

CONTENT

Industry Insight	P2
SPF Annual Conference 2025	P3
SPF Policy Bites	P4-5
SPF Snapshot: round up of our work	P6
SPA Awards 2025	P7

SPF VOICE

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Stuart Oag
Director, Drum Property Group

The new year has opened with concern over the strength of the economy at the forefront of political debate. This has put the UK Chancellor under political pressure to find ways to enable the government's plan to boost growth against a backdrop of businesses halting or reducing recruitment and a flatlining economy.

So how is the Scottish real estate sector performing? Well on one measure there is scope for encouragement. In our industry insight this month, Knight Frank's Alasdair Steele provides an excellent insight into how Scotland fared for commercial property investment in 2024. Overall, Knight Frank report a welcome improvement on the previous year's figures which is positive in the context of wider economic challenges. Alasdair does highlight the need for the Scottish Government to ensure it avoids disparities with the UK in relation to property taxation. It is vital that we continue to stress the need for Scotland to have a competitive platform if we are to attract real estate investment for Scotland. We are working to support the need for competitiveness on a number of fronts including the Housing Bill, where although a welcome amendment has been proposed, more work needs to be done on the issue of in-between tenancies.

On the Scottish Building Safety Levy, we continue to be in regular dialogue with the Scottish Government. While intended to be broadly similar to the levy proposed in England, it is possible that the Scottish version may be based on value rather than floorspace. The government is keen to know how this might impact longer term investments such as BTR and PBSA and if you are in those markets I urge you to contact the SPF team with your perspectives and

insights.

The SPF team is also heavily engaged in the build up to our annual conference to be held in Glasgow on 2 April. I am delighted that in addition to Deputy First Minister Kate Forbes we have secured Professor Sir John Curtice as keynote speaker on the day – Sir John will need little introduction as one of the foremost political analysts in the UK and I look forward to his overview of the political situation. You may also have seen that we will again welcome the Housing Minister Paul McLennan MSP as part of an excellent panel to be moderated by More Homes More Quickly's Robin Blacklock. It is also great to see Dundee City Council return as a conference partner.

Further announcements will be made soon as our conference line up is confirmed but a huge thank you to all of you who have already registered for the event. Last year we attracted some 250 for this event and we hope to see a similar, if not stronger, turnout for this year.

Kind regards,

Stuart

Featured Industry Insight:

Why a deeper pool of investors could be good news for Scottish commercial property in 2025

Alasdair Steele,
Partner, Head of Scotland Commercial
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SPF Annual Conference 2025

TIC, Glasgow | 2 April

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Headline Speakers



Kate Forbes MSP

Deputy First Minister for Scotland



Sir John Curtice

Professor of Politics
University of Strathclyde

Panel Speakers

Paul McLennan MSP
Minister for Housing,
Scottish Government

Robin Blacklock
Director, More Homes More
Quickly & MD, Dowbrae Real
Estate Consultancy

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Industry Insight

Why a deeper pool of investors could be good news for Scottish commercial property in 2025

After a challenging first half of the 2020s, the Scottish commercial property market goes into the second half of the decade with a feeling of gradually increasing optimism. The effects of the Covid-19 pandemic are easing, inflation has fallen closer to the Bank of England's 2% target, and interest rates appear to be heading on a downward trajectory – albeit, at a slower pace than we would like. So, while there are always 'unknown unknowns' ahead, 2025 begins with a cautious sense of optimism.

Part of that is founded on the momentum we saw return to the market last year. During 2024, investment in Scottish commercial property rose 30% on the previous 12 months to exceed £2 billion – slightly ahead of the £1.9 billion five-year average. Falling interest rates certainly helped, as did a decisive UK election result, but there are some more specific factors at play too.

For one, investment in hotels more than doubled on 2023's levels to reach £488 million – a five-year high. Edinburgh accounted for just over 50% of that figure, £247 million, as the popularity of the city as a tourist destination continues to grow. We expect interest levels in the sector to continue into 2025 and more stock should become available, with a number of office-to-hotel conversions coming through.

In other markets, there were green shoots of growth for offices after a quiet 2023. Investment volumes rose from £368 million to £509 million, with signs

that more occupiers will head back to their workplaces more often this year. Retail also maintained its recent upturn, representing the largest sector with £710 million of deals, while industrials rebounded from a five-year low.

