



Scottish Property

VOICE

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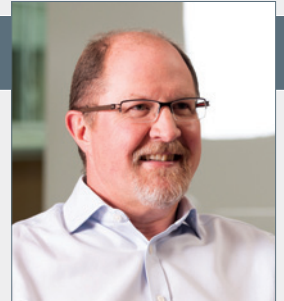
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The views expressed in this newsletter are solely those of the authors and are not necessarily those of the Scottish Property Federation.

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Chairman's Column



Over the past few weeks, I have had the opportunity to meet with members in Dundee and Aberdeen as part of our regular series of working lunches.

Not only do these events provide the perfect forum for the SPF, members and public sector officials to engage in an informal setting, but they also act as an excellent barometer of the current state of the industry.

Starting with the positive and following our campaign over the last year to boost Scotland's attractiveness to inward investment, I was heartened to see the step change in support for the industry from the Scottish Government and other public agencies. In Aberdeen, both the City Council and Scottish Enterprise discussed their involvement with the government backed Scotland pavilion at MIPIM 2019. This will be one of the first times that Scotland has had a united front in Cannes and is a sign of the Finance Secretary's recognition of the contribution that real estate investment makes to the country.

Also noted at the meetings was the continued development of the Scottish National Investment Bank. In the short term, the Bank sends the message from the highest level that Scotland is open for business and investment. While in the longer term, I am keen to see the Bank as a source of funding for our industry, a point that we have consistently made to the Government and repeated in our response to the recent consultation.

These developments on MIPIM and SNIB are welcome and come after the influential report we commissioned from the Fraser of Allander Institute. The report quantified that the Scottish commercial real estate industry alone contributes almost £4.8bn to the Scottish economy and supports more than 92,000 jobs.

There are, however, still major hurdles facing the industry, and these came up in both Dundee and Aberdeen. The effect of empty rates was particularly apparent in Aberdeen and was a key focus of the discussion. At a time of subdued economic activity in the city and suppressed demand for office space, the burden of empty rates is now becoming unsustainable. I am sure that most of us have seen the reports coming from the Granite City of buildings once worth millions changing hands for just a fraction of that value in the current market. Of course, there are other factors at play, but the current rates regime does little to support an already weak market.

... continued on page 2

Going forward, similar to the support that the Scottish Government has afforded the industry with rates relief on new build, we must now make the case for a relief on refurbished properties. Not only would this support the market in Aberdeen and the North East, but it has the potential to incentivise owners to create value and improve their properties; rather than considering demolition as a solution to their rating liabilities. As business rates policy continues to evolve, we will continue to advocate that Scotland's commercial properties should be taxed in a proportionate way.

Meanwhile, the cost of construction and a growing skills shortage came up in Dundee. Members talked of the viability of their projects being threatened because the costs of securing the right skills and materials were pricing small and medium developers out of the market. There were also fears that the recent proposals to change the building standards system, while necessary, could make the situation worse.

I doubt whether there will be any easy answers to these significant issues, which I feel will require more systemic change to the way our industry operates. Following from the meeting in Dundee, the SPF will continue to engage with the government on this issue and in the new year we plan to have an event on the future of the Building Standards System in Scotland.

As you will be aware, my time as Chairman of the SPF comes to an end at our Annual Dinner next week, and before I sign off I would like to thank you all for your support over the past year. Attending events across the country, and meeting with various public sector stakeholders, has given me a renewed appreciation of the talent and strength that exists within the Scottish real estate industry, and the important role the SPF plays as a representative body. Going forward, I wish Miller Mathieson all the best for the next year as Chair and I look forward to seeing the SPF continue to succeed and grow!

SPF Annual Conference 2019

CREATING VALUE Building Scotland's Economy

Edinburgh
International
Conference Centre

Wednesday 6 March 2019

KEYNOTE SPEAKER

Derek Mackay MSP

*Cabinet Secretary for Finance,
Economy and Fair Work*

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DATE

SPF



Welcome to Scotland's Urban AGE

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We are living in the century of the city.

