

Property Data Report 2017

Facts and figures about
the UK commercial property
industry to year-end 2016

A publication by the Property Industry Alliance



Contents

Executive summary	5
Value relative to other assets	7
Value relative to the built environment	8
Sub-sectors	9
Values over time	10
Renting versus owning	11
Leases	12
Property as a business cost	13
Property costs compared to inflation	14
Investor ownership	15
UK institutional investor exposure	16
Lending	17
Lenders	18
Investment performance	19
Taxes paid to the national Exchequer	20
Economic contribution	21
Employment	22
Construction	23
Regeneration	24
Energy consumption	25
CO ₂ emissions	26
Definitions of commercial property and activity	27
Definitions of other terms	28
Sources and methodologies	30
Acknowledgements	35

Executive summary

This report sets out key facts about **commercial property**, a sector that makes up a major part of the UK economy. Commercial property is the physical platform for virtually all the UK's major industries and enterprises, as well as providing places in which people work, shop and enjoy leisure activities. It comprises office blocks, buildings for shops and other high street businesses, warehouses and industrial buildings, as well as other types of building such as cinemas, gyms, hotels, petrol stations, car parks and the like.

Amongst its detailed statistics, this report shows:

- The value of commercial property was £883 billion in 2016 representing 10% of the UK's net wealth.
- Commercial property accounts for 13% of the value of all buildings in the UK.
- The value of the industrial sector increased in 2016, whereas the values of the office and retail sectors declined.
- The total value of commercial property over the longer term has grown faster than inflation but less quickly than the total value of housing.
- Over half of commercial property is rented, whereas only one third of homes are rented.
- Lease lengths continue to slowly increase from their recessionary lows.
- Rents account for a relatively low proportion of business costs, particularly for office occupiers.
- Rents have increased at a slower rate than other business costs and turnover, particularly for retail.
- Investors own £486 billion worth of commercial property with overseas investors now owning 29% of this total.
- Property accounts for £183 billion (almost 6%) of insurance company and pension fund investments.
- The use of debt to finance property was stable in 2016 and dependence on debt is low by historical standards.
- There has been a shift towards a more diverse range of lenders, away from the previously dominant UK banks and building societies whose share of outstanding loans is now 47%.

This latest *Property Data Report* has been fully updated to cover the period to the end of 2016. It should be noted that some of the historic estimates presented in previous reports have been revised, notably the estimates of the overall property stock. Further details of these revisions are in *Sources and Methodology*.

Value relative to other assets

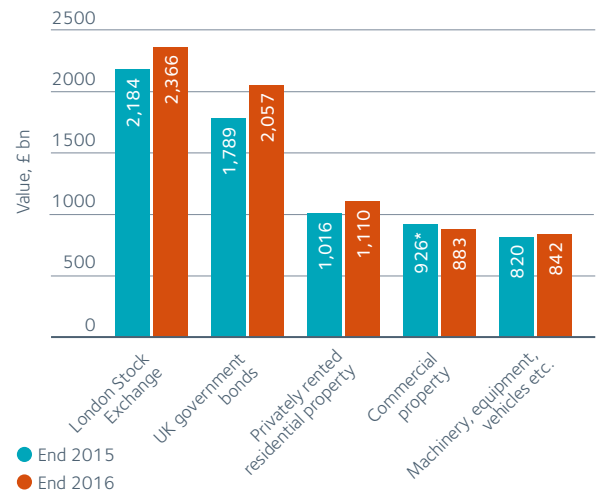
- Over the longer term, commercial property tends to deliver investment returns that are higher than gilts but lower than equities.
- The commercial property industry directly contributes over £14 billion in taxes to the national Exchequer.
- Commercial property contributed £63 billion (3.7%) to the total UK economy in 2016.
- The commercial property industry employs over a million people – 1 in every 32 jobs in the UK.
- Commercial property construction remains low, in contrast to house building and infrastructure.
- 45 million square feet of commercial property is built every year.
- Commercial buildings account for around 10% of UK energy consumption.
- Commercial and other non-domestic buildings account for 12% of UK CO₂ emissions a reduction since 2015.

The value of commercial property was £883 billion in 2016 representing 10% of the UK's net wealth

The total value of commercial property fell in 2016 to £883 billion. The fall, which occurred in the months following the EU referendum, reflected a lowering in the prices investors were willing to pay for a given rent.

To give some context, at £883 billion, commercial property's value is comparable to the country's stock of machinery, equipment and vehicles. It is the equivalent of around 40% of the value of both the UK stock market and of UK government gilts. Overall, commercial property accounts for about 10% of the UK's net wealth.

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



* historic estimates revised following publication of new rate table values. See *Sources and methodologies* for further details.

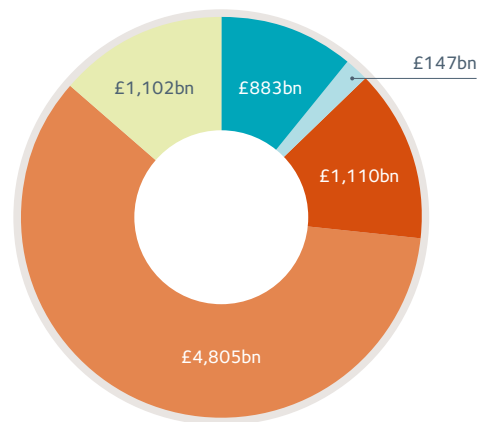
Value relative to the built environment

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

With a value of £883 billion, commercial property represents 13% of the built environment, which has a total value of almost £7 trillion.

Other non-residential buildings – mainly healthcare, hospitals, schools, colleges and universities – constitute just £147 billion, a fraction of the value of commercial property.

