



RETTIE

BUILD TO RENT SCOTLAND

Scottish Market Review
Summer 2023



Sunshine Through The Gloom

Despite the summer season, the Scottish BTR sector is experiencing a somewhat gloomy 2023, but there is still hope for an Indian summer.

We recently covered many of the challenges facing the sector in a recent report conducted for the British Property Federation, which can be read in full [here](#).

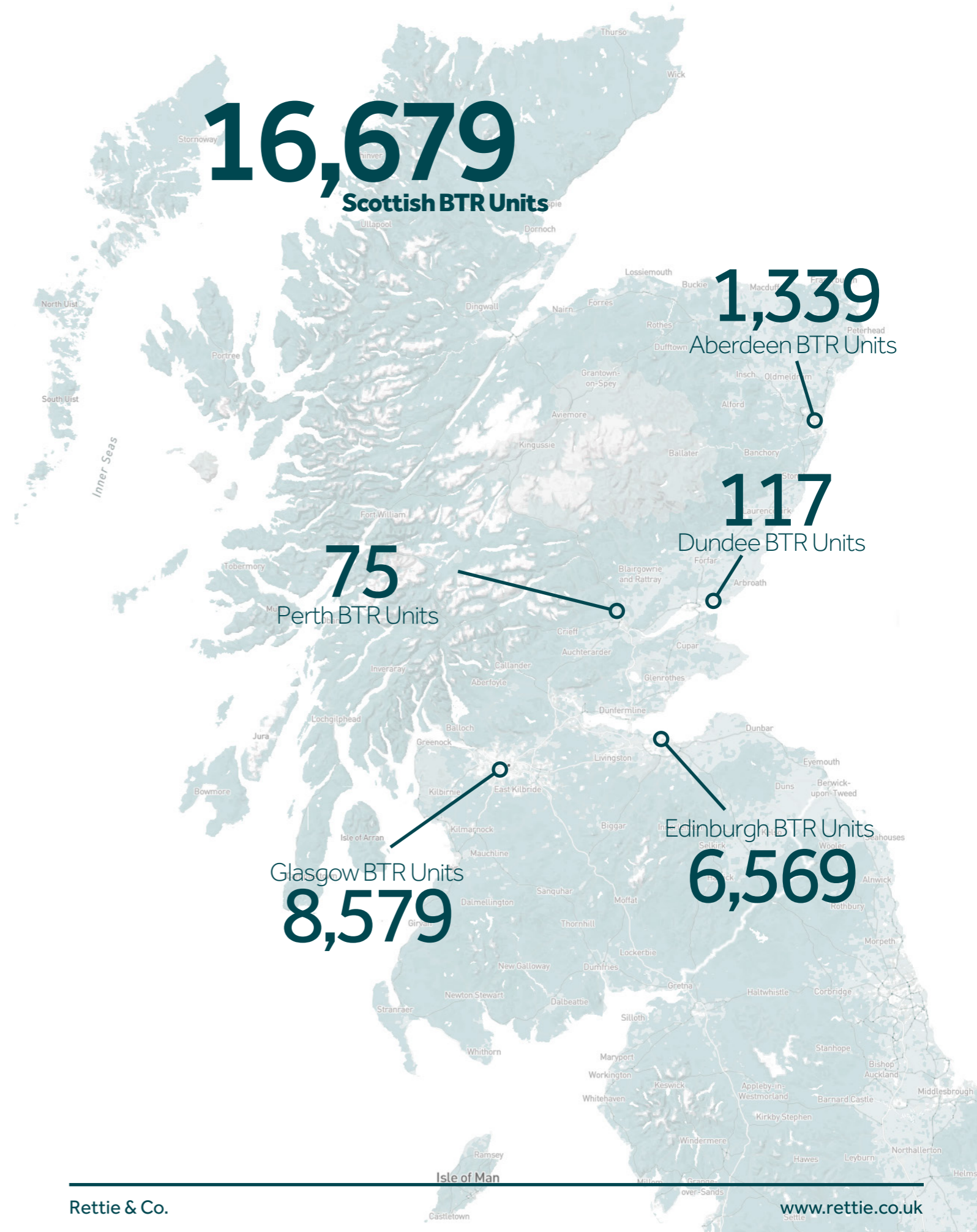
For Scotland's Private Rental Sector (PRS), the current negative sentiment from many international institutional investors, despite the market leading performance of current schemes and strong underlying market fundamentals, is a major concern. As many individual private landlords have been effectively legislated out of viability by a succession of changes to regulation within the sector, from removal of tax reliefs to the second increase of ADS to 6%, it was hoped that institutional investors would step in to fill the shortage of housing in the PRS. However, political intervention in the sector has exacerbated the crisis.