Perhaps the biggest point of interest for 2025, however, was in the spread of buyers. REITs and listed property companies accounted for 23.9% of investment volumes – substantially ahead of their 9.5% average of the last five years. Private investors remained active, representing 20.4%, and international investors had a 44.3% share of the market, rising from 29.5% at the halfway point of last year.

These figures are indicative of the deeper pool of buyers interested in Scottish commercial property that has developed over recent years – previously one group or another has often accounted for a majority share. Whilst some economic data might indicate a slowing down in the pace of recovery,

the broadening and deepening of the buying pool for commercial property should help.

In addition to the previously mentioned buyers, we expect the new pooled local government pension schemes (LGPSs) to be actively looking for assets next year, which could be a further boost to the market.

However, there is an important caveat. The tax position in Scotland is markedly different from England and Wales – in the latter, sales of shares within a commercial property scheme are exempt from SDLT (the equivalent of LBTT). Additionally, in England there is an initial grace period where assets can be transferred into the scheme without incurring SDLT.

The upshot is that Scottish assets are less attractive to these vehicles, as the exemptions do not apply. As a result of these extra costs, capital commitment from pooled local LGPSs may be limited, unless the situation changes.

There is a deepening and more diverse pool of buyers interested in Scottish commercial property – that should generate more competition and, in turn, lead to stronger pricing. However, it will likely be sector and quality-specific and, if the market is to benefit from all of the new sources of investment potentially available to include pooled LGPS investment capital, the Scottish Government will need to ensure a level LBTT playing field with the rest of the UK.

SPF Policy Bites

Housing (Scotland) Bill Update

The Scottish Government has now provided a 'keeling schedule' of the legislative changes proposed for the Housing Bill, which will achieve the government's amendment of CPI +1% as suggested by SPF and like-minded bodies through More Homes More Quickly as long ago as May. This is welcome, and for advisers and investors provides detail on how the Bill will be amended. The issue of in-between tenancies remains however and we also await details of the consultation on potential

exemptions from the future rent control regime where it is applied.

Although we had expected the Housing Minister to give evidence on the 28 January, this ended up being the tenant and landlord panels – we still expect the Minister to give further evidence to the Committee given the significance of the amendment. Based on the evidence, we heard this week as well as our discussions with MSPs from across the political spectrum,

we believe there is good reason to believe that the Committee, which will start to vote 'line-by-line' on the Bill's amendments in March, will support the government's CPI+1% amendment to a maximum of 6%. However, at this stage we would conclude that the measure of in-between tenancies is likely to remain a feature of the Bill.



PBSA Update

The eleven recommendations that stemmed from the government's PBSA review included a call for a strategic overview of how student accommodation is planned and delivered. This called for a meeting of private sector investors, providers, student representatives, local authorities and universities. This group has now met twice in the past five months.

The key issues addressed in the most recent meeting included an update on the consultations on introducing a 28-day notice period for students to exit their tenancy,

which would require legislative action; and on establishing the needs and demands for students in the context of a changing market and concerns over rent affordability for students.

For the consultation on a 28 day notice period, the government is analysing the responses (35 from providers, 171 from students). More broadly, it was felt that student needs and demands should be better reflected in local authorities regular Local Housing Supply analyses. In addition, it was noted that authorities such as City

of Edinburgh Council were already looking to introduce guidance to control the proportion of studios and this policy guidance was considered and approved at a meeting of Edinburgh Council on 29 January.

The Scottish Equivalent of the Passivhaus Standard Update

On 12 December 2024, the Scottish Government laid secondary legislation to enable a Passivhaus standard. The Building (Procedure) (Scotland) Regulations 2004 is now being amended in line with this to be utilised for compliance purposes with the Building Standards technical handbook. The amendments require developers to submit an “energy and environmental design statement”, an application for a building warrant, an “environmental construction statement” along with a completion certificate.

The Scottish Government is working on what aspects will apply to these technical standards and we hope to see the details of this published by next year as they will come into force by 31 March 2028. We submitted our

response to the Scottish Parliament on the proposed amendments on 14 January.

The Part 1 of the government’s response to the consultation which covers regulatory amendments can be accessed here and Part 2 of the response to this consultation will be published in coming weeks.