However, residential property dominates the built environment with a value of £5.9 trillion, almost seven times greater than the value of commercial property.



- Commercial property
- Other non-residential buildings
- Private rented residential
- Other residential (owner-occupied & social housing)
- Infrastructure (civil engineering)

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

Sub-sectors

The value of the industrial sector increased in 2016, whereas the values of the office and retail sectors declined

Retail (shopping centres, out-of-town retail parks, supermarkets and high street shops) is the largest commercial property sub-sector, accounting for (a downwardly revised) 38% by value in 2016.

Offices are the second largest sub-sector and London offices dominate this group, representing 65% of the total value of offices in the UK (but only 25% of the total floorspace).

Industrials (warehouses, logistics centres and some factories) come in third. In contrast to declines in the value of retail and offices, they continued to expand in 2016, due to increasing demand for logistics centres from internet retailers.

London's commercial property accounts for 38% of the UK industry's total value, far greater than the 23% share of GDP that London generates.

OWNER-OCCUPIED AND INVESTED COMMERCIAL PROPERTY 2016

	£BN	% OF TOTAL
Retail	337	38
Shopping centres	68	8
Retail warehouses	52	6
Other retail (incl supermarkets)	217	25
Offices	273	31
London	177	20
South Eastern	33	4
Rest of UK	62	7
Industrial	195	22
London and South Eastern	77	9
Rest UK	118	13
Other commercial	78	9
Hotels	31	4
Leisure	17	2
Miscellaneous other commercial	30	3
TOTAL COMMERCIAL PROPERTY	883	100
of which London	334	38
of which rest of UK	548	62

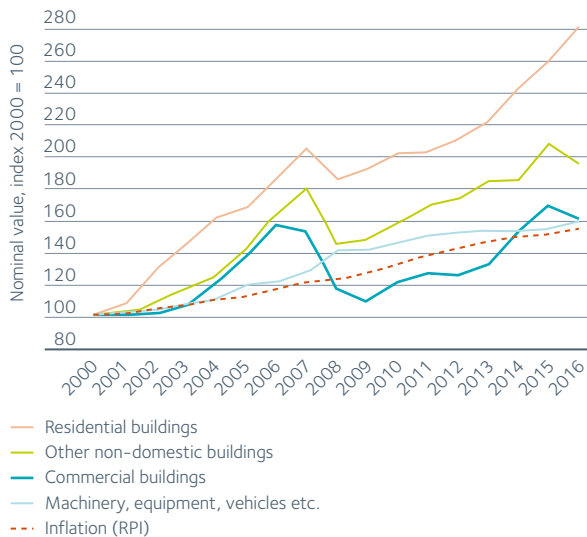
Note: Figures do not necessarily sum to totals because of rounding

Values over time

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

Since 2000, the value of the UK's commercial property stock has grown by an average of 3.0% each year, compared to RPI inflation of 2.8%. Commercial property, however, is cyclical, with annual changes in the value of the stock varying from +15% to -25% over the last 16 years.

All other parts of the built environment have tended to grow at a faster rate than commercial property. In particular, the value of housing has grown much more quickly, at 6.7% each year, reflecting greater increases in both prices and the volume of housing.



It is notable that the supply of commercial property, measured in terms of floorspace, has grown in total by only 0.5% over the last 10 years; this slow growth mainly reflects the loss, until recently, of industrial space. By contrast, the number of houses and flats in the UK has increased by over 7% during this period.

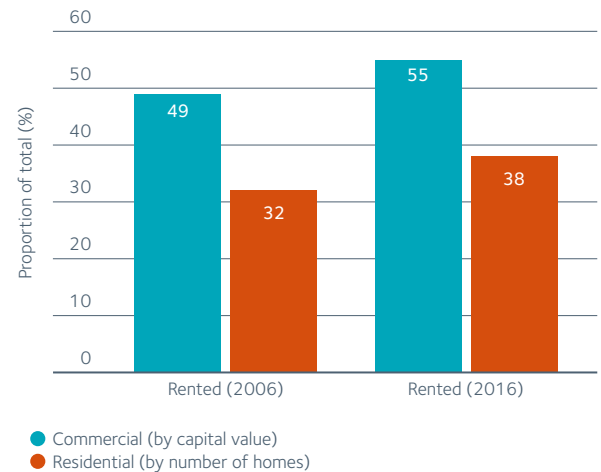
Renting versus owning

Over half of commercial property is rented, whereas only one third of homes are rented

55% of the UK's commercial property (by value) is rented rather than owned by occupiers. This is in contrast to residential property, where 62% of homes are owned by occupiers.

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

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



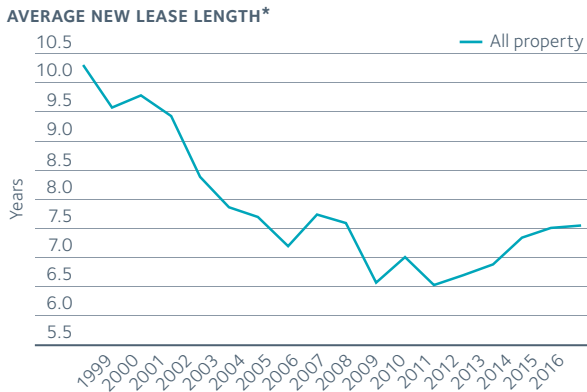
Having been in decline up to the early 2000s, the renting of homes has since grown, mainly because of a doubling in the number of privately rented dwellings, which now account for 19% of the value of the UK's total housing stock.

