SPF VOICE

March 2021

INSIDE THIS ISSUE

FROM THE CHAIR

VOLUME 14 ISSUE 03

Michaela Sullivan MRTPI
SPF Chair

This month the SPF has been focused on political engagement in advance of the Scottish elections. Mandy Catterall (SPF Head of Government Relations) attended an introductory meeting with Anas Sarwar of Scottish Labour and a group of SPF team members met Annie Wells, a Conservative member of the Holyrood Local Government & Communities Committee. We discussed with Annie the proposed implementation of mediation in planning, as well as more generally setting out the real estate industry's willingness to work collaboratively and in turn, what we need from a new government, to build for a successful Scotland.

To highlight the actions required from the new Scottish Government, the SPF team has put together a full 'manifesto' to use as a platform to engage with our politicians in the run up to the election and as the new parliament forms. This document, called 'Realising the Potential of Real Estate' sets out an action plan for a sustainable and inclusive real estate sector. The headline sets out a three-pronged approach to support the recovery of our built environment:

1. **Introduce measures to support new property development and the regeneration of existing buildings to be brought back into effective use;**
2. **Deliver key infrastructure to drive new growth and accelerate change in the use and occupation of our built environment; and**
3. **Provide support for adaptation to sustainable energy supply and sustainable buildings in the property sector, to aid the achievement of a net-zero built environment.**

Below these headlines, there are 16 key actions that have been identified, under the National Performance Framework's priorities: the wellbeing economy; net zero emissions; better, greener places and resilient communities. An abridged copy of the new action plan is available on pages 3 & 4.

In other news SPF Vice-Chair Kevin Robertson and I enjoyed judging the wide range of entries to the Scottish Property Awards and had the pleasure of watching the winners announced in last night's virtual ceremony. We offer our warm congratulations to the many SPF member companies who were shortlisted or won awards.

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An Action Plan for a Sustainable & Inclusive Real Estate Sector

This action plan outlines the measures the Scottish Property Federation believes should be taken by the next Scottish Parliament to enable the Scottish real estate sector to play its part to achieve a sustainable and inclusive economy.

The real estate sector is a factor of the wider economy and society. As such the sector is facing critical challenges in the years ahead as Scotland grapples with rebuilding its economy in the aftermath of COVID-19. The pandemic and the measures required to defeat it have fundamentally affected the use and occupation of our built environment across Scotland, with huge reductions in demand for commercial property space and empty high streets often the result.

The impact on investment into the commercial property sector has been colossal: 2020 saw a fall in year-on-year investment in commercial property of some 50%, representing a reduction of £1bn in activity. Our largest commercial centre, Glasgow, experienced a fall in new office demand of over 50% compared to 2019.

Meanwhile, the Scottish Retail Consortium reports that some 1 in 7 shops across Scotland are now lying vacant. Combined with rapidly changing consumer habits this is likely to contribute to increased numbers of distressed assets in our town and city centres as emergency measures to support the economy are withdrawn. This outcome will do nothing to support Scotland’s recovery from COVID-19 or the delivery of a sustainable and inclusive economy.

We call on the next Scottish Government to work with the real estate industry to urgently implement a cross-government and industry strategy to adopt a three-pronged approach to support the recovery of our built environment:

1. **Introduce measures to support new property development and the regeneration of existing buildings to be brought back into effective use.**

2. **Deliver key infrastructure to drive new growth and accelerate change in the use and occupation of our built environment.**

3. **Support for adaptation to sustainable energy supply and sustainable buildings in the property sector, to aid the achievement of a net-zero built environment.**

We would welcome your views on our proposals and look forward to working with the next Scottish Parliament on the issues outlined.

An Action Plan for a Sustainable & Inclusive Real Estate Sector

We urge the next Scottish Government to adopt the following 16 actions to support a sustainable and inclusive real estate sector.

A Wellbeing Economy

- Greater capitalisation of the Scottish National Investment Bank and enhance the remit of the Bank to directly support investment in the built environment.
- The implementation of a business rates system that is more responsive to changes in the economy and more closely reflects the commercial property rental market of the day.
- The reduction or removal of punitive and unfair empty property rates charges, which deter investment, are a tax on distressed assets, and contribute to the decline of our high streets.
- Review of LBTT (Land & Building Transaction Tax) rates and thresholds to support people and families to move within the housing market depending on their individual circumstances.

Net-Zero Emissions

- Action to ensure the capacity of the electricity grid can support the electrification of the Scottish economy and handle the increased load from zero carbon heat and electric vehicles.
- Ensure zero carbon heat and energy is affordable to all, and incentivise the adaptation of existing buildings to more sustainable sources of heat.
- Set a clear and consistent route map to achieving net-zero carbon for both new and existing buildings.

