

An aerial photograph of a historic city, likely Edinburgh, Scotland, featuring a river, a bridge, and a dense cluster of old stone buildings. The city is set against a backdrop of rolling hills and green fields under a clear sky.

# SPF VOICE

February 2022

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**Kevin Robertson**

SPF Chair  
MD, KR Developments Group Ltd



Ten months on from the 2021 Holyrood election, the SNP-Green led Scottish Government is now in full legislative flow.

The SPF team, alongside our committees and membership, are currently working on a number of detailed submissions that cover key policy proposals including NPF4, Local Development Plans, the Additional Dwelling Supplement, S63 energy efficiency regulations, and a wide-ranging review of PRS tenant rights. In addition, we are responding to MSPs' requests for comments on town centres and retail. Ultimately, these proposals will likely translate into regulations over the duration of the Parliament that could have impact on many of your business operations and I would urge you to keep up your inputs to the team as they manage these diverse issues and challenges.

With so much potential tax and regulatory change in the environment in which we operate, I'm delighted that we will be bringing back our **Annual Conference** on 31 May 2022. Not only will this be our first in-person conference in two years, but it will also be our largest ever and include a greater range of the topics. A series of networking opportunities on the day will also bring industry, government and other stakeholders together.

Building on your feedback on the conference, the event will be broken down into both keynote speeches and 4 sessions focusing on: Urban Renewal & the Experience Economy; New Homes for Life & Learning; Achieving a Just Transition to Net Zero for Business & Communities; and Planning for Business & Communities. We already have some fantastic speakers lined up and I look forward to sharing further details with you soon.

From the return of one event to another. This year a small delegation from the SPF will be returning to MIPIM and we're keen to connect with members attending the event. Along with BPF colleagues, we will be involved in a series of events with local and national governments - if you would like any more information on how you can get involved, please get in touch with Gail (Head of Events Strategy).

I look forward to seeing as many of you as possible at our upcoming conference.

## SCOTTISH PROPERTY FEDERATION TEAM

David Melhuish  
Director  
dmelhuish@bpf.org.uk  
0131 220 6353

Gail Hume  
Head of Events Strategy & SPF Operations  
ghume@bpf.org.uk  
Tel 0131 357 8667

Mandy Catterall  
Head of Government Relations  
mcatterall@bpf.org.uk  
Tel 0131 220 6304

Murray Horn  
Senior Policy & Communications Officer  
mhorn@bpf.org.uk  
Tel 0131 306 2222



# POLICY INSIGHTS

## PROPERTY TAX REVIEW AND GOVERNMENT BUDGET CHALLENGES

The government's Additional Dwelling Supplement (ADS) Review highlighted by Brodies' Isobel d'Inverno last month is nearing its final days in consultation. The ADS is now a core part of government revenue, making up some 22% of total LBTT revenue according to SPF analysis. However, since its inception, the tax has been plagued by concerns over administrative processes and structures.

In February, the SPF met with the government's LBTT team on the consultation and engaged in government-led stakeholder meetings. This will be followed by a stakeholder meeting with Public Finance Minister Tom Arthur in early March. The consultation focuses on key issues of repayment periods, inheritance and definition of 'economic units' when identifying ADS liabilities. With a tax levy of 4% on the whole consideration of dwellings valued above £40,000, the tax can be a significant burden.

We are nearing the 1 April 2022 'tone' date upon which the next business rates revaluation will be based. The revaluation arrives at the same time as empty property rates relief policy is transferred to local authority control. But there is also a realisation in government that this revaluation should see significant changes in both the location and the substance of the new valuation roll. Therefore, the SPF will host a meeting for members and the Scottish Government Head of Non-Domestic Rates policy to consider these challenges.

There is a growing concern on the robustness of the Scottish tax base. The Scottish Fiscal Commission and the Scottish Parliament's Finance and Public Administration Committee have both recently highlighted the fragility of Scottish income tax receipts related to concerns with employment and demographic factors. The SPF has raised concern about anticipated increases in non-domestic rates revenues, which we feel are not grounded in economic growth. The Scottish Parliament continues to take evidence on the government's resource spending framework which will close at the end of March and we continue to welcome any comments you have on this review.

## SELECTED EMERGENCY COVID POWERS TO BE MADE PERMANENT

The Scottish Government has taken steps to make permanent some emergency measures adopted by Holyrood to tackle COVID-19, such as the ability to submit documents electronically to the Registers of Scotland, which we welcomed and supported. Other powers that were never invoked by Ministers, such as the power to direct managers of student accommodation to close buildings, are also proposed as a permanent reserve power by the Bill.

For the property industry the most controversial element of the legislation is the intention to make eviction for non-payment of rent by private rented sector tenants a discretionary, rather than a mandatory power for tribunals. Where a landlord is unable to collaborate with a tenant to address non-payment of rent, the move to a discretionary basis for eviction, which is already a long and complex tribunal process, is made even more uncertain. The move will, without question, encourage a tenant to prolong their tenure, regardless of their real intent and ability to pay due liabilities. In such circumstances it will not just be the landlord who suffers. Neighbouring tenants may have to subsume the cost of rent or services and people seeking a home to rent will be excluded from a home as well.

