



SPF VOICE

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Joining the dots *Finding regional connections among unique cities*



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MD Dowbrae Property Consultancy

This last month was the busiest since I assumed office in November and featured a mini-tour of Scotland. I had the genuine pleasure of hosting meetings in Aberdeen, Inverness and Edinburgh, and represented the SPF at events in Dundee and Glasgow.

Each of these cities are quite different with their own unique characteristics. The local economies are diverse and in many respects each acts quite independently from the other. We spoke about the challenges of a broad rural catchment for Inverness, while in Aberdeen the North Sea economy continues to feature significantly. In Dundee it's the revival of the city and the waterfront regeneration which catches the headlines. In Edinburgh there are concerns of 'over-tourism' and challenges of affordable housing provision, while Glasgow is keen to retain graduates, re-populate the city centre and regenerate the post-industrial areas.

But there's more that unites us than divides us.

Connectivity is key across the board. Each city recognises the importance of local, national and international connections, and each recognises the importance of connecting with the other.

Attracting and retaining talent goes hand-in-hand with

attracting jobs and investment - this is as prevalent in the north as it is in the central belt. Competing for both encompasses a wide array of factors. A focus on attractive and affordable living options is close to the top of the list. An educated workforce is central too, and it's no surprise that all our cities are working increasingly closely with higher and further education providers. Creating a vibrant city with its own identity and offering leisure and amenity is also seen as a key component - which has the added bonus of helping attract sustainable tourism.

Add into the mix universal recognition that 'green' investment will be central to the future growth of each - whether from the public or private sector - and you have the ingredients that are key to the future of Scotland's cities: well-connected cities with an environmentally progressive approach and providing great places to live, learn, work and play.

I look forward to exploring these themes at our conference: Building Sustainable and Inclusive Growth on Wednesday 4 March.



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POLICY INSIGHTS

PLANNING PERFORMANCE AND FEES

The SPF Planning and Development Committee, led by Winchburgh Development's John Hamilton, met with the officials taking forward policy development on land value uplift capture, section 75 obligations and the infrastructure levy. Discussion focused on planning performance and fees and the Scottish Government's proposals for moving towards covering the full costs of determining planning applications. It goes without saying that there needs to be a properly resourced planning service; however, there also needs to be a greater understanding by the public sector of the costs that the private sector already contributes towards delivering the planning service and the risks involved. Unfortunately, we have yet to see full commitment by planning authorities to tie fees to better outcomes in the way that's needed. We are clear, however, that the focus must be on improved delivery and that the planning system is a dynamic enabler of development and investment.

HOUSING TO 2040 POLICY OPTIONS

The Scottish Government published its Housing to 2040 draft vision and principles in July and launched a public consultation on the policy options in December. A longer-term housing strategy that would go beyond the life of a single parliament, and enable ongoing, longer-term initiatives to be implemented, should indeed be welcomed. In an ideal world, there are aspects of the 'vision' that are difficult to argue against, but the delivery proposals are unrealistic and fail to consider asset growth, viability, and economic value. We all agree that a delicate balance needs to be struck and any market intervention needs to be carefully undertaken with a full understanding of the wider and unintended consequences on the market, not least the level of risk taken on by developers. As policy options develop, the balance and clarity between the actual market environment and perceptions of what is required will be key.

FORBES TAKES THE HELM FOR SCOTTISH BUDGET

This year's Scottish budget statement was delivered without knowing the UK's budget plans and in the midst of an unexpected reshuffle of the Scottish cabinet. The Scottish budget is an annual test of political deal-making for a minority government: if no deal can be reached and a budget is not approved, an election could be triggered. For new Finance Secretary Kate Forbes, it is therefore a major test of her political skills. For real estate, there were some notable changes from this year's statement. Commercial leases saw their LBTT increased from 1% of 2% of net present value above £150,000, while the large business supplement was halved for properties with a rateable value of between £51,000 and £95,000. The budget is next debated on 4 March and by then we will know the positions taken by Holyrood's other parties.

NON-DOMESTIC RATES (SCOTLAND) ACT 2020

The Barclay Review of Business Rates has passed into an Act of Parliament. Initially these proposals found broad support among stakeholders, including the SPF, as they introduced more frequent revaluations and put the business growth accelerator relief schemes on a statutory footing. However, parliamentary amendments to re-localise the setting of rates and to apply rates to larger student accommodation premises raised major concerns for members. Eventually, these proposals were overturned by MSPs. However, on both issues, the government has promised further consultation suggesting that these issues have yet to be fully resolved. Another key concern for members is the potentially severe penalty regime for non-return of Assessor information requests that could rise to 71% of a property's actual rateable value. The Scottish Government has also restricted the grounds for rating appeals based on a material change in circumstances.



