



Build to Rent in Scotland

Market Review 2018



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FIND OUT MORE

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Introduction by Hazel Sharp Webb

As highlighted in our first review this time last year, it is encouraging to see growing investor interest in Scotland’s Build to Rent (BTR) sector, with a growing pipeline of BTR homes. This now stands at around 4,000 homes, but I cannot help being somewhat disappointed that we are still not ‘punching our weight’, let alone punching above it. (The BPF’s latest figures suggest that there are over 90,000 homes in the pipeline south of the border). This is despite strong economic drivers, a stable legislative and regulatory environment, and Scottish Government being intent on encouraging and growing the sector.

That said, I am confident that interest from investors is accelerating and that the scepticism from local authorities is waning. Their understanding of the variants of the BTR product, and the positive contribution it can make to their local economy, is becoming clearer. I also think the sector itself has helped dispel the myth that the BTR product is just a “premium rental product for yuppies”, since not all schemes in the pipeline are targeted at the premium end of the spectrum.

The abundance of purpose built student accommodation (PBSA), particularly in Glasgow, will see others follow Structured House and seek changes to existing planning consents. Some of these sites may well be viable for BTR. I am also confident that we will see even more schemes coming forward at more affordable rent levels, with amenities appropriate to the target resident profile. There is also significant latent demand for mid-market rental (MMR) accommodation close to city centres, particularly from key workers.

Most, if not all, schemes in the pipeline currently are focused on city centre apartment living, but I would like to see more consideration given to retirement living (as part of wider mixed communities), family housing in commuter belts, and even co-living products. Scotland, like the rest of the UK, needs product variation to meet different housing needs. After all, not everyone wants to live in a two-bed apartment in a city centre.

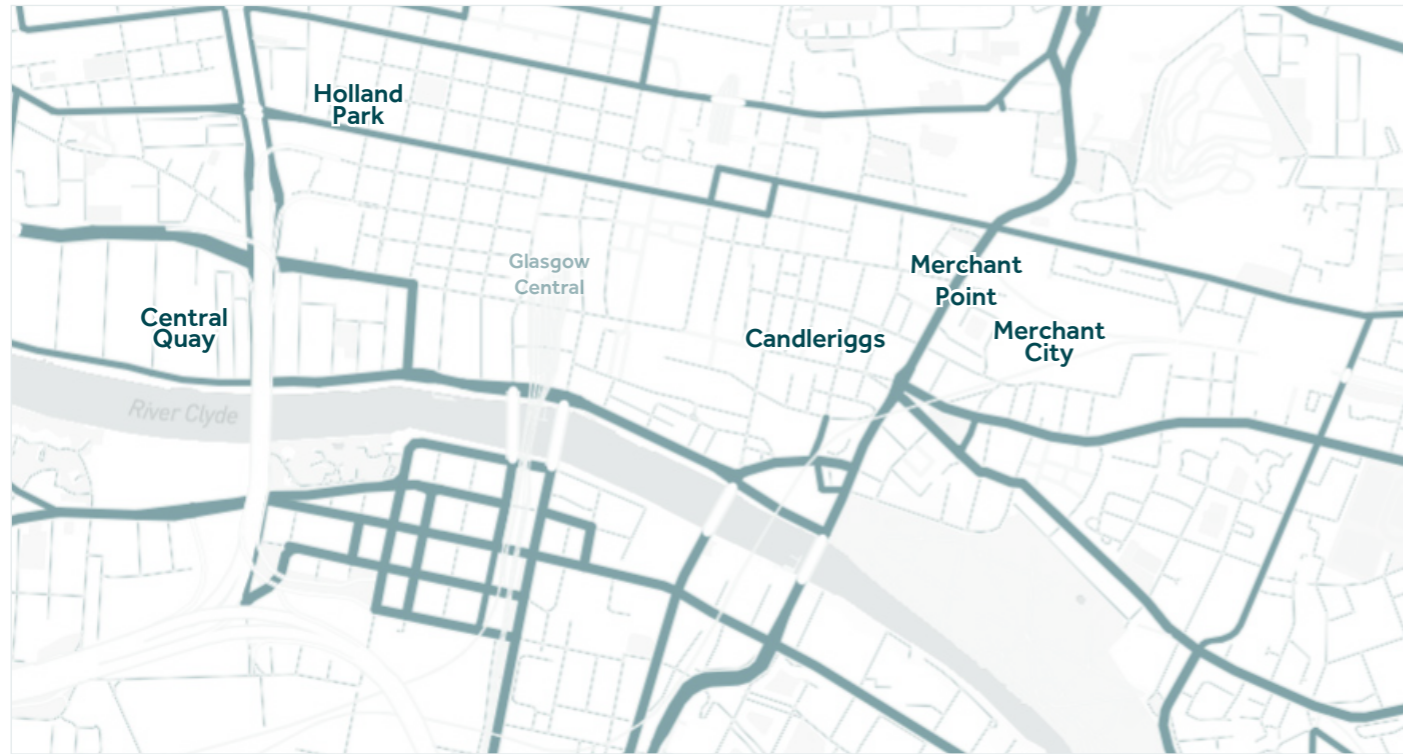
For me, the necessary element of delivering a high quality BTR product in Scotland, is collaboration. Collaboration between the private and public sectors, cross-party agreement on housing strategy and, last but not least, collaboration within the BTR sector itself. Acknowledging respective strengths and bringing these together, must surely deliver a better outcome.



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Build to Rent Pipeline - Key Scottish Schemes



Central Quay
Glasgow

Holland Park
Glasgow

Candleriggs
Glasgow

Merchant City
Glasgow

Merchant Point
Glasgow

Fountainbridge
Edinburgh

India Quay
Edinburgh

Vox Dundee
Dundee

Studio Dundee
Dundee

PLATFORM_ 400 BTR Homes

Moda / Apache 400+ BTR Homes

Inhabit 300+ BTR Homes

Get Living 600 BTR Homes

Structured House TBC BTR Homes

Moda / Apache 500+ BTR Homes

EDI Group 400+ BTR Homes

Whiteburn Projects Ltd. 111 BTR Homes

Our Enterprise 113 BTR Homes

PLATFORM_ are looking to build on their 580-unit UK portfolio with this 2-acre £100m GDV scheme, which will deliver apartments overlooking the River Clyde and developed around a central courtyard. Amenity in the development will include a concierge and gym.

This landmark 16-storey development will deliver 435 prime rental apartments into Glasgow revitalising the city centre. The scheme will include a roof-top terrace, resident's lounge, concierge, and cafes, bars and health facilities.

This mixed use development will see a combination of hotel, student, for sale and BTR apartments delivered alongside retail on the ground floor. This site is a significant location within the city centre, which should see it target the prime market.

This 7.5 acre site has the potential to deliver the most BTR homes in a single scheme in Scotland. The scale of the development, location and Get Living's track record of delivering volume sites across the UK have the potential to create a new residential destination.

Formerly planned for student housing, the Merchant Point scheme has gone back to planning to deliver a mix of BTR homes, office space and retail space. The current site extends to 1.1 acres with current plans proposing 14 stories.

The first BTR scheme of volume within Edinburgh will deliver over 500 homes in the Fountainbridge redevelopment. A location near Edinburgh's Business Quarter and MODA's expertise look set to create a new prime location in the city.

A core element of the Fountainbridge redevelopment masterplan, and neighbouring the proposed MODA development. India Quay has the potential to deliver over 400 homes in a central canalside location.

Vox Dundee sees the conversion of a 1970s office block into 111 BTR homes. The scheme is set to retain character features to deliver a dynamic live, work and play location to the north of the city centre, with views over the city.

Part of the Dundee Waterfront redevelopment, Studio Dundee is targeting the creative and entrepreneurial class, within the city with working space and studios alongside recreational and communal space.



Build to Rent Supply

The Build to Rent sector had been slow to develop in the Scottish market, with much excitement and discussion but limited delivery. This trend saw a shift in late 2017 as a number of schemes progressed through planning to secure a BTR pipeline within Scotland.

