

Rebound & Remodel: Scotland's road to recovery

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Foreword



Allan Wernham
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Much of our attention has turned to Scotland's road to recovery post pandemic, post-Brexit and post-election. As a nation, Scotland is still addressing a catastrophic pandemic and is in the midst of an uncertain economic landscape ahead. It is dealing with the UK's exit from the EU and the recent Scottish general election, which has firmed up the prospect of another independence referendum in the medium term.

The CMS Scotland team has prepared this insight paper to discuss some of the main factors driving this recovery, with a focus on the political landscape, sustainability and the retail and tourism sectors. The paper draws on collaboration with a number of our key clients and industry contacts, and highlights some of the key themes that will influence Scotland's recovery from the COVID-19 crisis.

The CMS Scotland team will be exploring the areas discussed in this report in more detail throughout the year and looks forward to bringing our insight and learnings to you.

Perspective:

Scotland's road to recovery

Scotland naturally hopes for a swift and long-term economic recovery from the effects of the COVID-19 crisis, but the outlook is still complicated, according to Mairi Spowage, Director of the Fraser of Allander Institute at the University of Strathclyde. There is some optimism with early indications of the COVID-19 vaccine programme radically reducing hospitalisations and deaths, and appearing to hinder transmission of the virus. Despite a recent surge in infections, it seems that Scotland and the UK are well primed to live with the presence of COVID-19 in the population.

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As the economy begins to open up, policymakers still have some critical concerns to address. The COVID-19 pandemic has hammered the tourism industry, a key contributor to Scotland's GDP, and it has accelerated structural changes in the retail

sector that are profoundly impacting the potential health and vitality of towns and cities. Moreover, the crisis has temporarily diverted attention away from what is an unpredictable political climate, where the full impact of Brexit and the possibility of Scotland's independence from the UK are yet to be realised.

A green recovery

Yet emerging from the turbulent period in 2020 and 2021, there is a hardening of the view that sustainability will be pivotal to economic growth. Most developed countries, including the United States, now have sustainability at the heart of economic policy. The Scottish Greens gained more seats in the Scottish Parliament election - while campaigning by most parties stressed the importance of sustainability and the green economy in a long-term recovery for the country - at a time when the UK Government has made significant commitments to building a net zero carbon economy and a Biden presidency has pushed climate change to the forefront of politics in the United States.

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Glasgow hosting the UN Climate Change Conference (COP26) in November will provide a further impetus to the country's efforts to transition away from fossil fuels. Renewables already provide nearly 100% of gross electricity consumption, but the Scottish Government faces a considerable challenge in driving stability and growth in North East Scotland, where its oil and gas industry is based. The region has been badly affected by the COVID-19 crisis, according to Mairi Spowage, with Aberdeen and the surrounding area requiring additional support to maintain high quality jobs and transition existing skills from the oil and gas sector into other industries, such as renewable energy.

Helping a beleaguered tourist industry

Jobs will also be a key concern in the Scottish tourist industry, which enjoyed high levels of employment up until the COVID-19 pandemic. It provided 8.8% of total employment in 2019, but job losses in the sector are affecting younger generations especially, as the industry provides a wide range of entry-level positions.

The struggling tourism sector is also likely to disproportionately impact certain regions, those that rely heavily on visitors for commercial activity and trade. Indeed, many areas have been lifted out of poverty by the, until recently, thriving tourist industry. Policymakers will have to pay close attention to this issue so that the economic impact of COVID-19 does not lead to sharp rises in unemployment and deprivation in tourism-reliant regions.

Evolving the retail sector

Bringing tourists back to Scotland and revitalising urban centres will in part depend on a modernised retail industry. COVID-19 has accelerated the move to online shopping, creating a massive structural challenge for the sector and local and national government, according to Allan Wernham, Managing Director Scotland at CMS.

Of course there will be a role for government in rethinking the way city centres operate and how they cater to visitors and customers that are looking for a different kind of urban and retail experience to what existed 20 to 25 years ago. These considerations will need to take into account new working practices, including the balance between working from home or in the office. City and town environments will be transformed by fewer daily commuters and smaller office spaces.