While this may be a rather pessimistic picture of the Scottish PRS and BTR sectors, the current market also has the potential to deliver opportunity for bold investors.

Contrarian investment strategies have a long history of success, from Sir Isaac Newton's exit from the South Sea Bubble, through John Maynard Keynes, to the likes of Michael Burry or Warren Buffet during the Global Financial Crisis. Indeed, Warren Buffett's contrarian view in seeking value is summarised in his famous quote to be "fearful when others are greedy, and greedy when others are fearful." It is with this philosophy in mind that some bolder investors are currently considering entering rather than exiting the Scottish BTR sector.



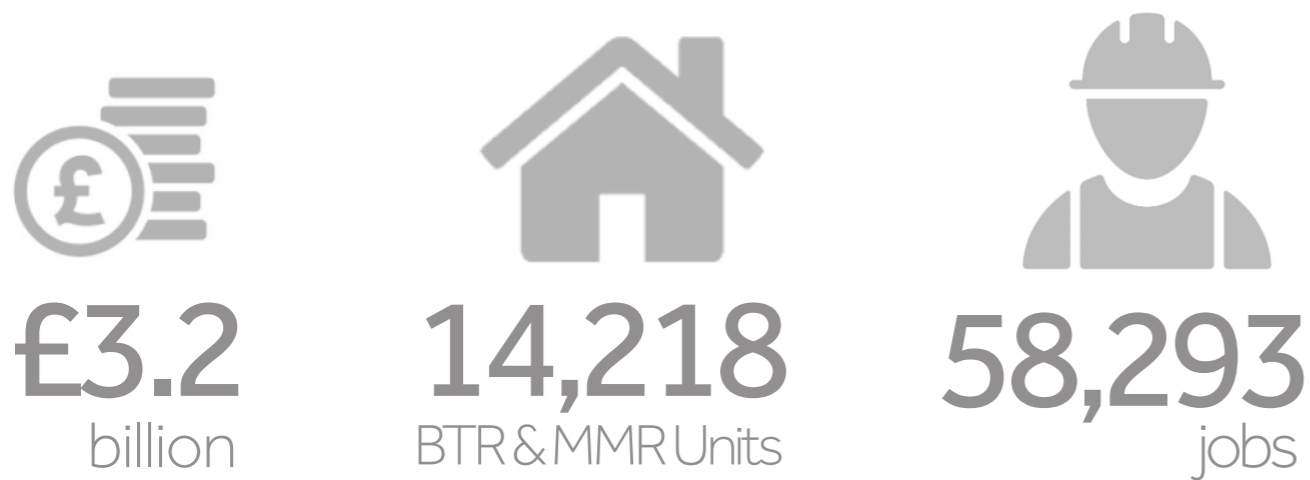
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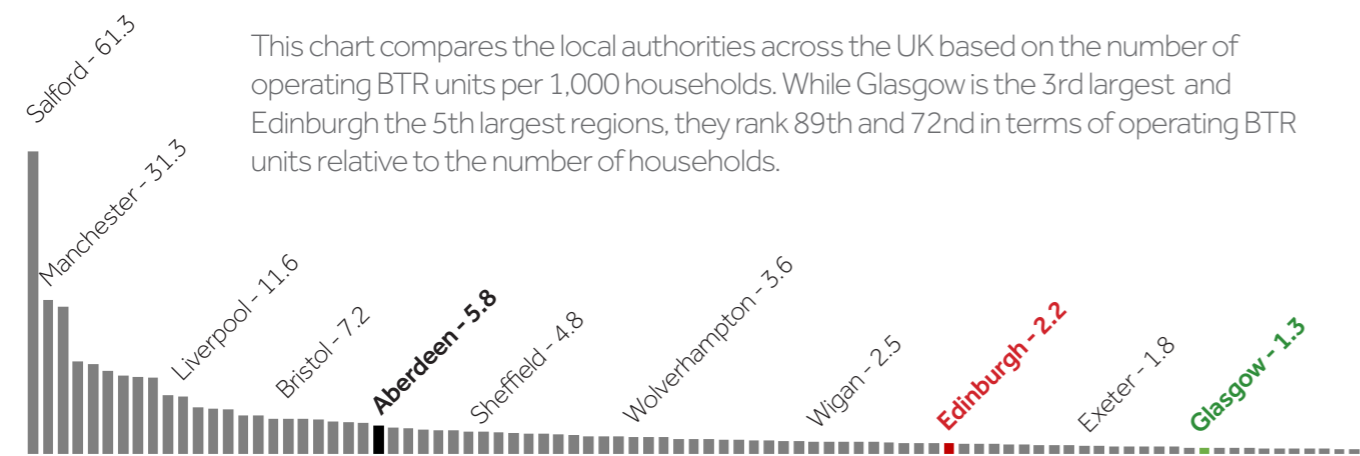
Crisis & Opportunity

