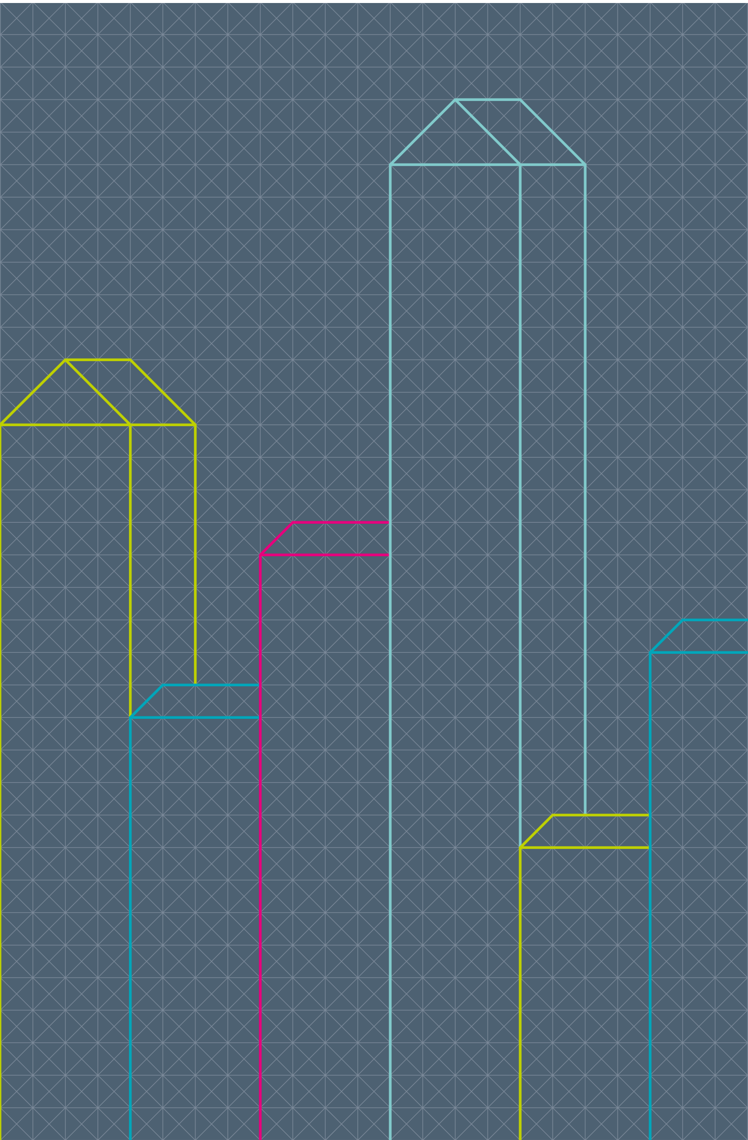
Property Data Report 2016

Facts and figures about the UK commercial property industry to year-end 2015

A publication by the Property Industry Alliance



Contents

Executive summary

This report sets out key facts about commercial property, a sector that makes up a significant part of the UK economy.

Commercial property is the physical platform for virtually all the UK's major industries and enterprises, as well as providing places in which people work, shop and enjoy leisure activities. It comprises office blocks, buildings for shops and other high street businesses, warehouses and industrial units, as well as other types of buildings, such as cinemas, gyms, hotels, petrol stations, car parks and the like.

This latest *Property Data Report* has been fully updated to cover the period to the end of 2015. Amongst its detailed statistics, this report shows:

- The value of the UK's commercial property stock reached an all-time high of £871 billion in 2015, representing 10% of the UK's net wealth.
- The commercial property industry contributed around £68 billion to the UK economy in 2015 – 4.1% of the total UK economy.
- Commercial property accounts for 13% of the value of the built environment in the UK.
- Rents have increased at a much slower rate than inflation, turnover and other business costs over the last 10 years.
- Investors own £483 billion of the UK's commercial property, with as much as 28% of that accounted for by overseas investors.
- Direct and indirect exposures to commercial property account for £178 billion of UK insurance company and pension fund investments that support the nation's savings.
- The commercial property industry directly employs almost one million people – one in every 35 jobs in the UK.

Value relative to other assets

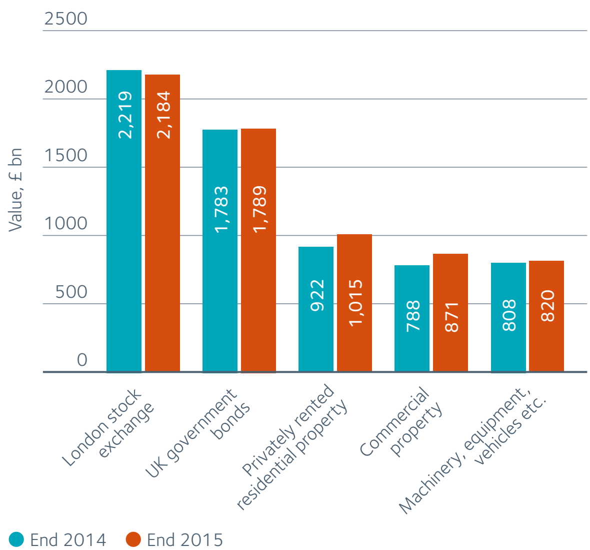
The value of commercial property reached an all-time high of £871 billion in 2015

Commercial property includes office blocks, buildings for shops and other high street businesses, industrial buildings (warehouses and most forms of factory) and other types of building, such as cinemas, gyms, hotels, petrol station, car parks and the like.

The total value of commercial property rose to an all-time high of £871 billion in 2015 – representing 10% of the UK's net wealth, and an 11% increase on 2014. This increase reflects higher rents and the prices investors were willing to pay for a given rent.

To give some context, at £871 billion, commercial property's value is comparable to the country's stock of machinery, equipment and vehicles. It is the equivalent of 40% of the value of the UK stock market and almost half the value of UK government gilts.

Privately rented residential property accounts for a further 12% of the UK's net wealth.

