Country-Specific Legislation and Practice

Country Chapter

United Kingdom

Introduction

One of the guiding principles of TEGoVA is to promote consistency of standard definitions of value and approaches to valuation trans-Europe. The publication of European Valuation Standards (EVS) provides the state, investors, the financial industry, valuers and their clients with a common benchmark which can be consistently applied, irrespective of the location of a real estate asset.

Whereas harmonisation of valuation standards enable recognised bases of valuation to be reported, the preparation and publication of a valuation must also respect client need, national legislation and custom. Customary differences, particularly in respect of valuation methodology, may result from the requirements of statute or regulation.

This Country Chapter illustrates differences that currently exist across Europe. The Country Chapters are not intended to provide definitive advice. The text that follows has been provided by TEGoVA Member Associations (TMAs) to outline country-specific legislation and practice.

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1. Real Estate Market

1.1 The real estate market in its aggregate / macroeconomic context

1.1.1 The United Kingdom economy is the 6th largest in the world by purchasing power and 5th in the world and 2nd in Europe by Gross Domestic Product. It is also one of the most globalised, due very considerably to the influence of the city of London. As a consequence it was the worldôs 2nd largest recipient of Foreign Direct Investment in 2007. This global influence is also reflected in the UK property market both with overseas investors active in the UK property market and UK companies and nationals prominent in other markets both in business and personal property investment.

1.1.2 The United Kingdom has a long established and mature property market which has seen property traded both for sale (freehold) and to let (leasehold) for many years. The oldest surviving written lease agreement is from 744 AD, the Domesday Book of 1086 identifies the ownership of many properties in England and there is considerable evidence of property sales from the Middle Ages onwards.

1.1.3 Some of the ancient property holdings established at this time have persisted to the present day, whether in the hands of private families or, more commonly, traditional institutions including The Church, The Crown and some of the oldest academic institutions particularly at Oxford and Cambridge. However, as suffrage has extended so has the ownership of property with the market now populated by many private purchasers as well as corporate owners and modern financial institutions.

1.1.4 Whilst economic analysis (Office of National Statistics and others) tends to aggregate real estate activity with other *Business and Consultancy Services* recent analysis[1] of ONS data for 2007 suggests:

- The Real Estate Market represented approximately 3.5% of Gross Domestic Product.

[1] Property in the Economy Digest and Review of Key Data and Statistics ï RICS June 2010

- Turnover in that year reached £51.2 billion an increase of 128% over the previous decade.
- Approximately two thirds of that turnover was represented by agency activity both sales and lettings.
- Total employment in the sector was approximately 540,000 with some 200,000 extra jobs having been created over the period

1.1.5 Further statistics[2] suggest

- Identifiable property assets accounted for some £4,521 billion on the UK National Balance Sheet in 2008, approximately 72% of Fixed Tangible Assets
- Commercial, industrial and other buildings accounted for some 13% of the total value of property but some 90% was represented by residential property
- More than 90% of the value was held by households and the private sector

1.2 Structure/s of the real estate market and its participants

1.2.1 The UK has a sophisticated and essentially free market in property with no meaningful restrictions on ownership beyond financial capacity.

1.2.2 The market is segmented broadly into residential, commercial and rural property with further sub-divisions of each; commercial, for example, extending to include retail, industrial, office, logistic (transport) and leisure properties amongst a wide range of different categories.

1.2.3 The market varies significantly between these sectors with the residential market dominated by private owner occupiers and households while the commercial market is heavily influenced by investors, particularly in prime markets. The rural market sees activity from both investors and private individuals, whether farmers or lifestyle purchasers, but the trend is increasingly towards private involvement, triggered particularly by the majority of financial institutions exiting the agricultural investment market.

1.2.4 Much of the market, particularly in the residential and rural sectors, takes place with on-market transactions. In contrast there is significant off-market activity in the commercial property sector.

1.2.5 The global recession has had a marked adverse impact on the residential and commercial property markets as well as development land supplying both sectors. In practice, the only sector that has avoided a significant downturn has been the rural sector where agricultural property in particular has generated

[2] ONS Blue Book 2009

record prices, aided by a severe shortage of supply and the sense of strengthening product prices.

1.3 Relevant legislation and regulatory requirements

1.3.1 England, Wales and Northern Ireland have a distinctive and ancient common law system. Scotland has its own legislative structure drawing on Roman law and its property law differs substantially from that in the rest of the UK. It is particularly important therefore that local advice should be sought on specific issues.

