

**Housing Beyond 2021 (Scotland): Discussion Paper
Response from ARLA Propertymark & NAEA Propertymark
November 2018**

Background

1. ARLA Propertymark is the UK's foremost professional and regulatory body for letting agents; representing over 9,000 members. ARLA Propertymark agents are professionals working at all levels of letting agency, from business owners to office employees.
2. NAEA Propertymark is the UK's leading professional body for estate agency personnel; representing more than 11,000 offices from across the UK property sector. These include residential and commercial sales and lettings, property management, business transfer, auctioneering and land.

Affordability and supply

Review the current Land and Buildings Transaction Tax (LBTT) bands

3. NAEA Propertymark welcomed the Scottish Government's decision in June 2018 to exempt First-Time Buyers from paying Land and Buildings Transaction Tax (LBTT) on property purchases up to £175,000.¹ To further tackle the issue of affordability the Scottish Government must increase supply of housing stock and review the current Land and Buildings Transaction Tax (LBTT) to prevent a limiting of market activity.
4. Policies to assist First-Time buyers will increase demand from this portion of the market. However, if supply doesn't meet this demand it will push houses prices up. Following the stamp duty relief for First-Time Buyers in England, our members noticed First-Time Buyers holding off on making purchases typically outside of London and saving for longer to maximise the full stamp duty relief. As a result, First-Time Buyers are skipping the 'first-time home' and moving straight onto their second homes to avoid growing out of their property in four or five years and facing the cost of stamp duty. To combat this issue, the Scottish Government must increase the supply of new, affordable housing for First-Time Buyers.
5. The Scottish Government must also ensure that there are enough properties coming on to the market to sell. This is particularly important to those struggling to buy their first home in more expensive parts of the country. Consequently, proposals for First-Time Buyers should also be considered alongside reforms to the middle and upper bands of LBTT, where significant amounts of tax become payable. Anecdotally, our members continue to report that LBTT is having an ongoing negative impact on those looking to sell in the middle to prime portion of

¹ <http://www.naea.co.uk/news/july-2018/lbtt-exemption-for-first-time-buyers/>

the market. As a result, this is having a negative knock on effect in other house price brackets. An easing of LBTT can avoid the market stagnating further and ultimately increase tax revenues for the Scottish Government.

Revoke the April 2016 Land and Buildings Transaction Tax (LBTT) surcharge and Mortgage Interest Relief changes

6. To improve affordability for tenants and encourage further investment into the private rented sector, the Scottish Government should do two things. Firstly, scrap the April 2016 3% surcharge above Land and Buildings Transaction Tax (LBTT) residential rates for landlords. Secondly, the Scottish Government must work with the UK Government to revoke the Mortgage Interest Relief changes brought about in Section 24 of the Finance Act 2015. Increasing the taxation burden on landlords' results in these costs being passed back to tenants through rent rises. Consequently, tenants will be unable to sufficiently save to buy a home and the Scottish Government will receive less in LBTT.
7. Revoking the three per cent surcharge on buy to let property would reverse the negative impact the policy is having on the private rented sector by increasing supply and reducing rent rises. Figures from the Scottish Government show that at a Scotland level there were increases in rents in the latest year (2017 to 2018) for 1 bedroom (1.7%), 3 bedroom (8.7%), 4 bedroom (11.8%) and 1 bedroom shared properties (4.7%).² This shows that where landlords are still investing in buy-to-let property the result of a higher tax burden directly contributes to added costs for tenants. The LBTT surcharge of three per cent has increased landlords' tax burdens and led to rent rises.
8. Under the changes brought in under Section 24 of the Finance Act 2015 to restrict Mortgage Interest Relief for residential landlords to the basic rate of income tax, thousands of landlords are paying more tax. The changes are pushing many landlords up a tax band despite their income not increasing as tax is applied to turnover instead of profit. To cover these additional taxes landlords are increasing rents for new and existing tenancies. Many are also having to cut back on other expenses such as property maintenance. As the extra tax continues to mount up some landlords will sell up altogether and leave the sector. Over the long term this will impact on the value and quality of property available. By revoking the Mortgage Interest Relief changes landlords will be able to reduce the costs that they pass on to tenants. It will also ensure that landlords remain in the sector and provide long term affordable homes for tenants.
9. As the amount tenants can save goes down, the gap between what they need for a deposit to buy a property and what they can afford to save is ever-increasing; putting the dream of home-ownership out of reach and reducing the Scottish Government's LBTT receipts. Should house prices remain static (a highly unlikely outcome as research obtained through ARLA

² <https://www.gov.scot/publications/private-sector-rent-statistics-2010-2018/>

Propertymark and NAEA Propertymark indicated that house prices will increase by up to 50% by 2025)³, this will result in it taking longer for those tenants the Scottish Government wants to get onto the property ladder to save for a deposit. However, house prices in Scotland are growing faster than the UK as a whole⁴ and therefore as house prices go up this puts home-ownership further out of reach for many people. The consequence of this policy means that the amount tenants can save monthly from their salaries decreases as they must spend more of their income on rent.

