



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

LOCAL GOVERNMENT AND REGENERATION COMMITTEE

Wednesday 23 May 2012

Session 4

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LOCAL GOVERNMENT AND REGENERATION COMMITTEE
13th Meeting 2012, Session 4

CONVENER

*Joe FitzPatrick (Dundee City West) (SNP)

DEPUTY CONVENER

*Kevin Stewart (Aberdeen Central) (SNP)

COMMITTEE MEMBERS

*James Dornan (Glasgow Cathcart) (SNP)

*Anne McTaggart (Glasgow) (Lab)

*Margaret Mitchell (Central Scotland) (Con)

*John Pentland (Motherwell and Wishaw) (Lab)

*David Torrance (Kirkcaldy) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Garry Clark (Scottish Chambers of Commerce)

Peter Muir (Colliers International)

Mark Rodgers (Waverley Housing)

Gareth Williams (Scottish Council for Development and Industry)

CLERK TO THE COMMITTEE

Eugene Windsor

LOCATION

Committee Room 2

Scottish Parliament

Local Government and Regeneration Committee

Wednesday 23 May 2012

[The Convener *opened the meeting at 10:01*]

Decision on Taking Business in Private

The Convener (Joe FitzPatrick): Good morning, everyone, and welcome to the 13th meeting in 2012 of the Local Government and Regeneration Committee. As usual, I ask folk to ensure that they have switched off their mobile phones and other electronic devices that interfere with the sound system.

Our first item of business is to agree to take items 4, 5 and 6 in private. I propose that we do that. Is that agreed?

Members *indicated agreement.*

Subordinate Legislation

Planning etc (Scotland) Act 2006 (National Parks) (Consequential Provisions) Order 2012 (SSI 2012/117)

Town and Country Planning (General Permitted Development) (Fish Farming) (Scotland) Amendment Order 2012 (SSI 2012/131)

10:02

The Convener: Item 2 is consideration of two negative instruments. Members have a paper from the clerks setting out the purpose of the instruments. The Subordinate Legislation Committee had no comments to make on either of them. If members have no comments, is the committee content not to make any recommendations to the Parliament on the instruments?

Members *indicated agreement.*

Local Government Finance (Unoccupied Properties etc) (Scotland) Bill: Stage 1

10:03

The Convener: The next item is an oral evidence-taking session as part of our stage 1 consideration of the Local Government Finance (Unoccupied Properties etc) (Scotland) Bill. I welcome the panel, who are Garry Clark, head of policy and public affairs at the Scottish Chambers of Commerce; Peter Muir, director of rating at Colliers International; Gareth Williams, policy manager at the Scottish Council for Development and Industry; and Mark Rodgers, director of housing and property services at Waverley Housing. Thank you for coming along and helping us with our inquiry.

I will kick off. There are suggestions that empty properties reflect a lack of demand, rather than an active decision on the part of property owners not to let. I would be keen to hear panel members' views on whether that is the case and any evidence that they have to support that.

Garry Clark (Scottish Chambers of Commerce): Good morning. Thank you for the opportunity to address the committee.

The view of our members has been that the problem of vacant properties is largely down to lack of demand. There are various reasons for that, many of which are well publicised, such as the lack of access to finance for businesses that are looking to move into larger properties, which has been an issue.

Rentals have been an issue during the past few years but currently are probably less of an issue; it is the lack of demand that is leaving vacant property in the marketplace. That is the clear message that our members are putting forward, which I think is reflected in a few of the submissions to the committee.

Peter Muir (Colliers International): Thank you for inviting me along. I agree entirely with Garry Clark. From my background as a surveyor, I know that the basic driving force in any market in property is supply and demand. We are experiencing an economic downturn that is probably unprecedented in our lifetimes, and the supply and demand argument has been thrown out of the window. There is plenty of supply, but there is no demand.

There are various reasons for that, such as finance, as Garry Clark said, and the fact that people do not want to dip their toes in the market and open up businesses until the market improves. Landlords are trying to let. I have

agency colleagues who go to marketing meetings for all classes of property, in which people consider how to let properties. It is unfortunate that, even when massive incentives are offered, there is just no demand out there.

Gareth Williams (Scottish Council for Development and Industry): Garry Clark and Peter Muir have covered the key points. We do not expect significant demand to return for some time, given the projections for the economy. It is important to bear that in mind and to reinforce the point that Peter Muir made. We represent private and public sector organisations, some of which have provided submissions directly to the committee. I noticed that the Scottish Property Federation highlighted some of the deals that are on offer, which demonstrate that lack of demand is the fundamental issue. The incentives are there, but no one is prepared to take them up at this time.

The Convener: Do the witnesses acknowledge that, in some cases, large property owners, in particular, are deliberately not putting properties on the market, for commercial reasons? I think that most members have come across examples in our constituencies and have the impression that large supermarkets, for example, are blocking the use of property.

Garry Clark: It is not beyond the realms of possibility that that is happening, in isolated cases. However, we must consider the situation on the basis that we have had a massive economic shock to the system. The economy contracted by 4.6 or 4.8 per cent in 2009. It has not recovered appreciably since then and it is not likely to get back to 2007-08 levels until 2014, at the earliest—and that is an optimistic projection. The problem is that, under those circumstances, there is simply not the demand that there was back in 2006-07.

