The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 25 April 2012

Session 4

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FINANCE COMMITTEE
12th Meeting 2012, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)
*Mark McDonald (North East Scotland) (SNP)
*Michael McMahon (Uddingston and Bellshill) (Lab)
*Elaine Murray (Dumfriesshire) (Lab)
*Paul Wheelhouse (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

David Melhuish (Scottish Property Federation)
Tom Stokes (Business Centre Association)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Wednesday 25 April 2012

[The Convener *opened the meeting at 10:00*]

Local Government Finance (Unoccupied Properties etc) (Scotland) Bill: Financial Memorandum

The Convener (Kenneth Gibson): Good morning and welcome to the 12th meeting in 2012 of the Finance Committee. I remind all present to switch off mobile phones, pagers, BlackBerrys and so on.

The first and, surprisingly, only item on our agenda is the first of our evidence sessions on the financial memorandum to the Local Government Finance (Unoccupied Properties etc) (Scotland) Bill. I welcome to the committee David Melhuish, from the Scottish Property Federation, and Tom Stokes, from the Business Centre Association.

As there are no openings statements, we will go straight to questions. [*Interruption*.] Excuse me, I seem to have a wee frog in my throat.

In time-honoured fashion, I will kick off by asking some questions just to get the ball rolling. My first question is for Mr Melhuish, although both witnesses can answer questions as they see fit.

I am interested in what Mr Melhuish said in his written submission about what happened in England following the introduction of a policy that is similar to that in the bill. The Scottish Property Federation is of the view that, as a result of the bill,

"there will be considerable additional costs to its members with unforeseen consequences for the market, including an increase in businesses being placed into administration."

I ask Mr Melhuish to expand on that point

David Melhuish (Scottish Property Federation): I am very happy to do that. Thank you very much for taking my evidence this morning.

One of the issues, of course, is that if a business is in administration, the rates on its property might not be paid. I think that that situation is an unforeseen consequence in relation to some of the figures that the Government presented to the committee.

We have been informed by some of our members that rates were a factor—I put it no stronger than that—in their property business ending up in administration. Those cases were a cost to the Exchequer. Previously, those businesses would have been the nominee liable to pay, for many of their properties, around 50 per cent of the rates, as the relief then was. When the policy changed in England, that liability increased significantly. In fact, it increased by 100 per cent, which is slightly more than is planned in Scotland. The policy therefore had a trigger effect, and our view is that that affords a perverse incentive for businesses to be flipped into administration, as opposed to people holding on to empty premises that cause an increase in rates liability.

Tom Stokes (Business Centre Association): A report came out last week that said that the number of property company administrations had increased by 64 per cent compared with the previous year. There is no explanation of why that was the case, but I am sure that the banks played a big part in it. However, the addition of empty property rates for properties that companies found difficult to let must have been an influence.

The Convener: Glasgow City Council said in its written submission:

"Experience of similar reform ... in England and Wales suggests that the intention to bring empty properties back into use has been largely undermined by the economic climate, and the resulting substantial reduction in demand for commercial buildings."

I declare an interest because I have a property in Glasgow.

Does the situation in England and Wales that has been referred to have more to do with the recession than legislation?

David Melhuish: The recession is the reason why properties are empty, so it is a big driver in the increasing cost of EPR. Ultimately, commercial property is a factor in the wider economy and when demand is weak and reducing, that will cause an increase in liability.

Tom Stokes: A number of developments in England were put on hold as a result of the introduction of EPR. At the time, I was managing director of Evans Easyspace. When EPR came in, we postponed three developments: one in Speke in Liverpool; one in Warrington; and one in Cannock. Subsequently, because of the recession, they were cancelled altogether. Similarly, companies such as Bizspace also cancelled developments, specifically because it became very difficult to get a development appraisal to stack up. EPR was the first factor that caused us to stop developing.

The Convener: Yes—I see that Glasgow City Council's submission states that there is a disincentive for people to make speculative investments.

In some small towns in the west of Scotland, there are a number of empty properties on high streets. Clearly, those properties are held by owners who do not rent them out because the rent is not high enough to encourage them to do so. As a result, it is very difficult for some small businesses to establish themselves. Some towns are almost hollowed out, because people who want to set up businesses cannot get property, even though there might be a dozen empty properties in a street. Given the concerns of both your organisations and in light of the issue that I have outlined, which the Scottish Government clearly wants to tackle, how should we take the issue forward?

David Melhuish: Having seen what has happened in England, I do not think that the change in policy there has helped to create an increase in occupation rates. As has been said, the recession is the biggest driver in the large number of vacancies that we have among our membership.

The prospect of landlords not taking up potential rental income, which is the meat and drink of their businesses—it is what keeps them in business—is extremely surprising. We cannot deny that there may be odd examples around the country of properties being held on to in the way that you describe, but in the vast majority of cases we would find it astonishing that landlords would give up potential rental income at this stage. We do not envisage that the policy change will help in relation to occupation.

The Convener: When there was growth in the property market and an increase in property values, it was thought that some landlords were buying property to hold on to it in anticipation that its value would increase and that they would sell it on, as opposed to having perhaps troublesome tenants move in. As a result of the recession, they cannot move the property on and commercial property values have fallen, so the issue is perhaps not the same as it was four or five years ago. From my experience, I believe that that was an issue in some towns in the west of Scotland. One of the motors behind the bill is to prevent that from happening again, even if it has been dampened down at present.

David Melhuish: I again point to the English experience. I will use the retail sector as an example. Before the change of policy there were relatively low vacancy rates. The recession came along and vacancy rates are now upwards of 14 per cent or so—they are probably slightly higher in Scotland across the piece, although not everywhere.

The issue that you touch on is that if an investor has taken on an investment on the basis of a certain cost and capital value, there is an issue about how easily they can rent out the property for much lower rates, because ultimately that might feed through to the capital value, which might cause them issues with their lenders.

Tom Stokes: I come back to the 64 per cent increase in the number of property company administrations. I suggest that a lot of that increase is because of the banks. Property companies are under pressure in meeting bank covenants in terms of both the capital value, which has probably fallen, and covering their interest payments. As a result, they have been forced into administration.

The pressure to let property at lower rentals has increased, mainly because of the attitudes of the banks: the companies need to get rental income in to satisfy their banking covenants. That is a far bigger incentive than empty rates. There will be continued downward pressure on rents, and pressure on companies simply to let space and satisfy the banks.

