



Scottish Property Federation

The real estate sector in
the Scottish economy

Context

The national economy continues to recover after the pandemic with the real estate sector expected to play a vital role in the government's recovery agenda and a renewed commitment to sustainability and the net-zero. The Scottish government's recovery agenda focuses on creating jobs, supporting businesses and investing in infrastructure. The real estate sector can play a crucial role in realizing these goals.

This report presents insights from a survey conducted in Q3 of 2022 to understand and assess the opinions of the Scottish Property Federation members. These cover emerging market trends across the major sectors in Scotland. Forty-eight members participated in the survey with expertise across the office, retail, logistics & industrial, leisure and residential sectors.

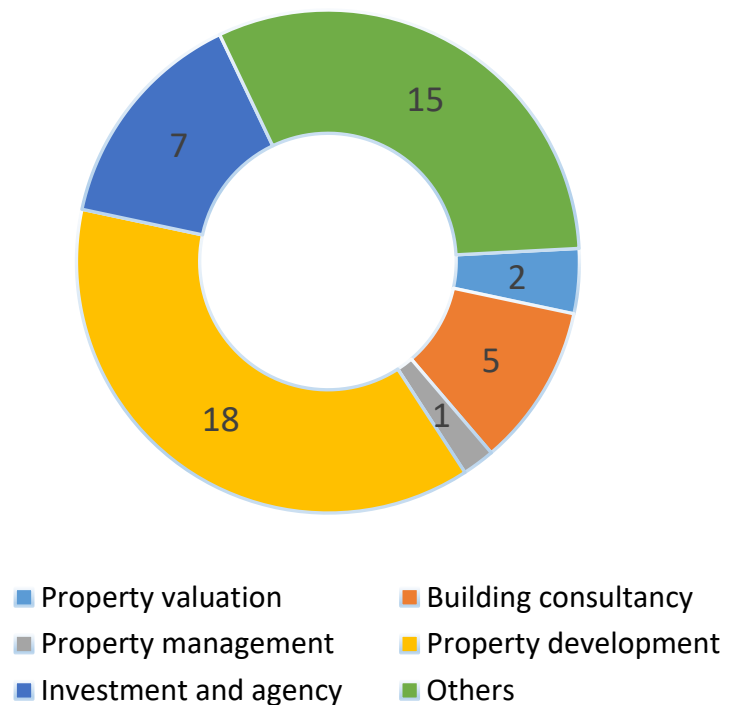
According to industry experts, sustainability is gaining greater prominence. Planning and development will target energy efficiency.

- In the commercial sector, corporate occupiers and investors will adopt net-zero and ESG plans, which will have implications for property development and investment pricing.
- In the retail sector, property owners will need to repurpose redundant "secondary" spaces. Operators will need to offer greater consumer experiences to boost or sustain footfall.
- The pandemic has increased occupiers' demand for logistics space and leisure uses are becoming integrated into what the retail property sector must offer.
- Lastly, the build-to-rent (BTR) sector will need to cater for a range of options, including homes for rent and apartments.

Survey participants by area of expertise



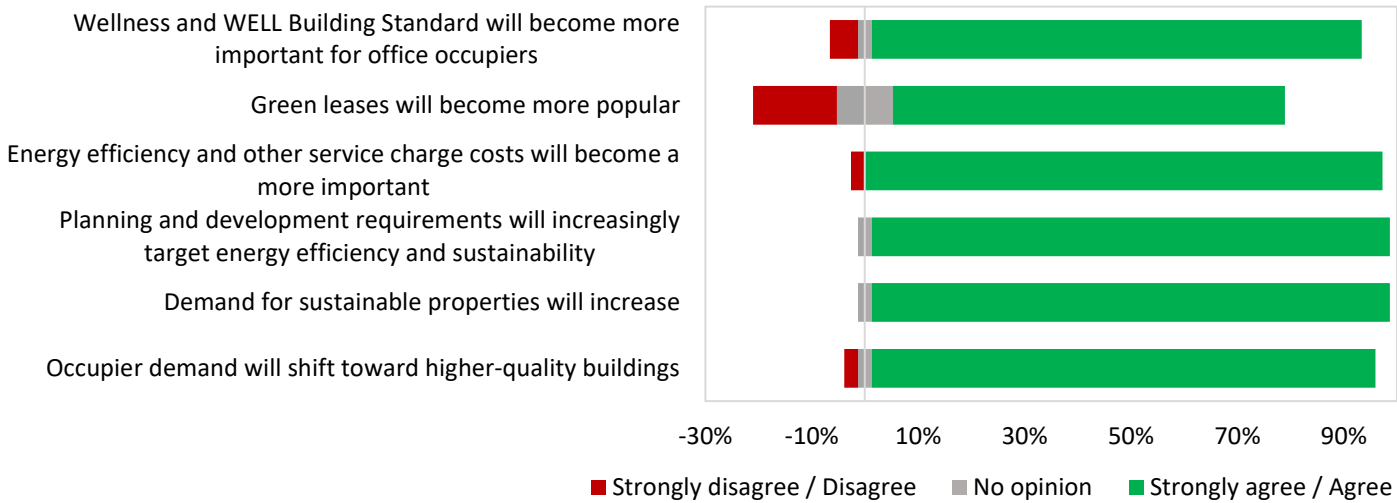
Survey participants by areas of specialisation



