

A stylized map of Edinburgh, Scotland, rendered in a light purple color against a darker purple background. The map shows the city's layout, including the Old Town, New Town, and surrounding areas.

**THE ROLE OF PROPERTY
IN DELIVERING EDINBURGH'S
ECONOMIC POTENTIAL**

ThinkBarn

WRITTEN AND RESEARCHED BY

Sue Foxley
Lead Researcher
ThinkBarn
+44 (0) 7971 402 527
sue.foxley@thinkbarn.co.uk
www.thinkbarn.co.uk

RESEARCH SPONSORED BY

TFT Edinburgh
Exchange Place 2
5 Semple Street
Edinburgh EH3 8BL

nwotherspoon@tftconsultants.com
+44 (0) 131 306 0066

HEAD OFFICE

Tuffin Ferraby Taylor LLP
18 Holborn
London
EC1N 2LE

+44 (0) 20 3479 77 77
www.tftconsultants.com
@tftconsultants

Tuffin Ferraby Taylor is a limited liability
partnership registered in England and Wales.
Registration number: OC306766.
Registered office 18 Holborn, London, EC1N 2LE

Published in February 2017

CONTENTS

- Foreword 4
- Executive summary 5
- Edinburgh’s economic backdrop 6
- A changed business landscape. 7
- What differentiates Edinburgh 8
- Edinburgh’s future 12
- Implications for the Edinburgh property market 14
- References 15



Alan Pemberton
Managing Partner

FOREWORD BY ALAN PEMBERTON

Edinburgh, with its dramatic skyline and vibrant cultural scene, is as popular as it has ever been. With more and more routes to Edinburgh Airport, tourists continue to flock to the city and enjoy its truly cosmopolitan feel.

But Edinburgh is not only popular among domestic and overseas travellers. A growing number of major global corporations and innovative start-ups – particularly in the burgeoning TMT sector – are drawn to Edinburgh’s creative core. Drawing on a conglomeration of skills and expertise that – even in this post-Brexit world – thrive in Scotland’s capital city.

Tuffin Ferraby Taylor – now in its 44th year – opened in Edinburgh towards the end of 2015. Perhaps for too long we had serviced our Scottish clients (and English clients with assets in Scotland) from our Birmingham and Manchester offices. That is no longer the case.

We are proud to have a fast-growing Edinburgh team supporting some of the most well-known names in Scottish commercial property and we hope this report is a helpful contribution to the debate as Edinburgh rises to the very real challenges it faces in, what we expect will be, an uncertain few years.

I would like to offer my thanks to Sue Foxley at ThinkBarn, Neil Wotherspoon at TFT Edinburgh, and colleagues in our marketing team, for their hard work and really getting under the skin of what we wanted to explore in this report.

EXECUTIVE SUMMARY

- Edinburgh, in common with cities across the globe, is seeing economic change brought about by the continued evolution in the interrelated areas of technology, corporate structures and working practices. This paper considers how the very particular characteristics of Edinburgh make it well placed to capitalise on these global forces of economic change.
- The city is seeing a more diverse economy emerging as a result of these trends, albeit in part spurred by necessity following the financial crisis. TMT and science-based businesses are among those seeing growth.
- Edinburgh's historic backdrop, combined with its higher education pedigree and cultural credentials, provides a draw to high-skilled staff, particularly the young. In-migration from the UK and internationally, combined with home-comers, are adding to the skill base. The workforce includes a growing number of freelance and mobile workers who are capturing opportunities within Edinburgh, but also looking to London and beyond.
- The impact of the increasingly diverse economic base is seen in growing Foreign Direct Investment into the city, robust business creation and improving productivity. Sustaining economic growth and investment presents a challenge for the city over the coming years.
- As the UK manages its exit from the EU, Edinburgh – like other areas of the UK – will depend on continued access to high-skilled labour and international markets, whether as part of the United Kingdom or as an independent nation.
- The continued economic evolution of Edinburgh will also depend on the city's ability to keep pace with the pressures of success. The city will need scale to deliver continued improvements in productivity and growth. This will require the delivery of a range of business and residential accommodation, as well as providing the necessary range of schools, with community and transport infrastructure that underpins a 21st century city.

EDINBURGH'S ECONOMIC BACKDROP

As a capital city and business centre, Edinburgh plays a fundamental role in Scotland's economic prosperity. The financial crisis era was undoubtedly challenging for the city, with the loss of jobs, businesses and HQ functions, but an evolving business make-up is delivering growth and a vibrant economy.

