WRITTEN EVIDENCE FROM THE SCOTTISH PROPERTY FEDERATION

1. The Scottish Property Federation is pleased to submit written evidence to the Infrastructure & Capital Investment Committee in relation to the Draft Budget and Spending Review Inquiry. We are happy for our comments to be made public by the Committee.

The Scottish Property Federation

2. 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

3. 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 output¹ but this will be much reduced in the current climate of low occupational demand by businesses and financial squeeze for the sector.

4. 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 2009-10². 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.

Opening remarks

5. The Scottish economy is currently best described as ‘flat-lining’. For this reason we wholeheartedly endorse the Scottish Government’s view as expressed on p7 of the Spending Review that:

   ‘Our top priority is therefore securing economic recovery and jobs’

6. 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. One means of reversing, or at least improving upon this situation is to invest in infrastructure that will bolster growth in appropriate areas in order to boost confidence and generate sustainable added value to the Scottish economy. We are in a position whereby investors are becoming ever more risk-averse and choosy about where they will locate their interests and we must align ourselves to this reality.

7. In a number of ways we believe that the spending review does prioritise jobs and the economy. However, we are deeply alarmed whereby some of our most significant retail investors may face substantial rates increases that will almost certainly mean they will face rates demands of much more than 50p in the £ come April. Also, we fear the cost of reducing empty rates relief for vacant premises will be far worse than £18mn per annum to those affected (including commercial landlords, businesses and public sector owner/occupiers).

¹ The Role of Commercial Property in the Scottish Economy (Autumn 2007)
² Registers of Scotland data obtained by SPF
Budget priorities

8. We share the Scottish Government's view that this budget is delivered in tough circumstances. The rapid reduction in government spending across the UK including Scotland is significant and will have consequences for the public sector. The private sector remains subdued following its enforced cutbacks from late 2007 onwards and the difficulty now seen in achieving significant economic growth is in no small measure to drastic cuts faced in the private sector since 2007.

9. We have some questions about the Budget's priorities which are unclear to us at present. First there is a sizeable investment in preventative spending of some £500mn. We recognise that this is an investment in seeking to avoid health costs and improve well-being which is welcome, but we are not certain how this significant sum of money is to be spent and allocated. Also as a large portion is expected to be collected from the Public Health Levy on large stores selling alcohol and tobacco, a sum to be collected by local authorities we question this financing will operate in practice. If the levy is not realised, will the sum of £500mn still be forthcoming, and if so, from which other government budget line?

10. The Spending review proposes a Cities Strategy but offers little in the way of detailed explanation of what this body will do and deliver (and how). We endorse the view that the cities will be the drivers of economic recovery in Scotland and therefore support measure to boost their economic competitiveness and attractiveness, but we would like to see further detail on what the Cities Strategy will actually do and how it will operate and relate to other government initiatives.

11. The Budget has prioritised the Enterprise Agencies and their budgets. This is welcome in view of our opening remarks and while there is a clear steer towards supporting the renewable industry we believe it is vital that this is not the only industry that is supported for inward investment purposes.

Capital investment for the economy

12. The Budget makes an important decision to switch some £200mn per year from resource to capital expenditure. This is welcome and helps to alleviate wider cutbacks to capital expenditure. However, alternative funding mechanisms will remain of key importance if essential infrastructure to drive the economy is to be achieved.

13. The SPF is a strong supporter of the Scottish Government's funding innovations such as tax increment financing and the national housing trust models. TIFs are not a panacea to plug the funding gap of all major infrastructure and regeneration projects, but they will prove to be a useful additional mechanism to use revenue streams to support economic development. We note the Scottish Government's use of the non-profit distributing model and the Regulatory Asset Base of Network Rail. Now that a way forward to deliver infrastructure projects through these various means has been identified we are keen to see this transformed into practical reality. The construction sector in particular is suffering severe hardship and we cannot over-emphasise the consequences of any further delay in bringing forward these essential projects.

Transport infrastructure

14. For our members the issue of transport infrastructure is often cited as an obstacle to furthering development projects. This is a major concern in the current economic climate where every job and investment is in our view essential. The Scottish Government is committed in the Spending Review to a number of key transport improvements, notably the M8 and the Aberdeen Western Peripheral Route (AWPR). These are vital to Scotland’s economic prosperity and must be a priority. However we retain concerns with existing policy regarding adding demand to trunk roads and we feel that in the current juncture of negligible economic growth some easing of the 'no net detriment' approach by Scottish Ministers to overall capacity would be helpful in the short run.

15. We would be pleased to answer any further questions at the Committee’s convenience.