SPF VOICE

June/July 2020

INSIDE THIS ISSUE

Robin Blacklock
SPF Chair
MD Dowbrae Property Consultancy

At the start of my tenure I chose to focus on the role that property can play in achieving the Scottish Government's stated aim of 'inclusive economic growth as we move towards a carbon neutral economy.' This wasn't solely in response to the policy intentions of the current Scottish Government, but recognition that our evolving society values these objectives and our industry has an obligation to respond to that. It was this subject that I focussed on in my initial address in November and which formed the theme of our annual conference back in March.

As we have moved through the last 100 days of lockdown I have thought often of the economic implications of what we're going through, and the impact this may have on this theme. My fear was that ambition and innovation would be shelved and that the industry would revert to tried and trusted methods, setting this agenda back by a generation.

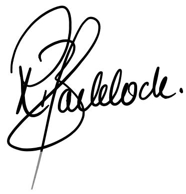
But that doesn't appear to be happening. That's not the intent that is coming through.

At the start of June, more than 200 leading UK businesses, investors and business networks, including RBS, Aviva, Standard Life Aberdeen, Tesco, Scottish Power and the BPF, called on the UK Government to deliver a **COVID-19 recovery plan**. That plan builds back a more inclusive, stronger and more resilient UK economy, that also recognises the challenges of climate change.

More recently in Scotland, Benny Higgins headed the Advisory Group on economic recovery from the COVID-19 crisis and delivered their **report**, entitled "Towards a robust, resilient wellbeing economy for Scotland". This highlights the need for a recovery that is measured beyond just the economic indicators.

And in private, the SPF have held discussions with the Scottish Government, Scottish Futures Trust and Scottish Enterprise, and the common denominator in each is their support for our industry, so long as we are able in turn to demonstrate attainment of these wider objectives of social inclusion and environmental responsibility.

It is clear that there is an ambition across the sector, within government and in society in general to double down on a strategy focused on inclusive economic growth as we move towards a carbon-neutral economy in order to 'Build Back Stronger'. It's up to us to ensure we're part of this solution.



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POLICY INSIGHTS

FAIR RENTS (SCOTLAND) BILL SHELVED BY HOLYROOD

Holyrood's Local Government Committee has decided not to proceed with scrutiny of Pauline McNeill MSP's **Fair Rents (Scotland) Bill**. The Member's Bill aims to control rent levels and expand the provisions in the Private Housing (Tenancies) (Scotland) Act 2016.

A key concern is the impact the Bill would have on investment appraisals if proposals for a CPI + negative rent adjustment were agreed, and blanket rent controls rolled out across the country. The SPF has always been clear that capping private sector rents at one percentage point above inflation, should only be in areas that are designated as rent pressure zones, in accordance with the 2016 Act.

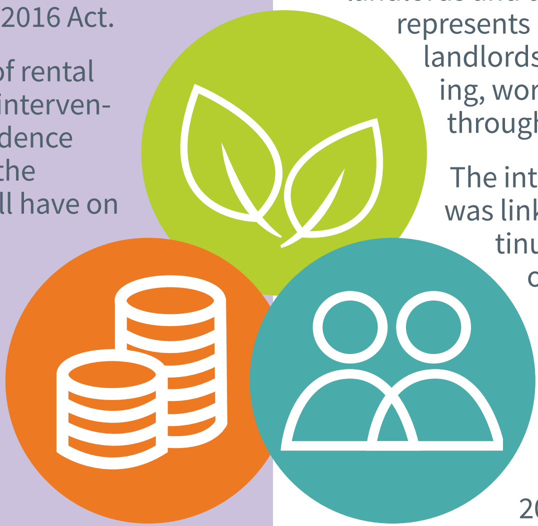
We do agree, however, that a lack of rental data is a substantial issue and any intervention must be driven by a robust evidence base and a clear understanding of the impact regulatory interventions will have on the wider market and investment.

The Bill is now unlikely to be debated before next year's Scottish Parliament elections.

A GREEN RECOVERY

After being temporarily side-lined by the immediate impact of the coronavirus, climate change is firmly back on the agenda. There is growing consensus across both the private and public sector that the exit from this crisis should be grasped as an opportunity to enhance the UK's transition to becoming a net-zero economy. In a letter to the Prime Minister signed by 200 business leaders, including our chief executive Melanie Leech, it was highlighted that new investment and clearer policy signals were needed to support the private sector through the transition.

Meanwhile, in Scotland, work is underway to develop a new low and zero-emission heating standard, which is expected to take effect in 2024. June saw the inaugural meeting of the stakeholder working group for the new standard, attended by the SPF and a number of bodies from other industries. The group will act as a 'critical friend' to those responsible for developing the new regulations and ensure that concerns and ideas are fed into the decision making process.