After the high profile announcement by MODA of their scheme at Fountainbridge in Edinburgh, followed by their Holland Park development in Glasgow, further activity began to crystallise, mainly focused in the West.

In Glasgow, the historic lack of residential occupation in the city centre has been recognised in council policy, with the aim to encourage the re-occupation of the city centre. Recognising the undervaluing of the

city centre for residential, a number of large-scale sites are now set for residential BTR development. Beyond MODA, at the former Pitt Street Police Headquarters, PLATFORM_ are progressing their 400-unit scheme at Central Quay, while the Merchant City is set for approaching 1,000 homes between Inhabit's Candleriggs redevelopment and Get Living's arrival in the Glasgow market at the former Blackfriars Car Park to the east of the Merchant City. These developments bring Glasgow's BTR pipeline (with planning permission) to almost 1,800 homes over 4 sites.

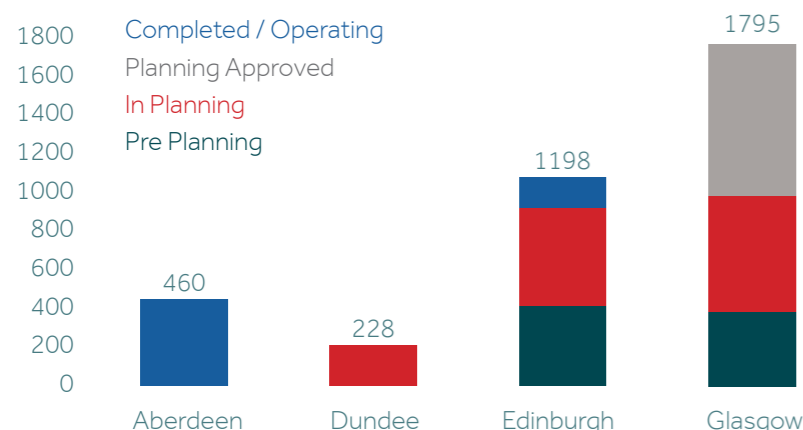
In Edinburgh, the £27.5m purchase of the 133 Lochrin Quay asset by Aberdeen Standard Investment highlights investor interest in the capital. The main pipeline

is focused on the Fountainbridge developments, which will act as an anchor for the regeneration of the area.

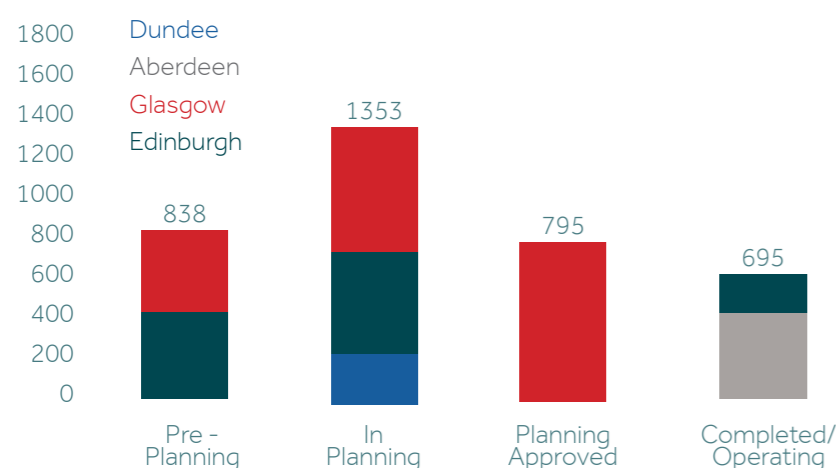
In Aberdeen, the appetite for BTR seems to have waned due to the city's economic situation, with the Broadford Works scheme largely retreating to more traditional tenures from its initial plans for BTR, although a number of BTR homes are still anticipated.

Dundee continues to market itself as one of the more progressive locations in the UK, bolstered by the regeneration of its waterfront with two eye-catching developments that embrace the creative and entrepreneurial classes within the city. This supports a live, work and play philosophy with creative studio and lifestyle amenities.

Pipeline of BTR Homes by City



Pipeline of BTR Homes by Stage



BTR PIPELINE BY CITY

1795
GLASGOW

1198
EDINBURGH

228
DUNDEE

Drivers of Demand

The Scottish market has seen strong rental growth and house price growth, at a time when indicators down south, especially in London, have been on the slide. This counter-cyclical trend has drawn investment interest north of the border. There are a number of compelling investment drivers that underpin the current Scottish market.

Demand

A key driver of the urban Scottish property market is the rising demand from population growth and reurbanisation, trends that are even more pronounced when considering the younger demographic profile of the major Scottish cities. With the rental tenure of this younger professional cohort at almost 70%, housing demand in the private rental sector in Scotland's cities is at an all-time high and set to increase further.

Supply

Against this backdrop of demand has been a systemic undersupply of new housing across all tenures in Scotland, and especially in the major cities. Historically, low building rates have meant that, while demand has been rising, there has been a backlog of undersupply, supporting rising rents and competition among renters and investors. Competition from

student housing providers for sites with preferential planning advantages has contributed to this undersupply of sites coming to the market for BTR development. This has been particularly acute in Glasgow, where the student accommodation market now appears saturated in parts of the city. In the wider rental tenure, the ongoing popularity of Airbnb, especially in the Capital, has further diminished supply in traditionally popular rental locations in the City Centre and Southside.

Political (un)certainty

As BTR was emerging in the likes of Manchester and Liverpool, the Scottish market had a cloud looming on the investment horizon, namely the Scottish Independence Referendum. The uncertainty surrounding the future of Scotland made many investors hesitant to consider looking north of The Dales. However, the combination of the SNP losing seats in last June's General Election, essentially removing IndyRef 2 from the immediate conversation, combined with Brexit now adding wider uncertainty to the whole of the UK, the Scottish context is no longer any more daunting than elsewhere in the UK. This is encouraging investors back into what appeared a nascent and under-exploited market.

Nascent Market

The underdeveloped nature of the Scottish market has meant that competition and capital requirements have been highly favourable when compared to alternatives in London or English regional centres. This attitude was exemplified by MODA's entrance into the Scottish market, securing two central sites in Edinburgh and Glasgow. The early lack of competition in the Scottish market offers exciting opportunities for developers compared to more established markets elsewhere in the UK.

Market Growth & Outlook

Looking forward, the demographic fundamentals of Scotland's major cities, along with their economic outlook, from Dundee's emerging creative and entrepreneurial design culture through to Edinburgh's economic hub, promises strong ongoing potential for investors looking to diversify their geographic coverage and take advantage of an emerging market underpinned by growing demand and systemic undersupply.

Investment Indicators

	London	Manchester	Liverpool	Edinburgh	Glasgow	Aberdeen	
House Prices	Average Price Nominal % change from 2007 peak prices	£471,944 58%	£169,598 21%	£134,245 3%	£261,192 16%	£154,981 19%	£191,692 14%
Population	Forecast growth 2016 to 2041 % 16 - 34 years old	18% 30.0%	18% 39.5%	16% 33.1%	27% 32.6%	18% 32.9%	18% 33.1%
Rents	Average Rents PRS Tenure (% 2015/16) Avg Gross Rental Yields	£1,685 27% 4.3%	£779 28% 5.5%	£503 19% 4.5%	£1,062 26% 4.9%	£749 19% 5.8%	£736 20% 4.6%
Employment	In Employment Avg. 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%

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

Scottish Cities Rental Statistics

Scotland

Average Rent: £780pcm
Avg. House Price: £175k
Average Yield: 5.4%
PRS % All H'holds: 15%

Inverness

Average Rent: £676 pcm
Avg. House Price: £175k
Average Yield: 4.6%
PRS % All H'holds: 16%

Aberdeen

Average Rent: £736 pcm
Avg. House Price: £191k
Average Yield: 4.6%
PRS % All H'holds: 20%

Dundee

Average Rent: £614 pcm
Avg. House Price: £122k
Average Yield: 6.0%
PRS % All H'holds: 22%

Perth

Average Rent: £495 pcm
Avg. House Price: £128k
Average Yield: 4.6%
PRS % All H'holds: 16%

Edinburgh

Average Rent: £1,062 pcm
Avg. House Price: £261k
Average Yield: 4.9%
PRS % All H'holds: 26%

Stirling

Average Rent: £663pcm
Avg. House Price: £187k
Average Yield: 4.2%
PRS % All H'holds: 16%

Glasgow

Average Rent: £749 pcm
Avg. House Price: £154k
Average Yield: 5.8%
PRS % All H'holds: 19%

Rental Market Overview

The Scottish rental market has seen strong growth over the past 3 years as changes to mortgage lending, rising wages and low levels of new housing supply have met with rising population and earnings growth to fuel the rental market in Scotland's cities.

