

**SUBMITTING EVIDENCE TO A SCOTTISH PARLIAMENT COMMITTEE
DATA PROTECTION FORM**

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| Date: | 4 January 2019 |
| Organisation: (if required) | Propertymark |
| Topic of submission: | Increasing the Additional Dwelling Supplement of LBTT |

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FINANCE AND CONSTITUTION COMMITTEE

THE LAND AND BUILDINGS TRANSACTION TAX (TAX RATES AND TAX BANDS ETC.) (SCOTLAND) AMENDMENT ORDER 2018

SUBMISSION FROM

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**Increasing the Additional Dwelling Supplement (ADS) rate from three to four per cent
(payable on purchases of second residential dwellings over £40,000)**

Response from ARLA Propertymark & NAEA Propertymark

January 2019

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.

Executive Summary

3. Propertymark thanks the Finance and Constitution Committee for the opportunity to submit evidence.
4. Propertymark does not support the requirement to pay for an Additional Dwelling Supplement (ADS) on the purchase of second properties.
5. Increasing ADS will act as a further deterrent to buy to let investors and make the Scottish private rented sector less attractive. Privately rented properties provide much needed housing for those without access to homeownership or social renting.
6. Extra costs borne by landlords will be passed on to tenants through increased rent. This provides these tenants with less of an opportunity to save to get on the housing ladder.

7. The 4% surcharge on second properties is an ineffective measure to protect the opportunity of first-time buyers. Property repurposing and homebuilding should be prioritised instead.

Comments

Abolish the Additional Dwellings Supplement

8. To improve affordability for private rented sector tenants, instead of increasing ADS, it should be abolished. Increasing the taxation burden on landlords' results in these costs being passed back to tenants through rent rises, and Scotland is currently witnessing a steady increase in house prices making homeownership less achievable for private renters. Consequently, tenants will be unable to sufficiently save to buy a home – resulting in the Scottish Government receiving less in LBTT through residential sales. ADS should be revoked, and other measures such as an advanced homebuilding programme should be considered instead to encourage first-time buyers onto the market.

Private rented housing stock

9. Revoking ADS 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. Scottish Government figures on stock by tenure, show that since 2016 where private rental stock had been steadily increasing, it is slowly beginning to deplete. In 2016, there were 370,000 private rented households, this decreased to 364,000 in 2017 and in 2018 decreased to approximately 360,000.¹ This data corresponds with the introduction of ADS in April 2016. In the Scottish Government's review on tenancy deposits, 27% of landlords who were surveyed stated that over the next five years they planned to leave the sector altogether and 8% planned to decrease the number of units.² Subsequently, due to legislative change and affordability, we could see a sharp decrease in private rented housing stock in the coming years, which could contribute to a large shortfall in housing stock in general. In addition to a decrease in stock, figures from the Scottish Government show that at a Scotland level there were increases in rents in the latest year (2017-2018) for one bedroom (1.7%), three bedroom (8.7%), four bedroom (11.8%) and one bedroom shared properties (4.7%).³ This data emboldens that where landlords continue to invest in buy to let properties, rather than existing the market

¹ <https://www2.gov.scot/Topics/Statistics/Browse/Housing-Regeneration/HSfS/KeyInfoTables>

² <https://www.gov.scot/binaries/content/documents/govscot/publications/research-publication/2018/12/review-tenancy-deposit-schemes-scotland/documents/00544737-pdf/00544737-pdf/govscot%3Adocument?forceDownload=true>

³ <https://www2.gov.scot/Publications/2018/11/1573>

altogether, the result of a higher tax burden directly contributes to added costs for tenants. As stock depletes and more landlords leave the sector, this impacts affordability for both landlords and tenants.