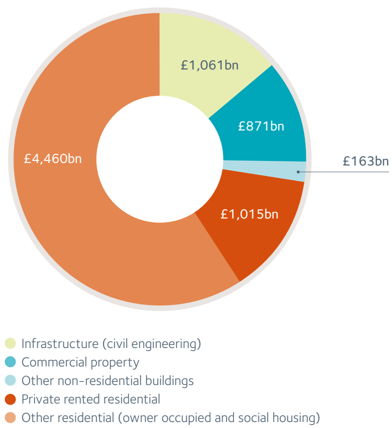


Value relative to the built environment

Commercial property accounts for 13% of the value of all buildings in the UK

With a value of £871 billion, commercial property represents 13% of the built environment, which has a total value of around £6.5 trillion. Other non-residential buildings – mainly healthcare, hospitals, schools, colleges and universities – constitute just £163 billion, less than one-fifth of the value of commercial property.

However, residential property dominates the built environment with a value of £5,475 billion, over six times greater than the value of commercial property.



More than £1 trillion worth (19%) of the UK's housing stock is privately rented, with reports regularly revealing that commercial property investors are showing increasing interest in privately rented residential property as an investable asset.

Sub-sectors

Retail represents 41% of commercial property

Retail – comprising shopping centres and out-of-town retail parks, as well as supermarkets, department stores and high street shops – is the largest commercial property sub-sector, accounting for 41% by value in 2015. Offices are the second largest sub-sector and London offices dominate this group, representing 64% of the total value of offices in the UK (but only a quarter of the total floorspace).

Hotels form the largest part of the fast-growing 'other commercial property' sub-sector.

OWNER-OCCUPIED AND INVESTED COMMERCIAL PROPERTY 2015

	£BN	% OF TOTAL
RETAIL	360	41
Shopping centres	66	8
Retail warehouses	52	6
Other retail (incl supermarkets)	243	28
OFFICES	270	31
London	173	20
South Eastern	32	4
Rest of UK	65	7
INDUSTRIAL	169	19
London and South Eastern	67	8
Rest UK	102	12
OTHER COMMERCIAL	73	8
Hotels	31	4
Leisure	17	2
Miscellaneous other commercial	24	3
TOTAL COMMERCIAL PROPERTY	871	100
of which London	330	38
of which rest of UK	541	62

Note: Figures do not necessarily sum to totals because of rounding

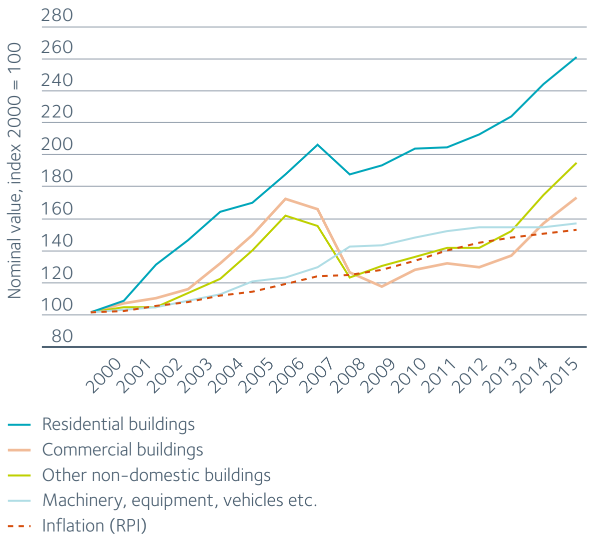
Overall, London commercial property accounts for 38% of the UK industry's total value, far greater than the 23% share of GDP that London generates. It is worth noting that London's share of commercial property has grown from 26% in 2004, mainly because property values have nearly doubled. Elsewhere in the UK, however, values have increased by only 10%.

Values over time

The total value of commercial property over the longer term has grown faster than inflation but less quickly than the total value of housing

Since 2000, the value of the UK's commercial property stock has grown by an average of 3.7% each year, compared to RPI inflation of 2.8%.

All other parts of the built environment have grown at a faster rate than commercial property. In particular, the value of housing has grown much more quickly, at 6.6% each year, reflecting greater increases in both prices and the volume of housing.



It is notable that the supply of commercial property, measured in terms of floorspace, has grown by only 1.3% in aggregate over the last 10 years. By contrast, the number of houses and flats in the UK has increased by over 7% during this period.

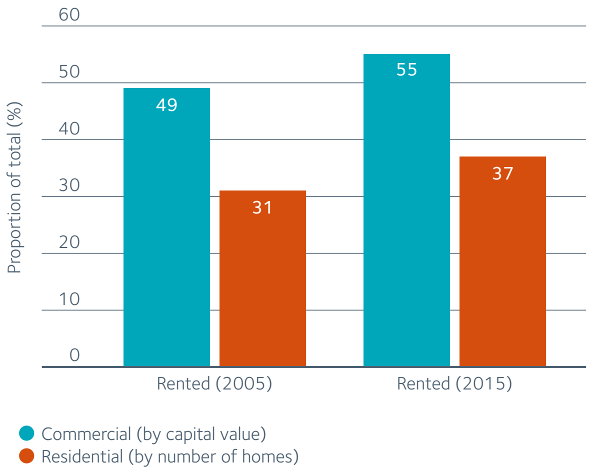
Renting versus owning

55% of commercial property is rented. In contrast, only one third of homes are rented

55% of the UK's commercial property (by value) is rented rather than owned by occupiers. This is in contrast to residential property, where almost two-thirds of homes are owned by occupiers.

With many businesses increasingly reluctant to commit capital and management time to owning the property they use, and with high demand from investors for commercial buildings, renting grew significantly during the last decade.

The proportion of commercial property that is rented, however, has stabilised since the global financial crisis.



Having been in decline up to the early 2000s, the renting of homes has since grown, mainly because of a doubling in the number of privately rented homes, which now account for 19% of the value of the UK's total housing stock.

Most privately rented homes are owned by small landlords and private property companies, but mainstream commercial property investors are increasingly interested in privately rented residential property as an investable asset.

