions, nevertheless they were pleased with the initiative. Recent research by Barnet Waddingham has shown that nearly half (46 per cent) of savers think that pension scheme default funds should integrate environmental, social and governance (ESG) considerations.

The researchers did note, however that despite this belief only one in five pension holders have actively sought to make a change to their pension funds.

A pro-active approach towards ethical or sustainable investing is just one of a range of ways in which those involved in real estate and construction seek to demonstrate their ESG credentials to future employees, clients and investors. By making ethical or sustainable investment choices readily available the positive impact on the environment will be enormous.

What is sustainable investing?

You may have seen the terms 'Sustainable Investment' or 'Socially Responsible investment' (SRI). These are both ways of describing the criteria a professional Fund Manager will use in order to screen out or select the companies they invest in within the fund they manage.

In recent years, investors have increasingly been demanding that their money is invested in ways that reflect their values. There is a realisation that a large number of small investors can drive companies to take steps to improve the environment and make a positive impact on society. However, investors also want to see a positive return for their investment. Sustainable investing aims to achieve both of these things.

What does ESG stand for?

Many investment professionals talk about Environmental, Social and Governance (ESG) factors when selecting companies to invest in.

Examples of these factors are:

Environmental

- Climate change
- Resource depletion
- Waste
- Pollution
- Deforestation

Social

- Human rights
- Modern slavery
- Child labour
- Working conditions
- Employee relations

Governance

- Corruption
- Executive pay
- Board diversity and structure
- Political lobbying and donations
- Tax Strategy



Supporting the construction industry to achieve Net Zero

This article was written by Lloyds Commercial Banking.

In November 2021 COP 26 once again brought the importance of sustainability to the global stage, highlighting the Intergovernmental Panel on Climate Change's (IPCC) report that “it is unequivocal that human influence has warmed the atmosphere, oceans and land”¹. All parts of society, from business to government, have a role to play and must collaborate in order to deliver net zero.

Developing sustainable buildings

There are over 30 million buildings in the UK, contributing to 17% of the nation's emissions². Therefore, the extent to which old buildings are refurbished and new buildings are built to high energy efficiency will have a huge bearing on the success of the UK's transition to net zero.

It is timely therefore that the UK Government has launched [‘UK Net Zero Strategy: Build Back Greener’](#) which established the emissions reductions required to hit net zero. It details a range of directional heat and building commitments. This includes:

- consulting on a higher minimum performance standard;
- long term regulatory standards for privately rented homes;
- setting a minimum energy efficiency standard.

The case for developing sustainable buildings and the need to make existing buildings more sustainable has never been more pressing. Recent rises in energy prices have brought into public focus how energy efficient buildings can save money. It highlights the importance of the real estate sector acting together, alongside targeted policy focus and support from financial providers.

Sustainability and the private sector

Admittedly there is a lot for businesses to learn about sustainability and what it means for them. There have been so many different challenges across the last few years with uncertainty on how Brexit would be resolved, the Covid-19 pandemic and supply chain issues.

Sustainability is another topic for businesses to contend with, but one that will have generational impact. At Lloyds Bank we wanted to learn more about businesses' understanding of sustainability and the actions they are taking. In November 2021 we launched the From Now To Net Zero report which was based on research conducted with over 1,000 different UK businesses.

The research tells us that there is a gap between understanding the importance of sustainability (89%) and what it means for SMEs (40%).

From Now to Net Zero

To help businesses, '[From Now to Net Zero](#)' includes a practical guide covering actions they can take and the support available to help them at every stage of their sustainability journey.

While there is no one way to get to net zero and every business will have a different journey, it is definitely the case that those who have achieved it have traits in common:

- **Getting Started** – Recognising that sustainability is important and learning about the challenges or opportunities that affect your business.
- **Short Term Wins and Employee Engagement** – Start building a sustainability culture in your business by identifying actions you can take today and acting on them. This might be simple things like reducing energy use or waste.
- **Measure, Mobilise & Monitor** – To achieve net zero you need to know about your existing carbon footprint and establish a sustainability plan. Measuring your progress along the way helps you identify if you are on track.
- **Navigating the Road Ahead** – Once you have established sustainability plans in action you could start benefitting from new business opportunities. This might be winning more contracts on the strength of your sustainability credentials or better sentiment from your customers, shareholders and employees.