Peter Muir: I back Garry Clark up on that. It might well be the case that, in certain circumstances, landlords are not letting. However, in a large shopping centre up north a unit has lain empty for six or seven years. Currently, the rating is calculated at £60 per square foot—that goes back to 2008, which was the tone date—but a new unit in the same centre has just been let at £30, that is, at half the value. The landlord is a big landlord, who has been trying to let units in the centre. That example spells out the situation for you. Landlords are trying to let, although there might be times when they sit back and say no. Those that have taken a loan through one of the big banks expect a return on that loan and need to repay it, so they will not sit back and wait until the market returns. At present, they are taking anything that they can get.

The Convener: Kevin Stewart has a quick supplementary question.

Kevin Stewart (Aberdeen Central) (SNP): I represent the great city of Aberdeen, which has not suffered to the same degree as other places during the economic downturn, yet there is still a huge amount of property that folk are unwilling to let. Will you comment on that?

Peter Muir: I acknowledge that Aberdeen has not suffered as badly as other areas have from the downturn, although the shopping centre that I mentioned is in Inverness, which is not too far away from Aberdeen. Ultimately, if landlords in Aberdeen are choosing not to let particular units in centres, that is their choice. However, personally I think that that is incorrect—they should be trying to let those properties.

Kevin Stewart: I do not disagree with you that they should be doing that, but they are not. Surely it would be best if we had something like the proposal in the bill to try to incentivise, or penalise, folk so that they let properties where possible.

Peter Muir: With the greatest of respect, that is in Aberdeen, but I am talking about Scotland as a whole. Shopping centres are on their knees looking for occupiers, and landlords are actively trying to let the shopping centres. As I said, agency colleagues are having deals and opportunities thrown at them with huge rent-free incentives. That might not be the case in Aberdeen, but other centres that I deal with are actively trying to get tenants.

The Convener: I will bring in Mark Rodgers to discuss the same question, although he comes at it from the angle of domestic properties, rather than non-domestic ones.

Mark Rodgers (Waverley Housing): Thank you for the invitation to give evidence.

In some respects, we have the opposite problem from the one that Peter Muir outlined about there being plenty of supply and no demand. For us, there is a lack of supply and a high level of demand, particularly for stock in the social rented sector. This is not true for everyone, but one thing that prevents us from simply deciding not to let hard-to-let properties is that we are a regulated body and therefore subject to scrutiny. Even if we decided that it did not make sense to let certain categories of property, the Scottish Housing Regulator would have a lot to say about that. In Edinburgh, people with homelessness priority are waiting for more than a year to be rehoused. Therefore, the picture for us is almost entirely different.

To pick up on a point that Kevin Stewart mentioned, one helpful thing about the bill is that it leads us to consider whether it is worth providing some form of financial incentive or penalty for those who stand properties empty for a long period. That might be private owners who are not

subject to the same regulatory burdens as we are. I must admit that I am in two minds about the bill. There is potential to induce people to make use of their property by saying that, if they do not, they will pay a penalty. However, if an average band E council tax bill is, for the sake of argument, about £1,500 a year, then, even with a 100 per cent penalty, the owner might pay £3,000 a year. We must ask to what extent that is a particularly heavy burden on them when the capital value of the property might appreciate significantly.

There would be a better balance if we tried to induce or assist owners who are on the margin. My experience is that private owners who stand properties empty often tend to do so because of problems, such as people going into long-term care or dying. It would be helpful if, for example, local authorities or registered social landlords could work with owners perhaps to take a lease of the property to refurbish it or to purchase the property if that is what the person wishes. Often the issue is the cost that is involved in selling a property or what needs to be done to refurbish it. It would perhaps be better if more emphasis was put on that approach, rather than on punitive aspects.

David Torrance (Kirkcaldy) (SNP): My question is about rental levels. We heard about shopping centres giving away properties. I represent an area where the High Street has been in decline for 10 years and there are no major shopping centres. Many of the properties are large and unsuitable. At the ends of the High Street, which are successful, the properties are smaller, but there are not enough of them. A recent survey by Kirkcaldy4All—the business improvement district project—showed that the rents on those properties had not reduced at all. Does that indicate why they have not been let for such a long time? Some of the large properties in my area have been empty for up to 10 years.

10:15

Peter Muir: Again, that comes down to the issue of supply and demand in relation to a particular property. There are towns throughout Scotland—not just Kirkcaldy—that could be referred to as terminal towns. Around 10 or 15 years ago, they were vibrant and had their own levels of value. In some cases, properties had 25-year leases in place, with the usual five-year rent reviews. However, the market has changed in such a way that those towns now have large established shopping centres that have sucked out the tenants from the traditional high street, leaving it very much secondary.

Landlords are trying to let those high street properties, but the problem is finding someone who wishes to go in there: nobody is willing to take on a lease. There may be other occupiers in the

high street who continue to pay the same rent, but they are probably tied into institutional leases with upward-only rent reviews in which there is no provision to set a lower rent. That may be why rental levels are staying the same. The fact that there has been no take-up of other empty units tells me that there is no demand but plenty of supply.

David Torrance: There is a real short supply of small units in the town for small businesses to take up. Are we now trying to let the wrong type of property on the high street? There has been no investment in changing those units at all. Would the reforms perhaps encourage landlords to turn their properties into smaller units?

Peter Muir: As I said earlier, landlords are actively trying to let properties—there are just no tenants out there. That is due to a combination of the economic downturn and a problem with finance, as people cannot start up businesses even if a small unit or shop is on the market in a town. There is no doubt that landlords would take something: if someone was to come along and offer a rent, that would be better than nothing, as it would at least be an income for the landlord. The landlord wants his income; the question is who will give him that income. At present, there is no one out there who wants to take the plunge and sign up to a lease.

