

Real Estate Sector Report

1. This is a report for the House of Commons Committee on Exiting the European Union following the motion passed at the Opposition Day debate on 1 November, which called on the Government to provide the Committee with impact assessments arising from the sectoral analysis it has conducted with regards to the list of 58 sectors referred to in the answer of 26 June 2017 to Question 239.
2. As the Government has already made clear, it is not the case that 58 sectoral impact assessments exist. The Government's sectoral analysis is a wide mix of qualitative and quantitative analysis contained in a range of documents developed at different times since the referendum. This report brings together information about the sector in a way that is accessible and informative. Some reports aggregate some sectors in order to either avoid repetition of information or because of the strong interlinkages between some of these sectors.
3. This report covers: a description of the sector, the current EU regulatory regime, existing frameworks for how trade is facilitated between countries in this sector, and sector views. It does not contain commercially-, market- or negotiation-sensitive information.

Description of sector

4. The real estate sector covers the buying, selling and management of property. We have used for this sectoral assessment the international definition of real estate in the SIC (2007) codes, which breaks down real estate into the following (see Annex A for a more detailed breakdown):
 - a. 68.1 Buying and selling of own real estate
 - b. 68.2 Renting and operating of own or leased real estate
 - c. 68.20/1 Renting and operating of Housing Association real estate
 - d. 68.20/2 Letting and operating of conference and exhibition centres
 - e. 68.20/9 Letting and operating of own or leased real estate (other than Housing Association real estate and conference and exhibition services)
 - f. 68.3 Real estate activities on a fee or contract basis
 - g. 68.31 Real estate agencies
 - h. 68.32 Management of real estate on a fee or contract basis
5. The economic figures for the overall real estate sector quoted in this paper are based on the above definition. However, recognising that a key distinction within real estate is between residential property and commercial property (with the former very substantially larger in terms of aggregate capital values – see Table 1 below), we have organised our commentary on the sector around the following categories:

- a. Residential rental and leasehold - covering, in turn, the private rented sector, the social rented sector (mainly Housing Associations and local authority landlords) and residential leasehold;
 - b. Residential sales – in particular estate agents;
 - c. Non-residential – covering property used for retail, offices, industrial and other commercial uses.
6. This assessment does not cover the building of new property, in which the real estate sector has a strong interest. This is covered in the separate sectoral assessment of the construction sector. Similarly, the real estate sector is heavily dependent upon professional and business services (e.g. legal) and on financial services (e.g. mortgage and other real estate lending), both of which are covered by separate sector reports.

Table 1: Capital Values of UK Property 2016¹

	£ billion
Residential stock	5,914
Of which:	
Private rental sector	1,110 (18.8%)
Other tenures	4,804 (81.2%)
Commercial property	882.6
Of which:	
Retail	336.9 (38.2%)
Offices	272.7 (30.9%)
Industrial	195.1 (22.1%)
Other commercial	77.9 (8.8%)

¹ "The size and structure of the UK property Market: End-2016 update", Investment Property Forum, July 2017 -

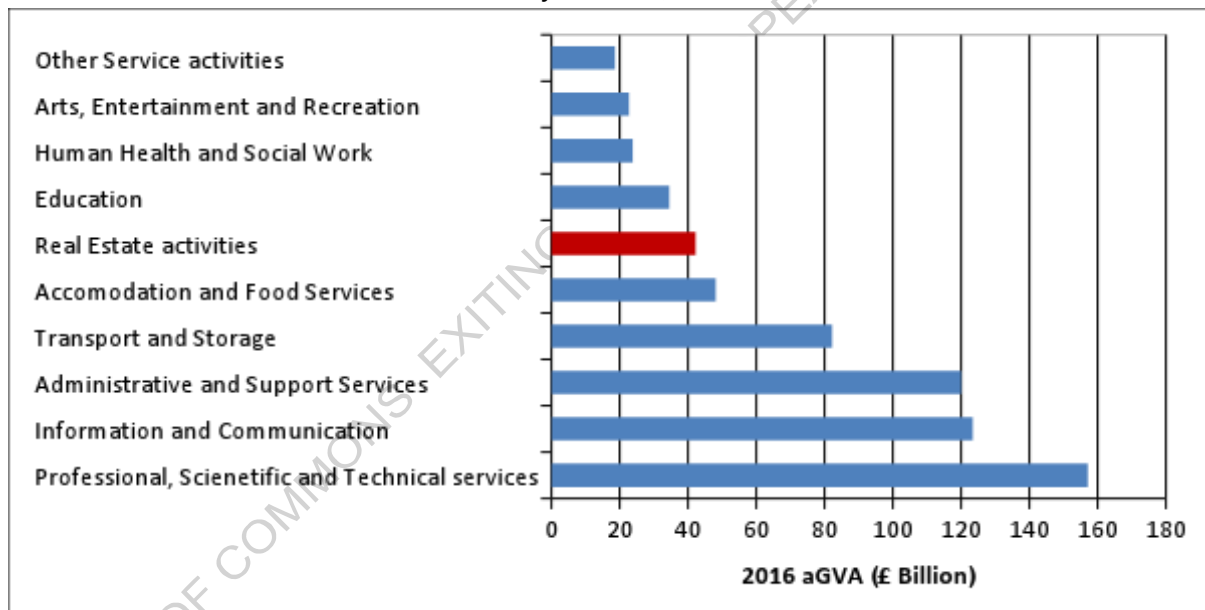
Overview of Overall Economic Activity in the Real Estate Sector