1.3.2 Focusing specifically on England and Wales; land is held freehold, nominally as a tenant of the Crown, and may then be sold, leased, given, divided, demised on death or otherwise disposed as the owner pleases, subject to any limitation in his title to the land (as may be imposed by a restrictive covenant).

1.3.3 Historically, title to property was proved by reference to deeds from previous transactions. Since 1925, a central system of land registration has progressively recorded more land and now the Government is seeking universal coverage. Since 2000, the Land Register has been a public document, providing information on transactions including the prices paid. Freehold sales and leases of more than seven years have to be registered. Covenants are more enforceable if registered. There are also registers for common land and certain other specialist aspects of property.

1.3.4 Development, which includes civil engineering works and the construction of property and structures, requires planning permission. Changes in use of property may also require planning permission although some changes may be exempt from this requirement as a consequence of general planning codes[3]. Further permission is required to undertake most development which impacts on ancient monuments or buildings which are of ñspecial architectural or historical interestò, commonly referred to as **listed buildings.**

1.3.5 While there is a background framework of common law for leases, statutory intervention has provided separate regimes for business, agricultural and residential lettings. In general, tenancy legislation has, over the last three decades, tended to become more liberal and less prescriptive. The various codes generally cover security of tenure, procedures and end of tenancy compensation for improvements.

1.3.6 Among many statutes, important laws for **business tenancies** in England and Wales are the Landlord and Tenant Acts of 1927 and 1954. Businesses generally have the right to seek a renewal of their lettings unless the landlord can prove certain grounds. However, there are rules that allow the parties to contract out of these provisions if they so agree, most commonly pursued with

[3] The Town and Country Planning Act Use Classes Order 1987 and associated regulations.

shorter leases. There is much less legislative intervention for commercial leases in Scotland.

1.3.7 While older **residential tenancies** may still be subject to restrictive legislation, most lettings now will be Assured Shorthold Tenancies (ASTs) offering the landlord greater access to possession and providing for a market rent. An equivalent regime applies in Scotland.

1.3.8 **Agricultural tenancies** in England and Wales originating from before 1995 will be subject to the Agricultural Holdings Act 1986 with its extensive and detailed provisions, particularly entrenching long term security of tenure for the tenant[4]. Those freshly let since 1995 will generally be Farm Business Tenancies under the Agricultural Tenancies Act 1995, allowing the parties much greater freedom over almost all aspects of the letting including its term.

In Scotland, traditional and longer term tenancies will be under the Agricultural Holdings (Scotland) Act 1991 as amended. Since 2003, 5 year Short Limited Duration and 15 year Limited Duration Tenancies have also been available.

There is little legislative background for agricultural tenancies in Northern Ireland.

1.4 Market for residential property

1.4.1 The market for residential property in the UK is dominated by owner occupiers; approximately 69% of households live in property owned by a member of the household. In general terms, while values of residential investments have increased relative to vacant property recently, this is an owner-occupier dominated market and there is a premium for vacant property.

1.4.2 This trend increased markedly from the 1950s with owner-occupation overtaking the private rented sector in the early 1960s and being further boosted by the progressive sale of local authority housing in the 1980s. Owner-occupation rose to a peak of over 71% in 2000 but has stalled and subsequently fallen slightly due to the increase in values and the consequent problems of affordability.

1.4.3 The purchase of residential properties as investments, then let to tenants under Assured Shorthold Tenancies (Buy to Let) has increased in recent years, particularly amongst amateur investors encouraged by the dilution of security of tenure for tenants, the relaxation in restrictions on mortgage funding for residential investments and concern over more traditional means of pension provision. Indeed, prior to the recession, it was suggested that some 10% of new mortgages were for ñbuy to letò properties. However, this is a relatively recent trend, which has not significantly reduced the dominance of owner-

[4] Extending in certain circumstances to two further generations beyond the original tenant

occupation. It appears to be the sector of the market which has been most adversely affected by the recession starting in 2007.

1.4.4 The period immediately prior to the recession had seen very substantial increases in house prices to the extent that there was considerable anxiety amongst policy makers that significant numbers of first time buyers in particular would be unable to purchase a home. This problem was particularly evident in the areas of most economic activity, such as the south-east of England and, conversely, in the more remote and scenically attractive areas including the Lake District and the south-west peninsula where wealthy purchasers invested in second homes.