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

Leases

Lease lengths continue to slowly increase from their recessionary lows

The average new lease length is now seven years, having fallen substantially since the 1980s (when terms were typically 25 years). However, lease lengths have slowly increased from their late 2000s recessionary low of just six years. Furthermore, 38% of new leases in 2016 had break clauses. Occupiers also benefit from rent-free periods at the start of the lease averaging 7.4 months.



* excluding the effect of break clauses

Retail property has experienced the most pronounced shortening in lease lengths, reflecting many occupiers' preferences for greater flexibility. Other occupiers continue to prefer longer leases because of security of tenure as well as the high initial fit-out costs.

The rapid growth of intermediaries (serviced office and shared workspace providers) is further evidence of more flexible property provision, albeit a trend not incorporated in the lease length data which only cover the providers – as distinct from the users – of such space.

Property as a business cost

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

At £19 billion, the cost of renting office space in 2016 was 9% of office occupiers' staffing costs.

The rental costs to retailers, at £20 billion, were almost 37% of the level of their staff costs.

Business rates on average add almost 40% to the cost of renting retail and office property. The recent revaluation of business rates means that this cost will increase for many retailers and office-occupiers in London, while falling more moderately for those outside the South East.

Taken together, rents and business rates are 13% of the level of staff costs in the office sector but 52% in retail. This makes the viability of retailing much more sensitive to property costs than in the office sector.



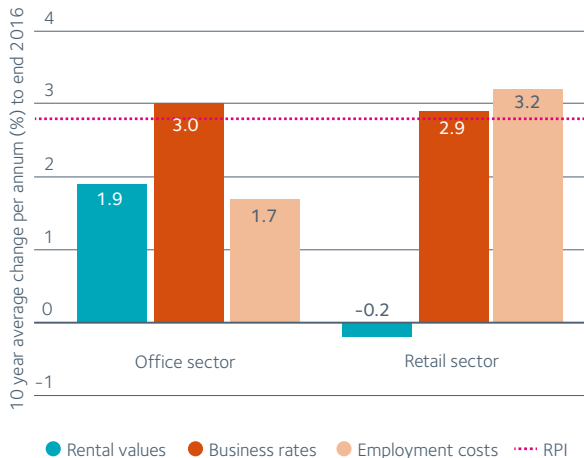
Property costs compared to inflation

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

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

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

Business rates have increased at a faster rate than rents and, on average, broadly in line with inflation. The divergence with rents is particularly substantial in the retail sub-sector due to the negligible rental growth. Business rates in the retail sub-sector have also grown by more than the 2.5% per annum rise in sales turnover recorded. The updating of business rates in 2017, to reflect revised rateable values, will not affect these conclusions.



Investor ownership

Investors own £486 billion worth of commercial property with overseas investors now owning 29% of this total

Investors, as distinct from occupiers, now own £486 billion worth of commercial property in the UK, representing 55% of the total. This is the same level as the (moderately revised) 2015 estimate, which exceeded the previous peak reached prior to the global financial crisis.

UK institutions (insurance companies and pension funds) were historically the biggest investors in UK commercial property but now account for only 16% of the total, down from 25% in 2005.

In contrast, foreign investment in commercial property has increased rapidly over the last decade, and, with a further rise in 2016, overseas investors now own 29% of UK commercial properties held as investments.

These estimates exclude housing and student accommodation. Large mainstream commercial property investors own about £38 billion worth of such property – 31% higher than 2015.

OWNERSHIP OF UK COMMERCIAL PROPERTY BY INVESTOR TYPE

	£BN 2016	% CHANGE 2006-16	% OF TOTAL
Overseas investors	139	92	29
UK collective investment schemes	79	27	16
UK institutional (insurance companies & pension funds)	79	-17	16
UK REITs & listed prop companies	74	26	15
UK unlisted prop companies & UK private individuals	72	-17	15
UK traditional estates / charities	23	23	5
UK other	20	-17	4
TOTAL VALUE OF BUILDINGS IN INVESTMENT PORTFOLIOS	486	16	100

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

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

UK institutional investor exposure

Property accounts for £183 billion (almost 6%) of insurance company and pension fund investments

Direct and indirect exposure to property, accounts for almost 6% of the £3.3 trillion of assets held by UK institutions (insurance companies and pension funds).

Direct ownership of buildings accounts for over 2% of their total investments, thereby remaining the primary way institutions invest in property. However, as noted below, investors nowadays deploy a wider range of approaches than in the past.

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

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

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

	2016 £BN	% OF TOTAL
Total assets (equities, bonds, property, etc.)	3300	100
Directly-owned UK property	79	2.4
Investments in UK collective investment schemes (net asset value)	57	1.7
UK & overseas property company shares (market capitalisation)	47	1.4
Total property	183	5.6
Insurance company lending secured on commercial property	24	0.7

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

Insurers also increasingly provide debt finance to other property investors. Estimates by De Montfort University (DMU) indicate that lending by insurance companies and their (largely institutionally-backed) fund management arms increased by over 50% between the end of 2012 and 2016.

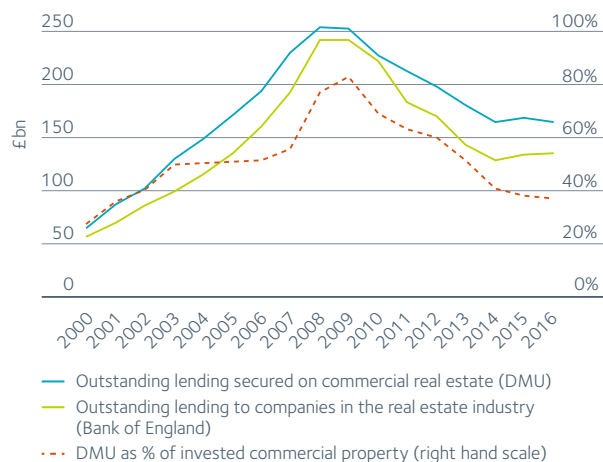
Lending

The use of debt to finance property was stable in 2016 and dependence on debt is low by historical standards

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

Bank of England and De Montfort University (DMU) data indicate (net) lending was broadly stable in 2016. The Bank of England's data, relating mainly to lending by UK banks and building societies to private property companies, suggest a 1% increase to £135 billion.

