SPF VOICE

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INSIDE THIS ISSUE

WELCOME

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High stakes at Westminster as 'no-deal' looms

Miller Mathieson
SPF Chair
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This summer has not been short on political drama. As anticipated, Boris Johnson became Prime Minister following the resignation of former PM Theresa May, in late July. The new UK Cabinet formed by Mr Johnson is heavily weighted in favour of those who campaigned for Brexit and, as expected, the new government has increased the impetus of its preparation for the UK to leave the EU. Yet, this new determination on the part of the UK Government to Brexit 'come what may' does not, hitherto, appear to have changed the stance of the EU. Neither does it appear to have changed the entrenched position of the House of Commons to oppose a 'no-deal' Brexit.

Indeed, over the summer, opposition parties agreed to propose legislation to avoid 'no-deal;' however, the UK Government now intends to suspend Westminster from mid-September until a new Queen's Speech, which will reopen Parliament on 14 October. The political intrigue at Westminster therefore shows no sign of abatement. While the outcome of these political manoeuvres is unclear, it is certainly unhelpful for business at large. What is now known is that new UK Chancellor Sajid Javid has announced a one-year UK government spending round for next week, which some have interpreted as preparation for a possible autumn UK election.

While Brexit consumes thinking at Westminster, we must continue to argue for a competitive platform to attract investment. We must enhance our attraction as a destination for capital through development of new homes, employment spaces, and improvement to our built environment in Scotland. As I argued in my previous column, there is a significant volume of investment capital seeking a home and UK real estate remains attractive for the right price and product, both for domestic and overseas investors.

There is little doubt that political uncertainty has contributed to a subdued investment picture overall. Continued political turbulence may lead to an even further disadvantageous position this autumn. Governments in London and Edinburgh need to be prepared for a potential Brexit on Halloween and we must ensure they understand and support the potential we have to boost the economy following our (expected) departure from the EU. To this end, this week we met with Cabinet Secretary Derek Mackay to highlight your concerns and to gauge how prepared Scotland is for a 'no-deal' Brexit.

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At Holyrood

SPF reports on national policy developments

In July, the SPF responded to a consultation by Pauline McNeill MSP on a proposed Fair Rents (Scotland) Bill, also known as the Mary Barbour Bill. We were firmly of the view that capping private sector rents at one percentage point above inflation should only be in areas that are designated as rent pressure zones (RPZs), and should not be applied across the sector to allow for the introduction of blanket national rent capping. We agreed that a lack of data is a substantial issue and noted that the designation of an RPZ should be driven solely by a robust statistical evidence base, and an understanding of the impact the use of such regulatory interventions will have on the wider market and investment.

We also hosted a senior delegation from the Bank of England last month to discuss the position of the commercial property market in Scotland. Members provided the delegation with insights from across the real estate industry on yields, market sectors, and valuations, as well as more specific concerns, such as development finance.

The SPF responded to the Scottish Government's consultation on a regulatory framework for short-term lets. While we supported further regulation, we were clear that the overall positive or negative impacts of short-term lets are highly localised and need to be considered at local authority level using a broad, single set of common rules, preferably a licensing regime. We noted that the introduction of regulation to short-term lets could allow both short-term and long-term letting markets to complement one another and improve the overall housing market.

Key responses

Fair Rents (Scotland) Bill

Short Term Lets Consultation

Energy Efficient Scotland

Planning (Scotland) Bill Stage 3 Briefing

Open Consulations

The Energy Efficiency (Private Rented Property) (Scotland) Regulations 2019 *Closes 13 September 2019*

Consultation on the Right to Buy Land to Further Sustainable Development *Closes 19 September 2019*

A consultation on the The National Transport Strategy *Closes 23 October 2019*

Looking forward

Holyrood returns from recess next week and one of its traditional curtain raisers is the Programme for Government, to be announced by Nicola Sturgeon. This year we anticipate a significant emphasis on climate change related measures. Our Building Standards & Sustainability Committee is already engaging extensively with the government and will be submitting comments to officials on energy efficiency measures for the private rented sector shortly.

The Scottish Government is taking forward the next stage of its land reform and community empowerment agenda with new right to buy for sustainable development regulations. These powers will enable a community body to apply to acquire eligible land with compulsion. There are a number of criteria and protections for landowners, tenants and businesses. Our Commercial Real Estate Committee is heading the SPF reponse to the proposed regulations, with the consultation closing on 19 September. The Regulations are expected to be introduced to Holyrood in early 2020 and implemented later in the year.