The Convener: I open out the evidence session to colleagues.

Elaine Murray (Dumfriesshire) (Lab): I return to the issue that the convener raised. I am sympathetic to the policy intention of the bill. If it does not work, we need to understand why. If a similar approach has not worked in England, we need to establish what might be the alternative.

I completely concur with what the convener says. My constituency has a history of speculators buying up town-centre properties and hanging on to them, not necessarily to let them out, but perhaps with the consideration that developers will want to demolish them and build new shops. There is definitely a history of that in many small towns and villages, which has had a deleterious effect on their appearance.

There are two issues. One is the effect of the recession on businesses that have properties that are intended for rental and development. The other is to do with properties that are being held speculatively and for a long time. The Convention of Scottish Local Authorities states in its written submission:

> "many empty commercial properties are owned by absentee landlords"

and

> "some are in very poor condition and therefore difficult to re-let or sell and are also possibly in negative equity."

I suspect, however, that many are not in negative equity because they have been owned for so long. This is perhaps taking us away from the financial memorandum but, given that you say that the bill is not the way to tackle that issue, can you suggest an alternative tool to address it?

David Melhuish: There certainly is evidence of speculation. However, a large number of properties that are held to let are held by large and small institutions or investors for pension funds, for example, and sometimes even by individual pension funds. Some of those businesses are relatively small, so it is difficult for them, in the absence of rental or property demand, to refurbish and regenerate properties, bring them up to scratch and get them back on the market.

There is evidence of such problems. However, it would be interesting to know whether COSLA has figures on the extent of speculation as it sees it. Based on the experience of our members, we find it difficult to accept the idea of landlords holding on to something that is a cost to them month on month as a result of rates payments and other costs that are associated with properties. Some of our members are offering terms and conditions under which there is a lease with a break clause, perhaps at year 3, and a three-year rent-free period so, in effect, the tenant could walk away without any demand. That is the extent of the weakness of demand in the wider market. That must be appreciated in considering the financial memorandum.

Elaine Murray: The financial memorandum makes a number of assumptions about the total number of recipients; the split between different types of properties; the number of standard commercial properties moving from 100 per cent to 50 per cent rates relief during the year because they have been empty for more than three months; and eligibility for other types of relief. The financial memorandum has been criticised for not giving the details of those assumptions. Do you have comments on the assumptions that have been made?

David Melhuish: Yes, we have criticisms. We are suspicious about the figures on the movement of properties into and out of 100 per cent relief. Somehow, those properties appear to have been excluded from the wider figure that has been provided to the committee. When we looked through our sample, we found that most of the properties appeared to have been empty for considerably longer than three months, as far as we could tell from the valuation roll. I am dubious about the figures on how many properties might have moved out of the liability that is referred to in the financial memorandum. The Government has reduced the figure to about 6,500 properties out of 20,000.

We are also dubious about the interplay of other types of relief. Listed properties relief is significant. For the record, we absolutely accept that the fact that industrial property will retain 100 per cent relief is a significant difference from the policy that was effected in England. The Government alluded to the fact that small businesses with empty properties will be able to benefit through the small business bonus scheme, but small businesses will not often have more than one premise or property—if they still exist at all—so I wonder how many businesses will benefit in that way. Therefore, we have suspicions, and further enlightenment from the Government would be helpful.

10:15

Tom Stokes: I have nothing to add to that.

Returning to your first question, business centres operate quite differently from the traditional property market. They let space on a flexible, easy-in, easy-out basis, which we believe is what small businesses want.

Business centres do not deliberately keep their units empty; in fact, they do the exact opposite. I would say that 90 per cent of their time is spent looking at how they can let and continue to keep their space let. In an easy-in, easy-out environment, businesses that are not successful disappear; some expand and move on; and others move about in the centre. There is always churn and there is always a need to look for new occupiers. We do that in a much more aggressive and focused way than the traditional property market. We do not tend to use traditional property agents. There are different ways in which we let space.

When EPR was introduced in England, the creation of new premises almost came to a standstill. We persuaded the Government to introduce a rateable value threshold of £15,000, which was subsequently increased to £18,000 as a result of the re-evaluation. That was followed by a change in the market. There was a growth in new centres—mainly in those that were run on a different basis and which were managed by operators. There would be a property owner who had an empty building that they could not let on the traditional basis because of the recession but who was willing to invest a little money to create a business centre. That not only brought in some income but mitigated rates because the individual units had rateable values of less than the threshold. We went from no growth when EPR was first introduced to growth in business centres run on a slightly different basis.

When the coalition reduced the threshold to £2,600, again we saw a virtual standstill in new centres in the United Kingdom, with the exception of London—the London market operates completely differently from anywhere else.

The Business Centre Association suggests the introduction of a threshold in cases in which we have a genuinely flexible product—business centres, co-working hubs, incubation and innovation centres and so on—that caters for small businesses and does not operate in the same way as the traditional market. As far as the Scottish Government is concerned, the cost would not be significant but it would guarantee continual growth in small business centres.

Over the past year, business centres have seen growth in the number of inquiries and lettings. A survey carried out in the past quarter by the Business Centre Association showed that the majority of business centres are experiencing an increase in inquiries, lettings and rental levels. There is therefore a need for the creation of small business spaces. My concern is that if EPR were introduced in Scotland, it would cause the industry to stagnate as it did in England. As far as the Business Centre Association is concerned, a threshold would be a good solution.

Elaine Murray: Do you have any suggestions for a threshold? Obviously, you would not want it to be set at such a level that small businesses would be discouraged from growing a bit bigger. EPR has been in place for only about three years in England anyway, so you have not had a lot of time to see whether it has discouraged small businesses from growing.

Tom Stokes: The recent survey shows that the biggest increase in take-up was on the part of small businesses. The print on the document that I have before me is quite small, but the pie chart suggests that roughly 45 per cent of businesses moving into business centres have been new small businesses. That is a significant amount.

Mark McDonald (North East Scotland) (SNP): You have mentioned the recession a number of times. Is not one of the problems the fact that many developers and property holders are still levying rates and rent on their property as if we were not in a recession?

David Melhuish: No. As was alluded to earlier, the recession has exacerbated an existing move towards greater flexibility and shorter leases. As the market switched to become more tenant-driven—as there is a lack of demand, landlords have to work harder to get tenants—tenants were given lots of incentives, such as rent-free periods.

