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**LBTT SUPPLEMENT ON ADDITIONAL HOMES:
RESPONSE TO THE SCOTTISH PARLIAMENT'S FINANCE
COMMITTEE CALL FOR EVIDENCE**

01 February 2016

ABOUT HOMES FOR SCOTLAND

Homes for Scotland is **the** voice of the home building industry.

With a membership of some 200 organisations together providing 95% of new homes built for sale in Scotland each year as well as a significant proportion of affordable housing, we are committed to improving the quality of living in Scotland by providing this and future generations with warm, sustainable homes in places people *want* to live.

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HOMES FOR SCOTLAND

1. Introduction

- 1.1 Homes for Scotland is the voice of the home building industry in Scotland, with a membership of some 200 organisations together providing 95% of all new homes built for sale across the country as well as a significant proportion of affordable housing.
- 1.2 Homes for Scotland makes submissions on national and local government policy issues affecting the industry. Its views are informed by members, including through various committees and advisory groups established to utilise the skills and expertise of key representatives from our member companies
- 1.3 Homes for Scotland welcomes the opportunity to respond to the Finance Committee’s call for evidence on the proposed LBTT supplement. In addition to reflecting the views of our members, this response incorporates the views of the Private Rented Sector Champion, Gerry More.
- 1.4 Mr More was appointed in October 2014 by Homes for Scotland (with funding from Scottish Government), with a remit to take forward the recommendations of a major research project, launched by then Deputy First Minister in November 2013, aimed at encouraging the emergence in Scotland of new Build To Rent (BTR) PRS at scale. The PRS Champion has also had an opportunity to set out the views of the new build industry through his involvement in the LBTT Stakeholder Group established at the beginning of 2016 by the Scottish Government.

2. Impact of Uncertainty on Sales

- 2.1 In announcing the proposal, the Scottish Government indicated that the LBTT supplement would be levied on the purchase of additional residential properties, such as for buy-to-let properties or second homes. Commentary in the associated budget documentation indicated that the supplement would impose a “...*greater tax burden on those purchasing residential property as an additional purchase, for investment or recreational purposes, compared to those seeking to purchase the property as a main residence.*”
- 2.2 Since the announcement, a number of our members have been in touch to highlight the difficulties caused by the associated uncertainty as to how the

supplement will work in practice. Consideration of the UK consultation, alongside their own experience, suggested a range of potential scenarios which could be treated differently.

- 2.3 This uncertainty has very much been a live issue, with HFS members reporting that sales of homes which would have been due to occur post April 2016, but where missives have not yet been signed, are on hold until the position is clear.
- 2.4 Further detail has now been set out on various scenarios in the Bill and associated documentation and we note the Government's position that the proposals will not apply where missives for the transaction were concluded before 16 December 2015. This is welcome. However, we would encourage consideration of an amendment to extend this exemption to properties where a reservation had been placed, but missives not yet concluded, prior to 16 December for a home that would complete after 1 April. This would prevent the risk of transactions falling through as a result of the supplement.
- 2.5 Notwithstanding this, the HFS view is that there is a strong case for new build being exempted entirely from the supplement. This is discussed below.

3. Reliefs and Exemptions: Additionality of New Build and the Build to Rent Private Rented Sector (PRS)

- 3.1 In considering the LBTT proposal, Homes for Scotland's starting point is that increasing the supply of new homes, across all tenures, boosts economic growth, supports greater choice, creates and supports jobs and helps to build thriving communities.
- 3.2 We also believe that the purchase of new build properties for e.g. buy to let purposes or as second homes represents additional activity, which does not "crowd out" the purchase of homes by first time buyers. There is a distinction here compared to the position in the wider market, where we understand the Government's policy rationale.
- 3.3 At a time when the industry continues to face a number of challenges, we are accordingly concerned that the financial implications of the proposals could impact on future investment in new build, reduce confidence in the market and overall levels of supply, without supporting any additional activity by first time buyers. We share the SG objective of ensuring that first time buyers have the greatest possible chance to enter the housing market, but do not believe that the proposals will assist this in terms of new build.
- 3.4 On a specific aspect of this, concern has been expressed about the impact of proposals on the sale of new build homes which are purchased as holiday homes in rural areas. Should the changes proceed this could potentially

prevent such sales, but without benefiting first time buyers, with a knock on impact for wider development in rural areas and longer term population growth.

