



**BRITISH PROPERTY
FEDERATION**

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Rt Hon Alistair Darling MP Chancellor of the Exchequer
HM Treasury
One Horse Guards Road
London SW1A 2HQ

6 March 2008

Dear Chancellor

British Property Federation - Budget 2008

The British Property Federation (BPF) is the voice of property in the UK, representing companies owning, managing and investing in property. This includes a broad range of businesses comprising commercial property owners, financial institutions including pension funds, corporate landlords, local private landlords and those professions that support the industry, including law firms, surveyors and consultants. The BPF estimates that its members manage commercial and residential property assets worth approximately £450 billion.

Effective and efficient legislative improvement through genuine consultation

In recent years, we have not submitted a "Budget Representation" to Government. The reason for this is due to the fact that the property industry has developed a constructive dialogue with Government over many important issues affecting the property industry, as well as the UK economy. This dialogue was not only undertaken as part of the formal Government consultation processes but also in the less formal discussions often via working parties and ongoing communication with civil service officials. There are many examples of this process working extremely well and we believe it is something that Government and civil servants should be commended for. Often these consultations on legislative changes result in relatively unpopular measures being introduced, which increase the overall tax burden on the property industry. Nevertheless, in the majority of cases the consultation process has resulted in an improvement in the quality of legislation for both Government and industry.

Perhaps the best example of this occurred in the extensive consultation, both formal and informal, leading to the eventual implementation of the new UK-REIT regime. In this respect, many of the recommendations from the industry were not implemented (e.g. unlisted REITs, gearing restrictions) but the constructive dialogue with HMT/HMRC did ultimately result in a successful launch of the new regime within a remarkably short space of time. In our view, the efficiency and effectiveness of this process simply would not have occurred if Government had formulated the new legislation without detailed consultation with industry and stakeholders.

The following members are represented on our Board, Council and Policy Committee:

Aon Limited
The British Land Company PLC
Brixton plc
Cadogan Estates Ltd
Canary Wharf Group plc
Capital & Regional plc
CB Richard Ellis
Chambercroft Ltd
City Offices LLP
CMS Cameron McKenna LLP
Credit Suisse
The Crown Estate
Delancey
Derwent London plc
Dorrington PLC
Drivers Jonas
DTZ
F&C Property Asset Management plc
Freshfields Bruckhaus Deringer
Frogmore Property Co Ltd
Goodman Property Investors
Grainger plc
Great Portland Estates plc
Grosvenor
Hammerson plc
Hermes Real Estate
Investment Management Ltd
HSBC Bank plc
Hunter Advisers
Invista Real Estate Management Ltd
Jones Lang LaSalle
Land Securities Group PLC
Legal & General Property Ltd
Lend Lease Corporation Ltd
Liberty International PLC
Lovells LLP
Moorfield Group
Morgan Stanley
Morley Fund Management
Nabarro
National Grid Property Holdings Ltd
Orchard Street Investment Management LLP
Peabody Trust
Property Managers Association
Scotland Ltd
Prudential Property Investment Managers Ltd
Redevco UK
Residential Landlords Association
Savills plc
Scottish Widows Investment Management Ltd
SEGRO plc
Standard Life Investments Ltd
St Martins Property Corporation Ltd
Threadneedle Property Investments Ltd

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Quality not Quantity

However, in the last 18 months, it has become increasingly apparent to us that this level of constructive dialogue has reduced and in some cases disappeared. It is also apparent that the quality of new legislation has suffered as a result. There are examples of this in a wider context than the property industry such as the proposed CGT/taper relief changes and the taxation of Non-Doms, but with regard to issues that impact the property industry in particular, the following are obvious examples:

- Withdrawal of Industrial Building Allowances
- Withdrawal of long-term relief for business rates on vacant property
- SDLT anti-avoidance legislation on partnerships, which seriously impacted normal commercial activities

That is not to say that the Government doesn't continue to collate the views of industry on their proposals. In fact, as a representative organization that aims to coordinate industry views so as to enable a more effective consultation process with Government, we find ourselves and our members overwhelmed by the sheer volume of consultations we are being asked to respond to. The following is a list of the main HM Treasury/HMRC Consultation Papers, Discussion Papers, Technical Notes and initiatives we have responded to in the last 6 months – all of which have significant impacts on the property industry:

- Taxation of Foreign Profits
- Business Reform: - Capital Allowances Changes
- Payable Enhanced Capital Allowances
- Land Remediation Relief
- Leasing reform
- Property Authorised Investment Funds
- SDLT Partnership changes
- SDLT on high value residential transactions
- Principles based approach to financial products avoidance

Our challenge is to collate the views of our members and respond positively to Government's invitation to hear our views. However, there is a growing concern on the part of our members regarding the extent to which these official consultations amount to anything other than a token gesture.

Requirement for a coherent strategy for the property industry

A further ingredient adding to the concern with the consultation process is the apparent lack of joined up thinking between HM Treasury, HMRC, DCLG and internally within these departments with respect to a number of very important property related issues. In times where both the health of the UK economy, regeneration and the sustainability agenda are Government's political priorities, a clear joined up strategic approach to addressing the impact of property and construction on the environment and the economy as a whole is essential. Such a strategic approach requires Government and industry to look at the bigger picture, across all areas including fiscal incentives, taxation, planning and regulation, rather than a focus purely on the direct, narrow impacts of each particular legislative initiative in isolation.

It is for this reason that we feel it appropriate to make a representation at this time on behalf of the property industry. This forthcoming Budget gives us the opportunity to step back from considering the direct impacts of the large number of legislative proposals currently

impacting the property industry and look at the bigger picture with respect to the taxation of property. We believe Government should be encouraged to do the same.

Current Economic Climate

The UK and global economy is now well into a period of economic uncertainty. The threat of a full blown recession still lingers with the question as to how severe an economic slowdown will be and how wide ranging from a global perspective.

The catalyst for the current negative sentiment in the market has been the global uncertainty surrounding the financial markets. Confidence in the property market is very closely linked to the confidence in these lending markets. Although property is often seen as a safe harbour in uncertain economic times, as a relatively illiquid, large capital asset, it is often an asset class that is significantly impacted by a lack of liquidity in the capital markets and we are seeing precisely this in the current business environment.

We do not intend to dwell on this issue in detail other than to make the obvious point that the economic circumstances leading up to the 2008 Budget are very different to what they were at the time many of the Government policies taking effect in this year's Budget and which affect the property industry, were first conceived.

Property - a driver of the "speed limit" of the UK economy

Commercial property accounts for approximately 6.2% of UK GDP and 4.7% of UK employee jobs¹. This means that commercial property accounts for a bigger proportion of UK output than any single branch of manufacturing. It is larger than the oil sector, the transport sector, and hotels and restaurants combined. There is also more employment reliant on commercial property than in hotels and restaurants combined, and significantly more jobs than there are in the manufacture and sales of the motor trade. But property plays a much wider role in the UK economy. Commercial property represents just over a third of the UK's capital stock. While the importance of investing in R&D and the latest capital equipment is taken as read, the UK's productivity is also dependent on investment in commercial property to help create an efficient working environment. An increased investment in commercial property increases the "speed limit" at which the UK economy can operate without triggering inflationary pressure.

The role of the property industry in responding to the changing political pressures to reduce carbon footprints is also likely to become increasingly important.

As well as these direct economic and environmental consequences, the health of the UK property sector (both residential and commercial property) is also often seen as a barometer for confidence in the economic outlook.

Property activity/transactions reduced over 2007/08

Whilst Government's legislative measures over recent years have increased the burden of taxation on the property industry, other economic factors have resulted in out-performance of property investment such that the property industry, on the whole, has broadly been able to absorb the increased costs. In our view, the effect of these recent increases in tax on the property industry has been masked by the overall health of the economy and the growth of property as an investment class.

Uncertainty in the financial markets has had a significant effect on general activity in the property market in 2007/2008. This compares with a prolonged period of growth and activity in the property market over the last 10 or so years. It is worth noting that this general lack of

¹ The Contribution of Commercial Property to the UK Economy – Oxford Economic Forecasting – April 2006

activity can have a significant negative effect on receipts from property transactions for HM Treasury – the most obvious being a reduction in receipts from Stamp Duty Land Tax.