I do not think that you can look at the issue from only one side. Landlords and property developers have financial arrangements with banks and lenders that they are tied into, so you should not assume that they can easily reduce their charges by a great extent. As Tom Stokes suggested, they have to meet the commitments that they have given the banks.

The picture is more complex than you suggest, so I would not accept that general description.

Mark McDonald: I appreciate that what I suggested will not be the case across the board. However, many businesses that contact me because of difficulties accessing properties say that the main problem is that the rental value that is attached to properties continues to be set at a level that is comparable to that which existed prior to the recession. That is where I take that view from. Elaine Murray pointed out that the problem existed in many places prior to the recession, and I can think of a number of examples in North East Scotland, the area that I represent. With regard to the long-term aspect, the examples tend to be in deprived areas. It does not seem to matter whether the economic climate is good or bad; the properties or blocks of properties continue to remain empty.

Where is the incentive for the people who own the shops or properties to rent them out? Why should we give them some form of benefit to keep the properties empty, given that having ugly, empty shopfronts blighting streets acts as a counterbalance to efforts to regenerate deprived communities?

David Melhuish: You talk about the benefit of empty property rates relief, but you should remember that those properties are bringing no economic benefit to the landlord or the ratepayer—which can be public or private. Therefore, as they are paying 50 per cent of the rates but are taking in no money, I would say that landlords already have a powerful incentive to let those properties. I see the increase in liability as a tax on failure.

Mark McDonald: Failure by whom?

David Melhuish: Economic failure.

Mark McDonald: Are there any changes that would result in an increased cost base for the individuals and organisations that you represent about which you would come to the committee and say you were happy?

David Melhuish: That is a very wide question.

I will give you an example. We have publicly supported landlord levies for business improvement districts over a number of years. Those levies represent an extra charge on business rates. That is a short, off-the-cuff reply to a very wide question.

Mark McDonald: I appreciate that.

I am aware that a number of business centres rely on a constant turnover of clientele. What difficulties have you identified in that regard? You say that there has been an increase in the number of small businesses in England. It is often said that one of the results of a recession is a boom in small businesses, as people who have been laid off look to start up their own business. Is it the case that there is no demand for such properties?

Tom Stokes: No. Over the past year, the demand has been increasing throughout the UK, including in Scotland. There was a definite surge in lettings to very small businesses when the recession started, which was caused mainly by private companies shedding workforce. Given that the public sector is under pressure to reduce staffing levels, I anticipate that we will see a similar increase in the number of those people setting up businesses.

When people set up a business, they often start off working at home, but we tend to see a movement to working in business centres, because not everyone can work from home. We will see a change in the way in which some of the business centres operate. Much more emphasis is being placed on the provision of space that is geared specifically towards people who have been home workers and who want to work in—for want of a better phrase—a more corporate environment. That is being done through co-working hubs, for example, which have been introduced in business centres. Business centres are changing to reflect the change in demand and the change in the style of working of those who have microbusinesses.

Demand is definitely increasing. Our concern is that if EPR were introduced and it stifled the development of new centres, there would be an increase in rents, which would not be desirable, and there would be a shortage of space that was suitable for small businesses.

Mark McDonald: I am struggling to understand the point. If the demand is there, surely there is much less to worry about. I know that some business centres are speculative developments, but it would be foolish to develop a business centre without having done the appropriate market research to prove that the spaces could be filled.

Where does the concern come from? If, as you say, the demand exists, surely the concern that you raise—which I am not saying is invalid—is less likely to manifest itself.

Tom Stokes: Virtually no brand-new business centres are being built other than ones that are entirely sponsored by the public sector. That has been the case for about three years, simply because the cost of building is greater than the end value. The fact that capital values have fallen below the cost of building is a direct result of the recession. It is only possible to build business centres on a speculative basis so, in the current situation, you will not see brand-new buildings being built for business centres. It is more likely that older buildings that are no longer economic in their current use, or which are just unlettable because there is no demand for larger spaces, will be used. The growth has been in the conversion of older buildings and that is where we will continue to see growth over the next few years.

Mark McDonald: Would the provision of larger spaces not follow on from what Elaine Murray said about small businesses that look to expand? A number of companies that I have had dealings with have outgrown their current premises and are actively looking for larges spaces to move into.

Obviously, the natural flow of things is that a small business starts up, grows and moves to larger premises, and a new start-up business replaces it in the original premises. If, as you say, there is demand from small businesses, that flow should continue if larger premises are being provided. I understand your concern about charges being levied on empty larger spaces. However, the evidence that has been coming to me in the north-east is that the flow is being blocked by inability to access larger spaces.

10:30

Tom Stokes: My experience is that there is a bit of a gap in the market between the small spaces that business centres provide and larger spaces. We should bear it in mind that the small office spaces range from one-person offices to spaces that hold 10 or 20 people. For industrial businesses, the managed business space is usually built up to 1,000ft² or 1,500ft². However, there has tended to be a gap in the market between that sort of size and the 10,000ft² units. There has therefore been a problem in provision of property of a certain size that has made it difficult for small businesses to find the right sort of space unless they make the big jump from a space of, say, 1,000ft² to one of 10,000ft², which is not always practical.

David Melhuish: The problem is not just at the smallest end, because there is a disincentive to speculative development for larger spaces. In Wales, a three-year exemption has recently been introduced for purely speculative commercial build for new spaces. We think that the Scottish Government should look closely at that. I believe that there has been some concern about state aid, but Wales has found a way to do it such that speculative properties will not be on the valuation roll. That might be something to look into. The economy needs a certain percentage of vacant properties for it to breathe and grow into, for the reasons that Mr McDonald just explained.

Mark McDonald: I understand everything that you say about speculative build. However, surely you consult the Federation of Small Businesses and other organisations that will tell you where demand exists and where there are gaps, which you can then feed back to your members. There might be speculative build, but there will be evidence out there of demand, and demand-led build is just as relevant as speculative build.

David Melhuish: At the moment, our members are not building unless they have a pre-let, so you can describe that as demand-led build. In addition, our members work in the market, so they are attuned to the demand that they get from it and, as I said, demand is weak in general. However, demand is not just a one-piece trick. As Tom Stokes explained, for small-scale properties with very short leases, small businesses and start-up businesses are in and out, so he has welcome demand in his sector. However, there is weak demand for slightly larger properties.

