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Devolution and the role of Commercial Real Estate Development

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Introduction

A whirlwind tour of R3 Intelligence and our recent work:

- Where the project originated
- How we have done it
- What we have produced
- Why it is important

Reason for producing this summary:

- Disseminate preliminary analysis and findings
- Demonstrate the synergy between commercial real estate and devolution
- Offer opportunity for feedback and suggestions as to how we can support landlords and developers in the devolution revolution

Project Evolution

- Previous research regarding commercial real estate filtering, chaining, displacement and resilience (Greenhalgh 2003, 2008, Greenhalgh and King 2010, 2013).

- Highlighted gap and potential for hybrid property market data models.

- Led to PhD studentship (Dr Kevin Muldoon-Smith) and the creation of a multi criteria real estate model of England and Scotland using Valuation Office Agency and National Business Rate Returns.

Method (Data and Filtering)

- The model of commercial and industrial property can be drilled down into the individual hereditament or aggregated and up-scaled to property sector (including relative homogeneity).

- The presentation of our data is flexible (descriptive, trend, statistical, and spatial/GIS) and has the potential to be further enhanced with additional data sets such as IMD, Local Government Spend, Business activity etc

Our data base contains:

	(millions)	(Billions)
Office space:	92m sq m	1bn sq ft
Industrial space:	323m sq m	3bn sq ft
Retail space:	181m sq m	1bn sq ft

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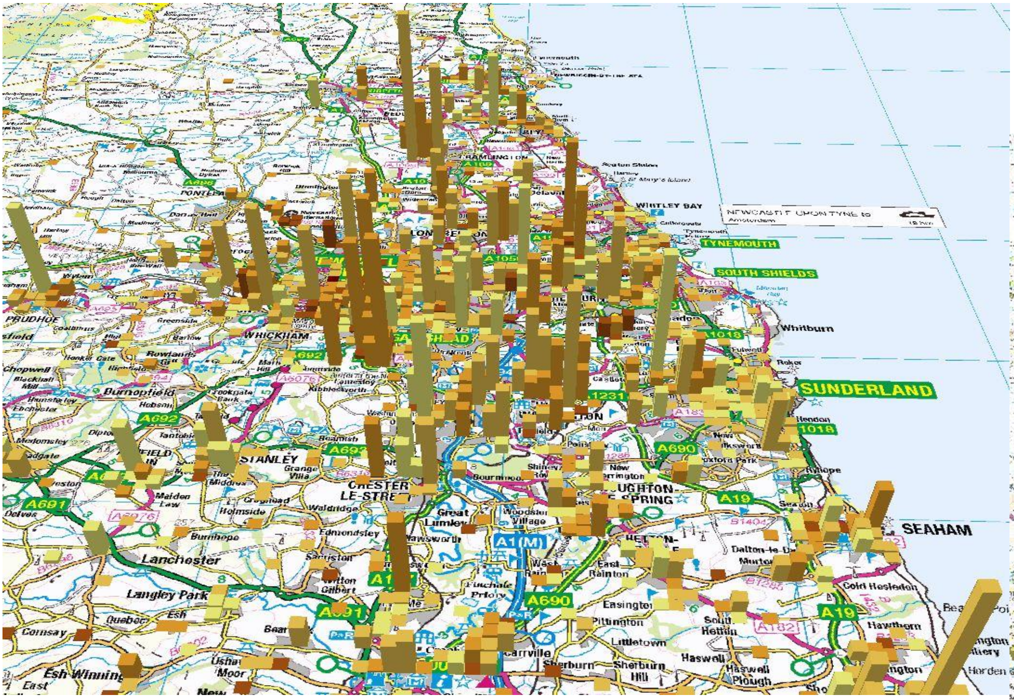
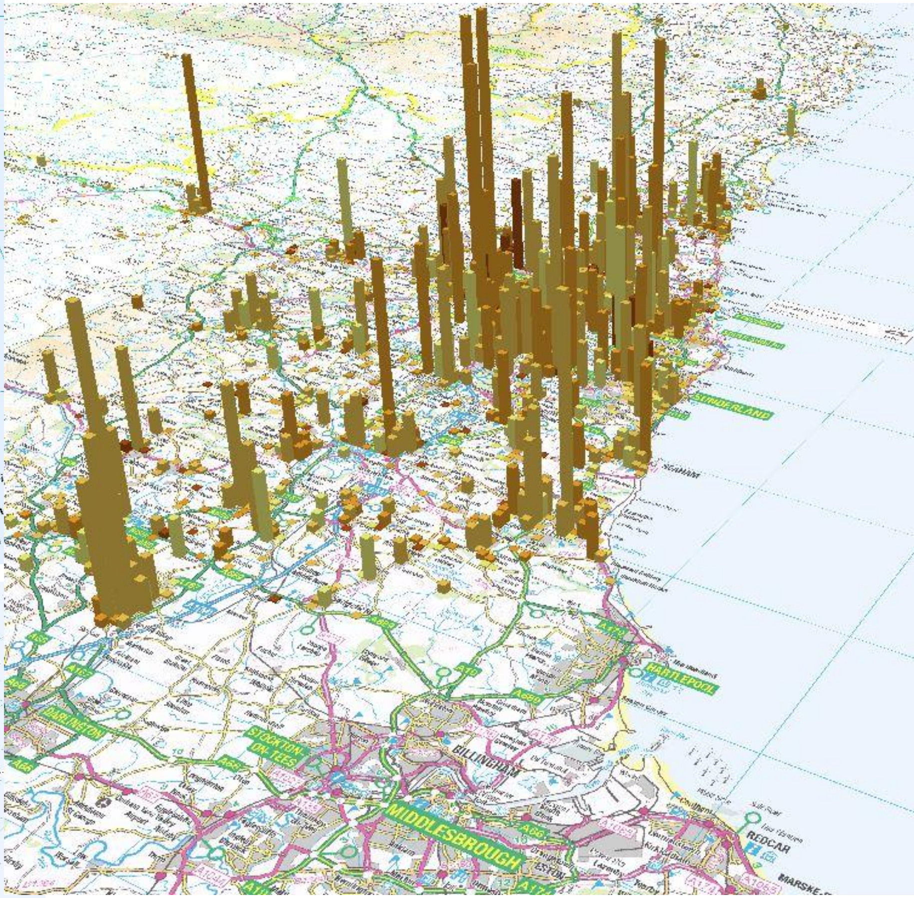
Initial Analysis

