Private Rental Sector

Market Briefing

Winter 2017

RETTIE

Clouds with Silver Linings

American writer William Arthur Ward once stated that 'the pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails'. This maxim is currently true of the Private Rental Sector (PRS).

The way people live has been changing significantly over the past 10 years as rising owner occupation, based on readily available credit, has been usurped by the rise of the rental sector and a generational shift away from the idea of buying a flat and staircasing up an ever-rising property ladder. This shift has been most pronounced with 2/3rds of the Millennial generation now renting privately, up from less than 1/3rd for Gen X, who came 20 years before.

Innovation, evolutions and interventions in the sector - Airbnb, Built to Rent (BTR), Mid-Market Rent (MMR), a new Scottish Private Residential Tenancy (PRT), and tax reforms - all have varying degrees of significance to different income and age groups, but combine them and the sector is experiencing a fundamental shift.
In this context, the PRS is now centre stage - socially, commercially and politically. This increased focus on the rental sector is driving a number of changes to which tenants, landlords and investors will have to adapt.

For landlords, these changes have led some to consider exiting the sector, while others are taking this opportunity to restructure their investments, with professional advice, to optimise their returns in a demand driven market. In this Market Briefing, we consider the impact of the most significant changes for the private investor.

Andrew Meehan
Senior Researcher

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Market Statistics: Average rents continue to rise

- **Fundamentals of low supply and rising demand have supported average rent growth across Scotland, with the exception of Aberdeen, which now appears to be finding a new base.**

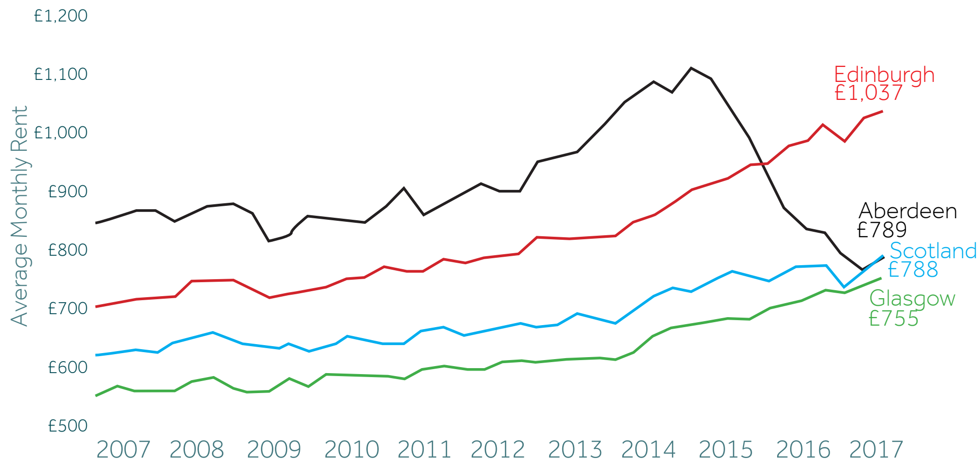
The rental market, like the sales market, responds to changes in supply and demand, impacting on rental prices and the time it takes to let a property. Unlike the sales market, this response is more sensitive and volatile due to the stronger occupation periods; the often transitory nature of the tenancies; and lower capital investment required to participate in the sector. This can lead to greater fluctuations in price, as well as quicker responses to high or low levels of supply or demand in the market. Like the housing market, the rental sector is responding to pressured demand, and low supply levels, seeing rents rise in the major cities. With the increased diligence being introduced in the mortgage market, e.g. the 2014 Mortgage Market Review, many would-be buyers are now in the rental sector, many of whom have professional employment and stable earnings, but limited savings for a deposit. The impact of these factors can be seen in the recent upturn in annual average rent growth. In Edinburgh, this rental growth averaged 5.8% compound annual growth rate over the past 5 years.

A supporting indicator of the demand in the market has been the time it takes to let a property. Again, in 2013/14, the average time to let (TTL) started falling. Having previously been consistently above 30 days in Edinburgh and Glasgow, both cities are now routinely below 30 days.

Aberdeen has experienced different dynamics. It had by far the highest average rents in Scotland pre-2015, until the price shock from 2014 put this into reverse. After consistent annual falls, the city has recently recorded the first upturn in average rents since 2014, which is a positive sign that the market is now finding its new base, albeit now in line with Scottish averages.