Offices

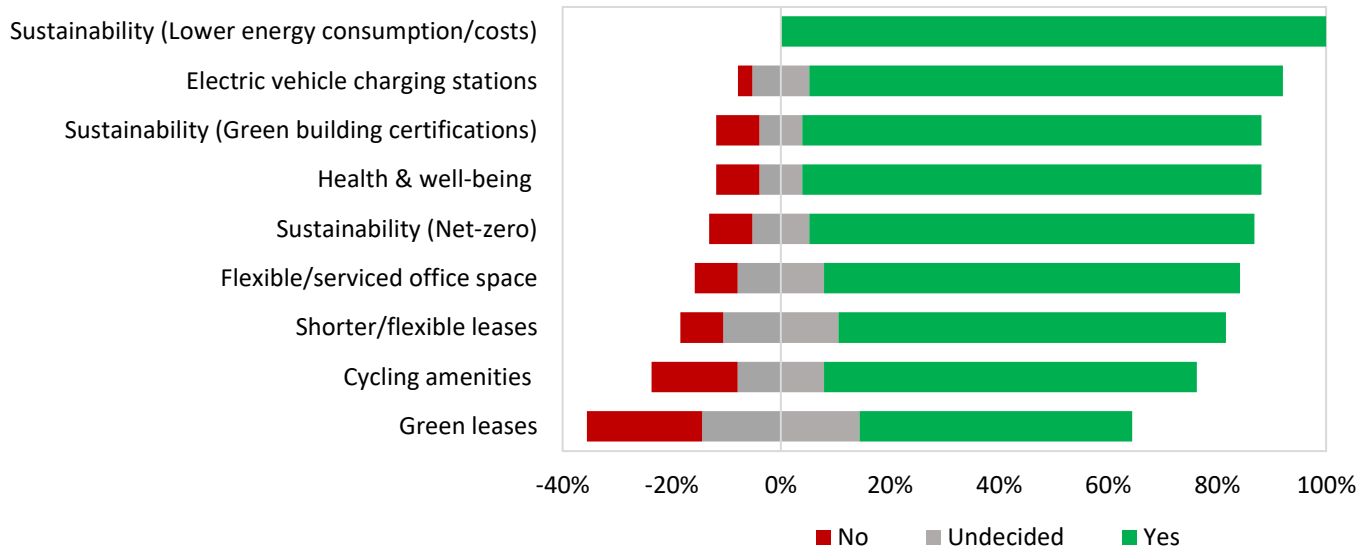
There is a strong perception that demand for sustainable properties will increase as corporate occupiers and investors respond to net-zero and ESG plans. Planning requirements will target energy efficiency and sustainability for refurbishments and new developments while energy efficiency and other service charge costs will become a more important consideration for corporate occupiers.

Occupier demand will shift toward higher-quality buildings with Grade A likely to become more attractive. Similarly, wellness and relevant building standards will become more central to office renting decisions while green leases will become more popular as landlords and tenants collaborate to drive net-zero.