Garry Clark: David Torrance raises an important point with regard to the appropriateness of some properties in town centres up and down the country, and whether they are the right size, or too large or too small. We recognise that there is a need to work with landlords to ensure that the properties that are offered in town centres are appropriate for the demand. We would certainly want to do that, and we have spoken to the Scottish Government about it. We are keen to work with the Government in relation to the moves that Alex Neil and his department are making to ensure that we maximise the value from our town centres, and I recently met with someone from Kirkcaldy4All to discuss that. We need to work with landlords, but saddling them with an extra £18 million-a-year bill is possibly not the best way to encourage them to invest in ensuring that those properties are appropriately scaled for our town centre demand.

The Convener: What should we be doing to encourage landlords to ensure that those properties are used? We are all really concerned about those empty properties, particularly in high streets and town centres that should be buzzing and vibrant. If the bill is not the right solution, what should we be doing?

Garry Clark: It is perhaps true that landlords are sometimes not as engaged in our town centres as we would hope that they would be. Many of

them are based very far away from the properties that they own, and many are perhaps not aware of some of the initiatives that are taking place at a local level or even at a Scottish level to try to improve our town centre offering. We need to bring landlords on board and engage them in that process. There is much that the chamber of commerce movement, the Scottish Government, local authorities and BID projects can do to bring those landlords on board and work with them, both to help the landlords and to help town centres more generally.

Gareth Williams: There is a wider issue. There is anecdotal evidence of some properties not being competitively placed, but it is a complex issue and the bill seems to be a blunt instrument to deal with it. Garry Clark has touched on a number of issues, but we would also look at transport issues, the planning of town centres and the layout of streets to make them as attractive as they can be. If those issues are addressed, that would make the experience of shopping or living and working in those areas competitive with other parts of Scotland, whether they are cities or out-of-town locations. We welcome the Scottish Government's plans for a town centre strategy, but it seems as if the bill has been introduced without evidence and in advance of that strategy. We are keen to see more evidence gathered to back up the approach that the bill takes, if the committee could pursue that.

Peter Muir: I agree with Garry Clark and Gareth Williams that there has to be a way of looking at how to improve the towns that are affected, which have substantial retail and office space available. The issue is how we go about that. The BID system is up and running, but perhaps we have to go a little bit further and approach landlords to say, "How can we help?" It is not through want of trying that the landlords are not letting the properties. They cannot suddenly say, "Here's a slab of cash to improve the town." They have to be encouraged. They will have to spend money themselves, but is there any other way in which they can be helped and encouraged to do that?

Margaret Mitchell (Central Scotland) (Con): I return to the point that Gareth Williams made, which seems fundamental: there is a lack of evidence and data. The evidence that we are hearing about properties being wilfully left empty is anecdotal. A couple of the submissions suggest that the evidence base, data modelling and comparators should be available. Do you agree that that is a fundamental prerequisite and that a joined-up approach should be taken to looking at the trends in vacant properties and the impact of the reforms introduced by the bill before we go any further on implementation?

Gareth Williams: Absolutely. Given that reforms took place in England a number of years ago, Scotland has the opportunity to look at a good comparator for the proposed reforms. I understand that changes are also being proposed for Wales, so it might be building up an evidence base that would be applicable in the Scottish context. We call on the Scottish Government to do a lot more modelling. As we set out in our submission, the policy might have a range of impacts. We do not know how it will all pan out, but I think that it is fair to say that the projections of a saving of £18 million in year 1 and £18 million in year 2 are unlikely to be the final figures, and that there will be changes in the figures between those years. We hope that, before the Scottish Government takes the policy forward, it looks at the figures and works with the industry to generate them.

Garry Clark: We are 100 per cent behind the Government's ambition to reduce the number of vacant properties, particularly in town centres and high streets throughout the country, but more work needs to be done on this proposal. We are not introducing the changes in a vacuum.

An even bigger stick has been wielded against property owners in England. Since the measure was introduced down south, the proportion of vacant properties has increased from 3 to 14 per cent. We need to look at why that is, what impact, if any, the reduction in empty property rates relief has had and how the measure would apply to Scotland. In recent weeks, it has been suggested that the Chancellor of the Exchequer might be looking at reviewing the way in which the system operates in England. As Gareth Williams mentioned, changes could be made in Wales, as well. We need to bear in mind such issues when we are looking at making the changes that are proposed for Scotland.

Kevin Stewart: A few minutes ago, you said that absentee landlords were often unaware of initiatives. Do you think that absentee landlords would sit up and pay attention if the proposed law were brought into being?

Garry Clark: As I said, the result in England is that the proportion of vacant properties has increased from 3 to 14 per cent.

Kevin Stewart: During a recession.

Garry Clark: Exactly. That recession has resulted in reduced demand, which is why reduced demand is the issue.

Kevin Stewart: But in areas in which demand is still high—we have already agreed that there are such areas—do you think that absentee landlords would sit up and pay attention if the proposed law were brought into being?

Garry Clark: The supply issue is one of those that we must look at. Dealing with it will require investment from landlords because, in essence, we have far too much retail property in our town centres. In many cases, that retail property is not appropriately sized, as has been mentioned. If we are to turn such property into better and more appropriately sized retail property, or into office or residential property—and thereby address some of the social housing issues—that will require investment from landlords. Taking £18 million from landlords is not the way to get that buy-in from them.