Aggregate Data

7. According to Office for National Statistics' (ONS) Annual Business Survey², in 2016 there were over 93,000 enterprises involved in real estate activities, as defined above, with a total turnover of £62.8 billion. These enterprises employ³ 539,000 people with total employment costs of £13.0 billion. Approximate Gross Value Added (aGVA) for the sector was £42.2 billion⁴, or estimated another way the overall Gross Value Added (GVA) for the sector was £73 billion⁵, excluding imputed rents. Further figures from the ONS Annual Business Survey and ONS National Accounts are included in Annex B, including an explanation of the difference between aGVA and GVA.

8. In terms of aGVA, the Real Estate sector ranks sixth in terms of non-financial services in the UK, behind (in decreasing order of size): Professional, Scientific and technical activities; ICT; Administrative and supportive services; Transport and storage; and accommodation and food services (see Chart 1 below)⁶.

Chart 1: Non-Financial Services, aGVA by Section, 2016



² ONS Annual Business Survey (Nov 2017), all figures refer to 2016

<https://www.ons.gov.uk/surveys/informationforbusinesses/businesssurveys/annualbusinesssurvey>

³ Annual Business Survey uses Business Register and Employment Survey (BRES) as the source data on employment and caveats differences in methodology with ABS

⁴ UK non-Financial Business Economy (Annual Business Survey) Section L: Real Estate Services, disaggregated in accordance with [Standard Industrial Classification \(SIC07\)](#), for which the survey data are collected (Disaggregated by the

ONS). <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/uknonfinancialbusinesseseconomyannualbusinesssurveysectionsas>

⁵ ONS GDP(O) Oct 2017,

<https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/ukgdpolowlevelaggregates> - the £70bn figure is the sector's overall GVA adjusted for inflation (CVM measure) of £235bn in 2016 minus imputed rents of £165bn (see Annex B for an explanation of imputed rents).

⁶ ONS Annual Business Survey, as above. Figure 5

9. As Table 2 below shows, the proportion of GVA represented by real estate varies from region to region⁷. It can be seen that the contribution to GVA is lower in Scotland and Northern Ireland than for all other areas of the UK.

Table 2: Proportion of Region/Countries' GVA Represented by Real Estate (2015)

North East	11.2%
North West	11.0%
Yorkshire and The Humber	11.4%
East Midlands	11.3%
West Midlands	11.7%
East of England	13.7%
London	14.2%
South East	13.8%
South West	14.5%
Wales	12.7%
Scotland	10.0%
Northern Ireland	8.3%

10. The real estate sector largely serves the domestic market. UK Exports of services data shows that real estate activities were worth £504 million in 2015 out of a total UK exports of services (excluding travel, transport and banking) of over £123 billion.⁸ Similarly for imports of services, real estate represented £79 million out of over £58.5 billion total (excluding travel, transport and banking).

Residential Rental and Leasehold

11. This sector comprises the renting and leasing of residential properties. The key participants in the sector are:

12. Private rental properties

- a. There were 4.7 million dwellings being let privately in 2015-16 in England, making up 20 per cent of the English housing stock⁹, mainly under short term tenancies such as Assured Shorthold Tenancies.
- b. In Scotland approximately 394,000 dwellings were being rented privately in March 2016, which is 15 per cent of total Scottish housing stock.¹⁰

⁷ Source: Regional gross value added (income approach), UK: 1997 to 2015
<https://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedincomeapproach/deceember2016>

⁸ ONS Trade in Services, 2015 data,
<https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/bulletins/internationaltradeinservices/2015#trade-in-services-industry-analysis>

⁹ English Housing Survey 2015-16, <https://www.gov.uk/government/statistics/english-housing-survey-2015-to-2016-headline-report>

¹⁰ Housing Stats Scotland 2016, <http://www.gov.scot/Topics/Statistics/Browse/Housing-Regeneration/HSfS/KeyInfoTables>