SPF HIGHLIGHTS PRESSURES ON COMMERCIAL LANDLORDS

The recent Code of Practice for commercial property relationships announced by the UK Government, was introduced with the support of the Scottish Government plus landlord and tenant representatives. The code is an attempt to establish a basis for collaboration between landlords and tenants to address financial distress caused by the COVID-19 crisis. It is not a charter for avoiding rental liabilities, indeed it states that where tenants can pay, they should pay. Neither is it a basis for landlords to immediately initiate proceedings for rental liabilities. Nor does the code change the enduring legal relationship between landlords and tenants. The code is voluntary and represents a good deal of what commercial landlords in Scotland have already been doing, working with their customers to come through the crisis together.

The introduction of the Code of Practice was linked by the UK Government to continued restrictions on use of forfeiture or Commercial Rent Arrears Recovery processes in England. It was also timed to coincide with the retrospective enactment of the Corporate Insolvency and Governance legislation at Westminster, which came into force on 26 June 2020. This Act has implications for debt recovery processes in both Scotland and Northern Ireland, as well as England and Wales. Further information is **linked here.**

In Scotland, the main legislative change has been to extend irritancy proceedings from 14 days to 14 weeks and this policy was reaffirmed on 24 June. This represents a restraint on landlords who have in many cases experienced tenants that are unwilling to collaborate to seek alternative approaches to rental or lease liabilities. However, it is not a moratorium and this marks a difference to policy in England and Wales. Commercial landlord experiences of tenant responses to COVID were put to Public Finance Minister Ben Macpherson in a recent meeting with the SPF, where we also highlighted the burden of empty property rates on landlords who are also being asked to financially support their tenants through this crisis.

SCARLETT
LAND AND DEVELOPMENT

BRIGHT FUTURE FOR BTR

All data courtesy of Scarlett Land and Development

COVID-19 has created an environment of economic uncertainty, weaker sales and mortgage market flux - presenting BTR with the potential to step into the supply side void. COVID-19 has also proved the ability of BTR to enhance communities through professionally managed rental living.

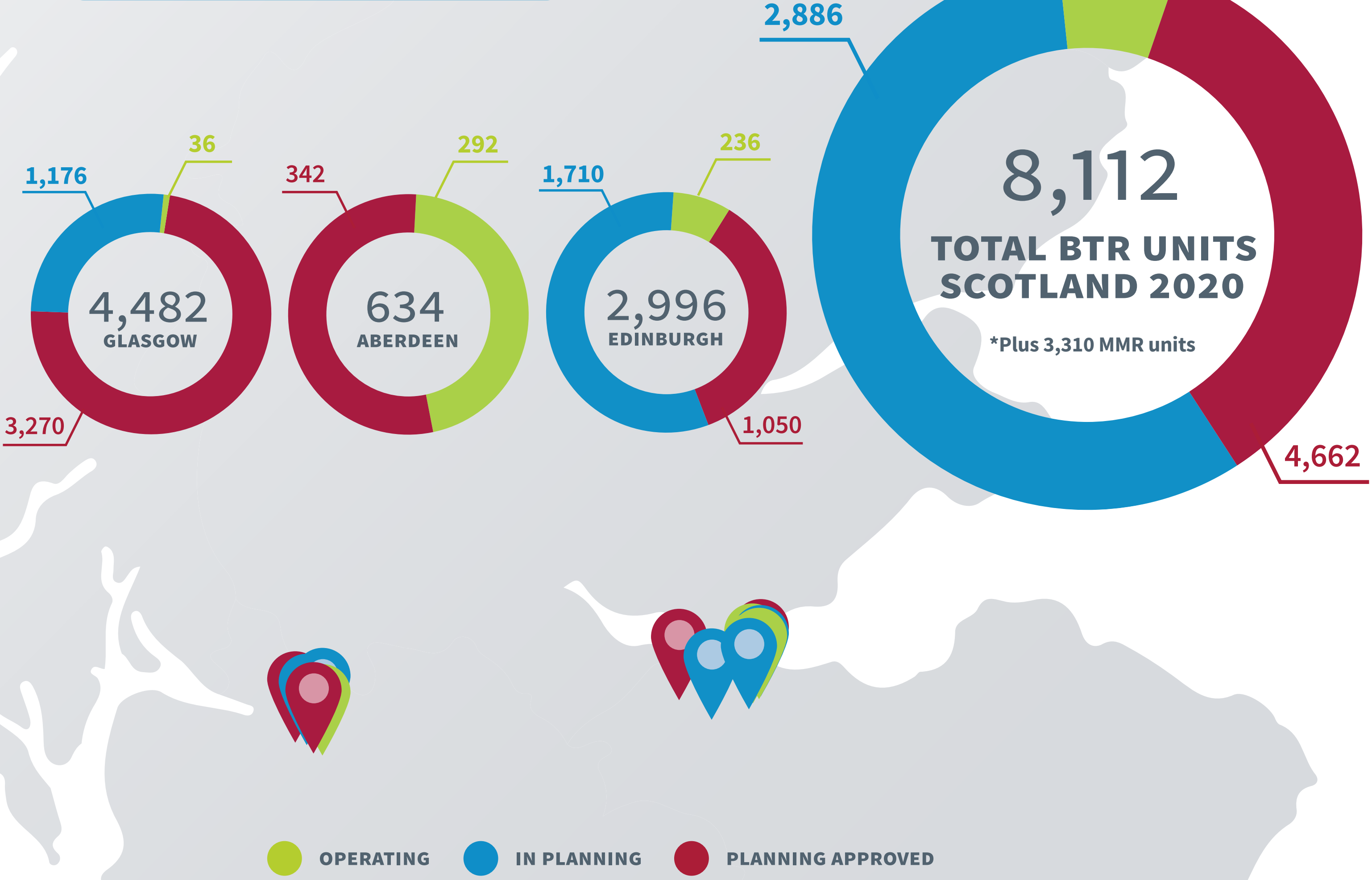
BTR could benefit from additional funding allocation relative to other real estate asset classes. The Scottish market needs to capitalise on any such injection of institutional investment by fostering an environment best placed to attract that fluid capital.

