



University of
Strathclyde
Business
School

Fraser of Allander Institute

The economic contribution of the commercial property sector

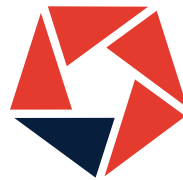
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The analysis in this report has been conducted by the Fraser of Allander Institute (FAI) at the University of Strathclyde. The FAI is a leading academic research centre focussed on the Scottish economy.

The report was commissioned in November 2017 by the Scottish Property Federation (SPF). The SPF asked the FAI to provide an estimate of the contribution of the commercial property sector to Scotland's economy. The SPF also asked for an estimate of the potential impact that additional activity in the sector could have on economic activity.

The technical analysis, methodology and writing-up of the results was undertaken independently by the FAI. The FAI is committed to informing and encouraging public debate through the provision of the highest quality analytical advice and analysis. We are therefore happy to respond to requests for factual advice and analysis. Any technical errors or omissions are those of the FAI.



Executive summary

- Commercial property is an important sector of the Scottish economy.
- New commercial property – and the maintenance of existing properties – helps to support investment, jobs and economic activity across Scotland. However, the role of commercial property extends much further as it provides businesses with an effective space to undertake their office, retail or industrial activities.
- Over the past decade, the outlook for commercial property has changed, with levels of activity lower than prior to the financial crisis.
- In addition to this, the downturn in the North Sea, the EU referendum and fragile levels of business and consumer confidence have all acted to dampen growth in the wider Scottish economy.
- While commercial property activity is not at the level of a decade ago, it is still a significant contributor to the Scottish economy.
- Defining the commercial property sector is not straightforward as it involves a wide spread of activities from construction through to legal and professional services.
- We estimate that one definition – comprising commercial construction, commercial repair and maintenance and commercial real estate – sees commercial property contributing almost £4.8 billion to Scottish GVA. This is equivalent to 3.7% of Scottish GVA.
- Such activity helps to support around 49,000 direct FTE jobs in Scotland and a further 43,000 jobs as a result of spill-over effects.
- But this definition ignores many of the wider activities that support commercial property activity in Scotland. Therefore we use a new methodology which includes a wider definition that focuses upon new commercial work. We find that commercial new work alone was worth around £5.17 billion to the Scottish economy in 2014.
- We also find that a £100 million increase in final demand for commercial new work is estimated to raise an additional £73 million from indirect and induced effects across the Scottish economy.

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Introduction

Chapter 1

Overview

Commercial property plays an important role in the Scottish economy.

New commercial property – and the maintenance of existing properties – helps to support investment, jobs and economic activity across Scotland.

However, the role of commercial property extends much further. By creating a physical asset for businesses, the sector works as an important factor of production. Without high quality and effective commercial property there would be no business activity.

It is also a valuable financial asset and a significant investment source for trusts, pension funds and savings.

Whilst commercial property activity may fluctuate over time, in theory, demand should increase as the economy grows. In this regard, commercial property is also a barometer of economic activity and prosperity, particularly in a service based economy such as Scotland.

But like many other parts of the Scottish economy, the last few years have not been without challenges. The downturn in the North Sea, the EU referendum and fragile levels of business and consumer confidence have all acted to dampen growth.

As both a driver and beneficiary of economic activity, it is no surprise that commercial real estate has followed a similar path. For example, data from the Registers of Scotland shows that commercial property sales were £3.2 billion in 2016/17 compared to £5.2 billion in 2007/08.



Commercial construction, repair and maintenance and real estate contribute around

£4.8 billion

to the Scottish economy.



This activity helps to support around

92,000

jobs in Scotland.



An increase in final demand of commercial new work of

£100 million

has an impact of

£173 million

across the Scottish economy.



The aim of this report is to provide a summary of recent trends in commercial property in Scotland and to estimate the sector's contribution to the Scottish economy.

The outline of the report is as follows.

In section 2 we provide a brief overview of developments in the Scottish economy and commercial property.

In Section 3 we discuss the potential avenues through which the commercial property sector can impact on the Scottish economy and present the results of our modelling.

Undertaking such an analysis is not straightforward. Unlike sectors such as manufacturing or retail, the economic activity that underpins commercial property is spread across a diverse mix of industries and firms. It includes activities from construction, real estate, professional and business services, banks and the public sector.

To tackle this, we make use of both official statistics and information sourced for the specifics of this study.

We undertake our modelling in two parts.

In the first part of our modelling, we follow the work of other researchers and take a macroeconomic approach based upon a definition of the 'commercial property sector' used elsewhere¹. One weakness is that these methods only focus on a subset of activities – typically construction, repair and maintenance and real estate.

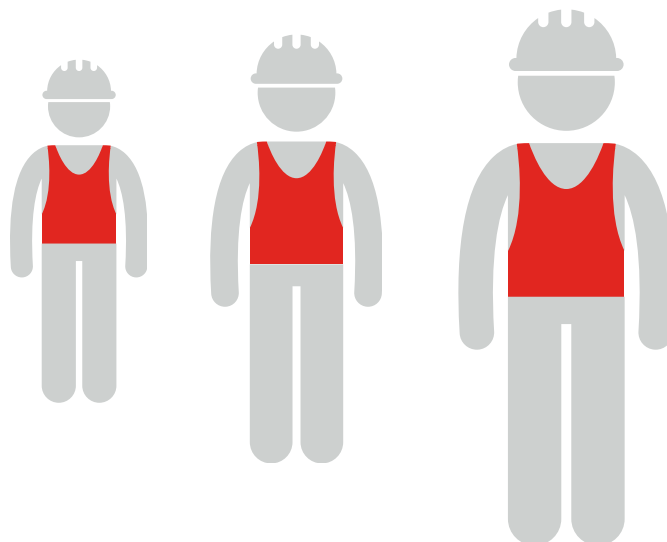
Unfortunately, the availability of data on the amount of 'commercial property' activity undertaken in banks, legal firms, architecture and so on – even at a UK level – is weak.