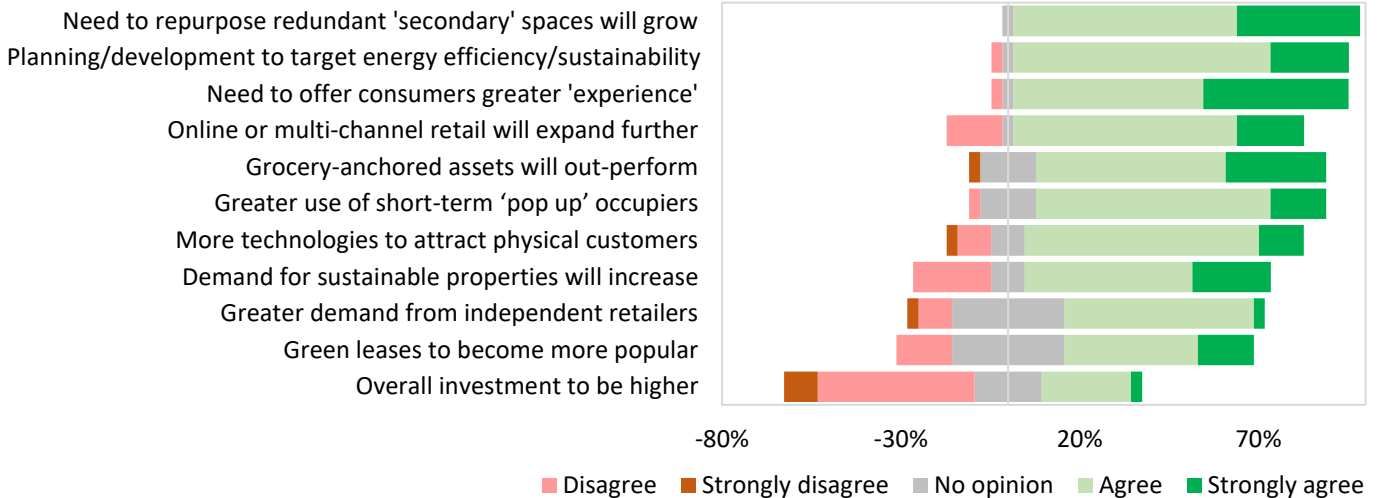
WILL DEMAND INCREASE FOR AMENITIES OR SERVICES OVER THE NEXT 12 MONTHS?

- Occupiers will demand sustainability in lower energy consumption/costs, net-zero, and green building certifications.
- Health and wellbeing will become more important as corporate occupiers prioritise employees' wellbeing .
- The adoption of more sustainable transport modes is growing which will drive the demand for electric vehicle charging stations although survey responses were lower for cycling amenities.
- Opinion on green leases weaker despite market sentiment showing a growing demand for sustainability, net-zero and ESG.



