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Dear Cabinet Secretary

We write this letter ahead of your Budget statement next Wednesday 12th December to identify key policies we believe can help the Scottish real estate sector to make a larger contribution to the Scottish economy. In addition, we comment on policies we believe to be supporting the real estate sector to bring forward development investment to Scotland, supporting jobs, the delivery of homes and key business infrastructure.

We will highlight some early successes of the current incentives for development and investment such as the growth accelerator for business rates and the PRS incentive for large scale build to rent sector investments.

The real estate sector contribution to the economy

Research from the Fraser of Allander Institute published in March 2018 identified the real estate sector (not including our colleagues in the housebuilding sector) contributing some £4.8bn GVA to the Scottish economy and supporting some 92,000 jobs. Crucially the research highlighted that for every £100mn of demand for commercial development an additional £73mn was produced for the economy; and for every 100 jobs working in commercial construction an additional 85 are supported in the wider economy.

- Ensure the Scottish National Investment Bank is supported through appointing the best possible staff and ensure it has the resources to make an early, positive, impact on leveraging in investment to drive economic growth
- Continue to invest in infrastructure to support economic development
- Reduce the burdens currently added to the Planning services applied at Stage 2 of the Planning Bill
- Examine the case for a replacement of business premises renovation allowance in order to bring disused buildings back into economic use
- Lobby the UK government for a reduction of VAT on repairs and maintenance in order to encourage repair, maintenance and investment in older buildings
- Outline how the large business rate supplement may be reduced to at least English levels or removed altogether
- Provide more time for vacant listed buildings to be turned around before the impact of empty property rates

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- Do not introduce an out of town business rates supplement on ratepayers
- Increase the threshold of LBTT on residential property transactions so that the 10% rate does not apply until £500,000.

Supportive Development policies

We have strongly welcomed the measures contained within the Growth Accelerator policy initiative, particularly in relation to supporting speculative development. We are pleased to report some positive commitments in the private sector supported by these policies.
Even though the no rates until first point of income policy was only introduced in April we are already seeing positive signs of its impact. The Haymarket development in Edinburgh, several speculative industrial projects in and around Glasgow and new occupiers taking additional space in new builds in Edinburgh, Aberdeen and Glasgow have all been supported by the Growth accelerator and no rates until point of first occupation initiatives. In broad terms we estimate these policies are already supporting over £750mn of development value across both commercial and industrial uses. We expect this to rise significantly over 2019.

LBTT – exemption for large scale PRS investors from additional dwelling levy

The Scottish Government has introduced an important incentive for investors in the build to rent sector. The exemption from the 3% additional dwelling supplement 'slab' tax is a significant incentive to invest in Scotland as opposed to other parts of the UK. Its effect is currently limited to due to the lack of this product in the Scottish market, where we are somewhat behind the wider UK in the establishment of market-based build-for-rent residential products. Nonetheless we are beginning to see transactions occur (notably the purchase of 113 units at Lochrin Square) where the investors reported to us that the 3% exemption was a significant attraction compared to other locations. With Glasgow on the cusp of a significant level of build to rent development this augurs well for the development of a sustainable market which will deliver much-needed supply of new homes; support the city-living agenda of Glasgow and Aberdeen; and attract major real estate investment to our key urban centres.

Opportunities for Intervention

Supporting investment and development
We re-iterate that we welcome the Scottish Government's intention to establish a Scottish National Investment Bank, designed to attract long term 'patient capital' into the Scottish economy with a view to securing long term economic growth. We see the SNIB as a major opportunity for the Scottish economy, but it is possibly a one-off opportunity to develop a body with sufficient operational independence, economic vision and public/private financial strength and expertise to significantly inject investment to the economy.

The Large Business Supplement
On the large business supplement we are concerned that this recommendation to the Barclay review (to realign with England) has no clear current path to delivery. We believe the LBS is a major burden on businesses and leads to a situation where relatively few businesses sustain the bulk of the business rates revenue. We do not think this is sustainable in the long run.

