



BUILD TO RENT

A light grey silhouette of the Edinburgh skyline, showing various buildings and spires, positioned at the bottom of the page.

BUILD TO RENT FORUM
EDINBURGH
OCTOBER 2018

WELCOME FROM RETTIE & CO.

Introduction by Hazel Sharp Webb

This year has continued to be an encouraging one for Build to Rent (BTR) in Scotland as the total pipeline of BTR homes has increased with the announcement of a number of new schemes. This increasing pipeline comes on the back of continued rising interest in UK Regional investment as investors to look beyond London and the South East in the search of new opportunities. Having raised their heads to look towards the horizon, there has been a growing realisation that many of the underlying fundamentals that supported the BTR boom in the south of England can be found elsewhere, but with the added advantages of less competition and lower barriers to entry.

This said, while there is growing interest, Scotland still lags the rest of the UK in terms of the volume of planned delivery. With just shy of 6,000 BTR homes, completed or in the pipeline, this represents only 1.6% of the 360,000 households in the PRS in Scotland, meaning that BTR is yet to make an impact on Scottish housing supply. This level of supply lags the 4.9% of BTR households in the UK's PRS, and the almost 8% of BTR homes that make up London's PRS. If BTR in Scotland is going to contribute materially to the housing shortage, then there has to be much more effective collaboration across the

public and private sectors. To put this in context, if BTR in Scotland provided the same level of stock as down south then the Scottish pipeline would be nearer 12,000 homes, or at London rates over 28,000 homes.

To achieve this, there needs to be a few clear changes in approach. First, the recognition of BTR in the planning system would provide a framework to deliver suitable and viable volumes of housing to the market. The rise and abundance of purpose-built student accommodation (PBSA) points to the ability to deliver homes quickly if design, incentivisation and planning is tasked and tooled with meeting demand.

Secondly, while the first flushes of prime BTR delivery are progressing on the first sites in Scotland, true volume delivery will have to see BTR branch out in terms of demographics and affordability. In more mature markets, the initial first phase of prime delivery is inevitably followed by a wider affordable offering. Learning this lesson would put Scotland's nascent BTR sector ahead of the curve in getting up to speed and providing homes. The demand for rental product across affordability tiers has been clearly demonstrated by the overwhelming demand

experienced at Mid-Market Rent developments, which are effectively offering an affordable BTR product.

Overall, while there is much to be excited about, most participants active in the BTR sector recognise that there is still much untapped capacity which needs to be enabled through collaboration between the private and public sectors, cross-party agreement on housing strategy, and also collaboration within the BTR sector itself if the true potential of the sector to meet housing demand is to be fulfilled.