There is specific support available on high energy efficiency new build residential and commercial properties. Existing buildings can be supported when minor or major refurbishments result in high energy efficiency.

The decisions we make today will have a big impact on tomorrow. Real Estate has a very important role in building a better future.

For more information, visit the [Lloyds Real Estate Hub](#).



Notes

1 = Climate change: IPCC report is 'code red for humanity' - BBC News
2 = net-zero-strategy-beis.pdf (publishing.service.gov.uk) Section 1 P136

* All lending is subject to status and Lloyds Bank plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under registration number 119278.

Tools to help you get started

Green Buildings Tools

To help real estate business plan their building strategy, Lloyds Bank offers the Green Buildings Tool to clients. It is a digital tool that enables you to identify, evaluate and understand the estimated outcomes of potential investments to make your property more sustainable and energy efficient.

The tool can analyse how different energy saving initiatives can affect the EPC rating of the building and reduce CO2 emissions. To help businesses plan, for each investment it details savings, CO2 reduction and time to recoup costs.

Clean Growth Finance Initiative

Lloyds Bank also offer a tailored green lending product Clean Growth Finance Initiative (CGFI)*. This provides businesses with discounted lending for green purposes. In real estate common purposes include:

- Space and water heating: Ground Source heat pumps, Air Source heat pumps
- Lighting
- Building / Energy Management Improvements: Building Management Systems, Storage Batteries, voltage optimisation systems, replacement glazing for windows / doors
- Renewable Energy: Wind Turbines, Solar Panels, Biomass



Flood defence engineering to help the South East

This article was written by Mackley.

Environmental impacts of flooding

Recent reports from the International Panel on Climate Change (IPCC¹) and the UK's Climate Change Committee (CCC²) highlight once again the increasing risks of coastal and river flooding as sea levels rise and rainfall becomes more intense.

The IPCC report details the observed impacts to both human systems and ecosystems worldwide, with a future likely to see even more people exposed to higher risk of flooding. Both reports include the construction of flood defences amongst the mix of adaptation strategies required over the coming decades.

The Environment Agency's Flood Risk Map³ shows that many of the towns and landscapes in the South East are at increased risk of flooding. Low lying areas around our coastline, such as Romney Marsh or Pett Levels are at particular risk, along with many riverside towns, including Chichester and Crawley, home to Carpenter Box's offices.

Mackley works with the Environment Agency and local authorities throughout the South East to improve the region's flood resilience. The following projects are just two examples that show some of the solutions adopted to protect our communities from flooding whilst incorporating social and biodiversity enhancements.

Case studies

North Portsea Coastal Defences Phase 4 for Coastal Partners (2019-2023)

Mackley is currently building new flood defences along Eastern Road, protecting residents and businesses in the Portsea area of Portsmouth. Large parts of the city are at or below sea level, with their vulnerability increasing as sea levels rise over the coming decades.

The Portsea Phase 4 project is therefore one phase of an ambitious 9-year programme of improvements to the city's flood resilience. It will improve nearly 3km of sea defences with the engineering solutions including concrete sea walls, steel piled walls, road raising to block incoming flood water and earth embankments.

Community enhancements

Coastal Partners also want to maximise the social benefits of the scheme, so the design includes a 3km shoreline walk encouraging healthy lifestyles with 11 social spots making the Eastern Road area a welcoming environment for the local community.

Notes

1 = IPCC WGII Sixth Assessment Report, Impacts, Adaptation and Vulnerability, Feb 2022

2 = Progress in reducing emissions 2021 Report to Parliament, June 2021

3 = [Flood Map for Planning](#)

Minimising disruption

Our construction team has adapted our works to limit disruption to the adjacent businesses. A sequence of temporary access routes, planned alongside the businesses, maintained their access whilst we raised a 70m section of Kendall Road. We also provided temporary parking and customer access to the yacht club, water sports centre and football ground whilst we rebuilt the sea wall and two boat ramps into the bay.

