

## Post-Covid Recovery

### Scottish Residential Property

The housing industry will be essential to Scotland's post-covid economic recovery. As Scottish society looks to try to establish a clear picture of what the new normal will look like, the Scottish Government must acknowledge the role that the place within which we have spent most of our time during COVID-19, our homes, plays within the economy.

Housing is an intrinsic and connected chain, with all elements having an effect on each other. We have seen prior to covid-19 how too much focus on one element of the housing sector can negatively impact on other areas, especially when that focus is concentrated on only one tenure.

There are a number of measures that the Government can introduce, with relative ease, in the short-term that can kickstart activity in the housing development. Once we see an uplift in sectoral confidence and output, the Government can then review the plausibility, and viability, of their continuation.

#### New Normal

The current global health pandemic and subsequent lockdown has changed the way we interact with where we live. This may result in people reassessing how adequately their current home meets their needs, especially as we start to look at a new normal which could include more of us working from our homes than ever before. Consumers need the confidence fiscally to make a decision to move home, whether that is to downsize, move from renting to owning or moving to a home that better suits the new normal.

#### Land and Building Transaction Tax

In April, RICS called for a land and building transaction tax (LBTT) holiday to help stimulate the home buying and selling market, and in July, an announcement from Cabinet Secretary for Finance extended the nil rate band of LBTT from £145,000 to £250,000. Whilst not the full holiday RICS called for, it is a welcome start.

Whilst understanding the limited nature of this measure, we would urge the Scottish Government to continue to monitor the initiative, to ensure it is stimulating the housing market as intended.

This LBTT holiday also presents an optimum opportunity for the Scottish Government to do a thorough review of the LBTT regime which has been a long call for by RICS. As the Government looks at what a new normal looks like, they must ask themselves the hard questions of what new normal do we need, what isn't working, and make difficult decisions to reform their own processes.

In addition to kick starting the housing market, we are hopeful that LBTT liabilities saved by home movers could be used to improve the energy efficiency of the property they move to.

- **The Scottish Government should use the LBTT holiday period to undertake a full review of the tax**

#### Planning

The Planning (Scotland) Act 2020 heralded a number of changes to the Scottish planning system. These changes have yet to embed effectively, and whilst the planning system is working satisfactorily in places, there have been notable issues with delays to the pre-application responses, and disparity in committee services across Scotland's local authorities. These issues sit outwith the legislative changes of the Act.

- **The Scottish Government must support pre-application services in local authorities through adequate funding**

- **Government should explore S75 flexibility; specifically, payment levels (viability) and possible staged or staggered payments**

It is important to note that most s75 agreements will have payments linked to some form of indexation based on phased payment. This needs to be addressed, particularly as Scotland may be entering into a housing development downturn and such additional costs may impact viability and lead to sites being stall this affecting completions

### **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 space in some locations in Scotland could be used to counter demand for housing. One route – trialled by the UK Government - is through permitted development rights, which can increase the quantity and pace of delivery of new housing by reducing regulatory burdens. This recent loosening of PDRs, however, is not right and 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.

Scotland's PDR regime is more stringent, so as an alternative, we believe there is a need to rethink commercial property use-class regulation. It should be made easier to deliver viable office-to-residential schemes through the planning permission process, but not to the detriment of standards of the finished product, nor a sacrifice of the open spaces necessary for health and wellbeing.

This would maximise the existing asset base in a sustainable way, providing 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; 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.

However, if the Scottish Government was to go down this route, it is critical that this change is supported by the application of proper design and construction standards to ensure the end product, be it retail, office, residential, or any other segment of the market is fit for purpose.

- **Scottish Government should revisit change of use orders to simplify office-to-residential conversions through the planning system**

### **Build to Rent**

The Private Rented Sector (PRS) in Scotland has been dominated by small-scale investments from individual landlords who own 1-3 properties. This has led to a fragmented PRS system that lacks consistency and stability – unfavourable conditions for large scale institutional investment. RICS wants institutional investors to be encouraged to build and let new developments, not take on the landlord duties of current PRS stock. As such there is a need for greater support for purpose-built PRS: Build to Rent (BtR).

This is an emerging housing development type in Scotland, but Scotland is still considering behind other parts of the UK in terms of is a different to the more “standard” tenures of owner-occupation and social housing.

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

The Rental Income Guarantee Scheme (RIGS) is a practical initiative that assists in making Scotland a more attractive arena for investors. We believe the Government should encourage local authorities to recognise the importance of BtR as an important part of housing delivery – including social rent.

