

Managing charity property in uncertain times

An essential legal and accounting update

23 March 2021

10:00 – 11:15

Agenda

- Introductions and virtual housekeeping
 - Tim Rutherford, Stone King
- Changing spaces - an update on the effects of COVID-19 on the property market, and an overview of changes in the alternative markets relevant to religious charities
 - Paul Greenwood and William Ray, Gerald Eve
- How the pandemic has affected property law and future changes
 - Kathryn Williams and Hugh Pearce, Stone King
- Financial considerations including VAT
 - Amanda Francis and Socrates Socratous, Buzzacott
- Q&A
 - Chair: Tim Rutherford, Stone King

Changing Spaces - an update on the effects of COVID-19 on the property market, and an overview of changes in the alternative markets relevant to religious charities

Part one

Paul Greenwood

Gerald Eve

Effects of COVID-19 on the property market

- Difficult to predict the financial or operational implications on the economy
- Will depend on the specific sectors in which your charity operates and how your income is raised
- Many charities will struggle with the long-term financial impact of COVID-19
- Sector facing higher demands on its services
- Intensified questions about how charity's properties are used
- COVID-19 will be a feature of life for a good while to come
 - The UK economy finished on a slightly more positive note last year

Residential market

- UK housing market has been relatively stable
- Market seems to be defying gravity now
- Pent-up demand and Stamp Duty Holiday has propped up values
- The long term effects are unpredictable
- We anticipate that the rate of growth will slow
- Continuing uncertainty on activity and values in 2021
- Lettings market weakening

Development market

- Demand remains for well located sites
- Return to normal market conditions
- Delays in construction projects due to disruptions in supply chains and staff shortages
- Additional due diligence being undertaken
- Re-purposing of sites for alternative use
- Increase in joint-venture developments

Community Use market

- Use class order reform effective from 1 September 2020
- D1 use class now F1 and excludes nurseries
- Well located properties remain resilient to any impact on pricing and demand
- Consolidation of estates to release capital
- Increase in re-provision developments
- Demand from social infrastructure funds

Other alternative markets

- **Educational Market** - Difficult to assess the impact of COVID-19 on the value of school property and businesses, although almost certainly negative
 - Less predictable demand and trading potential
 - Number of forced closures
- **Healthcare Market** – Plunging occupancy caused by COVID-19 and falling fees threatening the viability of some care homes
 - Move away from traditional care homes into more specialised care
 - Growing demand for care at home is squeezing the traditional residential care home market

Changing Spaces - an update on the effects of COVID-19 on the property market, and an overview of changes in the alternative markets relevant to religious charities

Part two

William Ray

Gerald Eve

Trends

- Some trends emerging...
 - Working from home
 - Migration from city centres...
 - Rationalisation/consolidation
 - Marginal trading operations closing/being sold
 - Surplus space
 - Energy efficient buildings
 - Flexible, light and airy space
 - Property exits taking longer
 - Planning changes – church halls

What can you be doing from a property perspective?

- Understand assets, review and update estate property strategy
- Review the way you use property for mission, and live...
- Maximise income...selling isn't the only option
- Extracting capital
- Plan ahead
- Optimise efficiency of space
- Build and refurbishment projects
- Make your property work for you

Examples

St James Church, Ealing



More House, South Kensington



How has the pandemic affected property law?

Kathryn Williams
Stone King

How has the pandemic affected property law?

Residential tenancies

- Notice periods to gain possession extended - up to 31 May 2021, Landlords have to give 6 months' notice to end tenancy (up from 2 months) – shorter periods in certain serious cases
- Stay on all new and ongoing possession proceedings up to 31 May 2021 – eviction notices will only be issued in the most serious circumstances
- Government guidance - The legislation will be extended until the end of 31 May 2021 and given that 14 days' notice is required before an eviction can take place, no evictions are expected before mid-June except in the most serious circumstances

Commercial leases

- Prohibition on landlord taking steps to terminate lease for **non-payment of rent** – originally restricted from 26 March 2020 until 30 June 2020 – further extensions to 30 September 2020, then to 31 December 2020, then to 31 March 2021, and latest is until **30 June 2021**
- Any claims in the system are on hold – tenant cannot be forced to give up property until 30 June 2021
- Moratorium on landlords issuing statutory demands or winding up petitions until 31 March 2021

Leased properties – rent discussions!

Discussions between landlord and tenants about payment of rent

- Rent holiday/rent suspension
- Rent reduction
- Rent deferral
- Change rent payment dates
- Lease variations

Health and safety

- Guidance on Covid secure working
- Collaboration between landlord and tenants particularly where shared areas

Execution of documents

Land Registry guidance now allows for electronic execution of documents

Future changes to property law

Hugh Pearce
Stone King

What's coming?

- Law Commission Report 14 September 2017
- Residential Long Leasehold – End of the ground lease?
 - Ground rents
 - Enfranchisement
 - Commonhold
- Residential Tenancy - End of the AST?
- Business Leases?

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What's coming?

- Tax relief review?
- Building Regulation?
- Other?

Financial considerations including VAT

Part one

Amanda Francis

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Time to reflect; time to plan



- Where are you now and where do you want to be in five to ten years time?
 - Number of members that require accommodation?
 - Where should that accommodation be located?
 - Care and ministry considerations
 - What form should that accommodation take?
- Many Congregations still have significant property assets. Such assets are enabling assets but they have to the right assets to work for you.
 - Are you content that your property assets support your plan?
 - Do your existing properties require refurbishment, alteration, extension, etc.?
 - Are your existing properties unsuitable for future needs or surplus to future needs?

Refurbishment, alteration, extension, etc.



- Direct cost implications
 - Anticipated cost including professional fees and VAT; timing of payments i.e. cash flow implications – will you need to sell investments?
 - Minimising overruns
 - Project management
- Turning ideas into plans
 - Talking to your professional advisers and helping them understand your needs from the outset
 - Agreeing the plan
- Timescale – time may be of the essence
- Planning permission considerations including cost and delays
- Alternative accommodation whilst work is underway
- VAT issues and VAT planning

Unsuitable or surplus property



Sale or retain as an investment property?

- Retain as an investment property
 - Cash flow implications
 - Managing the relationship with the tenants and maintaining the property etc.
 - Implications for broader investment strategy
- Sale
 - Straight forward disposal compliant with Charities Act
 - Sales for less than full price
 - Sales for development and potential overage considerations
 - Caution if converting to a CIO

Financial considerations including VAT

Part two

Socrates Socratous

Buzzacott

Value Added Tax

Property refurbishments

- VAT liability of construction services – any zero rate reliefs
- Ramps. Widening doorways for wheelchair access
- Bathrooms, washrooms, lavatories
- Lifts
- Alarm Call systems

Value Added Tax

Construction services - extensions, enlargements or annexe

Annexe:

- Used for a relevant charitable purpose
- Own independent main entrance
- Function independently of existing building

Value Added Tax

- If VAT applies, consider use of building
- If own use – consider extent of taxable use, any VAT recovery
- Let to third party – consider ‘option to tax’
 - Converts rental income to standard rate
 - Impact on tenant
 - If connected party, anti avoidance legislation
 - Long term impact , subsequent disposal
- Disposal
 - Option to tax
 - TOGC provisions

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Q&A

Chaired by Tim Rutherford
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Thank you for attending!

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