Tom Stokes: I am a great believer that where you have people, you will find demand for very small spaces in which to work. I proved that over the years with the number of developments that I carried out with my previous company, Evans Easyspace. We had about 68 centres scattered across the United Kingdom, quite a significant number of which were in Scotland. We always had high occupancy levels in the centres. However, achieving that takes time.

A typically sized business centre has 50 to 70 small units, although some of our centres in Scotland had 100 units. However, there are never 50 people who are ready at the same time to step into small units—filling them takes time. With the exceptions of London and other very big cities, it can take up to three years to reach optimum occupancy. If EPR was applied during that time, we would be getting taxed on providing potential space for businesses. It is not that we do not want to let spaces, but that there will be only so many people at one time who want that type of small space. EPR would be a real disincentive to creating those small spaces. The only way we can do that is on a speculative basis.

Michael McMahon (Uddingston and Bellshill) (Lab): Mr Stokes said—I hope that I am not misquoting him—that businesses do not deliberately keep properties empty. I invite you to come to Uddingston Main Street to see the property that is dilapidating there because a developer deliberately will not put it back on the market. He also has two properties in Hamilton with which he is doing the same. Developers do deliberately keep properties empty. Unlike colleagues, I am not yet convinced about the bill. I do not think that what is proposed would make such individuals put their property back on the market or keep it in a good condition.

I am also a bit concerned about the law of unintended consequences. The SPF has done a bit of work on the potential cost of the proposals to public bodies including local authorities, but you say that, in the financial memorandum, the Scottish Government may have ignored Scottish Enterprise. If that is the case, it may have ignored others. Will you expand on the implications of that?

David Melhuish: There would be an unforeseen cost to the public budgets. It would also be a disincentive to Scottish Enterprise making space available. We know for a fact that Scottish Enterprise is worried not just about the smaller end, but about the larger end and some of the drivers of our economy such as the centre of Glasgow, where there is less than a year's worth of top, grade-A office space for use by major corporate occupiers, which bring a lot of jobs and economic prosperity to the city.

The cost would be an inhibitor to economic development for public sector agencies that are responsible for that and for councils, which seek to do what they can, as well as being a direct cost on the bottom-line budgets. The Government's figures suggest that only 12 of its properties would be liable, but when we looked at the valuation roll there were far more than that just for Scottish Enterprise. Other bodies—the national health service, for example—will also have empty properties.

Michael McMahon: That is the point that I was going to make. Given the current cuts to the public sector, a lot of local authorities, health boards and others are consolidating and leaving properties empty but are retaining them in the hope that, at some time, the public sector will expand and those properties will become useful to them again. How significant is that situation for the bill?

David Melhuish: A key concern is that local authorities' ability to help smaller businesses in order to get the economy going again would be inhibited. High streets were mentioned: the truth of the matter is that there may not be the big-ticket investment in those areas at the moment because funding is almost entirely directed at the prime centres. It tends to be something of a one-glove-fits-all approach as well. As has also been mentioned, the major funders are now looking at London but not at many other places, to be honest. Lack of access to finance often means that the local authority may be the last player in town.

Tom Stokes: My area is business centres, which operate differently in the property market. Members will know the experience of my centres—we try very hard to keep them as full as possible. With tongue in cheek, I suggest that the private sector could help local authorities in particular by offering its small properties on much more flexible terms than it does at present. If local authorities worked in partnership with the private sector, local authority occupancy levels may increase. I am sure that Business Centre Association members would be delighted to help.

Michael McMahon: I am sure that they would.

Another aspect of the financial memorandum is the cost of the proposals to local authorities. It appears that not much information has been given by the local authorities about their calculation of the increase in the costs of staffing and information technology to administer the proposals. The Scottish Government has given a figure of between £28,500 and £85,000. Is that realistic? It seems to be quite a wide range. Have you done any work on that, and do you think that that figure is realistic?

David Melhuish: We have not looked at the local authority staffing and administrative costs. The increase in costs would not be just for local authorities. I suspect that there would also be an increased demand on the assessors to reassess certain properties. Because there is already a substantial business rates system in place, the Government is expecting it to take the burden, but there is a question about the accuracy of the figures for increased demand for appeals and so forth.

John Mason (Glasgow Shettleston) (SNP): I was just looking at the Business Centre Association's submission. From what I am picking up from your answers so far, the big issue at the moment is the recession, whereas reducing relief seems to be a minor issue. Do you stand by the statement, on the first page of your submission, that

"Indications are that changes to EPR in Scotland could have the same devastating effect on our sector just as transpired in England."

Are you really saying that reduction in relief would have a devastating effect?

Tom Stokes: The Business Centre Association wants to promote the growth of business centres across the UK, but when the EPR was introduced in England, developments came to a standstill. Obviously, we went into recession very soon after EPR was introduced, but developments were cancelled as a result of EPR. It was only when the threshold was reintroduced that we saw growth again, but in a different way; redundant buildings and buildings that were virtually impossible to let were converted into business centres.

Development stopped because of the recession, but there is evidence that when the threshold was reduced in England to £2,600, the development of new business centres also dried up. It is difficult to persuade a property owner to invest in property that might take two or three years to be let at an optimum amount when they have that additional tax to pay during the letting process.

John Mason: Has anyone done a study on how much of the reduction in provision in England was because of the reduction in relief and how much was because of the recession?

Tom Stokes: No, we have not studied the matter to that extent, but it is clearly no coincidence that the new developments dried up as soon as the EPR threshold was reduced. It is a major incentive for someone to invest a little bit more in their property if they do not have to pay rates during the letting process because each unit was below the threshold. What would be the rateable value of an office block of 40,000 ft^2 in a town centre?

David Melhuish: It would be about £50,000 to £60,000, or maybe more.

Tom Stokes: The owner would save that by paying empty property rates, and if the building is then converted into a business centre in which all the units are below the threshold, there will be no rates burden during the letting process. Income would be generated because the small business market is more buoyant.

John Mason: I am happy to come back on that particular point. I wonder whether it is a coincidence that developments dried up at the same time as the threshold was reduced as the recession happened. It is very difficult to separate the two. It might not be true, but it could be that EPR had virtually no effect. We are not seeing many flourishing business centres in Scotland, either.