This means online retail becomes even more important. Many retailers that went out of business during the COVID-19 pandemic had already faced difficulties with business models that were not fully-aligned with today's consumer preferences, says Mairi Spowage. While many successful retail businesses today have exploited online opportunities, she also believes they will increasingly look to play the sustainability card in attracting customers that choose products and services based on ethical principles.

Adapting to the political landscape

Dealing with the COVID-19 pandemic is one thing, but retail, tourism and other industries also have to face a unique cross-roads in Scotland's political history. Brexit and the possibility of another Scottish independence referendum have inevitably created deep uncertainty. The vision for a new import and export regime is only beginning to crystalize after the Brexit transition period ended in December 2020.

Yet with a pro-independence majority in the Scottish Parliament, there is clearly some momentum behind another independence referendum. That would deliver the prospect of Scotland being outside the EU and the UK, but with the possibility of re-joining the EU further down the line. This kind of ambiguity complicates business decisions, particularly those involving investment or long-term strategic planning.

An ambiguous political climate

“Era defining moments in Scotland’s political history are plentiful, but few could be more momentous than the current period. Businesses and policymakers are looking for a recovery from the COVID-19 crisis, but they are still attempting to absorb the full impact of Brexit. Moreover, there is still the very real prospect of another Scottish independence referendum in the near future, one that could lead to Scotland’s departure from the UK, not long after exiting the EU.”

Era defining moments in Scotland’s political history are plentiful, but few could be more momentous than the current period. Businesses and policymakers are looking for a recovery from the COVID-19 crisis, but they are still attempting to absorb the full impact of Brexit. Moreover, there is still the very real prospect of another Scottish independence referendum in the near future, one that could lead to Scotland’s departure from the UK, not long after exiting the EU.

Taking all three factors into account requires deep strategic and calculative thinking, though the events of 2020 and 2021 have reminded the world that the future is hugely difficult to predict.

The COVID-19 hangover

The ongoing debate over another Scottish independence referendum will continue, but more immediately, nearly every government around the world has the COVID-19 pandemic as its number one priority.

Governments’ efforts to support their economies through 2020 and 2021 have been unprecedented, but rescue packages, business loans and furlough schemes will naturally come to an end. Fiscal sense requires that these are finite and the UK’s Job Retention Scheme will conclude on 30 September.

Politicians, including those in Scotland, understand that redundancies are inevitable and that many businesses will face huge financial pressures with some unable to withstand these heavier burdens. Tourism, for example, has been hammered globally and this has been especially hard on Scotland where the sector typically accounts for some 5% of GDP according to Scottish Government data.

The COVID-19 effect has also hit every sector. Organisations that were already struggling with digitisation and a transition to online, have seen these issues magnified by the pandemic, and so face a bleak, if not non-existent, future.

Brexit unfolds

The success of the COVID-19 vaccine programme in the UK is cause for genuine optimism, particularly as early evidence indicates that it is preventing hospitalisations and deaths, and is also limiting transmission of the virus.

If indeed the economy continues to open up and COVID-19 anxieties fade, Scotland will then inevitably increase its focus on Brexit and its effects. Since the end of the post-Brexit transition period at the end of 2020, Scottish businesses have had to align themselves with a new import and export regime. A slump in exports to the EU have been reported in multiple sectors, including meat and dairy.

There are plenty of examples of labour shortages, blamed in part on COVID-19, but also on Brexit. Many EU migrants returned to their home countries during the pandemic and are now less enthusiastic about returning to the UK after Brexit. From 30 June, EU residence documents will no longer be valid in the UK and those holding these need to apply to the EU Settlement Scheme to remain. Recent reports have singled out a scarcity of workers in food processing and construction. Due to Brexit, Scottish universities are expected to welcome fewer foreign applicants as tuition fees will no longer be subsidised for EU students from the 2021/2022 academic year onwards. This too has implications for the wider economy given that universities act as breeding grounds for new organisations and start-ups, and continue to supply graduates to other businesses. The Edinburgh and Glasgow corridor, for example, hosts the third largest volume of FinTech companies in the UK, according to a UK Government review in 2021.