DMU's latest survey, which covers lending secured on commercial investment property, shows a 2% fall in (net) lending by all types of lender to £165 billion in 2016.



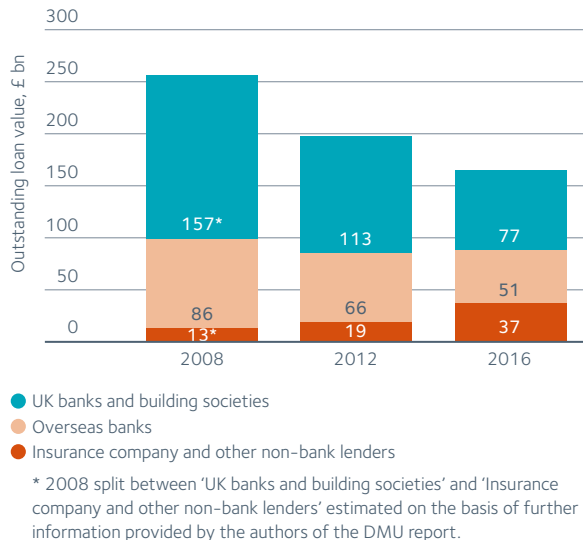
The Bank of England and DMU data indicate that lending is between one-third and a half lower than the exceptional levels recorded at the height of the global financial crisis. Furthermore, as a proportion of property values, lending has reverted to the relatively low levels recorded in the early 2000s,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

Lenders

There has been a shift towards a more diverse range of lenders, away from the previously dominant UK banks and building societies whose share of outstanding loans is now 47%

UK banks and building societies were traditionally the principal lenders but their dominant position has diminished in the years since the financial crisis.

They now account for 47% of the value of outstanding loans, compared to around two-thirds 10 years ago. While UK banks and building societies did become more active in 2016, accounting for 47% of new lending, this compares with shares of around 60% during the 2000s.

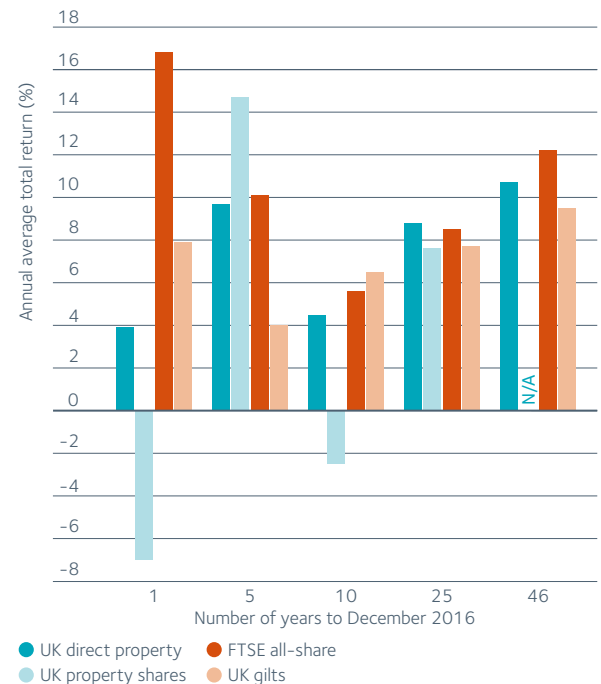


A broader range of lenders (such as insurance companies and debt funds) has emerged over the last five years. These non-traditional lenders accounted for 20% of new lending in 2016, a substantial increase from around 5% during the late 2000s.

Investment performance

Over the longer term, commercial property tends to deliver investment returns that are higher than gilts but lower than equities

Returns from investment in directly-owned commercial property fell to 3.9% in 2016, according to MSCI's IPD® UK Annual Index. In contrast to 2015, these returns were poorer than UK equities and gilts. Property company shares also underperformed in 2016. Like all financial markets, commercial property's investment performance is volatile, and, in tending not to be highly correlated with other asset classes, was slower to recover than other financial markets in 2016.



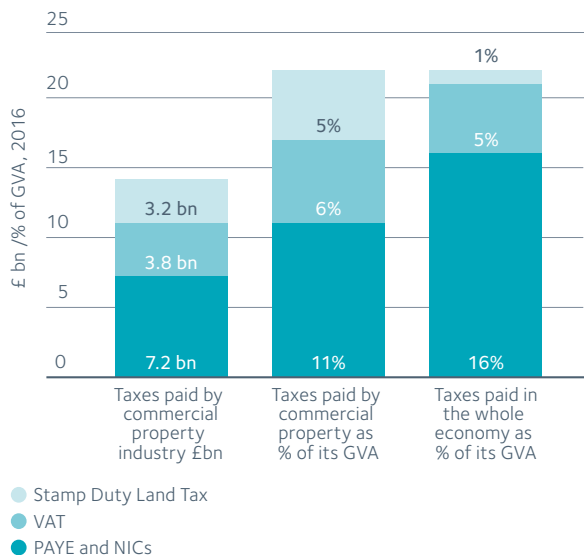
Over the longer term, directly-owned commercial property's performance lies between the returns of gilts and equities. This is in line with surveys of investors' longer-term expectations and with the historic pattern of risk – commercial property returns being less volatile than equities but more volatile than gilts.

