

BPF Response: Call for Evidence July 2017 MAC Commission



This response

The British Property Federation (BPF) is the trade association for the large-scale property investment sector. Our members comprise a broad range of owners, managers and developers of real estate, as well as those who support them. Our developer members deliver a wide range of assets, including:

- Commercial property – shops and shopping centres, offices, industrial buildings, healthcare facilities, etc.
- Hotels
- Residential blocks of “build-to-rent”
- Mixed use buildings, which may incorporate commercial uses and some flats for sale or rent.
- Purpose-built student accommodation

This response has been compiled with the assistance of our members and is a public document. There is nothing within it that is confidential.

If you had any questions on its content please get in touch using the contact details above.

EEA Migration Trends

1. **Please provide evidence on the characteristics (e.g. types of jobs migrants perform; skill levels, etc) of EEA migrants in your particular sector/local area/ region. How do these differ from UK workers? And from non-EEA workers?**
 - 1.1. The real estate sector procures services from construction contractors, designers and architects, sub-contractors, engineers, utilities and civils workers, environmental and planning consultants. In many cases, it is already difficult to source these skills and this has a bearing on the viability of new developments and on the speed with which they can be delivered.
 - 1.2. Another aspect to the skills agenda concerns the competition for talent experienced across regions and cities and between countries. Clearly, the model adopted for the UK’s future relationship with the European Union will affect the ability of occupiers of commercial property (our customers), to access a suitable workforce.
 - 1.3. The Higher Education Statistics Agency (HESA) gathers data for all publicly funded Higher Education Institutions and the University of Buckingham. The data also includes statistics on Higher Education (HE) level courses which are delivered at Further Education Colleges. The figures for 2015/16 show that growth in students from non-EU countries is stagnant, with the general upward trend predominantly owing to increases in the UK (Haslam, 2017) domiciled student population (up 1% on the previous year) and an increase in the number of EU domiciled students (up 2% on the previous year). Therefore, while non-EU domiciled students account for 14% of the total, this proportion was the same as in the previous year. Therefore, constraints on the movement of people may have implications for purpose built student accommodation provided by our members, as well as for the supply of suitable graduate and postgraduate talent, all other things being equal. Clearly, this issue is soluble either through

recognition of the virtues of the UK's access to the best talent or through adaptation of the methodologies used to catalogue migration figures.

1.4. Were the Government to seek to introduce some kind of restriction on companies employing workers from overseas (such as a levy or published list of overseas workers), or a minimum earnings threshold for the right to work in the UK, this could have detrimental effects for the supply of construction workers. It could also reduce the general attraction of the UK as a venue for work in some sectors, and may reduce the choice pool for some graduate recruitment schemes. The Government is under pressure from public opinion to reduce immigration, but it is worth noting that while the public believes that 25% (Blinder, 2016) of the population are 'non-western' immigrants, to take an example, the UK immigrant population is 13% of the total UK population. Conversely, 31% of firms (across the economy), according to the CBI, are concerned about future access to migrant workers.

2. **To what extent are EEA migrants seasonal; part-time; agency-workers; temporary; short-term assignments; intra-company transfers; self-employed? What information do you have on their skill levels? To what extent do these differ from UK workers and non-EEA workers?**

Construction Workers

- 2.1. There have been many reports into the structure, conduct and performance of the construction industry. The Latham (Latham, 1994), Egan (Egan, 2004) and Wolstenholme (Wolstenholme, 2009) Reviews each accepted that there was a clear need for addressing training and skills issues within the construction sector, and to recognise that the demand for workers is cyclical. There is increasing concern not just about skill shortages, but about whether our educational systems are capable of producing the kind of trained and educated people that our modern economy requires. The Latham/Egan agenda of greater partnership and collaboration has still a long way to go and the Government is keen to encourage the development of sustainable communities throughout the regions.
- 2.2. The interim findings report issued by the Low Carbon Construction Innovation and Growth Team (IGT) (*HM Government, 2010*) under the Coalition Government said that periodic economic downturns have led to an exodus of skilled labour from the construction industry. When economic conditions improve, it is rare for construction workers to return to the industry as many find work which is equally or more lucrative in other sectors. This leads to skills shortages, which in the construction industry are frequently filled by drawing in labour from overseas, which creates pressure on social costs lying outside construction output (such as increasing the number of NEETs as jobs are displaced from the domestic population) and means that there is not a constant upskilling of the domestic workforce. It also may mean that inadequately skilled labour is drawn into the market and as a consequence of the above there is a loss of quality in the industry's output (e.g. build quality).
- 2.3. For construction clients like the real estate industry, the above are clearly significant issues. Construction clients commission projects from other actors in the construction supply chain, and are dependent upon capacity being in place in order to deliver the buildings which are required by the wider economy – the places in which people live, work and play.