- c. In Wales approximately 202,000 dwellings were being rented privately in 2015-16, 14 per cent of total Welsh housing stock.¹¹
- d. In Northern Ireland approximately 132,000 dwellings were being let privately in 2015-16, 17 per cent of total housing stock.¹²
- e. There were an estimated 1,464,078 landlords in England in 2010, according to the Department for Communities and Local Government's (DCLG) 2010 Private Landlord Survey¹³. Using the same methodology, the Council of Mortgage Lenders (CML)¹⁴ estimated this would equate to 1,770,000 in the UK in the same year.
- f. 89 per cent of these landlords were private individuals (approximately 1.3 million people) and 5 per cent were incorporated companies (approx. 73,000)¹⁵. Individual landlords controlled 71 per cent of PRS dwellings in 2010, and incorporated landlords 15 per cent¹⁶.
- g. 97 per cent of landlords owned fewer than five properties. 78 per cent of landlords owned only one dwelling. Dwellings owned by single property landlords made up 40 per cent of PRS stock in England in 2010. Only 3 per cent of private landlords owned five or more dwellings, but properties owned by this group represented 22 per cent of English PRS stock.
- h. While the large majority of private landlords are private individuals or companies owning a small number of properties, there is also a small but rapidly growing Build to Rent sector, whereby large institutional and corporate investors invest in large-scale, purpose-built, privately-rented housing developments. According to British Property Federation figures, there are 17,001 Build to Rent properties completed as of September 2017, but this figure is expected to increase rapidly as there are a further 24,012 homes under construction and 54,905 in planning¹⁷.
- i. The supply chain supporting the private rented sector includes property consultants, letting agents and managing agents.

13. Social rental properties

- a. Social landlords in England (almost exclusively comprised of around 164 stock-holding local authority bodies and around 1,500 housing associations) rent out 1.6 million and 2.3 million homes respectively (around 17 per cent of all households).¹⁸
- b. In Scotland there are approximately 595,000 dwellings in the social rented sector in March 2016, 23 per cent of total housing stock.¹⁹

¹¹ Stats Wales 2015-16, <https://statswales.gov.wales/Catalogue/Housing/Dwelling-Stock-Estimates/dwellingstockestimates-by-localauthority-tenure>

¹² NIHS Report 2015-16 page 11, published by NISRA, <https://www.communities-ni.gov.uk/sites/default/files/publications/communities/ni-housing-stats-15-16-full-copy.pdf>

This has been calculated as 132,000 (total number of dwellings multiplied by 0.17)

¹³ DCLG Private Landlords Survey 2010, <https://www.gov.uk/government/statistics/private-landlords-survey-2010>

¹⁴ <https://www.cml.org.uk/news/cml-research/the-profile-of-uk-private/>

¹⁵ DCLG Private Landlords Survey 2010, as above. The total number of landlords identified in the survey and the percentages (89% and 5%) were used to work out the figures 1.3 million and 73,000)

¹⁶ DCLG Private Landlords Survey 2010, as above

¹⁷ BPF Build to Rent Map of the UK - <http://www.bpf.org.uk/what-we-do/bpf-build-rent-map-uk>

¹⁸ DCLG EHS, as above

¹⁹ Housing Stats Scotland, as above

- c. In Wales the figure is approximately 224,500 dwellings in 2015-16, 16 per cent of total housing stock.²⁰
- d. In Northern Ireland approximately 132,000 dwellings in 2015-16, 17 per cent of housing stock.²¹

14. Leasehold

- a. In 2016 there were an estimated 4.2 million leasehold dwellings in England. Of these 2.2 million dwellings (53 per cent) were in the owner occupied sector and 1.8 million (43 per cent) were privately owned and let in the private rented sector. The remaining 200,000 (5 per cent) were leasehold dwellings owned by social landlords.²²
- b. Leasehold houses and leasehold flats represented 32 per cent and 68 per cent of total leasehold dwellings respectively in 2015-16.²³
- c. The supply chain supporting the leasehold industry includes property consultants and agents (including estate agents – see below) and managing agents.

15. Residential sales – Estate agents

- a. Estate agents act on behalf of a seller to value and market a property, organise viewings, negotiate the sale price, and liaise with the buyer, conveyancers and other parties to finalise the sale and move-in arrangements.
- b. According to the Annual Business Survey²⁴ in 2016 there were 20,309 enterprises engaging in estate agency work in the UK employing 161,000 people (if just looking at estate agents and auctioneers the Annual Population Survey estimates this as just under 43,000 people²⁵). Total turnover from real estate agencies was £11.7 billion, with approximate gross value added (aGVA) of £8.9 billion.²⁶
- c. Most estate agent businesses are small outfits. An National Association of Estate Agents (NAEA) report found that in September 2017 UK estate agents had on average 394 house hunters register with them, 41 properties available and 8 sales agreed.²⁷

²⁰ Stats Wales, as above

²¹ NIHS report, as above

²² <https://www.gov.uk/government/statistics/estimating-the-number-of-leasehold-dwellings-in-england-2015-to-2016>

²³ <https://www.gov.uk/government/statistics/estimating-the-number-of-leasehold-dwellings-in-england-2015-to-2016>

²⁴ ONS Annual Business Survey data, as above

²⁵ ONS Annual Population Survey data, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/qmis/annualpopulationurveyapsqmi>

