COMMERCIAL REAL ESTATE AND THE SCOTTISH ECONOMY

Colin Jones and Edward Trevillion
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Executive summary

The report draws on a wide range of statistical sources to present the impact of the commercial property sector on the Scottish economy. It has built on earlier research carried out on behalf of the Scottish Property Federation1.

We have updated data both on the size and structure of the Scottish commercial property market and on key economic contributions to the Scottish economy. Also, given the traumatic events of 2007/2008 we have undertaken an assessment of the important link between commercial property and financial stability.

Our key findings are:

- The overall capital value of commercial property stock in Scotland has fallen from £51bn in 2005 to £46bn in 2013 suggesting that the Scottish market has not yet totally recovered from the system shocks of 2007.

- Scottish office stock as a proportion by value of all commercial property stock in Scotland is higher than anywhere else in the UK except London, reflecting the importance of the office economy to Scotland.

- The proportion of investment grade office stock is lower than other parts of the UK suggesting a lower supply of this type of stock compared to other parts of the UK.

- The proportion of investment stock in the Scottish retail sector is much higher than anywhere else in the UK, reflecting, in part, the place that Glasgow and Edinburgh have as important retail centres in the UK.

- The total contribution of the commercial property sector to Scotland’s overall output (GVA) in 2012 was just under £6bn or 5.3% of Scottish GVA. This contribution has fallen since 2008, when it was £9.31bn, but is still significant in its scale. A major factor in this reduction has been the fall in construction output post-2007.

- Although the industry is showing some signs of recovery in terms of output and new orders the evidence suggests that it has still not fully recovered from the effects of the crisis in 2007 and the subsequent recession.

- The proportion of property assets under management by Scottish based investment houses is higher than the UK average but we believe not enough to significantly increase the risk exposure of the industry in Scotland.

- Debt secured on Scottish property was around £10.8bn at the end of 2013 against a total stock value of £46bn.

- The market crisis of 2007/2008 has affected the provision of debt by UK Banks and Building Societies whose market share of new loan origination has fallen progressively from 72% in 2008 to 43% in 2013. However, there is significant, continuing interest by overseas investors in the Scottish market and the UK market as a whole both in terms of debt provision and direct investment.

- There was a shortfall in 2013 in the replacement rate required to prevent the nation’s business stock ageing unacceptably of around 0.84m sqft for offices and around 5.9m sqft for industrial stock.

- There is a continuing need to review the way commercial floor space statistics are collated and we recommend that a detailed analysis of the Scottish Assessors database should be undertaken in the near future in this regard.
Introduction

Services account for the vast majority of jobs in Scotland rather than the traditional industries of shipbuilding and manufacturing. Business and financial services now provide the economic base activities of Scottish cities from which derive other more consumptive/retail and housing demands. In fact Edinburgh is the second most important financial centre in the UK and 20th in the Global Financial Centre Index, with Glasgow 31st. Aberdeen is the administrative capital of oil activities across Europe.

In this context, office employment and hence the office market is now central to the competitiveness of the Scottish economy. The availability of offices of the right quality in the right location and at the right price is an essential prerequisite for economic growth. Both Edinburgh and Glasgow city councils have recognised this by promoting new office areas where modern developments have been built to meet today’s corporate needs. Commercial property also contributes to the quality of life by providing social infrastructure in terms of shops and leisure facilities, which in turn retains and attracts a highly qualified workforce. It is therefore important not just to see the role of the commercial property sector in narrow terms.

However, it is difficult to define the commercial property sector. Government statistics classify real estate into a number of different product groups. First there is construction which includes the construction of commercial buildings, plus demolition and site preparation, and special trades in the maintenance, repair and refurbishment of buildings. Second, real estate activities are deemed to include acting as lessors, agents and/or brokers in selling or buying real estate, renting real estate, providing other real estate services such as valuation. Unfortunately many of the government statistics on these activities do not disaggregate between commercial and real estate property so we have to make some estimates for the research presented here. Similarly the outputs of architects and planners who are essential elements of the construction process are grouped with some unrelated engineering activities.