1.4.5 Whilst house prices were rising, the entry cost to the market had reduced significantly with mortgage lenders willing to offer mortgages of 100% and in some cases more, of the purchase price. At the same time, competition, increased use of technology and consumer and finance house pressures were driving down legal and other professional costs.

1.4.6 The Average House Price in the UK[5] rose by 128% from £80,935 in Quarter 3 of 2000 to £184,131 subsequently falling by almost 19% to £149,709 before recovering to £167,354 by Quarter 3 2010, still an increase of 107% over the decade.

1.4.7 This average figure marks very significant regional differences within the UK; for example over the same 10 year period:

- Average house prices in London rose from £144,205 to peak at £303,739 and now average £293,582 (+ 104% over decade)
- Average house prices in the North of England rose from £52,757 to peak at £134,534 and now average £117,234 (+117% over decade)
- Average house prices in Scotland rose from £64,760 to peak at £152,479 and now average £139,313 (+115% over decade)
- Average house prices in Wales rose From £60,778 to peak at £154,957 and now average £138,603 (+ 128% over decade)
- Average house prices in Northern Ireland rose from £70,051 to peak at £227,970 and now average £130,877 (+ 86% over decade)

1.5 Market for commercial properties

1.5.1 The market in commercial property covers a wide range of disparate property types from major out of town retail and business parks to traditional factories, workshops and small corner shops.

1.5.2 Such a diverse market attracts a wide range of owners and occupiers and is difficult to summarise in general terms. However at the more valuable, higher

[5] Nationwide Building Society House Price Index Series

lot size, end of the market property owners are more likely to be investors, including financial and traditional institutions, property companies and pensions funds letting the properties to occupying tenants. Tenants, in turn, may occupy a single property or, particularly in the case of multi-outlet retailers, many hundreds of properties. The leading charities are amongst the largest occupiers of high street retail property with Oxfam, for example, occupying more than 700 shops in the UK, almost the same number as the leading retailer Marks and Spencer.

1.5.3 The investment model generally applies across the market although there is a greater tendency for smaller businesses, particularly those which are privately owned and managed, to own the premises they occupy, often held as part of the business ownersô pension arrangements.

1.5.4 That said, as an investment driven market there is generally a premium for commercial property which is let, particularly to a high quality (ñblue chipò) tenant. To this extent the commercial market differs from residential and agricultural property where vacant property normally attracts the greater premium.

1.5.5 The commercial property market has been more volatile than the residential market over recent years (at least until the impact of the recession on the residential market) with both volumes of property traded and values fluctuating with economic sentiment. This echoes the performance of the market over the last 30 years where IPD[6] All Property Returns have followed the wider economy showing sharp falls in the mid 1970s and early 1990s. The most recent downturn in the market (2007 onwards) is more marked and appears likely to be more sustained than in the 1990s. Income returns have remained relatively consistent but overall performance has been adversely affected by dramatic falls in capital values: -22% overall in 2008.

1.5.6 The total amount of commercial floorspace in England, Scotland and Wales is approximately 606 billion square metres. Figures provided by DCLG[7] for England and Wales and the Scottish Property Network show that industrial premises account for the greatest proportion of commercial property by floorspace, 64% compared to approximately 18% each for retail and office premises. However, analysed by rateable value[8] the distribution is more even with offices and industrial premises amounting to 32% each of total rateable value and industrial premises 36%.

1.5.7 Assessed by the number of rateable hereditaments retail premises account for 40% of the total, offices for 26% and industrial 34%.

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[6] Investment Property Databank

[7] Department of Communities and Local Government: Commercial and Industrial property summary statistics England and Wales 1998 - 2007

[8] Rateable value is the basis of local business taxation and is normally assessed on an imputed rental value

1.5.8 Commercial property ownership is now relatively evenly balanced between the public sector (44%) and the private sector (48%). This reflects the significant recent fall in ownership amongst non-financial corporations from 40% of the total to 32% represented in part by declines in ownership within property development and investment companies. Ownership shares by value are as follows:

- Central Government 17%
- Local Government 23%
- Public non-financial 4%
- Private non-financial 32%
- Financial 16%
- Households 8%

1.5.9 Overseas flows into the UK commercial property market have eased significantly since the recession, falling from £16 bn in 2007 to £6 bn in 2009. However, growing opportunities for indirect investment mean that it is extremely difficult to identify controlling interests in the ownership of some property.