- 3.5 With a view to supporting the industry and Government's shared ambition to increase supply, we therefore propose the introduction of an exemption for new build homes from the supplement.
- 3.6 If this is not possible, then we believe that there should be some alternative treatment of new build purchases within the LBTT arrangements which reflects the contribution that these make to Scotland's economy and overall housing supply. We do not believe that either approach would present any risks in terms of distortion within the UK or run counter to the Government's policy ambitions.

Build to Rent PRS

- 3.7 Large scale PRS developments funded by institutional investment from pension schemes and life insurance funds are already commonplace in other countries, including amongst others the USA, Canada, Germany, Netherlands and Switzerland. Purpose built PRS developments are now also increasingly prevalent in England – the British Property Federation's recent Build to Rent (BTR) manifesto noted significant activity in London and the South East and developments either complete or in the pipeline in Liverpool, Manchester, Sheffield and Birmingham.
- 3.8 At the moment, there is however very little new Build to Rent (BTR) PRS development in Scotland, with figures suggesting that less than 2% of UK build to rent PRS investment is currently being directed to Scotland.
- 3.9 This represents a significant source of opportunity. With the right conditions and support for investment, there is scope to quickly deliver thousands of new additional purpose built and professionally managed PRS homes in Scotland in the years ahead, making a significant contribution to the Scottish Government's ambition to increase housing supply. Developments can be built and completed quickly, providing additional choice to the public.
- 3.10 This emerging new rental sector is very different from the existing buy-to-let PRS, which is dominated by small amateur landlords and relatively small scale. The PRS Champion's view is that, with the proper encouragement and interventions to the institutional funding market, 10,000 additional rental homes could be quickly delivered over the remainder of the decade equivalent to an investment value of at least £1bn from the BTR PRS.
- 3.11 As proposed, the LBTT supplement will however immediately reduce the gross development value of build for rent projects by 3%, impacting on land value

and project viability. This will send a negative signal to potential investors, meaning that fewer projects will come forward. This is particularly likely in the context of the proposed SDLT changes in the rest of the UK (where a relief is proposed for larger scale purchases), which will create a viability gap between investing in Scotland and in the rest of the UK.

- 3.12 Questions have also been raised about the potential impact of the proposed change on affordable housing and student accommodation portfolios in the event that these are sold.
- 3.13 Having considered the Bill, the PRS Champion's view is accordingly that, to ensure that the new arrangements do not deter investment in this area of emerging opportunity, there is a need to introduce a relief that applies to all scale residential investments traded as a whole. The exemption for new build that we propose would not be sufficient for various reasons, including the fact that the investment model is dependent on large scale portfolios being tradeable. This means that, without any relief, the valuation on day one for any project would have to take account of the proposed supplement.
- 3.14 Any approach should at least match the arrangement proposed for Stamp Duty Land Tax (SDLT) in England, where the UK Government has suggested that the purchase of at least 15 residential properties would trigger an exemption. Consideration could however be given to setting a lower limit, with a view to positively differentiating Scotland from the rest of the UK in order to attract much needed investment.

4. Proposed Financial Arrangements

- 4.1 The Committee has sought views on the proposed 3% rate for the supplement and the £40,000 purchase price at which it is proposed to take effect.
- 4.2 Setting aside the points raised above, members have noted that the flat 3% rate runs counter to the progressive approach put in place for the "core" LBTT and noted that the £40,000 threshold is low, such that it will impact on all new build transactions in the absence of any exemption or relief.
- 4.3 In addition, concerns have been expressed about the implications for individual and household finances in situations where, despite intent, a previous main residence has not been sold by the time a new purchase concludes. The Bill provisions provide for the additional tax paid to be reclaimed if a previous main residence is sold within 18 months, but there may be difficult financial pressures to cope with in the interim. Risks associated with this may result in people opting not to move, with implications for the overall market.

4.4 We have no comment on the Scottish Government's revenue estimates for the LBTT supplement, although we recognise that the proposals set out above would reduce the amount collected.

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