The Scottish Property Federation

1. The SPF is a representative body for the Scottish commercial property industry and speaks for over 115 corporate members. Included within our membership are commercial property developers, landlords, property managers, fund managers and long term investors in both commercial and residential property. We are an integral part of the UK-wide British Property Federation which represents most of the UK and Scotland’s largest property investors, developers and professional property industry advisers and property consultants.

The property industry in Scotland

2. The recent fortunes of the commercial property industry in Scotland appear to be reflecting the experience of the wider economy. This is not surprising as commercial property is after all a factor of the wider economy. At its recent peak in 2005 the industry was estimated to be worth some 8.5% of total Scottish economic output\(^1\) but this will be much reduced in the current climate of low occupational demand by businesses and financial squeeze for the sector.

3. Commercial property values in Scotland are estimated to have fallen by over 40% since their peak in mid-2007. In this context it is needless to say that the contribution of our industry to economic performance in Scotland is much reduced from its 2006-07 levels. The value of commercial property sales is down from a level of £6.2bn per year in 2006-07 to just £2.3bn in 2009-10\(^2\). Figures received recently by SPF suggest that this low level of transaction activity has continued for the last 12 months. Official figures from ONS portray a continuing decline in the value of new construction orders achieved by the commercial property sector in the period January to December from 2008 to 2009. In 2008 the sector accounted for just over £1bn of new construction orders while by end 2009 this had fallen to £626mn per year. Recent figures suggest this low trajectory has not improved.

What is the outlook for the Scottish economy over the next three years and what are the major risks?

4. The Scottish economy is currently best described as ‘flat-lining’. While not technically in recession the economy is nonetheless subdued and providing little growth, reflecting a lack of confidence in its future performance. The risk of a continued low level of economic growth is that this will ebb away confidence among consumers and investors. The other main threat is over-regulation. The alcohol and tobacco business rates levy, and new measures due to come into force in the next few years to retrofit business premises, begin to add up to a picture of cost and un-competitiveness in a situation where companies are becoming more circumspect about new ventures or locations.

\(^1\) The Role of Commercial Property in the Scottish Economy (Autumn 2007)
\(^2\) Registers of Scotland data obtained by SPF
What are the implications of the shift of some £200mn pa in revenue spend to capital – both for investment and services and for economic growth?

5. The budget has demonstrated a willingness by the Scottish Government to transfer a proportion of its resources towards capital expenditure and this is welcome. We will also look for the Scottish Government to use its enhanced borrowing powers to support greater capital expenditure investment. Unless there is infrastructure investment to kick start the economy then ultimately other government objectives will suffer as resources are constrained and more demands are placed upon the public sector as the private sector continues to stagnate.

Business rates are to be increased in line with inflation – will this represent an increased burden on business and will it affect business performance in general and how will the tobacco and alcohol levy affect the retail sector in particular.

6. Business Rates continue to rise at historically high levels. The recent announcement of an RPI increase at 5.6% will add considerable cost to businesses and we would look to the Scottish Government to use its discretion to ease this burden on businesses.

7. When added to the large retail ‘health’ levy which some are saying may add 22% to the rates bills of those affected, then this means that some businesses may effectively be paying uniform business rates at a levy that is already some 55p in the pound by next April. With two further years of the policy to go this could mean large retailers (of tobacco and alcohol) being faced with a UBR of around 60p in the pound by 2015. We have to question the wisdom of this move which penalises a sector that already contributes around a quarter of business rates and is a major employer that is still actively developing and taking on staff across Scotland.

8. We understand the Scottish Government feel that there is a question of affordability and that the large retailers of alcohol and tobacco are sufficiently profitable to bear this cost. This view does not appreciate that individual stores need to be profitable and that a significant increase in business rates will alter the margins of the stores affected. Neither is there recognition that the vast majority of profits for many of the targeted stores are actually realised outside of Scotland (and that for the stores targeted the most profitable stores are sometimes located even outside of the UK).

9. The government has suggested that reduced rate relief for vacant shops will result in an increase in usage of high street premises. We have found little evidence for this outcome in England where relief for vacant premises was cut back several years ago. Our concern is that the additional cost of potentially vacant premises is a further deterrent to speculative investment and will actually penalise businesses caught with unproductive property and a market that is weak and showing little demand.
The Budgets of the Enterprise Agencies have enjoyed some degree of protection – is this appropriate and how should the Enterprise Agencies focus their resources to promote recovery and growth?

10. It is important that the Enterprise Agencies focus on backing clear winners in order to kick start economic growth. Although their budgets have been relatively protected it is important that resources are allocated where a return is significantly less risky and economic development is likely to occur. There have been some notable successes in attracting key sector investments but it will be important to support economic growth more broadly whenever public support will be the catalyst to support economic growth.

It is assumed that over the period to 2015 economic growth will deliver significantly increased rates income. Is this realistic in the light of economic proposals?

11. With low investment and consumer confidence it would seem inappropriate to countenance any substantial increase in economic growth at this time. We are cautious therefore about the likelihood of substantial enhanced business rates through additional economic growth. Analysis of expected commercial property returns which are themselves one facet of the economy suggest that rates of return are likely to be steady for the next five years, suggesting little significant increase in demand for commercial property over this period. This should not be a surprise and indeed during the period 1995 to 2010 when for all but the last three years the economy was regarded as performing strongly, the average GDP recorded in Scotland was 1.8% as against the UK average of 2.4%.

Summary

12. The Scottish Government introduced some welcome measures in its budget: a transfer of resource to capital expenditure; incentives for new industries (renewable); continuation of the small business bonus scheme. While welcome we are seriously concerned however that the projections for additional rates income will not be realised, as we see little prospect of significant improvements in commercial property occupational demand; and we are also alarmed at the growing rates burden on businesses apparent through the RPI and the ‘health levy on major retail investors. It is vital that Scotland remains competitive with other countries and seeks to ensure that we are ‘open for business’.

13. The SPF would be pleased to expand on our comments if requested.

David Melhuish
Director
Scottish Property Federation
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