



**ROBERT GORDON
UNIVERSITY•ABERDEEN**

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PROPERTY network

North-east Property Survey 2012

Construction Lease Property Network *North-east*



Technology Strategy Board
Driving Innovation



*Robert Collier
Chief Executive, AGCC*

Foreword

This report is the seventh in our series of new research into key industry sectors in the North-east. As demand within the region for both commercial and residential property continues to buck the prevailing trends elsewhere in Scotland and the UK, it has become increasingly important to take stock of the property sector and its businesses. Not least because of the role that the provision of quality commercial and residential accommodation plays in retaining and attracting enterprise in our region.

With this aim, we sought to establish a baseline against which we will chart the sector's performance and its issues of concern. We asked businesses to provide responses on their performance and the factors influencing it, how they conduct business, their optimism and what actions will influence future success. The responses received are encouraging and we will use these to drive our engagement with members in the Property Network

Businesses are optimistic about the future, expecting to achieve their overall objectives and to see both turnover and profits increase. They see opportunity in their sector with over 40% stating that they plan to grow and expand their operations and another 50% planning to consolidate their investment. This is good news for the North-east because if planned growth and expansion objectives are met, these would translate into job creation and a higher contribution from the sector to the region's economy.

However, in order to meet objectives and achieve the anticipated growth, a number of areas must be prioritised and addressed. Respondents identified the most important two areas as improvements in infrastructure and more access to finance and investment. Specifically, it is very clear from these results that the development of the AWPR will represent the most important stimulus to the future viability and success of the property sector in North-east Scotland.

To summarise, the property sector is stable, viable and shows potential for future growth. However, this growth can only be achieved with the delivery of developments in local infrastructure and improvements in the ability of the sector to access finance and investments for its projects, both issues that other sector surveys have identified as critical. Interested stakeholders must therefore work to achieve these foundations and enhance the positive environment which is already facilitated by our region's strong economic profile.



Your Chamber
Your Network
Your Opportunities

Robert Collier
Chief Executive



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North-east Property Survey

EXECUTIVE SUMMARY

This seventh report from Aberdeen & Grampian Chamber of Commerce looks at the property sector in North-east Scotland. The majority of respondents who completed the property survey worked solely within the commercial sector (40%) with 33% operating within commercial and residential and 27% solely in residential.

Organisations who responded to the survey were mainly based within the Aberdeen City Council area (53%) with 39% being from within the Aberdeenshire Council area. A small proportion (8%) were made up from elsewhere within the North-east of Scotland.

The majority of organisations that responded to the survey would be considered medium-sized enterprises with 40% of respondents employing between 50 and 249 staff and 33% employing 10-49.

Over the past 12 months organisations witnessed a decrease in access to finance with most respondents reporting this negative net change. Productivity and turnover were reported to have increased but so did the number of competitors

and the overall costs of doing business. When asked specifically which three costs have increased the most, administration, regulation and employee costs were most highly cited.

During the period reviewed, businesses in the property sector were mainly satisfied with the local business environment. However, access to finance and the quality of local infrastructure were the main sources of dissatisfaction.

The following summarises the percentage of businesses according to how they rated growth constraining and growth enhancing factors. The biggest barrier to growth in the sector was seen to be planning permission systems and processes (77%) with a secondary barrier being employment law and requirements (46%). Responding organisations felt environmental requirements were growth enhancing (40%) as well as contribution requirements for businesses (also 40%), although several respondents were unsure about the impacts of these on their business.



Over the past 12 months the majority of organisations noted no change to staffing levels (53%), only 11% felt the need to reduce staff whilst 36% have needed to increase the number of people they employ. Looking to the future, only 9% of respondents expect to reduce staffing levels further during the next 12 months, while 25% expect an increase in the number of staff in the same period. Of those organisations that have recruited more staff during the past 12 months 26% found this to be a difficult process, with 64% feeling it was neither hard nor easy.

The use of social media to communicate with current and potential customers is still a growing medium within the industry with over 50% reporting they rarely employ this method. Traditional advertising and the use of email and the internet are most popular within the sector with the use of social media expected to increase within the next 12 months. Networking events are also expected to be utilised more frequently in the future.

Future outlook within the sector is generally positive, with respondents expecting access to finance and the local business environment to improve over the next three years. However there is an expectation that changes in government policy towards the sector and associated costs will become more unfavourable.

The fiscal outlook for the sector is a positive one with over 60% of respondents expecting an increase in turnover over the next 12 months. 50% also expect that this will lead to an increase in profits and 23% expect to see an increase in their market share. Hence, for the property sector, strategic direction tended towards consolidation (50%) and expansion (45%) with only 5% considering downsizing or divesting from the sector.

In terms of achieving these positive results, the most important factor was perceived to be local infrastructure as well as greater access to finance and investment. The Aberdeen Western Peripheral Route was expected to have the most positive impact on the sector with over 70% of respondents rating this 10 out of 10 for impact.