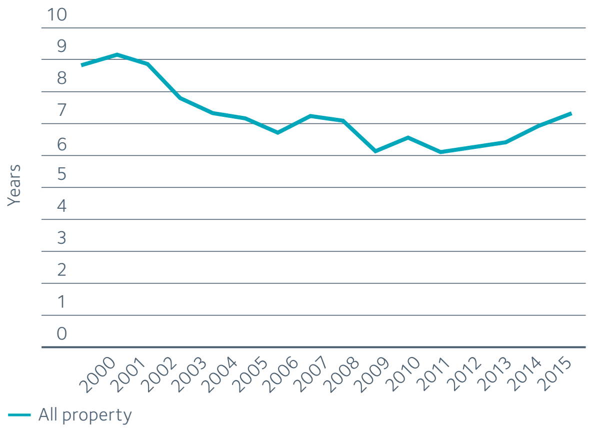
Leases

Lease lengths are slowly increasing from their recessionary lows

The terms and conditions of rented commercial properties, including lease lengths, are negotiated by the landlord and occupier.

The average lease length is now 7.2 years, having fallen substantially since the 1980s (when terms were typically 25 years). However, lease lengths have slowly increased from their late 2000s recessionary low of just six years. Furthermore, around two-fifths of leases have break clauses, which allow the lease to be terminated early, and occupiers benefit from rent-free periods at the start of the lease averaging 7.3 months.

AVERAGE NEW LEASE LENGTH*



* excluding the effect of break clauses

The retail sub-sector has experienced the most pronounced shortening in lease lengths, reflecting the preference among many, especially smaller, occupiers for greater flexibility in their property commitments. Other occupiers, particularly bigger businesses and those in better quality buildings, continue to prefer longer leases because of security of tenure as well as high initial fit-out costs. Longer leases are in turn encouraged by investor landlords, who seek long-term income security.

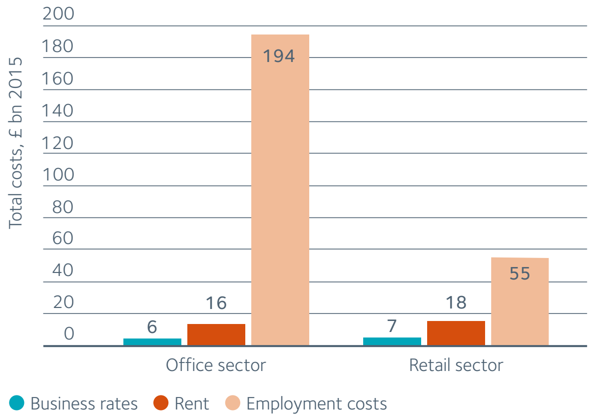
As a business cost…

Rents account for a relatively low proportion of business costs, particularly for office occupiers

At £16 billion, the cost of renting office space in 2015 was just 8% of office occupiers' staffing costs.

The rental costs to retailers, at £18 billion, were a third of the level of staff costs, representing a small proportion (5%) of retailer turnover.

Business rates, on average, add almost 40% to the current cost of renting retail and office property, although the burden across occupiers has become uneven in recent years.



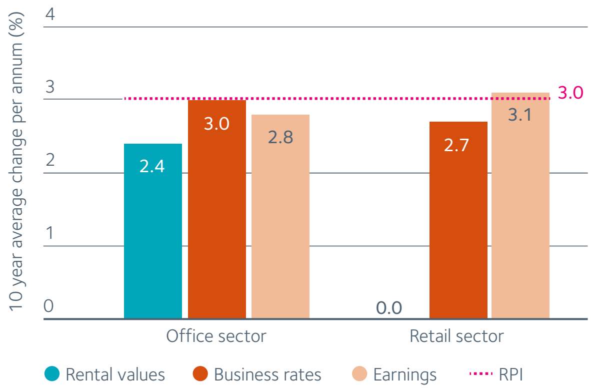
…and compared to inflation

Rents have increased at a slower rate than other business costs and turnover, particularly for retail

Commercial property rents, overall, have increased at a much slower rate than other business costs over the last 10 years and below the rate of RPI inflation.

There is a contrast, however, between the retail sector, where rents have barely changed over the last 10 years, and offices, where rents have grown relatively quickly due to the buoyant London market over this period – although this growth has still been below inflation.

Business rates have increased at a faster rate than rents and, on average, broadly in line with inflation. The divergence with rents is particularly substantial in the retail sub-sector due to negligible rental growth. Business rates in the retail sub-sector have also grown by more than the 2.5% per annum rise in sales turnover recorded.



Investor ownership

Investors own £483 billion worth of commercial property, the highest level to date

Investors, as distinct from occupiers, now own £483 billion worth of commercial property in the UK, representing 55% of the total. This is the highest value to date, exceeding the previous peak reached prior to the global financial crisis.

UK institutions (insurance companies and pension funds) were historically the biggest direct investors in UK commercial property but now account for less than one-fifth of the total, down from a quarter in 2005.

In contrast, foreign investment in commercial property has increased rapidly over the last decade, and overseas investors now own 28% of UK commercial properties held as investments.

These estimates exclude housing and student accommodation, where large mainstream commercial investors own about £29 billion worth of such property.

OWNERSHIP OF UK COMMERCIAL PROPERTY BY INVESTOR TYPE

	£BN 2015	% CHANGE 2005-15	% OF TOTAL
Overseas investors	135	125	28
UK institutional (insurance companies and pension funds)	84	-10	17
UK collective investment schemes	79	64	16
UK REITS & listed prop companies	71	37	15
UK unlisted prop companies	59	-13	12
UK traditional estates / charities	23	40	5
UK other	20	-8	4
UK private investors	13	19	3
TOTAL VALUE OF BUILDINGS IN INVESTMENT PORTFOLIOS	483	31	100

Note: Figures do not necessarily sum to totals because of rounding

In aggregate, UK and overseas collective investment schemes now own over a quarter of the amount invested in UK commercial property and represent the largest owner type, according to recent research by the IPF.

UK institutional investor exposure

Property accounts for £178 billion (around 6%) of insurance company and pension fund investments

Direct and indirect exposure to property accounts for around 6% of the £3 trillion of assets held by UK institutions (insurance companies and pension funds).

Direct ownership of buildings accounts for almost 3% of their total investments, remaining the primary way institutions invest in property. However, investors nowadays deploy a wider range of approaches than in the past.

Investments in collective investment schemes have grown, as larger investors use these vehicles to gain access to specialist skills, whilst smaller pension funds use them to gain exposure to an asset class previously accessible only to big investors.