£3.37BN

TOTAL COMMERCIAL PROPERTY SALES VALUES IN 2019

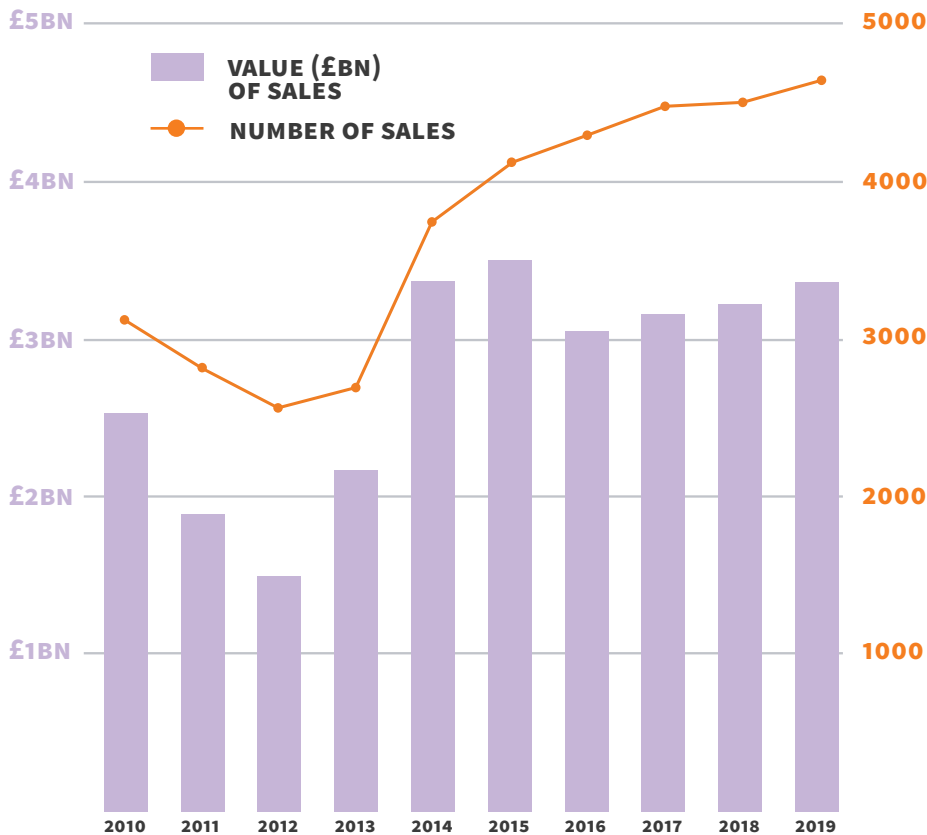
↑ **£136M**
4% UP FROM 2018

4,667

TOTAL NUMBER OF TRANSACTIONS IN 2019

↑ **139**
3% UP FROM 2018

TOTAL VALUE AND NUMBER OF COMMERCIAL PROPERTY SALES IN SCOTLAND (2010-2019)



£2.076BN

TOTAL COMMERCIAL PROPERTY SALES VALUES FOR EDINBURGH, GLASGOW, DUNDEE AND ABERDEEN

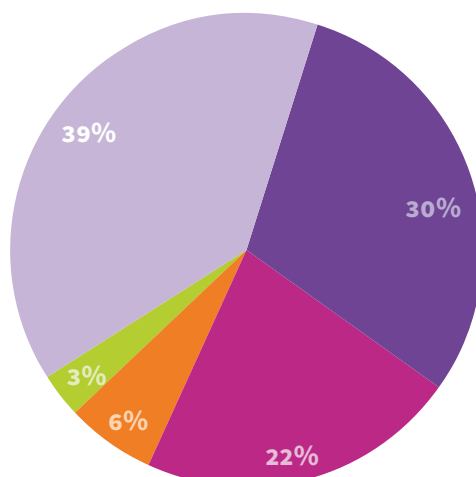
EDINBURGH
£1.01BN

GLASGOW
£753M

DUNDEE
£106M

ABERDEEN
£207M

REST OF SCOTLAND
£1.29BN



OVERVIEW

The SPF analysis of the latest commercial property sales figures has revealed that, for the third consecutive year, the total value of sales in Scotland grew in 2019.

At £3.37bn, the value of commercial property sales in 2019 hit its highest annual total since 2015. The total value of sales increased by £136m (4%) compared to the total for 2018.

The number of commercial property transactions in Scotland in 2019 was the highest in the decade, standing at 4,667.

The number of commercial property transactions has increased every year since 2012, with 139 (3%) more sales taking place in 2019 than 2018.

CITIES

Edinburgh continued to dominate the Scottish commercial property market recording £1.01bn in commercial property sales during 2019, some £379m (60%) more than in 2018. For the year, Edinburgh accounted for 30% of the Scottish commercial property market by value.

Glasgow also saw an increase in the combined value of its commercial property sales. Scotland's largest city saw total sales of £753m – some £229m (44%) higher than in 2018 – and captured a 22% share of the Scottish commercial property market.

£5M+ SALES

Of the 4,667 commercial property transactions in Scotland during 2019, only 97 (2%) sold for over £5m. However, with a combined value of £1.75bn, these transactions accounted for more than half of the Scottish market by value. In total, 15 of Scotland's 32 local authorities saw sales at this section of the market in 2019.