Scotland's BTR Sector - A Huge Opportunity Hanging in the Balance

There is an estimated £3.2bn in development value in BTR & MMR units that are in developments identified in the pipeline, which are either in the pre-planning or planning stages but have not yet committed to construction. These developments total around 14,218 new homes which currently may or may not be delivered. Based on the Homes for Scotland "[The Value of Residential Development](#)" Report, which estimates 4.1 jobs per house, this would generate the equivalent of 58,293 jobs over the construction period.



Scotland's major cities are underperforming their UK counterparts



Source: BPF / Rettie & Co. / ONS Notes: *UK Comparison is done on English & Wales Lower Tier Local Authorities, which is a District, Borough or City Council. There are 331 lower tier local authorities in England & Wales. Values assume £1,000 rent per month gross per homes. G:N 75%. MMR Rent at 80% of OMV.

Does Build to Rent offer the cure rather than the Rent Control's sticking plaster?

In a rare moment of thought leadership, rather than political expediency, there appears to be a shifting in understanding in the main political parties that rent control may not be the cure to the housing crisis, but rather, in the words of Lisa Nandy, the Shadow Secretary of State for Levelling Up, Housing & Communities, a short-term "sticking plaster".

Labour's apparent policy alignment in both England and Wales against rent control shows a shift in opinion on the political left, which aligns with the long held economic consensus. This consensus asserts that rent controls have a negative impact on housing supply and, rather than helping housing access and affordability for the masses, tends to benefit a select group of incumbents at the cost of the wider polity.

While there is not the space in this Briefing to rehash all the arguments for and against rent control, for those who want to get into the weeds on the impacts of rent control on supply, this academic paper from the International Journal of Housing Policy in February 2023 considers the long-run historical evidence on the issue ([link](#)).

The negative impact on housing investment, brought about by un-consulted government intervention in the Scottish housing sector, has been highlighted in our recent report for the British Property Federation (BPF) ([link](#)). This report shows how the rent freeze/cap also effectively froze the appetite for residential investment in Scotland. This additional challenge for the Scottish residential sector comes at a time when wider economic conditions are taking a toll on BTR provision in England. The BPF has reported that, in H1 2023, there has been a 55% year-on-year fall in BTR starts south of the border ([link](#)).

More worryingly for those in the most housing need, this supply crisis is not limited to the private rental or sale sectors, but also social housing. As the Scottish Labour Party recently highlighted, the number of affordable housing approvals in Scotland in 2023 has fallen by 50% since 2020 and by 18% in the past year. Figures for Q1 2023 also show the number of social sector starts are at their lowest level since 2018 ([link](#)). Pair these figures with rapidly rising private rents and a mortgage crisis, and the warning cries from the industry have now been joined by consternation from the electorate.