Institutions also invest in property through their equity investments in Real Estate Investment Trusts (REITs) and other listed property companies.

INSURANCE COMPANY AND PENSION FUND INVESTMENT IN COMMERCIAL PROPERTY AS % OF TOTAL INVESTMENTS

	2015 £BN	% OF TOTAL
Total assets (equities, bonds, property, etc.)	3064	100
Directly-owned UK property	84	2.8
Investments in UK collective investment schemes (net asset value)	57	1.9
UK & overseas property company shares (market capitalisation)	37	1.2
Total property	178	5.8
Lending against commercial investment property	26	0.8

Note: Figures do not necessarily sum to totals because of rounding

It is worth noting that insurers also increasingly provide debt finance to other property investors. Estimates by De Montfort University (DMU) indicate that lending by insurance companies and their (largely institutionally-backed) fund management arms increased by over 60% between the end of 2012 and 2015.

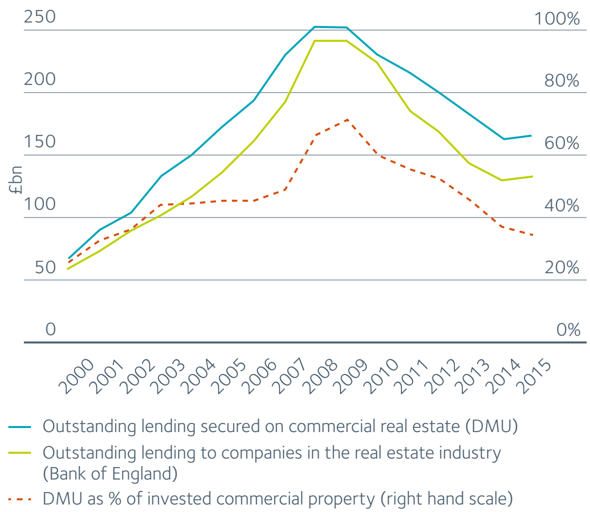
Lending

The use of debt to finance property has increased slightly, but dependence on debt is low by historical standards

Many occupiers and investors acquire commercial property using a combination of their own capital (equity) and debt. Many owner-occupiers also use their commercial property as collateral when borrowing for their businesses, according to the Bank of England.

There was a small increase in (net) lending in 2015. The Bank of England's data, relating mainly to lending by British banks and building societies to private property companies, suggest an increase of 4% to £134 billion.

De Montfort University's (DMU) latest survey, which covers lending secured on commercial investment property, shows a 2% rise in (net) lending by all types of lender to £168 billion in 2015.



The Bank of England and DMU data indicate lending is between one-third and a half lower than the exceptional levels recorded just before the global financial crisis. As a proportion of property values, lending has reverted to the relatively low levels of the early 2000s, indicating greater resilience than during the global financial crisis.

Lenders

There has been a shift towards a more diverse range of lenders, as UK banks and building societies' share of outstanding loans falls to 45%

Traditionally, UK banks and building societies were the principal lenders to UK commercial property but their dominant position has been rapidly eroded in the years since the financial crisis. They now account for only 34% of new lending and 45% of the value of outstanding loans.

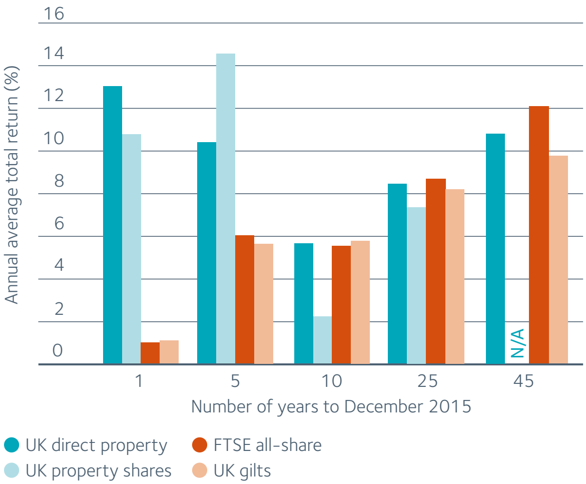
* 2008 split between 'UK banks and building societies' and 'Insurance company and other non-bank lenders' estimated on the basis of further information provided by the authors of the DMU report.

A broader range of lenders (such as insurance companies and debt funds) has emerged over the last five years. Non-traditional lenders accounted for 25% of new lending in 2015 and 22% of all outstanding loans, a substantial increase from only around 5% of outstanding loans in 2008.

Investment performance

Commercial property has delivered higher investment returns than other asset classes over the last one and five year periods

Returns from investment in directly-owned commercial property – at 13.1%, according to the IPD Annual Index – were substantially higher than UK equities and bond returns in 2015. Property company shares also delivered comparatively high returns. The performance of property shares and property over five years also comfortably exceeded the performance of the FTSE and gilts.



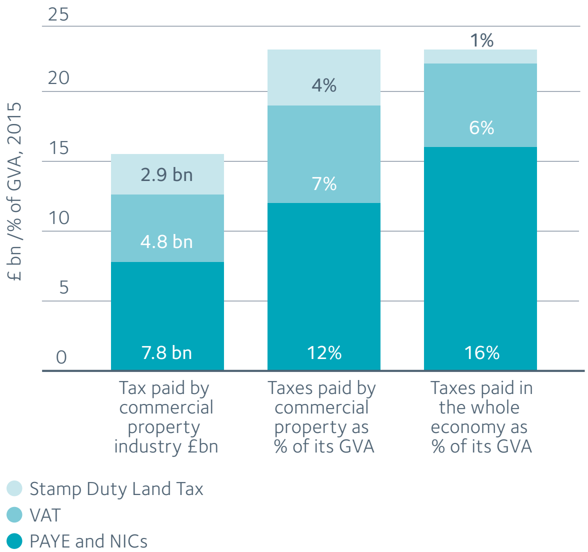
Over the longer term, the performance of directly owned commercial property – at 10.9% per annum since 1971 (IPD's earliest data point) – lies between the returns of gilts and equities. This ranking is in line both with surveys of investors' longer-term expectations and with the historical pattern of risk – commercial property returns being less volatile than equities but more volatile than gilts.