- Office vacancy time bomb
- Citibase Ltd: Survey of secondary office vacancy in the UK
- Spatial Analysis/GIS modelling of:
  - Tyne and Wear
  - Tees Valley
  - Leeds
  - Croydon

Manhattan on Tyne and Wear





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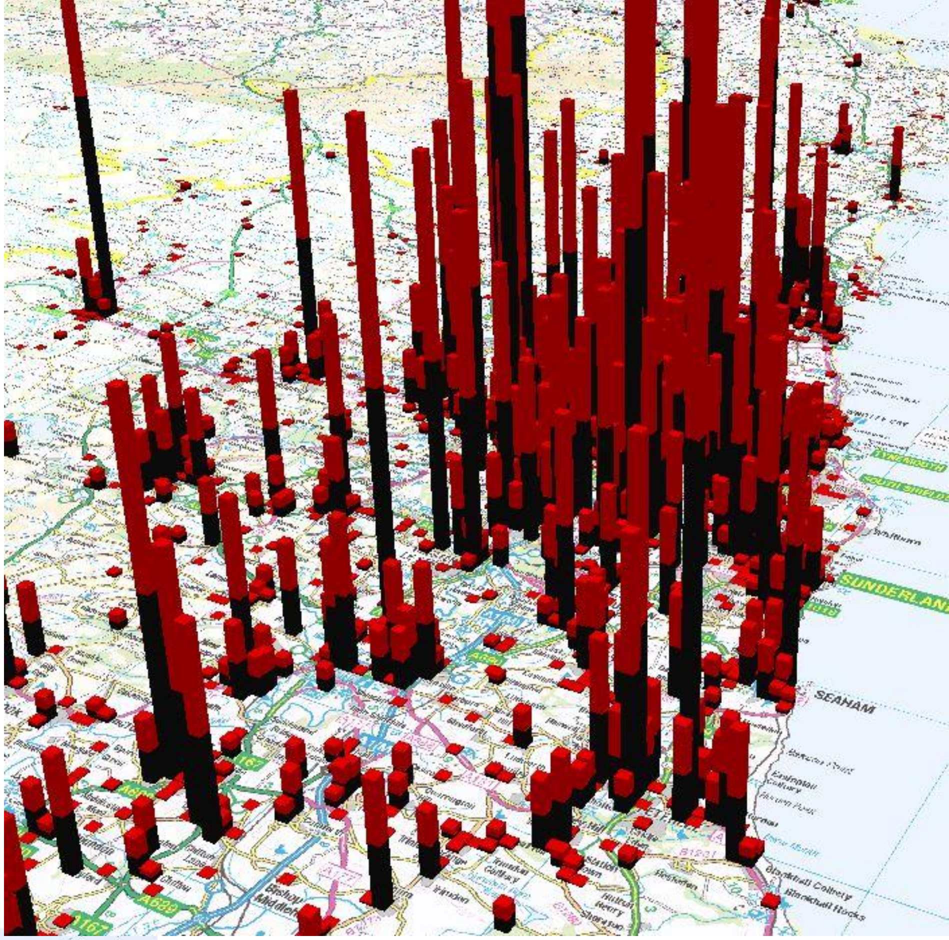
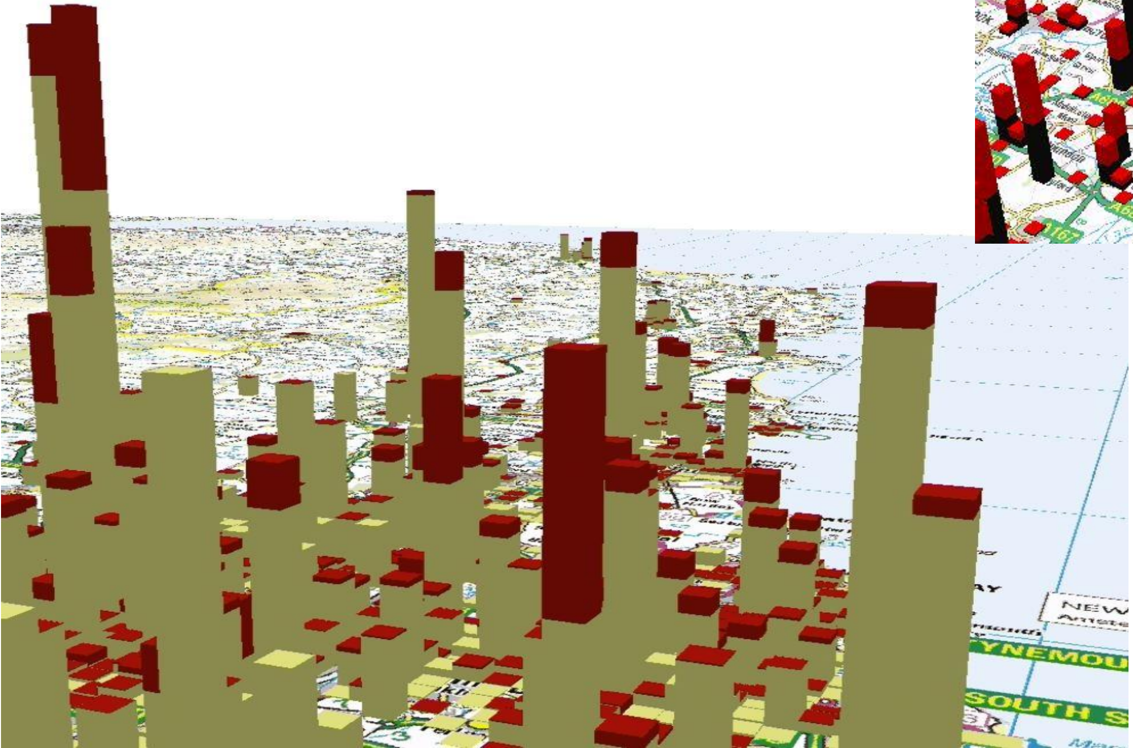
Stock Efficiency: a GIS model of commercial & industrial stock and vacancy in Tyne and Wear