Edinburgh has shown the strongest rental growth in recent years, with a compound annual growth rate of 7.9% between Q1 2015 and Q1 2018. This was highest for 1-bed apartments, which have had a 9.3% CAGR over this time. The displacement of professionals from city centre locations has contributed to this price inflation

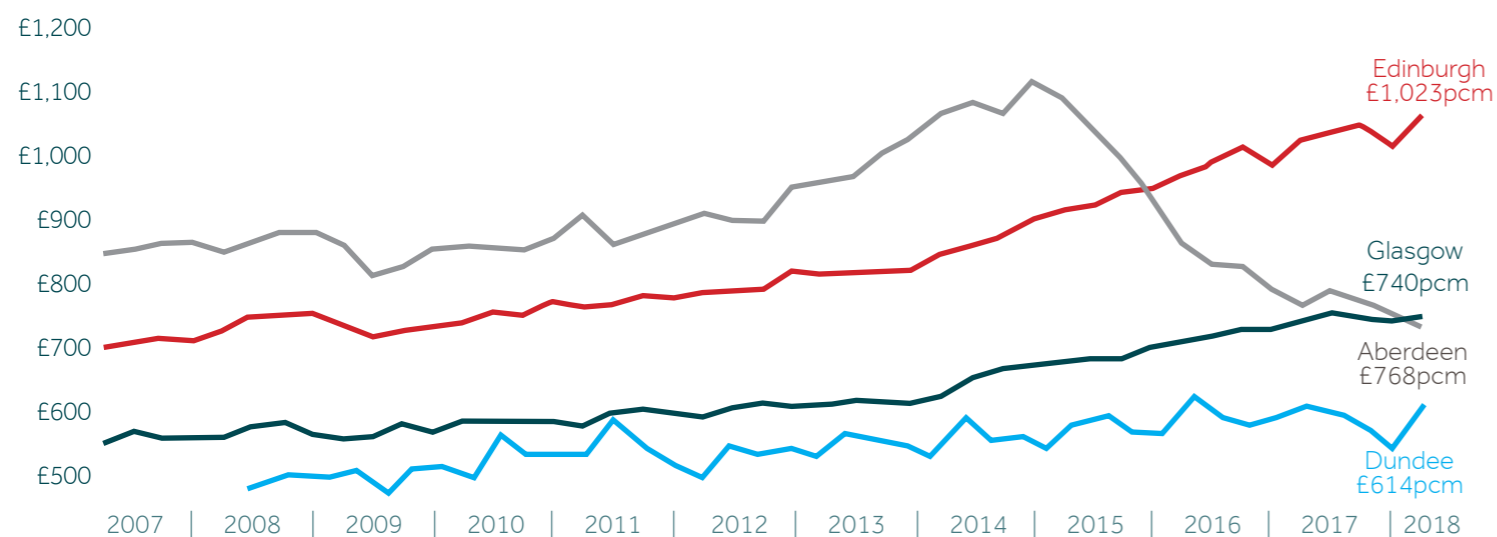
throughout the city. The EH3 postcode, which covers the New Town and the Quatermile development, remains the highest value rental area, with growth slowing in recent years as the area has long achieved prime values for the city.

Glasgow has seen significant rental growth in areas being stimulated by regeneration and shifting occupation within the city, whether this is the Transformational Regeneration Areas (TRA) in the likes of Sighthill (G4) or Laurieston (G5), or reoccupation of the city centre. The West End (G12) remains Glasgow's cultural heart and prime rental market.

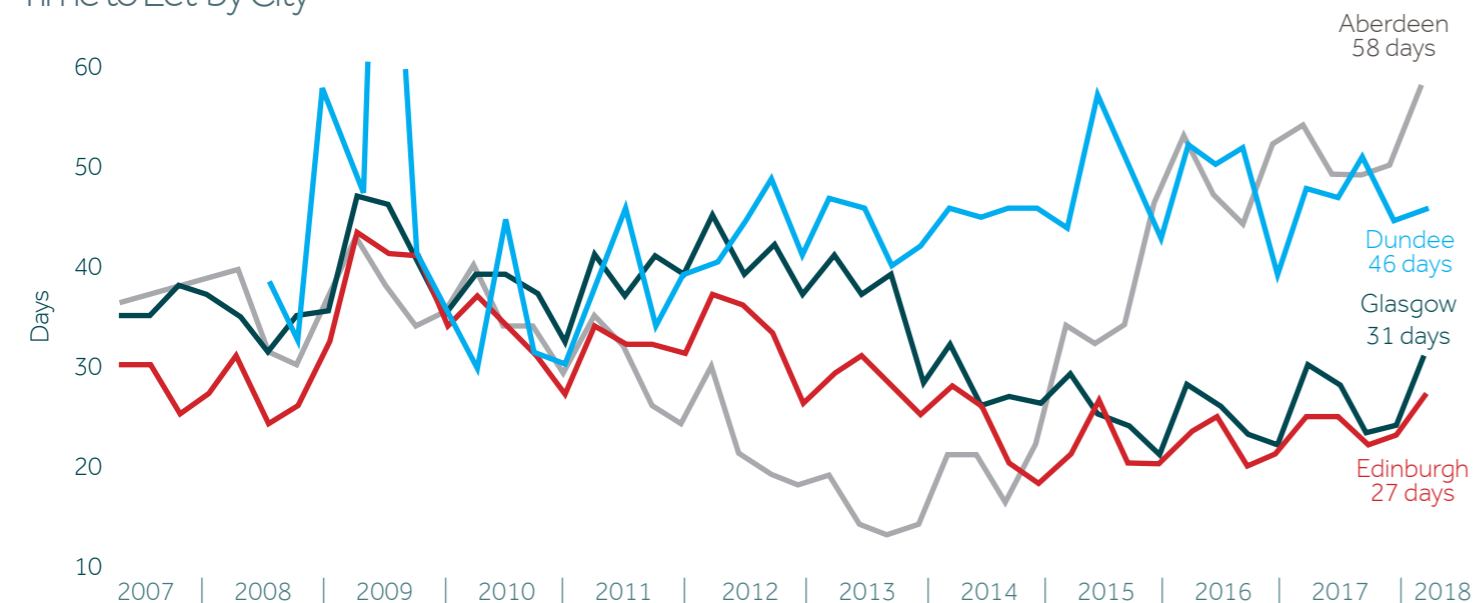
The Aberdeen rental market has been severely impacted by oil prices over the past 3 years, seeing average rental values fall dramatically and taking the city from the most expensive rental market to the third ranked city in Scotland. This fall has discouraged BTR development, but the market now appears to be stabilising.

Dundee's cultural rehabilitation, through the riverside regeneration, has supported solid growth in the rental market, with low capital values supporting strong rental yields.