For the first time in human history more people live in cities than the countryside - by 2050 it could be 70% of the global population.

To understand how this major shift is affecting Scotland's principal cities, Burness Paull commissioned a major research project in partnership with Glasgow Urban Laboratory at the Glasgow School of Art to provide businesses and public sector decision-makers with new insights and to stimulate debate and discussion on the future roles and prospects of Aberdeen, Glasgow and Edinburgh.

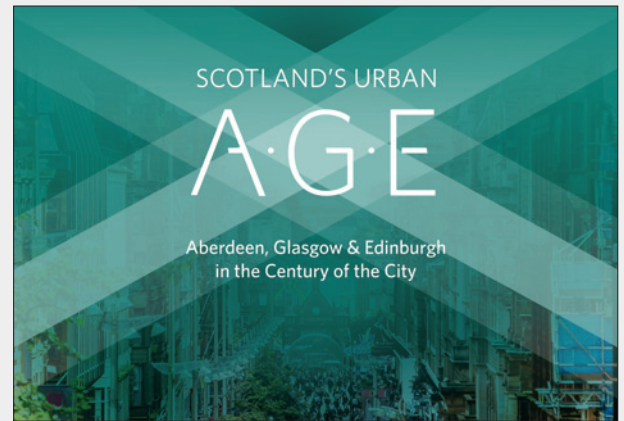
The result is Scotland's Urban AGE. The document is interested in the nature, character and performance of Aberdeen, Glasgow and Edinburgh individually and as a group of cities in Scotland, their fitness to participate within their immediate city systems and the challenges and opportunities they face. Although some degree of comparison is inevitable, it is not the purpose to rank the individual cities but rather to consider the collective performance of urban Scotland in the knowledge age.

The report found the change in living habits has been driven by a series of distinct trends: ageing populations, low fertility rates, economic migration, automation and digital connectivity. The result is an irreversible change in the balance of population, both internationally and here in Scotland. But can our cities cope with this decisive switch from rural to urban living? Are they truly fit for purpose?

Scotland's cities face many challenges. None are remotely close to the 'megacity' category like London, Paris or Beijing, that have become epicentres of economic growth in their respective countries. They also lag behind similar-sized cities across Europe against a range of indicators. Productivity needs to improve, and there must be higher levels of enterprise and innovation. To do so, much more than incremental change is required.

What does that look like in reality though, in terms of both policy and investment? What will it take to unlock the potential of our cities - and what are the risks to our economic and social prospects if the opportunities are not seized?

The available evidence shows that the AGE cities - Aberdeen, Glasgow and Edinburgh - are the key drivers of the Scottish economy.



If they are performing well the spin-off benefits to other cities, towns and rural regions are clear. However, these cities need to grow their knowledge economies, close the productivity gap and tackle the problems of low skills and low pay. And it is the strength of a city's design, both spatial and intellectual, which ultimately determines how well it can tackle these issues and generate positive growth.

Burness Paull commissioned the Glasgow Urban Laboratory at the Glasgow School of Art to prepare Scotland's Urban Age in order to examine the roles and potential of the AGE cities in securing Scotland's future economic success. It takes the pulse of those similar yet individually distinctive cities: Aberdeen - the Granite City with its truly international business links and Scandinavian facing outlook; Glasgow - the Dear Green Place, creative, resilient and metropolitan; and Edinburgh - Athens of the North - an elegant, competitive European capital. The report highlights what is working well, what is not, and recommends actions aimed at strengthening these three key cities, so that they can become leading players on the international stage and at the same time drive forward the wider economy within Scotland.

From employment to culture, housing and transport, the research is positioned to inform and also spark discussion around how the private and public sectors, along with empowered local communities, can work together to create a new, sustainable urban agenda that benefits the whole country. Planning and investment policies need to be driven by people bold in innovation, ambitious for sustainable growth and generous with creativity.