To address this, in the second part of our analysis, we focus upon the contribution of new commercial property work to Scotland's economy. To do this, we make use of detailed information on projects, provided to us directly by institutions involved in commercial property.

We estimate that –

- The total economic contribution of just three key elements of commercial property activity – construction, repair and maintenance and real estate – is approximately £4.8 billion or almost 4% of Scotland's economic output;
- Such activity helps to support around 49,000 direct FTE jobs in Scotland and a further 43,000 jobs as a result of spill-over effects;
- Another way of putting this is that for every 100 FTE employees working in commercial construction activities, an additional 85 jobs are supported elsewhere in the Scottish economy; and,
- For every £100 million increase in demand for new commercial property output, there is an additional £73 million from indirect and induced effects across the economy.

Section 4 concludes.



¹ For example, see "The Role of Commercial Property in the UK Economy", Investment Property Forum 2013.

Recent developments

Chapter 2

The Scottish economy

Scotland is a rich and successful nation.

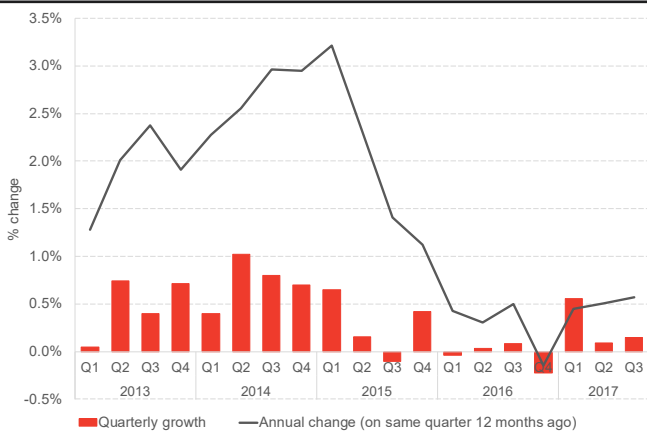
Our economy is in the top 20 of OECD countries for income per head and – outside of London and the South East – it ranks near the top in the UK on indicators of long-term economic prosperity.

Much of this stems from Scotland's strengths in key sectors, such as energy, business and financial services, food and drink, tourism and life sciences. It also comes from having a skilled workforce, world-class universities and dynamic cities.

There are, however, areas where Scotland lags behind. For example, despite outperforming most of the UK in attracting international investment, Scotland performs less well in exporting, business R&D, and the scaling-up of new firms.

As has been documented, the Scottish economy has been through a challenging period in recent times – Chart 1.

Chart 1: Growth in Scotland, 2013-17



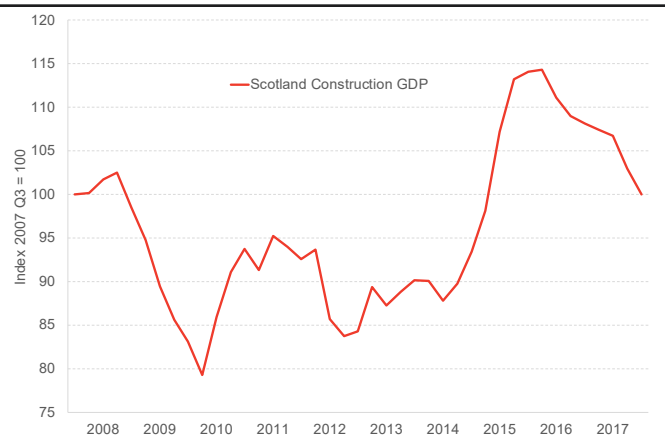
Source: Scottish Government & FAI analysis

The downturn in the oil and gas sector has been a key factor. But a further driver has been a weaker construction sector, perhaps mirroring wider fragile levels of business and consumer confidence.

The construction sector over the decade

As Chart 2 highlights, construction output fell during the financial crisis. Following strong growth in late 2013 and 2014, output has been falling once again. Indeed, the sector has now contracted for seven consecutive quarters.

Chart 2: Real-terms construction output, 2007-17



Source: Scottish Government & FAI analysis

Official statistics show that the value of construction output in Scotland for the last calendar year – 2016 – was £14.6 billion². This is equivalent to about 6% of total Scottish economic output.

In 2016, output of new work in the private sector (excluding housing) totalled £2.9 billion³. This is a 3% increase on 2015 and a near 50% increase relative to the financial crisis low of £1.9 billion (in 2012).

But as Chart 3 highlights, output in private sector construction (excluding housing) remains lower than in 2007⁴.

Much of the recent growth has been in infrastructure (including NPD and transport infrastructure programmes). But as these projects have reached completion, activity has fallen back.

² For the first 9 months of 2017, output was £10.7 billion.

³ Includes both private industrial and private commercial (as defined by ONS).

