

# Go for Growth with Scotland's Economy

## A property manifesto for sustainable growth in the Scottish economy



Like much of the wider UK and nearby economies, in Scotland we continue to see challenging economic conditions, particularly in credit availability and business demand. The property industry itself is producing perhaps a third of its former contribution to the economy. Sales of commercial property are about a third of their former value while new orders for commercial property are also around a third of their former total value<sup>1</sup>.

In this forthcoming Scottish election, the Scottish Property Federation believes the economy **must be the central issue**. We make this argument because we believe all other policies will either fail, or will be seriously undermined if our economy and the jobs it sustains are not made a priority.

Scotland enjoys some key economic strengths and the property industry often has a major role to play in ensuring their continued success - outside of London, Glasgow is regarded as the second strongest retail destination in the UK and has major engineering and manufacturing capabilities; Aberdeen is one of perhaps two global centres for energy expertise; despite the well publicised issues surrounding the major Banks, Edinburgh remains a major financial services centre, particularly in fund management; and Dundee has major strengths in the knowledge economy and is developing a key cultural asset in the V&A museum along the fine natural backdrop of the Dundee waterfront.

If we add to this the recognition of the Scottish Highlands as one of the most desired places to visit in the world and the potential of Inverness as the gateway to the Highlands then we can discern core strengths and opportunities for growth - and **we must back our 'winning' cards in order to secure growth for Scotland**.

Even to retain these core strengths among many others not least in our growing renewable energy sector, we must invest and improve our infrastructure if we are to keep in touch with our competitors. We explain why we believe the property industry has a vital role to play in growing Scotland's economy and how this can be supported by the Scottish Government to be formed from this year's Scottish elections.

<sup>1</sup> Registers of Scotland data tracked by SPF 2006-11; the value of New construction orders are published annually by ONS (formerly UK Government Department BIS)



## Real estate and the economy

Business property is an important factor of production. **Without factories, offices, shops and leisure facilities the productive activities of business would not be possible.** Inevitably, because business property is such an important factor of production its performance is closely linked to the overall performance of the nation's economy.

Anything that has implications for the economy will have implications for commercial property. In different ways this is true of both the occupier (rental) and investment markets and this dual susceptibility has been amply demonstrated over recent years, where a double whammy of poorer economic performance and the lack of available credit have significantly affected the performance of both the investment and more recently the occupier markets.

Clearly there is a relationship whereby poor economic performance will affect the use of property **but sensible public policies with regard to property will be a driver of wider economic growth.** We believe that there are opportunities in this regard across the life cycle of real estate from planning and development through to the economic use of facilities. This is not only true of commercial and residential property but equally true of infrastructure projects which can be a massive driver of economic output.

We believe that these issues must play an important part in wider considerations of economic growth in Scotland. They are considered in more detail below, but ultimately any **Scottish Government has to recognise that its policies are a double edged sword.** Location is not as important as it once was and traditional Scottish companies do not necessarily need to operate from Scotland. **Relocation because of adverse trading conditions is not impossible.** However, policies that encourage growth can attract inward investment and support growth in Scottish industries.

The Scottish Government must:

- 1 Ensure its policies make competitiveness a priority, especially compared to alternative locations elsewhere in the UK and Europe; in particular we must support our strongest sectors and business connections to and from Scotland
- 2 Bring forward infrastructure investment to drive the economy
- 3 Show leadership and a determined desire to attract inward investment to grow the economy
- 4 Maximise the value of the public sector and enhance its role in economic development

# The generation of sustained economic growth

As a matter of priority The Scottish Government must adopt a coordinated approach to generating improved economic growth across all sectors of the economy and recognise that real estate in its various forms is an important asset in this process.

The Scottish Government needs policies that will encourage investment by the private sector and although we recognise the levers of fiscal power are limited, nonetheless it is important that the Scottish Government plays its part in encouraging the availability of finance on affordable terms. We believe that policy tools such as a rebalancing of budgets to give greater emphasis to capital expenditure, support for the use of Tax Incremental Financing, support for the introduction of Business Rates Incentive Schemes<sup>2</sup> and the introduction of an Infrastructure Loans Fund (or Unlocking Fund) are important in this regard.

To encourage economic growth we believe that there is scope for improving the coordination of the various organs of the Scottish Government that are responsible for infrastructure provision and their budgets (planners, roads, water, drainage, power, heritage bodies, etc). Better co-ordination of these functions will allow for the urgent delivery of infrastructure capacity in areas zoned for development.

We believe the Scottish Government can also maximise the value and resources of the public estate in order to provide crucial capital expenditure for infrastructure investment. The private sector has for some years successfully adopted strategies of sale and leaseback in order to unlock the capital value of its property assets. The value released can then be used to invest in growing the economy - a potentially vital source of funding in our current economic predicament.

The Scottish Government must help to promote investment in and development of business premises and infrastructure on a national basis by introducing:

- New funding mechanisms for infrastructure (local asset back vehicles, business rates incentive for local authorities, tax increment financing)
- Scotland must have competitive property and business taxes - long term empty property rates relief is a vital support for struggling businesses and potential investors in our built environment (we must at least retain the current relief)
- Secure support via EU funds (as with JESSICA) and UK Government enterprise zones where appropriate
- Raise capital funds through sale and leaseback of public property, as has been successfully done in the private sector, to release funding for infrastructure to support the capital expenditure budget and drive the economy
- Where there are blockages to economic development, the Scottish Government must consider central intervention to broker and support the delivery of key infrastructure vital to unlocking economic growth
- Local authorities could be innovative, intervening to address market failures for example in their high streets to encourage business in town centres
- More cost effective planning and building control services.

<sup>2</sup> The Business Rates Incentive Scheme allows local authorities to retain additional rates revenue.