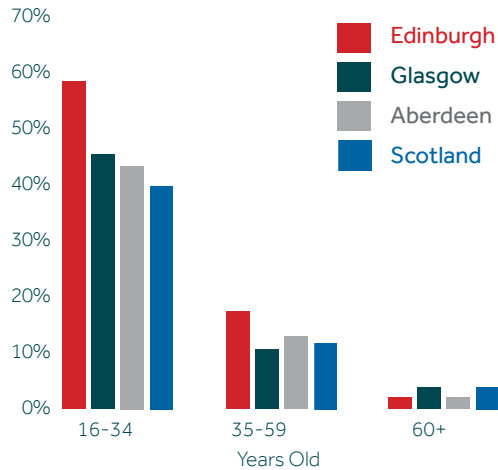


Hazel Sharp Webb
Head of PRS & BTR Services
hazel.sharpwebb@rettie.co.uk

BTR DEMAND DRIVERS

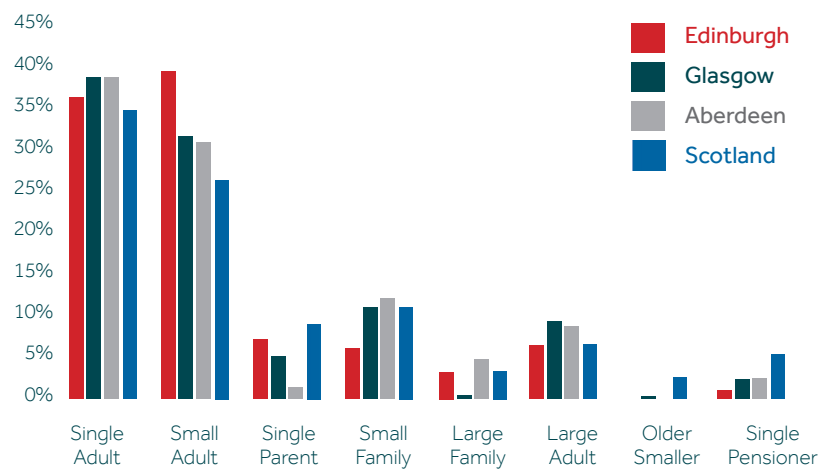
Young households concentrate in the PRS

PRS % Tenure by Age



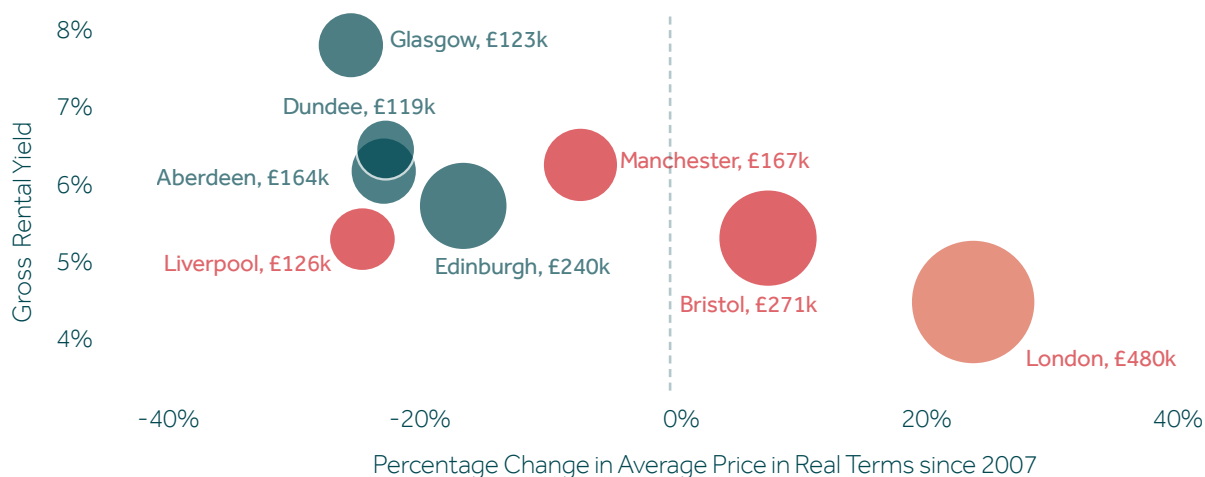
PRS Households are usually single or small adult

PRS % Tenure by Household



Scottish cities show potential for future market growth based on other cities and previous market performance

Investment Comparison - Comparison of Gross Yields & Change in Average House Price since the market peak in Real Terms



Scottish cities have positive investment fundamentals allowing for future growth

Investment Indicators

	London	Manchester	Liverpool	Edinburgh	Glasgow	Aberdeen	
House Prices	Average Price Nominal % change from 2007 peak prices	£480,146 64%	£167,474 23%	£126,703 0%	£240,146 10%	£123,651 -2%	£164,778 2%
Population	Projected growth 2016 to 2041	18%	17%	14%	15%	7%	6%
Rents	Average Rents PRS Tenure (% 2015/16) Avg Gross Rental Yields	£1,605 27% 4.0%	£801 28% 5.7%	£506 19% 4.8%	£1,048 26% 5.2%	£748 19% 7.3%	£774 20% 5.0%
Employment	In Employment Average Weekly Earnings NVQ4+ Education Level	73.3% £653 58%	67.5% £468 39%	67.1% £497 35%	75.7% £560 59%	66.0% £524 44%	76.1% £554 53%

Sources: Land Registry / Registers of Scotland / VOA / Citylets / Bank of England / Census / NOMIS

MAKING BTR WORK

Design



Sandy Morrison

Partner
HTA Design

"We need to combine Build-to-Rent's capacity for large scale delivery with the design lessons learned by pioneering developers in Aberdeen, Edinburgh, Dundee and Glasgow.