This public concern is now forcing engagement with the issues at the heart of the housing sector and potentially leading to changing attitudes on issues such as rent control. The idea that, when exposed to the realities of rent control rather than an ideological or socially driven preconception, people alter their views is supported by an academic paper from 2022 ([link](#)). This paper found that when people were made aware of the empirical evidence surrounding the impact of rent control on supply and prices, participants in the study typically reduced their support for rent control. This shift reduced the gap between members of the study by around a quarter.

We also need a shift from political ideology to economic reality on this issue as part of a broader strategy to tackle the housing crisis in Scotland. The focus of housing policy needs to be 'supply, supply, supply'. Policy measures that support the supply of housing need support, whereas those that act against it, need to be shunted to the sidelines.



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Development & Deals

The Sector Persists

While the BTR sector in Scotland is facing challenging conditions, some key schemes are progressing.

Glasgow's Candleriggs Square marked its topping out, finishing the structural phase of a development first bought by Drum Property Group and Stamford Property Investment back in March 2019. The £300m mixed use City Centre regeneration scheme, forward funded by Legal & General, includes a £81.5m 3.6-acre 346 apartments development.



Another scheme progressing in Glasgow, having recently secured planning after submission in February 2022, is the Soller Group's Dundas Square development. The 359-unit scheme, north of the City Centre, will deliver a mix of studios, one- and two-bedroom apartments with amenities including roof terraces, co-working space, gym, retail unit and office space.



Dandara Living have also recently submitted plans for The Stores development in Anderston, Glasgow. The 27-storey scheme is planned to deliver 503 BTR apartments and 491 student units, with facilities including lounges, co-working facilities, a communal kitchen, a cycle store and workshop, and two fully equipped gyms. The scheme will develop a derelict site, with a mixed-use approach, and illustrates the transformative potential of BTR.



In Edinburgh, there is also progress. Having replanned for 338 units and secured £67m debt financing with Natwest, Goodstone Living and McAleer

& Rushe have broken ground on their Docksider development in Leith. With plans for the redevelopment of Ocean Terminal, the adjoining CALA residential development and newly opened tramline, on its delivery this BTR scheme will complete this corner of Leith Docks.

Also in Edinburgh, construction of PLATFORM_ and Heimstaden Bostad AB's scheme in Bonnington is well underway, with a 2024 launch date. The scheme will comprise 464 homes in total, just off the Water of Leith, and will include residents' terrace, lounge, gym and concierge.

These schemes, amongst others, show that there is continued progress within the sector despite the negative current sentiment.

Single Family Arrives

Perhaps one of the most exciting deals completed this year was the arrival of Casa by Moda in Scotland. A £41m single family Glasgow neighbourhood was purchased from CCG group. The development comprises 156 homes, which include a mix of one and two bed apartments and two-, three- and four-bedroom family homes. The development will be welcoming its first residents this year.

Rettie & Co. was excited to be involved in brokering this landmark deal on behalf of Casa by Moda and are looking forward to assisting our clients in delivering similar future deals across Scotland.



"Rettie is pleased to have successfully brokered this ground-breaking transaction on behalf of our longstanding client Casa by Moda. It is the first single family, houses for rent, residential investment deal in Scotland following on from the rent freeze and mini budget. The transaction illustrates that leading market knowledge and investment expertise can help to unlock deals even against the most challenging of political and economic conditions."

We look forward to unlocking more of these opportunities within the Central Belt of Scotland."



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Rental Market Review

Market Context

There is a reoccurring dynamic in the housing market that, when the sales market slows, the rental market can see an increased demand. This is typically because, when house prices stop rising rapidly and the cost of mortgages outstrip the cost of renting, then buyers are less motivated, or feel less pressure, to buy.