Stephen Phillips, a Finance partner at CMS in Edinburgh says that Scotland has a dwindling native population and has relied on EU migrants for economic growth over the last ten to 15 years. He believes that unlike the UK Government's emphasis in opening up new trading relationships with the rest of the world, Scotland's political powerbrokers are also focused on preserving strong relationships with the European Union. *"The Scottish Government is taking a positive approach in making it clear to EU nationals that they are very welcome here,"* he says.

Re-visiting independence

With the Scottish National Party (SNP) continuing to hold power in Holyrood, just short of an outright majority, there remains a very real prospect of another independence referendum in Scotland. For now, the Scottish Government is more focused on the COVID-19 pandemic, but the independence debate rumbles on in the background, including questions over the road to EU membership and which currency Scotland would use post-independence.

Although the SNP has indicated that it has a mandate to push through another referendum, thanks to the pro-independence majority in parliament that it has with the Scottish Greens, another vote is really in the hands of the UK Government in Westminster. The Scottish administration will want to ensure that another referendum is legal. *"They will want to avoid anything like what happened in Catalonia, because they will wish that any independence result is recognised by the European Union and the international community,"* comments Stephen Phillips.

Contingency planning will be key for businesses based in Scotland and most will be able to dust off any arrangements that were created in the lead up to the 2014 referendum, which went in favour of remaining in the UK. But this time around there is the added complication of Brexit. An independence vote would leave Scotland outside the UK and outside the EU, although with the possibility of re-joining the latter. That creates uncertainty for business leaders about Scotland's trading relationship with the UK and the EU.

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CEO, Scottish Financial Enterprise

Perspective



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How well have Scottish businesses coped with the Brexit transition period and changes to trading rules, and how are they likely to fare going forward?

To date, the financial and professional services industries have responded well to Brexit and were well prepared as we entered 2021. That said, many remain concerned about the relationship with the EU going forward and what may or may not come from the ongoing equivalence discussions.

Depending on the outcome, this could have a medium to longer term impact on the industry. Brexit has, however, also resulted in firms looking towards new markets and to expand operations in areas like Asia and the Americas and there is an interest in future trade agreements and the opportunities they may offer.

How can Scottish businesses better engage with the independence debate and what information should they be seeking from both sides of the argument?

Our approach will be to engage in the independence debate in a non-political and objective way. I believe it is important that business asks the important questions and analyses the proposals from both governments in a balanced way. Business should identify the risks and opportunities of the detailed proposals from both governments. Finally, business should insist on the required level of detail to conduct analysis and review; topics would include the future currency, trading arrangements with the rest of the UK, a central bank, and the relationship with the EU, to name a few.

Given that green parties are gaining some ground politically, most notably in Germany, what can Scottish businesses do to meet the political (and customer) challenge on ESG?

Having just completed the work on the new financial services sector strategy for Scotland, what is clear is the priority ESG is given by organisations. The acceleration of this agenda in recent years is considerable. Within financial services, it will be vital that we play a leadership role and support businesses and consumers along the journey to a net zero economy. This will involve working with businesses to ensure they have robust transition plans in place that can be funded, and also attract investment. With regards to consumers, this will be focused on supporting behavioural changes through innovative product design and pricing; in other words, 'rewarding' the change.

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A sustainable recovery

“Scotland’s economic recovery is fully intertwined with the sustainability agenda.”

Rather than divert attention from environmental, social and corporate governance (ESG) priorities, the COVID-19 pandemic has supercharged the movement. In a country that has already shown a substantial commitment to renewable energy and is to host the UN Climate Change Conference COP26 in Glasgow later in November, Scotland’s economic recovery is fully intertwined with the sustainability agenda.

Setting the standard in renewables

With climate change at the forefront of many governments’ priorities, including under a Biden presidency in the United States, Scotland’s position as a leader in renewables has given it a solid footing as nations transition away from fossil fuel power sources. The Scottish Government reported that ‘the equivalent of 97.4% of Scotland’s gross electricity consumption was from renewable sources’ in 2020.