⁴ www.ons.gov.uk/businessindustryandtrade/constructionindustry/datasets/outputintheconstructionindustry

Chart 3: Output in construction by activity, since 2007

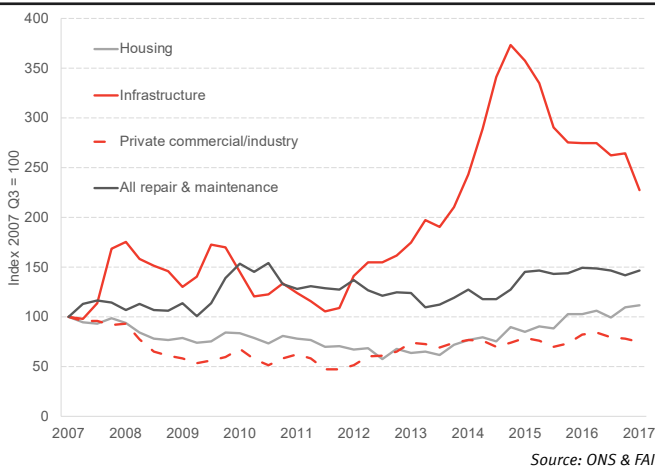
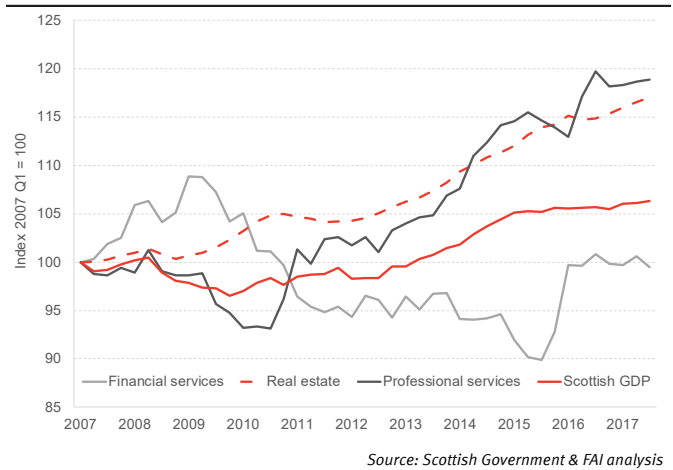
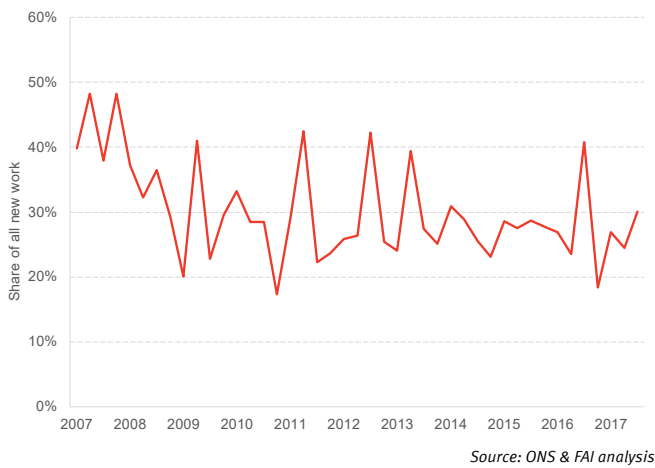


Chart 5: Performance of key services sectors tied to commercial property, since 2007



As a result, it is not surprising that – as a percentage of new orders – the share of private activity (excluding housing) has slipped back in recent years⁵.

Chart 4: Share of new orders for commercial activity, since 2007⁶



Finally, it is also possible to see how other sectors – tied to commercial property – have fared. See Chart 5.

On balance, real estate and professional services have done better than the overall Scottish economy over the last decade.

In contrast, conditions in financial services have remained more difficult as the sector adjusts not only to the legacy effects of the financial crisis, but also the changing nature of retail banking.

A closer look at recent trends in commercial property

Alongside official statistics, it is also possible to look at data from the property market itself.

Some care has to be taken in interpreting this data. For example, some sources refer to commercial property sales. This could either reflect new properties being built or (more often) the transfer of existing properties to new owners.

Both are important measures of activity, but will have quite different economic impacts (i.e. the transfer vs. growing of the underlying asset base).

Similarly, other data refers to investment. This captures data on properties that are purchased by investors to generate a return, rather than to occupy. Of course, we are also interested in the buying and use of properties by businesses in units themselves.

⁵ The series is based upon when orders were signed.

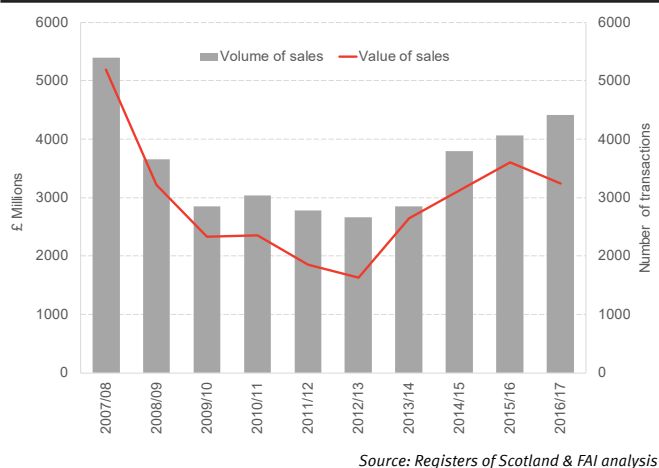
⁶ www.ons.gov.uk/businessindustryandtrade/constructionindustry/datasets/newordersintheconstructionindustry

On balance therefore, a rounded picture is required of all different sources.