Furthermore, property companies such as Real Estate Investment Trusts, the likes of Land Securities and British Land, are not included within real estate activities but “Financial and Insurance Services”. Bank lending on commercial property and the property investment role of major financial institutions such as Standard Life is also classified in this way.

The approach to our task here therefore is not just simply based on official government statistics but to draw on a wide range of statistical sources to present the impact of the commercial property sector on the Scottish economy. It has built on earlier research carried out on behalf of the Scottish Property Federation. We have updated data both on the size and structure of the Scottish commercial property market and on key economic contributions to the Scottish economy. Also, given the traumatic events of 2007/2008, we have undertaken an assessment of the important link between commercial property and financial stability.

Winchburgh
The first new town centre in West Lothian in 50 years with some £1.0 Billion direct investment value and £2.1 Billion benefit to wider economy forecast over the 10-15 year period of the development.
The size and structure of the Scottish commercial property market

Scotland accounts for just over 7% (£46bn) of the value of commercial property in the UK, marginally below its share of GDP, and 6% of the investment stock (£22bn), see Table 1. In context, the UK market overall was valued at £647bn with the total UK investment stock being valued at £364bn, with over half of this located in London and the South East of England.

Table 1  Capital values of commercial stock

<table>
<thead>
<tr>
<th>Total stock £bn</th>
<th>Investment stock £bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCOTLAND</td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>20</td>
</tr>
<tr>
<td>Offices</td>
<td>11</td>
</tr>
<tr>
<td>Industrial</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
</tr>
<tr>
<td>UK TOTAL</td>
<td>647</td>
</tr>
</tbody>
</table>

While clearly commercial property is a significant investment medium in the UK it is still small compared to other asset classes. Nevertheless, unlike the other main asset classes, property has a duality (use and investment) which makes it an important contributor to the overall economy, whether in Scotland or the UK as a whole.

Of the total stock value in Scotland of £46bn, 43% relates to retail property, 24% to offices and 22% to industrial property. A significant proportion (11%) now relates to the hotel, leisure and health care sectors (not broken down by class).

Despite retail property being 43% (by value) of the total stock in Scotland it represents 60% of the Scottish investment market (see Table 1). In addition, retail investment stock is 65% of the total retail stock reflecting, in part, the place that Glasgow and Edinburgh have as important retail centres in the UK (and consequently why they are major city break destinations). In this context, Glasgow is estimated to be the fourth largest retail centre in the UK after London, Manchester and Birmingham, and Edinburgh is now one of the top ten luxury retail centres in the UK. The availability of investment grade stock reflects these rankings. This bias to retail investment stock as a proportion of overall retail stock is much higher than anywhere else in the UK.

The same IPF study suggests that offices represent 24% (by value) of the total stock of commercial property in Scotland. This proportion is higher than anywhere else in the UK except London, where the proportion is 51% and reflects the relative importance of the office economy to Scotland. Interestingly, however, office investment stock represents 36% of the total office stock, much lower than central London (90 to 100%) and England as a whole (84%). There is no easy answer as to why there is a relatively lower availability of investment grade office stock in Scotland compared to other parts of the UK (and with it, by implication, a higher preference for owner occupation), but it is, perhaps, a warning shot given the importance of office employment to the Scottish economy. It suggests that if this disparity is supply driven then there is scope for further development in this area.

Industrial stock represents 22% of the total stock of commercial property in Scotland, broadly in line with the rest of the UK although the proportion of investment stock is lower at 20%.

These figures suggest that owner occupation is still an important option for occupiers, certainly in the office and industrial markets, an observation that has not changed significantly since our last report in 2007. What has changed, however, is the overall capital value of the stock, which has fallen from £51bn in 2005 to £46bn in 2013. Clearly the market in Scotland by 2013 had not yet totally recovered from the system shocks of 2007.
Estimating the size of the market in Scotland in terms of floor space (area) is slightly trickier. The Scottish Government does not keep statistics on floor space. Scottish Assessors do keep floor space data but it is not readily available. So while it is possible to get floor space data for all 223,000 properties on the valuation roll it has been beyond the resources of this particular study to undertake a complete analysis of the data. In particular, non-domestic properties include a significant amount of stock that would not readily be classified as ‘commercial’ and any analysis would need to make a judgement of what is economically significant and what not. Notwithstanding that, we do recommend that such an analysis should be undertaken at some point in the near future.