The Scottish economy grew by 0.4% in the second quarter of 2016, reflecting a 0.7% uplift on the same period in 2015. Scottish output growth still lags behind the UK average, but there are signs of positive change. Productivity, the precursor to growth, rose by 2.3% in 2014 (ONS, Dec 2015), while the city saw a record level of inward investment during 2015.

The EY Global Investment Monitor 2016 reported that in 2015 Edinburgh was the third most successful city in the UK behind London and Manchester for inward investment. A total of 41 Foreign Direct Investment (FDI) projects came to the city, an almost three-fold increase on the previous year and the highest number in any year since EY launched its FDI database in 1997. EY suggests that the strong outperformance over other Scottish cities may indicate the beginning of a new trend in Scotland, where the country's rising proportion of service sector projects may have a greater likelihood of locating in Edinburgh. The high level of investment in Edinburgh contributed to

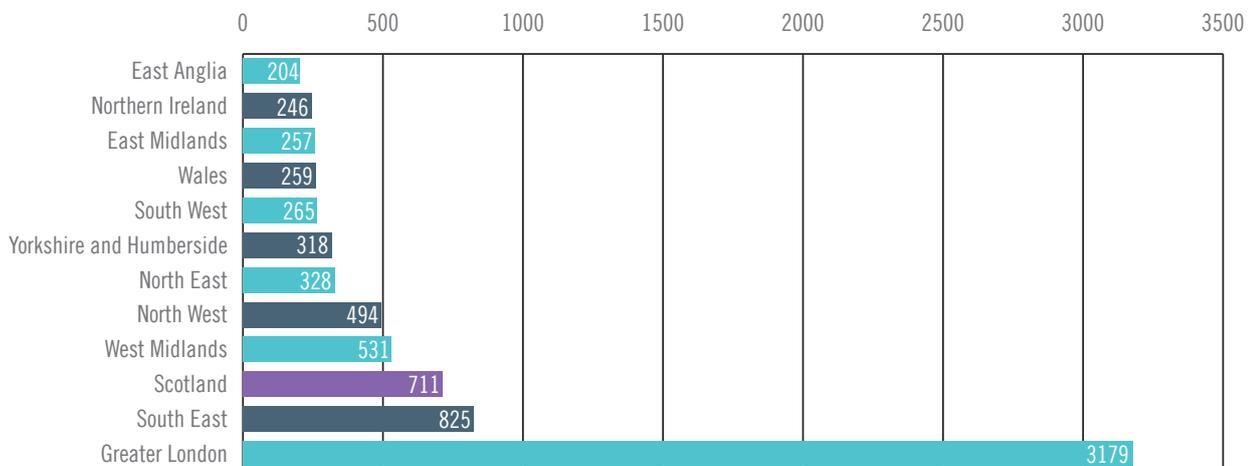
Scotland outpacing the rate of growth in UK FDI projects, with Scotland increasing its share of all UK FDI projects from 9% to 11%.

Importantly, this investment drove a significant rise in associated employment, most notably in the service sector and high skilled industries, encompassing business services, software and scientific research. This has combined with evidence of an upturn in entrepreneurship in the city with number of new business incorporations in Edinburgh rising over recent years, albeit slipping back in the months following the EU referendum result (City of Edinburgh, 2016).

It is also notable that the city's airport is showing long term growth in passenger numbers, on London routes, elsewhere across the UK and, in particular, internationally (Edinburgh Airport, 2016). The combination of local business growth and interconnected economic activity with London and other global centres is becoming a defining characteristic of Edinburgh post-financial crisis. A number of factors have evolved and interacted during this period in order to create a positive environment for growth. Changing business practices and technological progression were in play globally irrespective of the financial crisis.

However, the financial pressures of the 'lost decade' following the global economic downturn accelerated change to deliver a new business landscape, which has positive implications for Edinburgh.

FOREIGN DIRECT INVESTMENT PROJECTS SECURED BY UK REGIONS OVER THE PAST DECADE



» Source: EY's Global Investment Monitor, 2016

.....
Mobile working for both individuals and organisations is anticipated to reach an adoption level of over 70% by 2020
.....

» Source: The Work Foundation



A CHANGED BUSINESS LANDSCAPE

Business and technological change is, of course, the common backdrop to all cities. However, Edinburgh is positively embracing change with implications for investment, business growth and employment. We briefly consider the structural drivers now defining the business environment and then go on to consider the reasons why Edinburgh is successfully riding the wave of change.