With this in mind, the Registers of Scotland (RoS) 10 year Property Market Report provides a helpful source of information on commercial sales and leases in Scotland⁷.

Chart 6 shows the performance of sales and volume of transactions over the last 10 years.

Chart 6: Sales & volume of commercial property transactions, 2007/08 to 2016/17



Over the 10 years to 2016/17, there were more than 35,000 transactions of commercial property valuing more than £29 billion⁸.

Consistent with the official statistics cited above, both the value and number of transactions has fluctuated over the decade. But both are yet to return to their pre-financial crisis levels.

- In 2016/17, the value of sales was £3.2 billion. Whilst this is up on the 2012/13 low of just £1.6 billion, it remains lower than in 2007/08 (£5.2 billion)⁹.
- The volume of transactions taking place in Scotland is now at its highest level since before the financial crisis – with a rise of more than 8% over the last year.

⁷ www.ros.gov.uk/property-data/property-statistics/the-10-year-report

⁸ Annual average was £2.9 billion with 3,552 transactions.

⁹ In 2006-07, the value of commercial sales was £6.1 billion (Registers of Scotland 10 Year Property Market Report, 2006-2016).

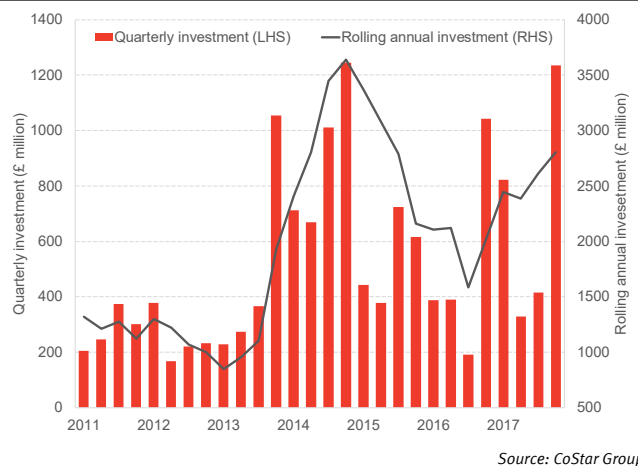
Within Scotland, the underlying data shows that over the 10 years – 2007/08 to 2016/17 – all but one local authority (East Lothian) reported a fall in the value of sales.

Excellent data on commercial property activity is provided by the CoStar Group. It has been built up over many years and targets investment in commercial property in Scotland. Given the importance of the investment market to the sector, it is a useful barometer of overall activity¹⁰.

According to CoStar, investment transactions totalled £2.8 billion in Scotland during 2017¹¹.

Between 2016 and 2017, transactions increased by 39% in Scotland compared to 27% for the UK as a whole.

Chart 7: Commercial property investment in Scotland, since 2011

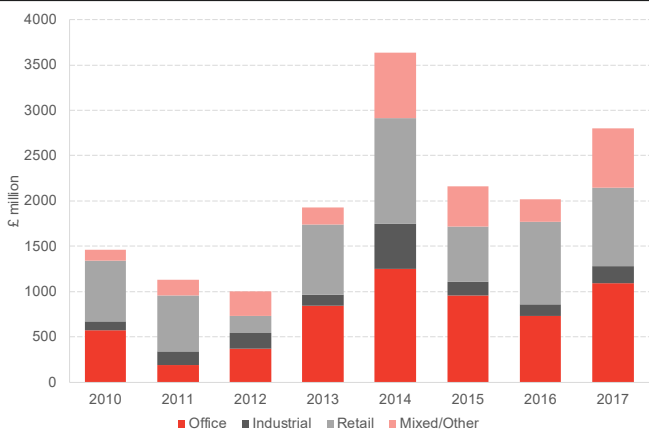


Offices and retail remain key sectors with nearly 40% of investment in 2017 in offices and 30% in retail (albeit the share of retail has been falling in recent years).

¹⁰ In 2015, investors (rather than occupiers) owned 55% of commercial property in the UK. Property Data Report 2016: Property Industry Alliance.

¹¹ Source: CoStar Group.

Chart 8: Investment by sector, since 2010



Source: CoStar Group

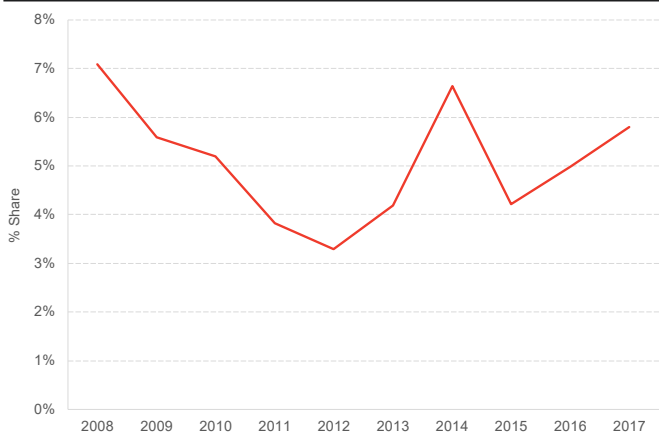
In 2011, retail investment accounted for around 55% of investment in Scotland.

The average value of each investment transaction in 2017 is lower than back in 2009 but has remained relatively stable since at an average of around £10 million.

Scotland's share of GB commercial property investment was 5.8% in 2017.

Whilst on the rise, following a series low in 2012 – this share is still below both its equivalent per capita and GVA share in 2016.