Tom Stokes: Six new business centres opened last year in Scotland. Admittedly they were confined to Aberdeen, Edinburgh and Glasgow, but at least we saw some growth. If we accept that the recession has had an effect—no one can argue with that—why introduce another tax that will make it more difficult for people to convert their empty properties into business centres, which is in effect what you will be doing?

John Mason: Would you be more relaxed if the measure was introduced when businesses and property prices were going up?

10:45

Tom Stokes: Yes, but I cannot see that happening for a while. The Business Centre Association has advocated for a moratorium on empty property rates for properties that are new to the market. Units of 100ft^2 or 200ft^2 cannot be created to order; they have to be developed on a speculative basis, and if they are taxed during the letting process, that is a real disincentive. It does not matter whether the economy is or is not strong; such taxation is a disincentive to speculative building. The threshold was significant for the BCA. It stimulated the growth of new business centres, which is what we want to do.

John Mason: I take your point that, at the moment, a lot of people who buy properties would not tend to sit on them hoping for their price to go up, because they will have to wait for a very long time, but I think that there is evidence in smaller places that that has happened when prices have gone up. There is the example of the old post office in George Square in Glasgow city centre, which somebody sat on for a very long time and basically used as an advertising board. The building simply sat empty and deteriorated. I accept that that happened at a time when prices were going up and there was an incentive to sit on the property. Therefore, in a sense, I can see that there might be a stronger argument for doing that when prices are going up, although I accept that that is not the point of the bill. Do you accept that?

Tom Stokes: Yes. I have no argument with that.

John Mason: On the second page of your submission, under the heading “Main Issues”, you say:

> “Rates are a tax for the provision of local services. Empty buildings make little or no demand on local services.”

Do you stand by that? I would have thought that the council has to maintain roads, street lighting and public transport, and that it must get the place swept, which all carries on whether or not the property is empty, so there is no saving to the council if a property is empty.

Tom Stokes: Things such as refuse collections, for example—

John Mason: Businesses pay separately for refuse collections.

Tom Stokes: They pay separately in some areas, but not in all.

John Mason: Your submission talks about larger centres being broken down into small units in order to get around the threshold level, but that has brought them into use. You have mentioned that already. It seems to me that that is a good thing and that it might not have happened if the policy had not been accepted in England.

Tom Stokes: I am not quite sure what you mean. They were broken down only in order to get them under the threshold.

John Mason: Yes, but if there had been no rates and no threshold, there would have been no incentive.

Tom Stokes: It is not at all correct that the threshold brought properties back to life. If you split up a property, spend money on it and the sum for all the individual units is higher than the rateable value for one entry, that will cost you more. The point that I am making is that you will not let it straight away. Outside the prime locations, it will take two to three years to get up there. There will be taxation, and there is no advantage in splitting up a property if there is taxation straight away.

John Mason: I am not questioning your argument that it takes time to fill up a business centre. That is fair enough.

I want to move on to the Scottish Property Federation’s submission. On the second page of that submission, under the heading “Costs”, the SPF says that the

> “policy in England has coincided with an increase in retail vacancy rates from 3% in 2007 to over 14% in 2011.”

Again, there is an interchange between the recession and the EPR. Have you done any studies on that? Perhaps the figure would have been worse than 14 per cent if it had not been for the EPR.

David Melhuish: I can point to a study that was done by agents around that time. The point is that the policy has done nothing for occupation, but has vastly increased the tax burden on property businesses and businesses that have sought to move out, downsize or—in certain instances—to upsize, although there are probably fewer of them in the recession. Such businesses are stuck with properties that they cannot dispose of, and they pay rates on them. Their rates would increase by 100 per cent. As I said, the policy has done nothing for occupation, according to the 600 respondents to that survey, which was done in England. It just increased the already significant tax burden.

The fact that investors are now much more risk averse because of the recession—risk is the key factor, as both I and Tom Stokes have pointed out today—means that people will not seek to redevelop dilapidated properties because there will be a significant up-front cost and they will be unable to let the property because of weak demand. There will also be an effect on the speculative new build that is essential for driving an economy.

John Mason: Okay.

We have concentrated on the business side, but you also comment on council tax in your submission, so I assume that you are involved in the residential sector as well. You say that

> “there appears to have been little assessment of why homes lay empty for significant periods of time”.

I live in a close in which a flat on the bottom floor sat empty for ages. I wondered why it was left sitting empty. Would not less discount be an incentive to get things moving more quickly, including among the building societies that might repossess such properties?

David Melhuish: My understanding is that only two local authorities stick to the 50 per cent discount. One is Glasgow City Council. I am afraid that I cannot remember the other.

John Mason: It is Renfrewshire Council.

David Melhuish: Most have moved to the reduced discount. The main thrust of our concern is the definition of long-term empty properties at just six months. As you pointed out, we mention in our submission the lack, in the Government's consultation on the policy, of analysis of why properties are left empty.

I do not know whether a landlord was involved in the case that John Mason mentioned, but it seems that people often stumble into having empty properties. It can happen unexpectedly because people are in transition between properties or because they inherit them.

We have discussed the matter with the Scottish Association of Landlords. Our interest probably focuses on large-scale residential landlords, who try hard to let their properties for the same reasons as commercial landlords do. If a property is sitting empty, it is not producing rent, and rent is the basis of their business.

John Mason: The rented sector is one sector, but there is also the owner-occupier sector. In many cases, owner-occupiers leave properties empty for whatever reason and nothing happens for a long time. The main aim of the bill is to get empty homes used by people because there are a lot of homeless people. Do you have an alternative suggestion for how we could better achieve the aim?

David Melhuish: As I said, in the consultation there was no analysis of why properties are empty, but one thing that is emerging is that there is a significant fear of renting properties out on the part of unwilling landlords who are stuck with a liability. Also, people are uncertain about the whys and wherefores of entering the business full time. In the vast majority of local authority areas in Scotland, such people are paying 90 per cent of the council tax. I would characterise that as being a pretty strong incentive for them to get their properties off their hands.

John Mason: Thank you.

Paul Wheelhouse (South Scotland) (SNP): First, I declare in interest as per my entry in the register of members' interests. I used to work for the DTZ group and I am still a member of that company's occupational pension scheme.