Taxes paid to the national Exchequer

The commercial property industry directly contributes over £14 billion in taxes to the national Exchequer

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

These taxes amount to over £14 billion in total, representing 22% of the industry's Gross Value Added. This is a slightly greater proportionate tax burden than in the economy as a whole. Recent research undertaken for the BPF indicates that commercial property is taxed more heavily than residential property.



In addition, occupiers of commercial property paid around £21 billion in business rates, much of which (according to research) is effectively borne by property owners through lower rents.

Other taxes directly paid by the industry, such as Corporation Tax, business rates on empty property, and the Community Infrastructure Levy, are much harder to attribute.

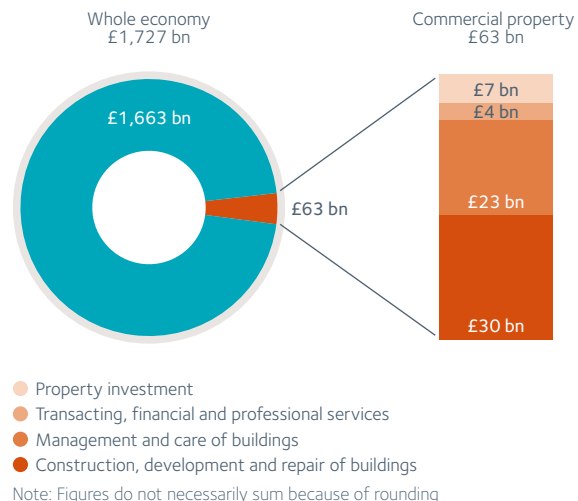
Economic contribution

Commercial property contributed £63 billion (3.7%) to the total UK economy in 2016

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

In total, these activities directly contributed about £63 billion to the economy in 2016 – representing 3.7% of the UK's Gross Value Added.

COMMERCIAL PROPERTY INDUSTRY GROSS VALUE ADDED 2016



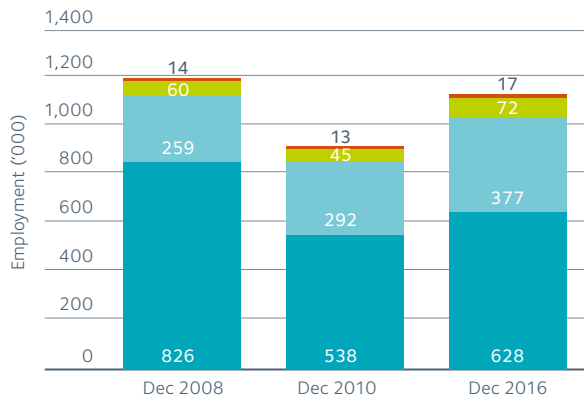
Commercial property's economic contribution is nearly as great as that of the UK's telecommunications and transport industries combined, highlighting the sector's importance to business and to people's everyday lives.

Employment

The commercial property industry employs over one million people – 1 in every 32 jobs in the UK

The commercial property industry employs 1.1 million people, with the majority of these jobs involving the construction, development, repair, care and management of buildings.

Employment in the industry has recovered from its recessionary low of around 887,000 in 2010 but is still below mid-2000s levels. In particular, employment in commercial property development has remained low because of low levels of new construction.



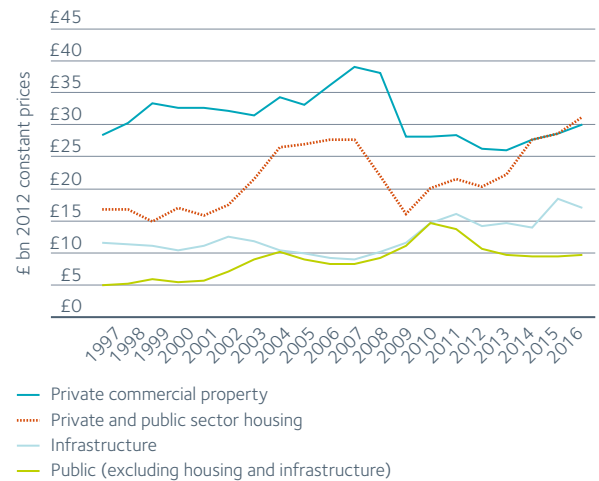
- Property investment activities
- Transacting, financial and professional services
- Management and care of buildings
- Construction, development and repair of buildings

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

Construction

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

ONS data show that the volume of commercial and industrial property construction edged up in 2016 but is still substantially below pre-financial crisis levels.



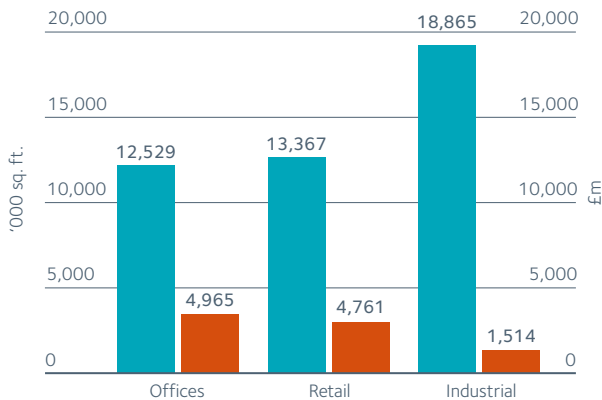
By contrast, the ONS data show that both infrastructure and housing construction have fully recovered from the late 2000s downturn and are posting volumes above their mid-2000s levels. In particular, the volume of housing construction increased by 9% in 2016 and is now twice the level as in 2009. By contrast, the volume of private commercial and industrial building in 2016 is only 6% above 2009's level.

