



BRITISH PROPERTY
FEDERATION

3Rs for property

the industry's
election manifesto

REGENERATION
R

REITS
R

REASONABLE REGULATION
R

property's contribution:
social inclusion through regeneration
places for work, rest & play
a strong & stable economy
a safe home for pensions

3Rs for Property: The Industry's Election Manifesto

■ Regeneration ■ Real Estate Investment Trusts ■ Reasonable Tax & Regulation

The commercial property industry, for long ignored as a serious contributor to social and economic growth and regarded as simply the means for fat cats to get fatter, has come of age. Ruth Kelly, when Financial Secretary to the Treasury, told the House of Commons that Government recognises 'the important contribution of the property sector to the UK's economic and social well-being'. Over the last three years, leading members of the industry have worked with Government to make sure the industry has been able to support a range of policies aimed at contributing to economic growth, promoting social inclusion and improving the built environment.

But more could be achieved. With the right policies in place the property industry could provide better and faster regeneration; it could enhance its already significant contribution to the growth of the economy; it could provide expanded opportunities for individual savings and investment; and it could play a much greater role in the provision of choice in housing through the expansion of the private rented sector.

The commercial property industry is working strenuously in all these areas but it needs the support of Government to maximise the contribution it can make.

Set out below are the BPF's key manifesto priorities which could help our industry to make a real difference!

■ REGENERATION

The property industry is a firm supporter of the *Sustainable Communities* initiative and is keen to contribute to the improvement of our towns and cities and to the provision of new places for people to live and work. But there are actions that the Government needs to take if it is to capitalise on the investment and energy of the private sector:

- **Get rid of the increasing bureaucracy** that is strangling so many regeneration initiatives. Establish clear lines of financial responsibility for a reduced number of layers of Government. And allow sufficient local freedom for strong leaders to be able to drive through projects that can really make a difference.
- Work with the industry to devise **a system of financial incentives** that will encourage more private sector investment in regeneration. Consider novel structures that would allow for the underpinning of risk in those schemes where private sector investment criteria would not allow for the investment of private money.
- Be bold and allow the introduction of **novel forms of financing for infrastructure projects**, such as tax incremental financing, tax credits or bonds.
- Commit to the introduction of **compulsory training in development economics for local authorities** - both members and officers - who are involved in regeneration projects. As a quid pro quo, the industry would be prepared to support similar improvement training for its own members in how to be better development and regeneration partners.
- Recognise the potential for **the private rented sector to contribute to solving the shortage in housing supply** and work with the industry to establish a cross-departmental strategy for the sector.

■ REAL ESTATE INVESTMENT TRUSTS (REITS)

The property industry fully recognises and appreciates the progress that the Government has made towards introducing REITs in the UK and looks forward to working with Ministers to ensure that the huge potential of these vehicles to promote savings opportunities for the retail investor and allow an efficient flow of capital into property is realised. But we are not there yet and there are still a number of important issues that need to be satisfactorily resolved for REITs to be a success and to establish London as the REIT capital of Europe:

- **Implement REITs in Finance Bill 2006 at the latest.** We appreciate that the latest Discussion Document from the Treasury indicates that this is the Government's intention, subject to the resolution of a number of complex tax issues. But we must not delay if the UK is to benefit from the advantages offered by REITs, not just to the commercial property industry but to the economy as a whole.
- Allow the **maximum possible flexibility in the design of the REIT** structure. The latest Discussion Document contains some encouraging proposals but there are still a number of areas where we believe the market should be left to decide in order to ensure that REITs are widely adopted as the vehicle of choice for investment in property.
- Fix **a reasonable conversion charge** that encourages existing companies to convert and existing offshore funds to come back onshore. We appreciate that in matters of tax it is for the Government to decide the level but we urge consultation with the industry to ensure that the charge is set at a level that will ensure that REIT status is widely adopted and the potential benefits to the economy realised.
- Introduce **a similar tax regime to REITs for Authorised Investment Trusts** in order to provide a level playing field between the different types of collective investment vehicles so that the investor has real choice.
- Work with the industry to devise novel ways for REITs to **facilitate the flow of investment into affordable rented housing**. The US have found that REITs can contribute to the provision of lower cost homes provided they are combined with some other form of support, such as tax credits.

■ REASONABLE TAX AND REGULATION

The commercial property industry accepts that, like any other sector, it needs to be taxed and regulated. But we believe the current system, which has grown up piecemeal over a number of years, actually damages the very aspects of the industry that it is in the Government's interests to foster and encourage. We welcome the creation of a Property Tax Team within the Treasury and look forward to working with them to examine the overall impact of the current tax and regulatory regime on the industry. But in the meantime, there are a number of areas where the Government could take immediate action in order to encourage the industry's greater contribution to its social and economic policies:

- **Reduce the rate of Stamp Duty Land Tax for commercial property transactions.** The current rate of 4% stifles activity, constrains transactions, encourages avoidance, forces companies and funds offshore and actually has not generated the level of enhanced revenue to the Exchequer that was originally envisaged. A rate of 2% would almost certainly stop widespread avoidance, increase revenues and encourage developments and transactions that might otherwise be of marginal viability.

- Listen to the industry's ideas for **the reform of Lease Duty**. This legislation was introduced in a hurry and contains flaws and complexities that are a nightmare for businesses. We have put forward a number of constructive suggestions for change which could form the basis of a reform programme that should also include a reconsideration of the rate.
- Work with the industry to find a more efficient way of **raising money for local infrastructure improvements**, rather than rushing to impose any form of development land tax or Planning Gain Supplement on commercial projects which would have a hugely detrimental effect on the rate of new development and would in any case be impossible to quantify and collect. A wide ranging consultation is needed on this subject - perhaps even a 'commission' which involves industry from the start to look at what is feasible and what existing taxes could be replaced in order to tackle the very real problem of funding infrastructure.
- The cumulative effects of the **new Corporation Tax proposals** will increase the burden on property businesses in comparison with other sectors of industry, whilst the complexity of the new proposals could destabilise property investment and discourage refurbishment - all of which run counter to the Government's growth agenda. We urge the Government to take on board the recommendations in the BPF's comprehensive consultation response on Corporation Tax reform which outlines alternative options that achieve the Government's objectives whilst maintaining the stability of the industry.
- **Promote continuing lease modernisation** in co-operation with the industry through voluntary means and not legislation. Whilst the industry is extremely pleased that the Government has decided not to legislate on Upward Only Rent Reviews, there are other issues such as sub-letting and assignments where the Government clearly feels that change is necessary in order to improve lease flexibility for occupiers. The property industry has already shown itself willing to make changes voluntarily and is committed to working with Government to promote enhanced flexibility in the commercial property market.

British Property Federation
1 Warwick Row
7th Floor
London SW1E 5ER
tel: 020 7828 0111
fax: 020 7834 3442
email: info@bpf.org.uk
website: www.bpf.org.uk