On the point about the economic context in which this debate is happening, do you accept that another key factor in the drop-off in the development of business centres and other commercial property has been the rebalancing of the banks' investment portfolios? In many cases, through acts of regulation, they have been incentivised to divest themselves of commercial property and move into other forms of investment that require a lower level of capital in reserve than is required to balance against commercial property investment.

David Melhuish: That is a fast-moving piece. The regulations on capital adequacy ratios for those in the banking sector are increasing immensely. However, there is a commercial property debt overhang of approaching £300 billion across the UK, and the last figure that I saw was that about 6 per cent of that applies to Scotland. Therefore, the banks are in an awkward position with a number of commercial properties, which are potentially underwater because of the drop in capital values, which have returned somewhat in certain areas of the country, such as London, but not really in many other parts.

The weakness of demand means that the banks are stuck. If they unload a lot of stock, they could cause more economic harm by deflating the market to such an extent that many more businesses—including businesses that are not property businesses but have securities that are based on properties that they may own outright—find themselves in trouble, at a time when demand for renting properties and making use of them in the first place is weak.

There is an incentive to move away from real estate because of the circumstances of the past few years. Banks are hugely risk averse towards lending for the redevelopment of older properties or for new properties. In our view, empty property rates are simply another factor that adds to that disincentive and the problems of development viability, which Tom Stokes mentioned earlier.

Paul Wheelhouse: Thank you for that. I do not disagree with what you said. I was just adding to the point that John Mason and the convener made about the wider economic context in which the discussion is taking place. A significant shift is taking place in the investment portfolios in many lending institutions, which exacerbates the problem. That may explain why there has been such a drop-off—or, at least, lack of recovery—in investment in business centres outside London.

I think that Tom Stokes—correct me if I am wrong—said earlier that it would take up to three years to achieve optimal occupancy of a speculative development. I ask him to clarify the typical period in which a speculative development would be expected to reach something like 50 per cent occupancy rather than optimal occupancy and what he means by optimal occupancy, just so that we can understand the point.

Tom Stokes: It would be disappointing if a business centre did not get up to 50 per cent occupancy in the first year and around 75 per cent occupancy in the second year. Because of churn, 90 per cent occupancy is generally what is meant by "full" as far as a business centre is concerned. Businesses are always moving in and out as they expand or downsize so, if a developer was doing an appraisal, they would put 90 per cent as full. However, if a centre does not achieve 50 per cent occupancy in the first year, there is something wrong.

You are right in what you said about the banks. They will have an impact on the development of business centres because there is a risk involved. It boils down to the fact that, if EPR is charged on business centres, it increases the risk. If, as a consequence, it will take longer for the development to come into profitability, that makes the decision to invest more money in it more difficult for the bank or other investor.

Paul Wheelhouse: I was going to come on to that point, so I will deal with it now. How would that manifest itself in an investment appraisal that your clients or members undertake? Would it manifest itself as a higher risk factor or would it be factored into a lower yield for the investment?

Tom Stokes: It is one and the same.

David Melhuish: Yes, I would argue that it is one and the same. At the end of the day, it would be regarded as a liability in the appraisal model and an assessment would be made of the expected yield from the investment in the development project. It would manifest itself as part of that.

Paul Wheelhouse: How significant a difference would it make to the yield on a typical development? You talked about a 400,000ft² building that was being converted into smaller units. What would the scale of the impact be on the yield from that project or is it not possible to say at this stage?

David Melhuish: We could probably make an estimate and submit that information to the committee, but it would be difficult to make an estimate off the cuff.

Some of our members' development appraisals that I have seen were put together some years ago. The development or redevelopment of a business space does not happen overnight—we are talking about a five or 10-year specification in many cases—so many continuing projects will not have factored in an 80 per cent increase in empty property rates liability, which is what will happen next year, in effect. I do not want to refer directly to the project that I have in mind—after all, most members provide evidence anonymously to our organisation—but, in that specific case, you are talking about an increase of upwards of hundreds of thousands of pounds in costs. It is a very serious factor.

11:00

Tom Stokes: When I am not wearing my BCA hat, I act as a consultant for business centres and know that, in any appraisal, the largest individual cost is rates. If that can be removed from the development appraisal, it will make a significant difference and therefore make it more likely that the development will go ahead.

Paul Wheelhouse: We discussed the fact that, in Wales, there is a three-year window in which to convert and let a building. Given that, as Mr Stokes suggested, one would expect 50 per cent occupancy at the end of the first year, 75 per cent at the end of the second year and—hopefully—up to 90 per cent or better by the end of the third year, I wonder whether, instead of having three years of rate relief for a building that might actually have quite a few tenants by the end of the first or second years, there might be scope to phase in rates in line with expected occupancy.

Tom Stokes: Perhaps I can explain. What we were talking about was a moratorium on empty rates; once the unit was occupied, the owner would pay normal business rates, so there would be a sliding scale. The fact, though, is that it is an awful lot easier to get appraisals to work if the empty rates element is not there. If that happened, a building that for some reason was not producing any rateable income would at least be contributing something to the local economy.

Paul Wheelhouse: That clarification was very helpful.

Finally, you said that most of the business centres that have recently been developed in Scotland have been either entirely funded or entirely led by the public sector and that, in such cases, Scottish Enterprise and local authorities have usually intervened if there has been clear evidence of market failure. Otherwise, they could not justify the funding through their own appraisals. I believe that the SPF submission refers to the potential risk to the public sector—indeed, Michael McMahon picked up on the same point—and I wonder whether there might be scope in continuing to make a distinction between public sector-led investment, which is typically made where there is strong evidence of market failure and where there is no pre-existing demand for the property, requiring a longer time for it to be let, and fully market-oriented and demand-led developments that one might expect to be occupied relatively quickly.

David Melhuish: You would need quite complex rules to disentangle all that, because you are talking about specifying areas in which, almost by definition, the private sector cannot intervene. I am also aware that, as in England, other policy initiatives with regard to enterprise areas have been introduced in Scotland.

Such a proposal has potential, but it might lead to distortions in the wider market and would certainly need careful consideration before policy was moved in that direction. Concerns have been expressed about some of the existing enterprise zone incentives. For example, new premises in a traditional enterprise zone that have not filled up because of the recession might be located close to a privately led investment that is also struggling but which, because it is not in the zone, cannot offer the same kind of rental incentives. The Government needs to think about such distortions. I would proceed with caution but, as I have said, I am aware of wider policy incentives in this area.