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3. Are there any relevant sources of evidence, beyond the usual range of official statistics, that would allow the MAC to get a more detailed view of the current patterns of EEA migration, especially over the last year?

- 3.1. The Urban Land Institute's report 'Mass migration and real estate in European Cities' contains a compendium of effects of mass migration for real estate, cities and by extension society at large (Goodson et al., 2017).
- 3.2. A forthcoming report by IPPR, commissioned by the British Property Federation and Land Securities will give particular quantitative analysis relating to the impact of migration controls on skills in construction, and knock on effects on development activity and viability. The Government's objectives for delivery of growth and productivity across the country embodied in its Industrial Strategy (HM Government, 2017a), and its ambitious housing targets (HM Government, 2017b) both will be constrained by immigration controls. While we are not in a position to share the report by the deadline for this Consultation, as it is being published in November, but we will send a copy as soon as we are able.
- 3.3. A number of the professional agents in real estate have produced outlooks based on scenario planning for Brexit changes in the operating, financial and regulatory environment for real estate (i.e. property ownership, development as well as construction). In general, the outlook has been that curtailment of migration rights could be expected to have considerable effects post-Brexit.
- 3.4. At face-value, the Government's target to cut net migration below 100,000 people per year can not be achieved even if all EU migration were stopped, because according to ONS non-EU migration currently counts for about 150,000 people per year. And it is already clear from statements by Philip Hammond that the government will allow high skilled EU migrants to continue to come to the UK.
- 3.5. If cuts in migration are indeed delivered, real estate occupiers dependent on lower skill workers could experience staff shortages and wage increases would lead to inflation and dampen growth. We might expect this to be an issue within retail, and some logistics sectors, and to be a significant issue in healthcare. Within the offices sector, it will very much depend on the business model, but in many cases a key area of competition among peers concerns access to the best talent; if business office occupiers cannot access the skills they need, they may consider their allegiance to the UK. Analysis by the LSE has suggested that a complementary effect may be manifesting from an applicant perspective, with traffic on job sites among qualified non-UK EU graduates showing lower traffic since Brexit (Busse and Barslund, 2017).

4. Have the patterns of EEA migration changed over time? What evidence do you have showing your employment of EEA migrants since 2000? And after the Brexit referendum? Are these trends different for UK workers and non-EEA workers?

- 4.1. The paper we are preparing with IPPR shows trends of changes in construction-related migration over time.

5. Have you conducted any analysis on the future trends of EEA migration, in particular in the absence of immigration controls?

- 5.1. The paper we are preparing with IPPR shows trends of changes in construction-related migration over time.

6. **Have you made any assessment of the impact of a possible reduction in the availability of EEA migrants (whether occurring naturally or through policy) as part of your workforce? What impact would a reduction in EEA migration have on your sector/local area/region? How will your business/sector/area/region cope? Would the impacts be different if reductions in migration took place amongst non-EEA migrants? Have you made any contingency plans?**

6.1. Again, the work we are carrying out in respect of construction skills with the IPPR bears out the impact of a possible reduction in overseas workers, and possible remedies.

6.2. With regard to core commercial real estate markets, JLL, CBRE, GVA, Cushman and Wakefield each produce outlooks in relation to regional property markets and will be the best barometer of occupier appetite for real estate.

6.3. As for the UK real estate sector as an employer in its own right, many of our members operate with relatively modest headcounts. It is difficult to estimate the effect of reducing access to EEA migrants *within* firms, particularly given the number of universities that provide vocational courses in valuation, surveying, property and estates management within the UK. The primary effects, we estimate, will be in relation to the supply chains on which real estate relies, whether in construction or in professional advisory where headcounts are much larger, and in the former case where it is more difficult to attract and retain workers.

Recruitment Practices, Training & Skills

7. **Please provide evidence on the methods of recruitment used to employ EEA migrants. Do these methods differ from those used to employ UK and non-EEA workers? What impact does this have on UK workers? Have these methods changed following the Brexit referendum?**

7.1. We do not feel best placed to answer this question, as it appears directed toward individual employers.

8. **Do recruitment practices differ by skill-type and occupation?**

8.1. We do not feel best placed to answer this question, as it appears directed toward individual employers.

9. **What are the advantages and disadvantages of employing EEA workers? Have these changed following the Brexit referendum result?**

9.1. Our primary normative goal is for the real estate sector to grow and thrive. For this to happen, the UK needs access to the skills and talent it requires. To some extent we are agnostic as to where those skills and talent need to derive, but a sudden and normatively-driven change to curtail access to a sufficiency without setting in place both short and medium-long term arrangements to compensate for any supply issues arising from policy change. The temporal aspect of Government proposals to curtail migration are a primary concern, since any upskilling of the workforce is likely to have a time lag between policy formulation, implementation and practical application.