Regeneration

45 million square feet of commercial property is built every year

The commercial property industry, has been adding an average of about 45 million square feet of new space every year in the last decade across the three main property sub-sectors, adding 0.7% to the total stock of commercial property each year. This reflects a value (including the land) of around £11 billion – contributing almost 1% to the UK's GDP each year.

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



- 10 year average square footage of completions
- 10 year average value of completions (£m based on 2016 prices)

Despite a growing population and economy, new construction is barely covering the loss of stock through demolition and change in use to residential. The net amount of commercial property floorspace has increased in total by only 0.5% over the last 10 years, according to the IPF's *The Size and Structure of the UK Property Market End-2016 Update*.

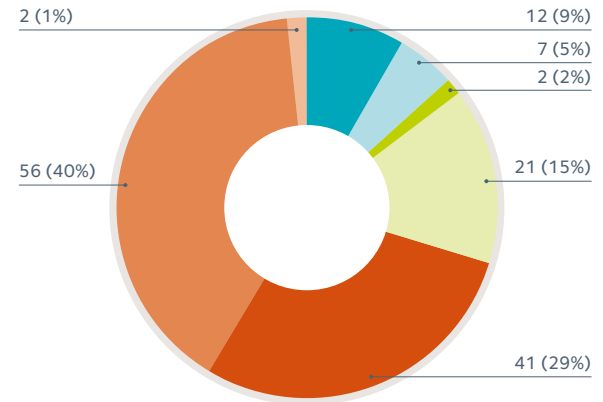
Energy consumption

Commercial buildings account for around 10% of UK energy consumption

Commercial property accounts for almost 9% of the UK's energy consumption, with the heating and lighting needs of factories bringing the total to 10%. Other non-domestic buildings, mainly schools, colleges and hospitals, add another 5%. By contrast, 29% of the UK's energy consumption occurs in the home. Transport is the country's largest consumer of energy accounting for 40%.

Energy consumption in commercial buildings (and also in residential and other non-domestic properties) increased in 2016, partly as a result of a colder winter.

ENERGY CONSUMPTION BY END-USER, MILLION TONNES OIL EQUIVALENT, 2016



- Activities in commercial property (excluding industrial)
- Activities in other non-domestic property
- Industrial buildings – space, heating and lighting
- Industry – industrial processes, etc.
- Domestic consumption
- Transport
- Other

Within the commercial property sector, retail (including cafes, restaurants etc. in addition to shops) is the largest consumer of energy, reflecting not only a larger amount of space but also greater energy requirements per square foot.

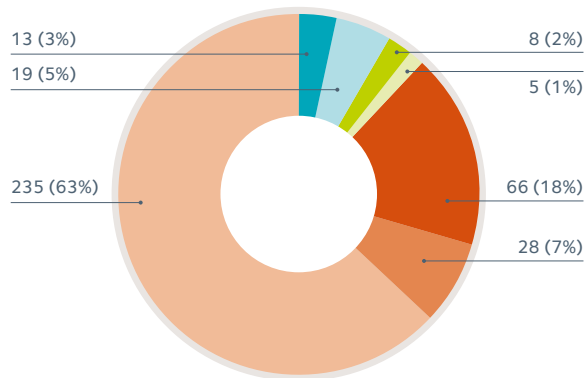
CO₂ emissions

Commercial and other non-domestic buildings account for 12% of UK CO₂ emissions a reduction since 2015

88% of CO₂ emissions are directly and indirectly (i.e. emitted in the production of power) associated with transportation (the largest single user), residential buildings, refineries, industry and miscellaneous uses.

By contrast, commercial and other non-domestic buildings (excluding factories) account for only 12% of direct and indirect CO₂ emissions, according to data published by the Committee on Climate Change.

MILLION TONNES CO₂ EMISSIONS BY BUILDING TYPE/END-USE, 2016



- Emissions directly from commercial buildings (excluding factories)
- Commercial buildings' (excluding factories) share of emissions from power stations
- Emissions directly from public sector buildings
- Public sector buildings' share of emissions from power stations
- Emissions directly from residential buildings
- Residential buildings' share of emissions from power stations
- Emissions from other uses

Note: Figures do not sum to those referred to in the text because of rounding

Many commercial property investors are aware of the potential to positively impact on the UK's climate goals by improving efficiency. There are numerous industry initiatives directed towards reducing energy consumption and emissions.

Combined indirect and direct emissions from commercial buildings continue to fall, at a relatively fast rate. This trend reflects the accelerating shift in power generation away from the use of coal towards renewables.

Definitions of commercial property and activity

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

Commercial property activity covers:

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

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

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

Definitions of other terms

Bonds	A promise by a borrowing entity to a lender to make periodic interest payments and to repay the face value of the debt on the maturity date.	Rent-free period	A period, typically at the beginning of a lease, during which no rent is payable by the tenant.
Break clause	A provision in a lease which enables either the landlord or the tenant, or both, to end the lease early.	Retail property	Shop units and similar (e.g. restaurants & coffee shops, bank branches & estate agents, salons, betting shops, etc.), in-town & out-of-town shopping centres, retail warehouses & retail parks (typically occupied by DIY stores, carpet & electronics retailers, etc., as well as some "high street" retailers).
Collective investment schemes	An investment vehicle – such as a closed-ended partnership or an open-ended unit trust or investment company – in which the participants pool their capital to invest in properties (or other physical or financial assets) and share the income and profits, but where they do not have any day-to-day control over the management of the assets in the vehicle. The fund and its assets are instead managed by specialist third parties on behalf of the investors.	Total return	The sum of the income received (e.g. rents, dividends, interest, etc.) and the capital appreciation of an asset, portfolio or market over a period, expressed as a proportion of the value at the start of the period.
Industrial property	Warehouses, logistics centres, and most types of factory other than structures such as steel works, chemical plants etc.	UK government gilts	A type of bond issued by HM Treasury promising to make to the lender periodic interest payments and to repay the face value of the debt on the maturity date.
Institutions	Insurance companies and pension funds.		
Lease length	The period of time for which a commercial lease is granted.		
Office property	Office blocks, out-of-town business parks and data centres.		
Other commercial property or alternatives	A wide range of miscellaneous building types primarily used by profit-making businesses and predominantly comprising leisure premises (e.g. cinemas, night clubs, bowling alleys, bingo halls, etc.), gyms, hotels, petrol stations, car parks and the like.		
Private rented residential or private rented sector	Flats and houses owned by investors such as private individuals, companies, insurance companies and pension funds, collective investment schemes, etc., but excluding local authorities and housing associations, which are rented to individuals, employees and so on.		