Paul Wheelhouse: I was thinking in particular of situations in which there might be no private sector interest in developing the kind of hubs that Mr Stokes mentioned earlier. In normal circumstances, even with rates relief, filling up such projects in much more peripheral locations—perhaps in rural areas such as Dumfries or the Borders, where I live—rather than in urban centres such as Edinburgh or Glasgow might well be a struggle. Might a distinction be made when it is self-evident that there has been market failure for years and that there is no commercial interest whatever in developing properties? In such circumstances, a long lead-in time might be needed to get occupants into premises.

David Melhuish: That could be the case—that would come down to the distinctions and how the line was drawn. Such an arrangement could help to get things going when they would not otherwise happen, but I am sure that the public sector would want to assess demand carefully location by location.

Tom Stokes: Part of the reason for market failure is low rents, which mean that an appraisal does not stack up. An awful lot of the business centres that the public sector has built over the years have been brand new, but plenty of tired properties that are past their sell-by date could be used. If local authorities were prepared to work hand in hand with private sector bodies that own such buildings, that would be a far cheaper and more economical solution to creating small business space. Continually building new and shiny buildings would be an awful lot more expensive, because the rates would be higher, for example.

Gavin Brown (Lothian) (Con): On the balance of probability, will more empty commercial properties come into use if the bill is passed than would come into use if it were not passed?

David Melhuish: As I said, my view and that of our federation is that the bill will do nothing to boost occupancy. It will definitely be a disincentive to redeveloping older shells into new properties and to building entirely new properties. The bill will not bring new properties on to the market.

Tom Stokes: This is not 100 per cent my area of expertise, but all that we need to do is look at the figures from England. Empty property rates have operated there since 2008, but the empty properties situation is still similar. Empty property rates do not seem to have brought empty properties back into use.

The same situation applies to retail. I live in England now. In some English town centres, 17, 18 or 19 per cent of retail premises are empty. A fund has just been established in England under which towns are getting £1 million to attract businesses back into town centres. Money is being spent to get businesses into town centres.

Rotherham has been held up as a great example of how to regenerate a town centre. A lot of properties there are owned by the local authority, which gave incentives to get certain trades back into the town centre. That has been successful. It was not EPR but incentives that attracted retailers back into the town centre.

Gavin Brown: I accept the argument of many that it is difficult to decouple the impacts of a downturn and a recession from a policy that has been introduced, but there is a small window through which we can look solely at the policy. If I am correct, the policy was announced in the 2007 budget and was implemented in April 2008. The downturn hit—formally, anyway—in the autumn of 2008. Do you have a picture of what happened on the ground in the window between the announcement in the 2007 budget and the downturn?

Tom Stokes: All that I can say is that a number of business centres were stopped between April 2008 and the formal start of the recession. Those centres have never started up again. Whether they would have proceeded if the recession had not happened remains to be seen. It was clear that a number of business centre owners who were actively developing centres put their development programmes on hold as a direct result of EPR.

It is only anecdotal evidence, but the property press in particular contained headlines about “Bombsite Britain”, because a number of owners demolished properties that had been unlettable in their existing condition to avoid empty property rates. That happened quickly after April 2008. I think that David Melhuish would concur with that.

David Melhuish: I would. The credit crunch was starting to be foreseen as early as late 2007, if not slightly before then. Given the long lead-in for many of these projects, the crunch was coming on well before the change in policy, which I think exacerbated that factor, because it added an on-going liability.

A distinction should be drawn, in that there has been some slightly more positive news, in Scotland at any rate, on smaller industrial premises, which, of course, benefit from 100 per cent relief. That is one of the few areas in which the story has not been so negative—in fact, I would say that, on balance, it has been positive—over the past few years in Scotland.

Gavin Brown: Reference has been made, in submissions and in evidence this morning, to the demolition of properties. In your written submission, you suggested that, in some cases, it was easier to demolish a property than it was to have it empty and to pay EPR. To what extent has there been a disparity between the demolition rates in England and Wales and those in Scotland?

David Melhuish: The evidence that we have had of that has been anecdotal, so I can make a comparison only on an anecdotal basis. In our submission, in the absence of figures we simply alluded to the fact that we knew that demolitions had taken place. As far as a distinction between England and Scotland is concerned, we know that some members in England moved to demolish because of the on-going liability.

Gavin Brown: I think that your sister organisation is the British Property—

David Melhuish: The British Property Federation.

Gavin Brown: Is demolition something that it had noticed happening in England, which you had not noticed happening in Scotland?

David Melhuish: That forms part of the evidence. In addition, we have members in Scotland who have many investments in England.

Gavin Brown: Michael McMahon touched on the costs to the public sector that the bill will give rise to. I would like you to comment on some of the specifics.

On non-domestic rates, according to table 9 of the financial memorandum, the costs to local authorities will be nil, although it says that there will be a small administrative cost, part of which will be to do with explaining the different rates to the new payers. No allowance has been made for empty commercial properties that are held by local authorities. In your submission, you suggested that some local authorities will hold commercial properties. Can you give us an idea of the numbers that you found?

David Melhuish: On the basis of our sample, we thought that the cost could be quite significant, particularly for certain authorities. Glasgow City Council stood out, but the City of Edinburgh Council would also be affected. I believe that, in its submission, Glasgow City Council suggested that the cost would range between £0.5 million and £1 million.

I am aware that, in a written answer to Ken Macintosh MSP, the Government has given a figure of about 10 per cent. It is odd that that was not pointed out in the financial memorandum, because it is clearly a cost to local authorities. I think that the figure will be between 10 and 15 per cent for local authorities.

In addition, as I think we alluded to in our submission, we do not think that the Government has included some of its sponsored agencies in its figure of 12 properties being liable at the central level. A figure of between 10 and 15 per cent would be a more realistic estimate of the cost to local authorities, based on the Government's estimate that the change in policy will result in a cost to ratepayers of just £18 million. I caveat that by saying that we have suspicions that that cost will be somewhat higher than the Government suggests.

Gavin Brown: Mr Stokes, you said in your submission that, in England and Wales, the cost to the public sector was around £400 million. Is that an annual figure or is it the total figure since the policy was introduced?