Our key concern is that a further slowdown in activity in the property sector will have serious knock on effects for the UK economy. The property industry is a cyclical sector and this can have significant impacts on property investment as well as property development. Large scale projects such as the regeneration of Paddington Basin can take many years to attract investment, negotiate and develop through to completion. There is always a risk that the timing of these long projects will not coincide with the timing of the property cycle and there are many examples of projects which have been severely delayed or abandoned because of this.

Set against the current economic climate, many of the recent tax-raising measures being introduced by Government appear to arise from short-sighted policy objectives. One clear example where we believe Government has focused too narrowly on direct tax raising measures without fully considering the wider implications are through its decision to remove business rates relief for vacant property. Contrary to Government's stated objectives, the additional cost, risk and uncertainty caused by the abolition of long-term relief will damage speculative development; impose a severe and unpredicted burden upon property owners and businesses; and will make it more difficult for businesses to grow and expand into new premises. There is a clear risk is that the rise in costs will slow down development and regeneration, as speculative developments no longer make financial sense in a tougher economic environment. This will result in Government (and therefore the taxpayer) ultimately being forced to take a larger burden of financing regeneration and development themselves.

The property industry is not shying away from its responsibilities with regards to reducing the UK's carbon footprint. In this respect, it is inevitable that, as a result of actions taken voluntarily by the property community and through regulations imposed by law, the costs of running and developing suitable modern buildings to provide the accommodation needs of the UK population will increase. An obvious example of this is the requirement for all transactions in commercial property to have a valid Energy Performance Certificate. From 6 April 2008, all buildings over 500 sq m (5,380 sq ft) will require an Energy Performance Certificate when either sold or let. Whilst the principle is broadly supported by industry, it is widely acknowledged that this will have the effect of increasing the cost of transactions and slowing down activity in the sector.

Restoring confidence and liquidity - Industry recommendations

The ability of the property sector to absorb increased transaction costs will not be the case going forward and we are already seeing direct evidence that the increased cost of transactions and development of property are reducing activity in the market. There is accordingly, a very strong case for Government to reconsider its recent and future policy decisions in light of the current uncertain economic environment.

Our recommendation is that Government should, as a matter of urgency, review the policy decisions highlighted in this letter in light of the wider impacts on the health of the industry, tax receipts for HM Treasury from activity in the industry, and the health of the UK economy.

As a priority, we would suggest the following actions as sensible and realistic measures that would help to restrict the damaging effects of a further slowdown in transaction activity:

- ***Delay the introduction of changes to relief from business rates for empty property by one year pending further review*** - alternatively, Government should use the powers available under the Rating (Empty Properties) Act 2007 to reduce the level of empty property rates for the 2008/09 rate year from 100% to 50%. This would be in accordance with the purpose of this particular provision in the Act to provide flexibility for changes in economic circumstances. The removal of empty

property relief creates a severe risk of slowing down development in the industry at a crucial time in the economic cycle and we do not think Government should be taking this risk at this time.

- **Provide a “confidence signal” to the market through a temporary reduction in SDLT rates** - a temporary or permanent reduction in SDLT rates would be the simplest way to kick-start activity in the property sector and send a wider signal of confidence to the business community. Furthermore, such a measure would likely be tax neutral for HM Treasury due to the increased transaction activity that would result, not to mention the indirect benefits that would arise. Alternatively an increase in the SDLT thresholds would stimulate activity in the property market particularly at the lower end of the housing market which would particularly benefit first time buyers.
- **Make a commitment to review and develop a coherent overall strategy for property taxation in general** - which achieves the objectives of raising tax for HM Treasury, encouraging the right type of building but which also encourages an active and efficient property market. At a time when the property industry is being asked to respond positively to a whole range of community, environmental and infrastructure pressures, all of which will impose a substantial burden on the industry at a difficult time in the property cycle, a well thought through package of fiscal incentives to support and encourage the right environmental behaviour should be a Government priority.

We would welcome the opportunity to discuss the comments made above at your convenience.

Yours sincerely



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Chief Executive
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