Average Rents by City



Time to Let by City



Scottish City Rental Statistics for 2 Bed Apartments

Edinburgh	Average Rent	3 Year CAGR	Time to Let (Days)	Gross Rental Yield
EH3	£1,163	0.3%	37	4.0%
EH7	£913	4.4%	26	5.6%
EH8	£876	4.8%	20	7.0%
EH9	£1,043	6.6%	36	4.8%
EH10	£1,018	3.4%	29	4.2%
EH11	£832	4.4%	18	5.8%
EH12	£909	-0.5%	23	4.7%

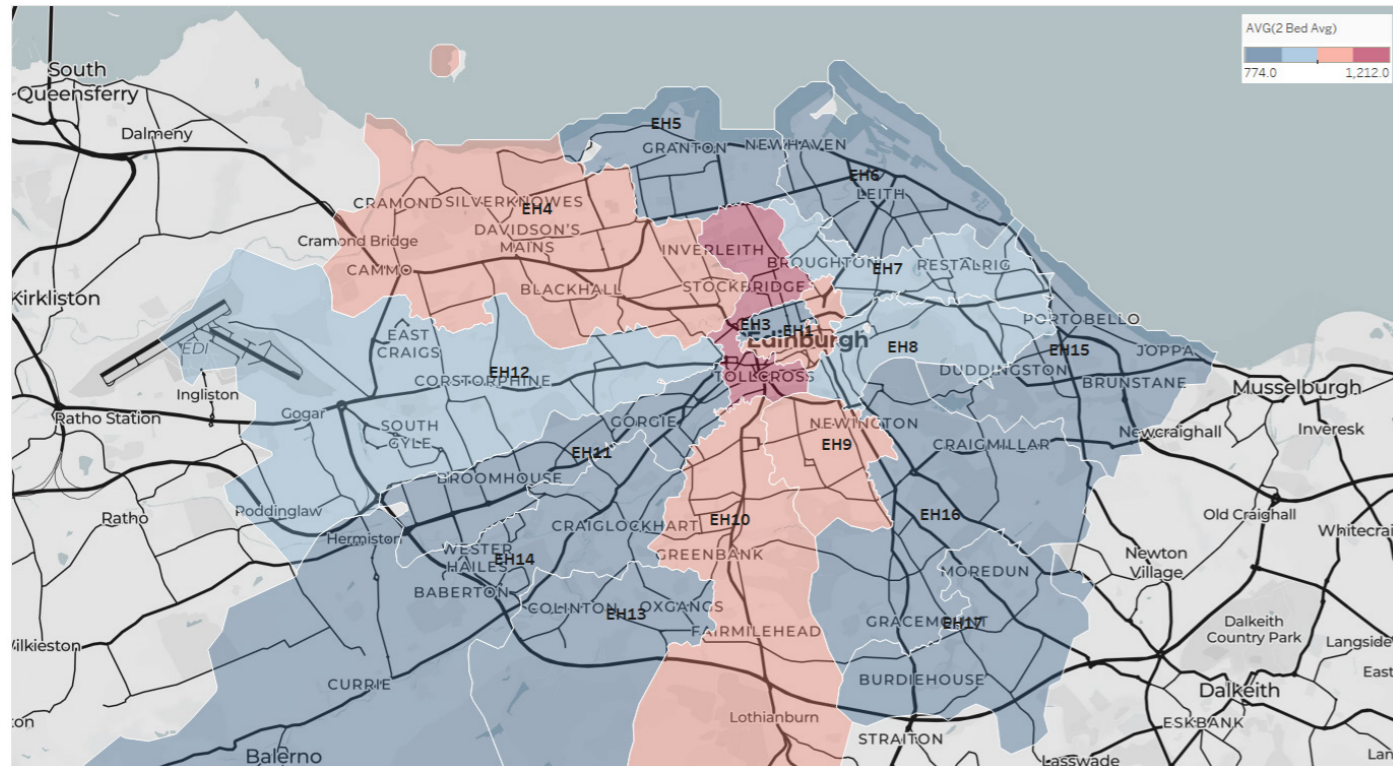
Glasgow	Average Rent	3 Year CAGR	Time to Let (Days)	Gross Rental Yield
G1	£984	6.9%	36	5.7%
G2	£892	4.0%	43	6.7%
G3	£883	-1.0%	33	5.4%
G4	£860	12.6%	25	6.6%
G5	£702	5.1%	26	6.7%
G11	£841	3.8%	36	5.3%
G12	£922	2.1%	44	4.7%

Aberdeen	Average Rent	3 Year CAGR	Time to Let (Days)	Gross Rental Yield
AB10	£676	-19.2%	64	5.2%
AB11	£664	-18.5%	64	5.6%
AB15	£819	-19.2%	71	5.1%
AB24	£672	-16.4%	62	6.6%
AB25	£641	-17.6%	64	5.5%

Dundee	Average Rent	3 Year CAGR	Time to Let (Days)	Gross Rental Yield
DD1	£669	3.3%	31	7.7%
DD2	£601	3.9%	44	6.4%
DD3	£518	1.4%	54	7.8%
DD4	£540	1.9%	41	8.7%
DD5	£660	4.2%	56	5.0%

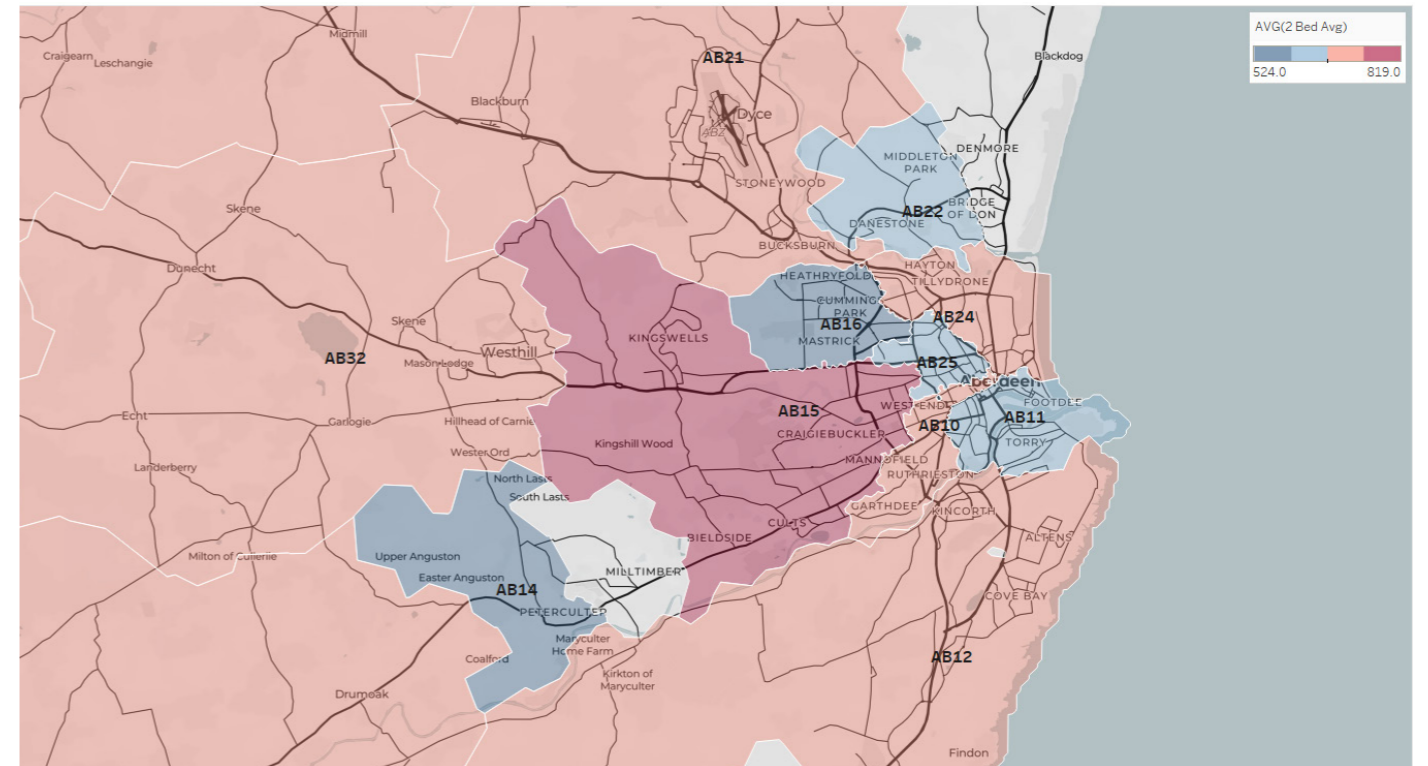
Edinburgh 2 Bed Average Rents

The New Town & City Centre, Southside and West command the highest values in the capital.



