

SUBMITTING EVIDENCE TO A SCOTTISH PARLIAMENT COMMITTEE

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Date:	13 February 2019
Organisation: (if required)	Scottish Property Federation (SPF)
Topic of submission:	Scotland's Construction Sector Inquiry

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ECONOMY, ENERGY AND FAIR WORK COMMITTEE

SCOTLAND'S CONSTRUCTION SECTOR INQUIRY

SUBMISSION FROM **THE SCOTTISH PROPERTY FEDERATION (SPF)**

About the Scottish Property Federation

1. The Scottish Property Federation (SPF) is the voice of the real estate industry in Scotland. We include among our members: property investors, including major institutional pension and life funds; developers; landlords of commercial and residential property; and professional property consultants and advisers.
2. The SPF welcomes the opportunity to respond to this consultation and would be pleased to discuss further our views and comments with the Committee.

Economic impact of the sector

3. In Scotland, commercial real estate is one of the fundamental building blocks of our economy and encompasses a vast range of essential economic and social infrastructure. Our industry provides the professionally-managed rented homes in which many people live; the commercial space in which virtually all types of businesses operate; and the shopping centres, restaurants, cinemas and more in which people spend their leisure time. It is also a key driver of growth and productivity, attracting long term, domestic and overseas capital into the renewal of our towns and cities.
4. In 2018, the SPF commissioned the Fraser of Allander Institute (FAI) to find out the economic value of the commercial property sector to Scotland. FAI estimated that commercial property construction, commercial property repair and maintenance and the commercial real estate industry, sees commercial property contribute almost £4.8bn to Scottish GVA. This is equivalent to 3.7% of the country's GVA. Such activity also helps to support around 49,000 direct FTE jobs in Scotland and a further 43,000 jobs as a result of spill-over effects.
5. Using a different methodology, which included a wider definition that focused upon new commercial work, FAI found that commercial new work alone was worth around £5.17bn to the Scottish economy in 2014. It was also found that a £100m increase in final demand for commercial new work is estimated to raise an additional £73m from indirect and induced effects across the Scottish economy.
6. The construction of new commercial property also provides a significant tax contribution. From a devolved perspective, the most important of these are non-domestic rates and the Land and Buildings Transaction Tax.

7. The full FAI report can be found at:

<https://www.scottishpropertyfederation.org.uk/sites/default/files/resources/The%20economic%20contribution%20of%20the%20commercial%20property%20sector%20-%20March%202018%20FINAL.pdf>

Implications of Brexit

8. Brexit will inevitably have implications for the construction sector and wider property industry over the coming years. Our colleagues at the British Property Federation have created a *Brexit Manifesto*, which identifies five key objectives that the property industry would like the government to pursue to support real estate investment. These include:

- Working in partnership with the industry to maintain business confidence and drive economic growth;
- Providing a stable and competitive tax, regulatory and planning system;
- Encouraging, funding and enabling infrastructure investment to unlock land and productivity improvements;
- Working with the industry to ensure we have access to the skills needed for construction and development; and
- Supporting an increase in housing supply across all tenures.

9. The full Brexit Manifesto can be found at:

<https://www.bpf.org.uk/sites/default/files/resources/BPF-Brexit-manifesto-Jan-2017-web.pdf>

Access to finance

10. Access to finance is currently challenging and developers are often unable to obtain capital for projects - even in markets where there is strong demand or limited supply. This is primarily due to banks being more risk-averse and because of a greatly increased regulatory structure controlling lending for commercial real estate projects in the UK.

11. Indeed, a recent de Montfort University half year survey of UK commercial property lending found a 24% decline in lending activity in the first half of 2017 compared to the first half of 2016. The report also found widescale regional differences, with in excess of 50% of UK lending in the first half of 2017 directed towards London and the south east of England.

12. More broadly, the lack of finance - even for relatively small-scale projects - is an inhibitor to the diversification of the sector. If start-up property businesses cannot get access to finance for capital-intensive businesses such as property, then we will not see an expansion in the number of SME housebuilders or property entrepreneurs. SMEs often play an important role in developing smaller sites; re-using older buildings that have fallen vacant; or producing new homes in locations or on sites not seen as worthwhile by larger scale developers and investors. By developing these relatively niche sites, SMEs help to create additional opportunities for the construction sector, but again this is dependent on being able to access finance.

13. The SPF recognises the support of the Scottish Government in making real estate investment a key component of the new Scottish National Investment Bank. This investment has the

potential to filter throughout the industry and generate construction opportunities through the creation of new buildings and the redevelopment of existing sites.

Skills

14. The SPF is increasingly concerned that there is a growing skills shortage within the property and construction industries. This has the potential to create knock on effects for the growth of the sector and has wider implications for the Scottish Economy. We know of several members who have had difficulty obtaining certain key skills, which has produced time and cost implications for their projects and investments.
15. A shortage of skills within the sector is also making it increasingly difficult for local government to fulfil the key roles it is expected to carry out in relation to building control (building standards) and planning. Our members are concerned that this could leave local authorities unable to process applications in a timeous and efficient manner, which could delay important decisions. Within the development industry, time is often of the essence and such delays can leave projects in limbo or cause investors to look for opportunities elsewhere – with serious consequences for the Scottish construction sector.
16. Our members have also cited concerns about the limited opportunity to develop certain key skills within Scotland. Our members have reported that opportunities to attend courses in Scotland for high skilled jobs, such as planning and surveying at university, are becoming increasingly limited. It is imperative that stakeholders from across the industry, government and education sector work together to increase the talent pool in Scotland's construction and property industries.
17. One solution to the shortage of skills is to make the property and construction industries more inclusive and diverse. These industries have traditionally struggled to attract certain sections of society, who often perceive them to be exclusive. Going forward, these perceptions must be changed, and the property and construction industries must demonstrate that it is open to all.

Innovation

18. Scotland must be at the forefront of new technologies and embrace contemporary housing models if it is to expand its construction industry and maintain its record for innovation. It is important that regulation adapts to allow the use of new technologies and that both industry and government (no matter what level) maintain a close dialogue to ensure that the development environment in Scotland is open to investment.
19. One area of innovation that could become increasingly widespread is modular construction. Modular building significantly reduces the timescale for building homes (and other buildings) and can often be more efficient than traditional methods of construction. Modular homes are built in a factory environment, in tightly controlled conditions, using cutting edge methods and materials - factors which allow for a high degree of accuracy. Companies pioneering the use of modular construction also carry out a series of quality checks before the product leaves the assembly line.

20. The implications for modular construction are potentially widespread. For example, the reduced time that it takes to build modular homes could mean that housing targets are more achievable, and there is also the potential to customise homes to suit families and an aging population with relative ease. In addition, at a time of growing skills shortages, the efficient construction process of modular homes can help to alleviate the pressure on suitably qualified construction workers.

21. Another area of development that could see a significant boost to the construction industry in Scotland is the growth of the build to rent sector. Build to rent could represent a fundamental shift in Scotland's rental accommodation offering, by creating new purpose built, high quality and institutionally managed properties. These properties will provide a good quality alternative option to the traditional private rented sector and increase the number of homes in Scotland. In this new and exciting sector, however, Scotland is lagging behind the rest of the UK in the number of build to rent units that have been built or that are in planning.