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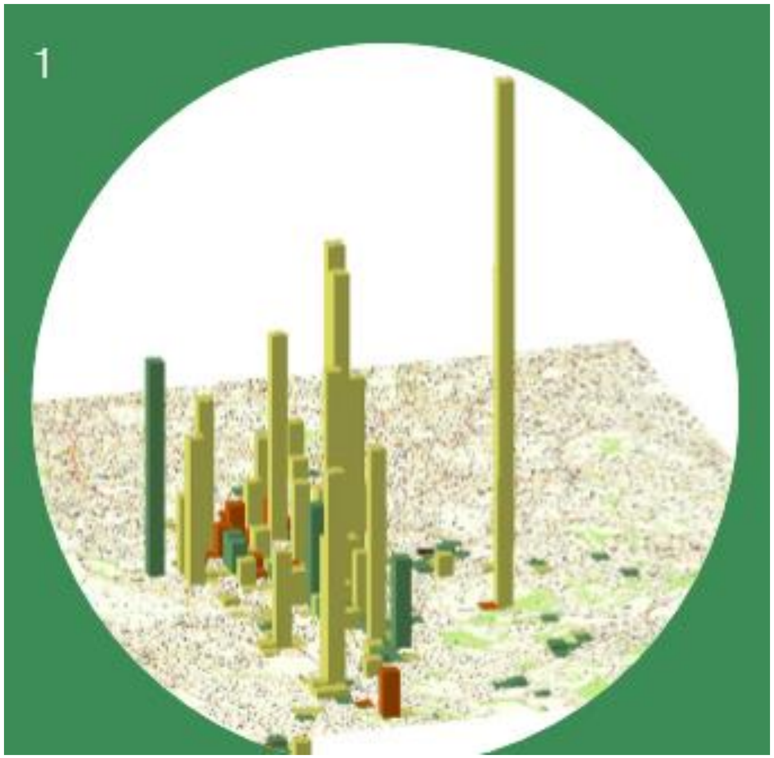
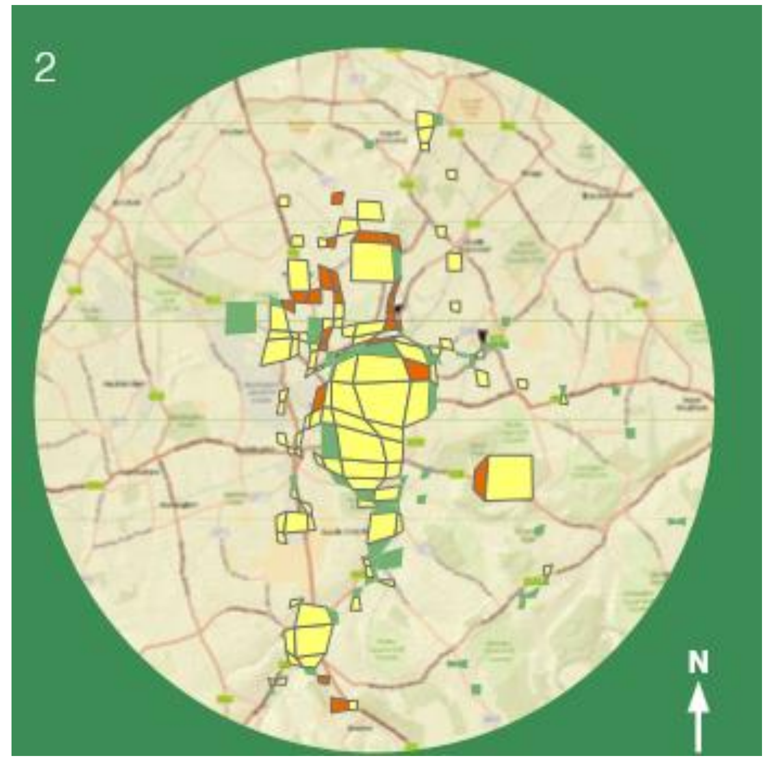
The Croydon Office Market





