

National Strategy for Economic Transformation Scottish Property Federation Submission

About the Scottish Property Federation

The Scottish Property Federation (SPF) is the voice of the real estate industry in Scotland and our diverse membership includes property investors, including major institutional pension and life funds; banks and other lenders; developers; landlords of commercial and residential property; and the professional services firms which support the industry.

We welcome the opportunity to feed into the work of the Advisory Council in the development of the National Strategy for Economic Transformation. We would be delighted to discuss our comments and ideas in more detail with the Advisory Council.

Contribution of the Scottish property industry

The real estate sector is a key catalyst for jobs, investment and creating places to support the economic recovery in Scotland. The Fraser of Allander Institute found that for every £100m of new demand for commercial property, the sector creates an additional £73m for the wider Scottish economy. In addition, commercial property activity helps to support around 49,000 direct full-time equivalent jobs in Scotland and a further 43,000 jobs as a result of spill-over effects.

Beyond its economic contribution, our sector is vital to the health of our towns and cities. Property investment is often the catalyst for urban regeneration and renewal. It also generates social capital and creates happier, healthier, and more sustainable places.

Key Themes for Economic Transition in Scotland

We propose that the following key themes will be critical to the success of Scotland's economy as we emerge from the pandemic and continue to modernise and decarbonise our economy. We go into each of these points in more detail in the next section of our submission.

- **Responsive & modern taxation policy:** Scotland's property taxation system should be responsive to economic and social changes and be used to incentivise investment that will help Scotland become a net-zero nation. A thorough review of the business rates system and the reform of the empty property rates system is vital to encourage investors to unlock the potential of our struggling high streets.
- **Infrastructure first:** Providing new and upgraded infrastructure will be important to the modernisation of Scotland's economy and for capturing future opportunities. Scotland needs a National Infrastructure Agency to bring different industry stakeholders and key agencies together and deliver vital infrastructure at scale and pace.
- **Enabling investment through planning:** Scotland should have a well-resourced and consistent planning system that can take advantage of emerging opportunities to help attract new

investment to create the great places and to build the green buildings and infrastructure of the future.

- **The future is electric:** From how we heat our homes and workplaces to the way we travel around; our economy will be increasingly powered by renewable electricity. Scotland must be proactive and invest in an electricity grid fit for a net-zero nation.
- **A Pathway to net-zero:** Some 80% of the buildings we will use in 2050 have already been built. Scotland needs a clear, consistent, and pragmatic pathway to decarbonising our economy over the next decade and beyond.

Detailed Proposals for a National Strategy for Economic Transformation

Responsive & modern taxation: *Scotland's taxation system should be responsive to economic and social changes and be used to incentivise investment that will help Scotland to become a net-zero nation. A thorough review of the business rates system and the reform of empty property rates is vital to unlocking the potential of our struggling high streets.*

The Scottish real estate industry creates a roof over the head of our economy and our communities. The sector offers employment opportunities across a vast range of skills and professions, from construction workers to chartered surveyors, accountants, architects, and legal advisers. Yet the industry needs a fair and effective business environment in which to invest, develop and support the occupation of commercial, residential, and public buildings and places.

Many of the levers needed to change systems of property taxation in Scotland are already devolved. It is therefore important that steps are taken to modernise key taxes to support economic recovery and growth over the next decade.

To help promote recovery and transformation, it is critical that there is a thorough review of the business rates system in Scotland to ensure that it is more responsive to changes in the economy and more closely reflects the commercial property market of the day. Using the transformation of the retail sector as an example, it is easy to see how business rates are increasingly making it more difficult for businesses with a 'bricks and mortar' presence on our highstreets, to compete with online retailers. As a result, our high streets are in danger of being hollowed out, with retailers unwilling to take on the rates burden and investors being unable to bring much needed new capital due to the threat of draconian empty property rates.

We would also like to see new creativity in the way that taxation can help to drive the change needed to decarbonise our economy. For example, the rates system could be used to incentivise the retrofit of buildings to make them more energy efficient and cut carbon emissions. Meanwhile, the correlation of LBTT with energy efficiency could help to make upgraded properties more attractive to buyers, thus providing more incentive to upgrade them.

