SPF VOICE

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INSIDE THIS ISSUE

FROM THE CHAIR

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SPF Chair
MD, KR Developments Group Ltd

After an election that saw relatively little change to the overall arithmetic at Holyrood, the question of who should lead the Scottish Government has been settled for now. However, with an economy slowly being weaned off life support and a bulging inbox, the SNP's fourth term in office will be anything but business-as-usual.

Last week's Scottish Cabinet reshuffle alluded to some of the unique challenges that lie ahead, with Deputy First Minister John Swinney appointed as the first-ever Cabinet Secretary for COVID Recovery. This welcome new post will hopefully contribute to a more joined up approach across government departments and help them seize new opportunities for growth. To that end, the SPF team and I are looking forward to engaging with Mr Swinney and his colleagues on how the property industry can support Scotland's nascent recovery.

With work already underway in the background on a potential extension of the measures contained within the Coronavirus Acts (more on this on page 3), the response to the pandemic is likely to continue to dominate the agenda in the short-term.

However, beyond the Scottish Government's response to the pandemic, the SNP manifesto promised a number of other measures that could lead to significant changes to the way that the property industry works. As the government sets out its programme for the next year and beyond, we expect to learn more about proposals that include the journey to net-zero, the proposed introduction of land value capture, a review of the additional dwellings supplement and the establishment of a national infrastructure company.

As for the SPF, we have hit the ground running and are liaising with a number of MSPs and officials on ideas contained within our Action Plan and other priorities for the industry. We have also been highlighting the impact of the pandemic on our city centre economies. With the vaccination programme now reaching those in their thirties, we are urging the Scottish Government to prioritise the widespread reopening of COVID-secure offices as soon as it is safe to do so.

In the meantime, it's refreshing to see more people starting to appear again on our shopping streets and a variety of new buildings emerging in our city centres. Hats-off to our construction colleagues who have continued to drive forward throughout the pandemic to create our changing cityscapes.

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POLICY INSIGHTS

TAX UPDATE

May saw the UK Government publish its consultation on the new Residential Property Developer Tax (RPDT), which is intended to raise revenues to help fund cladding remediation works. Proposals for the Gateway 2 levy also forms part of the consultation but would not apply in Scotland, as such. As a UK tax, and not covered by devolved tax in Scotland, RRPDT is of interest.

RPDT will be time-limited and apply to the largest residential property developers in relation to the money they make from UK residential development - proposed to apply to annual profits over £25m. It will be introduced in 2022 and seeks to raise at least £2 billion over a decade. The tax rate is not confirmed but will be considered after the tax base has been decided.

The consultation also covers different ways that profits should be calculated for the purposes of the tax with some potential penal proposals, including restrictions on the use of losses, interest costs, and group relief.

While the target of this tax has been to capture the profits of largest residential developers, it will also have an impact on rental residential asset classes - even where they are developed in house to hold. Build-to-rent developments are intended to be within scope and the UK Government is considering to what extent student accommodation and retirement living should fall within scope. Mixed use development could also potentially be caught, depending on where the government land on some key definitions and tax design decisions.

BPF colleagues will be responding to the consultation, which runs until 22 July. If you are interested in feeding in to the BPF response, please get in touch with Rachel.

Meanwhile, the UK Government has tabled an amendment to the UK Finance Bill which would enable assets provided for leasing within a property lease to qualify for the 130% super deduction and 50% special rate allowance where such assets constitute "background plant or machinery". This is likely to dramatically widen the scope for property investors to benefit from the measures – and given over 50% of commercial property is leased, should be helpful in the context of sustainability goals and the investment needed to repurpose our high streets.

EARLY ENGAGEMENT ON EXPIRY OF EMERGENCY LEGISLATION

We have offered some initial and informal views to the Scottish Government on the expiry or potential extension of the emergency COVID legislation. We expressed concern that our well-respected property legal system could be undermined, which could create a barrier to investment. We were also clear that any extensions of the provisions that create an unbalanced relationship between landlords and tenants should not continue for any longer than necessary. However, we noted that planning related knock-on effects of the development industry being locked down will last far longer than just the emergency period and called for an extension to the planning provisions.