This could be the real opportunity for Build to Rent in Scotland in the next few years. It can tackle the housing crisis by delivering much needed stock quickly, and it can tackle some of our urban issues by leaving a legacy of high quality urban place."

Delivery



Tony Brooks

Director
Moda

"Moda loves Scotland and the city vibes are fantastic. We are sure our schemes will fly once they are delivered, but getting them off the ground has been tough and costly, and it should not have to be like that. After all, these schemes will bring a massive boost to the local economies in terms of construction, council tax and local spending.

Quality BTR will be a great contribution to cities and should be encouraged by government and the councils. We will be looking to do more schemes in Glasgow and Edinburgh and other Scottish cities in due course, on the basis that the first one is always the hardest and, once we have proven our concept, things should get a little easier."

Demand



Dr John Boyle

Director, Research and Strategy
Rettie & Co.

"What has been holding Scotland back is political uncertainty as well as some angst about legislative change around the new Scottish Private Residential Tenancy.

However, we are now seeing these concerns dissipating somewhat (they are still very much there), and the successful launching of a number of pipeline schemes should see these concerns dissipate further. The experience of Scotland's first BTR scheme at Forbes Place shows that such schemes can be successful here. "

STRENGTHS

MARKET DEMAND

- Growing, reurbanising population.
- Generational tenure shift.
- Rising wages in the cities.
- Undersupply of new housing across all tenures.
- Rising single occupancy housing.
- Lifestyle aspirations & sharing economy of the millennial generation.
- Absorption rates not dependant on mortgage lending.

AFFORDABILITY DRIVERS

- Capital requirements to access mortgages.
- Rising earnings in main Scottish cities.

INVESTMENT OPPORTUNITY

- Demand for long term income streams.
- Speed & scale of BTR delivery.
- Urban brownfield potential for BTR.

STABILISED REGIME

- Certainty around legal & regulatory regime.

OPPORTUNITIES

EMERGING SECTOR

- BTR is less established in Scotland.
- The tenure is still new to consumers with limited options available in the market.
- Investment competition is lower in Scotland.
- Current supply is only focused on apartment living providing opportunity to diversify product.

LONG-TERM PROPOSITION

- The long term investment in design and the built environment can drive values.

INVESTMENT & GOVERNMENT SUPPORT

- RIGS and ADS exemption encourage investment.

MMR & AFFORDABLE

- Lower voids and secondary locations potentially viable with discounted rent model.
- BTR / MMR potential to deliver affordable housing.

PREMIUMS & ADDITIONAL INCOME

- Prime rental undersupply.
- Upselling of services & amenities such as car clubs, onsite facility rent, pet ownership, etc.

WEAKNESSES

INVESTMENT CONTEXT

- Scotland is not as established an investment location for many large international funds.
 - New Scottish Private Residential Tenancy still being bedded in.
 - Rent Pressure Zones are under consideration, although practicality of application may be challenging.

FINANCING BUILD TO RENT

- Issues such as track record of developers, debt market capacity, risk exposure & scale of schemes create increased comparative complexity to finance BTR.



THREATS

POLITICS

- Brexit and IndyRef2 still influence some investment decisions, particularly in an international context.

PLANNING & DESIGN

- Planning & space standards will need to be more clearly defined to allow for transparent investment.
- Opposition to urban prime flatted development is still active in some areas.
 - Competition from other tenures due to preferential planning status, e.g. student housing.