This could be achieved through the development of a separate policy for purpose built PRS accommodation, much like they have separate policy and associated guidance for student accommodation.

- **Scottish Government should actively promote RIGS and develop a separate policy and associated guidance for Build to Rent developments**

## **Land Supply**

Planning and development is intrinsically tied to land availability. The presumption in favour of sustainable development has led to a more competitive arena for brownfield sites, increasing land prices which, ultimately, contribute to an increase in new build house prices, and disrupt affordability .

We believe there are two initiatives that could be taken forward to ease pressure on land availability, with regard to new build housing: a housing land agency, and a new land classification, “Amberfield”.

### Housing Land Agency

This notion of a Housing Land Agency (HLA) is not a new one, and there has been a high number of experts, and professional and trade bodies that have supported the establishment of such a group for many years.

The remit and objectives of the HLA are straightforward: work in partnership with local authorities and communities to act as delivery agent for the purposes of:

1. Identifying and facilitating a regular supply of viable land the development of a wider range of housing types and tenures;
2. Acquiring and master planning land and gaining relevant consents; and
3. Carrying out enabling site infrastructure works to service land for development.

Armed with both compulsory purchase order (CPO) powers and, if enacted, compulsory sale order (CSO) powers, the HLA could act as facilitator or prime mover.

There is often a reluctance by local authorities to use CPO powers, illustrated by an inconsistency of their application across Scotland’s local authorities. By establishing this land supply leadership body, a consistent regime of CPO use could be established.

- **The Scottish Government should establish a Housing Land Agency**

### Compulsory Purchase Orders

It is widely accepted that Scotland’s compulsory purchase legislation is in need of modernisation. Whilst a full legislative modernisation programme would have to involve a substantial rewrite of the law, RICS has already brought to the Scottish Government’s attention a list of “quick hits” which would noticeably improve the workings and fairness of the system.

## Amberfield Planning Class

'Amberfield' – a potential output from the housing land agency - would be land that is infrastructure ready; land that is 'ready to go', increasing housing supply and promoting development opportunities, particularly SMEs house builders.

Amberfield is not greenfield or greenbelt land, but brownfield land that is developable i.e. it is ready to be built on without any cleaning up or decontaminating therefore allowing for quicker development than usually expected with brownfield sites.

Local authorities and communities, in conjunction with the HLA, will have to work together to label sites favourable for development as Amberfield, and each local plan will have to include a set quota of Amberfield, ready to be developed for housing, in line with their current identified housing need and their local plans.

We would urge Government to look at how their current housing funding to local authorities to promote development can help provide Amberfield land, including the ability for local authorities to use the funding to make brownfield land development ready.

The new classification will enable local housing needs to be met and would create a five-year land supply that works for communities and builders.

While both brownfield and greenfield play an important role in the current planning system, both classifications block or slow development, and local growth is being impeded by extensive battles to bring forward land.

Amberfield will speed up the process and take out cost for both developers (particularly SMEs, self and custom builders) and local authorities – enabling homes to be built faster on the agreed sites. It will provide certainty to investors, and unlocking development opportunities.

- **Scottish Government should create a new 'Amberfield' Land Category**

## **Self-Build and Custom Building**

The benefits of self and custom build are numerous and well-versed: they are often cheaper to build than buying an equivalent existing home; they allow potential homeowners to tailor their homes to meet their needs; and they support community empowerment and development, as well as the greening and place making agendas.

It is important to note that self-build and custom build homes do not replace other forms of housing supply and construction, they provide an additional avenue of increasing housing supply. Furthermore, greater support will not fully alleviate all the housing delivery woes of Scotland, but it could make a vital contribution to increasing supply, and supporting SMEs and greening agenda.

However, securing funding and land, and obtaining appropriate advice, can be complex.

While Scotland's £4m Self Build Loan Fund is a helpful start for people looking for assistance in financing their project, it does fall short of the recently established £210m Self Build Wales, which is similar to Scotland's fund.

With this in mind, it might be prudent of the Scottish Government to steer a percentage of the Building Scotland Fund, or Scottish National Investment Bank funding, towards the Self Build Loan Fund.

- **Scottish Government should significantly increase the Self Build Loan Fund**

There have been significant inroads to assisting the delivery of self and custom-built developments in England as a result of two recent English Acts: the Self-Build and Custom House Building Act 2015, as amended by the Housing and Planning Act 2016.