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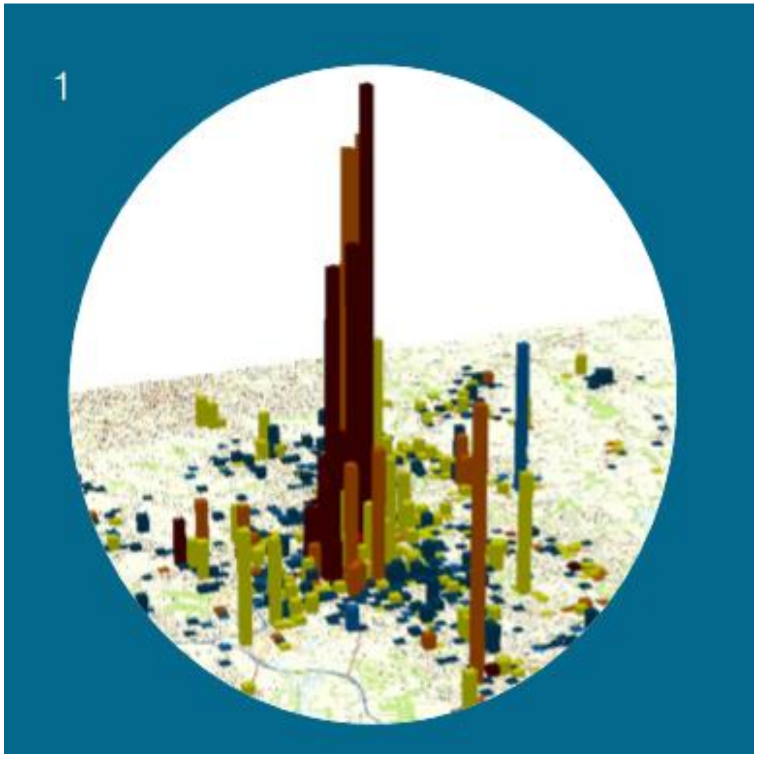
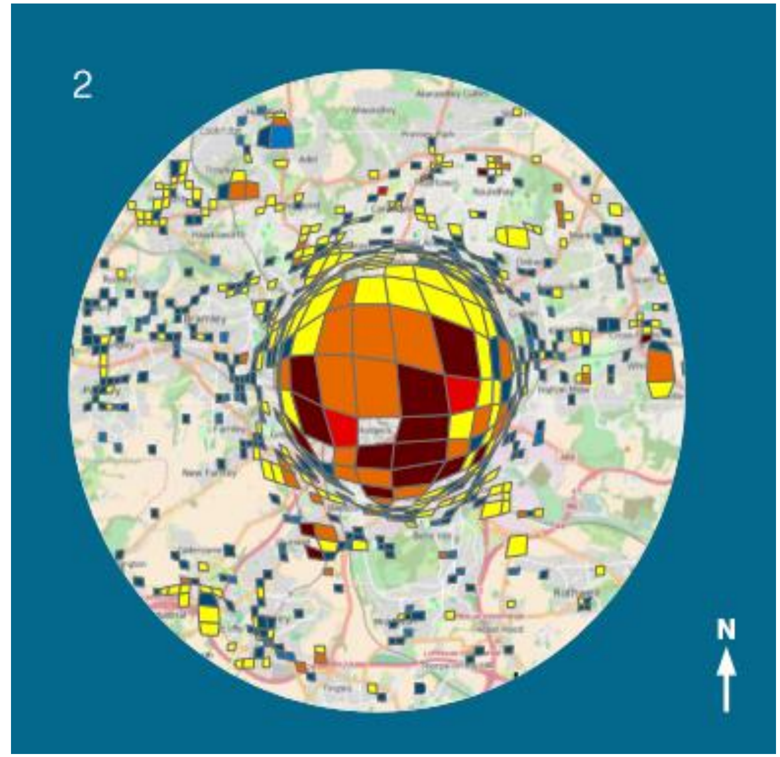
The Leeds Office Market





Current Position

- We now have a fully functioning multi-criteria model of the commercial real estate market in the UK - this has never been done before.
- Alongside the perennial importance of ‘location, location, location’ we now have ‘evidence, evidence, evidence.’
- We have the ability to apply this methodology to any geographical area in England, Wales and Scotland.
- The last dataset provided by the Government regarding property market vitality was published in 2005 (a local authority scale estimate); it is still being used to inform current policy initiatives such as the recent permitted development right rule changes regarding office to residential conversion.