Last year it announced a GBP 62m Energy Transition Fund, that will ‘support businesses in the oil, gas and energy sectors over the next five years as they grow and diversify and will help attract private sector investment in the region’. The programme will be especially important to the North East of Scotland, particularly Aberdeen, which is the traditional centre of its oil and gas industry, and has the challenge of being part of a global economy that is increasingly engaged with sustainability objectives.

For Aberdeen though, the skills and innovation that have existed within the oil and gas sector for decades, are thought to be broadly transferable into renewables and other key sectors. As part of the UK budget in March, the Chancellor Rishi Sunak awarded GBP 27m to the Aberdeen Energy Transition Zone, in an effort to transform the city into a renewable energy centre, especially wind and hydrogen energy.

The political environment

The Scottish Government has driven forward the country’s sustainable credentials over the last few years. The Scottish Greens gaining a record eight parliamentary seats in the last Scottish Parliament election in May shows increased engagement from the electorate in climate change issues and may lead to political pressure on Holyrood to accelerate the green agenda. This is not out of step with global politics, notably in Germany where polls indicate that the Green party is ahead of Angela Merkel’s Christian Democratic Union (CDU), with a national election due in September.

“Beyond water, Scotland has an enormous opportunity in terms of its renewable energy potential and the potential to transform the oil and gas sector into a sustainable one.”

Brian Lironi,
Director of Corporate Affairs,
Scottish Water

Local government has also played its role. Again, in Aberdeen, the city council promotes a Smart City Strategy & Action Plan, which develops key areas such as energy efficient retrofitting of houses and flats, a low emission zone and intelligent street lighting. We are also seeing Glasgow and Edinburgh councils make commitments to become carbon neutral and achieve net zero emissions in the longer term.

But sustainability is not just about climate change and how we use energy. Scottish policymakers recognise this and have shown further leadership in the social and corporate governance aspects of ESG. In March 2020, the Government announced new guidance for public sector bodies on how to support suppliers during the COVID-19 crisis. This included accelerating payment practices to ensure sustainable cashflows for suppliers, and providing additional flexibility in contracts to give contractors some relief in times of financial distress. That really helps SMEs.

Corporate sustainability

This form of good corporate citizenship is expected to filter into the private sector, allowing for a more supportive and conciliatory economic environment.

As corporates have recognised the worth of purpose alongside profit, and the fact that purposeful businesses will often increase their

profitability, this is also changing the way that the private sector operates. Scottish Power, SSE and NatWest Group (all headquartered in Scotland) are amongst the primary sponsors for COP26, outlining that Scotland-based businesses are prioritising ESG programmes. *"Most large indigenous Scottish businesses have climate change at the front and centre of their messaging and branding. If you look at SSE and Scottish Power, you can see that coming through, but you can see that in large financial services organisations too,"* comments Alan Nelson, Managing Partner of CMS Glasgow.

This is aligned with wider global corporate trends. Tesla, the American electric vehicle and clean energy company, suspended vehicle purchases using Bitcoin in May, stressing the "rapidly increasing use of fossil fuels for Bitcoin mining and transactions".

Consumer priorities

These more purposeful sentiments mirror consumer concerns. Electric vehicle purchases rose by 185% in the UK in 2020. Given the effects of the COVID-19 pandemic on working practices, many individuals have reassessed their lifestyle preferences, wanting more flexible working arrangements and an ability to spend more time with family members and in rural locations. The younger generation are also choosing employers, not simply for career optimisation purposes, but

also based on the organisation's ESG credentials, including its impact on the environment and the treatment of its supply chain. We are also seeing real changes in consumer behaviour – paying a premium for sustainable tourism, sustainable food or sustainable clothing; all issues CMS are looking at in the run up to COP26.

These ESG priorities also have benefits for local economies, with consumers looking for homegrown produce, even if a premium is to be paid. Alan Nelson points to the number of social enterprises that are popping up all over Scotland as a sign of how attitudes are quickly shifting. *"You see things like businesses that are using data to track waste all the way through the economy, so that people can work out exactly what happens to it,"* he adds. *"Things then start to become measurable and you'll have stakeholders that start to ask questions."*

As people and businesses re-evaluate what is important to them, particularly after the pandemic, it shows that Scotland has some genuine eminence in the sustainability field. And as the global economy pivots towards purpose, and largely not at the expense of profit, Scotland can be optimistic about its future. And when it comes to sustainability, COP26 provides a fantastic opportunity for Scotland to demonstrate that bright future to the world.