EVOLVING BUSINESS MODELS

The Edinburgh story is tied into the emerging models of corporate strategy. Sectors and businesses are increasingly global in their operation. However, as corporates seek to innovate and retain their market edge they are looking at alternative operational models. Constraints on costs since the financial crisis have added to the pressure to think differently.

Competitive advantage depends on innovation, but sustaining creative invention in-house is a challenge. It can be expensive, particularly for one-off projects, but does not always sit comfortably with a business's culture, no matter how 'cool' that corporate culture may be. In some instances, large businesses have 'bought-in' innovation, as illustrated by Facebook's purchase of Hot Studio. Meanwhile, others have established separate entities, such as Google's creation of Google Venture. With careful management, such arrangements can be very successful, but out-of-house specialists, whether niche providers or individual consultants, are playing an increasingly pivotal role in successful businesses. This has driven a range of new operational models.

Edinburgh's business community and employment base illustrate the diversity of the models now in play and the importance of connections both within the city and beyond. Technology, business services and creative industries are among the sectors represented in the city's new start-ups, and in a position to provide specialist creative input to corporates in Edinburgh, London or further afield.

TECHNOLOGY SHIFTING ASSUMPTIONS ABOUT LOCATION

In fact, Edinburgh's economic composition has long positioned it with one foot in London, and many other tentacles spread across the UK and globally. But evolving technology has facilitated a heightened level of interconnection within and between businesses, and delivered new ways for workers and companies to operate.

Certainly, traditional assumptions that expertise and specialisation can only be achieved in major city agglomerations, are being challenged by technology. Networks of specialist workers that may be based in regional centres, small towns or even rural areas, increasingly provide such expertise.

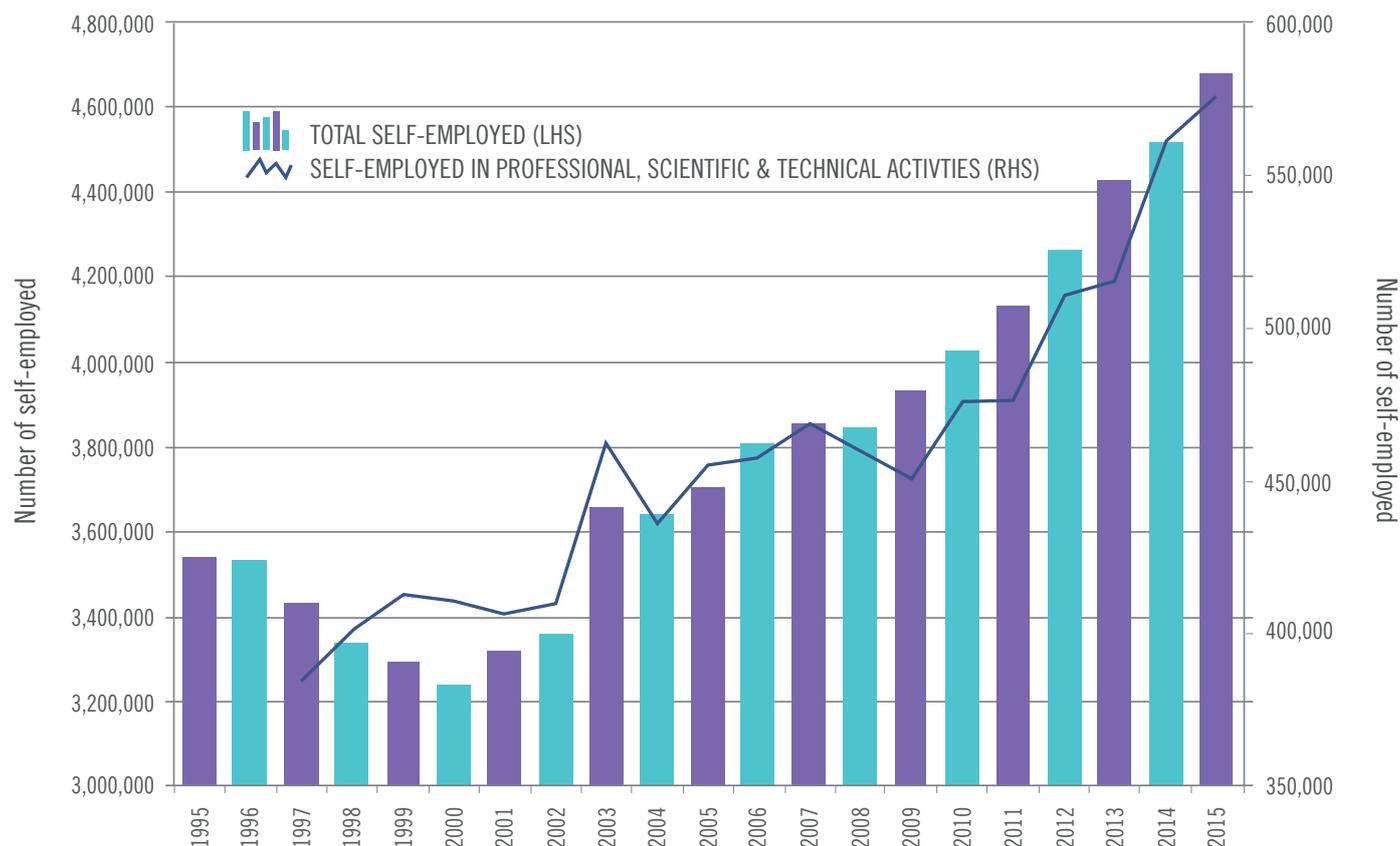
The UK Labour Force Survey (ONS, 2016) found that at least one third of the UK workforce works remotely all or some of the time. A recent study by The Work Foundation confirmed this analysis; its study of medium and large businesses found a third of staff adopt mobile working.

