

**FEEDBACK** Have your say**Brexit vote complicates Scottish independence**

**Editor:** Having read the recent market feature on Scotland's reaction to Brexit (p41, 19.08.16), I wanted to reflect on how the UK property investment market seems to assume that a second Scottish independence referendum is unavoidable.

Prior to the EU vote, research by Morton Fraser indicated that Scottish independence was not a key consideration for UK property investment in Scotland, provided yield outperforms other regions. So what changed?

Roll forward and the prevailing Brexit mood seems to be that it is just a matter of time before a second Scottish independence referendum is called, causing some institutional investors' appetite to invest in Scottish property to cool for now.

This can partly be explained by the EU referendum result taking the property industry by surprise. In the run-up to the EU vote, it was clear that most investors expected a tight contest, ultimately resulting in the UK remaining within the EU.

The majority of UK institutional investors are based in London - the zeitgeist there and in Scotland was strongly supportive of EU membership. It is understandable

**Can Glasgow and Edinburgh prosper after Brexit vote?**

The Brexit decision had an undeniable impact on office investment in Scotland. Samuel Horti asks how Edinburgh and Glasgow are responding

Scotland is still reeling after the UK's decision - or more accurately England and Wales's decision - to leave the EU. The subject dominated the conversation in the commercial property market, but the typical response when you ask Scottish agents about the impact of the 'leave' vote is "business as usual". However, positive words count for little. Investors - particularly the large funds - were rocked by the vote: according to one local agent they were caught "like rabbits in the headlights". So what lies in store for Scotland's two biggest cities in the wake of the momentous referendum result?

**Collapsed deals**  
Prior to the Brexit vote, the office investment market in Edinburgh looked pretty rosy. Deals on three big office sites were close to completion: the £40m Argyle House; Princes Exchange and New Usher House, valued at around £70m to £80m; and Waverley Gate, which commanded a price of over £65m. However, the deal to purchase the Waverley Gate from H&G before the vote had already fallen through after the announcement of a post-vote price.



Capital importance: there has been a definite shift towards Edinburgh's office market in the past six months

to fund manager Equitix for £40m was also agreed pre-referendum, but again fell through after the vote, although sources say the transaction may have collapsed anyway and its failure wasn't a direct result of the UK's decision to leave the EU.

Aerium's £70m off-market sale of Princes Exchange and the adjoining New Usher House, on Earl Grey Street, to private Korean investor Hyundai Fire & Marine Insurance was also agreed pre-vote but now hangs "in the balance", according to a source close to the deal. Despite the fact it would be wrong to think the

Week understands that German institutional fund TRIUVA is under offer to buy Waverley Gate, albeit at a sub-£65m price, while Argyle House is also attracting interest from buyers, although it is understood that any deal would likely be for less than £40m.

The market has been knocked by the vote, certainly, but it is recovering, claim local market experts, who say there is no need for panic. "In the first couple of weeks post-Brexit [vote], there was definitely an overreaction in my opinion, but it has since been

**After the initial shock of the Brexit decision, we are seeing parts of the Scottish property market stabilise**

perhaps that investors repeated what their friends and colleagues were saying without correctly reading the wider mood outside the UK capital and in Scotland.

The decision to leave the EU makes some of the issues surrounding Scottish independence more difficult to resolve. In 2014, the 'Yes' campaign proposed that an independent Scotland would use sterling. Post Brexit, it is difficult to see a Scotland within Europe using the currency of a country that no longer forms part of the EU.

After the initial shock of the Brexit decision, we are seeing parts of the Scottish property market stabilise.

While it is true that some larger investment deals have either been dropped or remain on hold, others have completed subject to price adjustments. Credit is more readily available than in 2009, however, and occupier fundamentals are holding for the time being, so most of the uncertainty seems to revolve around price as investors get used to the 'new normal'.

It will be interesting to watch how the political landscape develops and how the market reacts to that, but it is important to keep a level head in uncertain times and take investment decisions based on facts and fundamentals, not speculation.

**David Stewart, commercial real estate partner, Morton Fraser**

**Offsite construction is not only viable but necessary**

**Editor:** Government ministers need to be very careful in their approach to offsite construction (OSC). It is not something to shoehorn into one of their existing schemes ('Ministers plot modular housing push', PropertyWeek.com, 19.08.16).

This viable solution to the housing shortage should be approached with fresh eyes and the private sector should develop production line techniques in multiple factories around the UK,

particularly where there is an economic downturn or higher unemployment. Ideal places for factories are disused steel mills or other unused industrial sites.

OSC is not new - commercial buildings have been created this way for many years. It is time to learn from this experience and understand that building homes in factories and delivering the finished product to pre-prepared land means the quality goes up,

because of the controlled manufacturing environment, and the time to delivery goes down because the land is prepared in parallel with the building being manufactured.

I also advise caution about the technology used. L&G is using cross-laminated timber, which, while strong, might not be the best way to go. Hybrid steel frame and timber modules offer a better, more flexible and ecologically sound solution - standardised modules can

be created on production lines and customised to become different parts of the building. Assembly-line technology must be used to achieve the volumes and quality required.

If the UK focused on becoming a viable mass production specialist of OSC housing, we could also export quality homes to the rest of the world.

**Carl Henry, chief executive, Carl Henry Property**



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