The CoStar data set for Scotland, built up over many years, is a better reflection of the commercial stock traded in the market and probably covers the greater proportion, in terms of floor space, of quality commercial stock in Scotland. Our analysis of that data set of just under 35,000 properties as at May 2015 is summarised in Table 2. It suggests that offices represent around 24% of the total stock, retail around 27% and industrial stock around 50% (for a total existing stock figure in the data set of just under 412m sq ft for offices, retail and industrial). The differences between these relative proportions and those estimated by capital value more or less reflect the relativities of market capital values per unit area for the sectors’ in the IPD quarterly universe.

Table 2  Floor space estimates May 2015

<table>
<thead>
<tr>
<th></th>
<th>Existing Floor space sqft</th>
<th>Under construction sqft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>96,343,014</td>
<td>2,042,666</td>
</tr>
<tr>
<td>Retail</td>
<td>111,212,239</td>
<td>144,746</td>
</tr>
<tr>
<td>Industrial</td>
<td>189,407,915</td>
<td>170,965</td>
</tr>
<tr>
<td>Light industrial</td>
<td>14,763,122</td>
<td>0</td>
</tr>
</tbody>
</table>
The annual contribution to the Scottish Economy

As we note above, the contribution of commercial property to the Scottish economy is not simply about the contribution that the construction industry makes to the economy, although this is significant. The development industry encompasses a wide range of professions and skills including those from the construction sector but also including a range of functions classified in official statistics as 'real estate activities'.

As noted in our introduction, there are also a range of real estate functions in the financial and business services sector not specifically defined in official statistics. Within the limits of available statistical data we have drawn these three strands together in our estimate of the annual contribution that commercial property makes to the Scottish economy but along the way we have had to make some assumptions in order to do so, not least the separation of housing related contributions from the overall data.

As in our previous report we have also made an estimate of the indirect and induced impacts of the sector on the economy. If there is an increase in final demand for a particular product, we can assume that there will be an increase in the output of that product, as producers react to meet the increased demand; this is the direct effect. As these producers increase their output, there will also be an increase in demand on their suppliers and so on down the supply chain; this is the indirect effect. As a result of the direct and indirect effects the level of household income throughout the economy will increase as a result of increased employment. A proportion of this increased income will be re-spent on final goods and services: this is the induced effect. The ability to quantify these multiplier effects is important as it allows a much fuller assessment of the economic impact of a variety of sectors of the economy.

Our analysis looks at employment and economic output (measured by Gross Value Added, GVA, at current prices). Compared with our last report the range of statistics relating to commercial property has improved significantly but there are still areas where the commercial property component is not specified. In these circumstances, like our previous report, we have used the share of non-housing work (excluding infrastructure) of gross contractors output as a measure of the commercial property element (see below).

With regard to property services not included in real estate activities (financial intermediation, planning and other professional services), which are not separated out of official Government statistics, we have assumed a contribution of 7% of output and 9% of employment of the direct impacts based on the analysis undertaken in 2007.
CONTRACTORS OUTPUT AND NEW ORDERS

The total value of construction output in 2013 at current prices was £10.408bn. Of this, the proportion of non-housing work, including repair and maintenance but excluding infrastructure work, was 44.8%. This factor has been applied, where appropriately, to estimate the proportion of commercial work in output and employment statistics.

The value of new construction orders in Scotland excluding housing and infrastructure can be calculated directly from official statistics. Trends in new orders for the non-residential element of new orders (excluding infrastructure) are shown in Figure 1 and reflect how market conditions in 2007 severely impacted on the volume of new orders. Orders overall began to improve from 2011 but they had still not recovered to 2006 levels by our 2013 base year, where they stood at £2.583bn.