Ageing population

Build the right types of homes and provide incentives to downsize

10. By 2036, it is estimated that 1 in 3 people will be over the age of 65 in most Scottish regions.⁵ In order to cater for this demographic, the Scottish Government must do two things. Firstly, improve the mix of housing across all tenures to rent and buy and build these homes where older people want to live. Secondly, to encourage the development of more suitable properties, the Scottish Government should offer tax relief on the development of specific properties that are suitable for pensioners looking to downsize. To this end, any LBTT exemption for downsizers must be combined with a programme of housing building for older people.
11. It is important that the Scottish Government build the right homes where older people want to live. One of the main barriers for older people and pensioners wishing to sell their family home and relocate is the lack of suitable choices. In 2015, Legal & General commissioned a report which found that when last time buyers are looking for a new home, the most common preferences are being close to family and friends (32%), being near their current neighbourhood (18%), having easy access to healthcare (16%) and being located near shops (10%).⁶ To this end, any LBTT exemption for downsizers must be combined with a programme of housing building for older people. The UK currently has only 162,000 privately owned retirement properties, making up 0.6% of all housing stock.⁷ Furthermore, we don't think that traditional retirement homes and senior living centres, which often require residents to move far away from their existing home and may limit access to community facilities, are offering a great enough incentive for older people to downsize.
12. By offering last time buyers a LBTT exemption, it will encourage them to downsize their homes freeing up properties for larger families. In January 2017, we asked NAEA Propertymark

³ <http://www.naea.co.uk/media/1043988/housing-2025.pdf>

⁴ <https://www.gov.uk/government/publications/uk-house-price-index-summary-august-2018/uk-house-price-index-summary-august-2018>

⁵ <https://www.ageukmobility.co.uk/mobility-news/article/how-old-is-the-uk>

⁶ <https://cebr.com/reports/uk-last-time-buyer-market-worth-820-billion/>

⁷ <https://www.economist.com/britain/2014/01/04/dont-move-old-people>

members about enquiries they had received from over 55-year olds. Of the small sample of respondents, we know that 48.7% of agents received between 0 and 10 enquiries, 29.3% received between 11 and 20 enquiries and 22% received above 20 enquiries. The results show that the main reason was downsizing 68%, bereavement 16.3%, affordability 5.2% and heating costs 0.6%. Other issues cited included lifestyle change, relocation, retirement or for family members 9.9%. Furthermore, our survey also asked about how many of those enquiring had a mortgage. The results show that 27% didn't have a mortgage, 51% said very few had a mortgage, 8.7% said the majority still had a mortgage, 11.3% didn't know and 2% gave no answer. By making it easier for older people to sell their homes it will free up family-sized homes for the next generation and boost much needed housing supply. By addressing under-occupancy of homes and encouraging older people to downsize, it takes some strain away from the need to build 50,000 affordable homes 300,000 new homes a year, which is costing the Scottish Government £750 million.⁸ Our analysis from the Housing 2025 report reveals that in most regions, the number of larger homes (i.e. those with three or more bedrooms) being built, far exceeds projected growth in households with two or more dependent children. This suggests that making pre-existing properties available would not only be an easier and achievable solution but takes away the need to build larger properties where they already exist but are under-occupied. Consequentially, more housing stock will be made available in the market and through sales to those not exempt from LBTT, taxation revenue to the Scottish Government will increase.

13. The Scottish Government should also explore additional incentives such as access to over-65s bonds with market-beating returns for downsizers. For example, the Scottish Government could permit only funds obtained through property downsizing to be converted into the bonds. Given that it has already been proven that there is a strong appetite among the over-65s for bonds such as these, reintroducing them, but with the added qualification tied to downsizing, would boost the supply of properties on the housing market.