Perspective



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Director of Corporate Affairs,
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“We are in a position to show leadership in sustainability globally and I believe we have a broad consensus around doing exactly that.”

What do you see as the principal motivations and stakeholder pressures behind the growth of the sustainability movement?

The core motivation, I believe, is the realisation that we all have a responsibility to address the carbon emissions that cause global heating. Both at an individual and organisational level, there is wide recognition that now is the time to take action. That also applies to other sustainability issues, such as the loss of biodiversity and ensuring a just transition to a net zero emissions economy. I would describe stakeholder input as encouragement rather than pressure. For example, the Scottish Government’s 2045 net zero target was an inspiration to us at Scottish Water, and we’ve now set our own targets to achieve zero operational emissions by 2030 and net zero across all emissions by 2040.

What aspects of sustainability are making the biggest difference

As one of Scotland’s biggest electricity users there is no doubt that the ‘greening of the grid’ – moving to renewable power generation - drives some big numbers in our sustainability plans and those of Scotland. That doesn’t mean we sit back and let the energy companies do the heavy lifting, we have also moved significantly into renewable energy – hydro, solar and wind – and now produce or host more than twice the electricity we use. We are also making strides in fleet, the use of our buildings, chemicals, and many other areas. The challenge area for utilities and construction will be decarbonising our supply chain – for example, how do we get net zero concrete and steel?

Other than COP26, why is sustainability such an important issue in Scotland specifically?

As Scotland’s water and waste water company we see first-hand the here-and-now impact of climate change. More extreme weather is causing more flooding and climate change is changing our environment, which is changing the water in our rivers and lochs. The need to adapt to these changes is immediate and very challenging. Beyond water, Scotland has an enormous opportunity in terms of its renewable energy potential and the potential to transform the oil and gas sector into a sustainable one. We are in a position to show leadership in sustainability globally and I believe we have a broad consensus around doing exactly that.

Reimagining the retail industry

“Predicting how urban environments will look in the future, including the demands of the local population and visitors, is a huge systemic challenge.”

The vitality of Scottish towns and cities will depend, to a large extent, on reimagining the way the retail industry operates and on its integration into other sectors such as dining and entertainment, as well as into the broader civic functions of our towns and cities. This naturally depends on the strategic intelligence of local authorities, landowners, developers and other stakeholders, recognising that consumer behaviours have altered enormously over the last 20 years particularly with the advent of online-shopping, with this trend accelerating during the COVID-19 crisis.

The effects of the changes in consumer behaviours are not linear though, despite the overwhelming move to online. Many products are still suited to traditional “buy in store” shopping, while the pandemic has also reinvigorated enthusiasm for local produce and stores. The rapid growth of the green consumer is the next challenge for the retail sector as it responds to new customer demands for greener products and the wider regulatory requirements for sustainability, which will further impact operating models.

Transforming urban centres

The transition from traditional to modern retail is no easy undertaking. Predicting how urban environments will look in the future, including the demands of the local population and visitors, is a huge systemic challenge. Retail continues to be one of the primary reasons for visiting urban centres and it needs to remain attractive alongside the surrounding environment.

Behemoth shopping centres, primarily focused on retail, have lost their lustre over recent years. With a general movement towards online habits, urban centres will need to become more diversified. Many retailers will either look to exit completely or require smaller buildings leaving surplus retail space that can be repurposed for other uses such as educational, residential or civic spaces to help create an attractive mixed-use environment in urban centres.

Outside of city and town centres, there are options to target the growing loyalty towards local independent retailers and homegrown products. It is another opportunity to develop community vitality, though recognising that certain districts with higher-levels of disposable income are better suited to this than others.

For landowners, this represents an additional challenge to the more immediate need to endure the COVID-19 pandemic. Although the retail sector has rebounded in line with the gradual opening up of the economy, the effects of the crisis are not evaporating instantaneously.