Tom Stokes: It is an annual figure that was gained through a freedom of information request on a survey of local authorities. One of the property papers, the *Estates Gazette*, has just carried out a similar exercise and it came up with a similar figure. A significant amount of the £1.1 billion of EPR was shown to be coming from local authorities, but that did not take into account the regional development agencies that existed at the time.

11:15

Gavin Brown: Just to be clear, are local authorities in England benefiting by £400 million at present, or is that a hit?

Tom Stokes: That is what they are paying in empty property rates on their empty properties.

Gavin Brown: According to the financial memorandum, the costs on the Scottish Administration are, in effect, nil—the Administration expects to collect £18 million and it will get back £18 million. It appears that, from the limited work that you have done, you do not accept its figure of a dozen—or fewer—liable properties.

David Melhuish: No, we do not accept that. We do not think that it has included Scottish Enterprise, for example, which has quite a lot of vacant properties.

Gavin Brown: Can you expand on the Scottish Property Federation's work, to which your submission refers? You say that you have taken a sample of 1,500 properties. You talk about the cost to the public sector, but you seem to suggest that the figure of £18 million may not be right. How did you reach that conclusion?

David Melhuish: Yes—we took a sample, which was based on the publicly available valuation roll that identifies vacant premises in Scotland. It also identifies owners, which gave us some evidence of the wider cost to the public sector.

However, we estimated at the time that we were touching only about 10 per cent of those properties that were potentially liable; given the size of the task, it is hard to identify all the empty properties. We went through the list and built up what appears to be a liability of approximately £70 million in rateable value. We added to that work direct additional rating liabilities costs from a number of members. We estimated from that small sample an increase in liability of circa £14 million, which led us to be highly dubious about the Government's figure of £18 million.

We did not include premises such as factories, because we knew that industrial premises would retain 100 per cent empty relief. Nor did we include lower-value properties—in fact, we took a more conservative approach than the Government just because of the sheer number of empty properties. The Government's figure was based on a £1,700 rateable value threshold, whereas we did not look below a rateable value of £3,000.

We ruled out properties where the owner was just one investor and we could not see another property tagged to that investor's name, because we did not want to accidentally include properties that might benefit from the small business bonus scheme, which is a point that the Government made.

We also could not account for listed properties, so I add that as a caveat too. However, even given the small size of the sample that we took, we found large numbers, and large rateable values that applied to those properties. If we divide £18 million between 6,500 properties, as the Government has suggested, we are talking about a rateable value of about £6,000. Most premises that we saw had a value significantly above that figure. We have some concerns about the figure of £18 million, which to our knowledge has not been mapped out and analysed in any work published by the Government.

Gavin Brown: Can you make your work available to the committee? Has it been made available to the Scottish Government? We are having the bill team in soon.

David Melhuish: We put the top-line figures to the Government in correspondence. Its initial response was that we must be including industrial premises, and we responded that we were not. As an additional caveat, some sanitisation of the data should be undertaken, and it is of course based on the accuracy of the publicly available valuation roll. We are happy to make our work available to the committee.

The Convener: We would appreciate that.

Gavin Brown: Most members have talked about examples of property owners in their areas simply sitting on properties, hoping that they will accumulate in value without having to be let. What percentage of empty properties are held by owners who are actively trying to sell or let them rather than simply sitting on their properties and refusing to budge? Has there been any analysis of that?

David Melhuish: To my knowledge, no out-and-out analysis is to hand. According to our research, a huge number of major institutional investors, for example, have premises that they are seeking to let. Such investors are definitely trying to market those properties and get them rented out. However, I am not aware of research that could point to every empty premise and ascertain whether it is being proactively marketed. As I said, our members are definitely trying to get their properties out and in use.

Elaine Murray: You have suggested that the proposals may not achieve the aim that we would like them to achieve. There are certainly a number of issues around the financial memorandum.

Given the costs associated with demolition, surely it is not properties that are in good condition and capable of being let out that are being demolished. Is it not the case that the properties that are being demolished are those that are in poor condition and that are quite often a blight on communities anyway?

David Melhuish: I can only point to the anecdotal evidence from England, where there was some concern that properties that may have been available in years to come were being demolished. However, substantial further research would probably be required to prove that point.

Tom Stokes: You are probably right that they were older properties. It is unlikely that people would demolish new premises. However, it could always be argued that properties that could have been renovated are being demolished and that the opportunity to bring them back to life has gone.

Elaine Murray: There are people who hang on to properties; in fact, there are people who hang on to properties in a deliberately poor condition in the hope that someone will come along and buy the site. In fact, if they are in bad enough condition, the owner might as well have the site vacated as have a site with a property in poor condition on it.

The Convener: I thank committee members for their questions. Elaine Murray has just asked the question that I was going to ask.

Mr Stokes, you say in your evidence:

> "There has been a growth in dubious EPR avoidance schemes that verge on the unlawful and which is encouraging property owners to find ways to avoid EPR rather than concentrating on letting space. This is reducing the revenue to the exchequer from EPR but is also diverting attention away from letting space and creating employment to seeking ways to avoid tax."

What are those dubious schemes, other than demolition?

Tom Stokes: There are people out there who are actively putting forward ideas on social networking sites for mitigating and getting rid of empty property rates liability. One method is not genuinely occupying buildings. People will occupy a building for 28 days, move their stuff out so that they get the benefit of three months rates free, then move their stuff back in again. There is a little digital communicator that produces public sector messages as people walk past with their mobile phone on Bluetooth. It gets round the criteria of rateable occupation without actually occupying premises.

A lot of landlords spend time looking at ways in which they can avoid paying empty property rates. Surely that is not right. Surely the real solution is for them to try as hard as they can to let the space, which is what Business Centre Association members do. In my view, finding a temporary use that does not benefit the economy, as a way of avoiding rates, is wrong. It does happen, though.

I think that David Melhuish's submission had figures showing a decrease in the empty property rates that are being collected in England, which is because people are finding inventive ways to get round EPR. They should not be doing that—they should be trying to let the space.

The Convener: I take it that although you are not exactly happy with the legislation as it stands, both your organisations would be willing to work with the Scottish Government to identify and eliminate those avoidance schemes.

David Melhuish: Some of them have already been quite well reported. To my knowledge, officials are aware of them.

The Convener: Thank you for your evidence today. It has given us a lot of food for thought, particularly given that we are going to have the bill team before us.

Meeting closed at 11:26.

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