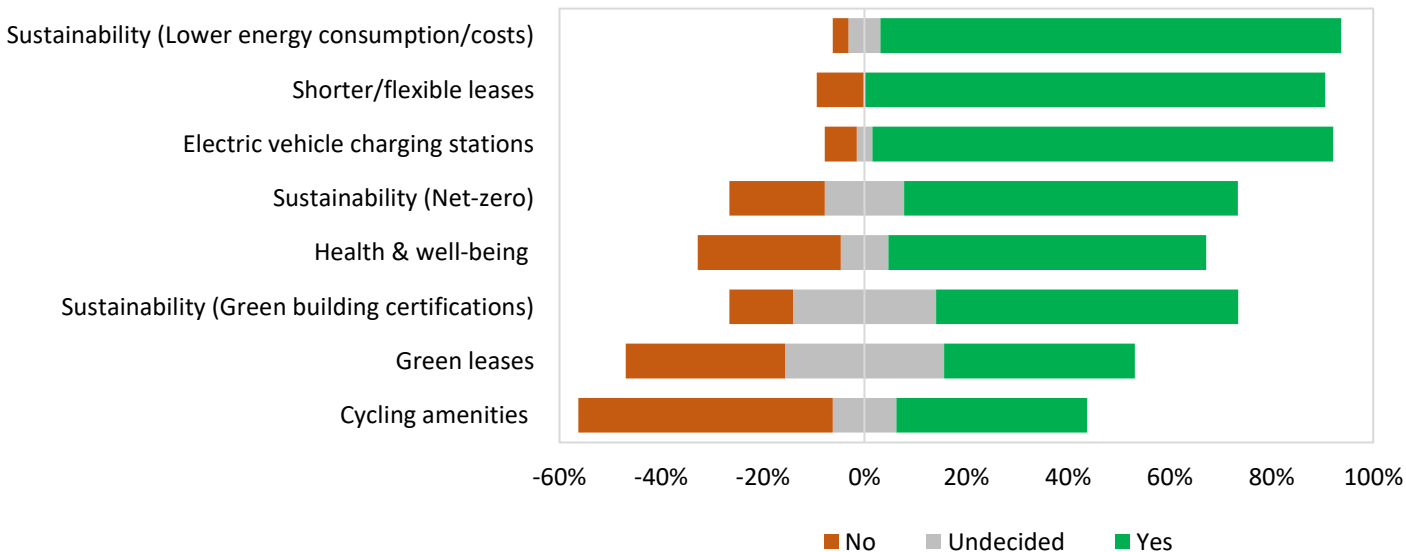
Retail

Total investment in the retail sector is not expected to grow due to persistent uncertainties in the sector and the wider economy. As vacancies persist, there will be a stronger need to repurpose redundant space to support footfall. Retail premises will be required to offer a greater consumer experience, which may include the adoption of more technologies to attract physical customers. Grocery-anchored assets are likely to outperform other retail types, a greater use of 'pop-up' occupiers is expected, especially in large retail premises. Planning regulations and development proposals will target sustainability and energy efficiency, although this may not necessarily result in a higher demand from the occupier and investment markets due to the unique challenges of the 'bricks and mortar' retail sector.



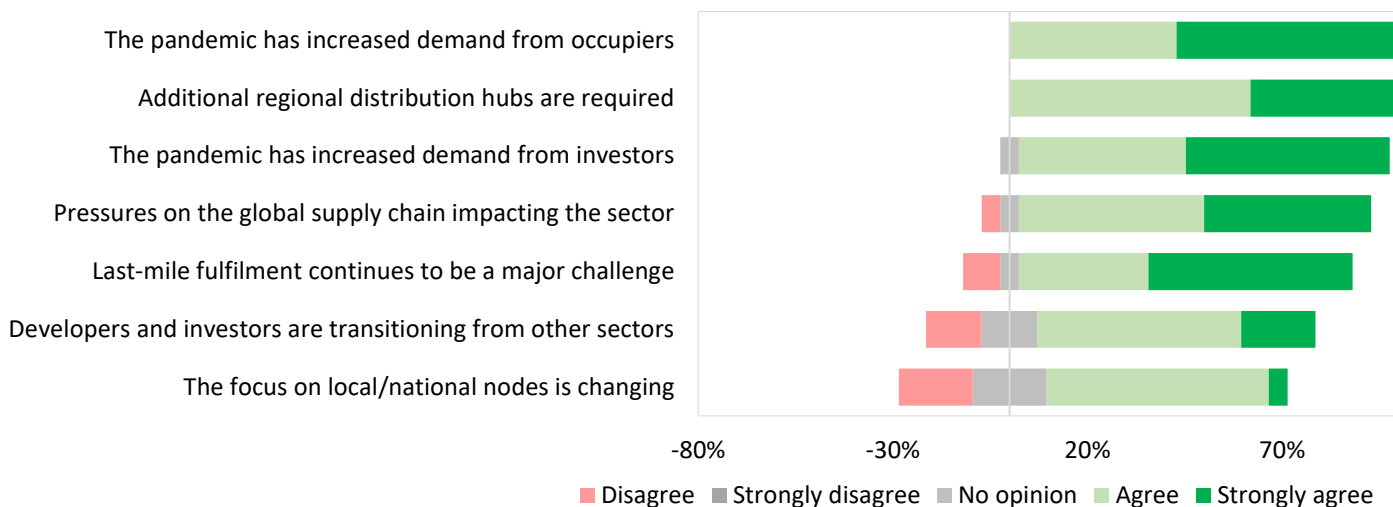
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- Shorter/flexible leases will be in a high demand potentially for retail occupiers to circumvent the effect of inflation.
- Occupiers require sustainability in the form of lower energy consumption/costs although green building certifications and green leases might be as important.
- Interestingly, there is growing focus on health and wellness partly to offer better experience but also to differentiate from competitors.
- Similar to the office sector, the demand for electric vehicle charging stations will grow.