As Fig.3 chart shows, average mortgage costs are now above average rents and, with average house price forecasts turning negative this year, would-be buyers are more likely to postpone purchases and this may lead to increased pressure on the rental sector. This was the case in the wake of the Global Financial Crisis. In Scotland, in 2007/08, home ownership reached a peak of c.66% of households being owner occupiers. At the same time, around 9% of households were in the PRS. With the changes in incentives and operation of the market, by 2014, there were around 80,000 fewer households in the owner occupation tenure, reducing it to 60% of households. By contrast, over this period, the PRS increased by around 120,000.

This change in tenure dynamic was supported by the fall in interest rates, to the decade long low. This allowed the 'accidental landlord' to hold their property without distress. For First Time Buyers, slow price growth and the requirement to raise a 'sizeable deposit' kept market participation subdued.

However, that was then and this is now. Gone is the low cost freely available mortgage lending of the past 10 years and, in this time, there has been substantial reform and regulation in the PRS. These changes, coupled with current lending conditions, has meant that many rental properties are no longer viable or profitable, leading to some investors exiting the sector and to declining supply in the market (see Fig.2).

Fig.1 - Year on Year Change in Number of Households by Tenure

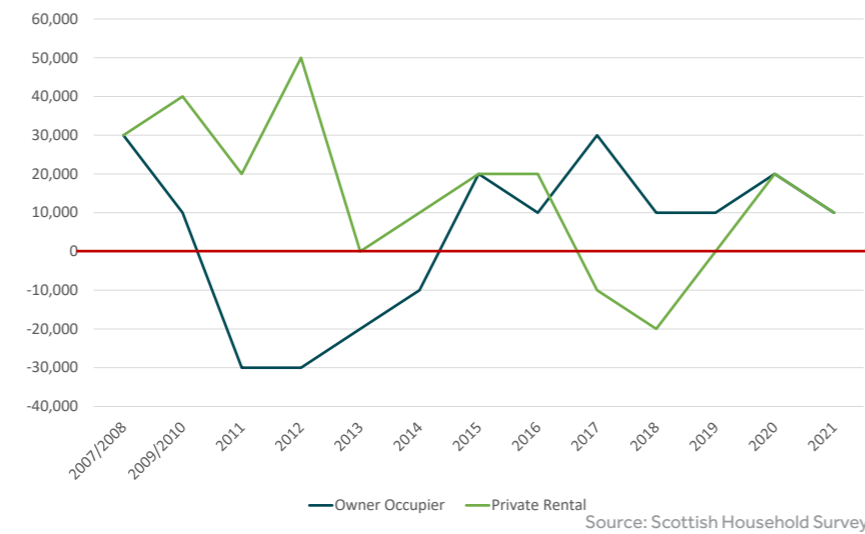


Fig.2 - 12 Month Rolling Count of New Rental Listings (Scotland)

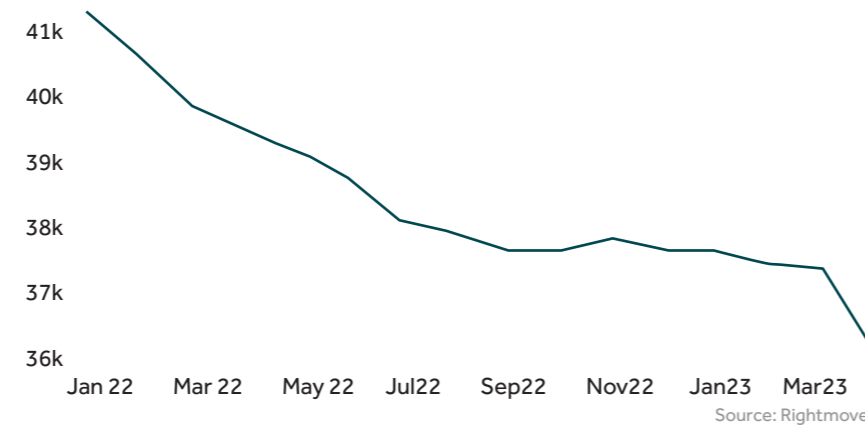
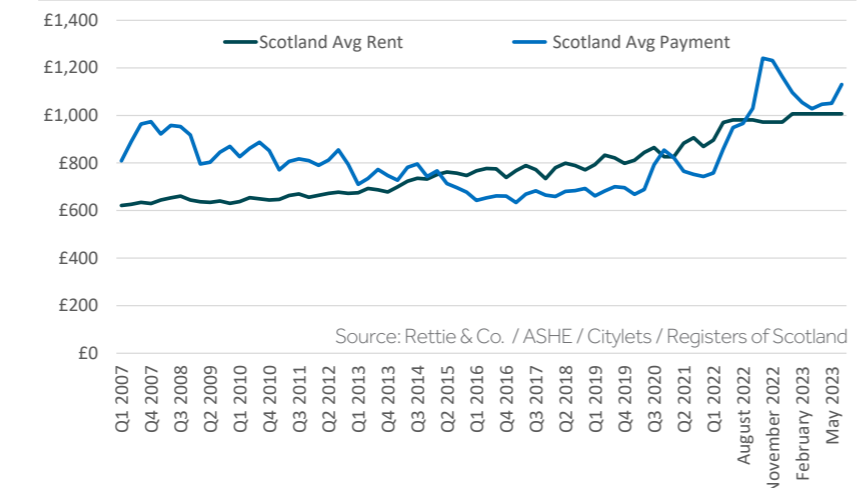