Rent increases

10. By removing the requirement for landlords to pay ADS, tenants will benefit from a reduction of rent rises. According to research by the Govan Law Centre, private rents in Scotland are currently rising at double the rate of inflation.⁴ A report by Social Tenants in Scotland in February 2018 found that on average private rented sector tenants spend a quarter of their income on housing costs, higher than any other tenure, despite private renting being the smallest of all tenures in Scotland. This compared with 24% for social rented tenants, 9% for mortgaged homeowners and 3% for outright homeowners⁵. Under the Private Housing (Tenancies) (Scotland) Act 2016,⁶ private landlords are permitted to increase rents once per year provided that tenants are given at least three months' notice and have been issued with the 'Landlords rent-increase notice to tenant(s)' form.⁷ Tenants have the added protection of being able to contest rent increases with a Rent Officer, with the rise being decided at the Officer's discretion. Where a rent rise has occurred, it does not necessitate that it is of malicious intention of the landlord and is largely a reflection of local market rents and affordability. The result of this is that a rent rise does not equal as unfair to the tenant, subsequently the decision of the Rent Officer could go either way, meaning that in some occasions the Officer may even increase the rent higher than that which the landlord had proposed. Consequently, rescinding ADS for landlords will provide a higher level of security of tenure for private tenants, alongside the measures of the Private Housing (Tenancies) (Scotland) Act 2016.

First-time buyers

11. Despite it being the Scottish Government's aim to "protect opportunities for first-time buyers in Scotland"⁸ through the increase of ADS, the policy will achieve the opposite effect, as many renters will have to spend more of their income on paying rent rather than saving for a house deposit. Raising ADS and the cost burden being passed onto tenants, combined with rising house prices will just push renters further away from homeownership. In our report, Housing

⁴ <http://www.arla.co.uk/news/january-2019/report-reveals-rent-hikes-in-scotland-are-not-always-legal.aspx>

⁵ <https://www.scotsman.com/news/revealed-the-cost-of-renting-in-scotland-1-4688338>

⁶ <http://www.legislation.gov.uk/asp/2016/19/contents/enacted>

⁷ <https://www.gov.scot/binaries/content/documents/govscot/publications/form/2017/11/private-residential-tenancy-prescribed-notices-forms/documents/rent-increase/28b8603e-5986-4059-9aa0-ea262abca4d2/28b8603e-5986-4059-9aa0-ea262abca4d2/govscot%3Adocument>

⁸ http://www.legislation.gov.uk/ssi/2018/372/pdfs/ssipn_20180372_en.pdf

2025⁹ data indicated that in the period from 2015 to 2025, house prices could increase by up to 50%. In 2015, the Scottish average mix-adjusted house price was £196,799, in 2025 this figure is expected to stand at £281,445.¹⁰ As house prices continue to steadily increase, the gap between wage growth and house price growth will also continue to widen. The median salary in April 2018 in Scotland was £23,833,¹¹ and the average house price was approximately 6.25 times higher at £148,952.¹² The annual growth rate for wages and salaries does not correspond with the House Price Index, and in Scotland house prices are increasing at a quicker rate than any other area of the UK with a total property value increase of 6.43% overall in 2018.¹³ Tenants paying higher rents as house prices increase will make homeownership much harder to achieve, resulting in the Scottish Government achieving less LBTT for non-second home residential sales.

Discretionary housing payments

12. Increasing the likelihood of private rents rising will do little to remedy public expenditure for discretionary housing payments. Ceasing ADS payments for landlords will go some way in managing rising rents which in term means, the Scottish Government would benefit from decreased expenditure on discretionary housing payment. As a result of rising rents, the Scottish Government is having to fund an increasing amount of discretionary housing payments where tenants are in receipt of the housing element of Universal Credit. In the Discussion Paper: 'Housing Beyond 2021', the Scottish Government sought a more efficient use of public money in order to mitigate the shortfall from the UK Government's welfare reforms,¹⁴ and we would argue that by increasing ADS, it is likely that the Scottish Government will pay more in discretionary housing payment. In 2017/18 the Scottish Government spent £59,224,705 on discretionary housing payments, an increase from £51,886,629 in 2016/17.¹⁵ Whilst the Scottish Fiscal Commission anticipates additional revenue of £13,000,000 in 2019/20 income through increasing ADS,¹⁶ this relies on investment continuing in the private rented sector, whereas the 4% surcharge will act directly as a deterrent to both existing landlords further investing and new entrants coming into the market. LBTT revenue underperformed against original budgetary forecasts,¹⁷ and as those paying ADS are set to