This is believed to underestimate the position since among freelancers, micro and small businesses the rate is likely to be higher. Furthermore, The Work Foundation estimates that "mobile working for both individuals and organisations is anticipated to reach an adoption level of over 70% by 2020." That is, we will reach a tipping point in how businesses operate within the next few years.

This will further support flexible working practices to allow Edinburgh to evolve as a business centre but not necessarily just in the conventional 'office HQ' sense. A range of operating models becomes possible with technological solutions – if the demand is there.

This includes a life/work-style decision to move to self-employment particularly among the technical and professional high-skilled. This trend is reflected in the Edinburgh economy. Upwork, an organisation linking businesses with freelancers, reported that Edinburgh is among the top locations for registered

RISE IN HIGH-SKILLED SELF-EMPLOYMENT



» Professional, scientific & technical represented by four-quarter rolling average.

» Source: ONS

freelancers (2015). Their working relationships may of course be anywhere in the UK, or indeed globally.

However, while technology and mobility might suggest the time of clusters has passed, evidence in other locations, including Shoreditch and the nearby Silicon Roundabout in London – and indeed Silicon Valley in California – suggests this is far from the case. New IT firms continue to focus around these areas, despite the high occupational costs. This demonstrates that the role of place, workspace and critical mass of like minds are essential ingredients.

WHAT DIFFERENTIATES EDINBURGH?

These factors of business, technological and demographic change are relevant across the UK, if not globally, so why is Edinburgh so well positioned?

The answer lies in the city's unique qualities, combined with structural changes occurring over the past decade, in response to the financial crisis in particular.