John Pentland (Motherwell and Wishaw) (Lab): You have said that one way of resolving the situation would be to work in partnership with the Scottish Government, but so far I have heard only about the Scottish Government removing £18 million, which you see as a penalty. What would businesses bring to the table in that respect?

Garry Clark: There is quite a lot that we can do. The situation in town centres, where there are many vacant properties, is a complex issue. There are many reasons why that has happened, such as competition from out-of-town developments and online shopping, as well as transport issues and the appropriateness of property for development.

Some measures have been taken. For example, through the business improvement district initiative, businesses have invested to improve their local area and amenity for communities as a whole. That is certainly part of it. Of course the Government and the private sector need to work together more closely. We all need to do more if we are to have a viable future for our town centres, in particular. That involves business, local government and national Government working together; it also involves looking at investment through, for example, business improvement districts, bringing housing back to our town centres and ensuring that they have a lifespan that extends beyond the traditional 9 to 5 hours of retail. People need to live and work in our town centres as well as shop there.

The Convener: Do you want to comment, Gareth? The SCDI is quite a wide partnership, which includes a number of Government bodies.

Gareth Williams: I agree with what Garry Clark said about the commitments that businesses are making to cities and town centres. We are working with the Scottish Government and the seven cities in Scotland on the cities strategy, which will look at how we can get investment into those seven cities. I know that that does not touch many of our towns around Scotland but, as Mr Stewart has already highlighted, we have issues with city centres as well. That particular initiative offers great opportunities.

10:30

James Dornan (Glasgow Cathcart) (SNP): To what extent does the English experience reflect the impact of the recession, as distinct from the impact of the reform of empty property tax?

Garry Clark: The issues are almost entirely down to the recession. The problem is lack of demand.

James Dornan: Would the reforms have proven to be effective if they had come at a time of economic growth?

Peter Muir: The English system was established on the back of the 2007 Lyons report, which provided an overview of the English ratings system. Gordon Brown, who was the chancellor at the time, introduced the current empty property rates system in April 2008. Obviously, the market took a serious downturn after April, which was not foreseen when the Lyons report was published.

Garry Clark: The other factor that needs to be taken into account is the projection for this year, which is that central Government and local government departments face an empty property rates bill of something like £70 million. Obviously, that is a pretty substantial burden on the public sector, even before national health service properties and others are added in. It is difficult to measure the impact of the elimination of empty property relief in England. The problem in relation to vacant properties is the lack of demand. Only increasing demand or affecting supply will change the situation. The proposal did not create the problem but it will not create a solution.

James Dornan: Surely that view is hard to evidence, given that the system has been in operation during a recession.

Garry Clark: Potentially, it is hard to evidence, but if the Government is proposing to bill our members another £18 million, it needs to produce some evidence that its proposal will achieve the results that it hopes to achieve.

Gareth Williams: I agree with some of what Garry Clark has said. We have certainly been made aware that the changes down south might have been a factor in some businesses going into administration. It would be interesting to see whether there is evidence of the economic impact of more businesses not surviving as a result of the proposal. Further, there is anecdotal concern about the demolition of properties in England as a result of the reforms. It would be possible to gather evidence from companies on that aspect. If that were to be the result of the reforms in Scotland, the effect on town centres would not be beneficial.

Garry Clark: Colleagues in chambers of commerce down south have told me that the biggest effect is that speculative development has

been killed almost stone dead, which has been damaging to the construction sector in parts of England.

James Dornan: It is hard to imagine that there would be much of that going on anyway.

Garry Clark: We are thinking about how the reforms might work in more healthy economic times. We would not want to see a negative effect on speculative development.

James Dornan: Would the introduction of a higher threshold for exemption from empty property rates be an appropriate measure for Scotland?

Garry Clark: We would need evidence about how that would impact the sector. We have not had enough evidence so far. A lot of the same problems might still apply, in that it would be using a blunt, possibly inappropriate instrument to tackle a problem.

Peter Muir: We would need to see what figure a cap would be set at. However, as a chartered surveyor, my view is that the rateable values in the valuation rolls throughout Scotland, which were all set in April 2008, are already quite high. We would probably be looking at having the threshold at a substantial level in order to eradicate a lot of the problems in the smaller towns.

Kevin Stewart: Would you agree that the main reason for there being no speculative investment at the moment is that the banks are not lending?

Garry Clark: That is a factor.

Peter Muir: I would agree.

Gareth Williams: As Garry Clark said, we need to look ahead to a point when businesses are looking to expand again. We will need speculative development at that point, though not at the levels that we saw before, so that premises are available; otherwise, we will perpetuate the problems that we currently face.

Anne McTaggart (Glasgow) (Lab): To go back to the timing of the bill, would the proposed reforms be considered more appropriate if they were being introduced at a time of stronger economic growth?

Garry Clark: It is difficult to say. A lot of the negatives would still attach to the reforms. The bill as it stands and the proposed timetable for the changes that are being introduced to the empty property relief system are particularly ill timed, given that about 50 per cent of leases are due to come up by around 2015. There are projections that vacancy rates on the high streets in particular could rise to something approaching 40 per cent, given the rationalisation by some of the major chain retailers that is being talked about at the moment. Introducing reforms in 2013-14 would be

a singularly bad time to do so, due to the effect that they could have on high streets and on property owners in the high streets.

To look forward to better times, there is the example of Union Square and so on in Aberdeen, so there is still a pretty healthy demand. I can understand why the reforms could be viewed as a tool in the box if everything else had been tried and there were still empty properties.