There is growing evidence that landlords are leaving the sector, which will reduce the supply of homes for people needing to rent rather than buy. The Scottish Government is already conducting a wide-ranging review on reforming (and boosting) tenant rights. Therefore, it is more than premature to pre-empt this detailed work with significant changes to the landlord-tenant relationship before that review is even closed to public comment.



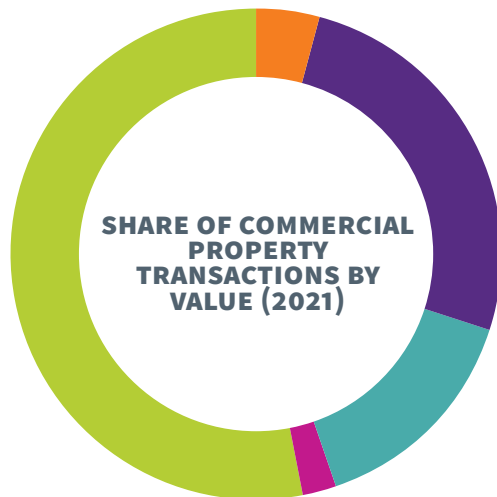
£2.94BN 4,389

TOTAL VALUE OF COMMERCIAL  
PROPERTY SALES IN 2021

NUMBER OF COMMERCIAL  
PROPERTY SALES IN 2021

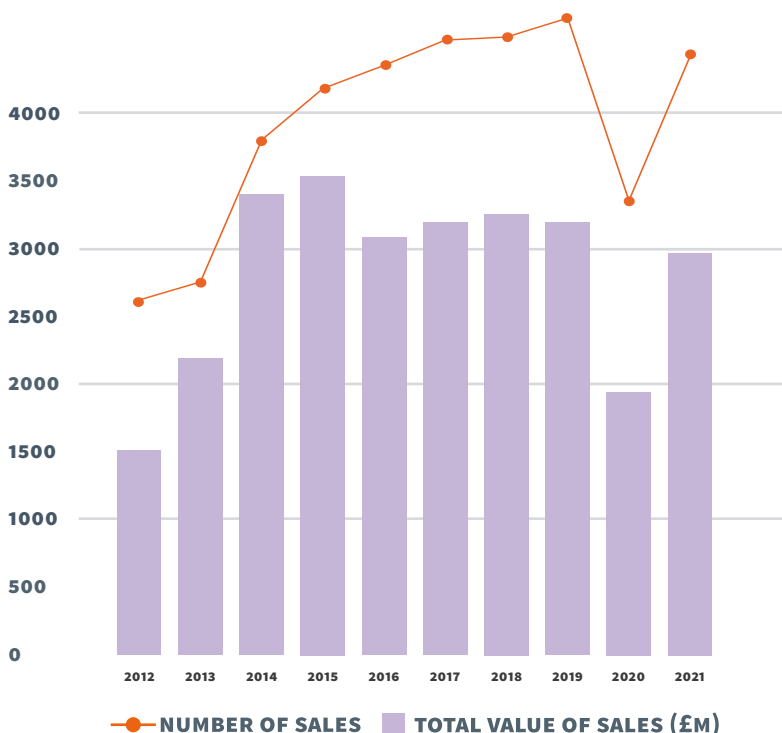
↑ 53% UP FROM  
2020  
£1.02BN

↑ 32% UP FROM  
2020  
1,058



**ABERDEEN** £130M (4%) **EDINBURGH** £756M (26%)  
**GLASGOW** £431M (15%) **DUNDEE** £72M (2%)  
**REST OF SCOTLAND** £1,554M (53%)

### TOTAL VALUE OF COMMERCIAL PROPERTY SALES IN SCOTLAND (2021)



### OVERVIEW

The SPF's analysis of the latest commercial property sales data from Registers of Scotland has shown that the total value of commercial property sales in Scotland stood at £2.94bn in 2021. This is an increase of £1.02bn (53%) compared to the total value of sales in 2020.

The rise represents a recovery from last year's sales figures, which were heavily impacted by the pandemic and early restrictions. However, compared to 2018 and 2019, the total value of commercial property sales in 2021 was down by 14% and 18%, respectively.

### CITIES

In 2021, Scotland's four largest cities (Aberdeen, Dundee, Edinburgh and Glasgow) accounted for just under half of all commercial property sales (by value) in Scotland (47%) at £1.39bn.

Edinburgh continued its dominance of the Scottish commercial property market with £756m in sales last year, securing 26% of the market (by value). Elsewhere, Glasgow saw £431m in transactions during 2021 and had a 15% share of all commercial property sales by value. Over the same period, Aberdeen saw sales of £130m, while Dundee had sales of £72m.

### £5M+ SALES

There were 100 commercial property sales in Scotland that transacted at a value of £5m or more in 2021, up from 67 sales the year before. The total value of these transactions was £1.35bn, £0.44bn (48%) more than in 2020.

