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# Scottish Government Budget 2024

## **SPF's Pre-Budget Comments**

Submitted on 21 November 2024

## SCOTTISH PROPERTY FEDERATION

The Scottish Property Federation (SPF) is the voice for the real estate industry in Scotland. As a part of the wider British Property Federation, we include among our members: property investors, including major institutional pension and life funds; developers; landlords of commercial and residential property; and professional property consultants and advisers. Our members build Scotland's workplaces, deliver homes, shops, schools and other facilities and the infrastructure that serves them. Our industry is therefore a core component of the Scottish economy.

## SCOTTISH GOVERNMENT BUDGET 2024

To the Scottish Government

Dear Cabinet Secretary for Finance and Deputy First Minister for the Economy and Gaelic

Ahead of your annual Scottish Government budget, I am pleased to enclose brief comments by the Scottish Property Federation, representing the real estate sector who invest and act within Scotland.

Our key points are provided below:

- The critical need for economic growth to support public services and wider government objectives
- The importance of policy and leadership to support and nurture economic growth
- The need to urgently achieve a step change in the supply of new homes of all tenures
- The need to revitalise our built environment in the transition to net zero
- The need to boost our towns and cities as centres of economic drivers.

### Key Asks

- To amend the Housing Bill, as proposed, in order to deliver an investible form of rent controls where they are established in rent control areas. The government should reconsider its stance on extending rent controls beyond sitting tenants and ensure investors, large and small, are supported and incentivised to improve their properties where required
- To introduce stronger non-domestic rates support for the redevelopment of older buildings including relief from empty property rates where a building is part of a viable planning application

- To bring forward consultation on introducing a relief for Property Authorised Investment Funds and Co-ownership Actual Contractual Schemes for a relief under LBTT equivalent to the related UK SDLT relief
- Ensure the additional planning fees to be raised from December and in future years are directed to improved support for the planning services across Scotland
- To engage with the construction sector and related industries to address urgently the crisis in numbers of skilled contractors able to deliver (and remediate) new homes, business premises an infrastructure across Scotland
- To maintain the Scottish Government's relief for larger multiple dwellings under LBTT in order to support investment into the modern build to rent sector in Scotland

## Our industry

2. The commercial property industry is a multiplier of economic value. For every new £100m of demand in the sector a further £73m is created in the wider economy. Similar returns are achieved in the long term residential investment sector (build to rent) where it is estimated that for every 100 new homes constructed and then operated, some £13.2m is generated for the wider economy. Analysis by industry experts has identified that if Edinburgh and Glasgow alone could reach the level of investment achieved by Manchester then some £4.5bn GVA could be achieved over as little as five years depending on construction capacity. **Build to Rent is an opportunity to deliver a boost to the number of homes available for rent as well as the wider economy which we can ill afford to miss and lose out on.**

## Real estate and the economy

3. Investment in the Scottish real estate markets has struggled during 2024 and 2023. The global consultancy JLL's Scottish team reported recently at an SPF Commercial real estate Committee meeting that £1.2bn of real estate was transacted in Scotland the investment market for the first half of this year, with 26% identified for the Living Sector. **JLL drew attention to the unfortunate fact that this investment volume is in fact struggling to better that recorded in the aftermath of the Great Financial Crash (GFC) in 2008 and 2009 for the same time of year.**
4. New investment is the lifeblood of the real estate sector as it supports the renewal and maintenance of Scotland's built environment, and new development or redevelopment of new build to rent housing, student accommodation, hotels, offices, logistics and other facilities. These support key institutions and business facilities across Scotland. **The key concern however must also be that while vital this investment is also very focused on existing assets. Investment in the form of development capital remains at a very low level.**

5. The role of real estate is very much to provide a platform for the wider economy as well as the assembly and delivery of new living sectors and settlements across Scotland. In relation to the commercial property industry, there is both a need to revitalise and repurpose unwanted assets such as older offices as well as to support new logistics and hospitality facilities. The office market itself is subject to a polarisation of demand between the quality of modern employment facilities needed and desired by blue chip employers, and older stock (not always all that old) that will not meet the ESG standards required. We are at a point where the lack of available employment will become an issue for potential major corporate occupiers and this should be seen as a concern by major city economies in particular.