Chart 9: Scottish share of GB commercial property investment, since 2008



Source: CoStar Group

How does Scotland compare to different parts of the UK?

It is well known that the London commercial property market skews overall GB figures.

On balance, Scotland has a higher share of retail investment but a smaller share in offices and industrial. This might, in part, reflect different ownership and business models between Scotland and the rest of GB, but it does suggest that Scotland has a smaller share of this market – in terms of investment – than a per capita share would suggest.

Table 1: Average share of total commercial property investment in GB, 2008-2017

	Industrial	Retail	Office
E Midlands	10.5	5.0	0.4
Eastern	9.9	8.8	2.1
London	13.5	24.1	75.2
N East	1.6	2.5	0.8
N West	10	8.6	3.6
S East	23.2	17.1	7.5
S West	5.6	7.5	1.8
Scotland	5.1	7.8	3.6
W Midlands	13.6	7.5	2.7
Wales	1.4	3.1	0.6
Yorkshire & H	5.4	7.9	1.6

Source: CoStar Group

Estimates of the stock of commercial property in Scotland are not readily available.

One – albeit imperfect – measure is floor space.

Table 2: Floor space estimates, Scotland, 2017

Sector	Floor space (sq ft)	Number of properties
Office	97,945,738	7,663
Industrial	223,307,046	10,544
Retail	121,924,959	19,996

Source: CoStar Group

This suggests that offices represent around 22% of the total stock of commercial property in Scotland, retail 28% and industrial stock 50%. Overall floorspace increased by 3.2 million sqft between 2011 and 2017 to a total 443 million sqft.

One challenge with looking solely at investment and sales data is that it does not show how much 'new' building is being undertaken.

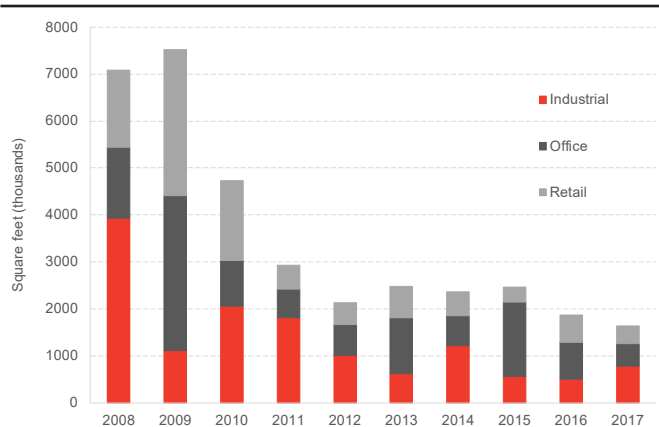
Chart 10 shows new commercial property construction by square feet.

Whilst by no means a perfect measure of activity or financial value, it is a useful proxy for changes in the rate of construction of commercial property that is expanding the overall economic capacity of the Scottish economy.

On this measure, the amount of new commercial property being built in terms of sqft is smaller than a decade ago.

In 2009, 7.1 million sqft of commercial property was built but in 2017 only 1.6 million sqft was constructed¹².

Chart 10: New commercial property construction by sqft, Scotland, since 2008



Source: CoStar Group

Tax revenues

Whilst the purpose of this report is to focus on the contribution of commercial property to the Scottish economy, it is also possible to gather information on tax contribution.

From a devolved perspective, the most important business tax is the non-domestic rates that occupiers of commercial property pay.

Of course, this is not the tax contribution the commercial property sector itself pays but the wider business base in Scotland. Commercial property construction, legal and professional services will themselves be located in properties that pay tax. However, it is not possible to break out business rates income by sector. As highlighted above, the role of the commercial property sector is to provide businesses with effective facilities to undertake their operations.

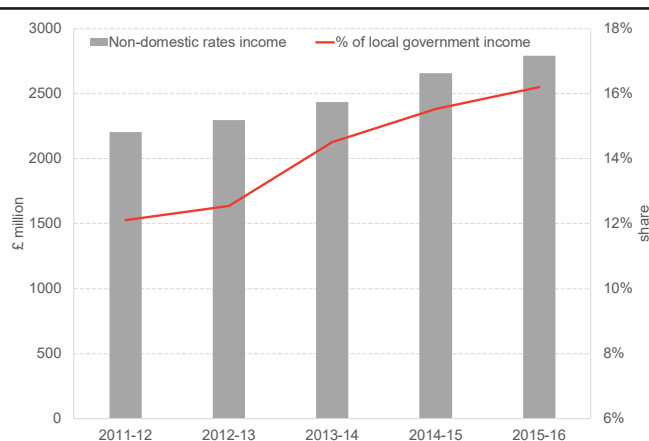
¹² The largest fall was in the construction of shopping centres/retail parks (-92%).

In 2011-12 non-domestic rates income in Scotland was £2.2 billion and by 2015-16 this had risen to £2.8 billion.

The importance of non-domestic rates to Local Authority income has risen over time from 12.1% in 2011-12 to 16.2% of local government income in 2015-16.

It is also useful to look at income from Land and Buildings Transactions Tax (LBTT) for non-residential properties. This is a tax applied to residential and commercial land and buildings transactions (including commercial purchases and commercial leases) where a chargeable interest is acquired.

Chart 11: Contribution of non-domestic rates to Local Authority income



Source: Scottish Government

It was introduced in Scotland on 1 April 2015, replacing Stamp Duty Land Tax. In the year 2016-17, the non-residential tax liability from the LBTT was over £175 million.

