In response to your call for written evidence, I wish to respond, in particular with regard to Economic Focus, from the perspective of the commercial property industry in Scotland. There are three areas that I offer evidence:

- Commercial Property and Independence
- Business and Government Engagement
- Government Property and Stimulating the Economy Post-2014

**Commercial Property and Independence**

Over the last year, I have participated in many debates and discussions on the potential impact of independence on the Scottish economy and on the Scottish commercial property market.

During those discussions it has become clear that there is a widely held misconception relating to the Scottish commercial property market: the assumption that it's wholly dependent on the London financial sector, and that in an independent Scotland it might fare less well.

However, it must be understood that commercial property, is an international commodity stimulated by tenant demand but funded and driven by investment funds looking for a secure home - and that means more and more - these days - global money.

Scottish prime property is, and will continue to be, very attractive to investment – from London and globally – because it provides a solid, safe haven, low risk for investors who can include property spread alongside gilts, equities, shares, gold, bonds and other world investment products.

Unlike US and European property markets (which have evolved differently with shorter term leases), the Scottish market can offer tradable, secure, long term packages offering 25 year leases with break clauses that dictate upward only rental levels, thereby assuring risk free income growth, that can be bought and monitored without the bother and high management risk of involvement in the everyday detail of lease change, acute monitor attention and cost.

Be rest assured no one in government, law, property or construction will want to change the rudiments and the ingenuity of the long leasehold concept, that we in the market, take for granted.

I am certain that, irrespective of independence issues or constitutional change, the Scottish market will continue to remain strong, as it has done traditionally. The reality is that wealth funds are vigorously investing now, in a product - whose life will take them a quarter of a century beyond the date of the referendum and into a place where they will operate in an independent Scotland.
However, in the longer term, this enviable model depends on a well performing economy and today’s commercial property market is failing. Because of a lack of demand from new tenants, office, retail and industrial development is not taking place anywhere in the UK, outwith London and Aberdeen, as a consequence of this stale economy.

I see London booming, with new buildings – I see mid Wales dying – I see most of the UK in the doldrums. I see nothing from Westminster that does anything to stimulate our commercial property development market outwith London.

Investment funds are keen to spread portfolio product outwith an overheated London market, which will not and cannot meet the demand for new investment, and that makes Scotland very attractive at good profitable yield levels.

It doesn’t stop there either. Trading of existing prime commercial property stock is taking place at unprecedented rates in Glasgow, Edinburgh, Dundee and throughout Scotland, with record fee income being recorded by advisers to property funds and others.

Furthermore, in a future Scotland, whose government and property market are in touch with what’s needed to sustain this market, I am in no doubt that we can introduce together the means and policies which would ensure, not just continuity, but stimulus of that which alongside its construction industry, contributed around 13% to Scottish GDP prior to the 2007 crunch (according to Scottish Property Federation research a few years ago).

Stimulating the economy and increasing the long term economic growth rate are therefore fundamental to a healthy Scottish commercial property market.

**Business and Government Engagement**

The lesson I have learned from my involvement with the Scottish Property Federation is that good policy is more likely when business and government work collaboratively together, so that each understands the perspective and concerns of the other and common interests can be identified. Devolution has allowed collaborative working in a limited range of areas – for example, a reform of planning that was informed by government taking the time to understand the weakness of the system and the implications for the economy. There is almost no limit to what could be achieved by a government with a wider range of economic powers, including taxation and financial incentives, working collaboratively with business and other parts of society.

For example, an approach to the planning and provision of infrastructure based on the objective of connecting Scotland to the rest of the world, rather than just London, would open up new markets and international relationships.

Rather than wait for the result of the referendum, it is crucial that the business community engages now in the debate on how economic powers can be used – by whichever government has them. We need to get beyond a debate on
the constitution to talk about the policies that need to be implemented to improve the performance of the Scottish economy.

**Government Property and Stimulating the Economy Post-2014**

Whilst the big prize will come from government, business and others working together to identify and implement the policies that will improve the Scottish economy, there is also a specific opportunity for the Scottish property sector – and the wider Scottish economy – post-2014.

The relocation of the functions of government currently run from London will create direct demand for property across Scotland, and provide a stimulus for further development and regeneration.

The UK Government’s own analysis (“The State of the Estate in 2012”, HM Government, May 2013) of the property from which government is administered puts the total civil estate at 9.2 million square metres (that is, 99 million square feet) with a total running cost of £3.135 billion per year. This includes only the administration bases of the UK Government and does not include local government or assets such as schools and hospitals – nor does it include Scotland’s share of overseas property, including valuable real estate in Washington and New York.

The UK Government report provides a breakdown of the property assets by department and agency and so it is possible to calculate how much is associated with functions of government that are devolved to Scotland and those that are reserved to the UK Government. Of the 99 million square feet, 47 million square feet are in areas already devolved and 52 million square feet are occupied by departments and agencies that are reserved, and so would transfer to Scotland on independence. Scotland’s population share (8.4%) of this is 4.3 million square feet.

There would be no associated cost to the Scottish taxpayer since these are costs that Scotland is already paying for, as part of the UK. Indeed the relocation of functions should result in a savings in the tens of millions per year, since the UK Government analysis shows that the average property costs per employee is much lower in Scotland (£3,899 per year) than in London (£11,913). In addition, the property industry in Scotland will be in a position to provide more efficient and fit-for-purpose property for government than in currently provided in central London, with its over-heated commercial property sector, providing further cost savings.

Taking account of the efficiencies that are possible, the government functions transferring to Scotland could be accommodated in perhaps 3 million square feet of space. Even at only £20 per square foot, this would be the equivalent of an annual rental income of £60 million, and a capital value of at least £600 million.

This could generate 5,000 jobs in the construction sector and much wider economic impacts as a result of other economic activity attracted to Scotland.
To maximise the economic impact of these relocations, the departments and agencies should be located throughout Scotland, not concentrated in the capital as has been the case in the UK.

So, for example, the Energy Department might be in Aberdeen and could form the anchor tenant in a new energy park, around which energy and related companies and organisations might choose to locate.

Similarly, the Scottish International Relations Department should be located where there is significant land available for development, so that countries establishing embassies in Scotland could be co-located – the embassy district of Berlin would be a model for this approach.

The relocation of government from London to Scotland has the potential to have a massive regeneration and catalytic impact on the Scottish property sector, which will provide a much needed boost to the Scottish economy.

In conclusion, the commercial property market – and the Scottish economy can flourish post-2014. However, this will only happen with a change of economic policy so that the focus is not only on London, but on the development of the Scottish economy, providing a counterbalance to the overheated South East. This can be best achieved by government, business and others collaborating to formulate and implement the policies that are needed. For this to happen, businesses need to engage with the debate now.

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