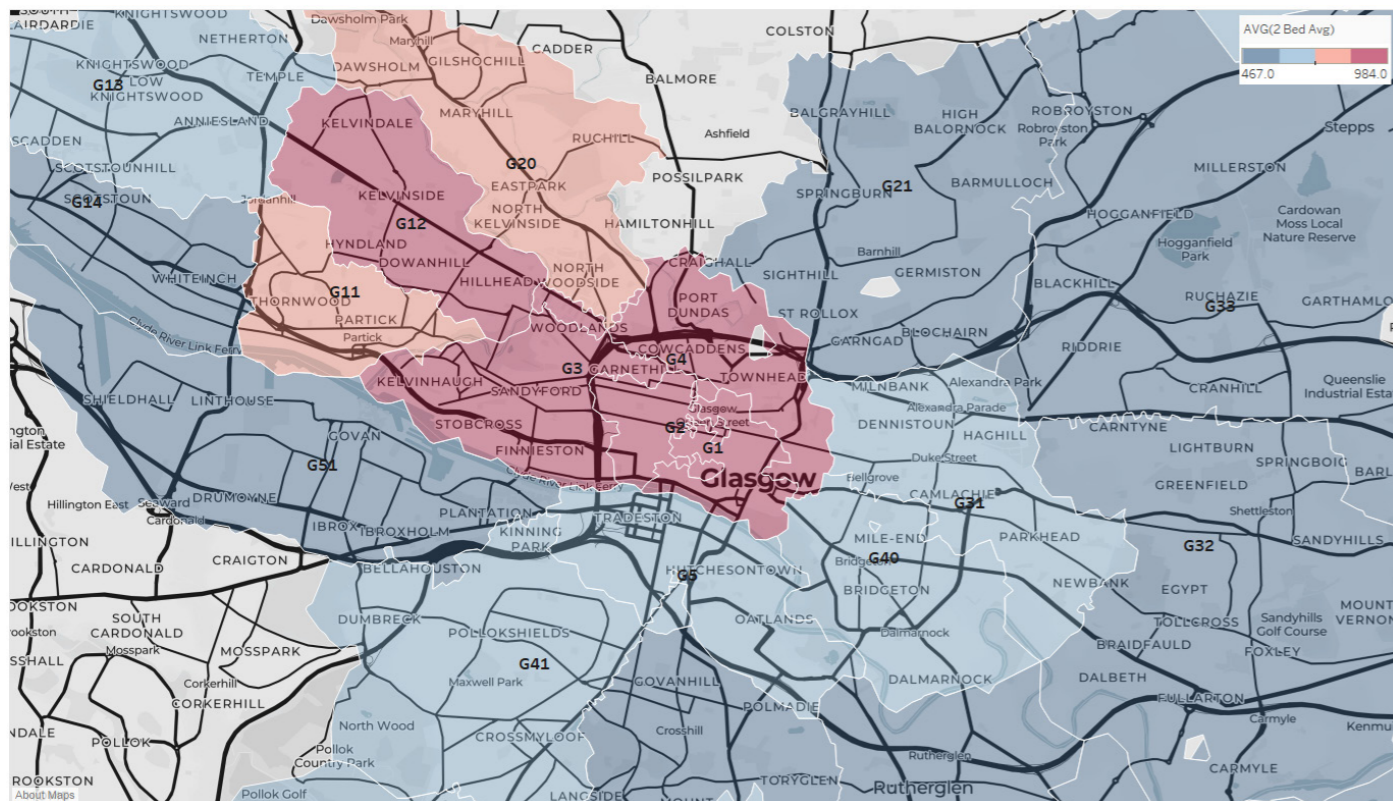
Aberdeen 2 Bed Average Rents

Aberdeen's inner west has the highest rents in the city.



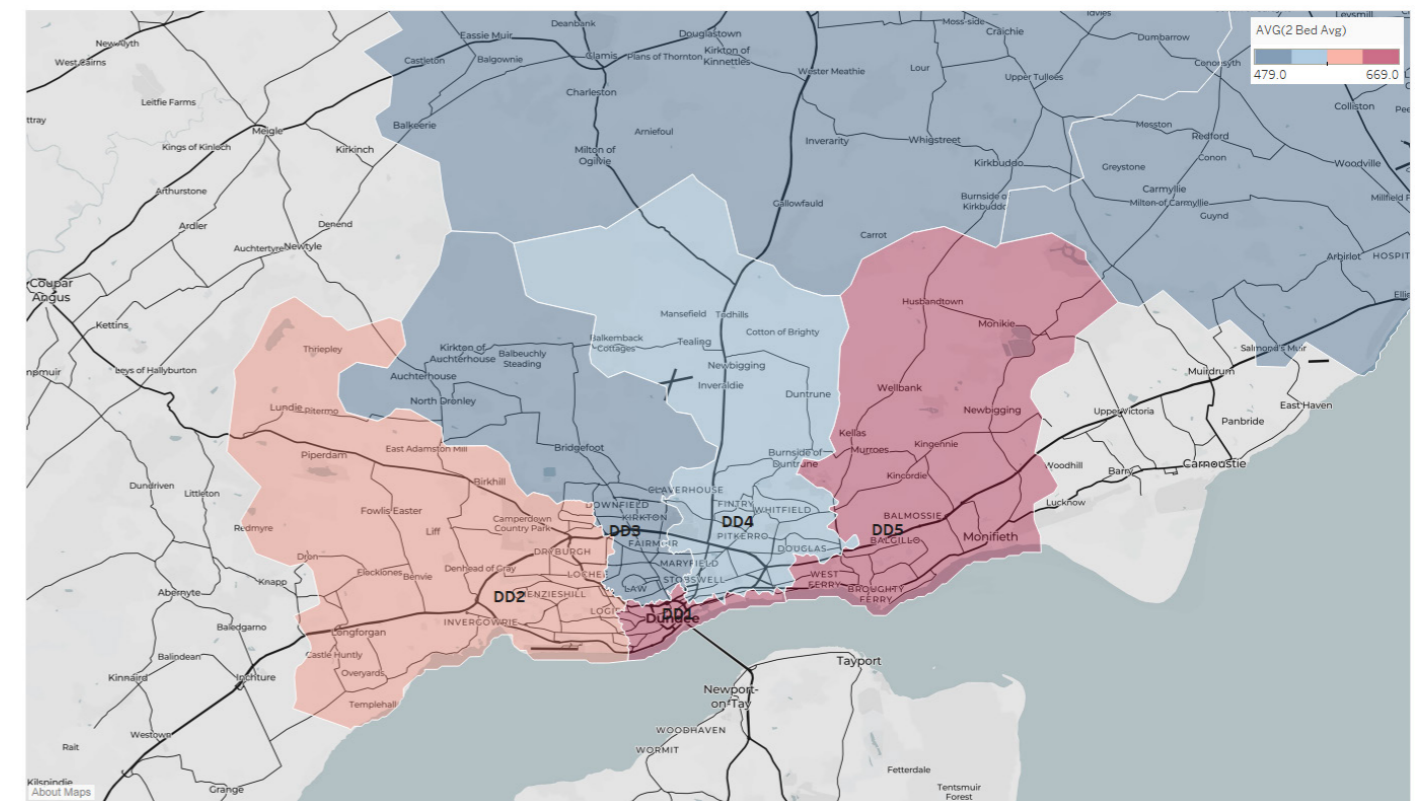
Glasgow 2 Bed Average Rents

City Centre & West End living supports the strongest average rents in Glasgow.