PLANNING UPDATE

The Scottish Government continues its roll out of the Planning Reform agenda. The Chief Planner and Director for Housing and Social Justice have written to local and national park authorities on the next steps for meeting statutory requirements on land for housing. Proposals for the initial default estimates appear to lack any ambition to address the six statutory outcomes set out in the 2019 Planning Act, irrespective of the tenure required and there is an absence of economic or financial factors.

Meanwhile, there is still time to respond to the Scottish Government's consultation on the regulations for Local Place Plans (LPPs). The proposals in the consultation underline that LPPs are intended to support the local development plan and to support wider input from the community to the LDP process. The government estimates that with an average 3 LPPs per planning authority per year the annual cost of LPPs could be £1.4m per annum.

REGIONAL SPOTLIGHT

Aberdeen City Council has announced a review of its 25-year City Centre Masterplan in light of the impact of Covid-19. The review will consider a framework for economic recovery and a basis from which to monitor and consider the impact of structural changes of the pandemic. This includes the potential loss of retail, impact of home working and the effects, if any, on consumer and business confidence and behaviour.

Glasgow City Council is consulting on the long-term future of its Spaces for People measures, which were introduced to help social distancing. The council are keen to hear from stakeholders if the measures have the potential to help deliver other outcomes not nessesarily related to the pandemic such as supporting city centre businesses and improving air quality.

Dundee City Council has established a Climate Leadership Group that will guide the city's net-zero challenge. Members of the group, including Robertson Group, Michelin Scotland Innovation Parc and the city's universities, will focus on cross-sector collaboration in low carbon innovation, investment, behaviour change and ensuring a green recovery.

£542M

TOTAL VALUE OF COMMERCIAL PROPERTY SALES IN Q1 2021

9% UP FROM Q1 2020
£44M

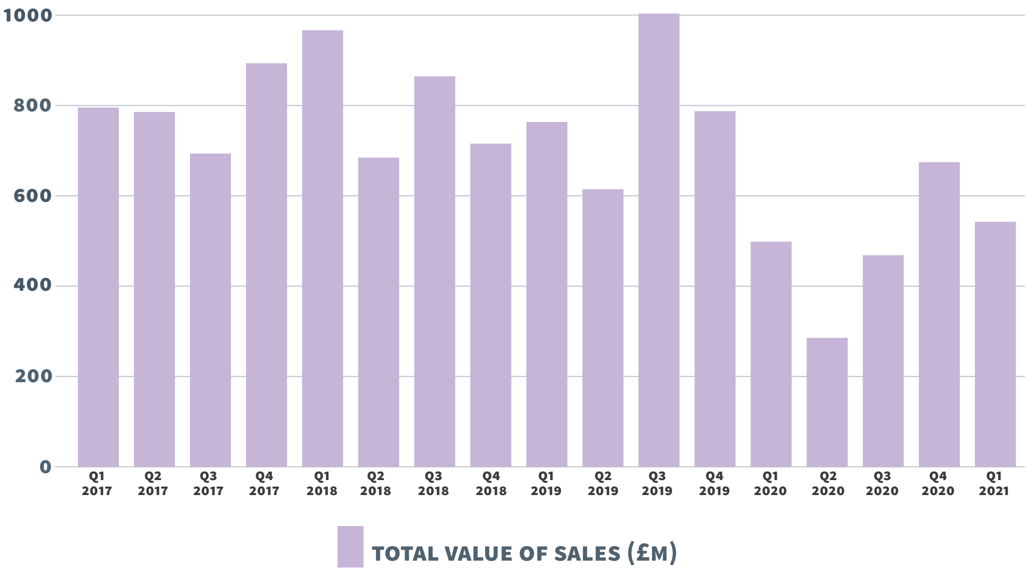
999

VOLUME OF COMMERCIAL PROPERTY SALES IN Q1 2021

15% UP FROM Q1 2020
128

ABERDEEN £11M
EDINBURGH £144M
GLASGOW £49M
DUNDEE £14M
REST OF SCOTLAND £324M

VALUE AND NUMBER OF COMMERCIAL PROPERTY SALES IN SCOTLAND (2017-2021)



Figures may not sum due to rounding. Figures from the Registers of Scotland includes all commercial property transactions.