Infrastructure orders have also improved, from £640m in 2011 to £2.6bn by the end of 2014. These figures can be slightly misleading, however, when trying to assess whether there is sufficient funding for private sector infrastructure projects. It has been beyond the scope of this report to analyse these orders in any detail but the improvement will reflect the recent investment in large public sector projects. It is not clear the extent to which new work is being ordered to support other important areas in the private sector. This is an area which ought to be explored in more detail.

Prime Four

On completion, this state of the art £500m development will provide in excess of 1.5m square feet of high quality office space and be home to several thousand workers.
KEY INDICATORS

Key indicators are summarised in Table 3 (page 8). We estimate that the total contribution of the sector to Scotland’s overall output (GVA) was £5.99bn (including the indirect and induced elements of output) at the end of 2012, the latest year for which data is available, or 5.3% of Scottish GVA at the end of 2012. This has fallen since 2008 (the first year for which a like for like comparison can be made) when it was £9.31bn, but is still significant in its scale. A major factor in this reduction has been the fall in construction output post-2007, which has still not recovered from the effects of the credit crunch and subsequent recession (it currently stands at just over half what it was in 2008). Specialised construction activities (trades) have also seen a significant fall in GVA since 2008 while Real Estate Activities have shown an increase in GVA - possibly a lead indicator of improving construction output.

The commercial property element of direct employment has also fallen since 2007, from 65,000 to 60,872 in 2013 (on a like for like basis). Clearly the output and employment story is one of an industry still recovering from the system collapse in 2007 and the subsequent recession, but one in which some aspects of the industry have turned the corner and are beginning to improve. Construction output has begun to show some growth but it is still below what it was at the end of 2007. On an optimistic note, new orders are increasing. The total employment impact (direct, indirect and induced) was nearly 134,000 in 2013.

At present Council tax and non-domestic rates are the only two taxes set and administered by the Scottish Government and Scottish Local Authorities. The non-domestic rate income is given in Table 3, which also includes the estimated accrual to UK Government of SDLT in 2013/14 (devolved to Scotland in April 2015 as the Land and Buildings Transaction Tax). Table 3 suggests that the total receipts accruing to the Scottish Government arising from non-domestic rate income and SDLT (excluding VAT) in 2013/2014 was around £2.82bn per annum. This represented just under 7% of the total non-North Sea Scottish public sector revenues in 2014 (excluding National Insurance contributions).
Commercial property and financial stability

Commercial property plays an important transmission role in the economy and falls in capital values can contribute to or even trigger a credit drought in which the decline in the asset positions of industrial companies and financial institutions leads to a decline in borrowing/investment and lending respectively. In this context, commercial property lending is of great importance to the stability of the UK and Scottish financial systems and for the resilience of these systems and one of the contributory factors to the instability of the property market system in 2007 was the flow of cheap money into commercial property assets in the previous four to five years which ultimately affected the overall stability of the property market system.

This is illustrated in Figure 2 which shows how a dis-connect developed between UK capital value growth and rental growth in the period 2003 to 2007 (as a result of the weight of money flowing into the property market). Scottish markets closely followed this pattern as there is an integrated UK financial system. While this wasn’t the root cause of subsequent behaviour there is no question that it added a certain instability to the property market system, exacerbated falls in in capital values when they came and contributed to consequences of the credit crunch.

Table 3  Key indicators

<table>
<thead>
<tr>
<th>GVA £m Basic Prices</th>
<th>Total direct impact</th>
<th>Commercial property element (Estimate)</th>
<th>Total impact - Direct, indirect and induced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction of buildings</td>
<td>1,594.1</td>
<td>714.2</td>
<td>1,499.8</td>
</tr>
<tr>
<td>Specialised construction activities</td>
<td>3,126</td>
<td>1,400.5</td>
<td>2,941.1</td>
</tr>
<tr>
<td>Real Estate Activities</td>
<td>1,816.5</td>
<td>813.8</td>
<td>1,220.7</td>
</tr>
<tr>
<td>Property services not included in real estate activities (estimated)</td>
<td>490</td>
<td>220</td>
<td>330</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Receipts accruing to the Scottish Government £m</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SDLT 2013/14</td>
<td>175</td>
</tr>
<tr>
<td>Non-domestic rate income</td>
<td>2,649.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employment (2013)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of building projects</td>
<td>5,514</td>
</tr>
<tr>
<td>Construction of commercial buildings</td>
<td>6,448</td>
</tr>
<tr>
<td>Specialised construction activities</td>
<td>80,292</td>
</tr>
<tr>
<td>Real Estate Activities</td>
<td>24,392</td>
</tr>
<tr>
<td>Property services not included in real estate activities (estimated)</td>
<td>11,288</td>
</tr>
</tbody>
</table>
Investment volumes in Scotland have begun to improve again (Figure 3) but we need to ask what is the market’s current exposure to the types of risk experienced in 2007.