Below we have outlined the Scottish Government’s timeline for the Scottish Passivhaus equivalent:

- **January – June 2025:** Stakeholder, working group and industry engagement
- **Summer 2025:** Second consultation on performance targets and compliance processes
- **End of Autumn 2025:** Analysis of

consultation responses

- **2026:** Revised standards published, and guidance and calculation tools updated
- **Early 2028:** These Regulations provide for an implementation date of 31 March 2028 to allow the industry time to prepare for the new standards.

Leases (Automatic Continuation etc.) (Scotland) Bill

On 11 December, the Scottish Government introduced the Leases (Automatic Continuation etc.) (Scotland) Bill. This followed a report published by the Scottish Law Commission (SLC) in 2022 – ‘Report on Aspects of Leases: Termination’ and a draft Bill which SPF responded which sought to modernise and clarify how commercial leases could automatically continue beyond their end date. The Bill is now out for consultation until 7 March and our Commercial Real Estate Committee is helping to formulate an industry-wide response.

Purpose of the Bill

A primary focus of the Bill is to replace tacit relocation, a legal concept that governs the continuation of leases when neither the landlord nor tenant gives notice to terminate the lease at its agreed upon end date. Tacit relocation enables the lease to automatically extend on the same terms as before - usually for another year.

There are concerns about the



We are keen to hear from you about the proposals!
Please email spf@bpf.org.uk with your feedback.

informal nature of tacit relocation which some argue creates unclear rules and often leaves both tenants and landlords unaware of their obligations.

The Bill sets out rules on:

- Guidelines to determine entry date / duration when details are ambiguous
- Mandatory contact information
- Irritancy Rules Update - concerning

early termination due to tenant breaches

- Reimbursement provisions

Tenancy of Shops (Scotland) Act

It is important to note that this Bill differs from the Tenancy of Shops (Scotland) Act. This is an Act that also deals with the termination of leases but for certain retail premises and the SLC are also considering options for reform. We have clarified with the SLC that they are still due to release their recommendations on the options for reform of the Act in February 2025 and that it is possible for these recommendations to be integrated into the Leases Bill.

SPF Snapshot: Our work at a glance

A round-up of our key engagements, events and policy work to support our members in driving a diverse, successful and sustainable real estate industry in Scotland.



Featured Event

Labour MSP Site Visit to Edinburgh’s Latest Build to Rent

On Friday 17 January, we arranged a site visit in partnership with Platform, Edinburgh’s latest Build to Rent development for Scottish Labour MSP’s Daniel Johnson and Mark Griffin.

It was a great opportunity to showcase to the politicians the BTR offering, with a tour around the

apartments and facilities, including the gym and the co-working space. It was also a good chance for the politicians to have a one-on-one discussion with Platform’s CEO Jean-Marc Vandevivere, Operations Director, Kevin Watson, Finance Director Jonathan Rae, and General Manager, John Thomson to discuss the challenges of bringing the development together.



Key Engagements



Topics we discussed with our members, the Scottish Government and local authorities this month

1 Aberdeen Working Lunch

On 29 January, we hosted a working lunch kindly held at Brodies in Aberdeen. It was a valuable opportunity to gather together key stakeholders, including SPF members, guests and Aberdeen City Council to discuss important issues for the area.

3 PBSA Roundtable

We attended the government’s PBSA roundtable this month to discuss the consultation relating to the 28 day notice period and the need for a strategic collaboration between stakeholders to identify student accommodations needs and demands.

5 Commercial Real Estate Committee

This month, our Commercial Real Estate Committee met to discuss the new Leases (Automatic Continuation etc) (Scotland) Bill and this helped to provide early insights for our draft response to the consultation.

2 UK Ministerial Burns Reception

The SPF team was invited to a Burns reception by the Secretary of State for Scotland, the Rt Hon Ian Murray MP at the Scotland Office in London.

4 Planning and Development Committee

This month, our Planning and Development Committee met and we were joined by Craig McLaren, the National Planning Improvement Champion. This offered a chance for members to question Craig about the progress of the Planning Improvement Framework.

6 Scottish BSL Advisory Group

We continue to engage with the Scottish Government on their development of a Building Safety Levy in Scotland. Key considerations by the government are if the Levy will be based on value rather than floorspace and how or whether to include BTR and PBSA in the scope.



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