Biodiversity gains

The entire Solent is also haven for wildlife and the new defences are adjacent to Langstone Harbour, one of the most important sites for wetland birds in Europe. The scheme was therefore developed with multiple elements that enhance its biodiversity value:

- Textured surfaces for the concrete flood walls (pictured below) are specifically designed to encourage colonisation by crustaceans and seaweed, transforming a traditional bare surface into a positive wildlife feature. They require considerable technical skill from our team to cast them within each low tide so that they set before the next high tide, avoiding any risk of wet concrete affecting the harbour's ecosystem.
- Translocating salt marsh plants from within the construction footprint to a new site adjacent to the works. Long term monitoring will determine the success of this process for these types of plants.
- An offshore roost island will support Langstone Harbour's internationally important bird assemblage.



Figure 1. The textured concrete walls will enhance colonisation by marine wildlife.



Shoreham and Adur Tidal Walls for the Environment Agency (2016-2019)

Mackley, working within our JV Team Van Oord, completed this 7km scheme, protecting over 2,400 homes and Brighton City Airport from rising sea levels. The project is an excellent example of different engineering solutions adopted in each of the 10 'Reaches' illustrated in **Figure 2** below (E1-3 and W1-7).

The design and construction methods for each Reach were developed for specific environmental and engineering challenges of that section of river. For example, Reaches E1-3 and W4-7 were inside a protected wildlife site, the Adur Estuary SSSI, and Reach W1 is adjacent to Shoreham Fort a protected historic structure. The defences in E1, W3 and W1 ran through residential gardens and Reaches E3 and W7 required the temporary closure and diversion of popular riverside footpaths.

As well as the human inhabitants of Shoreham, the project team had to consider the town's wildlife including fish, several species of rare birds, bats, rare plants and a colony of reptiles living in the existing river wall in Reach W4.

We used innovative techniques to build the scheme whilst protecting and enhance the environment:

- **New wetland habitats in Reach W7:** We moved 1km of the existing river wall back by over 100m allowing the area in front to flood at high tide, thereby creating 1.5 Ha of new saltmarsh and mudflats. This is a relatively new approach called 'managed realignment'. The new wetland habitats are valuable in themselves and will also become feeding grounds for the estuary's birds.
- **Reptiles:** We carefully moved the resident reptile populations in W4 to pre-prepared areas of grassland in W7, which included turfs taken from elsewhere in the scheme to preserve the local seedbank.
- **Reducing noise and vibration:** When installing the defences at E1, we used the latest technology to provide real time feedback on noise and vibration levels, raising an alarm if we approached levels that would cause undue disturbance to residents or structural damage.

- **Heritage:** We helped design the car park in W1 to complement the historic setting of Shoreham Fort and used low vibration construction methods to protect WWII pill boxes alongside Brighton City Airport.
- **Maintaining resident access:** Reach W5 ran for 1km alongside Shoreham's houseboat community. Our engineers worked directly with the houseboat owners, client and designers to realign the defences so we could retain the existing houseboat access jetties during construction, significantly reducing disruption.
- **Improving community spaces:** We installed over 3km of footpaths and cycle tracks in Reaches W7 and E3, which are now the southernmost stretch of the Downs Link long distance trail to Guildford. We also installed a new ramp down to the foreshore at Shoreham Fort, making this sandy beach accessible for families at low tide.

Shoreham and Adur Tidal Walls won 10 industry awards including the 2020 RICS Social Impact Awards infrastructure scheme of the year 'Recognising the built environment's positive and transformational contribution to society' and the 2019 British Construction Industry Awards Category: Climate Resilience Project of the Year.

Mackley

Mackley is an engineering contractor specialising in coastal, fluvial, ports and water sector infrastructure. We install flood defences throughout southern England, and have a well-developed skill set to manage the environmental and community complexities inherent in working on our rivers and coastlines.

Our specialisms present a unique opportunity to be part of the solutions for major challenges of the 21st Century. We are proud to improve the region's resilience to climate change, to enhance biodiversity through our schemes to help maintain water security for people in the South East.

For more information, visit www.mackley.co.uk.





Construction tax updates: Green tax reliefs

Energy Saving Materials for residential property

To help households improve energy efficiency and keep energy costs down – as well as supporting the UK's long-term Net Zero ambitions – VAT relief is available for the installation of Energy Saving Materials (ESMs).

From 1 April 2022, the zero-rate of VAT applies to the installation of ESM in residential properties. A typical family having roof top solar panels installed will save more than £1,000 in total on installation, and then £300 annually on their energy bills.