# REGIONAL SPOTLIGHT



The investment tracker **report** published this month by Aberdeen and Grampian Chambers of Commerce and Opportunity North East has identified £12bn of inward investment for the Aberdeen city region either delivered since 2017 or due over the next decade. The investment comes as the region seeks to reinvent itself and diversify its economy and built environment. The £12bn figure includes both private and public investment, including £1.23bn of commercial and residential development projects. A range of infrastructure projects are cited including Aberdeen South Harbour, improvements to Aberdeen International Airport, plus over £361m for town centre investments.

On 11 February, Glasgow City Council launched a four-week **consultation** on the future of George Square, home to the Council's famous City Chambers. This follows a previous review in 2019 and is intended to focus public attention on the square's design and its relationship to the City's £115m Avenues programme intended to improve the area's spatial connectivity. Glasgow City Council has also posted an update on contract opportunities for the City Region Deal. The update includes some £290m of contract opportunities on its procurement website and further details may be found **here**.

Dundee City Council has approved a major residential development by housebuilder, Barretts, that will regenerate the historic former Keillor factory site once synonymous with the city's industrial past, having employed 900 people on-site until the early 1990s. The development has been under planning for some five years and will support 345 direct jobs and an estimated 690 indirect jobs, while supplying 167 new homes and 56 flats. In its heyday, the factory produced marmalade that was famous the world over. Work is expected to start in spring.



# EVENTS

Invest in Opportunity: Scottish Real Estate 2022

## SPF Annual Conference

**31 May 2022**  
**EICC | Edinburgh**

To register your interest:  
contact **Gail Hume**

# THE BPF IS GOING TO MIPIM

Find out more about our programme,  
contact [events@bpf.org.uk](mailto:events@bpf.org.uk)



**Melanie Leech**  
Chief Executive



**Kirsty Wade-Porter**  
Head of Engagement



**David Melhuish**  
SPF Director



**Gail Hume**  
Head of Events

# INDUSTRY INSIGHT



## What next for Section 63 and Energy Efficiency in Non-Domestic Buildings?

**Alan Stark**

Chair

SPF Sustainability & Building Design Committee

For some time now, the Scottish Government has been reviewing existing regulations for energy efficiency in non-domestic buildings set under Section 63 (S63) of the Climate Change (Scotland) Act 2009. A government working group is due to report to Scottish Ministers on proposals for reform by the end of the year, and the Heat in Buildings Strategy setting 2025 as the deadline for new regulations to be laid, Section 63's evolution is likely to come to the fore over the coming months.

Broadly speaking, the current S63 regulations apply to buildings with a floor area of more than 1,000m<sup>2</sup> and are triggered by either the sale of the property or its lease to a new tenant. The regulations require the building owner to make an assessment and produce an 'Action Plan', which identifies targets for improvement of the carbon and energy performance of the building. The plan must specify how these targets would be met through physical improvements to the property. Once an Action Plan is finalised, the owner can choose to improve, or to defer the improvements by reporting energy ratings (Display Energy Certificate) on an annual basis.

It is fair to say these regulations have had limited success in improving energy efficiency. The Scottish Government's own research demonstrates there has been suboptimal compliance with the regulations, which are enforced by increasingly resource-strapped local authorities. In addition, of all the Action Plans lodged, fewer than 10% have ever been fully implemented. The regulations also restrict the measures that Action Plans can stipulate. Neither do they necessarily support the Scottish Government's drive for zero carbon heat, which will be key to meeting net-zero ambitions by 2045.

The Scottish Government has set out some of its initial thinking on what a new S63 regulatory regime might look like, with three broad options. The first is a measures-based approach – specifying a list of improvement measures that must be considered to reduce the energy demand associated with a non-

domestic building. This could involve developing the existing assessments and Action Plans.

The second is setting a minimum standards approach, similar to the MEES regulations planned for England. Such an approach would set a standard for the building's operation under standardised conditions. This would most likely be based on achieving a certain EPC rating for modelled energy use or emissions under standardised operating conditions.

The third option being explored by the Scottish Government is the use of an operational ratings approach. This would use the actual energy consumption and carbon emissions from the use of non-domestic buildings as the basis for a regulatory approach.

While these options are being explored by the working group that will report to Ministers, my take on the situation is that we're likely to see a combination of the options laid out above. Although many in the industry would prefer an operational ratings approach, as it would give a real-world picture of how a building preforms, such a system could be impractical for smaller buildings. A minimum standards approach may be the easiest to introduce based on the wide availability and understanding of the EPC system, but there is still significant concern about the ability for EPC assessments to differentiate between different building types and uses, not to mention the tenuous connection between EPCs and actual performance.

We expect that there will be an in-depth consultation on S63 proposals this year, and I do encourage you to get involved and share your thoughts with the SPF once published. In the meantime, you can also feed any views on current S63 regulations to the SPF team who will use this in their engagement with government on improving energy efficiency and decarbonising heat across the built environment.