Infrastructure first: *Providing new and upgraded infrastructure will be important to the modernisation of Scotland's economy and for capturing future opportunities. Scotland needs a National Infrastructure Agency to bring key agencies and industry stakeholders together and deliver vital infrastructure at scale and pace.*

Continued progress towards a successful, inclusive, and sustainable economy will rely on Scotland having the infrastructure to address the challenges of today, while also being able to capture the opportunities of tomorrow. From the water that supplies our much-needed new homes to extra

school capacity, we rely on an intricate network of support systems that must all be in place before a new development can be realised.

However, creating new infrastructure is often complex and competing priorities between different stakeholders mean that projects can be delayed, leading to knock-on effects to the wider development and supply chains. That is why we believe that Scotland needs a National Infrastructure Agency to co-ordinate and deliver key infrastructure that will enable development to come forward and drive economic transformation. A National Infrastructure Agency would also help to ensure that there is an accountable, fair, and transparent structure in place for the full co-ordination of diverse funding sources. With greater co-operation and transparency, we believe that Scotland will be in a better place to provide the infrastructure needed to unlock new investment in our economy.

It is also important that there is a clear national strategy on funding for education facilities and well distributed primary and secondary healthcare facilities to enable investment and new development. It is therefore important that the Strategy considers the implications of changing demographics within society and the implications for later life healthcare and the facilities that communities will require across all age ranges.

Enabling investment through planning: Scotland should have a well-resourced and consistent planning system that can take advantage of emerging opportunities to help attract new investment and build the green buildings and infrastructure of the future.

The planning system helps to lay the foundation for economic growth and transformation in Scotland. It is therefore vital that the planning system is properly funded and can make decisions timeously and efficiently. There is global competition for investment into the built environment and Scotland must be seen to have a welcoming and flexible planning regime. This will help Scotland to continue to attract vital capital that can address a number of key issues in our economy, such as a lack of housing and creating the spaces that will allow Scottish businesses to grow and thrive without the need to relocate.

We have become increasingly concerned at the lack of resources directed at planning departments in recent years. In addition, COVID-19 has led to a further drop in planning performance across Scotland, and it is important that this is improved as we recover over the coming months and years. We believe strong collaboration with our industry will be needed more than ever in the wake of the pandemic, and to meet the huge challenges of addressing the climate emergency and rejuvenating our town centres.

The future is electric: From how we heat our homes and workplaces to the way we travel around; our economy will be increasingly powered by renewable electricity. Scotland must be proactive and invest in an electricity grid fit for a net-zero nation.

The demand for electricity is becoming increasingly important to our ambitions to achieve net-zero carbon and we expect this trend to continue. It is essential that every new residential and non-domestic property has access to sufficient capacity in the electricity grid. This will mean more planning and investment to ensure that adequate renewable generation is identified and that the grid is robust enough to handle the increased load that the electrification of our economy will entail. Capacity of the grid extends well beyond the requirements of a single development and should be a priority at both regional and national levels.

Even though Scotland is just beginning to see the mainstreaming of electric heat and transport, we are already aware of a number of projects that are being delayed by the lack of capacity in the grid and the significant upfront costs involved in gaining a connection. We need to develop better mechanisms for forward funding electrical infrastructure to ensure connecting to the grid does not

delay or prevent the provision of much needed new homes and commercial properties. It is also important that providing this infrastructure does not lead to higher energy prices for consumers, potentially exacerbating fuel poverty.

A clear pathway to net-zero: Some 80% of the buildings we will use in 2050 have already been built. Scotland needs a clear, consistent, and pragmatic pathway to decarbonising our built environment over the next decade and beyond.

If we are to meet our climate change targets and ambitions, Scotland will need to increase the rate at which we retrofit our built environment. The vast majority of buildings that will be around in 2050 have already been built and it is there for important that there is a clear, consistent and pragmatic route map to decarbonising this key sector of the economy. The property industry invests for the long-term and needs to be able to make decisions now that will not only satisfy current regulations, but also meet the regulations expected in ten or twenty years' time.

In addition, more focus is needed on how we fund this transition. While increased efficiency may potentially lead to lower energy prices for owners and tenants, there is a need for significant up-front investment that could be prohibitive for property owners and small & medium businesses without support. Ensuring that there are adequate funding mechanisms in place to support this adaptation over the next decade will be vital.

More Information

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