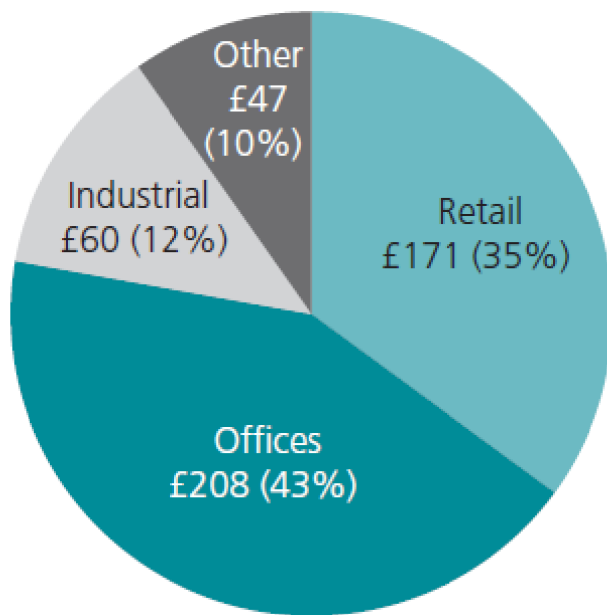
²⁶ UK non-Financial Business Economy (Annual Business Survey) Section L: Real Estate Services, disaggregated in accordance with [Standard Industrial Classification \(SIC07\)](#), for which the survey data are collected (Disaggregated by the ONS). <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/uknonfinancialbusinessconomyannualbusinesssurveysectionsas>

²⁷ NAEA Housing Report, Sept 2017 <http://www.naea.co.uk/media/1046515/naea-housing-report-september-2017.pdf>

16. Non-residential property

- a. Non-residential (commercial) property comprises office blocks, buildings for shops and other high street businesses, warehouses and industrial buildings, as well as other non-residential buildings such as cinemas, gyms, hotels, petrol stations and car parks.²⁸
- b. The commercial property industry contributes to the economy by financing and constructing new buildings; and investing in and managing the accommodation needs of retailers, businesses, distributors and manufacturers, hoteliers and many parts of the public sector. Offices are the largest sub-sector, followed by retail and industrial (see Chart 2 below²⁹).

Chart 2: Commercial Investment Property Universe by Sector, End-2016 (£ billion)



17. According to the Investment Property Forum (IPF), as at end 2016, 71 per cent of commercial property was held by UK investors and 29 per cent by overseas investors – see Table 3 below³⁰.

²⁸ PIA Property Data Report, Oct 2017 <http://www.ipf.org.uk/resourceLibrary/pia-property-data-report--october-2017-.html> - all figures refer to year-end 2016

²⁹ IPF The Size and Structure of the UK Property Market, Year end 2016 update, July 2017, <http://www.ipf.org.uk/resourceLibrary/the-size-and-structure-of-the-uk-property-market---year-end-2016-update-july-2017-full-report.html>

³⁰ IPF The Size and Structure of the UK Property Market, Year end 2016 update, July 2017, as above

Table 3: Commercial Investment Property Universe by Investor Type, End-2016³¹

Investor Type	End-2016 £ billion	End-2016 share	£bn % change in since 2015
UK insurance company funds	£40	8%	-10%
UK segregated pension funds	£39	8%	-2%
UK & Channel Island domiciled collective investment schemes	£79	16%	-1%
UK REITs & listed property companies	£74	15%	2%
UK private property companies	£60	12%	0%
UK traditional estates & charities	£23	5%	3%
UK private investors	£13	3%	0%
UK other	£20	4%	3%
UK SUB-TOTAL	£347	71%	-1%
OVERSEAS	£139	29%	3%
TOTAL	£486	100%	0%

18. Also according to IPF³² the value of commercial property in the UK (owner-occupied as well as invested) fell 5 per cent from a revised £926 billion in 2015 to £883 billion in 2016. However the rental value of UK commercial property rose to a record £62 billion.

³¹ Source: Paul Mitchell estimates using data from company accounts, IPD, ONS, PFR and RCA/PD

³² IPF The Size and Structure of the UK Property Market, Year end 2016 update, July 2017, as above

19. Note that the above figures categorise the sector differently to some other sources. For example, the Investment Property Forum and Property Industry Alliance estimate the commercial property industry alone employs more than 1 million people and contributes more than £63 billion a year to the economy³³ and the British Property Federation cite 2014 figures that the UK real estate industry employs 2.1 million people and contributes over £94 billion a year to the economy³⁴.