Fig.3 - Comparison of Avg Mortgage Payment vs Avg Rent



N.B. Average mortgage payment is calculated using the average house price, average loan-to-value, average loan-to-income ratio, and average rate on a 2 year fixed rate mortgage. This is then compared to the average rent, as reported by Citylets in their quarterly market review.

Opportunity

While the headline findings from the report we conducted for the BPF focused on the challenging investment conditions for institutional investors looking at Scotland, the subtext of the report was actually the strong fundamentals for investing in Scotland's major cities. The sentiment of the interviews from the report could be summarised in this hybrid quote, "We want to invest in Scotland. Edinburgh and Glasgow have excellent demographic and market fundamentals. Performance of the schemes launched to date are amongst the best in the UK... we just can't get the political risk past the investment committee."

This sentiment reflects an appetite for BTR in Scotland, but there are challenges in pricing risk. Furthermore, any comparison of BTR delivery to date in Scotland against other UK cities, shows the anaemic level of delivery. And here lies the current market opportunity, which is being recognised by investors that have more flexible attitude to risk and opportunity.

Indeed, with the UK BTR sector, a contrarian approach to market cycles was demonstrated by Grainger in the wake of the GFC. Recognising the demand for rental property and the value in the market in 2008/09, Grainger's investment in the BTR sector took advantage of challenging and changing conditions to grow their BTR business. A parallel can be drawn to today. There is clear demand, illustrated by rising rents and falling supply, and clear value to be obtained in the market, with sales price growth stalling.

Fig.4 - BTR Scheme Status by Number of Units in Scotland

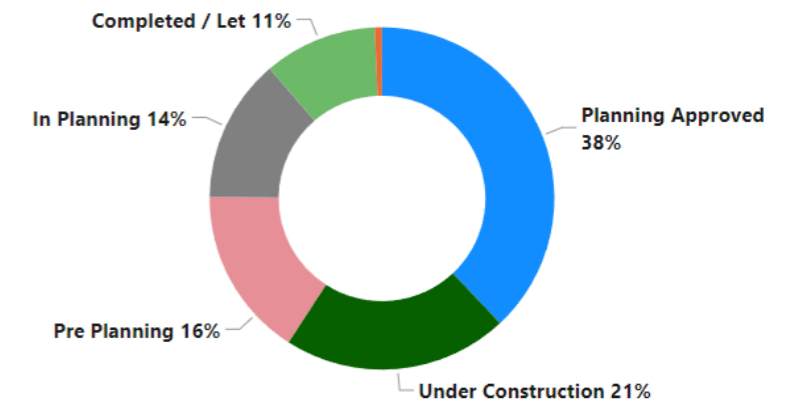


Fig.5 - Scottish Cumulative BTR Pipeline (Units)