The complexity of tackling the new urban age means there is no single solution or 'silver bullet' that can solve the challenges the AGE cities face. However, by drawing comparisons to similar sized cities and nations elsewhere and understanding how the successful ones have made progress, we are able to understand the scale of the task and how radical some of the solutions may require to be.

The report offers a menu of choices for the future direction of the country's critical hubs, highlighting the challenges and suggesting potential solutions. We hope Scotland's Urban AGE will inspire you to play your part in the debate and actively contribute to the way your own locality is shaped in the years ahead.

[Click here to download the report.](#)



Delivering Build to Rent

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Movers & Shakers' Build to Rent (BTR) Forum Scotland held in Edinburgh on 11th October, in its 4th year, was the most successful yet. Building on previous Forums, and the accelerated growth we have seen over the last year, the theme for this year's Forum was 'Living with Build to Rent' - reflecting that there are now around 700 BTR homes now being occupied, and close to 5,500 in the pipeline.

I made the somewhat flippant observation at the Forum that developers seem to be focusing more on delivering amenity for cyclists over pets, despite only 6% of the population using a bike more than once a week compared to 50% owning a pet. My point was though a serious one. As an industry, we need to ensure we are delivering products for the particular renter whose needs we are seeking to fulfill. We need to make their rental property feel like home and (if they want to) make them want to stay for the long term, whether that's allowing them to decorate, hang pictures or live with their fur babies.

Enabling residents to live in a rental property as long as they like, brings me on to challenges with security of tenure, particularly under Scotland's new private residential tenancy. Being open-ended, with no fixed term, can actually make renters feel less secure, because they aren't able to confidently say they'll be guaranteed to live somewhere for at least a year, or three years, or however long. Of course, unlike some traditional private rental sector (PRS) landlords, BTR landlords are 'in it' for the long term, and want to encourage their residents to stay with them. In fact, it's one of the key benefits of BTR. The challenge is that it will take time to build that trust - for renters to understand and appreciate the difference.

Moving on from actually 'Living with Build to Rent' to the challenges faced in getting more homes delivered in the first place. What was clear at the Forum was that there is no shortage of investors willing to support developers in accelerating delivery in Scotland. However, as was argued at the Forum, with few exceptions, local authorities in Scotland do not have a good understanding of BTR. The bureaucracy of the planning process (particularly in terms of negotiating Section 75 contributions) and securing a building warrant, continues to create otherwise avoidable obstacles to investment.

This was clearly articulated by one investor panelist who delivered a warning shot, "Scotland needs to get going or the capital will move elsewhere."

Frustratingly, whilst there was a fantastic mix of delegates at the Forum, there was little representation from those involved in Policy and/or Planning. With £millions if not £billions ready to invest, we are still not reaching or engaging the 'gatekeepers'.

Scottish Housing Minister Kevin Stewart's keynote address reiterated the Scottish Government's desire for this industry to grow quickly. He expressed a willingness to support the concept of joint ventures between investors and local authorities to deliver much needed housing for rent, and to get the message across to council leaders. He did make the point though that their lack of representation at the Forum might have had something to do with the fact that it was held on the same day as the annual COSLA conference!

Whatever the reason, the fact remains that local authorities still need to be engaged, and efforts to educate them on what makes BTR different to the traditional PRS, as well as the wider economic impact it can deliver, need to be cranked up before it's too late.

No longer can local authorities accuse the BTR sector of only 'delivering housing for yuppies'. Very few of the homes in the pipeline could be considered 'prime' or 'premium'. We are seeing more consideration being given to delivering family housing and mid-market. As one developer at the Forum put it, "BTR is about providing housing for 'the forgotten majority' - those who do not qualify for social rent but who do not want or cannot afford home ownership, and are being squeezed by rapidly rising PRS rents."

Homes for Scotland recently calculated that each house built in Scotland creates around four jobs. The existing BTR pipeline could contribute around 25,000 jobs, but this could be doubled if we were to increase BTR delivery in proportion with the rest of the UK.