Dundee 2 Bed Average Rents

Dundee's Waterfront & Broughty Ferry areas command the highest average rents.



Understanding Edinburgh's Rising Rents

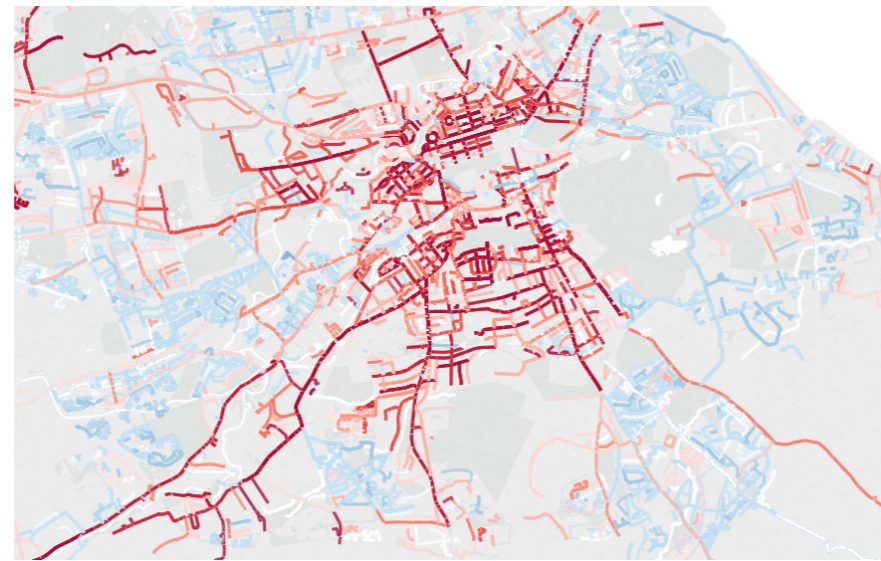
Edinburgh's rental market growth has been the centre of debate as rents have seen a 6% CAGR over the past 5 years. This level of growth has called many to question current rent levels and elevate calls for the introduction of Rent Pressure Zones (RPZ) within the city. This rental growth is being fuelled by a combination of factors acting on the market.

First, there is a question of supply. Low levels of house building and new stock coming into the rental sector has been exacerbated by the exiting from the sector of existing rental accommodation. Changes to the private tenancy law and taxation has encouraged some landlords to exit the sector. An alternative to exiting the sector is the lure of Airbnb, which has seen the number of listings in short term rental rise from under 2,000 in 2014 to over 9,000 in 2017.

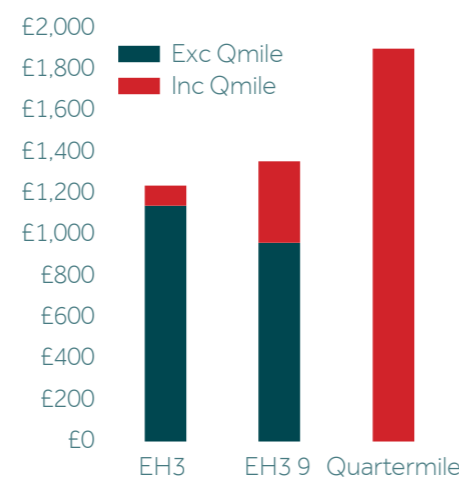
Secondly, rising demand. With a population shift east and Edinburgh forecast to be the UK's most 'youthful' city by 2027, demand in the rental tenure is set to continue. Add to this, average earnings within the city over the past 3 years have outstripped rental increases. A clear picture of earnings led demand becomes apparent.

This has led to clear trends within the Edinburgh market. First has been the growing demand in the city centre, where competition from Airbnb combined with city centre desirability and higher earning, has led EH3 to have the strongest rental growth rate within the city. This central led growth has produced increasing gentrification of periphery areas, such as Leith Walk and Gorgie / Dalry, where the time to let a flat has shortened as displaced competition has increased.

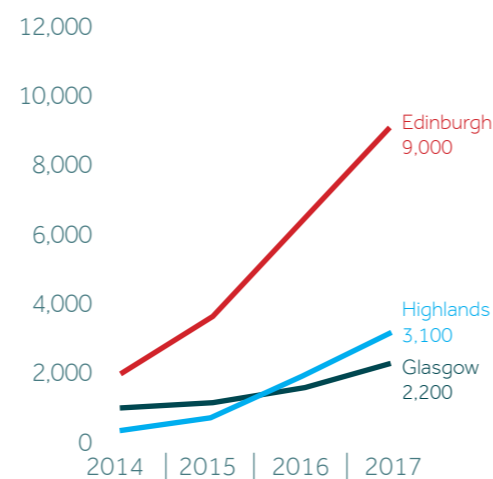
Average Rents by City Street (Red =above city average)



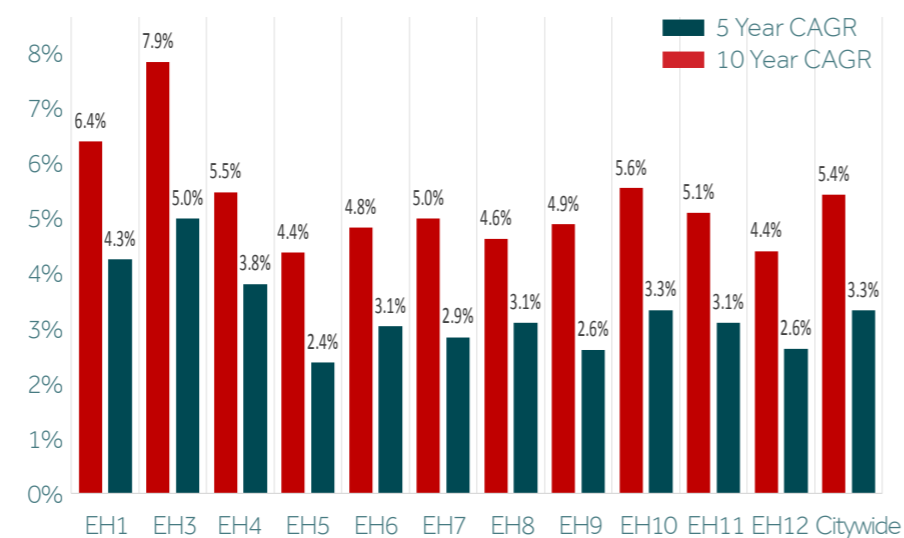
Quatermile Avg. Rental



Airbnb Rise



5 and 10 Year CAGR by Edinburgh Postcode



Edinburgh's BTR Fountain

While there has been MMR development in Edinburgh's Western Harbour and Kingsford Properties have converted the former Broughton High School into a planned rental community of 74 apartments, the traditional open market new BTR product within Edinburgh is focused on the Fountainbridge Masterplan.

Currently, there are two schemes completed and operating within the area. Springside, which offers 48 rental apartments, originally planned for open market sale. There is also Lochrin Quay, a scheme of 113 apartments recently

purchased by Aberdeen Standard Investments for £27.5m. These two schemes represent the first tentative steps for BTR in Edinburgh.

More ambitious for the delivery of BTR in Edinburgh, and in shaping this new neighbourhood within the city, are the two schemes by Moda and EDI.

The £200m council masterplan, by 7N architects proposes a mixed use scheme, which will include 438 homes, a hotel, cultural, office, retail spaces and selection of cafes and restaurants on an 11.5 acre site.

Across the road from this India Quay site is the development by Moda BTR scheme which, will potentially comprise over 500 homes. Moda has an established reputation for entering markets and delivering high quality residential rental schemes that aspire to provide a true BTR lifestyle. This addition to Edinburgh's Fountainbridge district will assist in creating a new vibrant area within the emerging business hub of the city.