BTR SUPPLY & PIPELINE

3,146

GLASGOW

1,198

EDINBURGH

920

ABERDEEN

228

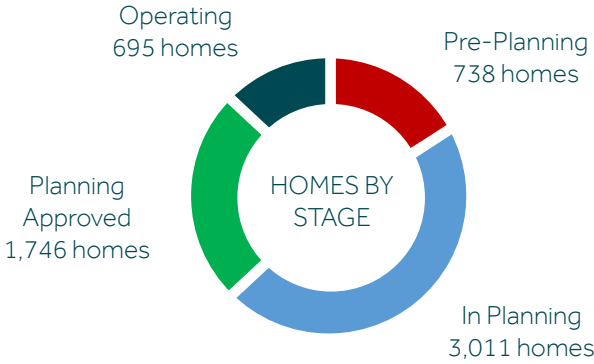
DUNDEE

GLASGOW (3,146 homes)

HOLLAND PARK	- MODA
CANDLERIGGS	- INHABIT
MERCHANT CITY	- GET LIVING
CENTRAL QUAY	- PLATFORM_
MERCHANT POINT	- STRUCTURED HOUSE
CITY WHARF	- DANDARA
GLASGOW HARBOUR	- DANDARA



SCOTLAND BTR BY STAGE



ABERDEEN (920 homes)

- STONEYWOOD
- BROADFORD
- DANDARA
- INHABIT



DUNDEE (228 homes)

- VOX DUNDEE
- STUDIO DUNDEE
- WHITEBURN PROJECTS
- OUR ENTERPRISE



EDINBURGH (1,198 homes)

- FOUNTAINBRIDGE
- INDIA QUAY
- LOCHRIN QUAY
- BROUGHTON HIGH
- MODA
- CEC
- ABERDEEN STANDARD
- KINGSFORD

MID MARKET RENT

MMR Demand by Sharon Ross

Rettie & Co. have a long history of property letting and management in Edinburgh but few people realise that this includes the management of Mid Market Rent assets. This is a particularly important and emerging sector of the market as an offer of a MMR property, particularly on the National Housing Trust (NHT) model of a possible future purchase option, can change the life prospects of some applicants.

As the criteria are aimed directly at mid to low income applicants who would find it difficult to secure a property to rent in the social housing sector and would not progress on a Local Authority housing list, many applicants are trapped in the PRS market where high rents take such a large portion of their disposable income that saving to purchase is impossible. Mid Market Rent offers a viable alternative as the tenure is secure and the quality of the accommodation is high. Turnover of residents at the developments is very low, around 0.3% and arrear rates running at less than 0.5%, this is most likely due to good resident selection and excellent customer care

which Rettie & Co. believe is the key to the future of this type of development. Residents should feel part of the community and invested in the property they rent.

The recent Harbour Gateway 138 property development has attracted many, many more applicants than available properties which demonstrates the overwhelming demand for high quality, secure and most importantly, affordable rented property where residents can settle and live for the long term.

The ratio of 27 applicants to every property reveals the attractiveness of Harbour Gateway to the market. With 1 bed rents of £501, 2 beds rents of £608 and 3 beds rents of £803, for a brand-new apartment in Edinburgh's Western Harbour, the value on offer is compelling. In addition to the value on offer, there are a number of other benefits that Harbour Gateway offers residents. The fully managed block benefits from 24 hr helpline and an online residents' portal to make payments, access tenancy information and report repairs. Rents tied to the Consumer Price Index (CPI) gives tenants security

over costs going forward. Also, for the over 90% of applicants who said the opportunity to buy in future was an important consideration, under the NHT model, residents will be given priority to purchase when the homes come to the market between 2023 and 2028. This is supported by a residents' saving scheme which will entitle them to a 2% developer contribution and additional government support.

With many of the benefits of BTR, but at an affordable rental level leading to low voids and over subscription, it is little wonder that MMR is proving so attractive to residents and investors alike.