1.5.10 The UK market for prime commercial property has been driven by traditional institutional leases, historically of 25 years plus clearly favoured by landlords. Latterly, however, tenants have been demanding greater flexibility, particularly through shorter lease commitments. Various industry and government interventions (by way of support for voluntary codes rather than legislation) have seen some reduction in lease lengths although this appears to have stalled recently.

1.5.11 Analysis by the BPF[9] and IPD show that lease lengths fell between 2000 and 2006 but appear to have stabilised although analysis is clearly distorted by the impact of the recession. Average lease lengths over all lettings have changed in the period 2000 to 2008 as follows:

- Retail ï reduced from 9.6 to 7.3 years
- Office ï reduced from 8.5 to 6.8 years
- Industrial ï reduced from 7.5 to 6.1 years

1.5.12 However, if leases are weighted by rent, so that the higher rented properties have greater influence, whilst terms have still reduced the average terms lengthen as follows:

- Retail ï reduced from 15.3 to 11.6 years
- Office ï reduced from 14.1 to 10.2 years
- Industrial ï reduced from 13.9 to 9.3 years

[9] British Property Federation

1.5.13 This influence is reflected in lease length for new lettings. These show significant changes over the period 2000 to 2008 indicating a major shift in the landlord and tenant relationship. Changes across the period were as follows:

All leases unweighted

- Proportion of leases less than 10 years ï rose from 72% in 2000 to 87% in 2008
- Proportion of leases less than 5 years ï rose from 53.5% in 2000 to 65.7% in 2008

All leases weighted by rent

- Proportion of leases less than 10 years ï rose from 36.4% in 2000 to 64.7% in 2008
- Proportion of leases less than 5 years ï rose from 21.4% in 2000 to 37.5% in 2008

1.5.14 The recession has seen landlords keen to ensure property is occupied, not least to mitigate the costs from empty property rates. However, owners are also keen to maintain headline rents and this has seen longer rent free periods, in some cases more than half of the term, as well as other incentives to offset the rent reductions which would otherwise be required to let property.

1.6 Other real estate markets

1.6.1 There are particular markets in specialist sectors, most notably the licensed (hotels, inns, restaurants) and social care sectors. However, the most significant other markets are in rural property and development land

1.6.2 The **rural market** includes both residential and commercial property, in a rural rather than urban environment but in terms of land use, if not value, it is dominated by agricultural property.

1.6.3 Until the early part of the 20th Century agricultural property was chiefly held as investments either by private landed families or traditional institutions and let to tenant farming families. However, this trend has been reversed since the First World War with owner occupation now covering up to 70% of the agricultural property in the UK.

1.6.4 Unsurprisingly this is reflected in a premium for property with vacant possession and with a shortage of supply and active investment from other sectors, values rose to unprecedented levels during 2008, even while the remainder of the property market was subsiding. This, in turn, has seen the value of tenanted land and farm property increase driven by bids both from landlords seeing the opportunity to negotiate with the tenant to secure possession and release the premium and by wealthy home owners seeing ownership of the land around them as an affordable way to secure their homes against intrusive development.

1.6.5 As with other sectors the market is stratified but location, rather than land quality, is perhaps the most significant influence on value. Smaller lot sizes have attracted interest from non-farming buyers but this interest has extended to larger rural properties, driven both by increased equity in residential property amongst longer-term owners and city bonuses, although the latter influence dissolved during the depths of the recession.

1.6.6 However, there is also strong demand from farming buyers, driven by lack of supply and relatively cheap credit. As a consequence average land values have doubled in the period since 2001 with the RICS Rural Market Survey for the first half of 2010 showing an average of £16,126 per hectare (£6,526 per acre), an increase of more than 100% over the decade.

1.6.7 The **development land market** for both residential and commercial development has been severely affected by the recession. The market is fragmented with many different types of purchaser depending on the use, scale and value of the site.

1.6.8 Larger tracts of development land, particularly in the residential sector, are often acquired on conditional arrangements by developers who then pursue planning permission themselves. Often such sites are assembled from various different landowners and land is split amongst consortia of builders once permission has been secured.

1.6.9 Values of both residential and commercial development land are heavily influenced by the potential value of developed property. Most recent Valuation Office Agency reports show residential development land ranging from £850,000 per hectare in North Wales to £4.7 million on the London outskirts and industrial development land from £225,000 per hectare in the North East to £2.2 million per hectare on the London outskirts.

