



## Post-Covid Recovery

### Welsh 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 Wales as a result of the Covid subsequentals; 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 Wales 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 – trialled by the UK Government - is through 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 in England, however, is not right 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 considered commercial-to-residential ratio. Too much housing could reduce the commercial community in a locale.

We believe it should be made easier to deliver viable conversion to residential schemes through the planning permission process in Wales.

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 Wales' 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.

We urge the Welsh 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 fit for purpose.

- **Welsh Government should revisit change of use orders and consider any other options to simplify commercial-to-residential conversions through the planning system.**

#### **Revaluation**

The UK and Welsh Governments have recently announced that the Revaluations in England and Wales, scheduled for 1 April 2021, have been postponed. These had originally been scheduled for 1 April 2022 but had been brought forward without consultation.

This scenario is not ideal, and whilst RICS would have preferred the status quo, we appreciate that the Covid-19 pandemic, and subsequent lockdown measures, have impacted circumstances that may be seen to hinder the feasibility of this revaluation. Furthermore, the revaluation was due to take place within 12 months, and had a tone date of 1 April 2019, and that wouldn't reflect the pandemic's occurrence.

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

This has particular relevance to the time date which occurred shortly after the commencement of lockdown with the attendant valuation uncertainty and lack of comparable evidence available to both the ratepayer and the assessor. Different sectors will also be affected more than others but the full and lasting effects will not be known until the property market re-establishes itself.

Since March the Welsh Government has introduced a series of measures, including business rates holidays, that are designed to ease the financial burden businesses may be experiencing as a result of the COVID-19 pandemic. However, postponing revaluation until 2023, thereby reversing the decision to bring it forward by a year, may have significant repercussions for Welsh businesses.

This delay means rates do not accurately reflect properties estimated value on the open market and may cause a large jump in new rates obligations later.

RICS welcomes the Minister for Finance and Trefnydd commitment for reforming non-domestic rates in Wales. The Welsh Government must use this additional time as an opportunity to introduce and implement a wide-ranging revamp of the system, such as introducing three-year revaluations, defining the status of short-term lets, and ensuring any transitional arrangements are clear and concise.

Business rate relief has benefitted some companies, but all businesses, and not just those on the high street, deserve to operate within a fair taxation system. As the economy recovers from the impact of Covid-19, some sectors cannot be more encumbered by rates than others.

Since the last revaluation delay, RICS has consistently called for measures that offer improved certainty, consistency and stability to the Welsh property market. Instead of continuing to tweak the rates system or introducing impromptu delays, RICS asks that the government commit to full reform and the consistent timely operation of the system in order to facilitate extended business planning.

- **The Welsh Government should commit to:**

- **Undertaking full review of the business rates system in Wales**
- **Consulting with sector operators and ratepayers on the issues around the revaluation to ensure understanding and transparency; and**
- **Work with the UK Government to adequately fund the Valuation Office Agency to ensure delivery of the revaluation.**

### **Commercial Code of Practice**

The commercial sector supporting measures introduced by the Welsh 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 rent holidays, deferrals, reductions and lease restructuring. The outcome of these requests will be dependent on 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 relevant in Wales 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 Wales fully endorses this code, and have encouraged professionals to adhere to the Code's principles until June 2021.

**Commented [SR1]:** Changed from applicable as it would be voluntary in Wales.

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](#).

- **The Welsh Government should endorse the use of the MHCLG Commercial Code of Practice.**

#### **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 Welsh Government should endorse the Commercial Rental Independent Evaluation Service.**

And encourage Wales' 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 Welsh Government's post-Covid approach to construction should be repair, maintenance and enhancement of existing property. The Post-Covid Wales will make these outcomes even more important and desirable.

The Welsh 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 Welsh Government explores with UK Government the benefits of a VAT reduction or Reimbursement Fund for repair, maintenance and energy efficiency improvement.**