OVERVIEW

The SPF's analysis of the latest commercial property sales data from Registers of Scotland has found that total sales hit £542m in Q1 (January - March) 2021, with 999 transactions recorded.

Despite the majority of the quarter spent in national lockdown, the figure for Q1 2021 is up £44m (9%) on the total value transacted in the same quarter of 2020. Meanwhile, the one-year rolling total for commercial property sales in Scotland increased to £1.97bn in Q1 2021, up 2% on the previous quarter. However, this quarter's figure remains 32% lower than the one-year rolling total of £2.90bn recorded in Q1 2020.

CITIES

Scotland's four largest cities (Aberdeen, Dundee, Edinburgh and Glasgow) accounted for 40% of all commercial property transactions in Scotland (by value), with Edinburgh capturing the largest share of the market at 27% (£144m). Sales in the Capital rose £18m (14%) in Q1 2021 when compared to the same quarter in 2020. Glasgow saw £49m in commercial property sales during the quarter which is down £52m (51%) compared to Q1 2020. A lack of high value sales likely contributed to this dip.

£5M+ SALES

According to the Registers of Scotland data, there were 21 commercial property sales at or above £5m with a combined sales value of £194m. This is down one sale compared to Q1 2020 while the total value of these sales is down £26m (12%). This section of the market accounted for 36% of all sales in Scotland by value.

INDUSTRY INSIGHT

Net zero: preparing for an all-electric future

Peter Kerr
Director
Atelier Ten

We have become more aware of the world around us during the pandemic and perhaps become a more enlightened society and with COP26 just around the corner we are again posed the question of climate change and what to do. The property sector has a large part to play in helping to deliver this by creating building solutions capable of meeting these demands.

Let us consider some of the big challenges we are facing to achieve our 2045 net zero target. Regulation change is coming more to the fore and with several consultations and workstreams such as the draft Heat in Buildings Strategy, the Public Sector Net Zero Carbon Buildings Pathfinder and the LEIP funding initiative all making similar moves in changing the way we design buildings and what energy sources we use to supply our buildings.

All these documents are tending towards all electric energy solutions in the short to medium terms be that in the form of direct electric, heat pump technology or low carbon heat networks. In addition to delivering all electric buildings we also have the challenge of electrification of transport which is moving at an even faster pace.

This obviously presents some challenges as the electrical networks must grow with the increasing demand and as such significant investment is required in these networks to facilitate growth. If we look at the National Grid Future Energy Scenarios 2020 report it indicates that in all but one of the energy scenarios analysed, we will need more than double our power capacity of today. The report also suggests that around 42% of the power generation could be decentralised by 2050.

The industry is already seeing some of these challenges manifest themselves with higher power capacity costs to assist in funding this move, but whilst the move to net zero carbon buildings is supported by us all, it is the pace at which electrical network infrastructure implementation is taking that is a cause for concern. It can take three years to establish a primary substation from concept to completion and that is only once a project is committed.

Another consideration is the consumer price of electricity which is significantly higher than gas meaning that all electric buildings will be more expensive to operate unless there is a greater focus on the reduction of energy. The average residential unit prices are 4.3p/kWh for gas and 19.6p/kWh for electricity based upon the statistics from the Department for Business, Energy & Industrial Strategy. In each of the tariffs there is an environmental and social obligation cost and again we see how the energy market is lagging upcoming legislation. Gas unit prices have a 1.86% obligation cost and electricity has a 22.92% obligation cost. If we are seriously looking at moving our buildings to all electric, then this needs to be switched.

What does not help our situation is that our buildings are amongst the least efficiently constructed in Europe. As a result heating our buildings makes up 40% of the UK's energy consumption with 78% of Scotland's homes being heated using fossil fuels according to research carried out by Savills in 2019.

Fundamentally, the good news is the challenges we face are solvable, we now need to focus on reducing our energy consumption especially our heat demands through better fabric design and then deliver an energy solution tailored to the selected site dependent upon its local challenges. For example, if the capacity exists then a dedicated in-house heat pump is viable if the power is not then a Low Carbon Heat Network solution with thermal and electrical energy storage could be the solution.