Wind and water turbines have been reinstated as ESM from 1 April 2022 when installed in residential properties.

This zero rating for ESM installed in residential property is available until 31 March 2027 after which it will be charged at the reduced rate of VAT at 5%.

Commercial property improvements

Tax relief can be claimed for improvements to commercial properties using the capital allowances system. 100% tax relief is available for the installation of most plant and machinery or fixtures up to the AIA limit (currently £1million).

For companies where the AIA limit is exceeded, 100% relief known as 'full expensing' may still be available for new and unused plant and machinery.

For expenditure on building works, companies may also claim tax relief at a rate of 3% per year known as 'structures & buildings allowance'. This can apply to construction costs and improvement costs on the building itself, such as floors, walls, ceilings, etc. that are not treated as plant and machinery.

Green reliefs for Business Rates

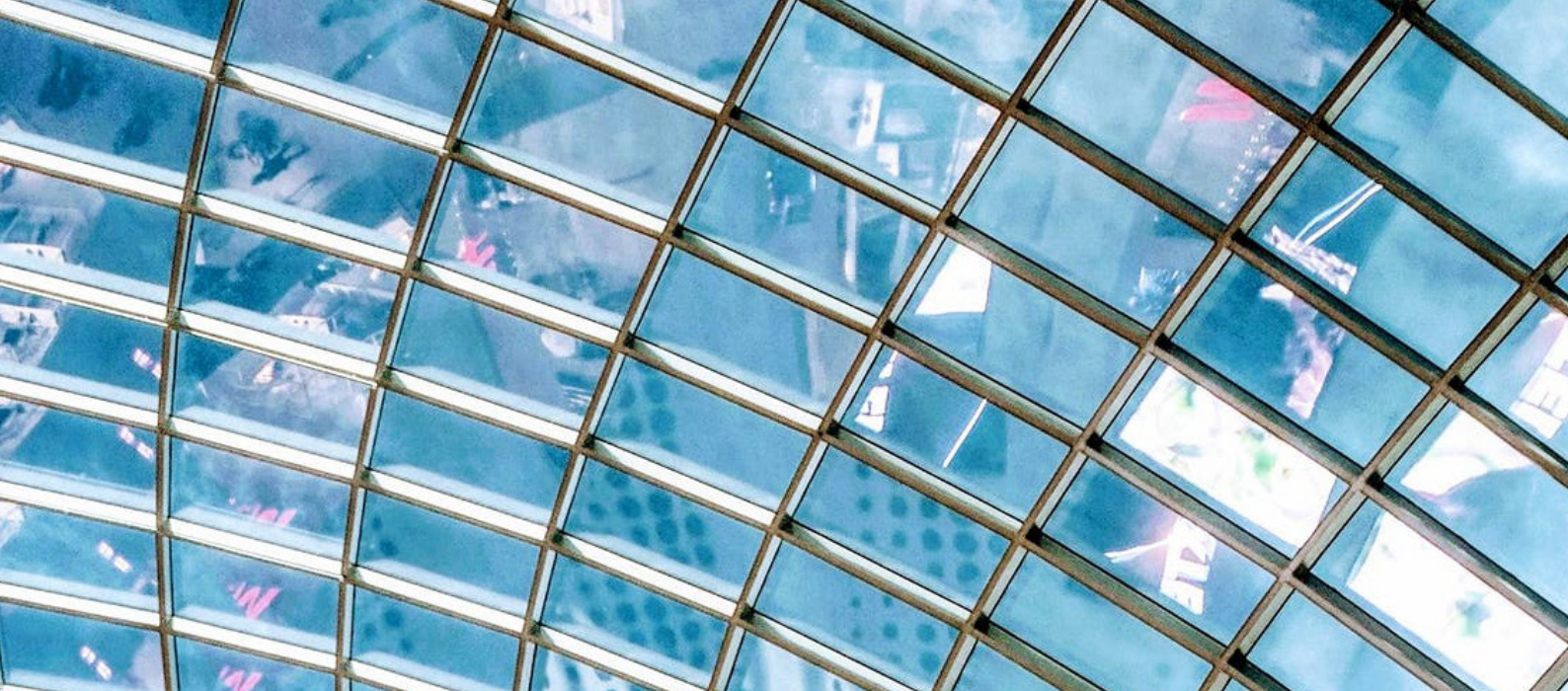
To support the decarbonization of commercial buildings, targeted business rate exemptions were introduced from 1 April 2022 until 31 March 2035 for eligible plant and machinery used in onsite renewable energy generation and storage. 100% relief is also available for eligible low-carbon heat networks with their own rates bill.