1.7 Main customer groups requesting valuation services (corporates, auditors, financial services industry)

1.7.1 Property valuations are required for a range of purposes including securing finance, probate and taxation, sales and purchase and in the resolution of disputes. Valuations may be commissioned by principals or agents acting on their behalves.

1.7.2 Residential lending in the UK grew substantially during the period from 2000 increasing from an average of £13.3 billion per month to peak at £30.2 billion average in 2007. Since then it has declined to an average of approximately £12 billion per month. According to the Council of Mortgage Lenders, whose members supply over 94% of mortgages, there are now some 11.4 million mortgages in the UK with loans worth over £1.2 trillion. Commercial property funding is more diverse.

1.7.3 Real estate finance is provided in a range of different forms, depending particularly on the sector. Traditionally much residential property finance has been provided through mortgage by mutual savings associations, commonly referred to as ñbuilding societiesò. Many of these have now demutualised and converted to banks, whether independently or as a consequence of acquisition by other financial institutions.

1.7.4 While some of the finance houses and agents involved in residential property are also active in the commercial market there are also distinct sources of funds and increasingly complex funding instruments at the larger lot sizes. Funding sources include the main clearing banks as well as specialist commercial property funds. However, many UK banks have either withdrawn from or significantly scaled down their lending in recent years. Research from Savills and Cushman and Wakefield identified the growing influence of European banks with 8 of the top 12 commercial property funders being German banks.

2. Real estate valuation

2.1 Terms of/for value

2.1.1 Real property can be valued for many purposes in the UK, including sale or lease, lending, accounting and business structure purposes, taxation, and compulsory purchase. The standard basis for valuations generally is Market Value unless any other basis is required by statute or the specific contract. The concept of market value is supported as a common law concept by a long history of interpretation by the courts and then generally defined locally in the RICS Valuation Standards (The Red Book). Estimates of market value must have regard both to the value of the property in its existing use and hope value for alternative development.

2.1.2 Alternative bases of value may be required for particular purposes. In some circumstances, most obviously taxation and compulsory purchase, the law may make specific valuation provisions. Again, these are often the subject of judicial interpretation generally relying on the broad understanding of the concept of market value to apply them in practice ï what would willing, informed parties with equal power be expected to pay for the asset on the terms stated? Beyond these statutory interactions between the state and the property holder, Market Value is the dominant and core concept.

2.1.3 Further alternate bases of valuation include ñworthò and ñfair valueò. Worth, which may be used as the basis of valuation for investment properties, reflects the value of that investment to a particular investor and reflects the benefit of holding the assets.

2.1.4 Fair value reflects the value that might be paid for an asset between two specific parties and does not necessarily contemplate the full market exposure implicit in market value. It may, however, take account of the particular advantages of acquiring the property to a particular party and hence include special value. Fair value is commonly used in accounting statements and for assessing the value of shareholdings in a business. Valuations on an Existing Use Value basis may also be used in financial reporting where the property is owner-occupied by the relevant business or entity.

2.1.5 Valuations for secured lending purposes will often be to Market Value but they may be qualified by specific assumptions, most commonly over the period within which contracts should be assumed to be exchanged. Mortgage Lending Value is not a commonly adopted basis in the UK. Where valuations are of residential development sites valuers may also adopt Projected Market Value, reflecting the value of the property at some point in the short-term future.

2.1.6 Generally, the valuer will be asked to provide the lender with the market value of a property. It will then be for the lender to determine the loan-to-value ratio as a commercial judgement. Conventionally, UK lenders will ask for valuations to be undertaken in accordance with the RICSô Red Book.

2.2 Valuation methodology

2.2.1 Estimates of market value will typically be made by reference to comparables with the valuer making judgements from his knowledge of the market as to the relevance of the proposed comparables and how they should be analysed. An investment approach will be taken where (as with the reversion of a tenanted property) an income stream or future change in the status of the property is the key feature, but the appraisal of that income stream will be made with a knowledge of the market and the capitalisation rates used will usually be chosen on the basis evidence from comparables.

2.2.2 Particular properties may have a special value to a special purchaser. This may include circumstances where additional value may be unlocked from the uniting of neighbouring properties or interests in the property, traditionally known as marriage value, but latterly referred to in some countries as synergistic value. It is likely that special value will have to be assessed although special value, including synergistic value, is disregarded for the purposes of market value.