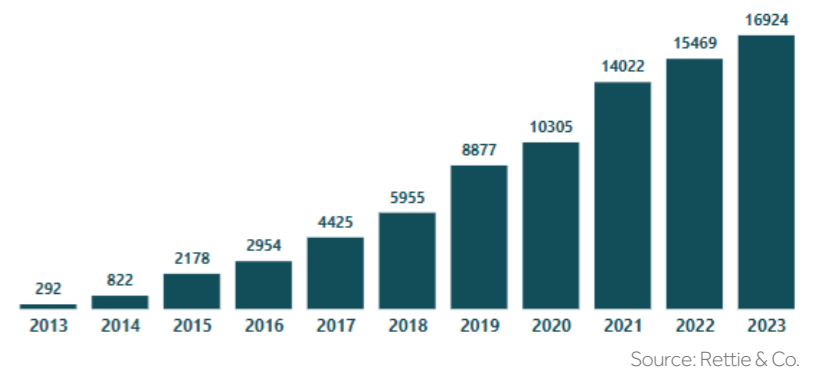
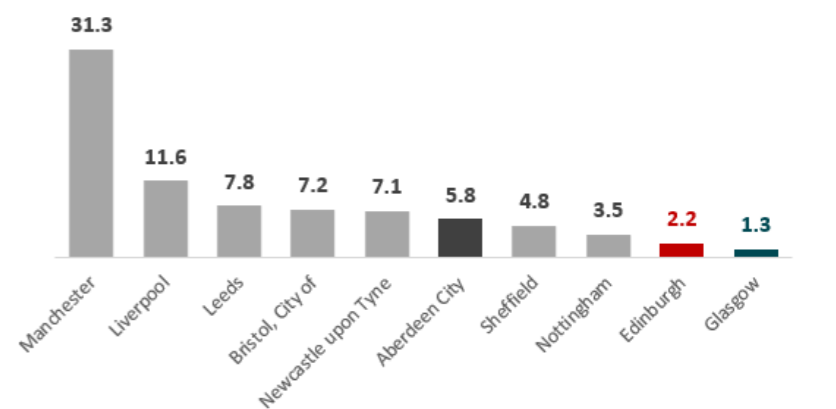