That said, if we are looking for landlords to invest, which they must do if we are to turn our town centres back into vibrant hearts of communities, the negatives that attach to the reforms still apply. The way to encourage property owners to invest is not to penalise them and take money away from them.

Peter Muir: I whole-heartedly agree with Garry Clark. In England, the reforms were introduced when the market was perceived as being at a high. Traditionally, landlords will build in what they call a void period, between the tenants coming out and the property being relet. In good times, in a good centre, a tenant can move out and three months later someone else has moved in. In a high street, it could be six to nine months. Nowadays, as we have just discussed, it takes a considerable amount of time to let a property—if it can be let at all—in a high street in a failing town. If the market was good, there would be only a short void period when the landlord would be liable for rates before a new tenant was introduced.

Gareth Williams: The FSB makes a number of interesting points in its submission about the percentage of affected businesses that will be retail businesses in the town centre, the percentage that will be offices and the percentage of those offices that might be incubator facilities for businesses.

Without knowing that information, I would hesitate to comment on whether there is a right time to introduce the reforms. We may want to understand more about the possible effects throughout the economy.

Garry Clark and Peter Muir have covered the business angle, but we need to consider the public sector angle too. We need to look beyond 2013, as public sector budgets will be under pressure for a lot longer than the period of the economic downturn. From what we hear, the reforms will have some impact on public sector-owned properties, and there is a question around the administration costs for local authorities.

Is there a good time to introduce the reforms for the public sector? Will that be significantly further in the future than it would be for business? We might want to think about that.

Anne McTaggart: I have one more question. You mentioned the retail sector. Is the situation particularly acute in the retail sector, or are other sectors experiencing similar issues in respect of vacancy rates?

Peter Muir: All sectors have been affected. Retail springs to mind because everyone walks down a high street, but they generally do not look up to see that there are a lot of vacant offices too.

However, retail has suffered badly. Many people now go shopping to view products and then go home and promptly buy them online. A lot of the major chains are shrinking—Arcadia Group has been talking about that recently. The issue affects everybody, but retail is the sector that most people see.

Garry Clark: I have to agree with that, especially when one considers the shrinkage in disposable income that has happened in the past couple of years. At present, every household in Scotland has more than £1,000 per year less to spend than it did even in 2009. That is several billion pounds a year less that is being spent in the Scottish economy, and retail is taking a massive hit from that.

One potential issue that has come to the committee's attention, particularly in the Highlands and Islands, relates to empty property relief being retained for industrial premises while it is being eliminated for other premises. There are concerns in the north that Highlands and Islands Enterprise has zoned its business units as industrial premises. If that situation continues, in order for those premises to avoid exposure to rates, other businesses that are seeking premises as the economy picks up may find that there are empty premises that they cannot access because public bodies have been zoning them for industrial use.

The Convener: A lot of our questions so far have been specific to the non-domestic part of the bill, but we will move on to questions in which Mark Rodgers might feel more involved.

John Pentland: As Mark Rodgers is probably aware, the Scottish Government's proposals aim to encourage owners to bring empty properties back on to the market. Do you agree with the proposals? If local authorities decided to use the proposed powers and increase council tax for long-term empty properties in their areas, what impact would that have on registered social landlords?

Mark Rodgers: My first observation is that the 32 local authorities in Scotland can each decide individually how to implement the measure. As my organisation works across one relatively large local authority area, that would be less of an issue for us. However, I am involved as a board member with another organisation that works across 13

local authorities. There is therefore an issue about how clear the policy will be at a strategic level for us.

10:45

I said that, from a domestic property point of view, there was a balance to be struck between punitive measures to prevent people from leaving properties standing empty and measures to encourage them in the way you describe. I want to pick up on a point that Garry Clark made. It is about looking at the existing use of property—whatever type of property it is—and whether that makes sense in the longer term, as opposed to just looking at relatively blunt measures. For example, the conversion of retail accommodation to residential accommodation in certain circumstances is an excellent idea.

The issue that we RSLs face, just to put a development spin on it, is that most of the grant funding that is available these days is very much targeted at new-build properties. As an RSL that is based in the Borders, we do not do new build at the present time because it does not make economic sense. The acquisition of land and the build price for a three-bedroom house comes in at £140,000, but I could buy one off the shelf and refurbish it for £90,000.

I hope that the use of housing association grant generally will be considered and that, rather than just being targeted at new build, it will be made much more widely available for existing market purchasing, so that we can change the use of and refurbish properties. That is not just because of the economics involved, but because it makes sense on environmental grounds.

We should look at a range of things in addition to what the bill proposes. The ability to penalise people is useful as far as it goes, but it is a small tool in the wider toolkit that we should be looking at.

John Pentland: Are there any other ways in which the Scottish Government and local authorities could support the bringing of empty houses back into use?

Mark Rodgers: I have given one example of that. The ability to obtain grant funding and put it towards the overall cost of purchasing existing properties on the open market and refurbishing them would be useful for not just our organisation but, I am sure, a lot of others. Indeed, it would also be useful to work with partners in other sectors to look at change of use for retail and office accommodation. There is an awful lot of such accommodation about, and using it in that way would return many more units to availability for let much more quickly and at a much lower cost than simply being increasingly focused on new build as

the only way to address the shortage of supply in the residential property market generally and the social rented sector in particular.