Sources and methodologies

- The estimate of commercial property value is from the Investment Property Forum's (IPF) *The Size and Structure of the UK Property Market End-2016 Update*, undertaken as part of the IPF Research Programme 2015–2018. The IPF estimate is made by updating the latest April 2015 rateable values to end-2016 market values (using IPD rental growth) and capitalising these by IPD yields adjusted to reflect the more secondary nature of average property (full details are available in the IPF report). The historic IPF estimates have been (upwardly) revised following publication of new, April 2015–based rateable values which were higher than had been assumed given the lower growth in IPD rents since the previous April 2008 valuation date; see the IPF report for further details.

Plant & machinery (revised to include “weapons systems”) from the Office for National Statistics (ONS) *Blue Book 2016*, with an estimated update to end-2016 made by Paul Mitchell; government bonds from the Debt Management Office and equities from the London Stock Exchange.

Total UK net worth is from ONS's national balance sheet as published in its *Blue Book 2016*, with an estimated update to end-2016 made by Paul Mitchell.
- Commercial property, private rented residential sector and total residential are from the IPF's *The Size and Structure of the UK Property Market End-2016 Update*.

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

Other non-residential property is a Paul Mitchell estimate, made by updating the latest April 2015 rateable values to end-2016 market values and capitalising these by yields, which are assumed to be 85% of the level of the “other commercial property” sector's yield, as specified in the IPF's *The Size and Structure of the UK Property Market End-2016 Update*. Infrastructure corresponds to that quantified as “other structures” (mainly civil engineering, such as roads, bridges, airports, pipelines, etc.) by ONS in its *Blue Book 2016* and as updated to end-2016 by Paul Mitchell. This measure of infrastructure is not comprehensive with ONS incorporating some elements of infrastructure in either its estimates of buildings or of plant & machinery.
- All estimates from the IPF's *The Size and Structure of the UK Property Market End-2016 Update* (see 1 and 2 above for further details).
- Commercial property 2003–2016 from the IPF's *The Size and Structure of the UK Property Market End-2016 Update*, 2000–2002 are Paul Mitchell estimates using the same methodology as the IPF report.

Residential property is from ONS's Blue Book 2016 up to 2015 and for 2016 from the IPF's *The Size and Structure of the UK Property Market End-2016*.

Other non-domestic property are Paul Mitchell estimates, made by updating the April 1998, 2003, 2008 and 2015 based rateable values to the relevant year's market values and capitalising these by yields which are 85% of the level of the average yield of the “other commercial property” sector's yield, as specified in the IPF's *The Size and Structure of the UK Property Market End-2016 Update*. Inflation (RPI) is from ONS.
- Commercial property is based on the IPF's *The Size and Structure of the UK Property Market End-2016 Update*, with the commercial owner-occupied stock estimated as the residual of the total stock and the investment stock. Housing is from the Department of Communities and Local Government's Table 101 *Dwelling Stock by Tenure*, other than 2016, which is a Paul Mitchell estimated update to end-2016, using the latest available DCLG figures for April 2015.
- British Property Federation: IPD Annual Lease Reviews* and MSCI's *UK Lease Events Review 2016* © MSCI 2016 and reproduced with permission. Definition includes “short leases” (those less than 4 years) and licences and also does not take account of any break clauses. (N.B. Data are on an unweighted basis.)
- Rental payments are based on the rental value estimates in the IPF's *The Size and Structure of the UK Property Market End-2016 Update* (note that retail is adjusted to exclude pubs and restaurants). Business rates are based on the total receipts presented in the Office for Budget Responsibility's *March 2017 Economic and Fiscal Outlook* (and estimated to be £28.9 billion for calendar 2016), pro-rated according to retail and office shares of total rateable value (estimated at 26% and 22% respectively – note that it is assumed that any reliefs are distributed proportionately across sectors). Employment costs estimated using data from the ONS's Annual Business Survey and Eurostat (retail relates to SIC(2007) 47 less non-store trade, offices to SIC(2007) sections K, L, M & N).