North-east Property Survey

Introduction

Property is an important economic and commercial sector in North-east Scotland, attracting attention not only because of its viability and attractiveness as a sector, but also because of its activities which have far-reaching consequences for the region in terms of its people, communities and physical development resources. As demand in the North-east for both commercial and residential property continues to buck the trends noticed elsewhere in Scotland and the UK, it has become increasingly important to take stock of the property sector and its businesses. This is important in order to ensure that there is clear understanding of the issues affecting it, the factors influencing its performance, the concerns of its leaders and the key priorities that should be addressed to ensure that it remains viable and continues to make an optimum contribution to the region's economy.

It is against this background that Aberdeen & Grampian Chamber of Commerce has focused the seventh report in its sector research series on the property sector in North-east Scotland. This research aims to provide insight into the property sector in the region and to specifically do so by covering the following questions: "How is business now compared to before?", "What are the factors affecting your performance?", "How are you doing things?", "What should be done to secure the future?", and "What is your optimism for the future?".

In this report the aims and objectives of the research are satisfied by providing details of the findings of the Chamber's survey that sought to identify the performance, issues and future expectations of the sector's leaders. The report is exploratory and descriptive in nature, representing the views of sector respondents who replied to the survey. In future, more detailed analysis may be achieved through the inclusion of in-depth analysis and an expansion of the

sample. In addition, the response rates can be improved upon in order to achieve a more representative result for enhanced analysis.

The findings in this report are important to anyone who has an interest in the property sector in North-east Scotland, especially in terms of a successful business base for it for now and in the future. The evidence gathered here may provide input into designing policies and actions to support and nurture the property sector, be a basis for decision making, and serve as a source to stimulate future research in the sector. The report is divided into sections which reflect the thematic questions posed above.

A snowball technique was used for the survey, where the survey was originally sent to 105 Chamber members who subsequently sent it to other property businesses in their networks. 54 responses were obtained, representing a return of 51% on the original invitations sent. It is therefore important that the results described here should be interpreted within the frame of responses and the representation that it may apply to.

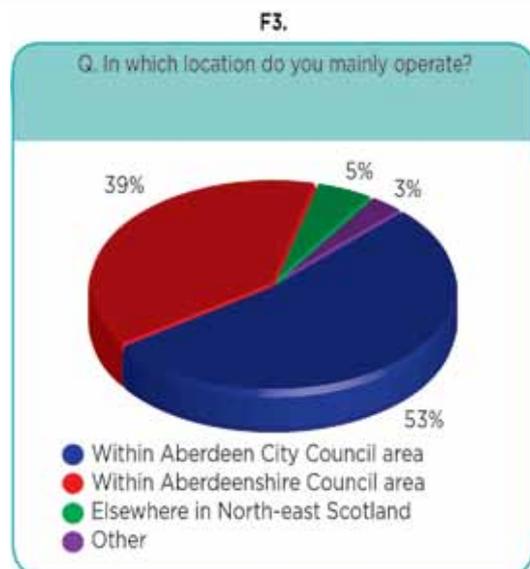
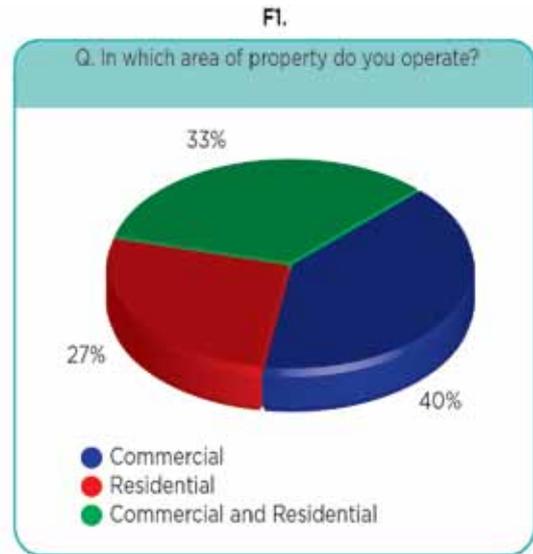
This research supports the Chamber's Property Network and was undertaken as part of a knowledge transfer partnership between Aberdeen & Grampian Chamber of Commerce and The Robert Gordon University, co-sponsored by the Technology Transfer Board and ACSEF.

Sector Profile

F1 describes the subsectors in which businesses in the property sector belong. 40% of respondents operate mainly within the commercial property sub sector, 27% operate mainly within the residential sub sector and 33% have operations in both the commercial and residential subsectors.

