

## Response ID ANON-FYWG-P42P-3

Submitted to **Call for Views: Advisory Group on Economic Recovery**

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### Questions

#### **Significant macroeconomic and fiscal implications will change the economic context for the foreseeable future**

##### **What will be the shape and form of the recovery from the crisis and the what will be the implications for the future growth and structure of the economy?:**

The global economy has taken a significant shock to its confidence and operation. China, Germany and the US, as the global powerhouses of the economy, have been badly shaken - the US especially. We will feel the impact of these effects, particularly in terms of inward investment to Scotland and we suspect the recovery can be expected to be slow and challenging.

Some key performing sectors of the pre-covid economy will be likely to experience significant and lasting negative impacts. For example, the global slowdown will limit recovery of the tourism sector. The business tourism economy will also be significantly reduced which will restrict the recovery of the events economy. Both of these factors will limit the recovery of the airport industry which has been a huge driver of jobs and investment. More broadly the activity levels associated with our economy will be radically changed and this will have an impact on services, with less demand for travel and probable restrictions on the capacity of public transport.

The retail sector has seen a number of long term trends accelerated, particularly towards online retail, although convenience retail and supermarkets have proved to be resilient. A key concern for retail property investors will be that the option of turning to cafes and restaurants has also been damaged by the covid experience, so the future of town and city centres is a key consideration. For large parts of the economy the recovery is therefore less likely to be built on direct interaction and more on remote working, services, logistics and distribution.

For the property markets confidence for both commercial and residential sectors is likely to be significantly impacted. For the commercial property sector questions over the use and attraction of offices, retail and leisure buildings will need to be addressed. Conversely logistics, manufacturing and distribution may see renewed investor appetite. In the residential sector the key immediate concern will be individual purchaser confidence in the face of significant job insecurity. A wider question will be whether there is a reversal of the drive towards major urban living which had been notable before the coronavirus. If people now seek more remote working with less commuter based travel this may put further pressure on peripheral towns to urban centres to deliver places to live and the local infrastructure necessary to sustain that pattern of life. In particular, digital infrastructure is of primary importance but also health, social and education infrastructure.

#### **Different sectors and businesses will be impacted in different ways.**

##### **What are the medium- to long-term consequences of the lockdown on businesses, including loss of employees, debt overhang, loss of markets, reduced investment and unemployment?:**

Already, material uncertainties in valuations and loss of cashflow and confidence is undermining property investor confidence. This will have a negative impact on the willingness of investors to commit to major new projects based on development. The consequences of the coronavirus may be significant for the higher education sector and this will have a negative impact for the institutions themselves and also new investment in purpose built student accommodation.

The business sector will not recover easily from this crisis. The oxygen of financial cashflow has been sucked out of the system and once government support schemes end, as they surely will in the next few months, then businesses will face the challenge of supporting employees with a significantly reduced turnover. In some ways, we fear 2021 could be as difficult as 2020 as the government unwinds its direct financial support interventions yet economic activity struggles to resume.

Businesses will also face skills challenges as movement is restricted and finances become more strained. A recent survey conducted by SPF of commercial landlords and investors illustrated that the experience of covid-19 restrictions is already changing intentions on future commercial property investment. While retail was already facing the challenge of changed consumer behaviour, the office sector will also face major restricting as occupiers adapt to living with the covid-19 social distancing requirements. The overall consequence could be a reduced appetite for place based investment by the private sector while the new conditions applying to public places and transport are realised. This could be a significant obstacle to achieving improved public places that people are happy to safely live, relax and work in.

There is a further concern for the future skills base of the economy. If there is a drop in activity and we don't see apprentices and graduates being employed, we are not addressing in the short term a skills shortage, which will only be magnified in the medium to long term.