Energy efficiency and climate change

Help landlords with energy efficiency rules

14. The Landlord's Energy Saving Allowance (LESA) should be reintroduced and extended to include anything contained within the Recommendations Report of an Energy Performance Certificate (EPC). This would help landlords with the cost of making energy efficiency improvements to their properties in compliance with the Scottish Government's proposals for properties in the private rented sector to achieve a rating of EPC Band C or better by 2030.
15. With the collapse of the Green Deal, the only Government scheme ever designed to overcome the "Split Incentive" (the landlord pays for the energy efficiency improvements and the tenant

⁸ <https://www.snp.org/first-minister-nicola-sturgeon-programme-for-government-statement-in-full/>

benefits from the reduced bills), the Scottish Government must act to ensure landlords can comply with the new minimum energy efficiency standards. There are around 350,000 privately rented dwellings in Scotland, which is 14% of the country's homes. A higher proportion of private dwellings fall into the lowest EPC bands than is the case for social dwellings. Within that, the performance of the private rented sector is relatively worse than the owner-occupied sector with 28% of private rented dwellings (95,000) fall into EPC bands E, F and G.⁹ Recent research conducted by the Residential Landlords Association (RLA) suggests that on average landlords of properties with an EPC rating below E believe that it would cost them on average £5789.72 to bring their property up to the regulatory standard.¹⁰ The same research indicated that 20% of these landlords will have to sell these properties as they cannot afford the costs involved in making them more energy efficient.

16. By offering an incentive or financial assistance to bring all properties within Scotland's minimum energy efficiency standards, private landlords will be encouraged to continue letting property in the sector. This is beneficial to the Scottish Government in three ways. Firstly, it will encourage landlords to make the changes to their properties rather than exiting the sector. Secondly, not only will tenants find themselves saving money on their energy bills and consequently spending more on local goods and services but by making improvements to a property's EPC the landlord is making an investment in their property. Thirdly, improving the energy efficiency of properties directly contributes to reducing the UK's carbon footprint and thus has environmental benefits; taking some of the financial burden away from Scottish Government energy saving initiatives.

Place, quality and standards

Extend Flood Re to the private rented sector

17. The Scottish Government should ensure that private rented sector tenants are classed as residential rather than commercial and therefore benefit from Flood Re by contributing to it. This would require a change in current policy, and potentially an amendment to the Water Act 2014. Buy-to-Let property is not covered by Flood Re insurance subsidy and therefore buy-to-let insurance cover is rising for thousands of property investors. According to the Scottish Environmental Protection Agency, 1 in 22 homes and 1 in 13 non-residential premises in Scotland are at risk of flooding.¹¹ Flooding is the most common natural disaster in the UK. Unchecked, Scottish Environmental Protection Agency expect climate change to increase the frequency and severity of extreme events including flooding. To help mitigate the risks the

⁹ <https://www.gov.scot/binaries/content/documents/govscot/publications/consultation-paper/2017/04/energy-efficiency-condition-standards-private-rented-housing-scotlands-energy-efficiency/documents/00516474-pdf/00516474-pdf/govscot:document/>

¹⁰ <https://news.rla.org.uk/landlords-call-for-greater-ambition-to-improve-energy-efficiency-of-rented-homes/>

¹¹ https://www.sepa.org.uk/media/42107/sepa-02-12-flood_risk_management_planning_in_scotland.pdf

Scottish Government must ensure the private rented sector can benefit from Flood Re and minimise flood damage to property and tenants.

Introduce new regulations for short term lets

18. New regulations must be introduced for short term lets such as Airbnb. Unlike the private rented sector, local authorities have no powers to license or register short-term lets but they have some powers under planning, trading standards and environmental health, antisocial behavior and waste legislation. Landlords in Scotland must register with their local authority and letting agents in Scotland must now be registered and qualified to let out property.¹² In the long term, a licensing regime is needed to get the Airbnb industry under control. This would give local authorities the power to control the concentration and numbers of short-term lets in Scotland. It would also allow local authorities to put in place health and safety requirements and a 'fit and proper person' test for landlords. Without proper licensing arrangements we believe Airbnb will have a bigger impact on the wider letting market. Listings for Airbnb are split between private rooms and entire homes. However, as Airbnb grows, and more legal requirements are placed on letting agents and landlords, it could take more properties out of the private rented sector because the returns on short term lets are potentially more lucrative and there are less regulatory requirements.

¹² <http://www.arla.co.uk/lobbying/scotland-agent-regulation/>