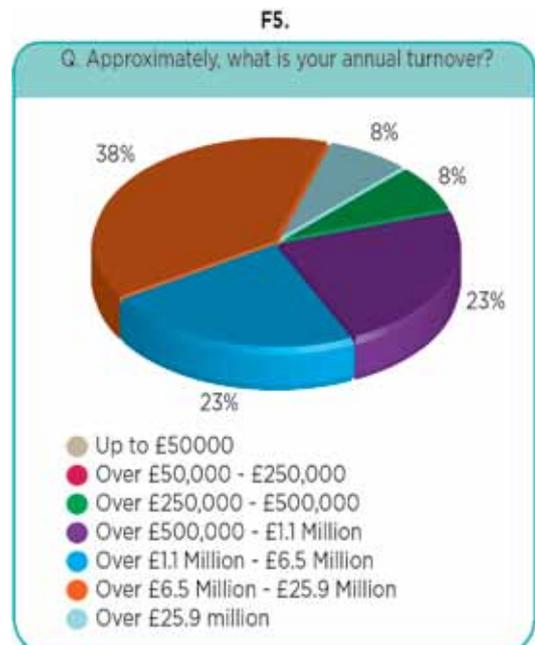
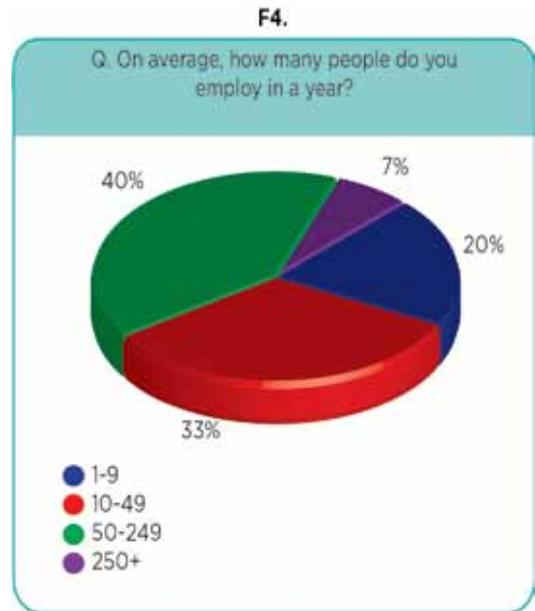
F2 shows a diverse mix of business activities in the property sector. Respondents constituted mainly of estate agencies (23%) followed by developers (18%) and housing associations (18%). Survey services represent 12% of respondents, while other services (legal, investor etc) accounted for 29% of responses.

F3 shows that the highest percentage of respondents operate mainly within the Aberdeen City Council area (53%), followed by respondents who operate mainly in Aberdeenshire Council area (39%) and those who operate mainly in other areas of the North-east (5%).



F4 shows that 40% of respondents employ between 50 and 249 people, 33% employ 10 to 49 people and 20% employ one to nine people and 7% employ 250 people or more. Going by this criterion, the majority of companies in this sector would be considered medium sized enterprises.

Regarding turnover, F5 shows that 38% of respondents have a turnover of between £6.5 million and £25.9 million. 8% of respondents represent businesses operating at more than £25.9 million while an equal 23% have turnovers of £1.1 million to £6.5 million and £500,000 to £1.1 million respectively. Another 8% account for businesses operating with a turnover of £250,000 to £500,000.

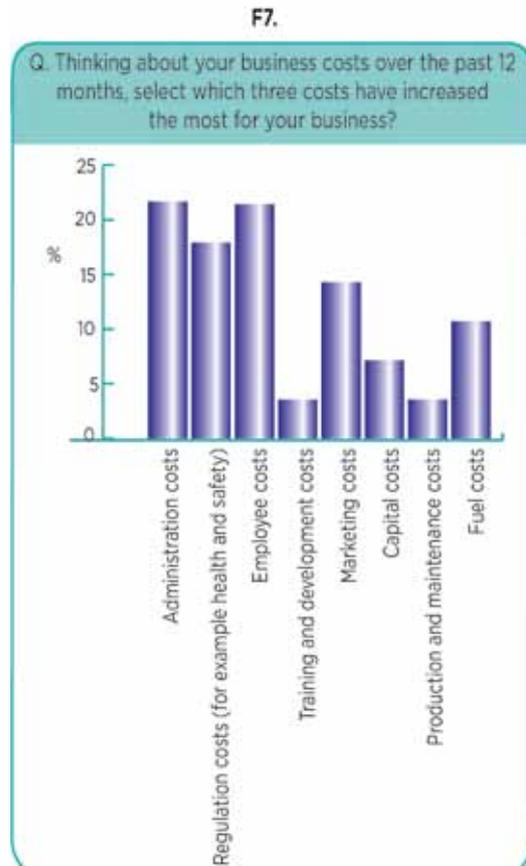
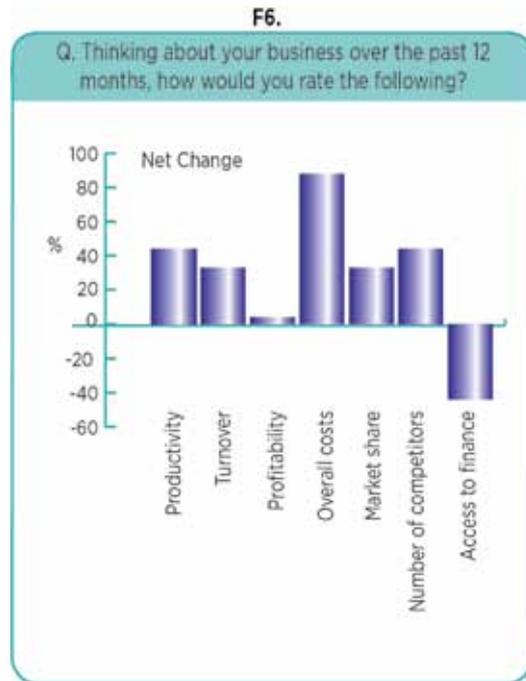


How is Business?

