WHAT DOES THE CHANCELLOR’S AUTUMN STATEMENT HAVE IN STORE FOR THE PROPERTY INDUSTRY?

BNP Paribas Real Estate looks at what the UK’s property industry might expect from George Osborne on Wednesday’s Autumn Statement.

On Deficit Reduction
Kallum Pickering, UK Economist at BNP Paribas Real Estate says: “Despite significant progress on the economic front the Chancellor is set to face a difficult fiscal backdrop at the Autumn Statement 2014. The Chancellor will be expected to address concerns over the debt and deficit, whilst making a token offering to voters. But, with the General Election in May, George Osborne is likely to be short on time as well as money. But there are a few hints that some potential boosts to the property sector come could around.

“Investors are typically holding real estate for a number of years, so it is important that there is confidence about the future state of the economy, to which high levels of Government debt can pose a threat. With Government falling short on fiscal targets set out in 2010, markets will be expecting the Chancellor to use his statement an opportunity to provide clarity on the future path of fiscal policy and assurances that the UK’s debt is under control; this side of the General Election.”

On Business Rates
Jim Ruthven, Head of Rating at BNP Paribas Real Estate says: “There has been cross-industry backing for a reform to business rates, which are viewed as an objectionable financial burden and a disincentive to invest especially in the context of a weak economy. But, whilst a reform of rates could encourage more investment, its tax revenues are set to provide HM Treasury with £32 billion per year by 2018, an increase of 42% from 2008.

“A cut or significant reform is unlikely to take place until after the 2017 review announced in last year’s statement. Still, we are likely to see some relief for SMEs; such as allowing deferral on the inflationary increase or a cap on rates.

“Similarly, we could see extensions to the subsidies announced last year; such as capping the RPI increase at 2% for one year, a £1,000 discount for retail and food premises with a rateable value below £50,000 or 50% relief to March 2016 for retailers moving into premises that have been empty longer than one year.”
On Devolution

Kallum Pickering, UK Economist at BNP Paribas Real Estate says: “It is likely that the Chancellor will unveil some proposals for devolution following the publication of the Smith’s Report. Although it is a hotly debated topic, especially following the Scottish vote for independence, the current process for devolving the UK lacks clarity and the pros and cons are still debated.

“On one hand, giving regions fiscal autonomy could lead to reduced costs, more agile decision making and more efficient economic outcomes by overcoming the problems originating from the misalignment of central government incentives and local economies. On the other hand, costs could move in the other direction with devolution leading to increased bureaucracy and ineffective decision making.

“Under the current set up, where fiscal policy is centrally determined, the regions enjoy pooled risks and income distribution, enabling Government to borrow at low rates. But, the extent to which these decisions are devolved could raise the risk of lending to the UK. Borrowing costs could rise if markets saw that the UK was unable to unilaterally raise taxes or cut spending if and when necessary in order to maintain fiscal discipline. This could have implications for lenders and borrowers in the property sector.”

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About BNP Paribas Real Estate

BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management. BNP Paribas Real Estate has local expertise on a global scale through its presence in 38 countries with more than 180 offices and 3,700 employees (17 wholly owned and 21 by its Alliance network that represents today more than 3,000 people). BNP Paribas Real Estate is a subsidiary of BNP Paribas.

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