Better, Greener Places

- Establish a national delivery agency to co-ordinate infrastructure that will provide a platform for sustainable transport, mass transit, active travel, green spaces, drainage, sewage and flooding resilience.
- Deliver regulations that support a flexible and efficient planning system to enable development and investment with effective collaboration between private, public and community stakeholders.
- Planning policy that supports a presumption in favour of sustainable development to stimulate a green recovery from COVID-19.
- Planning, funding and tax support to encourage the adaption and repurposing of heritage buildings to help create great destinations and support the unique character of our towns and cities.

Resilient Communities

- Use planning and tax incentives to encourage mixed-use developments to support regeneration and help realise the ambition of 20-minute neighbourhoods.
- Establish Green Ports and development zones to create places for employment in both rural and urban communities through targeted support for investment and jobs.
- A national strategy to fund education facilities and well distributed primary and secondary healthcare facilities to enable investment and new development.
- A consistent basis for calculating housing need across all tenures including supported living and student accommodation, followed by allocation of sufficient land supply.
- Build on the transparency and fairness of the Private Housing (Tenancies) (Scotland) Act 2016 by developing robust rental data to support decision making on rent pressure zones.

REGIONAL SPOTLIGHT

Aberdeen

A membership discussion with Aberdeen City Council's Julia Wood considered the future of the city and its transition to a renewable energy-based economy. The need for repurposing offices was a major part of the discussion as was the enhancement of the residential offer in the city centre. There is also an ambition to improve the attractiveness of the city as a 'destination' to attract tourism and build on Aberdeen's food and drink industry.

Dundee

Members and guests joined the SPF for a discussion with Director of City Development Robin Presswood earlier this month. A major focus was the recovery of the city from the pandemic and to maintain the momentum of investments made across the city and its flagship waterfront regeneration project.

Edinburgh

CityPlan 2030 has been delayed to August when it will be subject to a short six-week consultation. In addition to the pandemic, it is thought that the recent cyber-attack on SEPA has delayed contributions to the process. The CityPlan is now intended to be adopted in early 2022.