Margaret Mitchell: Can the panel comment on how lenders might behave in the light of the additional costs that may be imposed on some empty properties?

Peter Muir: I do not think that the finance would be made available for speculative or new build without there being a solid business model—possibly pre-lets—for any particular development. The lender would have to know that income would be coming in to pay back the loan. A lot of landlords have loans from banks at the moment. Given the current squeeze in the banking sector, if I was a bank manager I would be saying to landlords that if they did not let their property, we would take it and do it ourselves. I think that the banking sector will be wary about the bill and will be looking over its shoulder at what might happen.

Margaret Mitchell: So the proposals in the bill could lead to more foreclosures.

Peter Muir: Yes. I think that the banks would start calling in loans. I do not think that that would apply to the large funds that have a substantial income, but there are landlords out there who own 10 or 12 properties and if they are not producing an income and have a loan that is coming up for refinancing, I could see it being foreclosed.

Garry Clark: I do not have anything to add. I agree with what has been said.

Gareth Williams: I also agree. There has been a suggestion that changes down south have had an influence on the number of businesses that have gone into administration. There might be some evidence that lenders' decisions would be influenced by the change. We should be wary of that.

Mark Rodgers: In my experience and, I am sure, in that of colleagues on the panel, it is true to say that long-term money, as it might be described, is simply not out there. It is certainly true that, if someone in our sector is looking for additional borrowings, money for a term of five to seven years is available at a considerable premium, but longer-term money is not. I do not see that position changing any time soon.

Margaret Mitchell: I want to explore the rents issue a bit further. The witnesses have said that there are a lot of incentives and a lot of people are dropping rents. If owners are faced with an increase in costs for properties that are lying empty, might they raise rents to recover those additional costs? The retail sector might look at rents generally and raise them. In other words, that might be a knock-on effect on second and third-tier centres.

Garry Clark: That might happen. If property owners are faced with increased costs, they might look at ways of recovering them through other means. That could include raising rents in properties that they feel more confident of letting. It could have a knock-on effect; I could not rule that out, but it would be speculation on my part.

Peter Muir: I agree with Garry Clark. Landlords might try to get additional rent through occupied properties on which a rent review is due. Certainly in the past five to 10 years, most institutional leases have been reduced in term. Leases used to be for 25 years but they have been reduced to 15 years with five-yearly rent reviews and include the all-important upward-only rent review clause, which is in place purely to protect the landlord's investment. The fact that the market has declined means that the landlord still gets the £10,000 per annum that he got five years ago. A landlord might instigate a rent review, which might go for negotiation between surveyors—which I get involved in—and end up at third-party arbitration, but in nine out of 10 cases, the rent would stay at, say, £10,000. It would probably be stated at £8,000 but because of the upward-only clause, it would stay at £10,000, unless the market was particularly buoyant. Buchanan Street in Glasgow, for example, is still very active but other areas are not.

Gareth Williams: The issue has been highlighted to us as one possible effect in relation to some property owners and some premises. We have tried to highlight a whole range of potential effects in our submission. At this stage, I could not comment on where the balance would be.

Margaret Mitchell: What about domestic property letting?

Mark Rodgers: I am not sure that the same pattern would apply. The social rented sector is so tightly regulated that the ability to review rents and increase them upwards at any given point in time is not something that we would be allowed to do.

It is different for the properly private rented sector. Local markets vary enormously but in the Edinburgh area, for example, private rents are very strong and increasing. However, the issue does not apply to the regulated sector.

Margaret Mitchell: This part of the session is about the potential adverse consequences. I want to explore adverse consequences for the public sector in particular, if it is not able to let its estate. What are the consequences of that for the policy objectives, at least one of which is to make an £18 million saving? How realistic is that saving if the public sector is affected and there is, in turn, an impact on services?

Garry Clark: The figures that I have seen for England show that, last year, the public sector was

exposed to about £50 million in respect of empty property rates. The projection for this year is about £70 million. From memory, I think that that figure applies to central and local government, so exposure could be even higher once we take other public bodies, such as the NHS, into account.

The submissions that have been made to the committee by local authorities and the NHS, for example, highlight their potential exposure to empty property rates and their difficulties in trying to avoid that exposure. That is a real issue that we hope the Government will be able to quantify during the bill process.

Margaret Mitchell: To recap, instead of a net saving, we could be looking at the Government having to fork out further expenditure in order to cover the costs.

Garry Clark: At the moment, the cost to the public sector in Scotland is unclear.

Margaret Mitchell: It would be helpful to have data to see which properties we are talking about. An evidence base to see exactly what the extent of the problem is would be helpful.

Garry Clark: Yes.

Margaret Mitchell: Does anybody else want to comment on that issue?

Gareth Williams: As the local authorities have said, they obviously have a role in setting the vision for the towns in their areas. As part of that vision, they may deliberately choose to keep vacant a particular property that they own if the alternative is that it would be put to a use that would be contrary to the vision for the town. There may be those effects as well. I do not wish to denigrate local authorities, but they may think it inappropriate for a charity to use premises in a town centre, for example, if the vision for the area is to raise value and, if possible, get in higher-end shops.

Margaret Mitchell: I will sum up, so that we are clear about what you are saying. Two of the policy objectives are

“to bring vacant commercial premises back into use”,

and to benefit town centres. The Scottish Government believes that town centres in particular will benefit. Do you consider that those objectives will be achieved in this economic climate?

Peter Muir: On your first point, I do not see tenants being found in the current economic climate, particularly in small towns and cities. More thought needs to be given to helping landlords to try to encourage redevelopment and get people to come into areas. I think that the removal of empty property relief will do more damage than good.