Sharon Ross
MMR Portfolio Manager
sharon.ross@rettie.co.uk

Harbour Gateway

www.harbour-gateway.co.uk

Mid Market Rent offers an alternative version of the Build to Rent concept, delivering rental accommodation at an affordable level to residents within a capped earnings bracket.

Harbour Gateway, is the second MMR development delivered at Edinburgh's Western Harbour, following on from the massively oversubscribed Harbour Point. In this application process, over 3,700+ applicants applied for the 138 homes. As was the case with Harbour Point, demand overwhelmingly came from employed professionals in the PRS, who were being driven by affordability and proximity to family and work.

With 80% of applicants seeking a lease duration of more than 3 years and 90% in full time employment, the MMR tenure has the potential to deliver a low void rental environment without higher amenity and management costs associated with delivering a prime BTR product.

In addition, schemes, such as Harbour Point and now Harbour Gateway, show the potential to deliver affordable BTR into secondary locations within a city if the value proposition being offered to residents is well considered, the buildings appropriately specified, and the overall lifestyle and value offering is compelling to customers.

138
MMR Homes

+3,700
Applicants

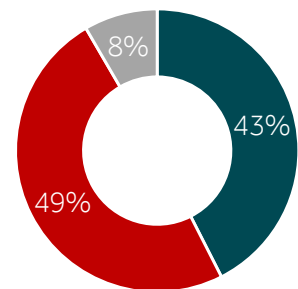
90% in FT Employment

Average Age of 32 Years

Applicant Income Distribution

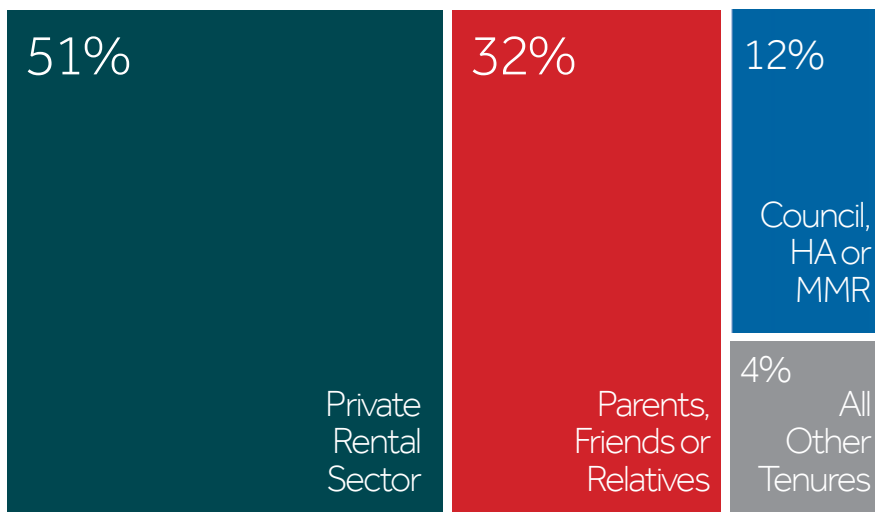


Preferred Apartment Size



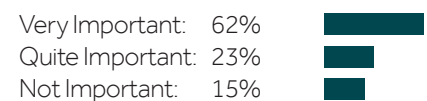
1 Bed / 2 Bed / 3 Bed

Tenure of Applicants

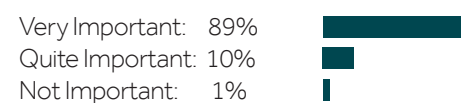