Respondents were asked to make comparisons between their current business experiences and their performance in the preceding 12 months. The purpose of this measure was to determine how respondents compared current business with previous business, and to determine whether there had been an overall improvement or decline in performance.

This comparison was done on the basis of indicating the strength and direction of change in key factors that were pre-identified as part of the research study. F6 shows increases and decreases in key factors, and it can be seen that access to finance witnessed a negative change, indicating that over the period measured, respondents considered the sector's access to finance to have decreased by nearly 50%. While both productivity and turnover have also increased by over 25%, it can be seen that the cost of business increased the most by 88%. As a result, profits have remained largely unchanged, increasing only by a fraction (as represented by a 4% rating).

F7 shows a breakdown of the increases in costs per percentage of respondents. The cost increase components with the highest percentage of respondents are administrative and employee costs (21% respectively) but these are closely followed by costs associated with meeting regulatory requirements (at 17%). 14% of respondents state that marketing costs have increased the most while 10% state that the most increase in costs has been in the form of fuel costs.



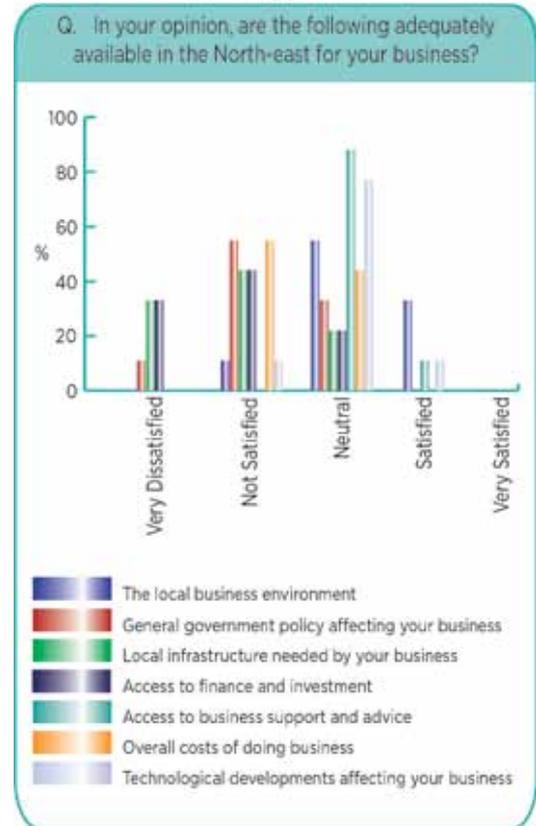
The impact of selected factors on business performance was assessed in terms of respondents' satisfaction with the factors. The purpose of this measure was to assess the sector's overall satisfaction or dissatisfaction with issues that directly impacted upon business.

In F8, the most important outcome to note is that there are more areas for dissatisfaction than there are for satisfaction, and this is specifically so in the areas of costs, government policy, local infrastructure and access to finance. The only factor that scored a significant rating for satisfaction is "the local business environment", revealing an overall level of dissatisfaction with impacting factors in the sector.

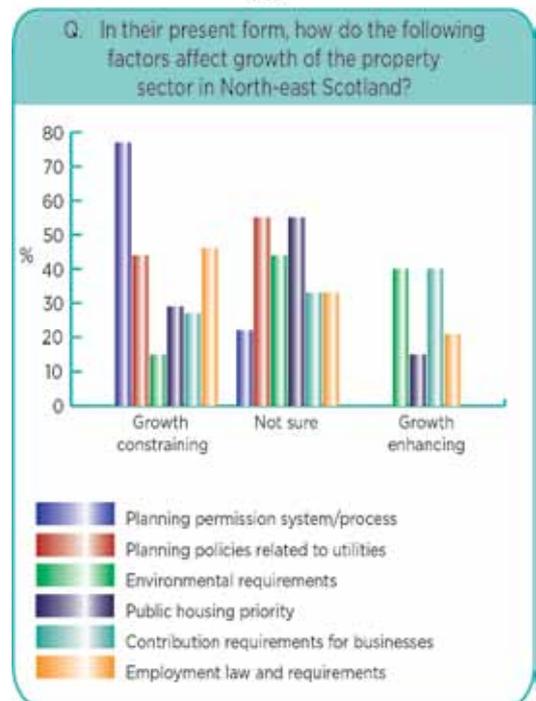
Factors specific to the property sector (emanating either locally or nationally) were also assessed for their impact on businesses. Businesses were asked to rate factors as growth constraining or growth enhancing, with an option for those who were unsure. In F9, 40% of respondents considered current environmental requirements for the sector as growth enhancing, and another 40% considered the contribution requirements for local development to be growth enhancing. Most respondents were unsure about the impact of planning policies relating to the installation of and access to utilities, as well as the effect of current priority on public housing. The main factors adjudged as growth constraining are the current planning permission system and processes, and current employment regulations.

Two factors were considered as major barriers to growth. These are current planning permission processes and employment regulation.

F8.



F9.