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We believe one possible way of allowing the LBS to realign over time would be to freeze or limit the annual poundage increase and thus allow the overall LBS eligible properties to, in time, be equalised with the overall poundage for large business ratepayers in England. This would benefit not just large business supplement ratepayers of course, as by freezing the poundage or at least limiting its increases, smaller business ratepayers would also benefit. We recognise there are significant differences in the values of commercial properties between Scotland and London and the wider south east of England; but there is not such a gap between the central belt and competitor cities in the north and midlands of England, especially with the lack of commercial development growth of recent years contributing to significant rental value growth for Grade A office stock in Edinburgh and Glasgow. If the current trend of growth continues we may well face uncompetitive pressures in our commercial office markets and this reinforces the importance of the incentives for new commercial development and occupation.

The Opportunity of our older built heritage

Scotland has a major asset in its built heritage. Yet there is a concern that much of this asset base may be lost unless significant new investment can be brought forward to adapt older buildings to modern requirements and expectations. And moreover, useful instruments such as the former Business Premises Renovation Allowance have now disappeared without replacement. We believe there is a case to be made for a new form of BPRA which would attract much needed private investment to our older and vacant buildings, to support their change and adaptation to new uses and occupier demands. The BPRA model successfully worked to bring notable old buildings such as the Tay Hotel back into use and we believe the loss of this instrument is to the great detriment of our built heritage.

Major concerns

Out of town business rate supplements.

We have responded formally as part of the consultation earlier this year, but we reaffirm that we do not see the merit in an out of town business rate supplement for predominantly online or out of town businesses. We do not think this would have a major impact on either online retailers (except to increase prices to compensate for the tax), nor would it make any substantial contribution to town centres. The potential ratepayers who would be affected by an out of town supplement are in many cases facing difficult trading conditions – the number of high-profile administrations suffered by the retail sector in particular, over the course of the year underlines this concern.

The Planning Bill

We are concerned that the original intentions of a new Planning Bill focussed on delivery of appropriate development are becoming lost with a significantly amended Bill (at Stage 2) which appears to place significant new burdens on the planning services. You may have seen that the RTPI have estimated the bill currently imposes some 88 new burdens on planning services: this is not streamlining the planning system or focussing on delivery. Our concern is that planning service resources are stretched despite significant recent increases in private sector fees. We urge the government to re-focus on the need for streamlining the planning system and making it more focused on delivering appropriated development.

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Restriction of Vacant Listed Building Rate Relief

The Scottish Government has accepted the recommendation to restrict the vacant listed building relief, but we do not believe this has been fully considered. Listed buildings are generally older in design and may come with significant remediation and building challenges. This can make developers risk-averse when considering projects and the application of high levels of vacant business rates before a project has even had chance to achieve planning permission (or even apply for planning permission) will simply put off potential investors. Indeed our members have already reported that this is the case or that if they had faced the prospect of vacant listed building rates then they would not have undertaken major regeneration projects they are currently working on. We understand that the government believe certain commercial landlords of listed buildings will choose to do nothing with a vacant listed building where they have no rates to pay. We do not doubt that there are examples of such landlords, but the government should understand that this is different to developers who will purchase a property as an investment with considerable capital outlay and thus a very real incentive to turn the building around and return it to market.

If the government are determined to restrict vacant listed building relief then we urge an enhanced timescale in order to give a developer a chance of at least getting a property ready for submitting a planning application. We suggest four years is a better restriction than two in order to support developers to take the risk of investing in a vacant listed building.

Summary

We have been in a period of relatively little development which has weighed down the contribution of our industry to economic growth. There have been various reasons for this situation: the consequences of the financial crash; wider uncertainty, strong competition from other parts of the UK outside of London and risk aversion among them. However, there are a number of positive signs for growing optimism within the industry and we encourage the Scottish Government to see this as an opportunity for our industry to boost economic growth. The business rate focused growth accelerator is producing results already: new developments are being taken forward in Edinburgh, the Glasgow Region, Aberdeen and Dundee in particular. We are also seeing positive signs of take off in the Build to Rent sector, including both development and investment activity.

And finally UK investors and overseas investors continue to see Scottish real estate as a stable source of investment return which benefits long-term value of our built environment. We encourage you to therefore continue to support measures to retain and enhance investment in our real estate sector through the policies identified in our summary.

We would be pleased to discuss our views further at your convenience.

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