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Subsequent research

- Our model is based on national property valuation and tax information
- This has allowed us to explore and feed into the current devolution and fiscal decentralisation debate.
- We have submitted and subsequently been called as expert witnesses to:
  - All Party Parliamentary Group (APPG) round table on Reform, Decentralisation and Devolution in the UK, and
  - Communities and Local Government (CLG) Select Committee review of business rate retention.

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Some questions?

- Devolution is happening but what are its consequences for the region?
- Is the ‘Northern Powerhouse’ more than just a brand?
- Devolution is underwritten by business rate retention and that means the performance of existing commercial property and the development of new property stock
- How will the stock of commercial and industrial property and supply of new build influence local government funding in the region?
- There is much confusion and little detail about financialisation of real estate - we hope to shed some light on these matters

Why is this important?

- Towns and cities need to make best use of existing property and plan new development accordingly – currently there isn't any evidence base!

- Our model provides evidence for:
  - More efficient land use planning
  - Economic development strategies
  - Business rate retention planning
  - Monitoring and simulation of contemporary methods of urban intervention such as:
    - Tax Increment Financing (general and new development deal),
    - Enterprise Zones
    - other retained business rate models such as Accelerated Development Zones
- One way or another, public sector service provision is now pegged against the performance of commercial real estate; we can monitor this performance and direct its potential improvement.

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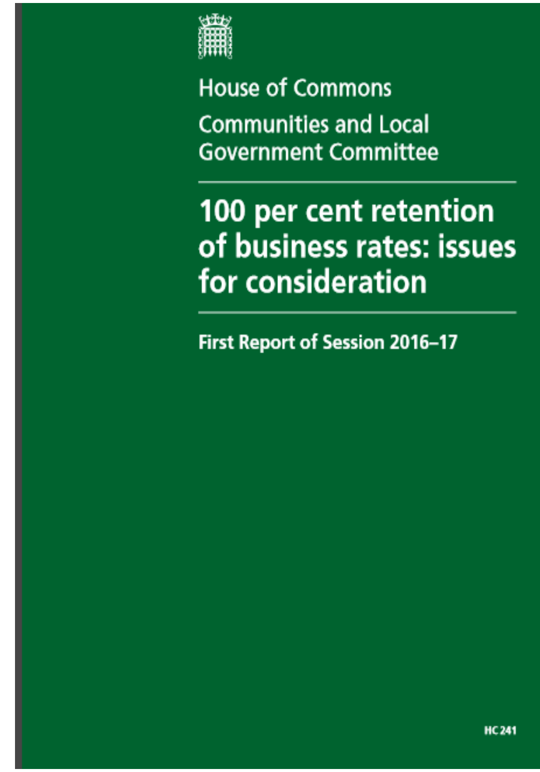
Opportunity knocks: Not just about LAs

- No representation from landlord or development sectors into these enquiries – missed opportunity!
- Did you know that Local authorities make more money out of Empty Property Rates than business activity? – opportunity to reform Empty Property Rates
- Real estate development funds devolution – opportunity for landlords and developers to take centre stage and lead the devolution debate
- How will business occupiers and small businesses be affected by the way property markets respond to challenges?

and finally...

- What do you think?
  - First impressions
- What can else could we do?
  - Identify potential to extend application
- Have we missed any tricks?
  - Identify new opportunities
- Let us help you – give us access to your data


House of Commons
Communities and Local Government Committee
100 per cent retention of business rates: issues for consideration
First Report of Session 2016–17
HC 241

Any thoughts to:

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R3intelligence is dedicated to supplying high quality impartial commercial real estate research and advice.

Request an exploratory meeting with either Dr Paul Greenhalgh or Dr Muldoon-Smith

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