Taxes paid to the national Exchequer

The commercial property industry directly contributes over £15 billion in taxes to the national Exchequer

The commercial property industry is taxed in many ways. The direct contributions from some of these taxes – including Stamp Duty Land Tax (SDLT), VAT, PAYE and National Insurance Contributions – can be calculated with reasonable accuracy.

These taxes total nearly £16 billion, representing almost a quarter of the industry's Gross Value Added. This is a greater proportionate tax burden than in the economy as a whole, reflecting the taxation of property transactions through SDLT. Recent research for the BPF indicates that commercial property is taxed more heavily than residential property.



Occupiers also paid over £20 billion in business rates, much of which (according to research) was effectively borne by property owners through lower rents. Other direct taxes paid by the industry, such as Corporation Tax, business rates on empty property and the Community Infrastructure Levy, are much harder to assess.

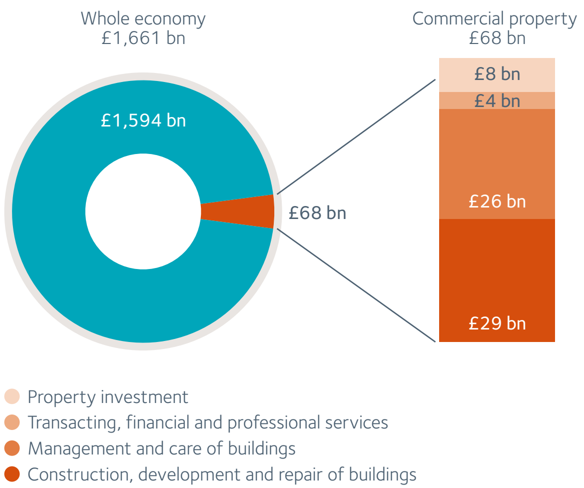
Economic contribution

Commercial property contributed £68 billion (4.1%) to the UK economy in 2015

The commercial property industry contributes to the UK economy in many ways. It finances and constructs new buildings. It invests in and manages the accommodation needs of retailers, businesses, distributors, manufacturers, hoteliers and many parts of the public sector. It also maintains these buildings and facilitates the buying, selling and letting of such property.

In total, these activities directly contributed about £68 billion to the economy in 2015 – representing 4.1% of the UK's Gross Value Added.

COMMERCIAL PROPERTY INDUSTRY GROSS VALUE ADDED 2015



Note: Figures do not necessarily sum because of rounding

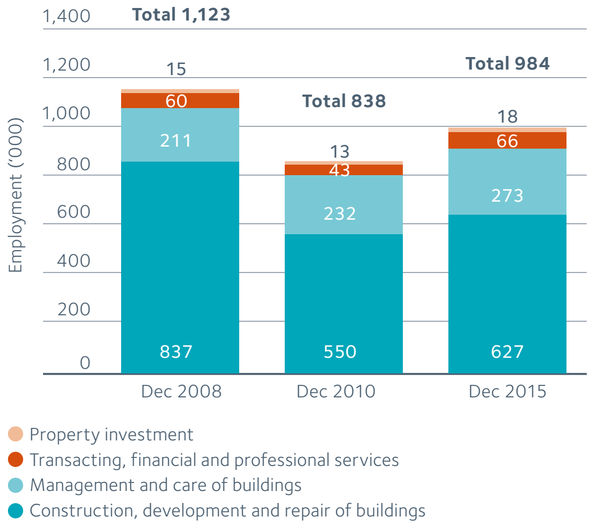
Commercial property's economic contribution is comparable to that of the UK's telecommunications and transport industries combined, highlighting the sector's importance to business and to people's everyday lives.

Employment

The commercial property industry employs nearly a million people

The commercial property industry employs 984,000 people, with the majority of these jobs involving the construction, development, repair, care and management of buildings.

Employment in the industry has recovered from its recessionary low of around 838,000 in 2010 but is still below mid-2000s levels. In particular, employment in commercial property development has remained low because of low levels of new construction.



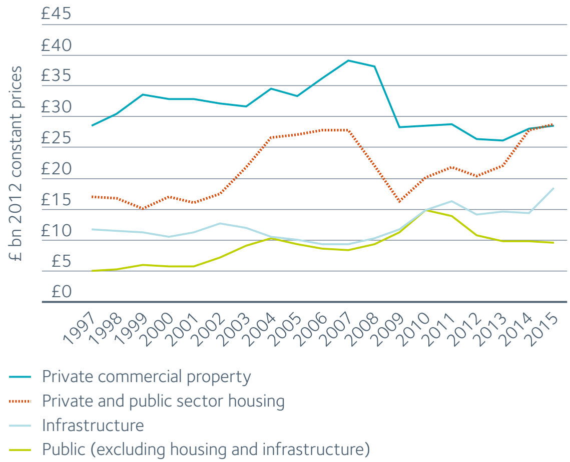
The UK's commercial property investment sector (investment and fund managers, REITs and property companies) is a small, but high value-added, part of the industry, and the largest in Europe. It generates over £400,000 value-added per employee – nine times the average for the economy as a whole.

Construction

Commercial property construction levels remain low, in contrast to house building and infrastructure

The volume of commercial construction has shown little sign of recovery since the financial crisis in 2008. The exception to this is the industrial sub-sector, where the development of logistics centres for internet retailers in particular has increased substantially over the last two years.

In general, however, new commercial property development is still substantially below mid-2000s levels.



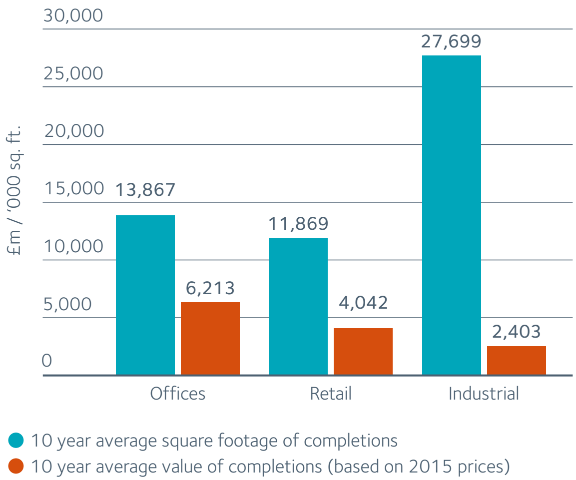
By contrast, both infrastructure and housing construction have fully recovered from the late 2000s downturn and are posting volumes above their mid-2000s levels.

