SUBMISSION FROM SCOTTISH PROPERTY FEDERATION

1. As a representative body for the property industry in Scotland, the Scottish Property Federation is writing to the Local Government & Communities Committee to express our deep concern at the immediate and long term consequences for investment in Scotland caused by the large retailer supplementary business rate proposed for 2011-12.

2. We feel that the perception of Scotland as a place to invest and do business is negatively influenced by the levy and that the proposals undo a competitive set of policies on business rates that have been adopted by the Scottish Parliament in recent years. We would wish to see the large retailer levy therefore not brought into force and indeed a commitment made by the political parties to avoid the targeting of such levies in the next Scottish Parliament.

The Scottish Property Federation

3. The SPF is a representative body for the Scottish commercial property industry and speaks for over 115 corporate members. Included within our membership are commercial property developers, landlords and managers, fund managers, professional property industry advisers, property consultants and long term investors in both commercial and residential property. We are an integral part of the UK-wide British Property Federation, which represents most of the UK and Scotland's largest property investors and developers.

The property industry in Scotland

4. According to research published at the end of 2007 the commercial property industry in Scotland was worth some 8.5% of gross value added to the Scottish economy, representing some £7.34bn in 2005.[1] Since the onset of the credit crunch in late 2007 the economic output of the sector has been significantly impaired. Commercial property values in Scotland, which underpin a great deal of business activity and directly support property investment and lending, are also estimated to have fallen by some 40% since their peak in mid-2007[2]. Recent UK Government figures also identify a massive reduction in the value of new construction orders in Scotland for commercial property from a level of just over £1bn in 2008 to £626mn in 2009[3].

Property investment and major retailers

5. For property investors and developers the major retailer is often an absolutely vital component of a complex development project. Indeed without leading retail names as 'anchor tenants', many schemes would simply not have started and will be difficult in the future to construct. This key importance of major retail for future economic growth is underscored by the ferocity of the current fiscal environment: with UK property loans standing at £250bn (and 7% of this related to Scotland) this

[1] GVA Grimley: the role and contribution of commercial property in the Scottish economy, commissioned by the Scottish Property Federation (2007)

[2] Jones Lang La Salle (December 2008)

[3] ONS data (2010)

difficult situation is likely to stay with us for some time. Indeed with some £160bn of loans due to mature by the end of 2012 the position for investment for anywhere bar the core prime areas of central London in the near future is likely to be challenging in the extreme. A supplementary rate applying nearly 70p in the pound for large retail business rates in Scotland is therefore deeply unhelpful.

6. In the long term the increase of large retailer rates can be expected to be reflected in lower rental values for major retail stores. This will reduce the appetite for new retail property investment by major developers and investors. Consequently the attractions of Scotland for major property development and long term investment allocations may be relatively diminished, particularly if capital values also fail to recover their former strength and this will be a major negative influence on future property investment.

Support for town centres and communities

7. Crucially, the major retailers caught by this supplementary business rate will be the very same businesses that support major town centre investments in Scottish high streets and town centre located shopping centres. They will not be just the foodstores, but instead include the likes of the John Lewis Partnership, House of Fraser, Marks & Spencers and out of town major retailers such as B&Q. We fear there will be other unintended consequences, and we are particularly concerned at this stage for the future of a number of BID projects in Scotland which had enjoyed a good relationship with town centre businesses hitherto. In addition, we know that many leading businesses that will be penalised by the supplementary rate are among the main supporters of projects in the community, often run through Business in the Community projects.

Consequences for refurbishment and reinvestment

8. Our concerns are not just related to future potential schemes. We are also concerned about the consequences of large supplementary rates on improvement and investment in existing major centres. Scotland already poses some challenging economics, not just in relation to size of potential markets but also in terms of higher building standards costs for example. UK and international portfolio holders considering a 'balanced scorecard' approach to investment will consider in detail many factors before determining their investment priorities. The supplementary rate on large retailers will be a major negative factor in these judgements and not only for the actual costs incurred to the targeted businesses.

Large retailers in the economy

9. Although the media has liked to style this as a 'supermarket tax' we would wish to emphasise to MSPs that the levy will go far beyond the big four supermarket businesses, though we would not welcome the levy even if limited to the foodstores. The role of large retailers, food and non-foodstore, is vital to the successful growth of the Scottish economy. Large retailers bring prosperity, much needed employment and high street profile to Scottish retail. They hugely increase footfall in the area around their store locations and this brings a direct benefit to all retail businesses

thereby, crucially including small and medium sized enterprises. Their presence improves choice and quality for Scottish consumers and this in turn attracts further investment, skilled labour and leading businesses to see the benefits of locating in Scotland.

10. We understand from the Scottish Retail Consortium that the retailers impacted by the levy create around 8,000 jobs a year. This is a major contribution to the Scottish economy and we should be seeking to encourage rather than penalise such growth. A key concern for us is the message the levy sends even to those businesses who may not be specifically targeted by the measures and this is at a time when a number of retailers have expressed an interest in expanding their stores in Scotland (Sainsbury's, Wilkinsons and Waitrose for example). In discussions with our members and major retail developers, the point has been clearly made to us that the levy will undermine the ability of major retailers to argue for investment in Scottish stores because of the levy. This is because the levy will have a direct impact upon the profitability of these businesses.

Turnover and business rates

11. We understand that officials have argued that at 2% of large businesses' turnover business rates are a relatively minor issue for these businesses. However this misses the point that even the largest retailers will work to small net margins of around 2 or 3% - the levy will introduce business rate increases of some 35% for the largest stores. By way of example we note that some figures were published earlier this week illustrating that the increase in business rates from the levy will be up to £240,000 for some town centre businesses, which will be a major dent in profits for the particular stores affected (indeed, such costs will sizeably reduce the annual profits and therefore competitiveness of even large stores). The levy will therefore directly undermine the store's position in comparison to other UK locations outside of Scotland.

Public finances

12. We understand that the Scottish Government has had an extremely difficult budget to set for 2011-12. But the consequences of the levy for medium or longer term investment and business growth could be highly negative. The levy is designed to raise around £30mn for the year 2011-12 and we recognise the Scottish Government argues this will be used for local authority services, as with all business rates. However, we are not aware that any specific services are protected by the £30mn and therefore we feel that against the central government allocation of over £11bn[4] the particular targeting of these leading and successful businesses is a major concern for the signal it sends to potential investors in the Scottish markets. In short we feel that singling out these key ratepayers is a bad precedent that we feel should not be adopted by the Scottish Parliament because it will undermine confidence in doing business in Scotland.

[4] Scottish Government Finance Circular December 2010

13. The Scottish Property Federation therefore opposes the introduction of the supplementary rate and believes the levy should not be imposed by the Scottish Parliament. We would be pleased to explain our comments in greater detail at your convenience.

Scottish Property Federation
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