REGIONAL SPOTLIGHT



INVERNESS

At a working lunch in Inverness, Malcolm Macleod, Highland Council's Executive Director – Environment and Infrastructure joined SPF members and guests to discuss development and investment opportunities in the region. Discussions focused on last year's housing delivery and pressures felt across the sector. Of key interest to industry representatives was the constraints on housing development due to education contributions.

ABERDEEN

We hosted a dinner with members and guest Richard Sweetnam, Chief Officer, City Growth with Aberdeen City Council. The city's investments in its art gallery and The Event Complex Aberdeen (TECA) were warmly welcomed, and the opportunities of the new harbour investment are expected to be promoted by the city at MIPIM next month. Further discussions covered perspectives on the UK wide commercial industry, including retail and the digital economy.

DUNDEE

SPF Chair Robin Blacklock spoke to a packed Dundee City Council/ Dundee Chambers of Commerce event that explored how to unlock the full potential of the city's construction sector. While Dundee has recently seen a prominent regeneration along the Waterfront, there are also hundreds of homes and significant commercial development currently underway or planned for 2020 across the city.

SPF ANNUAL CONFERENCE 2020

Building Sustainable & Inclusive Growth

CLICK HERE
TO BOOK
YOUR PLACE

4 MARCH 2020

**EDINBURGH INTERNATIONAL
CONFERENCE CENTRE**

12PM - 5:30PM

2020 Sponsors



The Scottish Property Federation conference will explore key challenges and opportunities for the Scottish property industry. This year we will focus on building sustainable and inclusive growth, with an emphasis on the positive contribution that the real estate sector can play in delivering on these objectives.

We are delighted to welcome **Kate Forbes MSP** as our keynote speaker and **Douglas Fraser**, best known for his work as BBC Scotland Business and Economy Editor, as our host.

Confirmed speakers and panellists

Kate Forbes MSP Cabinet Secretary for Finance

Robin Blacklock SPF Chair & MD Dowbrae Property Consultancy

Melanie Leech CBE CEO British Property Federation

Clare Bailey Associate Director Savills UK

Keith Anderson CEO ScottishPower

Paul Curran CEO Qmile

Willie Kyle Director Pfp Capital

Eve McCurrich MD Whiteburn Projects

John Reid CEO Michelin Scotland Innovation Parc

Michaela Sullivan SPF Vice Chair & CALA Group Land Manager

Martin Zdravkov Head of UK Residential & Impact Investing LaSalle

INDUSTRY INSIGHT

Modern methods of construction: solid foundations for sustainable growth



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It's no surprise that there remains a significant pressure on local authorities within Scotland to develop a large quantity affordable housing to meet demand. In addition to that, changing societal and economic forces have led to calls for smart construction with reduction in costs and environmental impact – to make the method of construction “modern.”

Modern Methods of Construction (“MMCs”)

At its heart, MMC covers all “modern techniques” from the use of innovative materials to digital models, smart lighting and heating but the primary focus is on the use of modular construction methods including the adoption of offsite construction techniques which improve quality, reduce waste and enable quick and efficient assembly on site.

Modular construction is not itself a modern phenomenon. Pre-fabricated buildings for all sorts of uses from homes to industrial units have been with us for a long time. What is different now is the perception of how MMC may provide solutions to skills shortage, environmental concerns, new homes targets and global competition.

Practical Benefits and Risks

Ever since the Government gave public backing to MMCs in a 2005 report by the National Audit Office, MMCs have been promoted as an efficient, consistent, sustainable way to deliver projects from housebuilding to schools. The development of new technologies and increased investment in off-site construction methods brings uniformity of quality, increased output, the creation of new roles in the construction industry, the ability to avoid unexpected “clashes” on site and, more generally, should reduce delays, provide a framework for innovation and reduce the impact the construction industry currently has on the environment.

Insofar as the legal documents are concerned any party adopting or advocating the use of MMC needs to be

well-advised as some of the methods and technologies do not sit comfortably with the traditional contract suites. Parties must agree at the outset a clear contractual matrix with appropriate allocation of risk, specifically in connection with:

Design – On a traditional build, the construction process can be closely monitored on site and halted or adjusted if it is not as expected. This is more difficult when the manufacture takes place in an off-site factory;

Quality control – In theory modular processes should lead to uniformity of quality, but the downside is one defective piece be replicated throughout. This risk, and the associated testing obligations, should be built into any contractual arrangement;

Payment – at what stage should payment be made – design, manufacture, dispatch, delivery? When should title for plant and materials pass from one party to another, especially given the risk of items being damaged in transit?;

Errors/delays – any errors or delays can rapidly lead to larger-scale issues such as “slots” in any factory being lost. Is it even possible to vary the requirements once the wheels are in motion?; and

Information – parties should consider who owns the project information and the BIM data (if applicable) and when.

Even though MMCs were identified as a key development for the future of UK construction by the National Audit Office's 2005 report, the uptake on this was initially slow but times have changed. It is now expected that the use of MMCs will increase rapidly as increased investment drives further development to improve quality and lower costs. It is almost inevitable that the gap between construction and manufacturing will start to close and we might finally see the changes that the construction industry has been crying out for.