Of course, the sector itself makes a wider contribution to taxation through the economic activity that it supports. Like other businesses, from a devolved perspective, this is of increasing importance given the much greater proportion of the Scottish Government budget that is now determined by tax revenues collected in Scotland.

The economic contribution of the commercial property sector

Chapter 3

The contribution of the commercial property sector to Scotland's economy extends far beyond the activities of the sector itself.

In this section of the report, we conduct an economic impact assessment for the sector in Scotland.

The analysis enables us to estimate not just the direct contribution to Scotland's economy from commercial property but also its wider spill-over effects.

Direct, indirect and induced impacts

An economic impact assessment examines three channels of activity.

The first channel is the direct impact.

This measures the contribution from the actual spend and employment which underpins the commercial property sector's own day-to-day activities.

For example, a number of construction companies involved in building new properties or maintaining existing ones, are major employers in their own right. Such firms will spend money on materials, administration and other activities. All of this helps to create a stimulus to the economy.

But this only captures part of the story.

The second avenue through which the commercial property sector has an impact is from what are referred to as indirect and induced effects.

We know for example, that employees do not just hold on to their wages and salaries but spend them on goods and services.

At the same time, we also know that behind the commercial property sector is a complex supply chain of different businesses across Scotland (and beyond) all of whom will benefit in some way or another from the industry's activities.

Therefore, there are two further economic effects which can be captured:

- Indirect – the economic benefits from the sector's suppliers using the revenues from trading with the sector to, in turn, make expenditures on staff and other goods and services; and,
- Induced – the economic benefits from the sector (and supply chain) employees spending their wages and salaries on goods and services across the Scottish economy.

To obtain an accurate picture of the sector's total economic impact, it is important to capture the direct, induced and indirect impacts.

To do this, we make use of an economic input-output model for Scotland.

This provides a complete picture of the flows of goods and services in the economy for a given year. It details the relationship between producers and consumers and tracks the interdependencies of industries.

By capturing the complex interlinkages that exist in an economy, these tables can help obtain a picture of the 'multiplier' effects of the commercial property sector's spend and employment on the wider economy and across sectors.

Our analysis looks at the most recent year for which the official input-output tables are available for Scotland (2014)¹³.

Defining 'commercial property'

The commercial property sector is not identified separately in national economic accounts. As such, defining the 'commercial property sector' requires assumptions to be made using the best available data.

To illustrate the contribution the sector makes, we undertake two pieces of analysis.

¹³ Given the data intensity associated with these models, a lag in their publication is common.

In the first part, we identify the commercial property sector using a similar approach to previous impact assessments conducted for SPF for Scotland and the Investment Property Forum for the UK¹⁴.

This approach defines commercial property activities as including:

- construction activity related to commercial property;
- repair and maintenance (R&M) of existing commercial property;
- and real estate activity related to commercial property.

Secondly, we look at ‘new work’ in commercial property separately and the wider direct and spill-over effects this has. To do this, we use information provided to us by property developers for a series of different commercial projects to get an ‘average’ breakdown for key activities.

This approach has the advantage of being able to identify the widest possible spend created by new investment in constructing commercial property.

Arguably, it is this element that is the most valuable to an economy as a whole, as ‘new work’ is leading to the creation – or upscaling – of an asset which can support future business growth.

With this in mind, we also illustrate the potential impact of additional investment by looking at the effects of an increase in new work output.

Box 1 outlines the technical aspects of our methodology in greater detail.

The economic contribution of commercial property – a macro approach

The first method to estimating the contribution of the sector focusses upon the contribution of three key elements –

- Construction;
- Repair and maintenance; and,
- Real estate

¹⁴ See for example, ‘The Role of Commercial Property in the UK Economy’, March 2013.

Construction

Taking information from ONS statistics – that is the Output in the Construction Industry series – we find that commercial property makes up 43.3% of Scottish construction output¹⁵.

Applying this share to GVA (Table 3) and employment figures (Table 4) for construction of new buildings and specialised construction activities allows us to estimate the direct impact of commercial property on construction activity and employment.

Table 3: Commercial property GVA, direct and total impact, £ million

	Total GVA	Commercial property	
		Direct impact	Total impact
Construction	1,914	829	1,634
Specialised construction	3,503	1,517	2,992
Real estate	1,780	96	138
Total	7,196	2,442	4,765

Source: FAI analysis

The direct impact of commercial property with regards to the construction of buildings is estimated to be around £830 million, with an additional £1.5 billion from specialised construction activities.

In total, the commercial property element of construction is estimated to have had a direct impact of around £2.35 billion to Scotland’s economy.

Of this, new build construction activities is estimated to be around £1.81 billion (77%) with repair and maintenance making up around £530 million (23%).

From this direct impact, it is possible to model the wider spill-over impacts through the key indirect and induced effects. These are also shown in Table 3.

The total impact (direct, indirect and induced) of commercial construction activity is estimated to be around £4.6 billion.

Within this, £1.6 billion is estimated to stem from the construction of buildings, with a further £3 billion from specialised construction activities.

¹⁵ Comprising commercial / industrial new work and commercial / industrial repair and maintenance. All modelling refer to 2014, the latest year for which some detailed macroeconomic tables are available for Scotland.

Real Estate

Table 3 also contains estimates for real estate activities in Scotland. This includes buying and selling of own real estate, renting and operating of own or leased real estate, and real estate activities on a fee or contract basis. Like other studies we do not include imputed rent¹⁶.