£16.46BN

TOTAL VALUE OF SCOTTISH RESIDENTIAL PROPERTY SALES IN 2020

£2.56BN

13% DOWN FROM 2019

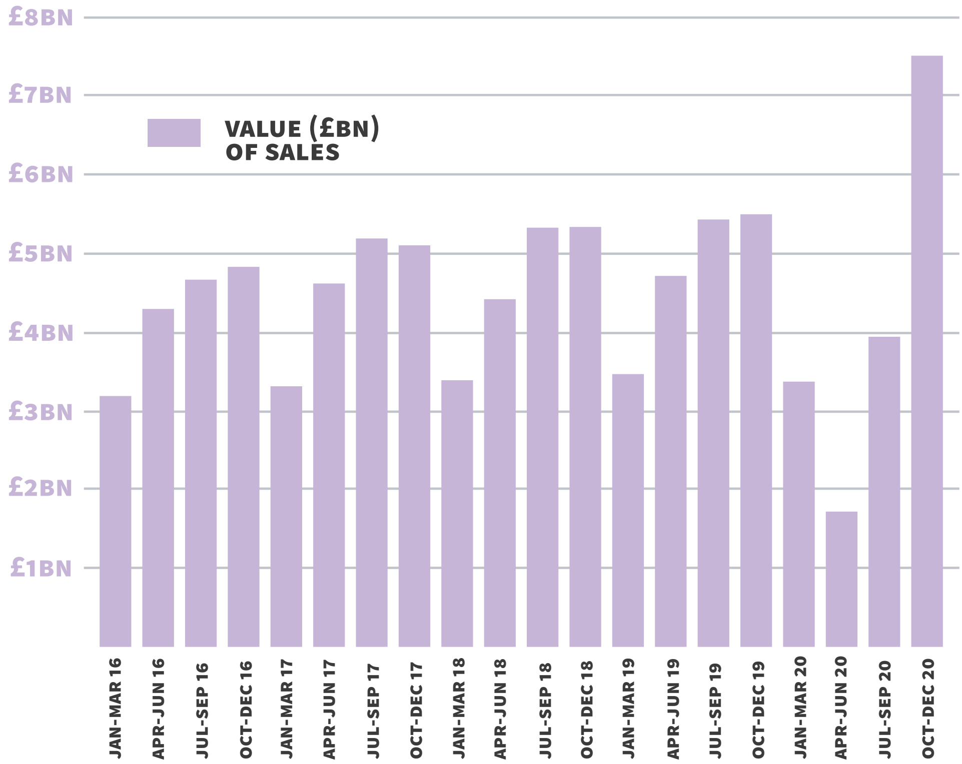
85,906

TOTAL NUMBER OF SCOTTISH RESIDENTIAL PROPERTY SALES IN 2020

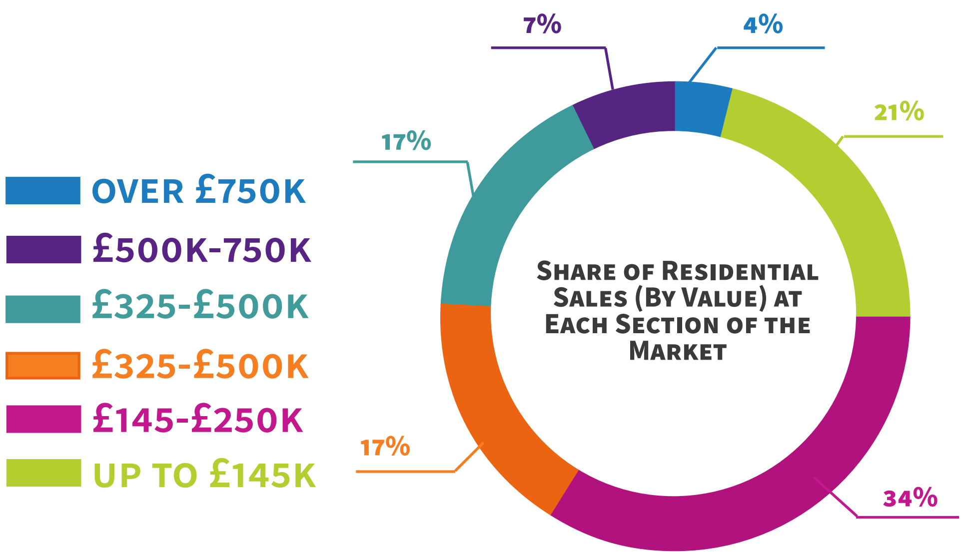
17,604

17% DOWN FROM 2019

Quarterly Residential Property Sales Scotland 2016-2020



Share of Residential Sales (By Value) at Each Section of the Market



OVERVIEW

With total sales of £16.46bn, the value of the Scottish residential property market fell last year by 13% compared to the 2019 total of £19.02bn. The number of residential property sales also fell in 2020 to 85,906, a reduction of 17% from 103,510 the previous year.

QUARTERLY TOTALS

With lockdown in late March 2020 bringing huge disruption to the property market, the impact of the pandemic was clearly visible in Q2 2020 (April - June). There was £1.70bn transacted in Q2 2020, down from £4.69bn in the same quarter in 2019, representing a fall of 64%. While less severe, there was also a year-on-year fall of 28% in Q3 (July - September) 2020 compared to the same period the previous year.

However, the rebound of the Scottish residential property market in Q4 2020, helped in part by pent-up demand and an LBTT rate cut, made up some of the ground lost earlier in the year. At £7.48bn, the value of transactions in Q4 2020 grew by just over £2bn (37%) compared to the same quarter in 2019 and increased by £3.56bn (91%) on Q3 2020.

MARKET SHARE

Using the standard LBTT banding that will return in April (with an additional £500k level), residential properties that sold for between £145k-£250k captured the largest share of the market by value in 2020 at 34%. Meanwhile, the sub £145k section of the market saw the next highest share at 21%, although this is a decrease from the 23% share of the market it captured in 2019. At the other end of the spectrum, sales of properties at £500k-750k and £750k+ both saw their share of the market grow by 1%, to 7% and 4% respectively.

MYSPF

VOLUME 14 ISSUE 03

For better or worse: Marrying risk and resilience in real estate

Thursday 22 April | 10.00 - 11.00

There are a number of big operational risks affecting property at present – the pandemic, building safety, sustainability, reputational. Insurance is one answer to some of these, but another is planning for greater resilience. The webinar will focus on managing risk and building resilience.

In partnership with: WOMBLE BOND DICKINSON

Chair

Stephen Panton
Partner
Womble Bond Dickinson

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Speakers

Sharon Brown
Director, Real Estate Risk, Compliance and Insurance
Federated Hermes