We anticipate an evolution of BTR (Scotland) into Co-Living, single family housing and additional Mid-Market-Rent.

Viability remains an issue in the Scottish market - which needs to work that little bit harder than the English market to attract capital. It is crucial that policy makers and planners remain cognisant of this and build on progress to date working collaboratively with developers and investors.

Will Scarlett
Founder of Scarlett Land and Development

CLICK FOR MORE INFORMATION AND ANALYSIS ON SCOTLAND'S BTR PIPELINE



REGIONAL SPOTLIGHT

Edinburgh

A recent workshop held by the Edinburgh Development Forum recently considered the prospects for development in the context of the impact of COVID-19. The workshop identified that challenges on inclusivity and sustainable economic growth remained but that plans would need to adapt to accommodate the impact of COVID-19 for key sectors of the economy, such as tourism and leisure.

Glasgow

As part of its Strategic Framework for Glasgow, the city's Development & Regeneration Services (DRS) are seeking views on the local development framework for nine specific areas south of the Clyde in the city centre. The **survey** is open to all, but the DRS are keen to hear the views of property industry stakeholders. The deadline for responses is 6 July.

South Ayrshire

On Thursday 1 July, South Ayrshire reopened its **Proposed Local Development Plan 2** (LDP2) for a short consultation until 14 August. The plan considers proposals for Prestwick and amends the previous proposals on housing in the area. This link provides a list of modifications and associated documents for the proposed LDP2. The intention is to submit the PLDP2 to the DPEA for examination in September.

INDUSTRY INSIGHT

Cash is King – *Restructuring considerations*

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For real estate, debt was at the heart of the financial crisis twelve years ago.

This time it's very different with the coronavirus pandemic. Lockdown and social distancing measures have caused a range of impacts which are unique to each sector. The high street retail sector had its struggles before and along with leisure and hospitality has taken the hardest blows in the first wave. Delays to semesters, virtual learning and uncertainty in education has added huge pressure to student accommodation. Up to 40 per cent of building sites have been shut down during the lockdown period. However, few sectors are immune.

The reality is, whilst it's too early to truly determine the extent of distress on the economy and be able to build strategies to exit lockdown, throughout all this cash has and will remain king. Feedback from the landlords post the June quarter payment will be interesting.

Business should consider all the best ways to preserve cash:

Cashflow: Prepare a daily 12-week cash flow, identify the key payments during the period and categorise critical and non-critical payments. From the cash flow it should be possible to rapidly identify the cash burn during the moth-balling period and the potential implications for the business.

Engage with lenders: Regular communication with your lender is key and, forbearance and interest charge assistance may be up for discussion. If the business is liquid, it's better to pay aspects now to avoid delaying the inevitable. In light of an increased debt burden and below normal trading activity, we expect debt restructuring conversations to take place in the months ahead. Keeping your bank up to date now will make those negotiations easier.

Creditor and supplier review: Similarly, keep in touch with suppliers – it's important to defer supplier payments where feasible but also to agree compromise with creditors. A review should be undertaken to reduce non-critical expenditure and manage direct debits and standing orders - cancelling all unnecessary expenditure.

Government support: Accessing government reliefs and loans will assist in the short term. CBILS and the Job Retention Scheme are available to all businesses along with a range of reliefs and grants.

Taxation reliefs: Work together with HMRC and obtain agreement to defer PAYE / VAT and duty payments or negotiate payment plans. Reliefs should also be explored, for example bringing forward R&D tax credit claims. Capital allowances and land remediation reliefs should also be claimed where relevant.

However, a note of caution: tax and VAT liabilities should be carefully considered where there may be a change in the original intention of a property. For example, any change by the developer of the design and use of new student accommodation to repurpose for another use could expose it to potential VAT penalties.

The Scottish property market has been remarkably resilient, it has stood up to a barrage of challenges and uncertainties since 2008 including Indyref, Brexit and an oil price which has fallen off a cliff. Economists predict a 'V' shape bounce back in Q3, a Nike swoosh recovery may be more realistic. I expect market activity to resume when lockdown restrictions are lifted.