To estimate the direct impact of commercial property on real estate activities, a share of 5.4% was applied to real estate activity in SABS¹⁷.

This comes from an estimate of the percentage of all properties in Scotland which are commercial (offices, shops, hotels, public houses and industrial subjects)¹⁸.

Taking this share of real estate activities in 2014 gives an estimate of almost £100 million.

Our modelling estimates that combined with the ongoing indirect and induced effects of this direct spend by commercial real estate, the total impact on GVA is around £138 million.

Combining these sub-sectors of commercial property yields a direct impact estimate of around £2.4 billion.

Taking into account the additional indirect and induced effects of these, commercial property is estimated to have a total impact of almost £4.8 billion.

It is also possible to obtain an estimate of employment impacts.

Table 4: Employment in commercial property, direct and total impact¹⁹

	Total	Commercial property	
		Direct jobs	Total jobs
Development of projects	6,000	2,598	4,838
Commercial construction	7,000	7,000	13,034
Specialised construction	88,000	38,108	70,957
Construction	101,000	47,706	88,829
Buy/sell/rent real estate	20,500	1,100	2,458
Real estate fee & contract basis	10,000	540	734
Real estate	30,500	1,640	3,192
Total	131,500	49,346	92,021

Source: FAI analysis

Around 101,000 full time equivalent (FTE) jobs are estimated to exist in commercial construction and specialised construction activities in Scotland.

Applying the commercial construction share outlined above, gives an estimate of almost 48,000 FTE jobs supported by **such work, with the total employment impact from direct, indirect and induced effects supporting almost 89,000 FTE jobs²⁰.**

In other words, **for every 100 FTE employees working in commercial construction activities, an additional 85 jobs are supported elsewhere in the Scottish economy.**

Just over 30,000 FTE jobs were estimated to be involved in real estate activities in Scotland. Based upon the methodology set out above, just over 1,600 FTE jobs in real estate activities are estimated to be directly supported by commercial property activity.

¹⁶ Imputed rent is the economic value for owners of a property, equivalent to income received if renting.

¹⁷ Prior studies for SPF have assigned a greater share of real estate activity to commercial property – e.g. the same as for construction - 43.3%. From discussions with stakeholders, this lower figure is believed to be preferable.

¹⁸ Local Government Finance statistics, based on Scottish Assessors Valuation Roll and council tax data.

¹⁹ Source: BRES.

²⁰ BRES employment figures do not include self-employed. As such, the direct estimate of FTE jobs may underestimate the contribution of construction which has a high degree of self-employment. Again therefore, the results should be viewed as conservative.

Almost 3,200 FTE jobs were supported by the direct, indirect and induced effects. This means that for every 100 employees working in commercial real estate, an additional 95 jobs were supported elsewhere in the Scottish economy.

Combining FTE employment in construction and real estate activities, we estimate that around 49,000 FTE jobs are directly supported by commercial property in Scotland, with the additional indirect and induced effects helping to support total FTE employment of around 92,000.

The economic contribution of commercial property – the benefits of new work

As highlighted above, the aforementioned approach does not include wider activities such as financial and legal services supported by commercial property.

To address this, we adopt a new approach which focusses upon the economic contribution of ‘new work’ in commercial property.

To do this, we surveyed a number of property developers in order to identify the full spectrum of work that underpins new commercial property.

From this, the average breakdown of a typical commercial project is made up of

- construction activities, 65%;
- real estate activities, 16%;
- financial services, 12%;
- legal services, 1%;
- marketing, 1%; and.
- professional fees, 5%.

Official statistics also show that commercial new work (not including repair and maintenance) made up 33.5% of all construction output in Scotland in 2014.

This implies a direct GVA figure for construction of buildings and specialised construction activities of £640m and £1.17 billion respectively.

But given that 65% of new commercial work is in construction (see above), it is reasonable to approximate that this £1.81 billion is only 65% of all activity associated with new commercial work.

Applying the appropriate GVA multipliers from the Scottish input output tables allows us to see the wider effects of new commercial work.

Using the breakdown of a typical commercial project from developers, real estate activity costs could therefore be estimated to be around £445m; financial services, £335m; legal services, £28m; marketing, £28m; and all other professional fees, £140m. This would give a combined estimate of the total direct GVA of new commercial projects of almost £2.8 billion – Table 5.

Table 5: GVA from new commercial property work, direct and total impact, £ million

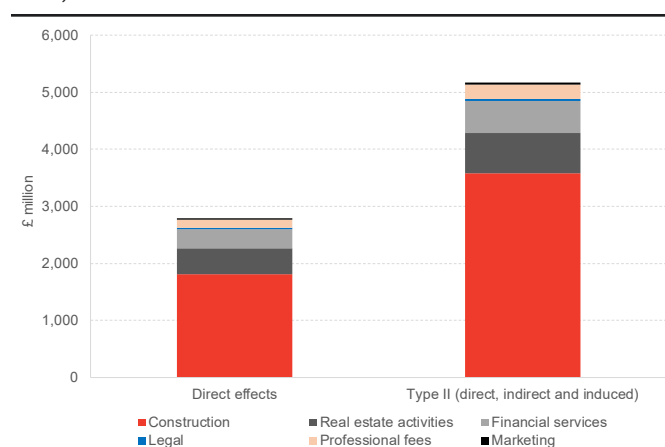
	Commercial property	Total impact
Construction	1,814	3,578
Real estate	447	709
Financial services	335	561
Legal services	28	38
Marketing	28	40
Other fees etc	140	243
Total	2,791	5,169

Source: FAI analysis

Modelling the wider spill-over effects – via indirect and induced linkages – gives an estimate of the **total impact of new commercial property work (direct, indirect and induced) of just over £5 billion (or 4% of Scottish GVA).**

Chart 12 shows the contribution to GVA from various activities involved in commercial new work.