Employment and Skills

Respondents were asked to indicate the change (if any) in number of employees in the past 12 months. F10 shows that for the majority of respondents (53%), there was no change in the number of employees. However, as many as 36% of respondents stated that they had increased the number of employees in the past 12 months, whereas only 11% had reduced staffing levels, resulting in a net positive change of 15%.

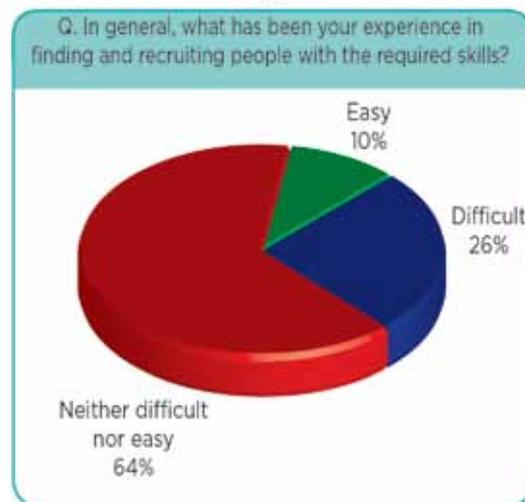
F11 shows the recruitment experience distribution across respondents. Asked to indicate how difficult or easy it was to find and recruit people with the right skills in North-east Scotland, 26% stated that it was difficult and 10% stated that it was easy. However 64% stated that it was neither easy nor difficult, revealing a broad state of indecision about the issue.

Respondents were also asked their opinion of anticipated employment trends. In F12, it can be seen that there is generally an expectation that there will be no major changes in employment levels in the next 12 months (66% of respondents). However, as many as one in four respondents expect that there will be an increase in the sector's employment in the next 12 months.

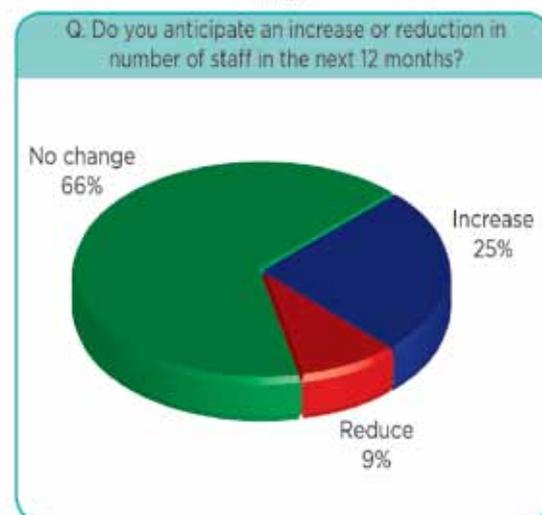
F10.



F11.



F12.



“66% of respondents do not expect any change in the number of jobs in the sector over the next 12 months. However, as many as one in four expect new jobs to be created by the sector.”

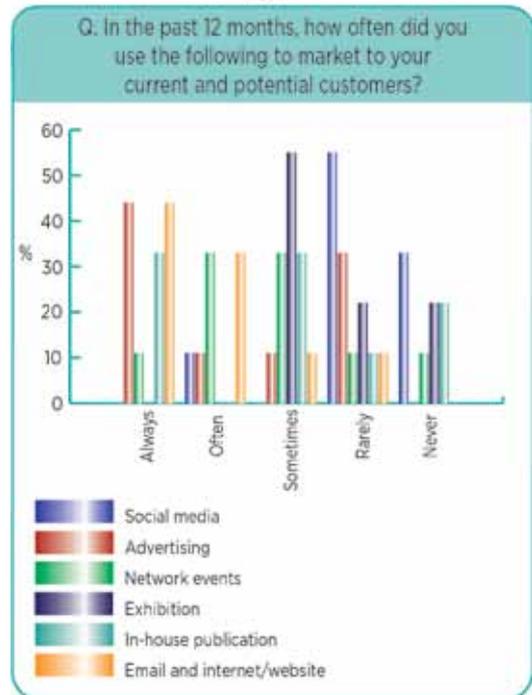
Marketing and Promotion

Organisations were asked about their marketing in the previous 12 months, in terms of their preferred means of marketing. This information is important because it provides a basis for benchmarking and also identifies the sector's marketing preferences. F13 shows that the most frequently used methods of marketing and promotion are traditional advertising and electronic mediums in the form of emails and website, followed by in-house publications. Compared to findings in other sectors, the property sector's current use of social media is relatively low.