⁹ <http://www.arla.co.uk/media/1043988/housing-2025.pdf>

¹⁰ [ibid.](#)

¹¹ <https://digitalpublications.parliament.scot/ResearchBriefings/Report/2018/11/29/Earnings-in-Scotland--2018>

¹² <https://www.gov.uk/government/publications/uk-house-price-index-scotland-april-2018/uk-house-price-index-scotland-april-2018>

¹³ <https://www.telegraph.co.uk/property/house-prices/house-prices-scotland-surge-southern-regions-suffer-price-slump/>

¹⁴ <https://www.gov.scot/binaries/content/documents/govscot/publications/advice-and-guidance/2018/09/housing-beyond-2021/documents/housing-beyond-2021-discussion-paper/housing-beyond-2021-discussion-paper/govscot%3Adocument>

¹⁵ <https://statistics.gov.scot/data/discretionary-housing-payments-expenditure>

¹⁶ <http://www.fiscalcommission.scot/publications/scotlands-economic-and-fiscal-forecasts/scotlands-economic-and-fiscal-forecasts-december-2018/>

¹⁷ https://mr1.homeflow.co.uk/files/site_asset/image/3725/0209/Lettings_Bulletin_Winter_2018.pdf

account for 45% of Residential LBTT revenue in 2019/20,¹⁸ this assessment is completely disproportionate to the number of privately-owned Scottish homes that are not owner-occupied and unlikely to be achieved. As discussed, increasing ADS will result in further rent rises and consequently contribute to Scottish Government expenditure on discretionary housing payments increasing to make up the rent shortfall.

Tenant displacement

13. Taking the consequential rent increases into consideration, further detrimental tax changes for landlords could contribute to the displacement of tenants. Legislative and tax changes for landlords are resulting in an increasing number of investors leaving the private rented sector, which is evidenced in the decrease of privately rented property available. Recent research by the National Landlords Association, indicated that around 19% of UK landlords intend on selling their buy to let properties.¹⁹ Despite the Scottish Government advocating a reduction of the private rented sector, if 19% of Scottish landlords were to sell up – this would put 60,000 of the 320,000 tenancies in Scotland at risk of termination²⁰, as typically, the sale of a rented property results in the end of a tenancy. In 2017/18, homeless applications increased for the first time in nine years, and risking tenant displacement through the policy will put further pressure on Local Authorities to rehouse tenants that may find themselves homeless where their landlord has left the market.

Social housing

14. Further to tenant displacement, a decrease in private rented housing stock will put more pressure on the Scottish Government to build or provide more social housing. Differing to the rest of the UK, social housing remains as the second largest tenure by occupancy in Scotland. Local Housing Authority stock in Scotland has been decreasing since the 1980s, this is mostly the result of decreased programmes of social housing building, stock being transferred from public authorities to Registered Social Landlords and the selling of stock through 'Right to Buy'.²¹ However, decreases in Local Authority housing stock have begun to slow in recent years due to building programmes. Despite this, lacking access to both homeownership and social renting has resulted in the number of pensioners living in privately rented homes in Scotland doubling from 20,000 in 2009 to 40,000 in 2019.²² These numbers indicate the

¹⁸ [ibid.](#)

¹⁹ <https://landlords.org.uk/news-campaigns/news/good-news-first-time-buyers-bad-news-renters>

²⁰ <http://www.arla.co.uk/news/december-2018/60-000-tenancies-could-be-terminated-in-scotland/>

²¹ <https://www.gov.scot/publications/housing-statistics-scotland-2018-key-trends-summary/pages/6/>

²² https://www.scottishhousingnews.com/article/number-scots-still-renting-their-home-when-retired-has-doubled?utm_source=Scottish+Housing+News&utm_campaign=3d946235c0-

EMAIL CAMPAIGN 2019 01 03 03 36&utm_medium=email&utm_term=0_3d3bcd4a6e-3d946235c0-66857985

increasing need of private rented housing, not just for young professionals and students, but across all generations. A decrease in private rented stock will take away much needed housing that makes up the shortfall between social housing and homeownership, which will need to be remedied through public funding towards more social housing.