Business rates reform has been a key issue for members across the country. Holyrood is now addressing the recommendations of the Barclay Review, which require legislation. We have largely supported the proposed reforms with one or two exceptions, such as the proposal to restrict vacant listed buildings relief to just two years. The government has signalled that it accepts our proposals for a much longer period of relief from rates for vacant listed buildings. The opportunity to make this change in policy will be during the Stage 2 proceedings on the Non-Domestic Rates Bill, which we expect to begin in late October or early November.

Another aspect of the Barclay Review, yet to be addressed, is the reduction of the Large Business Supplement (LBS) on rates. We continue to call for the LBS to be reduced at least to the same level as in England. This is a key issue that can be addressed without an amendment to the NDR Bill. The LBS is a particular hardship for larger ratepayers, including many retailers. Therefore, we will continue to press ministers to reduce the rate of LBS in the coming months.

Regional Spotlight

Dundee

The SPF met Dundee City Development Director, Robin Presswood, in early August to discuss development and investment in the city. We agreed to pull together a workshop with members in late autumn for a focused debate on opportunities not just to capitalise on the investment at the Waterfront but across the city as a whole.

Edinburgh

Scotland's capital published its development plan scheme in August. The scheme outlines a roadmap towards the next local development plan, City Plan 2030, which will be consulted late 2019 into early 2020. In the meantime, the SPF recently met with council representatives to discuss a joint workshop to consider development opportunities for the city and contribute towards the City Plan 2030 development process and Edinburgh's City Centre Transformation.

Glasgow

Our data analysis for Q2 2019 found that the highest total value of commercial property sales was recorded in Glasgow. According to our figures, sourced from the Registers of Scotland, this is the first time that Scotland's largest city has outstripped Edinburgh to post the highest total value of sales in a quarter since Q1 2015, with £172m of total sales compared to Edinburgh's £108m for Q2 2019.

Research

SPF analysis of commercial property sales data

£614m

TOTAL COMMERCIAL PROPERTY SALES VALUES IN Q2 2019

£149m
20%
DOWN FROM Q1 2019

£70m
10%
DOWN FROM Q2 2018

Commercial property sales in Scotland continued to be subdued in Q2 2019, with the total value of sales falling to its lowest value for five years.

In total, £614 million was transacted on commercial property in Scotland during Q2 2019, which was down £149 million (20%) on the previous quarter and £70 million (10%) on the same quarter (Q2) in 2018.

Sales ≥ £5 Million

£271m **Total sales**

£177m
45%
DOWN FROM Q1 2019

£129m Glasgow — 60%

£33m Edinburgh — 15%

£55m Other — 25%

At £217m, the total value of commercial property sales ≥£5 million in Q2 2019 fell to its lowest level since 2013.

The total value of sales was £177 million (45%) down on the previous quarter and £53 million (20%) down on the Q2 2018.

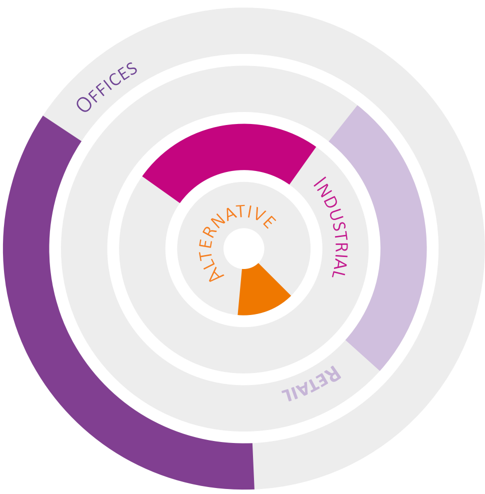
Investment

Investment from Asia tops
£250m
FOR FIRST TIME ON RECORD

£378m
UP FROM Q1 2019

£952m
TOTAL INVESTMENT 2019

£574m
Total investment Q2 2019



Property data experts CoStar have found that investment into Scottish commercial real estate increased in Q2 2019, rising to £574 million in the quarter. This, it is reported, brings total investment for the first half of 2019 to £952 million.