Figure 3
The value of Scottish commercial property sales

Financial assets managed in Scotland represent a significant proportion of the total asset management industry in the UK. Recent estimates place this at around 11% of total assets under management in the UK or £560bn22. When looking at UK assets under management in terms of the location of company headquarters, rather than the location of asset management, the proportion of assets represented by Scottish firms is just over a quarter (26% at June 2013) of the total managed by UK headquartered firms (equating to £571bn). This higher figure is explained by the fact that the location of company headquarters and the location of asset managers is often not the same. Scottish firms undertake asset management in the City of London just as London based investment houses manage part of their client asset in Scotland (see the IMA Survey). While it is impossible to disentangle precisely the Scottish contribution, these statistics explain why, for example, Edinburgh is ranked the second most important financial centre in the UK, and are important in explaining the importance of the office economy to the Scottish economy overall.

Estimating the property element of this asset management process is slightly trickier, however. The IMA survey22 estimates that across the asset management industry the average holding in commercial property assets is 2.6%.

This would suggest that (at a minimum) the exposure to commercial property by investment houses in Scotland is around £14.6bn. The exposure is probably much higher than that, however. For example, Standard Life Investments and Aberdeen Asset Management, businesses headquartered in Scotland, between them have assets under management of around £515bn (as at Dec 2014) and their property assets under management account for £31.5bn23. Not all of these assets will be managed in Scotland but clearly the exposure to property is significant.

The other side of the coin is the debt that is secured against commercial property in Scotland by investment houses and banks in the UK and overseas. This amounted to £10.8bn at the end of 201324 and represented around 6% of the total debt secured against commercial property in the UK (£180bn) and 23.5% of the total Scottish stock value of £46bn. From a fund management point of view this does not suggest a significant overexposure to property by these large investment houses, although risks to the industry in Scotland cannot be separated from the risks associated with the UK financial services industry as a whole given that it is fully integrated into the latter.

Perhaps of more concern is the debt exposure by Scottish financial institutions, which historically has been high and contributed to the demise of at least one of Scotland’s major banks during the crisis of 2007/2008. It has been beyond the scope of this study to analyse the extent of this exposure and the most comprehensive annual study of the UK commercial property lending market24 does not analyse the debt market in this way. However, the study does give some interesting pointers:

- Of the drawn funding, excluding social housing, of £180bn at the end of 2013, 55% was attributed to UK Banks and Building Societies (£99bn), of which Scottish banks probably represent a significant percentage.
- German banks supplied 10% (£18bn) of the outstanding debt, a measure of the interest of overseas funders in the UK property market.
- Other international banks supplied 21.5% (£38.7bn) of the outstanding debt.
- Of the 12 most active lenders in 2013, five were UK lenders, four were German lenders and one was another international lender. Another measure of overseas interest in the UK property market.
Of the new loan originations in 2013 the proportion originating with UK Banks and Building Societies was lower, at 43%, than the proportion of outstanding loans overall (55% see above) while the proportion of debt originating in the German market increased to 16%. The market share of UK Banks and Building Societies of new loan originsations has now fallen progressively from its high in 2008 of 72% reflecting the growing importance of non-UK lenders.

This interest by overseas investors is also highlighted by Scottish transaction data in 2013. The top ten buyers in the Scottish market accounted for £2.5bn of transactions. Of this, £1.77bn were purchases by overseas investors.