Contact our tax team on 01903 234094 for further help or support on any of the above.



Rachel Pearce

Partner, Tax Services
rachel.pearce@carpenterbox.com
01903 234094



House price growth

The Office for National Statistics has recently released the House Price data for February 2023, with prices down by 6.5% from January but up by 5.5% during the same period 12 months ago.

Monthly house prices changes across the UK: February 2023

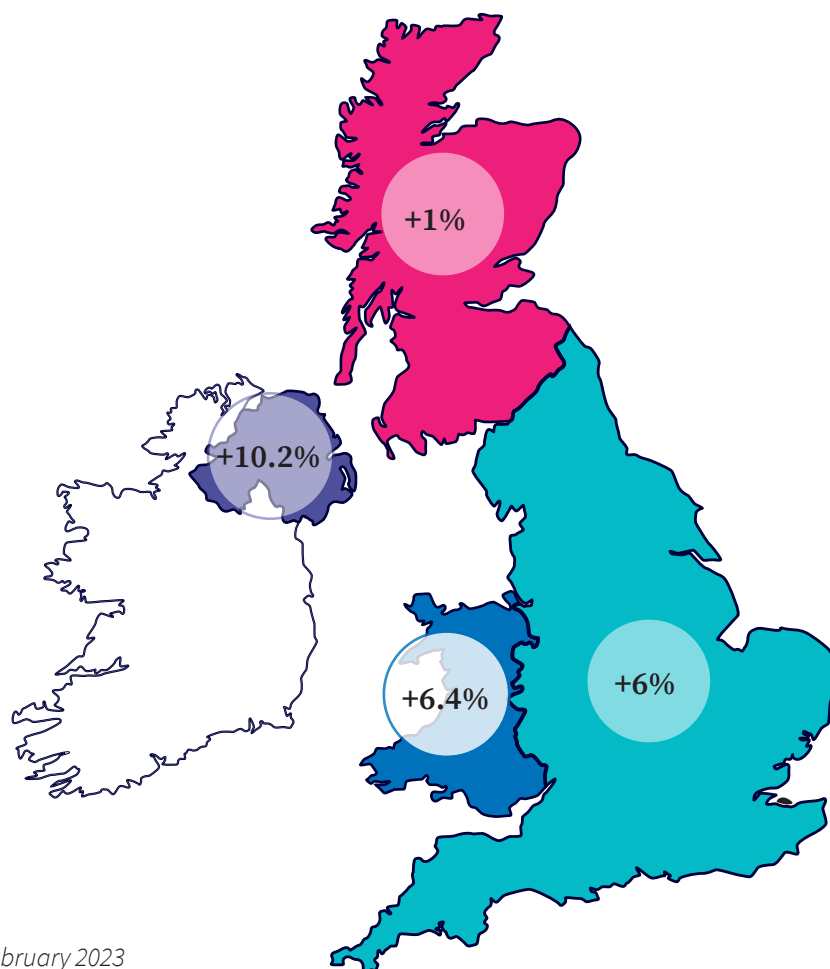
The average UK house price was £288,000 in February 2023, which is down £2,000 from January 2023 but £16,000 higher than February 2022. This is also a drop of 2.7% from October 2022's record high of £296,000.

Average house prices increased across all four countries over 12 months:

- › **England** increased 6% to £308,365
- › **Wales** increased 6.4% to £215,343
- › **Scotland** increased 1% to £180,287
- › **Northern Ireland** increased 10.2% to £175,234

House prices by region

The West Midlands had the highest annual house price growth at 8.6% followed by the North East at 7.6%. The lowest annual growth in England was in London, where average prices increased by 2.9% over the year to February 2023. However, London average price houses remain the most expensive in the UK, with an average price of £532,212 in February 2023.