On a sector basis, CoStar found that offices took the largest share of the total investment in Q2 2019 at 35%, followed by retail (26%), industrial (25%) and alternatives (14%).

It was highlighted that capital sourced from Asia was particularly important to investment into Scottish commercial property during Q2 2019, with CoStar noting that quarterly inflows from Asia topped £250 million for the first time on record.

Will changes to the reverse charge be reversed for the construction sector?

Jim Burberry
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HMRC has been publicising, with varying degrees of success, its launch of a new VAT anti evasion measure targeted at the construction sector. The measure known as the VAT Domestic Reverse Charge is targeted at specific supplies within the construction sector, and is being introduced on 1 October 2019. A recent survey published by the Federation of Master Builders (FMB) has found that two thirds (69 per cent) of construction SMEs have not heard of the reverse charge; and of those that have 67 per cent have not prepared for the changes. This is why the FMB, and also the Chartered Institute of Taxation (CIOT), is calling for a delay to the 1 October implementation date, due to lack of preparedness in the sector. But will HMRC listen to the concerns?

Whilst this measure is being brought in by HMRC to fight fraud the rules apply to all in the industry and for many this will have a profound effect on cashflow and VAT accounting. Failure to comply will risk delayed payments by customers and penalties from HMRC. Businesses should be reviewing their supply chain now to get ready for the changes which are less than two months away.

The VAT reverse charge will only apply to supplies that are within the scope of the now familiar Construction Industry Scheme (CIS), of itself designed to counter the evasion of direct taxes and works in much the same way.

If supplies of construction services both to and by a business will generally be zero-rated, such as is normally the case for housebuilders, and this new VAT regime will have little, if any, practical impact. However, should a business be involved in other supplies of construction which are liable to reduced rate (5%) or standard rate (20%) VAT it will have to consider further whether the reverse charge is applicable."

The aim of the VAT Domestic Reserve Charge is to reduce the amount of VAT fraud in the construction industry, by asking customers to self-account for the VAT due on a supply, rather than it being charged by the supplier. In general, only invoices issued for construction services supplied to an 'end user', that is a business that will not make an onward supply of construction services, are excluded from the scheme and subject to existing VAT accounting rules.

Although the concept of a customer self-accounting for the VAT due on a supply may seem straight-forward, the question of 'when' and 'how' adds to the complexity. A supplier, and a customer, need to consider and apply all the relevant rules under this new measure. HMRC is promising a 'light touch' on the introduction of the VAT Domestic Reverse Charge on compliance failures for the first six months following implementation on 1 October 2019, provided that HMRC feels that the taxpayer has attempted to follow the new rules. What will be considered by HMRC as enough weight of evidence that an attempt by the business concerned has been made to follow the new rules, is not clear. What will be the impact on businesses?

The impact will depend upon where in the supply chain a business is, for example:

For sub-contractors, they should not just assume that they shouldn't charge VAT; the adverse cash flow impact will be a particular issue for sub-contractors as many rely upon retaining the VAT to finance their business;

For main contractors, their chief concern will be to ensure that sub-contractors are not paid VAT incorrectly, since it will not be VAT and therefore won't be recoverable;

For the final customer – or anyone else excluded from the reverse charge – they will continue to incur VAT as currently. However, it may not be as simple as that. As ever with VAT, the devil is always in the detail; and

Contracts will need to accommodate the new regime, i.e. a customer might need to provide warranties about its status and about whether or not it expects to apply the reverse charge. It would also be worth businesses reviewing existing long term contracts before the reverse charge comes into effect.

As there are indications from the construction industry that suggest it is not yet ready for these changes, it will be interesting to see whether notice is now taken by HMRC of the extent that the sector is not fully aware or prepared for the forthcoming changes.

If you would like any further information on the VAT Domestic Reverse Charge for construction services, please don't hesitate to contact Jim Burberry, Partner, RSM on 0131 659 8380 or by email: jim.burberry@rsmuk.com.

Sub-contractors

The adverse cash flow impact will be a particular issue for sub-contractors as many rely upon retaining the VAT to finance their business.

Main contractors

Chief concern will be to ensure that that sub-contractors are not paid VAT incorrectly, since it will not be VAT and therefore won't be recoverable

The final customer

Will continue to incur VAT as currently. However, it may not be as simple as that. As ever with VAT, the devil is always in the detail

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