At the forefront of minds will be how to ensure that assets continue to deliver returns. For many, this will require a radical overhaul, but there are large costs associated with converting buildings for alternative uses.

Addressing the physical versus the virtual

Online shopping has already had a profound impact on the industry. A sizeable number of top retail brands have become the headline casualties of this trend. Debenhams, the department store giant, closed its remaining stores in May, but will continue to trade online having been acquired by Boohoo in January.

Further redundancies and store closures across the sector are inevitable as retailers seek smaller customer-facing physical outlets and larger out-of-town warehouse-type assets for fulfilment of online orders. Finding the right balance and operating model is not an easy prospect.

Kirsten Partridge, a Real Estate partner at CMS Glasgow, believes that more store closures and redundancies are inevitable because traditional business models are often just not working. *"Online is here to stay, but there is a place for both online and in-store shopping. Retailers that can get that blend of the convenience of online with the personal experience of going in-store right, are the ones that will continue to be successful"* she explains.

Allan Wernham, Managing Director Scotland for CMS, adds: *"It is like the tension between working from home and in the office. The challenge has become about making the office a place where people want to go rather than need to go - retail faces exactly the same challenge"*.

Identifying appropriate operating models

The original St James Centre in Edinburgh closed its doors in 2016 and following one of the UK's largest urban regeneration projects the new retail led, lifestyle district St James Quarter is scheduled to open on 24 June. The district is widely viewed as a template for the future of retail. It has a keen emphasis on connectivity and integration with the rest of the city as well as embracing Edinburgh's cultural and artistic scenes. In the age of COVID-19, the galleria incorporates natural ventilation with a floating roof and open public spaces that will play an important role in luring cautious customers back to physical shops. Retailers are local and global, sitting alongside bars, restaurants and other leisure offerings, and the coming months will see the opening of Scotland's first W Hotel, W Edinburgh, a boutique Everyman Cinema, residential apartments and a Roomzzz aparthotel.

This integration will create the lifestyle district that is not dependent on anchor retailers sitting alongside some big brand stores, as we see with many traditional shopping centres and will provide a dynamic destination for visitors. In the longer-term, having apartments and hotel guests amidst the district, will only add to the vibrancy of The Quarter as well as providing a source of footfall for the retailers. Key transport links and parking also ensure that the destination is easily accessible to the rest of Scotland and beyond.

For Edinburgh and Scotland, in particular, these types of development are crucial in maintaining economic growth, not least because they encourage tourism, an industry that is itself vital to the nation's fiscal health. The future for retail is a global challenge and is one that is not easily addressed, but it holds particular significance for Scotland as it seeks to bolster its economy after COVID-19.

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Perspective



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“...the opportunity to redefine and re-purpose retail is becoming a preferred strategy for many investors instead of continuing a policy of continual refurbishment, reducing efficiency and declining rents.”

What kind of recovery are you expecting in the retail sector over the next 6 to 12 months and how are developers, landowners, policymakers and other stakeholders likely to adapt to the way the market is evolving?

Most physical retailers expect to undergo a very positive second half of 2021 as the UK bounces back after the impact of COVID-19 and the convenience of online shopping loses its appeal. However, the investment market does not necessarily share in this optimism as COVID-19 has generally accelerated a structural shift in the retail sector as online continues to take a greater share. With much of the sector's built stock reaching obsolescence, the opportunity to redefine and re-purpose retail is becoming a preferred strategy for many investors instead of continuing a policy of continual refurbishment, reducing efficiency and declining rents. This period will therefore become a time for full strategic reviews of retail portfolios following valuation write-downs resulting from COVID-19, opening up the opportunities for investment into prime long term sustainable retail assets and further moves towards a diverse alternatives strategy with retail as part of a mix of uses elsewhere.

What role are sustainability and green priorities having in retail developments and how is this likely to evolve in the future?

Largely the push towards net zero carbon developments continues at a pace, but this is already largely embraced by the development industry. The concern for me is how sustainable is the process of development? Going forward, the greater emphasis in development will be on a much broader definition of sustainability that considers the positive impacts on the community, well-being and financial sustainability of investment; the principle being that the most sustainable buildings you can build are the ones you do not have to knock down after 20 years.

