MARKET EXPERTS AT BNP PARIBAS REAL ESTATE RESPOND TO THE 2016 BUDGET

Stamp Duty Land Tax

John Slade, chief executive of BNP Paribas Real Estate UK, said:
“These changes are disappointing, and will act to reduce liquidity in the commercial property market. Given the amount that a higher top rate will raise it is doubtful that this is a risk worth taking.

“The institutional private rented sector will have a vital role to play in meeting the U.K’s desperate need for homes and should be encouraged, not penalised, by the tax system.”

Business Rates

Jim Ruthven, Head of Business Rates at BNP Paribas Real Estate said: “Increasing the small business rate relief threshold for premises with rateable values at £6000 to £15000 is a welcome and unexpected measure that will boost many small businesses, particularly those in rural and provincial areas.”

“The Chancellor’s confirmation of three-yearly revaluations is welcome. From April 2017 a business’s rates bill will be more in tune with prevailing economic conditions reducing the chances of rates being a disproportionate fixed costs. Landlords should benefit too, as tenants’
rental offers shouldn't be skewed by a rateable value that is out of date. However, this reform is undermined by the government's plans to reform business rates appeals.”

“Switching the annual increase in rates bills from RPI to CPI is a token gesture. In any case the regulations provide government with the flexibility of making the annual change at less than the increase in inflation.

“The Chancellor has fired a starting gun, not only to reform but radicalise the business rates system. The pledges of three-yearly revaluation cycles, and the changes to small business rate relief that will relieve 600,000 businesses should reduce the number of appeals under the new look Check-Challenge-Appeal system that is almost certain to apply from April 2017. The intention to link local authority business rates systems to businesses’ HMRC digital tax accounts is pioneering.”

City Region Deal for Edinburgh and South-East Scotland

Nadir Khan Jahoor, Head of Scottish Agency at BNP Paribas Real Estate said: “The prospect for funding through the City Region Deal is to be welcomed and could be a key trigger for local economic growth through innovation, skills development and infrastructure investment. This announcement will hopefully enable further funding to be leveraged through the private sector to maximise this opportunity”

UK Economy

Sukhdeep Dhillon, Senior Economist at BNP Paribas Real Estate said: “Budgets of recent years are often discussed in terms of how much wiggle room the Chancellor has to do things that people like. This is a budget in which the wiggle room was constrained given the domestic and external headwinds.
“The Chancellor’s own wiggle room in this year’s Budget is hugely constrained by weaker than expected tax receipts and slower growth. Not only that, but he is also penned in by politics to avoid creating controversy in the middle of the EU referendum campaign.

“The economy is 1% smaller in cash terms last year than the Office for Budget Responsibility (OBR) predicted in November and the outlook since then has weakened, which is why the OBR downgraded UK growth forecasts every year between now and 2020: from 2.4% to 2% this year; 2.5% to 2.2% in 2017 and 2.1% to 2020. The OBR has been criticised for consistently over-estimating growth potential, which is why 2% this year still seems high; BNP Paribas forecast growth of 1.7% this year and 2% in 2017.

“Reality has come crashing into the OBR’s world forecast made in November 2015 that allowed the Chancellor to present near trend level growth for the UK. With reduced growth, government borrowing will also increase sharply for the next three years, but the Chancellor still expects to be in a budget surplus by 2019-2020. Despite the Chancellor’s best efforts to talk up today’s budget, the bottom line is that the UK economy looks weaker than at November’s autumn statement. Hence his desire to present the Budget as long term, or in other words the real gains will be seen beyond the lifetime of the current parliament.”

South West Community-led Housing

Adrian Owen, Head of Residential at BNP Paribas Real Estate said: “The Chancellor’s announcement on community housing in the South West of England is welcome. This is an area that will see the highest rate of house price growth in the UK over the next five years.

“With the improving economy, the South West will see pressure from the purchase of additional homes, despite the increase in stamp duty, as well as an influx for workers taking advantage of a scenic coastal region to work remotely or commute from some of the week.”
Starter Homes

Anthony Lee, Senior Director in Affordable Housing at BNP Paribas Real Estate, said: “The initial enthusiasm among developers for starter homes – rooted in an understanding that they would replace ‘traditional’ affordable products – has begun to wane as they weigh up the implications. Local planning authorities, many of who were resistant from the outset, have become more concerned about their ability to secure housing that will meet priority housing needs.

“Developers are expressing concerns that starter homes on their developments would compete directly with the lower value units. This could result in all smaller units being allocated as starter homes, which could freeze out downsizers and investors. They are also weighing up the impact of receiving lower values for ‘traditional’ affordable units – earlier in the cashflow and helping to reduce finance costs – versus slightly higher receipts later in the cashflow and with greater sales risk attached.

“Local authorities are faced with the difficult position of accepting starter homes that would require purchasers to have incomes far exceeding average levels in their areas, or seeking lower threshold values below the £250,000 and £450,000 caps, which would adversely affect scheme viability. This would inevitably result in lower levels of ‘traditional’ affordable housing for which the need is greatest”.

Climate Change Levy

Nick Hillard, Sustainability Director at BNP Paribas Real Estate, said: “The Carbon Reduction Commitment was originally established as a carbon trading scheme and is widely acknowledged to have failed, solely becoming an additional carbon tax. A simplified augmented Climate Change Levy scheme encapsulating the various taxes would create transparency and support energy efficiency.”
Chris Selway, Head of Compulsory Purchase & Infrastructure at BNP Paribas Real Estate said: "The Chancellor’s backing for Crossrail 2 is highly welcome if not surprising, given the strong backing the project has received from Mayor Boris Johnson and the Infrastructure Planning Commission. The Commission said the project should be at the heart of the London Plan. The growth in London’s population demands continuing major investment in the capital’s transport infrastructure. Crossrail 2 will do for London’s North/South links what Crossrail promises to do for East/West links and will open up significant development opportunities, especially in the Lea Valley in north-east London. Osborne’s funding will allow Crossrail 2 to press ahead with design and finalise the route but if work is to start in the early 2020s as planned the Mayor will still have to find substantial further funding locally. Property owners and developers are likely to be asked to stump up a large portion of that."

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