

## Post-Covid Recovery

### Scottish Commercial Property

#### Change of Use

RICS' Commercial Market Surveys<sup>1</sup> in March and July painted an alarming picture for the future of the commercial sector in Scotland as a result of the Covid sequentials; demand for office and retail space has diminished. However, in light of these current events, as with any downturn, there can be an opportunity.

The reduction in demand for office and retail space in some locations in Scotland could be used to increase supply for housing. The benefit of more housing in commercial areas is an increased footfall for enterprises in the locale – particularly hospitality and leisure – which will naturally support landlords or tenants, and the wider economy.

One route – introduced by the UK Government to apply in England - is through the extension of permitted development rights (PDRs), which can increase the quantity and pace of delivery of new housing by reducing regulatory burdens. This recent loosening of PDRs, however, is considered to go beyond what is required and we have raised concerns around substandard homes, including building and space standards, all of which were highlighted in a [2018 RICS report](#). Regulatory safeguards would be needed to ensure quality is not bypassed, as well as consideration being given to the commercial-to-residential ratio. Too much housing could reduce the commercial community and viability in a locale.

Scotland's PDR regime is rightly more strictly controlled, but it should be made easier to deliver viable conversion to -residential schemes through the planning permission process by, for example, revisiting permitted changes under the Use Classes Order 1997.

This would maximise the potential of the existing asset base in a sustainable way, increasing the supply of affordable homes in close proximity to pre-existing facilities while contributing towards community and wellbeing. New community hubs, developed through repurposing and reusing Scotland's existing building stock would be greener; in line with the aspirations of the draft National Planning Framework 4; will support supply chain management in construction; and would kick start SME activity. All of this would contribute to a stronger and quicker economic recovery.

We urge the Scottish Government to adopt this policy but bearing in mind that it is critical that any change is supported by the application of proper design and construction standards to ensure the end product is sustainable and fit for purpose.

- **Scottish Government should revisit change of use orders and permitted development rights and consider any other options to simplify commercial-to-residential conversions through the planning system**

#### Revaluation and Non Domestic Rates

The Scottish Government announced in its Programme for Government a postponement of the revaluation in Scotland. This delay will result in a six year gap between revaluations (between 2017 and 2023) and a seven year gap in the tone date (2015 and 2022).

This scenario is not ideal, and whilst RICS would have preferred the status quo, it appreciates that the Covid-19 pandemic, and subsequent lockdown measures, have impacted circumstances that may be seen to hinder the feasibility of this revaluation.

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<sup>1</sup> <https://www.rics.org/uk/news-insight/research/market-surveys/uk-commercial-market-survey/>

It should be noted that the main purpose of having a revaluation, as highlighted by the Barclay Review on business rates, is for a redistribution of the tax burden. The Review called for frequent and regular Revaluations to take place with the valuation (tone) date to be as close as possible to the date the Revaluation takes effect. Whilst this latter point will be picked up with the one year tone date, postponing the revaluation merely undermines the five-year public debate that started with the Barclay Review, and ended in the passing of the Non-Domestic Rates (Scotland) Act 2020. This only recently legislated for the next Revaluation to take place in 2022.

Whilst the decision and announcement have been made, in looking ahead it is imperative that ratepayers don't face a creeping postponement through further delays. Postponement of the Revaluation in Scotland will leave a significant number of ratepayers facing an extended period of paying rates based on rental values in 2015 and could lead to a similar degree of scepticism and dissatisfaction with the system that was evidenced in the postponement of the 2015 revaluation to 2017. We would not want this sentiment to be re-emerge.

That aside, the Government must ensure continued transparency of the rating system, and ensure the Assessors are adequately funded to ensure a smooth delivery of the next revaluation.

- **The Scottish Government should commit to:**
  - **Consulting with sector operators and ratepayers on the issues around the revaluation to ensure understanding and transparency; and**
  - **Adequately funding Scotland's Assessors to ensure delivery of the revaluation.**
  - **Revisit available rating reliefs.**
  
- **Scottish Government should also consider the extension of rating reliefs such as Fresh Start and the Business Growth Accelerator which would help the recovery of the commercial and construction sectors.**

### **Commercial Code of Practice**

The commercial sector supporting measures introduced by the Scottish Government at the start of lockdown – particularly those for retail, leisure and hospitality – were welcome.