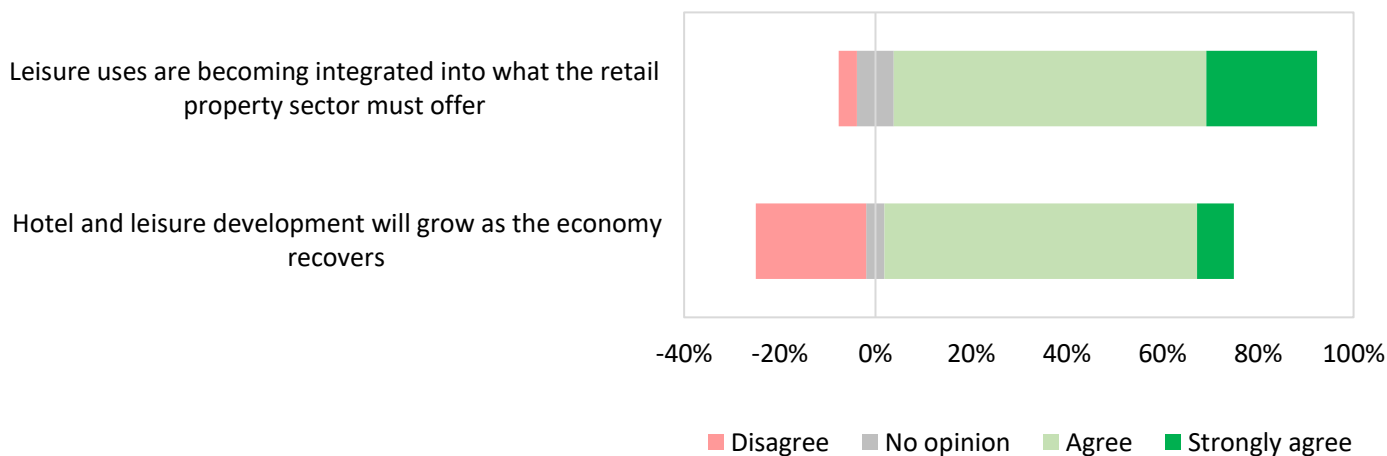
Logistics & industrial

The pandemic increased demand for space in logistics and industrial properties, which in turn is driving demand in the investment market. As a result, many developers and investors are expected to shift from other sectors to capitalise on the promising prospects of this sector. To meet the ever-growing demand for last-mile fulfilment, the industry is likely to witness a rise in the number of regional distribution hubs. Respondents also agree that pressures on the global supply chain are impacting the logistics sector, although national and regional influences remain highly relevant. The consensus from the survey is that the increasing demand for logistics and industrial properties is expected to remain strong for the foreseeable future.