Regeneration

54 million square feet of commercial property is built every year

The commercial property industry has been adding an average of about 54 million square feet of new space every year in the last decade across the three main property sub-sectors, representing about 0.7% of the total stock of commercial property. This reflects a value (including the land) of around £12 billion – contributing 1% to the UK's GDP each year.

Activity over the last five years, however, has been running at half the previous rate, particularly in the retail and office sectors.



Despite a growing population and economy, new construction is barely covering the loss of stock through demolition and change in use to residential. The net amount of commercial property floorspace has increased by just 1.3% in aggregate over the last 10 years, according to the IPF's *The Size and Structure of the UK Property Market End-2015 Update*.

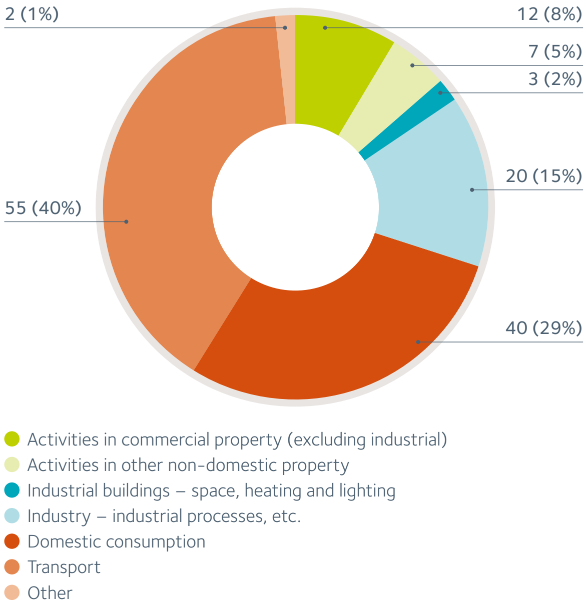
Energy consumption

Commercial buildings account for 10% of UK energy consumption

Commercial property, excluding factories, accounts for about 8% of the UK's energy consumption, with the heating and lighting needs of factories bringing the total to 10%. Other non-residential buildings, mainly schools, colleges and hospitals, add another 5%. By contrast, almost a third of the UK's energy consumption occurs in the home. Transport is the country's biggest consumer of energy.

Energy consumption in commercial buildings (and also in residential and other non-residential properties) increased slightly in 2015 on account of the colder winter.

ENERGY CONSUMPTION BY END-USER, MILLION TONNES OIL EQUIVALENT, 2015



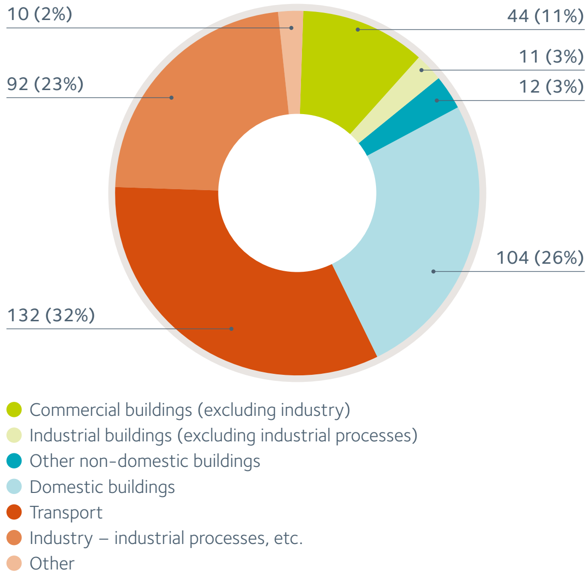
Shops are the largest consumer of energy in the commercial property sector, reflecting not only a larger amount of space but also greater energy requirements per square foot.

CO_2 emissions

Commercial buildings account for 14% of UK CO_2 emissions and, therefore, constitute an important potential source for reducing emissions

81% of CO_2 emissions are associated with residential buildings, transportation and industry, and commercial buildings account for a significant proportion of the remainder. About 11% of CO_2 emissions are directly and indirectly (i.e. emitted in the production of power) associated with shops, offices, warehouses and other commercial buildings, with a further 3% accounted for by the heating and lighting of industrial buildings. Other non-residential buildings add another 3%.

MILLION TONNES CO_2 EMISSIONS BY BUILDING TYPE/END-USE, 2015



Many commercial property investors are aware of the potential to positively impact on the UK's climate goals by improving efficiency. Emissions from commercial buildings continue to fall once the effect of variations in winter temperatures is accounted for. This trend reflects the shift in power generation away from the use of coal towards renewables.

Definitions of commercial property and activity

Commercial property is primarily made up of three core sub-sectors, namely retail, office and industrial (warehousing and factories other than heavy plant such as steel works, chemical plant, etc.) that have traditionally dominated investors' portfolios. A number of less common, newer or niche property types (commonly referred to as "other commercial property" or "alternatives" – see below) are also seen as commercial property.

Commercial property activity covers:

- the construction, development, design, and care and management of buildings;
- the fund, investment and asset management of investment property; and,
- relevant transactional services, such as investment and letting agency.

The contributions made to commercial property by the legal and property banking sectors are also included.

All forms of residential property and activity are excluded throughout from the measures of commercial property. However, it is worth noting that any clear line between property with commercial and residential uses has become increasingly blurred in recent years, as investors focus on the investable nature of land and buildings with long-term income streams in the form of rent, rather than how the land and buildings are used. For many commercial property investors, the three main sub-sectors have in recent years been supplemented by alternatives.