2.2.3 Special value is likely to be assessed by reference to comparables but there is some guidance, if not precedent, from previously decided cases, particularly in the area of securing access to development land[10].

2.2.4 Where the assets to be valued are such that they are rarely if ever sold, other than as part of a sale of the entire enterprise of which they form part, market value may be derived from Depreciated Replacement Cost (DRC). Where this is the case it may also be appropriate to include reference to the market value for an alternative use. There may be circumstances with specialist public sector property in particular where DRC is the most appropriate method of valuation.

2.2.5 Estimates of value of development property may be made by reference to comparables but also by estimates of the residual value after a calculation of potential gross development proceeds and costs.

3. Types of real estate valuers

3.1 Organisation of the profession (organisations / associations of valuers)

3.1.1 The UK has a longstanding tradition of voluntary and liberal professions with free-standing self regulating organisations. There is no specific statutory regulation, licensing or registration of property valuers. While anyone may be instructed to value, skilled valuers for all, except some very specialist, assets will be almost always be professionally qualified with one or more of the relevant professional associations which have their own qualification and regulatory structures.

3.1.2 For real estate valuation these are:

- the **Royal Institution of Chartered Surveyors** (RICS) ï qualified membership is designated by the letters FRICS or MRICS and most valuer members will be members of its Valuation Faculty
- the **Central Association of Agricultural Valuers** (CAAV) ï specialising in agricultural and rural valuations, qualified membership is shown by the letters FAAV
- the **Institute of Rating and Revenues Valuation** (IRRV) ï qualified members specialising in rating and Council Tax valuations are designated by the letters FRRV
- in Scotland, the **Institute of Auctioneers and Appraisers in Scotland** (IAAS) -

3.1.3 Residential property brokerage is handled by a very substantial number of firms of estate agents ranging from sole practitioners to large corporate

[10] Stokes v Cambridge Corporation 1961

operators. While some estate agents may be members of an accredited organisation, including the National Association of Estate Agents and the various other professional bodies referred to above, there is no legal requirement for agents to be members of a professional body or to be licensed by any statutory scheme. Despite some discussions of such a move, practice remains regulated by the Estate Agents Act 1979.

3.2 Certified valuers (ISO 17024)

3.2.1 As set out above there is no specific statutory regulation, licensing or registration of valuers. However, the RICS is introducing a valuers registration scheme from 2011 onwards in the UK, mandatory on its members who undertake valuations, and additional to its ordinary membership requirements.

3.3 Publicly appointed valuers

3.3.1 Whilst the majority of valuers operate in the private sector there are also valuers throughout central and local government.

3.3.2 Many of these valuers are working in asset management or valuation in exactly the same way as private sector valuers, simply employed by public sector clients in advising them on the occupation and management of operational property.

3.3.3 Valuations for statutory purposes, particularly national and local taxation and some compulsory purchase, are generally undertaken in England, Wales and Scotland by valuers within the Valuation Office Agency, an arm of Her Majestyôs Revenue and Customs. In Northern Ireland, the Land and Property Service fulfils a similar function.

4. Outlook

4.1 The outlook for property in the UK generally remains uncertain in the light of the recession and the continued shortage of finance for both commercial and residential lending.

4.2 Whilst there have been signs of recovery in most markets there remains a degree of volatility and vulnerability across all sectors, except rural property. Whilst the residential element of rural property has suffered in common with other residential properties, overall values have been sustained by the very strong demand for rural property.

4.3 Looking beyond issues of short term supply and demand there are a number of longer-term trends likely to impact on the property sector.

4.4 In the **residential sector,** affordability remains a key concern with a more conservative approach amongst lenders now demanding increased equity from purchasers. While this is a reversal of the trend of previous years, where lenders were offering mortgages in excess of the purchase price, the impact is essentially the same, acting against first time buyers and purchasers at the lower end of the market in particular.

4.5 In the **commercial sector,** weakening demand and the lack of funding for speculative development has seen significant retrenchment, particularly in the regeneration industry much of which had been founded on an unsustainable mix of public funding, escalating residential values and the buy to let market for urban flats. The unfortunate consequence is that while those areas with more robust markets, with consequently less rationale for public intervention, have been regenerated, often with substantial public investment, lagging behind areas where support would have had greater impact, are no longer viable for regeneration. This is unlikely to change in the near future given the public sector funding environment.