RICS in Scotland believes that the principles and intentions of increasing the opportunity of custom and self-build within these Acts could be adopted, with ease, within equivalent Scottish legislation either through amendments or new legislation.

Such a proposal would greatly benefit the existing land supply and development frameworks for those wishing to develop their own home.

The Planning (Scotland) Act 2019 created the requirement for local authorities to hold a register of individuals or parties interested in self or custom build<sup>2</sup>; but we believe this should be strengthened.

By emulating the UK Housing and Planning Act 2016, which strengthened the provision of the Self-Build and Custom House Building Act 2015, local authorities would be required to “give suitable development permission in respect of enough serviced plots of land to meet the demand for self-build and custom housebuilding in the authority’s area arising in each base period.”

In short, as well as holding a register for those wishing to self or custom build, the local authority must also provide serviced plots.

Alternatively, the Community Empowerment (Scotland) Act 2015 provisions relating to allotments could be emulated for self and custom build housing. Specifically:

- a) Section 111: requires each local authority to “establish and maintain a list of persons who make a request” for an allotment
- b) Section 112: places a “duty to provide allotments” for aspiring individuals.

These sections of the Act could be reproduced in the Self Build (Scotland) Bill with “self-build dwelling” (or words to that effect) replacing “allotment”

- **The Planning (Scotland) Act 2019 should be strengthened to oblige local authorities to provide serviced plots for persons seeking land for self-build housing.**

The creation of the aforementioned ‘Amberfield’ planning class could greatly assist the opportunities available to those wishing to self or custom build.

## **Modern Methods of Construction**

Before covid-19, Scotland was already struggling with a housing supply issue, and the lockdown measures on exasperated the problem.

In the ‘new normal’, the Scottish Government must look to technology and new ways of working and delivering products. Modern Methods of Construction (MMC) – particularly off site manufacture (OSM) - is one area that Government should now seriously look to, not just fulfil the social home shortage, but as a way to stimulate the economy and provide jobs for those who may be in industries that are reducing staff due to the impact of covid-19. While MMC is not a panacea that will resolve all the problems in the sector, once fully embedded it will go some way to improving our capacity to meet need.

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<sup>2</sup> Part 1, Section 8: <https://www.legislation.gov.uk/asp/2019/13/section/8/enacted>

There would still be a need to encourage the use of timber frame (which classified as MMC by Home England) in new homes; continuation of support for apprenticeships, reskilling and local housing enterprises; and directives that can generate a critical mass of OSM need

Government can, and must, support MMC directly through investment and indirectly through planning, education and construction and design quality standards and programmes, including encouraging and incentivising construction of MMC factories in areas of high unemployment or with close access to main road transport networks.

They must strengthen their presumption in favour of MMC in public infrastructure schemes and support local authorities and housing associations through financial incentives and policy to meet housing need through MMC.

At present, there are no OSM facilities for housing in Scotland due to the annual requirement to make factories financially viable not being met in the past. However, the stage is set for MMC homes to achieve scale, and further support and promotion could align with the 53000 affordable homes target recently suggested by CIH, Shelter Scotland and SFHA.

- **Scottish Government should introduce a presumption in favour of MMC for social housing**
- **Scottish Government, or enterprise agencies, should incentivise an OFM factory on, or with easy access to, the M8**

Industry collaboration to establish apprenticeships and training products, especially around reskilling the workforce that supports the rollout of MMC and encourage new entrants into construction, should also be initiated. However, this drive should not negate “traditional” apprenticeships, it should complement them.

### **VAT Rebate Funding**

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.

We recognise that VAT is reserved matter; and appreciate previous Government calls to reduce VAT if it was devolved.

The current constitutional settlement, however, does not inhibit the establishment of VAT repayment mechanism for home repair and maintenance, and energy efficiency improvement measures. This would be parity between new build and existing properties.

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.

In addition, it is more likely that VAT registered companies will have apprentices, thus this fund will support job creation and maintenance, particularly for SMEs; tackle the skills shortage; as well as obstructing rogue traders and the informal economy.

- **The Scottish Government should explore the benefits of a VAT reduction or reimbursement fund for repair, maintenance and energy efficiency improvement with UK Government**

This fund could be accessed by an individual providing proof of a VAT payment for the aforementioned works through, for example, the receipt for these works undertaken by a VAT registered company. Following the recognition of the VAT payment, the client could receive a reimbursement of the VAT paid from the fund.