Interactions with EU

Residential Rental and Leasehold

20. There are no restrictions on foreign ownership of domestic properties (whether freehold or leasehold) in the United Kingdom. Foreign nationals are able to rent out properties that they own in this country and, provided they satisfy Right to Rent criteria (as is the case for citizens of any EU member state), to rent privately rented properties to live in as their residence.
21. Whilst not disaggregating between EU and non-EU nationalities, the English Housing Survey 2015 to 2016: private rented sector³⁵ notes that the private rented sector has the highest proportion of households with non-UK or Irish national Household Reference Person (HRP)³⁶. In 2015-16, a quarter (25 per cent) of all privately renting households had a non-UK or Irish National HRP, compared with 8 per cent in the social rented and 3 per cent in the owner occupied sector (see Table 4 below).

³³ PIA Property Data Report (Oct 2017), all figures refer to 2016 <http://www.ipf.org.uk/resourceLibrary/pia-property-data-report--october-2017-.html>

³⁴ BPF, A positive future for the UK and for real estate, p.1, <http://www.bpf.org.uk/sites/default/files/resources/BPF-Brexit-manifesto-Jan-2017-web.pdf>

³⁵ <https://www.gov.uk/government/statistics/english-housing-survey-2015-to-2016-private-rented-sector>

³⁶ The English Housing Survey defines the Household Reference Person (HRP) as the person in whose name the house is owned or rented. If it is a house share, then the HRP is the person with the highest income (and if incomes are equal then it is the oldest). The HRP is the only person in the household the interviewer speaks to. As such, it may be the case that a household with a British HRP still contains EU/EFTA nationals (they may have a spouse or housemates from the EU/EFTA). The nationality of the HRP therefore cannot be seen as a perfect indicator of how many EU/EFTA nationals are present in each tenure group.

Table 4: Nationality of Household Reference Person by tenure, 2015-16³⁷

<i>all households</i>						
	owner occupiers	private renters	local authority	housing association	all social renters	total
	<i>thousands of households</i>					
UK or Irish nationals	13,838	3,411	1,470	2,149	3,619	20,868
other nationalities	490	1,114	135	164	299	1,902
total	14,328	4,525	1,605	2,312	3,917	22,770
	<i>percentages</i>					
UK or Irish nationals	96.6	75.4	91.6	92.9	92.4	91.6
other nationalities	3.4	24.6	8.4	7.1	7.6	8.4
total	100.0	100.0	100.0	100.0	100.0	100.0
<i>sample size</i>	<i>7,747</i>	<i>2,060</i>	<i>1,536</i>	<i>2,122</i>	<i>3,658</i>	<i>13,465</i>

Source: English Housing Survey, full household sample

22. Landlords of social housing are in the vast majority of cases either local authorities or UK-incorporated housing associations. We are not aware of any EU-incorporated landlords of social housing in the UK. EU nationals have access to social housing, including supported housing and homelessness assistance, if they have a relevant EU right to reside (applicable after three months in the UK and broadly means they are working, self-sufficient or have permanent residence) in line with the Government's immigration regulations.

23. To access social housing, an EU national must meet the immigration eligibility criteria (as above) and then be eligible within the reasonable preference categories. Beyond this, local authorities can set local qualification criteria within an overall national housing allocations framework. Government guidance also strongly encourages councils to apply a residency test, requiring applicants to have lived in the local area for at least two years. This applies to UK citizens as well as all foreign nationals. Local authorities must have regard to the guidance and decide how to apply it according to their local circumstances. By April 2015, 88 per cent of local authorities had adopted a residency test, with 70 per cent of these applying a test of two or three years³⁸.

24. EU nationals do not have a large presence in the social rented sector - taking up 6 per cent of all new social housing tenancies in England³⁹.

³⁷ Source: English Housing Survey 2015 to 2016: private rented sector, Annex Table 1.5 -

<https://www.gov.uk/government/statistics/english-housing-survey-2015-to-2016-private-rented-sector>

³⁸ Local authority housing statistics 2015/16 - <https://www.gov.uk/government/statistical-data-sets/local-authority-housing-statistics-data-returns-for-2015-to-2016>

³⁹ DCLG CORE data 2015/16 -

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/604891/Social_housing_lettings_in_England_2015-16_revised_032217.pdf

25. The European Investment Bank (EIB) provides long-term debt finance to Housing Associations. Total debt in housing associations is around £66 billion⁴⁰, of which EIB lending to the sector is in the region of £4 billion⁴¹ once the current pipeline of transactions completes, including £1.5 billion of loans guaranteed by the UK Government.

Residential Sales – Estate Agents

26. The work of UK-based estate agents is primarily domestic and is generally not highly dependent on EU labour: Of the 43,000 people employed in estate agency work in the UK according to ONS' Annual Population Survey in 2016/17, around 1,200 were EU nationals (3 per cent) and 650 were non-EU nationals (1.5 per cent)⁴².

27. Some of the larger estate agent companies do have offices overseas, both in the EU and in the rest of the world, providing services to international clients. Some UK-based agents also offer foreign residential properties in the EU and elsewhere for sale to UK residents and, conversely, will seek foreign buyers for UK properties.