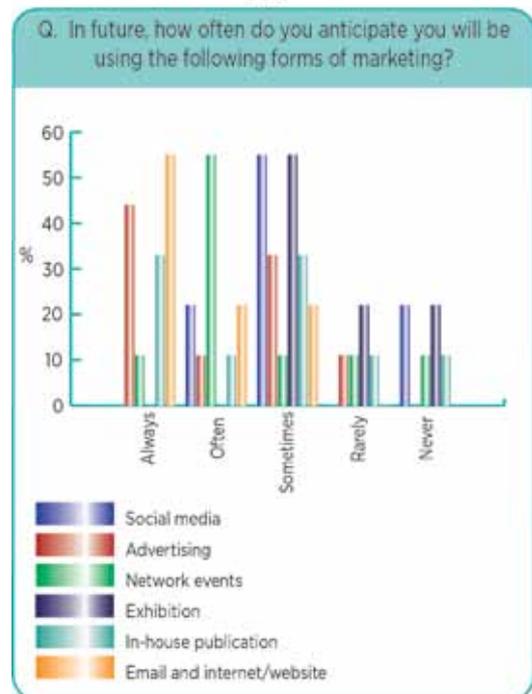
In the future, respondents expect that email and website marketing will be used most frequently, although traditional advertising will continue to be popular with businesses. Networking as a method of marketing and promotion is also set to increase over the next 12 months, while the use of social media will become more frequent in comparison to current use (F14).



F13.



F14.



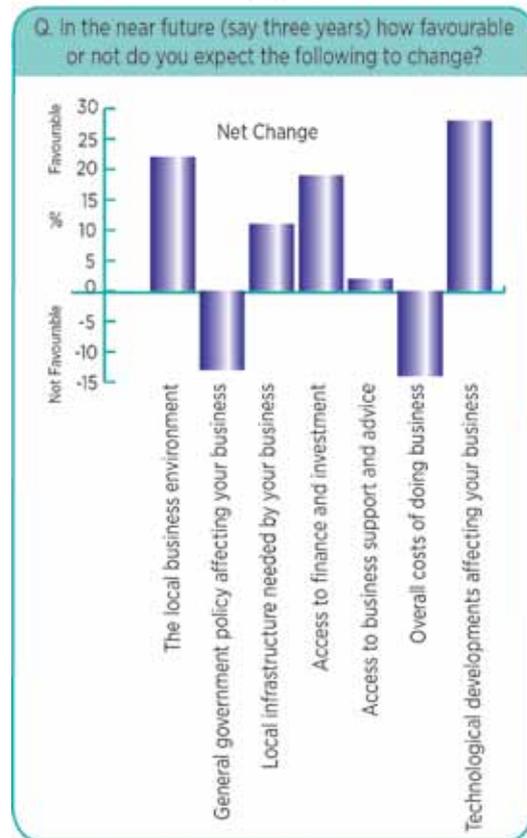
The Future

Businesses were asked to rate specific factors in terms of whether they expected these factors to become more favourable or unfavourable to their business. As F15 shows, respondents expect that technology will be the main change and this will be advantageous to their business. This is followed closely by expectations that the local business environment will get better and access to finance and investment will improve. On the other hand, businesses expect that changes in government policy toward the sector and the cost associated with doing business in the sector will become even more unfavourable in the next 12 months.

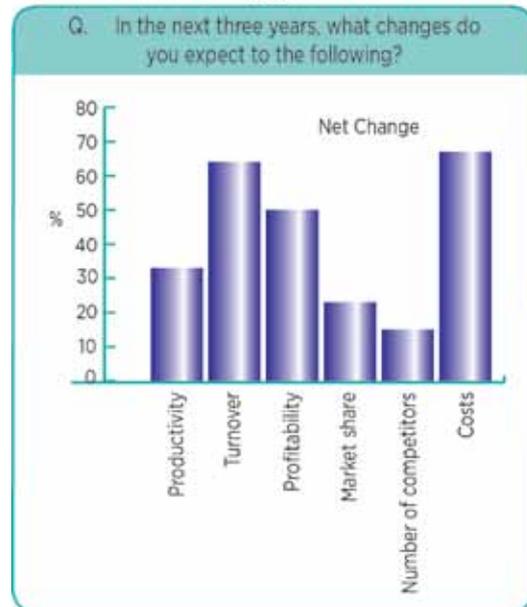
Businesses were also asked what the impact of the anticipated changes in the identified factors would be on their performance. F16 shows the potential changes in key performance indicators as rated by respondents. Over 60% of respondents expect an increase in turnover in the next 12 months, and 50% also expect that profits will increase. 33% expect that productivity will increase further and 23% expect that they will increase their market share.

“Over 60% expect an increase in turnover, and 50% also expect that this will result in more profits.”

F15.



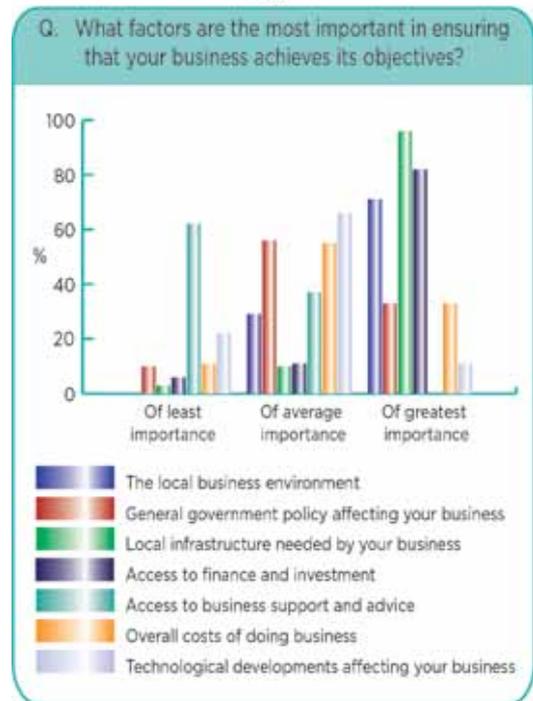
F16.