Looking at marquee developments like St James Quarter in Edinburgh, what do you see as the top priorities for retail in terms of customer attractiveness and convenience, and access to a skilled workforce?

In my view, customers are attracted to brands and experiences. At St James, we have tried to build partnerships with and between brands regardless of their use, such as a hotel, shop, online provider, restaurant, etc. We have explored how, between them, they can create memorable experiences for their customers with events and social interaction, whilst trying to make it as convenient and rewarding as possible. We have looked to make the whole physical process when going to a mixed-use destination more convenient, fun and memorable than an at home offer with full integration of transport, cultural events, social interaction and outstanding customer service by the development of staff through our retail skills academy.

Bringing tourism back to Scotland

“There are clearly difficult times ahead, but opportunities for a sustainable future for tourism in Scotland are emerging.”

The COVID-19 pandemic has had a devastating impact on the tourism industry. With further challenges brought about by Brexit and a hard-hit global economy, the worldwide tourism industry is experiencing perhaps its biggest crisis to date. There are clearly difficult times ahead, but opportunities for a sustainable future for tourism in Scotland are emerging.

Tourism in a COVID-19 landscape

The impact of the pandemic on tourism in Scotland has been stark. In 2019 visitor spending in Scotland totalled GBP 11.5bn (Scottish Enterprise), but international visits to Scotland declined by 78 per cent in 2020 compared to 2019, with spending down by 85 per cent according to forecasts from VisitBritain.

Uncertainty around how long social distancing will remain in place, coupled with short notice changes to the COVID-19 levels system, make strategic decisions incredibly difficult. The human impact

of redundancies has been significant. Tourism accounts for around 8 per cent of the Scottish workforce (Scottish Enterprise), but staff laid off during lockdowns may be reluctant to take another job in hospitality after such volatility. Added to this, COVID-19 and Brexit have resulted in hospitality staff from Central and Eastern Europe (CEE), an important source of migrant workers, not returning to the UK. The lack of long-term certainty offered to airports and airlines serving the UK also impacts accessibility for tourists.

Investment in recovery

With tourism such a key part of Scotland’s economy, both regionally and nationally, investment in its recovery is vital.

In March 2021 Scotland’s First Minister announced a GBP 25m tourism recovery programme developed by the Scottish Tourism Emergency Response Group (STERG) along with members of the Tourism Task Force.

The programme is directed at accelerating recovery in the short term as well as ensuring the sustainable medium to long-term recovery of the sector. In March last year, Scotland Outlook 2030 – developed in partnership between the Scottish Tourism Alliance, Scottish Government, VisitScotland, Scottish Enterprise, Highlands and Islands Enterprise and Skills Development Scotland – launched with an aim to make Scotland a leader in 21st century tourism.

Building a sustainable future

After enduring the pandemic, plans for the tourism sector's recovery have sustainability at their core. 'Protecting and enhancing the environment while growing social, cultural and economic wealth' is a key aim of Scotland Outlook 2030. Scottish Enterprise in partnership with VisitScotland, Highlands and Islands Enterprise and South of Scotland Alliance has plans to develop a net zero Pathway for Scotland's tourism industry. The environmental impact of tourism and the effect on local communities are clearly important considerations in future planning. Uncertainty around flight availability coupled with the environmental impact of aviation could be an opportunity to harness the benefits of rail travel as an alternative.

Making travel part of the holiday is becoming more fashionable. The use of rail as opposed to flying, coined as 'Tågskryt' or 'rail bragging' in Sweden, highlights a shift towards sustainable preferences. It also provides further opportunities for supporting local communities as visitors stop off or buy food along the way.

Flexible working arrangements could free up commuter space on local and national rail networks for tourists, but infrastructure and higher travel costs do remain a problem. There is also

potential for better connections between the Scottish domestic rail network and the key routes into Scotland from London rail hubs.