Definitions of other terms

Bonds	A promise by a borrowing entity to a lender to make periodic interest payments and to repay the face value of the debt on the maturity date.
Break clause	A provision in a lease which enables either the landlord or the tenant, or both, to end the lease early.
Collective investment schemes	An investment vehicle – such as a partnership or an open-ended unit trust or investment company – in which the participants pool their capital to invest in properties (or other physical or financial assets) and share the income and profits but where they do not have any day-to-day control over the management of the assets in the vehicle. The fund and its assets are instead managed by specialist third parties on behalf of the investors.
Gilts	A type of bond issued by HM Treasury promising to make to the lender periodic interest payments and to repay the face value of the debt on the maturity date.
Industrial property	Warehouses, logistics centres, and most types of factory other than structures such as steel works, chemical plants etc.
Institutions	Insurance companies and pension funds.
Lease length	The period of time for which a commercial lease is granted.
Office property	Office blocks, out-of-town business parks and data centres.
Other commercial property or alternatives	A wide range of miscellaneous building types primarily used by profit-making businesses and predominantly comprising leisure premises (cinemas, night clubs, bowling allies, bingo halls, etc.), gyms, hotels, petrol stations, car parks and the like.
Private rented residential or private rented sector	Flats and houses owned by investors such as private individuals, companies, insurance companies and pension funds, collective investment schemes, etc., but excluding local authorities and housing associations, that are rented to individuals, employees and so on.

Rent-free period A period, typically at the beginning of a lease, during which no rent is payable by the tenant.

Retail property Shop units and similar (restaurants & coffee shops, bank branches and estate agents, salons, betting shops, etc.), in-town and out-of-town shopping centres, retail warehouses and retail parks (typically occupied by DIY stores, carpet & electronics retailers, etc., as well as some high street retailers).

Total return The sum of the income received (rents, dividends, interest, etc.) and the capital appreciation of an asset, portfolio or market over a period, expressed as a proportion of the value at the start of the period.

Sources and methodologies

p6 The estimate of commercial property value is from the Investment Property Forum's (IPF) *The Size and Structure of the UK Property Market End-2015 Update* undertaken as part of the IPF Research Programme 2015-2018. The estimate is made by updating the latest April 2008 rateable values to end-2015 market values (using IPD rental growth) and capitalising these by IPD yields adjusted to reflect the more secondary nature of average property (full details are available in the IPF report).

Plant & machinery (revised to include "weapons systems") from the Office for National Statistics (ONS) *Blue Book 2016*; government bonds from the Debt Management Office and equities from the London Stock Exchange.

Total UK net worth of £8,822 billion is from ONS's national balance sheet as published in its *Blue Book 2016*.

p7 Commercial property and private rented residential sector from the IPF's *The Size and Structure of the UK Property Market End-2015 Update*; total residential property is from ONS's *Blue Book 2016*.

In making these estimates, the privately rented residential sector is calculated from the product of the number of privately rented residential dwellings (from the Department of Communities and Local Government) and the average value of a privately rented dwelling (full details are available in the IPF report).

Other non-residential property is a Paul Mitchell Real Estate Consultancy Ltd estimate, made by updating the latest April 2008 rateable values to end-2015 market values and capitalising these by yields, which are assumed to be 200 basis points below those of average commercial property. Infrastructure corresponds to that quantified as "other structures" (mainly civil engineering, such as roads, bridges, airports, pipelines, etc.) by ONS in its *Blue Book 2016*. This measure of infrastructure is not comprehensive with ONS incorporating some elements of infrastructure in either its estimates of buildings or of plant & machinery.

See the IPF's *The Size and Structure of the UK Property Market End-2015 Update* and *UK Residential Property: Institutional Attitudes and Investment Survey* for evidence of increasing investor interest in privately rented residential.

p8 All estimates from the IPF's *The Size and Structure of the UK Property Market End-2015 Update* (see p6 and p7 above for further details).

p9 Commercial property 2003-2015 from the IPF's *The Size and Structure of the UK Property Market End-2015 Update*, 2000-2002 are Paul Mitchell Real Estate Consultancy Ltd estimates using the same methodology as the IPF report.

Residential property is from ONS's *Blue Book 2016*.

Figures for 'other non-domestic buildings' are Paul Mitchell Real Estate Consultancy Ltd estimates, made by updating the April 1998, 2003 and 2008 based rateable values to the relevant year's market values and capitalising these by yields, which are assumed for 2013–2015 to be 200 basis points below those of average commercial property and which, in previous years, are assumed to be 75% the level of the average commercial property yield. Inflation (RPI) is from the ONS.

p10 Commercial property is based on the IPF's *The Size and Structure of the UK Property Market End-2015 Update*, with the commercial owner-occupied stock estimated as the residual of the total stock and the investment stock. Housing is from the Department of Communities and Local Government's Table 101 *Dwelling Stock by Tenure*, other than 2015, which is a Paul Mitchell Real Estate Consultancy Ltd estimated update to end-2015, using the latest available DCLG figures for April 2014.

p11 *British Property Federation: IPD Annual Lease Reviews* and *IPD Lease Events Report 2015*. Definition excludes "short leases" (those less than 4 years) and licences and, as stated, does not take account of any break clauses.

p12 Rental payments are based on the rental value estimates in the IPF's *The Size and Structure of the UK Property Market End-2015 Update* (note that retail is adjusted to exclude pubs and restaurants). Business rates are based on the total receipts presented in the Office for Budget Responsibility's *March 2016 Economic and Fiscal Outlook* (and estimated to be £27.7 billion for calendar 2015), pro-rated according to retail and office shares of total rateable value (estimated at 28% and 23% respectively – note that it is assumed that any reliefs are distributed proportionately across sectors). Employment costs derived from the ONS's *Blue Book 2016* and Annual Business Survey and Eurostat (retail relates to SIC(2007) 47 less non-store trade, offices to SIC(2007) sections K, L, M & N.

p13 Rental growth from IPD 2016. Business rates are derived on the basis described in p12, above. For 2005, total business rate receipts of £19.5 billion are pro-rated according to retail and office rateable value shares (estimated at 28% and 22% respectively). To control for the effect of floorspace growth on business rate receipts, changes in business rates between 2005 and 2015 are calculated on a £ per square foot basis. Earnings are derived from ONS's *Monthly Wages and Salaries Survey*. RPI is from the ONS.

p14 All the estimates are from the IPF's *The Size and Structure of the UK Property Market End-2015 Update*, which, in turn, draws on data from IPD, ONS, Property Funds Research, and Real Capital Analytics/ Property Data, and analysis by Paul Mitchell Real Estate Consultancy Ltd; further details are available in the IPF report.