Fig.6 - Completed BTR Units as % of All Households by City



Glasgow Pipeline



City Wharf
Dandara
503 Units



Solasta
Drum
324 Units



Merchant Point
Structured House
231 Units



Merchant City
Get Living
823 Units



Glasgow Harbour
Dandara
342 Units



Portcullis House
Watkin Jones
685 Units



Casa Vista Park
CASA by Moda
156 Units



Carlton Place
Third Line Studio
110 Units



Speirs Wharf
Hoxton Securities
203 Units



Collagelands
Vastint
221 Units



Candleriggs Court
Kelvin Properties
36 Units



Central Quay
PLATFORM_
498 Units



Holland Park
MODA
433 Units



Candleriggs Square
Drum
346 Units



Beith Street
KR Development
424 Units



Mitchell Apartments
Kelvin Properties
20 Units



G3 Square
EDR Reim / Drum
112 Units



Dalian House
Calmont
92 Units



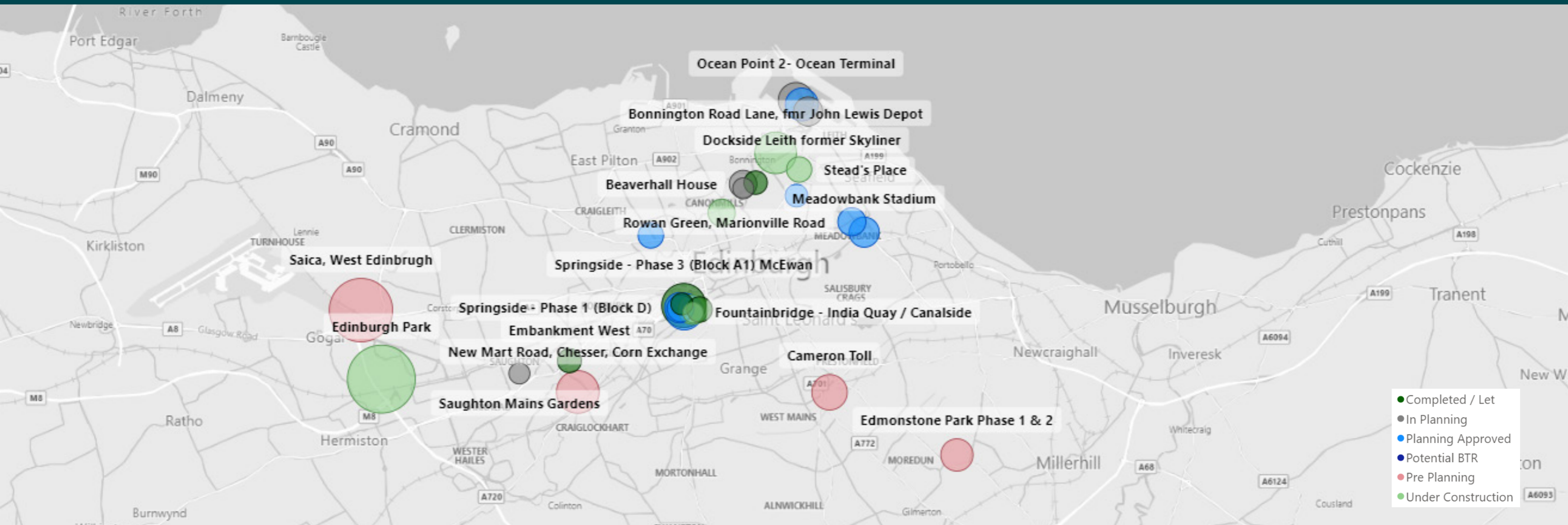
Wishart Street
Calmont
78 Units



Dixon Foundry
Craighead
356 Units



Edinburgh Pipeline



Meadowbank
City of Edinburgh
259 Units



Edinburgh Park
Parabola
905 Units



Docks Leith
Goodstone Living
253 Units



The McEwan
MODA
461 Units



Lochrin Quay
Aberdeen Standard
113 Units



Freer Street
Vastint
189 Units



Stead's Place
Drum
110 Units



Iona Street
Watkin Jones
60 Units



Embankment
Spindlehawk Ltd.
85 Units



Saughton
Manbay Homes
31 Units



Saiga
MODA
820 Units



Kingsford Residence
Kingsford
75 Units



Bonnington
PLATFORM_
464 Units



India Quay
Edinburgh Living
323 Units



New Town North
Ediston
144 Units



New Mart Road
Watkin Jones
434 Units



Beaverhall House
HUB
153 Units



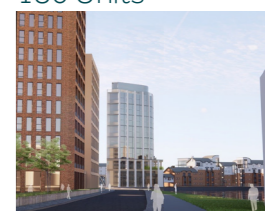
Dunedin Street
HUB
30 Units



Rowan Green
Dandara
162 Units



Rennie's Isle
VRS / Union Property
180 Units



BTR Services

Management & Operations

Our Build to Rent (BTR) team is at the heart of the private rented sector in Scotland, with almost £1bn in assets under management. We provide a comprehensive range of BTR services and have the research expertise, experience and network to make Build to Rent work north of the border.



Consultancy & Research

Our Consultancy & Research team is the largest in the Scottish Private Sector and provides a broad range of services to both private and public sector clients. Covering all parts of the Scottish residential market, the team provides clients with in-depth, reliable and up-to-date information that enables evidence-based decision making.

Land & Development

Our Land & Development team advises on land and property development projects, on residential investments and Build to Rent. We cover residential, non-residential and mixed-use development sites and advise on every stage of the project cycle, from early appraisals and funding through to site disposals.

Lettings & New Homes

In addition to our development services Rettie & Co. is a multidisciplinary Scottish property company with specialties in sales, new homes sales and lettings. This position, and market exposure, provides Rettie & Co. with a unique insight into the residential property sector in Scotland.

Structured Finance

Our Structured Finance team provides innovative funding solutions for both private and public sector developments. We are expert in all project stages including: initial financial modelling; JV/contract structuring; sourcing and securing short- or long-term funding; legal negotiations; public sector procurement; and asset management and rental.

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