Anecdotally, we are aware that many tenants have contacted their landlords to request and agree mutually beneficial rent holidays, deferrals, reductions and lease restructuring. The outcome of these requests will be dependent on individual personal and/or business circumstances, and the relationship between both parties.

From the start of lockdown, RICS encouraged all parties to work together on a case-by-case basis to recognise these challenges and create an approach that is proportionate and appropriate for each set of unique circumstances pertaining.

To assist in the relationships between lenders, landlords and tenants the MHCLG produced a [Commercial Code of Practice](#) which is applicable in Scotland and recognises that the economic crisis brought about by the pandemic places a huge strain on the commercial property market. We are pleased to have helped Government in shaping this code which will increase constructive engagement and transparency between landlords and tenants at this challenging time. RICS in Scotland fully endorses this code, and have encouraged professionals to adhere to the Code's principles until at least June 2021 when it is scheduled to expire.

The Scottish Government has also endorsed the use of this Code, with the Minister for Public Finance and Migration, Ben Macpherson MSP, having issued an open letter to the commercial sector in Scotland regarding the code of practice for commercial property relationships during the coronavirus pandemic. RICS has been liaising with the Minister and departmental officials, and welcomed the letter which [can be found here](#).

## Commercial Rental Independent Evaluation Service

In response to the growing number of commercial rent disputes arising because of Covid, RICS has launched a [Commercial Rental Independent Evaluation Service](#) to help landlords and tenants negotiate payments during COVID-19.

The service is designed to ensure a clear, balanced dialogue between landlord and tenant, including an incisive analysis of the tenant's grounds for non-payment and the landlord's prerequisites for making concessions.

The service was developed in response to the aforementioned Code of Practice for commercial property relationships during the COVID-19 pandemic. The Code of Practice contains recommendations that landlords and tenants use a third-party mediator to help with any payment negotiations during this difficult period of time.

To ensure the new service would help all parties involved, RICS consulted widely across the sector, and following the consultation, the RICS product aims to:

- Alleviate the pressure on both tenants and landlords;
  - Give tenants a 'safe space' to articulate their difficulties and have landlords recognise them; and
  - Ensure landlords have a rigorous dispute resolution process to ensure all parties can maintain a positive working relationship post COVID.
- **The Scottish Government should endorse the Commercial Rental Independent Evaluation Service**

And encourage Scotland's commercial sector to consider the Service's rules that provide a tight timetable and clear structure for evidence to be presented and examined by an RICS appointed independent evaluator.

## Build Back Greener

The foundation of the Scottish Government's post-Covid approach to construction should be repair, maintenance and enhancement of existing property. This approach should be set out in the forthcoming National Planning Framework 4. The infrastructure Commission for Scotland has already issued their blueprint for the next Infrastructure Investment Plan, which was due to be published later this year, and focuses on three core long-term outcomes of inclusive economic growth, tackling the global climate emergency, and building sustainable places. The Post-Covid Scotland will make these outcomes even more important and desirable.

The Scottish and UK Governments' support for businesses has come at great cost, but even as we begin to emerge from lockdown, we cannot estimate how much more lockdown measures will cost if economic recovery is not stimulated. It is considered by the construction industry that a reduction in VAT or reimbursement thereof would be the single most significant change to support recovery across the property market, particularly in the residential sector. RICS considers that it is anomalous that there is no VAT payable on new-build while it remains at 20% for repair and maintenance which is often a more environmentally friendly alternative.

Further, more so than ever, is the need to prevent the use of cash-in-hand payments which is often driven by the desire to avoid paying VAT at 20%, cash-in-hand payments obviously do not contribute to the Government's tax take, and this could negatively impact future spend.

- **RICS recommends the Scottish Government explores with UK Government the benefits of a VAT reduction or Reimbursement Fund for repair, maintenance and energy efficiency improvement**