28. There are no restrictions on foreign ownership of residential property in the UK and, as shown in Table 3 above, 3.4 per cent of owner occupied homes have HRPs who are of non-UK or Irish nationality.⁴³

29. The prime London market⁴⁴ appears to have the highest concentration of foreign buyers, according to industry and academic assessments:

30. Savills estimated in 2013 that 32 per cent of purchases in the prime London market were foreign buyers.⁴⁵

31. Research by Knight Frank in 2013 suggested that of the 49 per cent of non-UK buyers in the 'high end' London market, 16.5 per cent were EU nationals.⁴⁶

32. A study by the University of York suggests that in 2016, 17.9 per cent of all new build property sold in London was sold to overseas buyers.⁴⁷

⁴⁰ HCA Global Accounts of private registered providers (2016) <https://www.gov.uk/government/publications/2016-global-accounts-of-private-registered-providers>

⁴¹ Figure provided by the HCA

⁴² ONS analysis of Annual People Survey

⁴³ English Housing Survey, as above.

⁴⁴ The 'prime market' consists of the most desirable and aspirational property by reference to location, standards of accommodation, aesthetics and value. Typically it comprises properties in the top five per cent of the market by house price. <http://www.savills.co.uk/news/article/55328/177606-0/7/2014/london-s-overseas-buyers-have-been-overstated--says-savills>

⁴⁵ <http://pdf.euro.savills.co.uk/residential---other/spotlight-world-in-london.pdf> 2014

⁴⁶ <https://web.archive.org/web/20151123012525/http://content.knightfrank.com/research/556/documents/en/oct-2013-1579.pdf>

⁴⁷ <https://www.london.gov.uk/moderngovmb/documents/s58641/08b2c%20University%20of%20York%20data%20report.pdf>

33. A 2017 London School of Economics report states that 38 per cent of agents' sales of new build London residential homes between April 2014 and March 2016 were to overseas buyers.⁴⁸

Non-Residential

34. Foreign investment in commercial property has increased over the past decade and the IPF estimates that foreign investors own 29 per cent of UK properties held as investments and 16 per cent of all commercial property.⁴⁹
35. Considerations around relative exchange rates, the relative performance of other investments and the state of the economy are key variables of interest to potential investors, whether domestic, EU or non-EU.
36. Looking more broadly at all Foreign Direct Investment (FDI), in 2014, £5.3 billion of FDI came into the UK from EU sources⁵⁰. This represented 19 per cent of the total inflow amount. The highest share of FDI in 2014 came from the Americas (60.4 per cent) and Asia (22.6 per cent). This affects the real estate sector and related supply chains. For commercial property, the location of foreign firms in the UK affects demand. For residential property, foreign firms' staff may affect demand, however demand should not be looked at in isolation.

The current EU regulatory regime

37. There is a complex legal framework governing residential and commercial real estate activities in the UK, with different property law frameworks for England and Wales, Scotland and Northern Ireland. In England and Wales, property law has evolved through centuries of common law, with major legislative reforms (including the Law of Property Act 1925 and the Land Registration Act 2002) over the last century rationalising key aspects. Scotland has its own distinct tradition and legislative provisions for property law, while Northern Ireland shares similar common law features as English and Welsh property law but has a different legislative basis.
38. There is no common EU-wide legislative framework for property law. This remains the competence of Member States, although EU law does shape the legal framework for residential and commercial real estate activities (including a Member State's power to amend the domestic legislative framework) in several ways.

⁴⁸ <http://www.lse.ac.uk/business-and-consultancy/consulting/consulting-reports/the-role-of-overseas-investors-in-the-London-new-build-residential-market>

⁴⁹ <http://www.ipf.org.uk/resourceLibrary/the-size-and-structure-of-the-uk-property-market--year-end-2016-update-july-2017-full-report.html>

⁵⁰ ONS data and CEBR analysis, taken from April 2016 CEBR report, <http://www.naea.co.uk/media/1044595/brexit-and-the-property-market-finalpdf.pdf>

39. These include the general Treaty principles of free movement of capital and workers which prohibit arbitrary restrictions on the ownership and renting of properties by EU citizens, state aid and procurement rules which govern public bodies' support for real estate activities, common VAT rules on real estate activities, general services directives which aim to remove barriers to cross-border trade in services and protect consumers, and energy efficiency directives covering buildings which are sold or rented out.
40. This EU legislation which governs real estate activity is generally applicable to Gibraltar, barring its being outside the Customs Union and common VAT area, but not the Crown Dependencies or other Overseas Territories.
41. See Annex C for a description of the principal domestic legal and regulatory arrangements which govern the residential rental and leasehold sector.

