1. The Scottish Property Federation is pleased to submit written evidence to the Local Government and Regeneration Committee in relation to the Draft Budget and Spending Review Inquiry. We are happy for our comments to be made public by the Committee.

The Scottish Property Federation

2. The SPF is a representative body for the Scottish commercial property industry and speaks for over 115 corporate members. Included within our membership are commercial property developers, landlords, property managers, fund managers and long term investors in both commercial and residential property. We are an integral part of the UK-wide British Property Federation which represents most of the UK and Scotland's largest property investors, developers and professional property industry advisers and property consultants.

The property industry in Scotland

3. Commercial property values in Scotland are estimated to have fallen by over 40% since their peak in mid-2007. In this context it is needless to say that the contribution of our industry to economic performance in Scotland is much reduced from its 2006-07 levels. The value of commercial property sales is down from a level of £6.2bn per year in 2006-07 to just £2.3bn in 2009-10. Official figures from ONS portray a continuing decline in the value of new construction orders achieved by the commercial property sector in the period January to December from 2008 to 2009. In 2008 the sector accounted for just over £1bn of new construction orders while by end 2009 this had fallen to £626mn per year.

4. We seek to play a representative and constructive role in our relations with government and it is in this context that we draw to your attention a number of concerns arising from the recent Spending Review announcements on Scottish Government business rates policy.

5. We recognise that the Scottish Government has considerable resource challenges and hard decisions to take. However, we feel that on this occasion the consequences of reducing empty property rates relief and the additional levy upon retailers of alcohol and tobacco could be counter-productive to the government’s aim of growing the economy.

6. We have six points in relation to these policy proposals that we submit for your consideration:

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1 Registers of Scotland data obtained by SPF
- Empty rate relief is a reduction in rates for properties producing no income or benefit. Arguably by paying 50% of the nominal rates businesses are already making a substantial contribution without reward – it is simply wrong to believe that landlords willingly turn down viable income streams.
- The proposed reduction for properties affected, from 50% to 10%, suggests a much higher cost than the published anticipated costs of £18mn per annum after April 2013.
- The Scottish Government argues that the intention is to incentivise the re-use of empty high street shops. Yet research on the experience in England based on over 600 respondents suggests occupancy is not increased as a result of withdrawing EPR.
- Increasing empty property rate costs adds risks to development, businesses and investors - this sends a negative signal to the business community in and beyond Scotland.
- The Public Health Levy penalises some of the most regular and consistent investors in Scotland and it will, we believe, have a material and negative impact on business decisions by these investors.
- Major retailers are often the key component of a development scheme. Singling major retailers out for additional taxation is therefore a deterrent to future investment in Scotland.

### Empty Property Rate Relief

7. The Scottish Government has proposed that Parliament reduces empty property rate relief from 50% to 10%, after an initial 3 month 100% relief period and with exemptions for industrial and listed properties who will continue to receive 100% relief. The policy is not therefore as draconian as it is in England with clear advantages for industrial and listed properties in particular and a slender advantage remaining for other properties. The stated purpose is to provide an incentive for the re-use of empty shops in high streets. The Government estimates that it will save around £18mn per annum from April 2013 on the basis of this policy.

8. Empty property relief supports ratepayers who are deriving no income from a commercial property. It is therefore a tax on failure in many ways and we believe that the 50% relief should not be lowered. We hold that the view that property owners would deliberately keep shops empty rather than derive income is simply wrong – this is a tenant led market and landlords regularly offer considerable incentives to retain or attract businesses to their properties. If properties are empty this is because of lack of demand and confidence.
9. We also believe the amount of rates added to empty properties could be significantly higher than is envisaged by the government in its draft budget. We have looked in depth in the past week at two central Glasgow streets, a shopping centre and one or two other properties across Scotland and we can already identify some £500,000 of additional rates payable from even this small sample. We would like therefore to explore whether you may be prepared to review the anticipated costs to ratepayers – business and the public sector – if it can be demonstrated that the potential cost of reducing empty property rate relief from 50% to 10% for the ratepayers affected is indeed far higher than anticipated at the time of the Spending Review statement.

10. In relation to our third bullet point, the Scottish Government has linked the reform of empty property rate relief to providing an incentive for the return of empty shops in the high streets to use. We feel this view is mistaken on a number of fronts and has been found to be disproven in a piece of wide-ranging research published in England in 2009 following their removal of long term empty property rate relief in 2008. This research found an overwhelming view that the policy of reducing empty property rate relief had not influenced occupancy levels but had impacted negatively upon rents. In time reduced rental values should feed through to the revaluation.

Public Health Levy

11. Our fifth and sixth points relate to the Public Health Supplement, the levy upon retailers of alcohol and tobacco in properties of £300,000 and over rateable value. This move is of great concern to the property industry as the main organisations to be affected will be the major supermarket investors. It is perhaps assumed that the reported profits made by the major retailers suggest a levy is easily afforded. We would disagree strongly. Supermarkets are required to be profitable on a store by store basis and the margin of profit is often slim. An additional levy of this order could therefore have a major impact on the profitability and sustainability of these stores which deliver valuable goods, services and employment across Scotland.

12. Commercial retail development is also among the few continuing lines of successful economic development that is operating in the current environment. Adding the cost of an additional levy will make future developments less viable. This will again have a negative consequence for economic growth. Added to the point will be the negative signal this sends to potential investors in Scotland, who will see potential major anchor stores and tenants deterred from locating because of targeted taxes such as the Public Health Levy. We would strongly advise the Minister to reconsider the implications of the Levy for the long term benefit of the Scottish economy.
13. We feel these issues have not as yet been fully aired in debate in the Parliament, or elsewhere in public and we believe it is important that Ministers and MSPs take a full view of the implications of the proposed reforms and reconsider their potential impact, ahead of the Budget and subsequent Budget policies.

14. We would be pleased to explain our concerns in greater depth at your convenience.

Yours sincerely

David Melhuish
Director
Scottish Property Federation

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