Local authorities cannot risk shooting themselves in the foot and doing a real disservice to the communities they are meant to serve.



Policy Round-Up October 2018

Some key policy developments for the industry

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COMMERCIAL REAL ESTATE

At the close of September, we gave oral evidence to the Scottish Parliament's Environment, Climate Change and Land Reform Committee as part of their scrutiny of the Scottish Government's draft regulations to introduce a new Register of Controlled Interest in Land. Moving into October, we attended a seminar at the Edinburgh City Chambers to consider office, industry and business needs in the coming years in the city and a Bill making provisions for a South of Scotland Enterprise Agency was published on the Scottish Parliament website.

RESIDENTIAL INVESTMENT & MANAGEMENT

Regulations came into effect this month, which mean that certain people who are engaged in letting agency work must be signed up to the Letting Agent Register. In addition, following the passage of the Housing (Amendment) (Scotland) Act 2018, the Office of National Statistics reclassified housing associations and other RSLs in Scotland as private sector organisations.

PLANNING AND DEVELOPMENT

The Planning (Scotland) Bill continues to negotiate its way through Parliament and the Bill Team Leader heard the SPF Planning and Development Committee's concerns about the direction of travel. The Scottish Parliament's Local Government and Communities Committee has agreed a raft of amendments that move further from the policy aims of the Bill, to streamline the planning process, which will create significant challenges at Stage 3 to make the Bill work in practice.

Meanwhile, the Scottish Government has committed to consulting on a review of planning fees regulations (including the principle for a developer to pay a higher planning application fee for an accelerated service). Historic Environment Scotland is also consulting on its draft replacement of the Historic Environment Scotland Policy Statement.

BUILDING STANDARDS & SUSTAINABILITY

We responded to the Scottish Government's consultation on building standards enforcement and fire safety and were broadly in agreement with the Government's proposals for a more prescriptive compliance system and its proposed changes to fire test standards. However, we noted that many of the government's plans would rely on local authority building control departments having adequate resources.

The City of Edinburgh Council building standards service changed its internal management and begin to implement a service improvement delivery plan.

We attended the first meeting of an industry group set up to support the Council's drive to improve standards and service delivery.

PROPERTY TAXATION

We joined a number of other stakeholders in a meeting with Kate Forbes MSP, Minister for Public Finance and the Digital Economy. The focus of the discussion was the forthcoming Non-Domestic Rates Bill, which is intended to implement the bulk of the key recommendations of the Barclay Review of Business Rates. In the meantime, following an announcement by the Minister, hotels across Scotland and offices in Aberdeen and Aberdeenshire will continue to see a cap on business rates bill rises of 12.5%.

PROPERTY FINANCE

Industry and public sector representatives met this month to hear the Scottish Government's proposals for 'Team Scotland' at MIPIM 2019. The SPF, investors and key Scottish Government representatives - led by Finance Secretary Derek Mackay - met in London to launch the Scottish Government's new Invest in Scotland Prospectus, ahead of the MIPIM UK property conference.

We also hosted a meeting for members and key Scottish Government officials to discuss the establishment of the Scottish National Investment Bank, including its proposed governance arrangements and the duration of any debt or equity support.

BUDGET OUTLOOK

The Chancellor announced in his budget that the UK Government is to contribute £150m for the Tay Cities Deal to be agreed and to make progress on the Borderlands and Ayrshire Growth Deals. The Chancellor also announced that the UK Government will begin formal negotiations towards a creating a Moray Growth Deal.

Meanwhile, the Scottish Government has also committed to take forward a National Infrastructure Mission and increase Scotland's annual infrastructure investment, until it is £1.5 billion higher by the end of the next Parliament (compared to 2019-20).

Elsewhere, the Scottish Green Party has set out the policies that it would like to see included in the upcoming Scottish Budget, to gain the support of its MSPs. We now await the 2019/20 Scottish Budget, which will be delivered to the Scottish Parliament by Finance Secretary Derek Mackay on Wednesday 12 December 2018, with anticipation.



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