Edinburgh's Fountainbridge



Source: 7n Architects

Glasgow City Centre Rewilding

There is a concept in conservation biology called 'rewilding', which, among other things, promotes the reintroduction of apex and keystone species into a habitat. Unlike many other UK cities, Glasgow's city centre is not a primary residential district, with people choosing to move initially into areas such as the West End or Southside, and families then choosing popular commuter towns such as Bearsden or Newton Mearns. The combination of Council policy and BTR development looks set to bring

change to Glasgow's city centre as a revitalised residential district within the city.

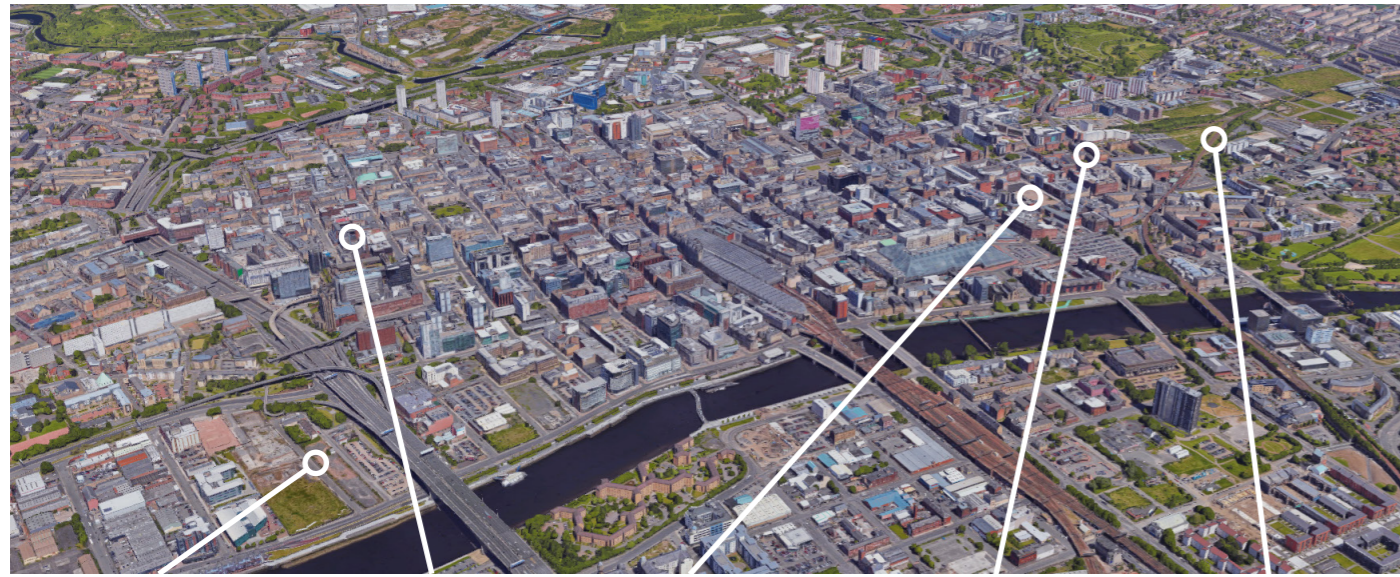
The current supply of four key schemes are targeting 3 core areas. Moda have taken up residency in the city centre, Platform_ on the Clyde, and Inhabit and GetLiving looking towards the Merchant City.

Perhaps a parallel could be drawn with the BTR hub that is Manchester, where large volume city centre

schemes have driven the re-occupation of part of the city centre. The 1,800 BTR unit pipeline proposed in Glasgow still falls short of the 5,500 BTR homes under construction in Manchester.

With such parallels being acknowledged, and many potential development opportunities still available in the city centre, BTR seems set to become a significant factor in changing the habitat of Glasgow's city centre.

Glasgow's BTR scheme on map, and overlaid against the density of residential occupation



Central Quay Platform_	Holland Park Moda	Candleriggs Inhabit	Merchant Point Structures House	Merchant City Get Living
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Moda in Scotland

MODA

Moda have long identified the main Scottish cities as an appropriate target for a high quality, large-scale Build to Rent schemes and this is evidenced by our recent planning approval for 433 apartments on the old Scottish Police Authority HQ site and our ongoing planning application for circa 500 units at Fountainbridge in Edinburgh.

I am convinced that these schemes will fly as we provide fully managed quality rented accommodation, filling a gap between social housing and buying an apartment. The new Scottish Private Residential Tenancy legislation did not put us off. In fact, following detailed analysis of the consequences, we believe that it will work well and actually support a professional and institutional approach to rental management. For instance, we are very happy to offer longer 3-year leases with a tenant-only break. We want people to live as long as they wish in our rental communities. We don't want voids, and we promote the establishment of a happy and healthy community where people get to know each other and make friends.

Initially, we had to work hard to satisfy our investors that Scotland was a good idea. Back at the time of acquiring these sites, we were in the middle of the indyref debate. It did put off many investors, but we managed to sell the concept based on the provision of domestic product for local people and that the success of Glasgow and Edinburgh would still continue even if independence happened.

Convincing planners, councillors and other stakeholders of the Moda business model has met with varied responses. Some very positive, but I must say some have been sceptical. But you only have to look at Europe, the United States and the Middle East to see how successful these schemes are and how they clearly meet the needs of a large section of city populations, especially as people want to be more flexible and transient in their lives, but still be assured of having quality and well-maintained places to live in.

The most difficult aspect of working in Scotland has undoubtedly been the negotiations with city planners. We totally understand that Edinburgh and Glasgow are special and historical cities, and we design accordingly. We work all over the UK and, in some locations, we have been welcomed with open arms and given fast and effective support. That has been less true here. It has been a difficult and arduous process and it definitely needs improving. The planners need more resources to manage these large schemes as well as more detailed knowledge about precisely how large-scale BTR works. Improving the process will be critical to encouraging more investors into Scotland as the planning is simply taking too long and affecting the viability of the schemes. Moda love 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.



Tony Brooks
Director
Moda

Dundee's Creative Vision

Build to Rent is oft held up as the future of accommodation for the millennial and post-millennial generations, promising a lifestyle befitting of the 21st century, but sadly often only delivering an unused yoga studio.

With the V&A acting as a beacon of design-led progress on the Waterfront, the two BTR schemes proposed for Dundee appear to be embracing the city's emerging identity to deliver a lifestyle-led BTR development that embodies a more progressive offer than many other schemes in the UK. First out of the box was VOX Dundee, the conversion of a 1970s office building into 111 rental apartments and

24 short-term stay / business let units. This development promises to retain and expose structural elements to create a development with workspaces, a cafe, as well as landscaped grounds. The development has a clear lifestyle vision, promoting the potential to sit and enjoy the 'upcycled' (converted) building, with a coffee before finding a workspace to participate in the gig economy.

Announced more recently, and located a short distance from the V&A, Studio Dundee more explicitly targets the entrepreneurs, free thinkers and creatives of the city with a social hub including cafe, bar and restaurant as well

as working studio with 3d printers and Macs connected to the creative cloud. It will also offer co-working and creative spaces.

Both these developments are clearly targeting a key demographic within the city, which is young, progressive and part of Dundee's urban revival. Such progressive developments will be an interesting benchmark within the Scottish BTR market.



STUDIO DUNDEE 'WORK, STAY, PLAY'

117 Homes

CO-WORKING & CREATIVE SPACES.
SOCIAL HUB WITH CAFE RESTURANT BAR.
WORKSHIPS WITH 3D PRINTER AND MACS CONNECTED TO THE CREATIVE CLOUD.



VOX DUNDEE 'LIVE,WORK,PLAY,STAY'

111 Homes

24 SERVICED APARTMENTS MOVE IN FROM 2019
1970S OFFICE CONVERSION
WORKSPACE & CAFE.
GYM, LOUNGE,
CINEMA/AUDITORIUM & LANDSCAPED GARDENS



A Designer's Perspective.