Existing frameworks for how trade is facilitated between countries in this sector

42. The arrangements described in this section are examples of existing arrangements between countries. They should not be taken to represent the options being considered by the Government for the future economic relationship between the UK and the EU. The Government has been clear that it is seeking pragmatic and innovative solutions to issues related to the future deep and special partnership that we want with the EU.
43. A range of preferential trade agreements and bilateral economic and trade arrangements exist between global trading partners. These agreements reduce and simplify the requirements for trade, providing benefits to exporters, manufacturers and consumers across the trading partners.
44. As noted above, real estate services are sparsely traded and consequently it is the general provisions on services trade which provide the framework for trade in these services outside of the EU. The baseline for trade in services, including real estate services is the World Trade Organisation's (WTO) General Agreement on Trade in Services (GATS). All WTO Members are parties to GATS which sets out general rules, principles and obligations as a framework for trade in services; plus a schedule of commitments which set out how open and non-discriminatory parties commit to be across the service sectors covered.⁵¹

⁵¹ The UK is a member of the WTO in its own right, but its current commitments are listed in wider EU schedules. The Department for International Trade is leading a process to create UK-only schedules – reflecting our current level of openness.

45. GATS also sets out 'how' parties will allow services to be traded and this is split into four principal 'modes': 1) where a product rather than a service supplier/consumer crosses a border; 2) where the consumer of the service crosses a border (e.g. an inbound tourist); 3) where the company crosses a border (e.g. a chain of estate agents opening a new establishment in another country); and 4) where the service provider moves (e.g. a chartered surveyor spends nine months working in her firm's office in another country). Commitments taken by parties vary and parties can unilaterally choose to improve their GATS offers at any point (subject to a certification procedure) or lower the level of their commitments, but in order to do so they will be expected to offer compensatory concessions.

Sector views

[This information was provided by the Government to the Committee, but the Committee has decided not to publish this section]

HOUSE OF COMMONS EXITING THE EUROPEAN UNION COMMITTEE

Annex A: Excerpt from “UK Standard Industrial Classification of Economic Activities 2007 (SIC 2007)”

Section L Real Estate Activities

1. This section includes acting as lessors, agents and/or brokers in one or more of the following: selling or buying real estate, renting real estate, providing other real estate services such as appraising real estate or acting as real estate escrow agents. Activities in this section may be carried out on own or leased property and may be done on a fee or contract basis.
2. Also included is the building of structures, combined with maintaining ownership or leasing of such structures.
3. This section includes real estate property managers.

68 Real estate activities

68.1 Buying and selling of own real estate

68.10 Buying and selling of own real estate

This class includes:

buying and selling of self-owned real estate:
apartment buildings and dwellings
non-residential buildings, including exhibition halls, self-storage facilities,
malls and shopping centres
land

This class also includes:

subdividing real estate into lots, without land improvement

This class excludes:

development of building projects for sale, see 41.10
subdividing and improving of land, see 42.99

68.2 Renting and operating of own or leased real estate

68.20 Renting and operating of own or leased real estate

68.20/1 Renting and operating of Housing Association real estate

This subclass includes:

renting and operating of self-owned or leased real estate which is used for housing association activities only

This subclass also includes:

renting and operating of housing association owned real estate:

apartment buildings and dwellings
land
providing homes for rent for those who are vulnerable, on low income and/or
key workers such as nurses
sheltered or supported homes
operation of services to help residents improve their communities
offering homes through a shared ownership scheme
development for building projects for own operation

68.20/2 Letting and operating of conference and exhibition centres

68.20/9 Letting and operating of own or leased real estate (other than Housing Association real estate and conference and exhibition services) n.e.c.

This subclass includes:

renting and operating of self-owned or leased real estate:
apartment buildings and dwellings
non-residential buildings, excluding conference and exhibition centres,
self-storage facilities
land
providing of homes and furnished or unfurnished flats or apartments for more
permanent use, typically on a monthly or annual basis

This subclass also includes:

operation of residential mobile home sites
development for building projects for own operation

This subclass excludes:

*operation of hotels, suite hotels, holiday homes, rooming houses,
campgrounds, trailer parks and other non-residential or
short-stay accommodation places, see division 55*

68.3 Real estate activities on a fee or contract basis

68.31 Real estate agencies

This class includes the provision of real estate activities by real estate agencies:
intermediation in buying, selling and renting of real estate on a fee or contract
basis
advisory activities and appraisal services in connection with buying, selling
and renting of real estate, on a fee or contract basis
real estate escrow agents activities

This class excludes:

Legal activities, see 69.10

68.32 Management of real estate on a fee or contract basis

This class also includes:

rent-collecting agencies

This class excludes:

legal activities, see 69.10

facilities support services (combination of services such as general interior cleaning, maintenance and making minor repairs, trash disposal, guard and security), see 81.10

management of facilities, such as military bases, prisons, and other facilities (except computer facilities management), see 81.10

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Annex B: Real Estate Figures from ONS Annual Business Survey and Commentary