Margaret Mitchell: Speculative development is essential for growth in town centres.

Peter Muir: Yes.

Margaret Mitchell: But you think that what has been proposed will have an adverse effect.

Peter Muir: Yes. It will have an adverse effect.

Garry Clark: The solutions to the problems that our town centres face are complex. There will have to be many ways to address them, and many of those will be particular to specific locations throughout the country. The average vacancy rate across Scotland is around 14 or 15 per cent, but the rate is considerably higher in some areas. Paisley is always highlighted—I think that its vacancy rate is currently around 26 per cent. There are acute problems, and it has been well documented recently that the solutions to them lie in diversifying our town centres—I am talking about not only retail, but residential, office and leisure uses—and making them work 24 hours a day. Those solutions will require investment, but from what we can see, the policy would take resources away from town centres rather than encourage investment in them.

Margaret Mitchell: From what Kevin Stewart said, Aberdeen is quite buoyant. Again, is not there a case for getting data to ensure that we are not using a hammer to crack a nut? Some places are buoyant, but the question is what the scale of the problem is.

11:00

Garry Clark: Absolutely. As I said, the challenges are different in different parts of the country. Aberdeen is in a different situation from Paisley, for example. I always feel that the economy in Aberdeen is more related to the price of a barrel of oil than to the issues that other parts of Scotland sometimes experience. That is probably a sweeping generalisation, but Aberdeen is a successful part of the economy and the solutions there are different from the solutions in Paisley, Cumbernauld, Livingston or wherever.

Margaret Mitchell: Does Gareth Williams have any comments on how realistic the two policy objectives are?

Gareth Williams: As I said, particularly at this time, we need an evidence-based and joined-up approach. The Scottish Government has not produced the evidence that we need on the proposals' economic impact although, to me, the indication is that the bill will not achieve the objective for town centres and will have an overall negative economic impact.

The revenue-raising aspect is difficult. The Scottish Government estimates that the bill will

raise money because many more premises will be liable. On the other hand, there are all the issues that we have talked about such as potential demolitions, businesses going into administration and the impacts on the public sector. As I said, there is a big question mark over the projected figure of £18 million. The figure will probably be lower, but we could do with more information on that issue.

Margaret Mitchell: That is helpful.

Kevin Stewart: The written evidence from the Federation of Small Businesses states that rents in many areas are still “stubbornly high” and that the current scheme acts as a disincentive to filling units. It argues that, between 2010 and 2015, that scheme will cost £769 million, compared with the £591 million for the small business bonus scheme. Would those moneys be better invested in trying to boost the economy through things such as the small business bonus scheme, rather than in incentivising people to keep properties empty?

Garry Clark: The small business bonus scheme has a hugely important role in revitalising businesses across the country and, we hope, in encouraging more businesses in our town centres that can take advantage of it. That said, the question should not be about incentivising businesses to keep property empty; it must be about incentivising businesses, where necessary, to redevelop properties to bring them into the kind of use that we need in our town centres, whether that be residential, office or retail use, and to achieve a balance in that. The proposed additional charge will simply be a cost to businesses. It will make it less likely that they will be able to find money to invest and it will expose them even more to lenders, for example.

We need a more complex and conjoined approach towards incentivising development in town centres. We are perhaps on the way to achieving that through the work that the Cabinet Secretary for Infrastructure and Capital Investment is pursuing. We are not clear where the bill fits into that approach. The Scottish Government has not produced any evidence on how it will achieve the intention. We know that the intention is to reduce vacancy levels in town centres and to raise money, but we have not seen evidence to suggest that the bill will do either of those.

Kevin Stewart: I am aware that we are missing you out, Mr Rodgers. Earlier, you said that demand outstrips supply in your area. In the Borders, is there any great scale of long-term empty properties, either in your stock or in private hands?

Mark Rodgers: There is no significant amount within our stock. There are small pockets of what we might call hard-to-let properties. Such a small

proportion of our stock would come under the definition of properties that have stood empty for six months or over that it is almost statistically irrelevant. I qualify that by saying that that is the case only at the present time and that, in our view, the impact of welfare benefit reform will significantly change that. Across the stock at the moment, there is a mismatch between the number of bedrooms and family-size requirements, and the proposals to prevent, for example, carers or those with shared access to children from being able to have extra rooms without facing significant financial penalties will bring about a significant change in demand for properties with fewer bedrooms.

Previously, we have not had enough three, four or five-bedroom properties to meet demand, because such properties are expensive to build—I commented earlier on how we can address that issue. In some regards, once welfare benefit reform kicks in, the demand will almost stand on its head: there will be much more demand for properties with fewer bedrooms because people cannot afford to use 14 per cent to more than 30 per cent of their income support to pay their rent.

Kevin Stewart: I will go into the welfare reform aspects in meetings of the other committee of which I am a member.

Are you aware of any RSLs that have an issue with having a number of long-term empty properties?

Mark Rodgers: I was familiar with that situation in my previous life as an employee of the City of Edinburgh Council. Large areas of the town, such as Craigmillar and Greendykes, had many long-term empty units of stock with a virtually negligible value on paper, and it made no sense to refurbish them, because of the costs. Ironically, at a time of increasing pressure on the social rented sector, the economically sensible thing to do was to demolish such properties. The council started to demolish hundreds of units at a time, and that work is still on-going.