SUPPORTIVE DEMOGRAPHIC PROFILE

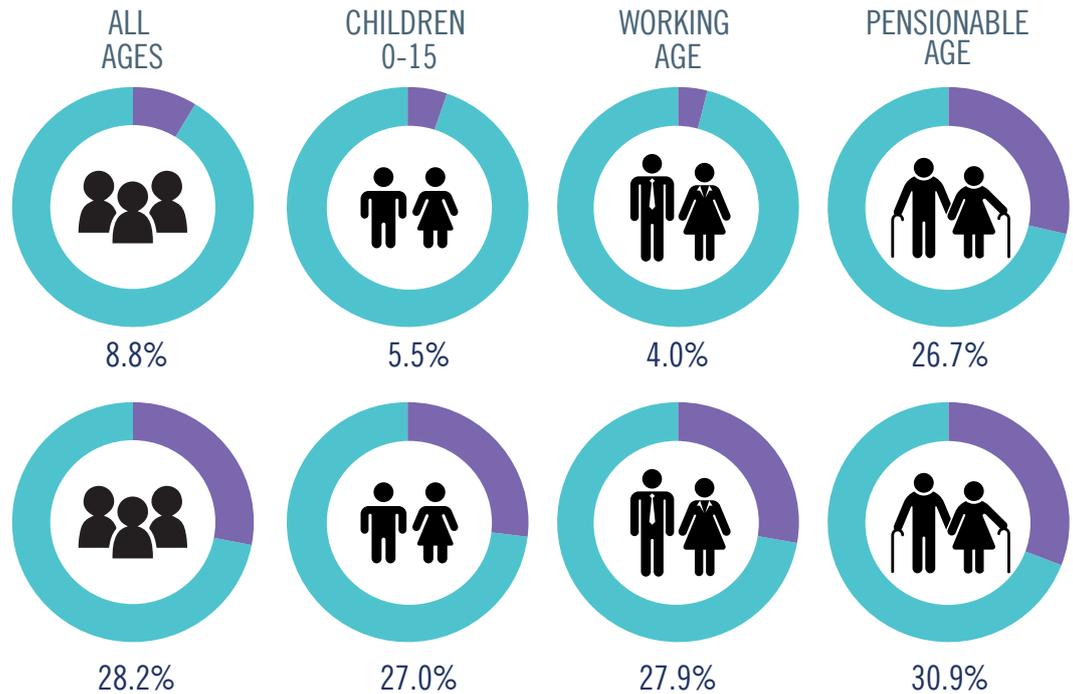
Edinburgh is a youthful city; 23.6% per cent of the population are aged 16 to 29 years. This is markedly higher than the Scotland average with projections that this demographic bias will grow over the coming decades.

Like all major urban centres, Edinburgh is also a destination for migrant workers and has the highest net migration in Scotland, from within Scotland, elsewhere in the UK, and also internationally, particularly from within the EU. The latest available figures showed an average inflow of 3,439 people into city of Edinburgh annually between 2012-14. The 16 to 29 year-old age group accounted for the largest group of in-migrants to the city. The largest group, of out-migrants was the same age group,

Edinburgh is among the top locations for registered freelancers (2015).

» Source: Upwork

PROJECTED GROWTH IN POPULATION



» Note: 2012 - based projections, 2012-2037
 » Source: National Records of Scotland, 2014

reflecting the large student population of the city. However, the net inflows suggest there is a propensity for students to remain in the city after they have graduated. Businesses in the city are undoubtedly benefiting from in-comers or ‘remainers’ with high value skills.

Migration, combined with the concentration of universities in the city, contributes to the youthful workforce profile of Edinburgh. This is facilitating and driving changing in the city’s work dynamic. The aspirations of millennials inevitably differ to those of previous demographic waves. Research points to a variance in work perception among this age group. Millennials blend their personal and private life; work is an activity and not a place (*Felstead, Jewson and Walters; Maitland and Thompson*). This approach is closely aligned to the freelance and SME economy in Edinburgh.

This not only changes the nature of office space required, but also how business locations such as Edinburgh interrelate with other centres. If work is not a place, activities can be flexible in their location, determined by the business and its workers, whether in or out-of-house. That said, creativity requires collaboration among not only those with the needed skills but also the cultural mix and openness to facilitate the formation of new ideas. Edinburgh’s young,

multi-cultural mix positions it well to support the city’s innovative economic growth from within.

EDUCATION AND CULTURE

The skilled employment base of Edinburgh positions it well to take advantage of business and technological change. 32% of the city’s adults aged 16–64 hold a first or higher degree. Furthermore, there are more than 55,000 full and part-time students enrolled at Edinburgh’s four universities: The University of Edinburgh, Edinburgh Napier University, Heriot-Watt University and Queen Margaret University. All four are recognised for their research excellence and ranked among Scotland’s top universities. This provides a strong draw for incoming companies and start-ups in high value business sectors.

More significantly, however, the city is successful at translating these educational credentials into business activity. A study by the British Council Scotland found the linkages between the higher education sector, business, industry and public-sector employers were strong. Furthermore, Scottish universities secured high levels of research funding from the UK Research Councils and are also successful in forming spin-off companies.

Edinburgh is a youthful city; 23.6% per cent of the population are aged 16 to 29 years.