Table 5: Aggregate sectoral data, 2016 (source: ONS ABS)⁵²

	No. of enterprises	Total turnover (£m)	Approx GVA (£m)	Total employment (000's)	Total employment costs (£m)	Net capital expenditure (£m)
68.1 Buying & selling of real estate	3,846	2,054	1,154	*	126	1,681
68.2 Renting & operating of own or leased real estate	53,683	38,262	27,206	*	5,506	13,680
68.3.1 Real estate agencies	20,309	11,738	8,850	161	5,075	280
68.3.2 Management of real estate on a fee or contract basis	15,609	10,709	4,975	97	2,308	289
TOTAL REAL ESTATE	93,447	62,764	42,185	539	13,015	15,930

Table 6: GVA for Real Estate, 2016, adjusted for inflation (Source: ONS GDP)⁵³

£ million CVM ⁵⁴	L: REAL ESTATE	68.1-2: Buying and selling, renting and operating of	68.2IMP: Imputed rental	68.3 Real estate activities on a fee or contract

⁵² UK non-Financial Business Economy (Annual Business Survey) Section L: Real Estate Services, disaggregated in accordance with [Standard Industrial Classification \(SIC07\)](#), for which the survey data are collected (Disaggregated by the ONS).
<https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/uknonfinancialbusinessconomyannualbusinesssurveysectionsas>

⁵³ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/ukgdpolowlevelaggregates>

⁵⁴ CVM stands for Chain Volume Measure, i.e. adjusted for inflation.

		own or leased real estate, excluding imputed rental		basis
2016	235,265	62,918	165,257	7,089

Commentary

The Annual Business Survey is a report into the approximate Gross Value Added (aGVA) of non-financial services in the UK, which in total account for about 56 per cent of economic output. aGVA represents the income (turnover) of UK businesses, less the cost of goods and services consumed in the production process (purchases). Section L shows these incomes and costs for the Real Estate sector and each of its subcomponents, split into different subcategories. However, it does not include Imputed Rents (explained below) which are available separately split out as part of the ONS' GVA estimates in the second table above.

For owner-occupiers, imputed rental is an estimate of the housing services consumed by households who are not actually renting their residence. It can be thought of as the amount that non-renters pay themselves for the housing services that they produce. As such, imputed rental should represent the economic value per period to homeowners of their dwellings, equivalent to the rent payable if they were to rent out their properties. By definition, however, a homeowner does not receive payment on their property, and so the payment must be "imputed". Measurement of imputed rental is important to ensure that, for comparisons over time and between countries, the valuation of housing services is calculated on a consistent basis. Different countries and periods will have a different composition of owner-occupied housing and rentals.

Imputed rents are included in GVA at a national account level for Real Estate transaction but not for aGVA.

Annex C: Domestic Regulation of the Residential Rental and Leasehold Sector

Housing is a devolved matter within the UK, so different legislation applies in each of the four nations of the UK. For example, in England:

Private rented sector – in England, the Housing Act 1988 governs tenancies and Housing Act 2004 covering property conditions and licensing;

Social rented sector - The Social Housing Regulator sets standards that registered providers of social housing (local authorities and housing associations) are required to meet. The objectives of the Social Housing Regulator are set out in the Housing and Regeneration Act 2008. Eligibility for local authority allocated social housing and homelessness assistance (referred to collectively as “housing assistance”) in England reflects the Home Office’s Immigration Rules. The current legislative framework is set out in the Housing Act 1996 parts 6 and 7 and the Allocation of Housing and Homelessness (Eligibility) (England) Regulations 2006 (SI 2006/1294) as amended.

Leasehold sector – in England the Landlord and Tenant Act 1954, Leasehold Reform Act 1967, Landlord and Tenant Acts of 1985 and 1987, Leasehold Reform, Housing and Urban Development Act 1993, Housing Act 1996, Commonhold and Leasehold Reform Act 2002 and Housing and Planning Act 2016 have improved leaseholders’ rights to challenge charges, manage their property, extend their lease and purchase freehold interests. Leasehold legislation in Wales is devolved. Similar rights apply there, although codes of practice relating to service charges and property management are different. Scotland and Northern Ireland do not use tenures based on a landlord and tenant relationship.

In **Wales** the Renting Homes (Wales) Bill, as passed by the Assembly on 17 November 2015, is based on the Law Commission’s Renting Homes recommendations published in 2006. The Bill makes provision for two types of contract (which will apply to both tenancies and licensees – hence the Bill refers to ‘contract-holders’);

The **Scottish Government** has introduced a significant regulatory framework for the PRS:

- Landlord registration (2006)

- Tenancy deposits (2012)

- Tenant information packs (2013)

- Specialist housing tribunal (2014)

- Enhanced enforcement areas (like licensing – in place in Glasgow) (2014)

- Letting agent regulation (2014)

- New tenancies (from 2018)

- Regulation of the PRS sits with (32) LAs but regulation of letting and property agents with Scot Govt.

In Northern Ireland The Rent (**Northern Ireland**) Order 1978 and the Private Tenancies (Northern Ireland) Order 2006 sets out the law on the current regulation of the private rented sector and provide councils with powers to enforce the legislation.

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