### Support for redevelopment of commercial and vacant buildings

6. What is clear is that we need support and incentives to repurpose and redevelop our older buildings. This may be to ease the burden of empty rates on a project that will take years to deliver post and during its planning application. The Scottish Government has delivered support for new commercial development via the Business Growth Accelerator which is welcome. However, the relief where developers seek to bring an older building back to life through redevelopment has been limited and constrained by fresh Start thresholds or through billing authorities and assessors not recognising the extent of a former building's redevelopment. We have been informed by industry members that has included seeking rates for bespoke buildings demolished, further to approved redevelopment plans. This costs enormous cash flow challenges for developers even if they might be eventually repaid. The government must demand and secure alignment of policy and leadership by public sector stakeholders that supports new investment.
7. We need positive support that will enable and facilitate the mass investment required to address the necessary redevelopment and regeneration of our older built environment, including listed properties no longer entitled to relief from empty property rates in their own right. **In addition, we urge the Scottish Government to consider seeking an updated version of the former Business Premises Renovation Allowance to support rejuvenating older commercial properties.**
8. **We would also urge the Scottish Government to (again) call for reform to the VAT regime of repair and maintenance in order to incentivise investment in older buildings.** There is both an economic and a policy need for these policies to be addressed, particularly in relation to the investment needed to achieve the transition to move towards net zero carbon emissions in the built environment.

### Support for Housing investment

9. Our sector and members have been particularly affected by the uncertainty related to the rent control provisions within the Housing (Scotland) Bill, to be considered shortly at Stage 1 in the Scottish parliament. **Our most recent evidence suggests a year on year fall in new development in the build to rent sector of some -45% which reveals the significance of the impact on investor confidence at a time when demand for new rental homes is high.** Unfortunately for Scotland, this is now a continuous trend of a fall in construction activity for this new form of residential investment. Where new build to rent sites have been delivered, the take up of properties has been among the fastest of its kind anywhere in the UK which underlines the strength of demand and appetite by renters for these homes.
10. We have welcomed the Housing Minister's statement to the Scottish parliament on 31 October which set out the headline change to the rent control mechanism within rent control areas. We are further encouraged by the forthcoming consultation on potential exemptions to the rent control regime for new build to rent housing and mid-market rental housing. There have been some positive discussions with our industry on restoring investor appetite for investment in Scotland following the statement. However, we have previously highlighted how by moving rent controls beyond sitting tenants, the government is in danger of missing the opportunity to restore confidence to not just new investors, but to the traditional PRS investors. **We estimate that remain some 15,000 homes in the planning pipeline that could be delivered in the build to rent sector alone in the next five to ten years – this would be in addition to the traditional private for sale market and that supported by the affordable and social housing budgets.**
11. **We urge the Scottish government to urgently review this measure within the Housing Bill if it wishes to boost overall supply and investment to rental housing across Scotland.**

## LBTT

12. We have welcomed recent engagements with the DFM and officials on the issue of achieving parity with the UK SDLT relief for Property Authorised Investment Funds and Co-ownership Actual Contractual Schemes. Our members have provided evidence on how this lack of parity is actively deterring investors from seeking Scottish real estate assets within pension funds, including public pension fund mandates. This undermines investment in Scottish commercial property. We ask the Scottish government to bring forward consultations on LBTT relief for PAIFs and CoACS as soon as practicable in order to address this disincentive to invest in Scotland.
13. The Scottish LBTT system retains a bureaucratic and unproductive measure that requires ratepayers to reassess their commercial property lease return every three years. It is unfortunate but not unexpected that penalties are a regular feature of this unnecessary bureaucracy. Even with taxes the measure has returned very little revenue over the nine

years of its existence. We call on the Scottish government to remove this unnecessary regulation on businesses, who will have paid their lease duty for what is supposed to be a transaction tax not a regular three yearly form of revenue return.

14. We remarked earlier on the need for investment in Housing. One aspect of the LBTT regime which is a positive differential with the UK SDLT regime is the large multiple dwellings relief, without which investors in the build to rent sector could be liable for significant transaction costs on hundreds of properties deemed to be 'second homes'. In Scotland, we urgently need to support investment in new rental properties for the build to rent sector. By way of comparison there are now some 115,000 build to rent homes delivered in England in the past decade (BPF/Savills Quarterly BtR Data) – in Scotland we are at just under 3,000, due to uncertainty with the Housing Bill and earlier legislation. **We must not lose this positive tax differentiation in Scotland to retain this relief which has already attracted some investment which we must build on.**

## Summary

15. We believe that if the government is to deliver on its wide range of priorities and policies for Scotland then it must use its powers and leadership to support a stronger economy. The property sector has a vital role to play in order to boost the supply of new housing, to bring forward new development (and redevelopment) to support employment and to regenerate parts of our urban realm.

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