Motivating Factors

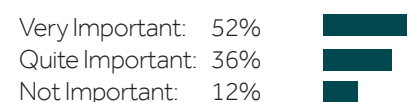
Setting Up Home for the First Time



Rental Affordability



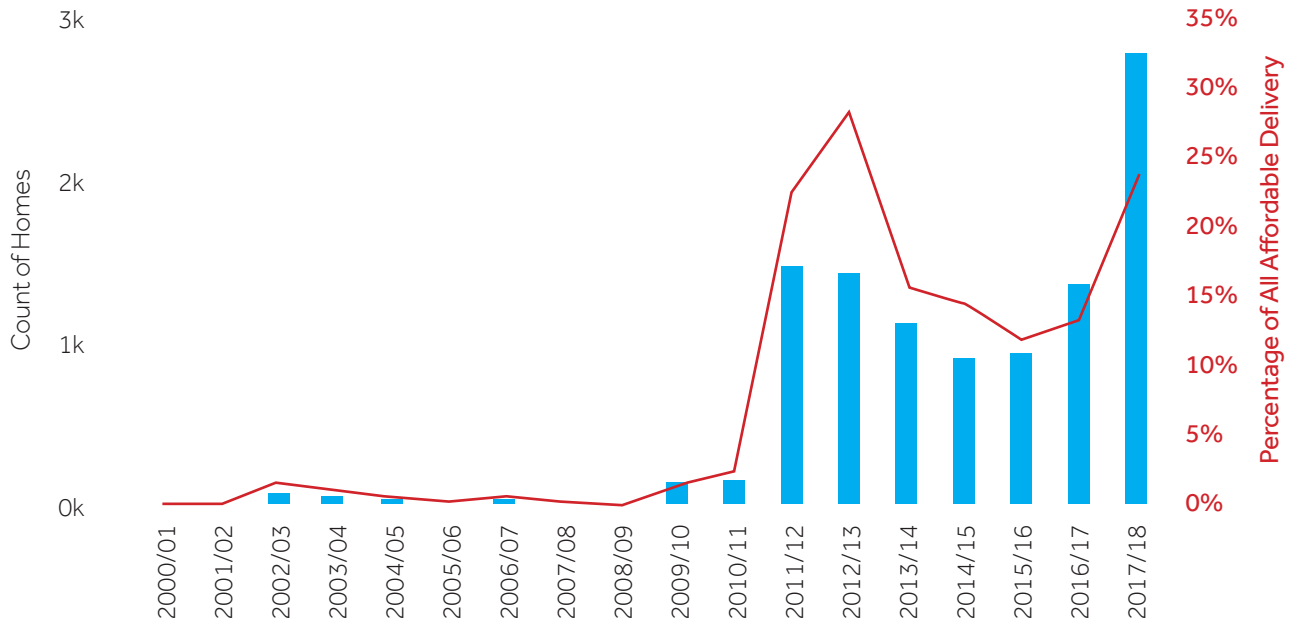
Proximity to Work



MMR ON THE RISE

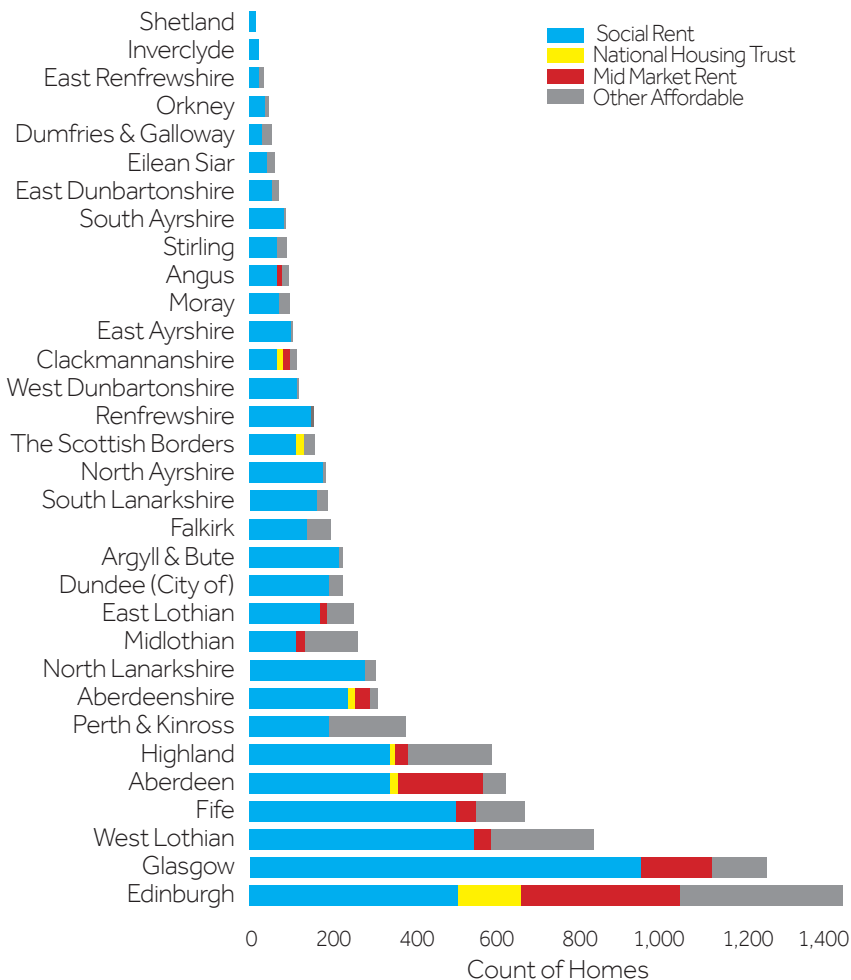
Affordable Rent is now a mainstream tenure in Scotland

Affordable Rent : Count of approvals by year and proportion of all affordable delivery



Edinburgh has led the way in MMR delivery

Social starts by type and Local Authority 2016/17



The delivery of affordable housing varies widely across Scotland, with different council areas approaching the much needed delivery of affordable stock through a variety of mechanisms. Unsurprisingly, the highest concentration of affordable homes are being delivered in the main population centres, with Edinburgh leading the way with over 1,400 homes started in 2016/17. Notably, the use of the National Housing Trust (NHT) and Mid Market Rent (MMR) has contributed over 1/3rd of affordable housing starts in 2016/17. This is also the case in the likes of Aberdeen, which has also utilised NHT & MMR to deliver over 1/3rd of their affordable housing. Conversely, only 14% of Glasgow's affordable housing starts are MMR, with a far higher concentration (72%) being delivered through traditional RSL or Council Housing methods. As a ratio of new affordable housing units per 1,000 households, West Lothian comes out top, starting over 800 affordable homes against its existing 77,000 households, delivering a ratio of almost 11 per 1,000 households compared to 6.2 in Edinburgh (4th), 5.8 in Aberdeen (5th) and 4.3 in Glasgow (12th).