As noted earlier, however, the exposure of Scottish institutions to the debt market really cannot now be separated from the fortunes of the UK market as a whole given the acquisition of HBoS by Lloyds Banking Group and the majority UK Government holding in RBS. Nonetheless the exposure by these banks to property debt continues to cause concern and a potential risk to employment in this sector in Scotland.

The importance of property to future economic growth

At a time when construction activity in the commercial sector is only just beginning to recover from the last recession, the need for modern stock to encourage inward investment is ever more important. As we noted in our 2007 report, existing place is important in terms of attracting inward investment to Scotland and the image the nation presents to potential developers and occupiers. There continues to be clear evidence that a reliance on older property negatively influences potential occupiers and property plays an important part in consolidating success in existing indigenous businesses by providing modern facilities that allow businesses to grow.

Ageing stock inhibits demand and inward investment. Our own evidence hints at the limited availability of investment grade office stock in Scotland compared with other parts of the UK. If we accept that industrial and office stock needs to be refurbished or replaced after 30 years then we need to replace or refurbish 3% or thereabouts of existing stock per annum just to stand still. Using the floor space data outlined earlier this equates to around 2.88m sqft (267,500sqm) of office space per annum and 6.1m sqft (576,900 sqm) per annum of industrial space. To put this in perspective CoStar estimates that as at May 2015, 2.04m sqft of offices were under construction but only 171,000 sqft of industrial space - not exactly an oversupply situation and suggesting a reliance on increasingly older buildings of lower efficiency.

The development of new space over and above the replacement rate has the potential to grow jobs. In this context, one FTE job could be generated for every 130sqft of new office development or 505 sqft of industrial space. While clearly new jobs are not automatically created by new space, new stock, as noted above, has the potential to attract significant inward investment with subsequent growth in employment. Conversely, the shortfall in replacement could affect current jobs. In this context, there is an annual shortfall in the office sector of around 0.84m sqft and in the industrial sector of around 5.9m sqft. Measured in employment terms these shortfalls are equivalent to space for around 6,500 jobs in the office sector and 11,500 jobs in the industrial sector.

Old Town Chambers
Part of the award-winning £45m Advocate’s Close redevelopment, the Old Town Chambers is a collection of 50 beautifully-appointed serviced apartments occupying an eclectic group of buildings including a 15th century house and zinc and timber-clad modern extensions.
Conclusions

The overall capital value of commercial property stock in Scotland has fallen from £51bn in 2005 to £46bn in 2013 suggesting that the market in Scotland has not yet totally recovered from the system shocks of 2007.

Scottish office stock as a proportion by value of all commercial property stock in Scotland is higher than anywhere else in the UK except London, reflecting the importance of the office economy to Scotland. However, the proportion of investment grade office stock is lower than other parts of the UK reflecting a lower supply of this type of stock compared to other parts of the UK.

There is a bias towards investment stock in the Scottish retail sector. As a proportion of overall retail stock investment stock is much higher than anywhere else in the UK, reflecting, in part, the place that Glasgow and Edinburgh have as important retail centres in the UK.

The total contribution of the commercial property to Scotland’s overall output (GVA) was just under £6bn (including the indirect and induced elements of output) at the end of 2012, the latest year for which data is available, or 5.3% of Scottish GVA at that time. This contribution has fallen since 2008 when it was £9.31bn, but it was still significant in its scale. A major factor in this reduction has been the fall in construction output post-2007, which has still not recovered from the effects of the credit crunch and subsequent recession.

The output and employment story is one of an industry still recovering from the system collapse in 2007 and the subsequent recession, but one in which some aspects of the industry have turned the corner and are beginning to improve. Construction output (excluding infrastructure and housing) had begun to show some growth by the end of 2013 but was still below what it was at the end of 2007. On an optimistic note, new orders are increasing.

Assets managed in Scotland represent a significant proportion of the total asset management industry in the UK. The proportion of property assets under management by Scottish based investment houses is higher than the UK average but we believe not enough to significantly increase the risk exposure to the industry in Scotland. Debt secured on Scottish property was around £10.8bn at the end of 2013 against a total stock value of £46bn.