You could say that Scotland has been a bit slow to adopt the Build-to-Rent model. "It's the second mouse that gets the cheese" as the saying goes, so if we can learn the lessons of the pioneers in the last few years this slow take up might be no bad thing.

Over the last three years many of the major English cities have seen the construction of large scale bespoke rented accommodation, and many lessons have been learned. In Scotland Build-to-Rent has gone from being an idea to be greeted with scepticism to a recognised housing type supported by specific council and government policies. Well funded investors have entered the market, giving the development pioneers the confidence to design true 'Build-to-Rent' projects without feeling the need to fall back on an exit that involves breaking it up and selling the apartments individually.

Perhaps most importantly we are now designing with the benefit of some valuable user feedback.

Consequently the Build to Rent projects we are looking at in Scotland now are the 'Beta' version refined by better knowledge of how people actually live and uncompromised by the fear that Build-to-Rent might not actually work. Open plan, spacious apartments are supported by some council policies and changes to the Scottish Building Standards will require sprinklers across all apartments: the rest of the housing industry will do what Build to Rent was doing anyway.

The need for amenities is better understood: it's location and apartment size dependent. A gym for working out might not be as useful as a good room for working in.

For many operators, the rents far exceeded their expectations. Unfortunately so did the running costs. We've learned from this and the back of house functions are now more refined. Budgets are tight, there's a huge pressure on costs and we've learnt a bit about where to spend the money to deliver the greatest impact. Our clients are engaging with off-site manufacture (up from 3% of our workload five years ago to 25% now) allowing

them to deliver excellent quality in half the time a conventionally built project might take. Some of Scotland's excellent innovative manufacturers are rising to this challenge now, but the Scottish industry needs some legislation change and some government support to get the most from this transformational industry.

What's next for Scotland? The number of investors wishing to enter the market has given our clients far greater confidence and with this has come greater scale. The opportunity of a well designed Build-to-Rent project is the opportunity to effect change at an urban level that wouldn't be possible otherwise. Whole city neighbourhoods, masterplanned years ago but dormant for a decade are now being reappraised with ambitious new proposals.

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 of 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.



Sandy Morrison
Partner
HTA Design

Aberdeen and BTR's role in the economy

Aberdeen was the first Scottish city to see the arrival of BTR with the development of Forbes Place by Dandara at Stonewood, part of a wider master planned development of the area. The development is owned by Lasalle and managed by Dandara Living. Fluctuations in the price of oil have produced challenging conditions for Aberdeen, economically, and in turn, in the housing market.

These uncertain conditions may have encouraged forthcoming schemes in the city to potentially shy away from BTR and to focus on more established tenures, as appears to be the case at Broadford Works. BTR specialists Inhabit, which are currently in talks with US BTR giant Greystar, now plan more for-sale homes than BTR homes on the site.

So while there is limited new BTR pipeline coming to the city, the established supply at Forbes Place is perhaps illustrative of

the important role that BTR can have as part of a city's economic infrastructure.

One key role that BTR can play, as part of the wider PRS, is providing suitable, desirable and flexible accommodation for the economically active to allow for relocation within a region for reasons of employment and economic development. A lack of available housing stock in the PRS during a period of high demand, driven by oil prices over \$100 per barrel, saw Aberdeen command the highest average rents of any Scottish city. While falling demand with falling oil prices saw rents weaken, as the sector stabilises, restructures and demand returns, the ability to provide desirable rental accommodation is key for a region whose economic future is driven by expertise and high skilled employment.

As a centre of energy, not just oil, the North East will be reliant on attracting talent to the region to support the

development of renewable technologies, ongoing North Sea Oil production and also future decommissioning work.

Against this backdrop, Forbes Place is located with strong access to multiple key employment centres, commuter routes and infrastructure links within the region. In addition, the BTR development offers both practical and aspirational facilities from high speed broadband, furniture packages, parking and flexible contracts, to bike storage, parcel and grocery delivery, and pet-friendly accommodation.

Just as Dundee's emerging "live, work, play" BTR offering reflects the entrepreneurial design-led vision of the city, so BTR in Aberdeen shows the potential of the sector to support the energy, industry and infrastructure based growth planned for the future of the North East.

Forbes Place pioneering the Scottish market

As the first BTR scheme launched in Scotland, Forbes Place acts as an interesting case study of the emerging BTR market in Scotland.

Since launching in September 2016, the development has achieved 90% occupancy, with full occupancy expected by the end of this summer. This is a strong performance against the trends seen in the wider Aberdeen market over the past two years.

This occupancy level has been achieved at an average rent of £850pcm, which is a 15% premium over the Aberdeen average. Offering homes at average rents of £660pcm for studio apartments, £800pcm for 1 beds, £890pcm for 2 beds, and £1,340pcm for 3 bed townhouses, has attracted a broad demographic profile from young professionals to those starting retirement.

The uptake at Forbes Place is illustrative of the value proposition and perceived benefits that the BTR service can offer over traditional PRS. The provision of high quality accommodation with modern technology and amenities, complimented with professional customer services led to a 100% customer satisfaction rating in the first residents' satisfaction survey. With residents drawn from around the globe by the North East's Oil & Gas and Energy sectors, Forbes Place has also focused on creating a sense of community by hosting events such as their Summer Social BBQ (as seen below).

As a pioneer of the Scottish BTR market, Forbes Place is an example that the additionality of the BTR offer over traditional PRS is attractive to the Scottish rental market, even against the current challenges of the Aberdeen market.

"In February this year Forbes Place carried out its first customer satisfaction survey, achieving excellent feedback with a 100% customer satisfaction rating."



Mandy Anderson
Lettings Manager
Dandara Living, Forbes Place

Forbes Place is accessible to key industry, employment & infrastructure within the region



The Forbes Place Summer Social is an example of BTR additionality & community building



Making Build to Rent Work.

Our research in this Briefing has demonstrated the growing BTR market in Scotland. As Hazel says in her intro, we are still not 'punching our weight', but at least we are now punching.

The spreading of schemes across Scotland is particularly pleasing to see. We are beginning to make this sector work.

Scotland does have clear opportunities in terms of BTR provision, particularly our favourable demography, solid economic growth, rising earnings and higher education provision. All indicators that developers and investors look to see as positives before committing on schemes.

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. The purchase of the Lochrin Quay scheme in Edinburgh for BTR by Aberdeen Standard recently shows that major investors are seeing the opportunity in Scotland with sizeable deals. Establishing Scotland as a destination for other funds to invest in will provide the sector with critical mass quite quickly and provide the sort of track record that will allow other deals to be financed favourably.

The Scottish Government and Scottish Futures Trust is also fully behind the BTR concept, leveraging private investment into real estate, especially in helping to deal with what remains a chronic housing shortage, is a key government

objective. The Rental Income Guarantee Scheme is a sign of the Scottish Government's commitment to the sector, as is the continuation of exempting purchases of 6 properties or more from Additional Dwelling Supplement (ADS), which differs from England & Wales where ADS applies on such transactions despite industry lobbying.

We are also seeing local authorities respond by seeing BTR as an emerging new tenure and developing design guidance that recognises it differs from more standard residential. Local authorities have become more pragmatic in dealing with planning applications over the last year or so, as evidenced by the number of schemes approved.

While we may not be able to sort out the often tribal politics of our times, the strong demand for new quality housing is unlikely to go away.



Dr John Boyle
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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

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.

OPPORTUNITIES

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.



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.

THREATS

Rettie & Co. Build to Rent Services



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.



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.



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 bench marking.
- RICS accredited and regulated.



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).



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.



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.



COLLABORATION

- Best Supporting Organisation 2018 – HfS Awards
- Complementing in-house teams
- Working with you – no rigid formulaic approach
- White-labelling as required



EXIT STRATEGY

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

Build to Rent Team



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