Source: Office for National Statistics – Price Index: February 2023

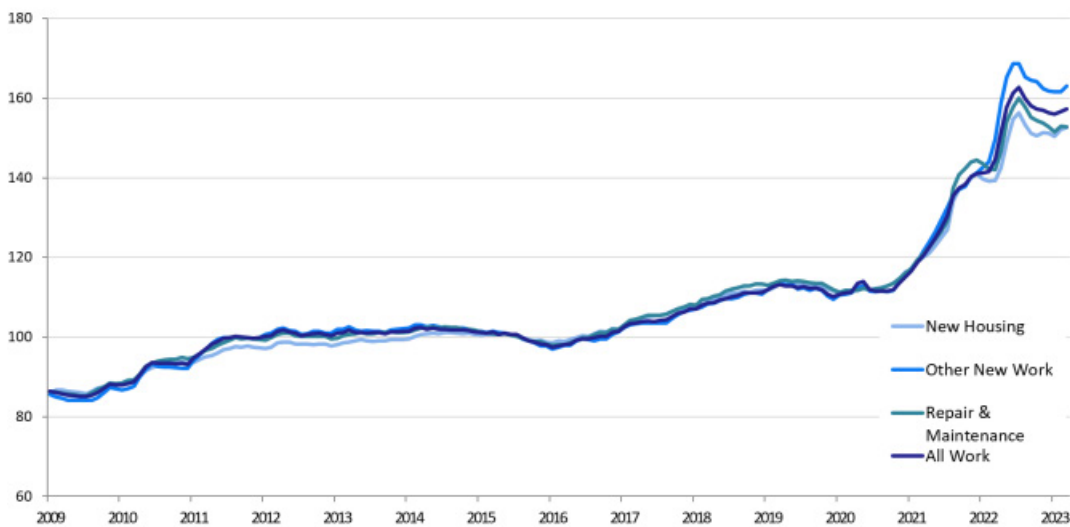
Building Materials and Construction Output

The Department for Business, Energy & Industrial Strategy recently released their monthly statistics of building materials and components for March 2023. This is coupled with the ONS data on Construction Output for February 2023.

Construction Material Price Indices: March 2023

The material price index for 'All Work' increased by 8.7% in March 2023 compared to March 2022.

Chart 1: Construction Material Price Indices, UK
Index, 2015 = 100



Source: Monthly Statistics of Building Materials and Components Table 1.

Year-on-year and month-on-month changes to construction material prices

	Year-on-year change (March 2022 to March 2023)	Month-on-month change (February 2023 to March 2023)
New Housing	9.5%	0.3%
Other New Work	9.0%	0.9%
Repair & Maintenance	7.5%	-0.1%
All work	8.7%	-0.4%

Source: Monthly Statistics of Building Materials and Components Table 2.

Construction Output: February 2023

Monthly construction output is estimated to have increased by 2.4% in February 2023 compared with January 2023, making it the highest monthly value in level terms since January 2010 when records began.

Anecdotal evidence suggest several reasons for this increase; partially driven by a bounce back from January 2023, as well as continued strength across repair and maintenance sectors. Many businesses have also noted that an improvement in weather in February allowed them to get more work done.

On a quarterly basis, construction output saw an increase of 0.9% in the three months to February 2023 which is the sixth period of consecutive growth in the three-month-on-three-month series.

Office locations

Worthing

Amelia House, Crescent Road
Worthing
BN11 1RL
T: 01903 234094

Gatwick

5 Peveril Court, 6-8 London Road
Crawley
RH10 8JE
T: 01293 227670

Brighton

Mocatta House, Trafalgar Place
Brighton
BN1 4DU
T: 01273 043678

Chichester

Rume2, 12 Crane Street
Chichester
PO19 1LJ
T: 01243 467130

London

17 Hanover Square
London
W1S 1BN
T: 020 8183 0229

E: info@carpenterbox.com

www.carpenterbox.com



Construction and Real Estate team



Robert Dowling

Partner, Head of Construction and Real Estate
E: robert.dowling@carpenterbox.com



Peter Reading

Partner, Assurance and Advisory Services
E: peter.reading@carpenterbox.com



Stuart Noakes

Partner, Head of Tax Services
E: stuart.noakes@carpenterbox.com



Rachel Pearce

Partner, Tax Services
E: rachel.pearce@carpenterbox.com



Sam Fisher

Client Service Director, Business Services
E: sam.fisher@carpenterbox.com



Gill Lynes

Senior Financial Planning Manager
E: gill.lynes@carpenterbox.com



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