EMPLOYMENT BY INDUSTRY SECTOR IN EDINBURGH, SCOTLAND AND MAJOR UK CITIES

Industry Sectors	Edinburgh Number	Edinburgh %	Eight city average	Scotland average
Health	48,500	15.1%	15.2%	16.1%
Financial & insurance	36,700	11.4%	5.1%	3.4%
Education	30,100	9.4%	10.3%	7.5%
Retail	28,700	8.9%	9.2%	10.0%
Professional, scientific & technical	28,400	8.8%	8.9%	6.6%
Accommodation & food services	27,100	8.5%	6.5%	7.2%
Business admin & support	26,500	8.3%	9.7%	7.7%
Public administration & defence	19,100	5.9%	5.0%	5.8%
Arts, entertainment & recreation	16,200	5.0%	4.1%	4.1%
Information & communication	13,900	4.3%	3.0%	2.5%

» Note: Eight city average includes the largest populated UK cities outside of London: Birmingham, Bradford, Bristol, Glasgow, Leeds, Liverpool, Manchester and Sheffield.
 » Source: Business Register and end Employment Survey 2014, NOMIS

This is increasingly the case in the tech sector, unencumbered by a difficult restructuring period in the city's banking and finance sector underwent. Edinburgh is the leading UK tech cluster in Scotland and saw the fifth-highest growth in digital employment in the UK over the period 2010–2014. EdTech, FinTech, digital marketing, e-commerce and software development are all well represented in the city. It is home to global tech companies such as Amazon, Cisco, Oracle, Microsoft and IBM while the university and tech communities provide a supportive environment for start-ups (Tech Nation).

The range of culture on offer in Edinburgh, not least the annual festivals, is helpful in both retaining talent in the city and attracting skilled workers from elsewhere. A diverse retail and leisure offer also underpins the appeal of the city. Improvements over recent years have been evidenced by new international brands taking their place in the city. This will be enhanced further, by projects such as the redevelopment of the St James Shopping Centre site to provide 850,000 sq ft of retail space, a luxury hotel, approximately 150 new homes, 30 restaurants and a multi-screen cinema.

.....
Edinburgh's School of Informatics has produced more world-leading and internationally excellent research than any other university in the UK.

It is notable that the Research Excellence Framework 2014 assessment for computer science and informatics found the University of Edinburgh's School of Informatics has produced more world-leading and internationally excellent research than any other university in the UK, underlining the strong foundation for tech expertise in the city. The School has established Informatics Ventures (IV) and Engage Invest Exploit (EIE). IV encourages entrepreneurship in technology and the scaling of Scottish startups and EIE organises a series of investor platforms.

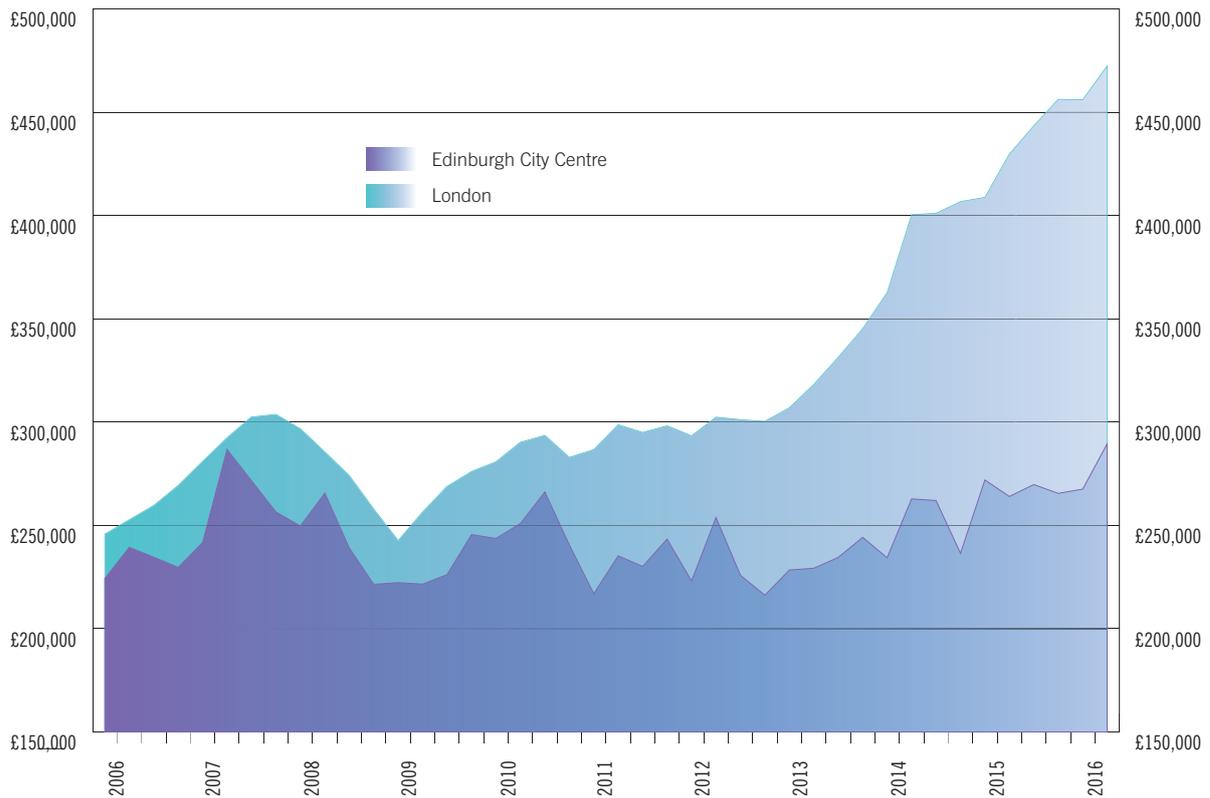
Edinburgh's cultural depth compounds the value of the city's educational credentials. As noted above, work and play are more likely to meld for younger workers and as a result there is greater focus on the lifestyle package.