#### **The crisis will impact differently on different groups in society, and on different parts of the labour market; and, has already revealed some thorny issues about relative wages across key occupations.**

##### **What will the implications of the recovery be for different groups, unemployment and on the nature of work? How is the recovery likely to impact on socio-economic inequality as a whole?:**

The UK had a demographic challenge already in its healthcare sector. There was simply not enough investment in the healthcare sector. While we anticipate greater direct public investment and support for this sector, we believe that the scale and size of the investment required to support the healthcare system is such that there will be a need for greater recognition, capital investment and upskilling of the sector. This should include greater reward for employees. There is a role for long term patient capital to be responsibly invested to a greater extent than it currently is in the healthcare sector. These investors will need good information and encouragement in order to commit funds on behalf of their funds, including both public and private pension fund holders. We could envisage a role for government in helping to facilitate this form of investment into the healthcare system.

The wider implications for the nature of work itself will likely be a new occupational sector, with offices working to more flexible and less space intensive uses. More remote working can be expected, including remote meetings.

## **What can be done now to ensure the transition to a wellbeing-oriented, inclusive economy on a transition to net zero**

### **How can the wellbeing of the people of Scotland flourish and what are the environmental implications of the crisis?:**

The environmental challenge has not been removed and therefore the challenges of transition remain as they were, supporting businesses and households to adapt to new modes of energy, transport and consumption on an affordable and accessible basis. The economic consequences of the coronavirus emergency for the economy mean that sources of private finance are likely to be more constrained. In the immediate short term this could delay the production of new energy efficient buildings and constrain the upgrading of existing stock

A wider challenge may be seen in public transport versus private car use. There had been a move towards mass transit but with public health concerns and likely restrictions continuing on public transport use, there is a danger this may be reversed to greater use of private transport.

We would expect that there will be a greater role for publicly led companies or partnerships in relation to new regeneration or developments. This will offer new opportunities to embed appropriate EV infrastructure, heat networks and other environmental improvements into the new built environment. This can be done in partnership with the private sector who will see the attraction of future proofing their major investments, but it will need to be based on realistic partnerships in terms of infrastructure delivery and commitments. This will not be easy to deliver and the financial appraisals for new development are likely to be constrained; consideration should be given to incentives to promote energy efficiency.

### **There will be big changes in the form, nature and interactions between different institutions.**

### **How will the crisis change the role and relationships between the UKG/SG/LAs, business and other institutions?:**

The collaboration established by governments at all levels will need to be maintained and enhanced in response to the public health emergency. The need to ensure continued high levels of public health maintenance and response will remain. Similarly the adaptation of the economy and lifestyles will be a challenge across the UK and will need interaction and cooperation between governments, regulators and business organisations.

Governments at all levels will also need to adapt their approaches to raising tax revenue. We should anticipate a need for less focus on property based taxation. Business rates are an obvious candidate for review but also transaction based taxes should be reconsidered. Inevitably if we see reduced use and demand for commercial property then this will have an impact on its value which in turn will have an effect on its rateable value. Similarly if the residential markets are less active then we may see a significant drop in LBTT based revenues. The recent figures for April (down to around £14m including both commercial and residential markets) amply demonstrate this.

### **The pandemic is a shock which will provide insights and data across a range of areas**

### **How do we ensure that we learn from the impact of the crisis and respond accordingly?:**

We must ensure that we understand the lessons of effective public health management and safe working/business practices. Investment in understanding the impacts of connections, behavioural responses and their links to policy measures taken at stages during the crisis will be important lessons to draw on. We should also examine our preparedness for major public health events such as this pandemic. The importance of investment in stocks that may not be used but could be critical in an emergency could be a factor that needs to be explored. In other words, there can be a value in maintaining a certain level of redundant capacity in order to be resilient - so moving away from 'just in time' supply processes and purely efficiency driven operational procedures. This should include stocks of emergency supplies and essential protective gear.

The challenges of moving away from 'lockdown' measures and how this was done effectively, weighing up the balance of easing the restrictions and threats to the long term economic interests of the country should be a key part of the post-crisis analysis as well.

In addition, the importance of ensuring appropriate support for key sectors such as healthcare is another clear lesson. Effective communication with the wider public in moments of a national emergency are a further clear lesson from the coronavirus.

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### **Are you responding as an individual or an organisation?**

Organisation

### **What is your organisation?**

**Organisation:**

Scottish Property Federation

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