4.6 As highlighted above, the trend to shorter-term more flexible leases is likely to continue, albeit with some of the details masked by the complex discounted transactions being driven through in the face of the recession. The anticipated strong demand for more sustainable buildings does not appear to have materialised, despite advocacy from commentators, governments and professional institutions. At present, headline rents, driven by construction costs, appear to be a block for many potential occupiers despite the potential savings elsewhere.

4.7 Significant changes to the planning regime, involving the abandonment of Regional Spatial Strategies, have upset many expectations in the development industry. Coupled with the new government's "localism" approach to local government, including planning, this may see a general pressure against development, particularly economically unsupported residential development, in many areas. A particular challenge for valuers will be viability assessment in the face of whichever approach is eventually adopted to taxing planning gain.

4.8 The valuation profession also faces considerable pressures for change. The UK has seen an increasing stratification of the profession between larger national and multi-national practices and smaller regional and local firms. Increasing calls for standardisation and compliance amongst major purchasers of professional services, including the banks and local and central government and transport and infrastructure sectors have seen much of their work move away from smaller firms. The recession has seen increased pressure for and activity in mergers and acquisitions both within the profession and also, in a more novel development in 2009, between one of the big five accountancy practices, Deloittes, and a major property consultancy, Drivers Jonas.

Appendix - Taxation of Real Property

Note ï *This is a very basic account of the structure of taxation of real property in the UK. UK taxation legislation has steadily become more complex in recent years and may change with new government. This cannot be an exhaustive account. Specific advice should be sought on each case. It is hoped that the text will offer a general understanding of the basic framework in which that advice will be sought and given. Tax rates and detailed provisions have not been given as these may alter from year to year. These notes do not consider the taxation of companies themselves.*

Taxation in United Kingdom

A common system of taxation applies throughout the UK under statutes passed by the UK Parliament and supervised by Her Majestyọs Revenue and Customs (HMRC). Where property valuations are required by HMRC, it will generally rely on the Governmentọs Valuation Office Agency (VOA) ï the Land and Property Service in Northern Ireland.

Disputes can be referred initially to specialist tribunals and thence into the courts.

Registered charities are generally exempt from property and income taxes.

Taxation of Occupation

The occupation of non-domestic property is generally subject to the National Non-Domestic Rate (also known as the Uniform Business Rate). This charged on the basis of a standard tax rate (expressed as pence in the £ and set separately for England, Wales and Scotland) applied to the rateable value. That value is assessed as a hypothetical rent on a historic common date on statutory assumptions.

The occupation of domestic property is generally assessed under the Council Tax based on the sale value of each dwelling as at a stated common date on statutory assumptions. A structure of tax rates is then applied by each local authority to each band of values within which properties fall.

Taxation of Transactions

Transactions in real property are usually subject to **Stamp Duty Land Tax** which is paid by the purchaser. This is levied on the basis of the value of the property (including any VAT that may be applied) with higher rates applying to more expensive properties. Rents are capitalised at a prescribed rate of 3.5 per cent to produce a capital value for this purpose.

Property is generally exempt from **VAT** so that VAT is not levied on rents or sales. However, an owner can waive that exemption (the option to tax) for non-residential property only. The sale or rent of non-residential parts of the property will then attract VAT but VAT can be reclaimed on inputs. Where there is also residential property, the value will need to apportion between the two classes, with remaining input VAT being potentially recoverable in whole or part under the partial exemption rules. VAT on business property will be recoverable by the business tenant.

Where property is sold by individuals, the gain in value will be subject to **Capital Gains Tax** with an equivalent regime applying within Corporation Tax for companies. However, where the business is found to be dealing in land, then the profit will be assessed to **Income Tax** (for individuals) or **Corporation Tax**.

On the death of an individual owner, the property value may be subject to **Inheritance Tax** with anti-avoidance rules for prior gifts, especially where there is any reservation of benefit by the donor. Full relief on their market value is available for business assets provided that the business has been owned for two years and does not consist wholly or mainly of investments. Agricultural property can benefit from Agricultural Property Relief on its agricultural value (a statutory valuation basis).

There are now specific provisions for Real Estate Investment Trusts.

Environmental Taxation

The UK government has introduced a range of environmental taxes which have an impact on the occupation and exploitation of certain types of land and property. These include Landfill Tax, which may be offset by investment in environmental trusts and aggregates levy applying to the mineral industry.

These specialist taxes will be augmented by more generic charges, including the climate change levy.

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