Chart 12: GVA (£ million) supported by new commercial property work, 2014



Source: FAI analysis

It can be clearly seen that construction drives commercial new work GVA and has a large influence on the wider spill over effects in the economy. While construction makes up around 65% of commercial new work, it ultimately contributes almost 70% of the total impacts from direct, indirect and induced effects.

While the impact of new work is dominated by construction activity, other large contributors to GVA from commercial new work are from the activities of real estate and financial services which make up 28% of the direct impact of commercial new work.

Estimating the effects of a £100m increase in new work output

Using the above commercial project breakdown, we can assess the economic effects that an increase in new commercial property output would have on the Scottish economy, and which sectors in the economy would benefit.

This section looks at the impact of an increase in final demand for commercial new work output. As such, relevant output multipliers are used, rather than GVA multipliers.

Table 6 provides the results from a £100 million increase in commercial new work output.

Table 6: Economic impact of increase of £100 million in new commercial property output (direct and total impact), £ million

	Share of £100m	Total impact
Construction	65	117.6
Real estate	16	25.6
Financial services	12	18.9
Legal	1	1.4
Professional fees	5	8.3
Marketing	1	1.5
Total	100	173.3

Source: FAI analysis

Overall, an increase in new commercial property output of £100 million would have had a total impact of £173 million, raising an additional £73 million from indirect and induced effects across the economy.

Summary

We have outlined two possible approaches to obtain a relatively conservative estimate of the contribution of the commercial property sector to the Scottish economy.

Both approaches give similar results.

Arguably, both will slightly underestimate the full economic effects by either excluding wider activities associated with commercial property (e.g. financial services, legal, professional fees, etc) or only focussing upon new work activities.

This is because a proportion of commercial property transactions will be commercial real estate that is re-sold / re-leased (i.e. not 'new work'). This will generate activity in real estate services, financial services, legal and accounting services, which is not included in this analysis.

There are also the ongoing activities generated by commercial properties such as facilities management, building and landscaping services, business support services, activities of head offices, waste management, etc, which are not covered.

This would be an interesting area for future research.

Conclusion

Chapter 4

The Scottish economy has been through a challenging period in recent years.

Alongside the downturn in the oil and gas sector, a further factor has been a weaker construction sector.

Commercial property supports the Scottish economy through activity in construction but also in real estate, financial services, legal services, architectural and engineering services and other areas.

While the level of output of new work in commercial construction has recovered in recent years, it is still lower than that seen in 2007.

In financial services, conditions have remained more difficult. However, real estate and professional services have done better than the overall Scottish economy over the last decade.

Despite measures of commercial property activity lagging their pre-financial crisis levels, the commercial property sector makes an important contribution to the Scottish economy.

Our analysis of the commercial property sector (from construction and real estate activities) indicates that it contributes almost £4.8 billion to Scottish GVA. Such activity helps to support around 49,000 direct FTE jobs and a further 43,000 through spill-over effects in Scotland.

Looking at the impact of commercial new work alone on a wider range of industries in Scotland's economy, we estimate that new commercial work is worth around £5.17 billion to Scotland's economy.

The impact of an increase in demand of new commercial work of £100m is estimated to generate an additional £73m from further indirect and induced effects across the Scottish economy.

The full impact of the commercial property sector in Scotland as a whole is likely to be higher than either of these approaches indicate.

That being said, even on these slightly conservative estimates, the commercial property sector can be seen as an important generator of economic activity and employment in Scotland through its direct and wider spill-over effects.

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Box 1: Methodology

Economic input-output tables provide a picture of the flows of goods and services in the economy for a given year. They are constructed from survey and other data sources and provide the most accurate and comprehensive picture of the national economy available.

In this report, we use the most recent (2014) input-output tables for Scotland.

The steps in our methodology are as follows:

Appropriate shares of commercial elements of GVA and employment were applied to Scottish Annual Business Statistics (SABS) and Business Register and Employment Survey (BRES) data.

- To obtain shares for commercial construction, we use ONS Output in the Construction Sector statistics. This includes new housing, other new work and repair and maintenance.
- Commercial new work is defined as including public new work, private industrial new work and private commercial new work while commercial repair and maintenance is defined as including public / private other work.
- Combined, commercial property made up 43.4% of construction output in 2014.

These shares were applied to estimates of SABS GVA and BRES employment figures in order to estimate the commercial share of output and employment for various activities. In this report, a more detailed standard industrial classification (SIC) code breakdown of some SABS and BRES figures were used which were then aggregated up in the text and tables in order to meet data usage restrictions.

The estimates of commercial property output and employment were then multiplied by appropriate Type II multipliers from the Scottish Input Output tables in order to estimate their total effects.

The Type II multipliers used for our analysis are:

SIC code		GVA output	Employment	Output
41-43	Construction	2.0	1.9	1.8
68.1 & 68.2	Real estate - own	1.4	2.2	1.5
68.3	Real estate - fee or contract	1.6	1.4	1.6
64	Financial services	1.7	2.0	1.6
69.1	Legal activities	1.4	1.3	1.4
71	Architectural services, engineering activities, etc.	1.7	1.9	1.7
73	Advertising and market research	1.4	1.4	1.5

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