- 8 Rental growth from MSCI's IPD® UK Annual Index © MSCI 2017 and reproduced with permission. Business rates are derived on the basis described in 7 above. For 2006, total business rate receipts of £20.7 billion are pro-rated according to retail and office rateable value shares (estimated at 26% and 22% respectively). To control for the effect of floorspace growth on business rate receipts, changes in business rates between 2006 and 2016 are calculated on a £ per square foot basis. Earnings are derived from ONS's *Monthly Wages and Salaries Survey*. RPI is from the ONS.
- 9 All the estimates are from the IPF's *The Size and Structure of the UK Property Market End-2016 Update*, which, in turn, draws on data from IPD, ONS, Property Funds Research, and Real Capital Analytics/Property Data, and analysis by Paul Mitchell; further details are available in the IPF report.
- 10 Insurance company and pension funds' direct property are as estimated in 9 above; indirect and listed property exposures are Paul Mitchell, drawing primarily on the research undertaken for the IPF's *The Size and Structure of the UK Property Market: A Decade of Change* and updated by Paul Mitchell. Total insurance company and pension fund assets (long term) are derived from the ONS's MQ5: Investment by Insurance Companies, Pension Funds and Trusts latest estimates for 2015, updated and estimated to 2016 by Paul Mitchell.
- 11 Debt secured on commercial property is from De Montfort® *Commercial Property Lending Report 2016*. Bank of England's lending by UK banks and building societies is its series RPATBUY "Annual amounts outstanding of UK resident monetary financial institutions' sterling net lending to companies undertaking the buying - selling and renting of real estate". According to the Bank of England's July 2016 *Financial Stability Report*, 75% of small and medium sized UK companies that borrow from banks use their commercial property as collateral.
- 12 Debt secured on commercial property is from De Montfort® *Commercial Property Lending Report 2016*.
- 13 Commercial property from MSCI's IPD® UK Annual Index © 2017 MSCI, and FTSE; gilts relate to 5-15 years.
- 14 Draws on the approach outlined in the IPF's *The Role of Commercial Property in the UK Economy*. Based specifically on *HMRC Tax Statistics* and relating to the commercial property industry as defined in section 13. Total taxes derived from June 2017 *HM Revenue and Customs receipts*. PAYE, NIC and VAT for commercial property estimated from the corresponding HMRC estimates by broad industry, pro-rated according to commercial property's share of these industries. VAT for commercial property and all-economy relates to "Home" VAT only (i.e. excluding VAT on imports). SDLT estimated by pro-rating HMRC estimates for non-residential, according to Paul Mitchell's 2016 estimate of commercial property's share of non-residential property transactions. Comparison of commercial's and residential's tax burdens based on the January 2016 Toscafund report, for the BPF, *Britain's Valuable Property Credentials*.
- For evidence on who bears the incidence of business rates, see *Business Rates: Who Pays and Why it Matters*, a report for the British Property Federation, British Council for Offices, British Council of Shopping Centres by Regeneris Consulting Ltd, December 2015, and *Who pays business rates?*, Bond, S, Denny K, Hall, J, McCluskey, W, Fiscal Studies, 1996.
- 15 Paul Mitchell estimates mainly based on ONS's data on employment and Gross Value Added (GVA). General approach is to apportion employment and GVA in property as a whole between commercial and non-commercial. Note the estimates have been revised since the 2016 Property Data Report.
- The two main industry sectors are Construction (SIC(2007) Section F) and Real Estate Activities (SIC(2007) Section L) (but excluding the imputed rental value of owner-occupied housing) for which GVA is available from ONS's 25 May 2017 quarterly national accounts series. For construction, the ONS's *Output in the Construction Industry* Tables 4 & 5 indicate that around 26% of construction output is related to commercial property sectors, so this factor is implied to Construction GVA to derive the amount relating to commercial property.
- For the Real Estate Activities sector, the indicators used vary according to the specific sector (for example, commercial property's share of total property transactions is applied to SIC68.31 "Real Estate Agencies"); overall, 42% of the Real Estate Activities sector (excluding the imputed rent of owner-occupied housing) is estimated to be commercial real estate.
- Part of SIC(2007) Section K (Finance and Insurance Activities is incorporated – for commercial property, this covers property banking, fund management, REITs, stock broking, insurance companies and pension funds). For these areas, estimates of

Acknowledgements

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

- 16 As above.
- 17 Construction output derived from ONS's April 2017 *Output in the Construction Industry*. Data relate to the volume of output for "new work" in Table 2b.
- 18 Paul Mitchell estimates derived from: (i) estimates of 10-year average floorspace completions, generously supplied by Property Market Analysis, and adjusted by Paul Mitchell to incorporate excluded activity; (ii) and estimates of investment market values of completed development.
- 19 Paul Mitchell Real Estate Consultancy Ltd estimates derived from the Department for Business, Energy & Industrial Strategy's statistics on energy consumption by final user in *Energy Consumption in the UK July 2016 Update* (specifically Tables 1.01, 4.04 and 5.05a).
- 20 Paul Mitchell estimates derived from the Department for Business, Energy & Industrial Strategy's provisional estimates for 2016 of direct emissions of carbon dioxide and 2016 estimates of indirect emissions presented in the Committee on Climate Change's *Meeting Carbon Budgets – 2017 Progress Report to Parliament* www.theccc.org.uk/publication/2017-report-to-parliament-meeting-carbon-budgets-closing-the-policy-gap

Data compiled and estimated by Paul Mitchell. The estimates of the total stock of commercial property and the amount in investment portfolios draws heavily on *The Size and Structure of the UK Property Market End-2016 Update*, which was undertaken as part of the IPF's Research Programme 2015-2018. Supporting property market data generously supplied by MSCI, Property Funds Research, Property Market Analysis, De Montfort University, and Real Capital Analytics/Property Data, none of whom bear any responsibility for the estimates in this document. Office for National Statistics data is Crown copyright and is public sector information licensed under the Open Government Licence v3.0 www.nationalarchives.gov.uk/doc/open-government-licence/version/3

The *Property Data Report 2017* has been produced on behalf of:

Association of Real Estate Funds (AREF);
British Council for Offices (BCO);
British Property Federation (BPF);
Commercial Real Estate Finance Council Europe (CREFCE);
Investment Property Forum (IPF);
Revo;
Royal Institution of Chartered Surveyors (RICS);
Urban Land Institute (ULI).

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



September 2017 | Design by Anderson Norton Design