p15 Insurance company and pension funds' direct property are as estimated in p14, above; indirect and listed property exposures are Paul Mitchell Real Estate Consultancy Ltd estimates, drawing primarily on the research undertaken for the IPF's *The Size and Structure of the UK Property Market: A Decade of Change* and supplemented with more recent information from a sample of pension fund annual reports and accounts. Total insurance company and pension fund assets (long term) are derived from the ONS's *MQ5: Investment by Insurance Companies, Pension Funds and Trusts* latest estimates for 2014, updated and estimated to 2015 by Paul Mitchell Real Estate Consultancy Ltd.

p16 Debt secured on commercial property is from De Montfort® *Commercial Property Lending Report 2015*. Bank of England's lending by UK banks and building societies is its series RPATBUY "Annual amounts outstanding of UK resident monetary financial institutions' sterling net lending to companies undertaking the buying – selling and renting of real estate". According to the Bank of England's July 2016 *Financial Stability Report*, 75% of small and medium sized UK companies that borrow from banks use their commercial property as collateral.

p17 Debt secured on commercial property is from De Montfort® *Commercial Property Lending Report 2015*.

p18 IPD 2016 and FTSE; gilts relate to 5-15 years.

p19 Draws on the approach outlined in the IPF's *The Role of Commercial Property* in the UK Economy. Based specifically on *HMRC Tax Statistics* and relating to the commercial property industry as defined in section 13. Total taxes derived from June 2016 *HM Revenue and Customs* receipts. PAYE, NIC and VAT for commercial property estimated from the corresponding HMRC estimates by broad industry, pro-rated according to commercial property's share of these industries. VAT for commercial property and all-economy relates to "Home" VAT only (i.e. excluding VAT on imports). SDLT estimated by pro-rating HMRC estimates for non-residential, according to Paul Mitchell Real Estate Consultancy's 2015 estimate of commercial property's share of non-residential property transactions. Comparison of commercial's and residential's tax burdens based on the 2016 Toscafund report for the BPF, *Britain's Valuable Property Credentials*.

For evidence on who bears the cost of business rates, see *Business Rates: Who Pays and Why it Matters*, a report for the British Property Federation, British Council for Offices, British Council of Shopping Centres by Regeneris Consulting Ltd, December 2015, and *Who pays business rates?*, Bond. S, Denny K, Hall, J, McCluskey, W, Fiscal Studies, 1996.

p20 Paul Mitchell Real Estate Consultancy Ltd estimates mainly based on ONS's data on employment and Gross Value Added (GVA), the latter consistent with ONS's Blue Book 2016. General approach is to apportion employment and GVA in property as a whole between commercial and non-commercial.

The two main industry sectors are Construction (SIC(2007) Section F) and Real Estate Activities (SIC(2007) Section L) (but excluding the imputed rental value of owner-occupied housing) for which GVA is available from ONS's 30 June 2016 quarterly national accounts series. For construction, the ONS's *Output in the Construction Industry* Tables 4 & 5 indicate that around 25% of construction output is related to commercial property sectors, so this factor is applied to Construction GVA to derive the amount relating to commercial property.

For the Real Estate Activities sector, the indicators used vary according to the specific sector (for example, commercial property's share of total property transactions is applied to SIC68.31 "Real Estate Agencies"); overall, 53% of the Real Estate Activities sector (excluding the imputed rent of owner-occupied housing) is estimated to be commercial property.

Part of SIC(2007) Section K (Finance and Insurance Activities is incorporated – for commercial property, this covers property banking, fund management, REITs, stock broking, insurance companies and pension funds). For these areas, estimates of employment relating to commercial property are mainly derived from a survey of company accounts and from fund manager websites (grossing these up to the industry as a whole through the relationship between employment and funds under management), while GVA for REITs, fund managers, etc., is also based on company information relating to employment costs and profits, defined to be consistent with the national accounts measures of GVA SIC(2007) Section M (Professional, Scientific and Technical Activities, mainly relating to legal services, architecture, and quantity surveying), and SIC(2007) Section N (Administrative and Support Service Activities, mainly relating to facilities management). In these sectors, commercial property's share and size tends to be small.

p21 As above.

p22 Construction output derived from ONS's April 2016 *Output in the Construction Industry*. Data relate to the volume of output for "new work" in Table 2b.

p23 Paul Mitchell Real Estate Consultancy Ltd estimates derived from estimates of 10-year average floorspace completions, generously supplied by Property Market Analysis, Department of Communities and Local Government data and 2015 investment values of completed development.

p24 Paul Mitchell Real Estate Consultancy Ltd estimates derived from the Department for Business, Energy & Industrial Strategy's statistics on energy consumption by final user in *Energy Consumption in the UK July 2016 Update* (specifically Tables 1.01, 4.04 and 5.05a).

p25 Paul Mitchell Real Estate Consultancy Ltd estimates derived from the Department for Business, Energy & Industrial Strategy's provisional estimates for 2015 of emissions of carbon dioxide and 2015 end-user estimates presented in the Committee on Climate Change's *Meeting Carbon Budgets – 2016 Progress Report to Parliament*.

Acknowledgements

Data compiled and estimated by Paul Mitchell Real Estate Consultancy Ltd. The estimates of the total stock of commercial property and the amount in investment portfolios draws heavily on *The Size and Structure of the UK Property Market End-2015 Update*, which was undertaken as part of the IPF's Research Programme 2015-2018. Supporting property market data generously supplied by MSCI/Investment Property Databank, Property Funds Research, Property Market Analysis and Real Capital Analytics/Property Data, none of whom bear any responsibility for the estimates in this document. Office for National Statistics data is public sector information licensed under the Open Government Licence v3.0 www.nationalarchives.gov.uk/doc/open-government-licence/version/3.

The Property Data Report 2016 has been produced on behalf of:

The Association of Real Estate Funds;

The British Council for Offices;

The British Property Federation;

The Commercial Real Estate Finance Council Europe;

The Investment Property Forum;

Revo;

The Royal Institution of Chartered Surveyors;

The Urban Land Institute.

All eight bodies are members of the Property Industry Alliance, which seeks to achieve a more co-ordinated and effective approach from leading property bodies on policy, research and best practice issues. https://propertyindustryalliance.org/.

October 2016 | Design by Anderson Norton Design