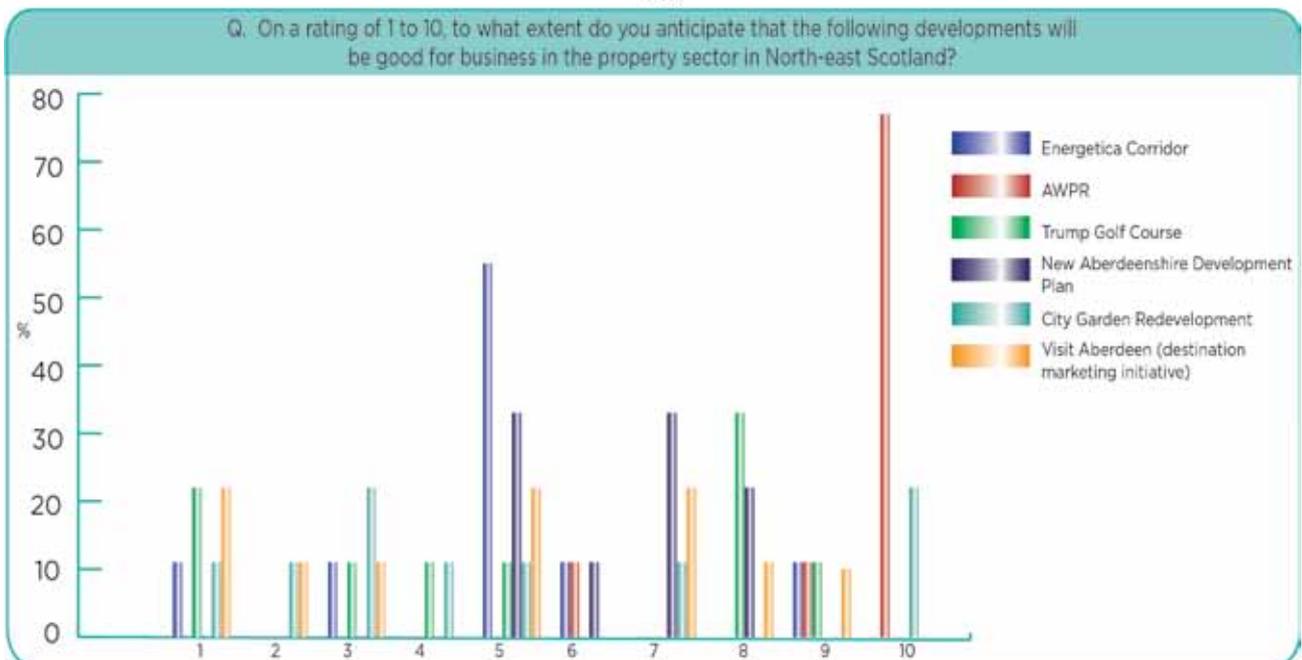
In F17, the most important issues to address to ensure that businesses achieve their objectives for the next 12 months are highlighted. The highest percentage of rating (96%) relates to improvements in local infrastructure as the most important issue to be addressed in the future. This is closely followed by 82% for access to finance as the issue of greatest importance and a 71% rating for the local business environment as an issue of high priority.

In addition to the above general factors, specific developments relating to the property sector were assessed for their potential positive impact on businesses in the sector. As F18 shows, one development, the Aberdeen Western Peripheral Route, is particularly expected to have a high positive impact on the sector. Over 70% of respondents gave this a rating of 10 out of 10 for expected positive impact, followed only by 22% who rated the City Gardens Redevelopment at this level*. However, another major infrastructure development, the Energetica Corridor, was given only a mid-rating - and this by only 55% of respondents.

F17.



F18.



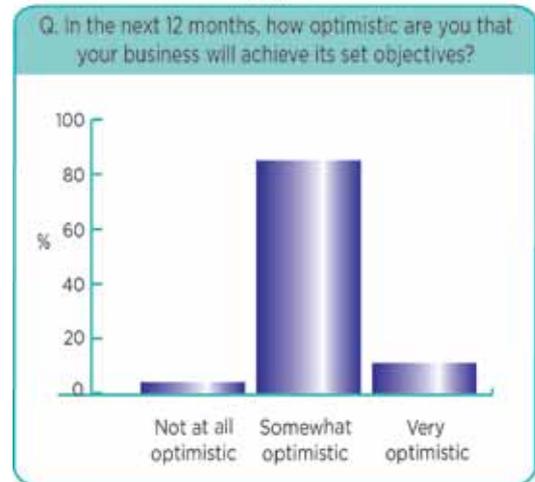
*Note: At the time of the survey, a final decision had not yet been made on this proposal.

Respondents were asked how optimistic they were that their business would achieve its objectives for the next 12 months. F19 shows that in general, there is overall optimism in the sector, with over 80% saying that they are somewhat optimistic and 11% that they are very optimistic.