PfP Capital announced a new fund in partnership with the Scottish Government to invest in Mid-Market Rent (MMR) properties throughout Scotland.

PfP Capital is targeting a total fund size of £150 million which will be comprised of a £47.5 million investment from the Scottish Government and an initial £10 million capital commitment from Castle Rock Edinvar is intended. The fund is expected to benefit from index-linked returns derived from the rental income and will target institutional and pension fund investors, with a focus on Local Government Pension Schemes ("LGPS"). The fund will source sites for, and develop and operate, around 1,000

MMR homes across Scotland providing affordable housing to people on low and modest incomes. The investment from the Scottish Government is a significant commitment to implement its plans to deliver 50,000 affordable homes by 2021. PfP Capital has appointed Noble & Co as financial adviser and placement agent on the launch of the Fund, with Rettie & Co. appointed as property adviser to identify suitable mid-market rent investment opportunities.

To learn more contact



Jamie Macfarlane
Associate, Structured Finance
0131 202 0055
jamie.macfarlane@rettie.co.uk

PfP Capital: Chris Jones, Managing Director

"This investment will allow us to operate a strategy delivering a significant number of affordable homes to people across Scotland and we are delighted to work with the Scottish Government on this exciting initiative. This fund will also provide a great opportunity for institutional investors to fund the next generation of Scotland's affordable homes and secure stable, inflation-linked returns.