10. **To what extent has EEA and non-EEA migration affected the skills and training of the UK workers?**

10.1. The Low Carbon Construction IGT Interim Findings Report (*HM Government, 2010*) also accepted that investment in skills can lead to a concomitant uplift in the quality of construction and installation, meaning that Government is less required to monitor and enforce regulatory compliance.

10.2. The recent Farmer Review Report (Farmer, 2016) suggested that one way to address chronic skill supply issues within the Construction sector would be for construction clients to take the lead. Based on a business as usual scenario, purely on the age of the existing workforce, it is highly likely that over the next decade we will witness around a 25-30% fall in the number of construction workers. Constraints on the supply of workers posed by potential movement restrictions following BREXIT might further exacerbate future skills shortages. It is clear that remedies are required, such as addressing the image problems that construction has among young people as a career and ensuring that construction workers are trained in modern methods of construction that deliver appropriate volumes with more modest human resources. But it should also be recognised that any stepping up of vocational training of the domestic workforce will need time to deliver.

10.3. While the construction sector has remained predominantly cyclical, counter-cyclical sectors such as build to rent housing, healthcare and purpose built student accommodation can offer some opportunities to counter some of the difficulties experienced in the past with sustaining careers among construction workers.

10.4. It is important to recognise that the perception may be that those from overseas working in construction are primarily at the unskilled, low-skilled and semi-skilled levels, but preliminary insights from our work with IPPR indicate that there is reliance on highly skilled migrants as architects, civil engineers and other disciplines in order to fill capacity gaps.

11. How involved are universities and training providers in ensuring that the UK workforce has the skills needed to fill key roles/roles in high demand in your sector? Do you have plans to increase this involvement in the future?

11.1. We do not feel best placed to answer this question.

12. How well aware are you of current UK migration policies for non-EEA migrants? If new immigration policies restrict the numbers of low-skilled migrants who can come to work in the UK, which forms of migration into low-skilled work should be prioritised? For example, the current shortage occupation list² applies to high skilled occupations; do you think this should be expanded to cover lower skill levels?

12.1. We have a dedicated policy official for matters relating to EU public policy and Brexit-related matters. Policy staff responsible for construction, student accommodation and our BPF Futures program (next generation of leaders) are also well-apprieved of overall policies regarding migration.

12.2. With regard to prioritisation of low skilled migrants, the general impression we have received from the Farmer Review, work by the CITB and our own work with IPPR is that even if the Government's intention is to seek to place emphasis on a construction industry that is more self-sufficient, this is not an issue that can be addressed overnight (please see our response to question 9 above).

12.3. With regard to occupiers, it is difficult for us as an organisation to provide specific recommendations as to which occupier sectors should be prioritised. However, we have sought to underline that changes to migration policy will have an effect upon the general appetite for commercial and residential property in the UK (viz. occupation), which may have a knock on economic effect at the level of place (geographic locale by reference to empty properties, planning blight) and at the level of investment (leading to perhaps depressed values and rental income and thus real estate company performance) and at the level of investor returns (including personal pensions, which customarily

include investment in real estate as a well-performing and long-term asset class). Uncertainty as to the general nature of Brexit arrangements, of which access to workers is a subset, has also led to many of our members taking a cautious approach toward their next development cycle (“Reuters,” 2017).

Economic, Social and Fiscal Impacts

13. What are the economic, social and fiscal costs and benefits of EEA migration to the UK economy? What are the impacts of EEA migrants on the labour market, prices, public services, net fiscal impacts (e.g. taxes paid by migrants; benefits they receive), productivity, investment, innovation and general competitiveness of UK industry?

13.1. Please see our response to question 12 under point 12.3.

14. Do these differ from the impact of non-EEA migrants?

14.1. We do not consider that at present they do.

15. Do these impacts differ at national, regional or local level?

15.1. Typically as a real estate market, the capital plus one or two other regions of the UK have acted as preeminent economic engines. This has the effect of attracting workers from overseas to such markets, particularly in the case of the capital.

16. Do these impacts vary by sector and occupation?

16.1. Please see our response to Question 1-6, 10 and 12.3.

17. Do these impacts vary by skill level (high-skilled, medium-skilled, and low-skilled workers)?

17.1. Please see our response to Question 1-6, 10 and 12.3.

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Patrick Brown
Head of Insights and EU Engagement
British Property Federation
St Albans House
57-59 Haymarket
London SW1Y 4QX

020 7802 0108
pbrown@bpf.org.uk