Business in the property sector is set to grow in the next three years. Asked about the expected strategic direction for the next three years (F20), most respondents (50%) stated that they expected to follow a strategy of business consolidation. Over 40% were more positive, stating that they expected to follow a strategy of growth and expansion.



F19.



F20.



Conclusions

In spite of the harsh economic environment at the national levels (Scotland and UK), the property sector in North-east Scotland appears to be coping well. Although current profits compared to the previous period have not dramatically increased, there have been significant increases in productivity and business activity as represented by turnover. Were it not for increases in costs - which has been the bane of businesses in most other sectors surveyed - the property sector would be reporting significant gains in profits for this period.

In addition to costs, the results in this survey also show that there is much room for improvement in some of the key factors that have impacted upon business performance in the sector. For example, in their current form, government policies and planning issues appear to be having more of an unfavourable effect than a favourable effect on business's ability to grow and perform better. And while the local North-east region, buoyed by the energy sector, has provided a very conducive environment in which the property sector can thrive, issues associated with planning, infrastructure and access to finance have moderated the sector's potential.

Nevertheless, businesses in the property sector are optimistic about the future and expect that in addition to achieving overall objectives, turnover and profits will particularly increase. For this reason, businesses see property as a very attractive sector, with over 40% of businesses stating that they plan to grow and expand their operations and another 50% planning to consolidate their investment. This is good news for the North-east of Scotland because if planned growth and expansion objectives are met, these would translate into more jobs created and a higher contribution from the sector to the region's economy.

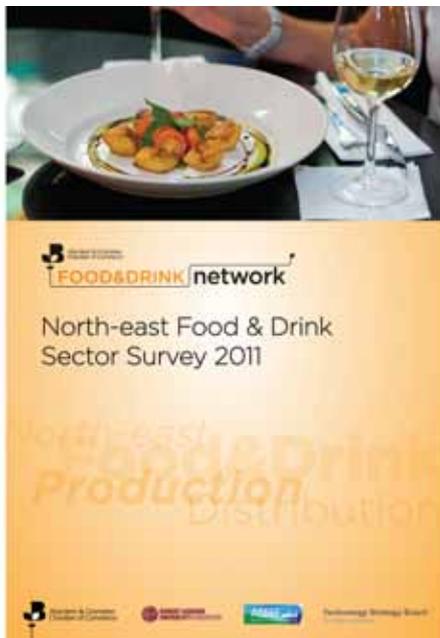
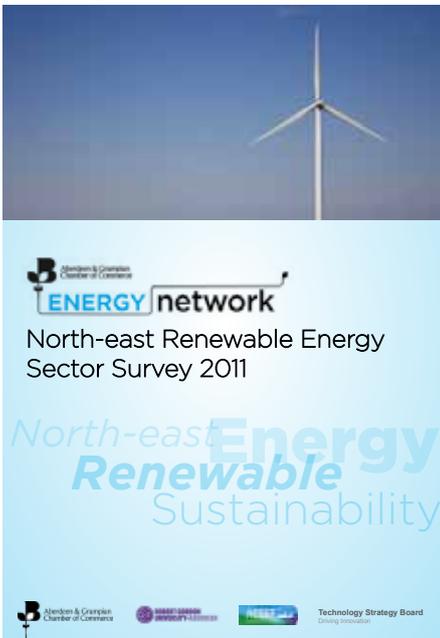
However, in order to meet objectives and achieve the anticipated growth, a number of areas must be prioritised and addressed. Respondents identified the most important two areas as improvements in infrastructure and more access to finance and investment. Specifically, it is very clear from these

results that the development of the AWPR will represent one of the most important factors to the future viability and success of the property sector in North-east Scotland.

To summarise, the property sector is stable, viable and shows great potential for future growth. However, businesses in the sector are of the opinion that this growth can only be achieved with the delivery of developments in local infrastructure and improvements in the ability of the sector to access finance and investments for its projects. Interested stakeholders must therefore work to achieve these foundations and enhance the positive environment which is already facilitated by the region's oil and gas profile.

Note on Methodology

A survey method using an online questionnaire was utilised. Sampling was based on a snowballing technique, with the initial invitations sent to 104 members of the Aberdeen & Grampian Chamber of Commerce's Property Network. 54 useful responses were collected after three weeks and these form the basis for the analysis.



The remaining Chamber Survey relating to this KTP will cover:

- Culture & Creative Network

Research & Project Manager:
Peter Atorough MSc, PGCert. Research methods, Prince2
p.t.atorough@rgu.ac.uk
peteratorough@agcc.co.uk

Project Lead:
Seona Shand, Membership Network Manager, Aberdeen & Grampian Chamber of Commerce
seona.shand@agcc.co.uk

Property Network Sector Survey Report Supported by :



Technology Strategy Board
Driving Innovation

Construction Lease Property Network *North-east*



**Aberdeen & Grampian
Chamber of Commerce**
The Ultimate Business Network

The Hub, Exploration Drive
Aberdeen Energy Park, Bridge of Don
Aberdeen, AB23 8GX

01224 343900
info@agcc.co.uk