Kevin Stewart: Scottish Land & Estates suggested to the committee that local authorities should recognise that some rural empty properties are likely never to be brought back into use and that they should be delisted from the council tax register. Do you have any comments on that? Do you have any such difficulties with regard to your stock in the Borders?

Mark Rodgers: I am not sure that I agree with that perspective. Ensuring that people with a housing need can be housed in or fairly close to their communities is one of the most difficult things to do in small rural communities. That is not unique to the Borders; it is probably an issue

everywhere in Scotland outside the major population centres.

My earlier comment started from the basic premise that often it makes economic sense to subsidise the purchase and refurbishment of existing properties rather than taking on the economic and environmental costs of new build. It strikes me that what you describe is a prime example of a situation in which we could work constructively with those who own that stock to determine whether we could either assist them to bring that stock into use for rent or, perhaps, give them a capital receipt by purchasing it. That might be a more sensible way to proceed, rather than saying that, at a time of housing crisis across all tenures, it makes sense to leave stock standing empty and not collect any tax on it.

The Convener: The Government proposes to allow local authorities to offer a discretionary time-limited exemption from any additional council tax charge in two circumstances. One is where the owner is actively attempting to either sell or let the property, and the other is where RSLs have a stock of properties that are needed for use as temporary accommodation but which are sometimes left empty for long periods because their use is linked to a demolition and new-build programme. Are there any other situations in which the Government should be considering allowing local authorities to offer an exemption?

Mark Rodgers: Those are the two principal ones.

In my submission, I made the observation that an element of flexibility should be possible in relation to a standard private owner who is selling to relocate, so that they are not penalised as a result of their property being stood empty while they are genuinely trying to market it and move elsewhere. It could be argued that the absence of such flexibility might impact on labour mobility. In the local housing market in Hawick, even properties that have had 10, 20 or 30 per cent knocked off relatively modest market prices are still stood empty 12 or 18 months later. Any regulations that would support the bill, if it is passed, would have to deal with that situation so that people who were genuinely trying to move would not be penalised.

That said, the two sets of circumstances that you mentioned are the major ones in which it would be logical to offer an exemption.

The Convener: Do other members of the panel have any thoughts on the idea of there being local flexibility?

Garry Clark: A more general flexibility would probably be more welcome than having 32 different systems applied, which would result in unpredictability.

As far as potential exemptions from the changes to empty property relief are concerned, perhaps some measure could be built in to protect new developments for a period of time, to allow speculative development to take place when the market picks up again. That would seem an obvious measure to take. I think that it would be more welcome for any changes to be made at a Scottish level than it would be for a piecemeal approach to be adopted across the country.

Peter Muir: I echo what Garry Clark said. We have a single rate poundage, which is lower or higher, depending on the rateable value. That is a more general approach. If an exemption were granted for new-build properties, that would have to be done on a national basis.

The Convener: Gareth, do you have anything to add?

Gareth Williams: Not much. When I spoke to our members in advance of today's meeting, some of them raised concerns about the increasing complexity of a system that involves BIDs, tax increment financing and so on. If we add to that the incentives that the Scottish Government is looking at with regard to the retention of non-domestic rates at a local level, complexity is an issue that we might want to consider.

John Pentland: I have a question for Mark Rodgers. If the bill is passed, additional moneys will be raised. Do you agree with the Scottish Government's proposal that local authorities should be given discretion with regard to how they spend that money?

Mark Rodgers: Not in terms of the discretion—perhaps that is a slightly controversial view. If the purpose behind giving councils the ability to apply a punitive sanction to someone for not using a property is to generate income, because that sanction is applied to recognise that stock is not being used when there is pressure for stock to be available, surely it makes sense for those funds to be spent on improving the supply of housing. Such income should not be seen as a substitute for the provision of adequate funds to local authorities.

The Convener: Are there any other questions?

Margaret Mitchell: I have a final question about town centres. The planned national review of town centres is coming up. What does the panel think about the proposed reforms being implemented separately from that review and without it being taken into consideration?

Garry Clark: We welcome the review and the Scottish Government's renewed approach to town centres. We have met ministers and officials as part of that process, and we are keen to continue to work with the Scottish Government on that. It is unclear to us how the bill's proposals would play a

part in that. We fear that the bill may have a negative rather than a positive impact on town centres in the short to medium term. However, we are keen to continue to work with the Scottish Government, to add what we can do to efforts to ensure that town centres have a vibrant and positive future.

11:15

Margaret Mitchell: Would it be better to delay consideration of the proposals until the town centres review has been undertaken or to consider them in conjunction with that work?

Garry Clark: Given that the policy intention of the bill is to address vacancy levels, particularly in town centres, it would probably make sense for the proposals and the wider town centres initiative to be dealt with more holistically.

Peter Muir: I agree whole-heartedly with Garry Clark on that. I do not see that town centres will be redeveloped or improved in any way without there having been some form of review. When the review has been undertaken, we can move forward. Currently, there is no market for tenants.

Margaret Mitchell: We will have more data and evidence and a clearer picture when all that has been undertaken.

Gareth Williams: I agree with my fellow panellists. There is also the forthcoming, more fundamental review of non-domestic rates, and it would make sense to consider reform alongside that, in addition to the national review of town centres, so that we have a far more joined-up policy.

Margaret Mitchell: Rather than look at the issue in isolation.

Gareth Williams: Yes.

The Convener: I thank the panel. We have heard a lot of good evidence.

11:16

Meeting continued in private until 11:44.

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