Julius Duncan
Board Director
BECG

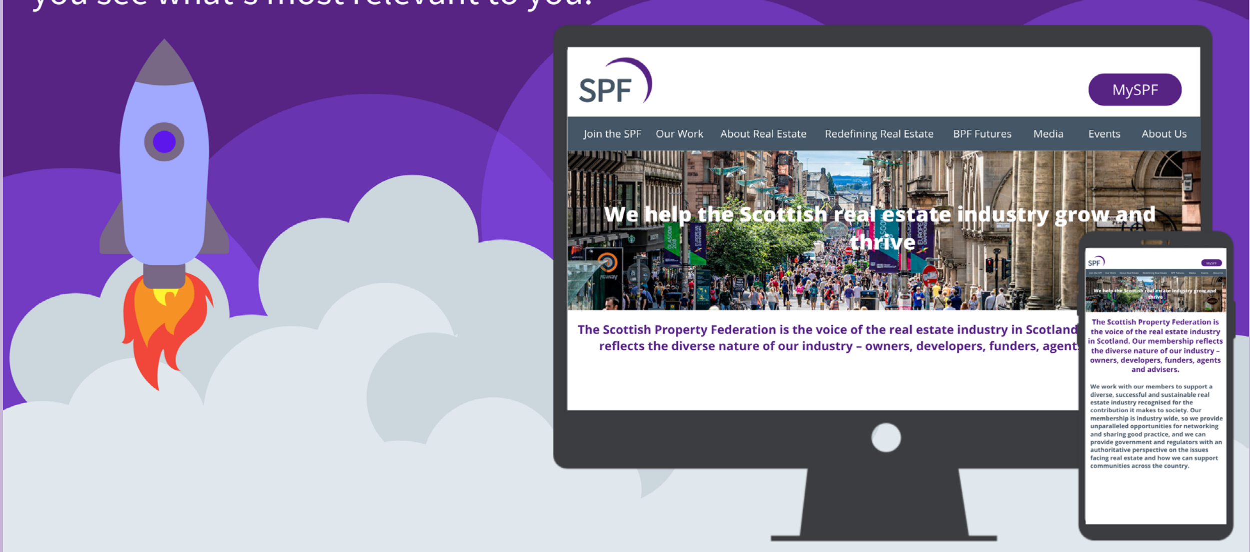
Eloise Francis
Head of Operational Risk
Legal & General Capital

Graham Sibley
Senior Sector Lead
Alternative Residential
NHBC

We've launched our new member portal MySPF!

Register now to join in the conversation and tailor your preferences to ensure you see what's most relevant to you.

REGISTER HERE



Edinburgh must embrace investment support, not ignore it

David Melhuish | dmelhuish@bpf.org.uk
Director
SPF

Profound change is underway in Scotland's cities - something that's been all too obvious as we have become accustomed to working from home and shopping online rather than using urban centres as before. We should be in doubt that the task of recreating great destinations for people and key places in our cities will require significant investment from many quarters. The public sector will simply not be able to fund it all. And real estate investment is more than ever a global competition.

Businesses planning to invest in cities like Edinburgh must have the confidence to do so. That confidence will be linked to how welcoming government, particularly at a local level, appears by the conditions it creates for investment. In Edinburgh, however, we have missed a prime opportunity to support investors in our built environment.

In 2018, the Scottish Government introduced a new Scotland-wide measure called the Business Growth Accelerator (BGA), designed to help companies attract tenants into new-build premises or redeveloped existing ones. The idea was to incentivise investment by allowing businesses and investors a short grace period of a year before levying non-domestic rates.

Businesses welcomed this incentive to grow or expand into Scotland, creating millions of pounds worth of redevelopments on the assumption that the BGA rates relief would be delivered. Yet while that promise has been fulfilled in many leading local authorities in Scotland, Edinburgh took a different approach in the run up to the pandemic, in effect disadvantaging investors and the businesses they secure.

New data from the local authority shows that since 2018/19 approximately £9.6 million of relief has been given to business across the Capital. This money is drawn down from a Scottish Government assessment of BGA relief of approximately £112m to date. True enough some £6.6m went to Edinburgh Airport to support significant building works but this is surely a poor return for such a key driver of the whole Scottish economy.

The irony exposed by the Edinburgh figures is that where in one instance an office block became a hotel in the city centre, the developers received the relief because they first knocked down the existing building, in another where the developers kept a small proportion of the architectural features of the original building, the relief was denied.

The concern among developers is that the council has not only missed an opportunity to deliver the spirit as well as the intent of the government's BGA incentive, leaving Edinburgh businesses out of pocket, but that it also sends entirely the wrong message to future investors, particularly those who might fund the restoration of our historic buildings.

Recognising part of the problem, the Scottish Government recently changed legislation on how the £45 million BGA budget should be spent going forward. Yet companies in Edinburgh that missed out since 2018 remain short changed.

That can't be right. Edinburgh Council needs to back business investors by acknowledging this is a missed opportunity that has left businesses short and work with the Scottish Government to give them the relief they expected from the BGA. If they don't, it's time the Scottish Government stepped in to clarify once and for all that Scotland's cities are open for investment again.

This article first appeared in the Edinburgh Evening News on 22 March 2021.