LIFESTYLE AND LIVING COSTS

Quality of life extends beyond culture of course, to the tangible factors of salaries and relative housing costs, particularly in the case of skilled employees, including those who are working in globally mobile sectors such as banking and technology. The changing work environment does, however, mean assumptions about where skilled labour chooses to locate are being challenged.

This is particularly the case for younger households who are more financially pressed: challenged by the double blow of poor housing affordability and a tighter mortgage environment. It is understandable, therefore, that Edinburgh regularly ranks highly in lists for the best places to

RELATIVE HOUSE PRICES IN EDINBURGH AND LONDON



» Source: ESPC, Nationwide

live. Despite the average house price in the city being among the highest in Scotland, it remains well below London and other south-east towns that a tech specialist or banker might otherwise call home, while also offering all the cultural add-ons. Furthermore, prices reduce significantly with distance from the business core, providing ready affordable housing within a 45-minute commute of the centre.

Given changing work patterns, employees or consultants are not necessarily 'in the office' and perhaps hardly at all, or they may need to be at different work sites, perhaps internationally. This provides greater locational flexibility. It is also notable that there is some evidence that recent south-east 'mover-outers' appear less hooked on the rural idyll over recent years. Perhaps more are looking for homes within walking distance of the urban core and all that offers. If that is not feasible in London, even within a sensible train commute, then cities such as Edinburgh offer considerable attraction.

Accessible redevelopment projects to improve the urban core and add both business and residential space are aiding the city's appeal. These currently include the Haymarket development, a £200m joint venture commercial scheme by Tiger Developments & Interserve. The scheme has a unique geographical position providing access to the rail and air network, via the tram, and will consist of prime office, retail and leisure space including a hotel and aparthotel.

The flexibility of the new work landscape is illustrated by the 'WILLIE' ('Work In London, Live In Edinburgh') phenomenon. Workers who take flights from Edinburgh to London (and other locations) on Monday mornings are a testament to the need to re-think work models and how this is manifesting itself in the 'Edinburgh-London-and-beyond' relationship. These arrangements burgeoned after the 2008 financial crisis when many in banking looked to London for work as it recovered faster than elsewhere in the country. While the banking sector in Edinburgh has seen a recovery with growing employment, the WILLIE concept has established itself as part of Edinburgh professional life.

This has two important implications. Firstly, the relatively limited employment market in Edinburgh's financial and business services sector, post-credit crunch in particular, contained salaries, as options to jump ship were limited. A greater willingness to commute to London, even for part of the working week, has created a more dynamic jobs market in the city with positive implications for salaries. In turn this has opened up Edinburgh as a viable option for London-based workers to make the move north without stepping out of the London jobs market and associated financial benefits. Clearly, this alternative work model has been made possible by Edinburgh's excellent connectivity.



» Air Traffic Control Tower at Edinburgh Airport

EDINBURGH'S FUTURE

Edinburgh is not however, morphing into an arm's length commuter town, but rather the city that leads the way in this new work and economic landscape. The financial crisis forced the city to face the challenge of the changing global economy head on; the retrenchment of the banks during this period necessitated an alternative approach.