Building up a tourism profile in less well trodden areas and distributing tourists across Scotland is also important. The recent launch of The Kintyre 66, a new 66 mile loop around Kintyre highlighting areas including Campbeltown, Gigha and Tarbert is one such venture. *"Historically, if you look back 40, 50, or 60 years ago, there was substantial poverty in some parts of the country with poor infrastructure and declining indigenous industries. So tourism has been really important for many of those areas,"* comments Roland Smyth, Head of the Scottish Hotels and Leisure team at CMS in Edinburgh.

But as tourism recovers, higher visitor volumes in certain areas can create pressure on local infrastructure. Increased traffic volumes put pressure on local roads. Higher demand for holiday accommodation can drive up property prices. And some locals fear community healthcare provisions could become overwhelmed.

Increased collaboration between businesses and residents through destination management organisations could help alleviate some of these issues.

Embracing technology

Allied with the efforts to distribute tourists across the country, technology can also create opportunities within the travel sector.

In April 2021 VisitScotland held Scotland Reconnect 2021 with the aim of connecting the Scottish tourism sector with around 330 tour operators and travel agents from international markets around the world.

A new Scottish Golf App designed to boost the game and make it more inclusive could also increase the GBP 286m that golf tourism already contributes to the Scottish economy. Golfers in Scotland can book tee times online and get an OpenPlay handicap through the app.

This is just one example of forward thinking approaches to reinvigorating the Scottish tourism economy. It will continue to face enormous challenges, principally due to COVID-19 and Brexit, but there are reasons for the industry to remain upbeat about the future.

"It is human nature to want to travel and, subject to a global solution to the pandemic, international travellers will return to Scotland once more."

Kerr Young,
Director of Hotels and Hospitality, JLL

Perspective



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“Despite challenging short-term head winds, many investors are taking a long-term view on hotels as an investable asset class”

How disruptive has the COVID-19 pandemic been to the hospitality industry and how can it effectively emerge from this unprecedented crisis?

The industry has been disproportionately impacted. Travel restrictions across the globe saw very many hotels mothballed in the biggest demand shock to the sector in living memory. By end 2020, the UNWTO reported worldwide international arrivals down by 74% and in Europe arrivals declined by 70%. Revenue Per Available Room (“RevPAR”) in the UK was down 69%, with city centre markets hardest hit: Edinburgh fell 77%. However, the sector eagerly awaits further relaxations of the UK governments’ restrictions with strong levels of business on the books from an anticipated buoyant summer of leisure led staycation.

How confident are you that international travel to Scotland will recover to pre-pandemic levels in the short to medium term?

International travel is very important to the Scottish economy. During 2019 27.4 million bed nights were generated from international travel – 37% (vs 80% for London) of all hotel rooms sold. In particular,

markets such as Edinburgh are very reliant on the international travel over the summer months that often also support high average room rates. With domestic demand leading the recovery, many Scottish markets are well positioned to see strong year-on-year growth. It is human nature to want to travel and, subject to a global solution to the pandemic, international travellers will return to Scotland once more.

Given the impact of the pandemic and Brexit, how can hospitality businesses respond to staffing issues, particularly retaining, recruiting and training talent?

The combination of Brexit and the pandemic has seen large numbers of people from abroad return home. Travel restrictions make it unclear how soon those workers can return to the UK – if they even want to. Many others have spent the last year reassessing their career options, opting to leave the industry. This talent shortage may result in short-term wage cost inflation. I wrote last year that those that looked after their employees during this most difficult of times would reap the rewards once the economy reopened. For too long many

in the industry have not focused on employees as they do customers. That said, many others are adopting new technologies and improved business practices to streamline processes and reduce reliance on human capital.

What kind of opportunities are there for investment in the Scottish hotels sector and how attractive might they be to investors?

Despite challenging short-term head winds, many investors are taking a long-term view on hotels as an investable asset class. UK transaction volumes were down 55% in 2020, with transactions across regional UK down by over 90%. But 2021 has already seen a significant weight of capital generating high levels of interest for both quality assets and value-add opportunities. The one challenge at present is a lack of debt finance. Specifically in Scotland, a number of high quality assets have transacted including hotels in Edinburgh, St Andrews and further afield. Investors will continue to look favourably on the Scottish hotels sector – provided there is not too much background noise from the independence debate.

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