The exposure of Scottish institutions to the debt market really cannot now be separated from the fortunes of the UK market as a whole given the acquisition of HBoS by Lloyds Banking Group and the majority UK Government holding in RBS. It has been beyond the scope of this study to analyse the extent of this exposure. However, although property related debt overall in the UK is falling we believe that the exposure of the banking sector in Scotland will continue to create some risk to employment in this sector in Scotland.

There is significant, continuing interest by overseas investors in the Scottish market and the UK market as a whole both in terms of debt provision and direct investment. However, the market crisis of 2007/2008 seems to have affected the provision of debt by UK Banks and Building Societies. In this context, the market share of UK Banks and Building Societies of new commercial property loan originations has now fallen progressively from its high in 2008 of 72% to 43% in 2013.

At a time when construction activity in the commercial sector is only just beginning to recover, the need for modern stock to encourage inward investment is ever more important. We estimate that some 2.9m sqft of office space and 6.2m sqft of industrial stock needs to be replaced annually to prevent the nation’s business stock ageing unacceptably. However, our data suggests that there was a shortfall in replacement in both the office and industrial sector in 2013 of around 0.84m sqft and 5.9m sqft respectively.

There is a continuing need to review the way commercial floor space statistics are collated. While Scottish Assessors do keep floor space data it is not easy to analyse and is not readily available. We recommend that a detailed analysis of the data should be undertaken in the near future.
Appendix 1

Scottish Multipliers

<table>
<thead>
<tr>
<th>Type II Multipliers</th>
<th>Output (GVA)</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Real Estate</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own</td>
<td>1.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Fee or Contract</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Financial services</td>
<td>1.5</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Appendix 2

Gross Value Added (GVA)\(^{26}\)

GVA measures the contribution to the economy of each individual producer, industry or sector in the United Kingdom. GVA is used in the estimation of Gross Domestic Product (GDP). Both are measures of output.

The link between GVA and GDP can be defined as:

- GVA (at current basic prices; available by industry only)
- plus taxes on products (available at whole economy level only)
- less subsidies on products (available at whole economy level only)
- equals GDP (at current market prices; available at whole economy level only)

As the total aggregates of taxes on products and subsidies on products are only available at whole economy level gross value added is used for measuring gross regional domestic product and other measures of the output of entities smaller than a whole economy.
Footnotes

4. The equities market in the UK was valued at around £1756bn in 2013 and the fixed income market at £2282bn.
7. We estimate the following capital values per sqm for total stock levels in Scotland: Retail £1940; Offices £1235; Industrial £520. This compares to IPD data (Quarterly Universe) for the weighted average of Capital Value per sqm at the end of 2013 for the rest of the UK of: Retail £2868; Offices £1693; Industrial £435.
9. Infrastructure was included in the 2007. It has been considered more appropriate to exclude it here as it cannot be strictly construed as commercial property.
11. The role of commercial property in the UK economy: IPF 2013.
13. Based on the sharing factor of construction output noted earlier.
14. Using the appropriate multipliers outlined in Appendix 1.
16. These are the amounts payable to the government for taxes, levies and duties. Included are rates relating to industrial and commercial property which are payable to the government via local authorities. Taken from Scottish Annual Business Statistics August 2014 for 2012 the latest data available.
18. Excluding buying and selling of own real estate and renting and operating of Housing Association property.
19. See also D Currie and A Scott. The place of commercial property in the UK economy: London Business school report January 1991. In the case of 2007 the problem originated in the residential market not the commercial market, and in the US not the UK. The point is well made however.
23. Both these sets of numbers taken from their 2014 Annual Reports.
28. With thanks to Chris Stewart Group, Drum Property Group, Patrizia UK, Quartermile and Winchburgh Developments for pictures and captions.
Quartermile, Edinburgh

A combination of conversion and new build apartments, Grade A offices, retail and leisure.

- GDV of buildings under construction £145million
- GDV in excess of £600million

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Produced by WAMgraphics
Printed on material from sustainable forest resources
Scottish Property Federation is administered by the British Property Federation,
Registration number 778293, England, registered office: St Albans House, 5th Floor, 57-59 Haymarket, London SW1Y 4QX