New sectors such as technology and life sciences have grown to fill the gap, establishing their economic mark on the city with millennials leading the working dynamic. If these sectors and businesses are supported, a virtuous circle of change will expand in depth and breadth. The recent growth in FDI, as well as an upturn in local start-up activity, offer very encouraging signs for the future. However, there are two interrelated challenges ahead.

ESTABLISHING CRITICAL MASS

Looking ahead, Edinburgh's economy will depend on its ability to build on its early adopter status of new working practices to retain and attract the highly skilled. While there is clearly uncertainty on how EU migration, which is so important to Edinburgh, will operate in the future, there appears to be no political appetite to deter the skilled and talented from entering the UK economy. It is hoped that, the same will extend to continued cooperation across educational establishments, which form a starting point for much of the innovation and investment in the city. Edinburgh's position as a welcoming city with opportunity

will ensure such talent can be secured in the future. This will support the expansion in its home-grown economy.

Given this, the city will also need to be prepared to grow. Despite the expanding importance of mobile working, both critical mass and a diversified economy are essential for sustainable success. International evidence suggests that cities benefit from agglomeration: higher productivity delivers growth in activity and real incomes.

Unfortunately, the city is suffering from a shortage of office stock, with speculative schemes ready to meet demand from growing and incoming businesses particularly limited. Tiger Developments' substantial redevelopment of the Haymarket site as well as GSS Developments' 35,000 sq ft at 2 Semple Street in the capital's Exchange district are key exceptions.

However, critical mass is more than the co-location of businesses and academic expertise. The challenge is to translate these factors into the development of new home-grown products and services and their commercial export. It is notable that the city is home to the largest technology incubator in the UK. CodeBase currently houses 80 start-ups in the 250,000 sq ft Argyle House. This illustrates the varied stock requirements in the new occupier landscape.

POLITICAL UNCERTAINTY

The turning point of the Brexit vote will present wider economic risks to which Scotland's capital will not be immune. However, Edinburgh is an international city operating in a diverse mix of high-value-added markets and has demonstrated the evolutionary potential of its adaptable and innovative economy. The factors that will be of most relevance to the city's economic future, whether out of the EU, or, as an independent Scotland, or not, will include:

- A continued supply of high-skilled labour and the students that make the skilled workers of the future;
- Access to the financial markets, with links both to London but also continental Europe;
- Ability to trade and collaborate in high value sectors including the life sciences, but also the technology and creative industries.

In the short to medium term, however, the city's challenge will be to sustain investment, ranging from venture capital, business expansion or office openings from global companies in the shadow of not only Brexit, but also the prospect of a second independence referendum. Irrespective of whether either of these endgames is positive or negative for Edinburgh's economic future, the uncertainty generated is damaging to momentum.



» Argyle House in Edinburgh
» Image copyright Kim Traynor (Creative Commons)



» Edinburgh City Skyline

IMPLICATIONS FOR THE EDINBURGH PROPERTY MARKET

Given the uncertainty following the Brexit vote, planning for Edinburgh's future requires that assumptions be made. If it is assumed that the UK and Scottish Governments seek to protect and reinforce the necessary components of future growth set out above, we can assume the city's future will continue to evolve in both depth and scale.

The Edinburgh property market would need to evolve in parallel to meet this challenge. In particular:

- A growing demand for flexible, touch-down, 'meet-time' and shared workspace that meet the needs of evolving businesses. The TMT sector is price sensitive but flexible on location, with lower fit-out costs and therefore dilapidations. Greater cross-over between the commercial and residential stock is likely.
- Ongoing demand for quality corporate office space to accommodate growing inward investment. The nature of the space and the location will be dictated by business sector and development potential. City centre schemes will remain in demand in some sectors as the attraction and retention of staff becomes a growing challenge. Critical mass and services in out-of-town locations will boost their appeal.
- A growth in high-skilled industries will place pressure on the existing residential stock and its affordability. There will be greater demand for affordable housing and student housing, as well as prime residential for the high-skilled who will be fundamental for economic growth. Failure to meet all these needs will damage the city's competitive position for the future.
- Increased pressure on the school system as incomers and locals compete for the quality education available in the city. There will be a need to build on the city's educational reputation and deliver more quality schools to meet an increasingly diverse population base.
- Economic growth will ensure that the delivery of quality transport infrastructure will be essential to facilitate economic growth and ensure all across the city has access to economic activity.

ThinkBarn

■ TFTI