PfP Capital are delighted to be working with Rettie & Co. The firm's extensive development experience, exceptional research base and track record in organising the funding and delivery of mid-market rent homes in Scotland over the last 5 years, makes them a natural fit as advisor to PfP Capital's mid-rent fund."



Chris Jones
Managing Director
PfP Capital

Potential Site Selection Criteria & Opportunity

- Property located throughout Scotland
- Units in planning with development teams ready to start
- Units under development
- Completed developments
- Property to be private units with no affordable Section 75 obligations
- Units to be able to be handed over to the fund before the end of 2021
- Developments to meet the set investment criteria
- Forward fund development
- Commit to fund or acquire units swiftly
- Review the potential of land with planning permission, with a view to sourcing development partners.
- Acquire or fund part of a larger development.

Rettie & Co. Build to Rent Services



COLLABORATION

- Best Supporting Organisation 2018 – HFS Awards.
- CIH Award Finalist – Excellence in the Private Sector.
- Complementing in-house teams.
- Working with you – no rigid formulaic approach.
- White-labelling as required.



VIABILITY

- Rental, yield and return analysis.
- Rental growth and tenancy duration forecasting.
- Forecasting operating budget, lifecycle costs and gross-to-net leakage.
- Detailed socio-demographic analysis of target consumers.
- Analysis of competing supply pipeline both in traditional and purpose built BTR.



FUNDING

- Winner of Saltire Award for Financial Innovation.
- Our team has a successful track record in structured finance in the Scottish market, with over 654 BTR homes developed on behalf of clients.



SITE ACQUISITION

- Site sourcing / acquisition.
- Land values.
- Granular market knowledge.
- We have the expertise and market knowledge to identify and secure sites appropriate for BTR product.



DESIGN & LAYOUT

- Development of the design brief with a clear focus on the end-user.
- Advice on the specification of the amenities the project should offer (eg. games rooms, gyms, co-working spaces etc).



LEASE UP

- Brand development and marketing.
- Dynamic pricing to maximise initial revenue.
- Applicant vetting, referencing and tenant selection.
- Strategic marketing to target suitable residents.
- Ongoing demographic profiling and reporting.
- Ongoing competitor benchmarking.
- RICS accredited and regulated.



MANAGEMENT

- Holistic management of individual units, amenity space and communal parts.
- Recruitment, training and management of on-site staff.
- Resident satisfaction measurement and reporting.
- Reputational risk management.
- Health and Safety compliance management.
- Detailed revenue accounting and credit control.



ASSET OPTIMISATION

- Insurance management.
- Cyclical maintenance planning.
- Capital investment forecasting.
- Modelling and reporting of lifecycle costs.



EXIT STRATEGY

- Market assessment.
- Viability assessment and scenario modelling.
- Private client access.
- Yield analysis.
- Sale/acquisition.

Build to Rent Team



Hazel Sharp Webb
Head of PRS & BTR Services
01414 223 7883
hazel.sharpwebb@rettie.co.uk



Matthew Benson
Director Development Services
0131 624 9031
matthew.benson@rettie.co.uk



Karen Turner
Director of Lettings
0131 624 9065
karen.turner@rettie.co.uk



Dr John Boyle
Director Research & Strategy
0131 624 4073
john.boyle@rettie.co.uk



Nick Watson
Director New Homes
0131 624 9042
nick.watson@rettie.co.uk



Andrew Meehan
Associate Director Research
0131 624 9051
andrew.meehan@rettie.co.uk



Jamie MacFarlane
Associate Structured Finance
0131 202 0055
jamie.macfarlane@rettie.co.uk



Sharon Ross
Portfolio Manager
0131 622 4160
sharon.ross@rettie.co.uk



Pedrom Aghabala
Asset Manager
0131 624 4160
pedrom.aghabala@rettie.co.uk



Kenneth Reid
Associate
0131 624 9068
kenneth.reid@rettie.co.uk