## Better Planning Services

We believe that the economic benefits of new development are given less weighting than they ought to have in the planning process. There is no statutory requirement for local authorities to promote economic development and we feel this can undermine the value of economic factors in local authority decision-making. A crucial step in encouraging sustainable economic growth would be to **give far more consideration to economic development to the extent that local authorities might have a general statutory duty on them to support economic growth.**

The SPF believes that the planning system is vitally important not just for driving economic growth but also for place-making and improving the quality of life. In the long run, these are key attributes that enhance long term value and prosperity to communities, cities and Scotland as a whole. We have long supported the concept of genuine mixed-use development, combining working, living and playing to create dynamic places. This must not be purely theoretical - in the new economic paradigm place-proving must be embedded in our approach to planning.

The Scottish Government must:

- Apply a general duty upon local authorities to promote economic development
- Simplify the planning process and introduce greater flexibility to fast-track appropriate planning applications
- Only demand detailed and costly reports and studies when and where they are necessary
- Apply processing agreements for all major planning applications, binding upon both applicant and authority.

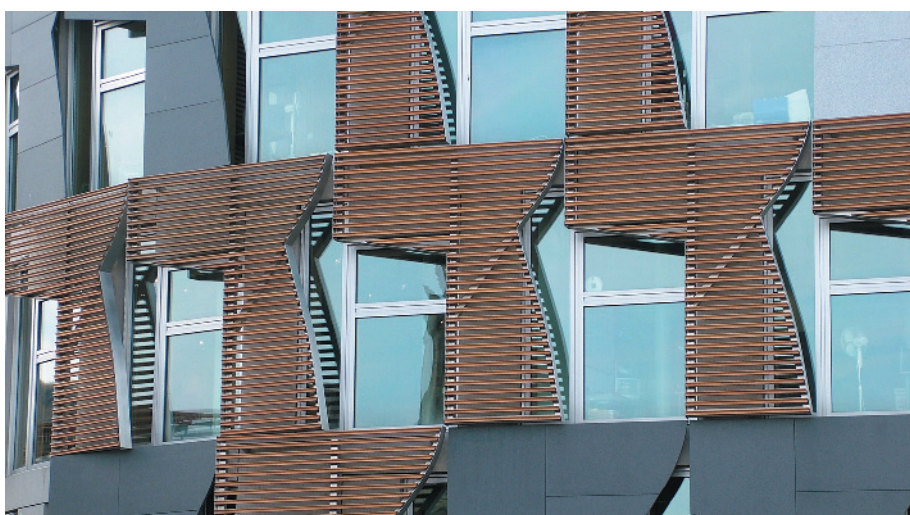


# Sustainability and the property industry

The built environment, excluding homes, accounts for over 20% of CO<sub>2</sub> emissions. The property industry therefore has a crucial role to play in meeting emissions targets. However, Scotland must improve its economic growth and **we call on The Scottish Government to support realistic climate change policies** that will effectively reduce carbon emissions without penalising businesses and other real estate occupiers with unnecessary costs or bureaucracy. The Scottish Government must also ensure that the polluter pays principle is a key part of its policy. Delivery is important and we wish to see informed, non-bureaucratic mechanisms in place to make policies work. We believe that mitigating emissions will require action in many different policy areas and we recognise that local and devolved governments will have a decisive role to play<sup>3,4</sup>. It is crucial, therefore, that **The Scottish Government ensures effective reconciliation between UK, Scottish and local authority policies that recognise all sustainability policy options.**

Other measures for the Scottish Government include:

- Opening up the verification system for independent building standards verification to commercial buildings, particularly refurbishments
- Not implementing the Sullivan recommendation for a 75% improvement in energy standards for non-domestic properties, compared to 2007 standards, for the proposed 2013 new building regulations
- Dropping the proposal for a Scottish sustainability label for commercial property or other investment property (there are already internationally recognised sustainability benchmarks in the commercial sector)
- Introducing real fiscal incentives before the enforcement of mandatory building improvements to enhance energy efficiency.



<sup>3</sup> Local Authorities construct, operate, and maintain economic, social and environmental infrastructure, oversee planning processes, establish local environmental policies and regulations, and as the level of government closest to the people, they play a vital role in educating, mobilising and responding to the public to promote sustainable development. Chapter 28 Agenda 21 (UNCED 1992).

<sup>4</sup> A key issue in this regard will be the possible post - 2010 revision of building standards regulations to further reduce CO<sub>2</sub> emissions (equivalent to a total reduction compared with 2007 of 75%). There are questions as to the cost/benefit resulting from such a level of reduction.



# Private rented residential property

With almost all local authority areas in Scotland expected to experience increases in household numbers in the next twenty years despite a falling population in half of them<sup>5</sup> we call on The Scottish Government to support greater long term and large scale investment in the private rented residential sector in Scotland to offer more options for these new households. On this basis we are delighted to see the support for boosting the private rented sector contained in *Homes for the 21st Century*<sup>6</sup> and we look forward to the progress of these policies in the next Parliament. The continued lack of access to finance for aspiring families and individuals also makes the expansion of the private rented residential sector an important policy goal. Measures to consider include:

- Policy support for new build private rented housing supply
- Consideration of changes to the planning system to allocate land for rented accommodation
- Support for the conversion of empty existing stock to private or near/mid market rental accommodation
- Support to disaggregate bulk residential property purchases for SDLT purposes, particularly if SDLT policy falls within the future remit of Scottish Ministers.

<sup>5</sup> 2008 estimate source: E Trevillion

<sup>6</sup> Scottish Government: February 2011

[www.scottishpropertyfederation.org.uk](http://www.scottishpropertyfederation.org.uk)

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Produced by WAMgraphics

Printed on material from sustainable forest resources

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