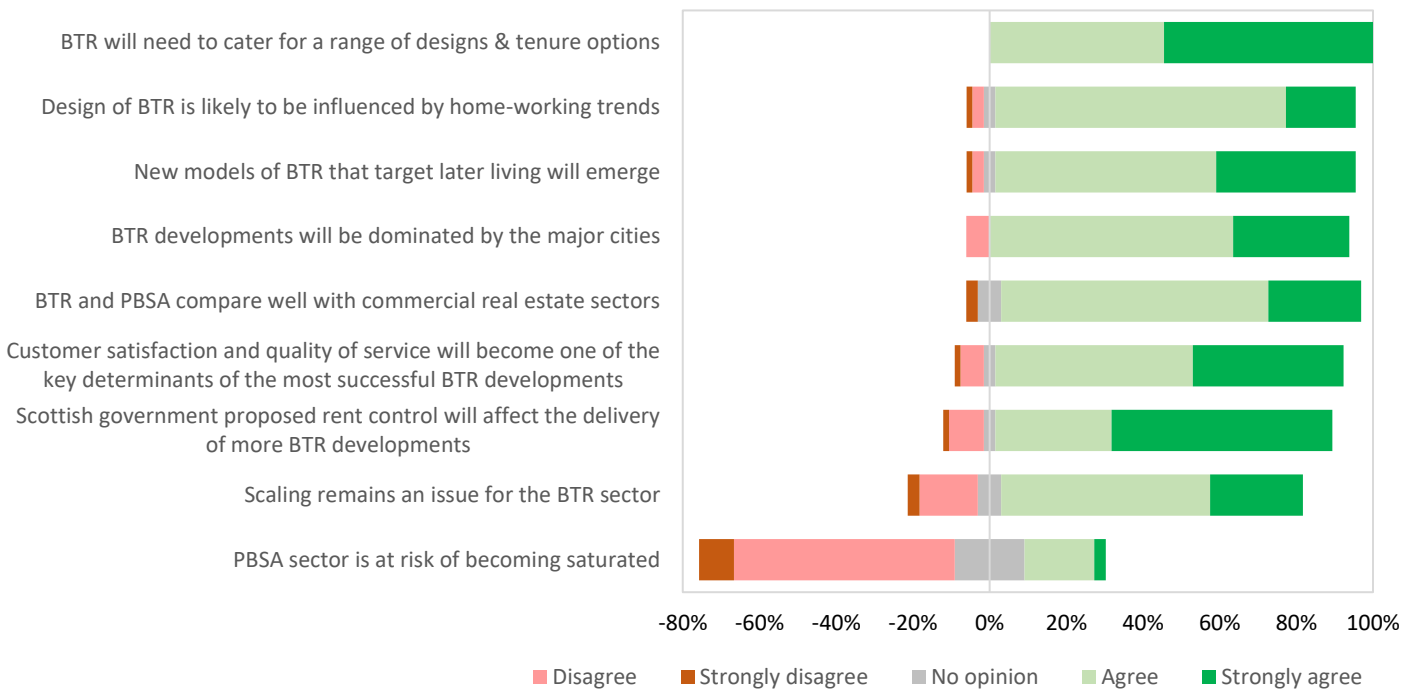
Leisure & hotel

Leisure uses are becoming increasingly important in the retail property sector, as consumers seek out more diverse and engaging experiences. With the rise of online shopping, traditional retail spaces need to adapt and offer unique leisure experiences to attract and retain customers. The Scottish leisure and hotel sectors are poised for growth as the economy recovers. With more people returning to work and traveling for business and pleasure, the demand for high-quality hotels and leisure facilities is likely to increase. This presents a significant opportunity for the industry to expand and innovate, meeting the evolving needs and preferences of consumers. In response to these trends, it is expected that hotel and leisure developments will rise in key cities.



BTR/PBSA

The survey reveals that the Build-to-Rent (BTR) sector needs to provide a variety of designs and tenure options while adapting to the growing trend of remote work. Additionally, there is potential for BTR to target later living demographics, but such developments will be concentrated in major cities. BTR and Purpose-Built Student Accommodation (PBSA) perform well compared to other commercial real estate sectors, with customer satisfaction and quality of service being crucial factors in their success. However, scaling remains an issue for BTR, and the proposed rent control by the Scottish government may hinder the delivery of more BTR developments. The respondents held the opinion that the PBSA sector does not face the risk of becoming saturated, suggesting that there is scope for further development in the near future.



Summary

The real estate sector is intrinsically linked to the wider economy but is in itself crucial to economic vitality and prosperity. Whether it functions as homes, hubs for commercial and business activities or venues for production and manufacturing, the real estate sector remains crucial to the success of government economic strategies. Now, its role is even more prominent due to its significance in the Covid recovery agenda.

Evidence from this survey reinforces a few known trends in the sector. There is a growing demand for the E of ESG through lower energy consumption, net-zero and green building certifications especially in offices and retail. This is not surprising given the global agenda on climate change and reduced carbon emissions. Relatedly, the adoption of electric vehicles is on the rise, which will drive demand for electric vehicle charging stations. It is not clear what this would mean for the existing stock in terms of retrofitting costs, and yet to be seen whether this trend will lead to another form of obsolescence.

Occupiers are prioritising health and wellness, which may lead to increased demand for occupant comfort features and wellness-related building certifications, especially in the office sector. The retail sector is expected to continue a shift towards shorter and more flexible lease agreements as retail occupiers seek to mitigate the effects of structural change. The leisure and hotel sector is poised for growth as the economy recovers, and demand for high-quality hotels and leisure facilities is likely to increase. Lastly, there is a growing market in the later living demographic that could be tapped into in the living space sector.