Rents have grown strongly in Scottish Cities the past 3 years, excluding Aberdeen

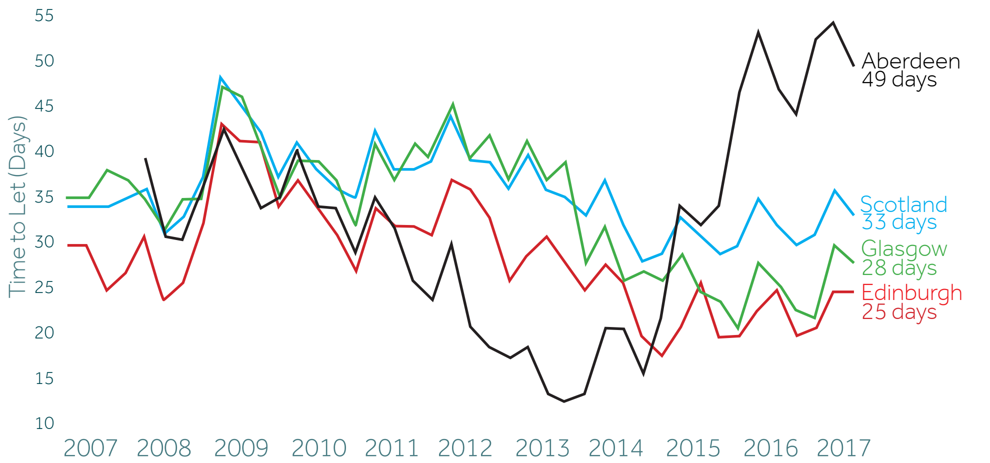
Average Rents by City 2007-2017



Source: Citylets

Strong demand has driven down time to let (TTL) in most urban centres

Time to Let (TTL) in Days. 2007-2017



Source: Citylets

Tenure: Understanding the rise in the Private Rental Sector

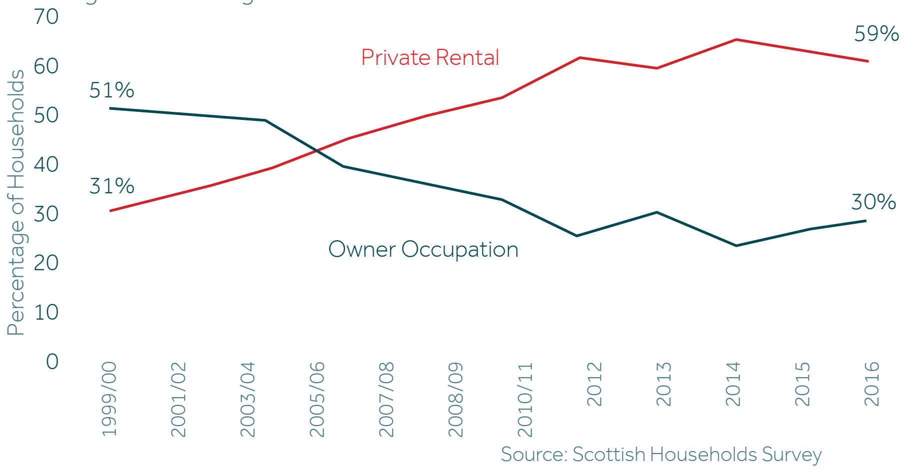
- **Under 35s have seen a strong shift towards the PRS, based on limited access to deposits but good earnings.**
- **The over 60s are consolidating their position as owner occupiers.**

To understand fully the demand that is driving rental increases, the significance of the long-term generation tenure shift occurring within society has to be understood. Over the past 20 years, the expectation of home ownership for each progressive generation has decreased as the capital that accrued through the property boom of the 1990s and 2000s has consolidated itself with the generation that were active in the market during this period.

At the turn of the Millennium, over half of households between 16 to 34 years of age owned their own home. In the time it would have taken a Millennial baby to grow up and enter this age bracket, this proportion is down to almost one-quarter. But this is also an issue that is moving up the generations. In the same period households, between 35 and 59-year-olds have seen their levels of owner occupation decline from over three-quarters to under two-thirds. Indeed, the only generational group which have seen an increase in home ownership levels are the over 60s, whose participation in the PRS has stayed low, only rising from 2% to 3%, but with their owner occupation levels rising from 71% to 80%. Governmental house building programmes post-war, Conservative policies supporting owner occupation through the 80s, and a property boom in the 90s/00s have contributed to this generation, who now hold the keys to the property market, whether it be for their own homes, or those they have helped fund for their children.

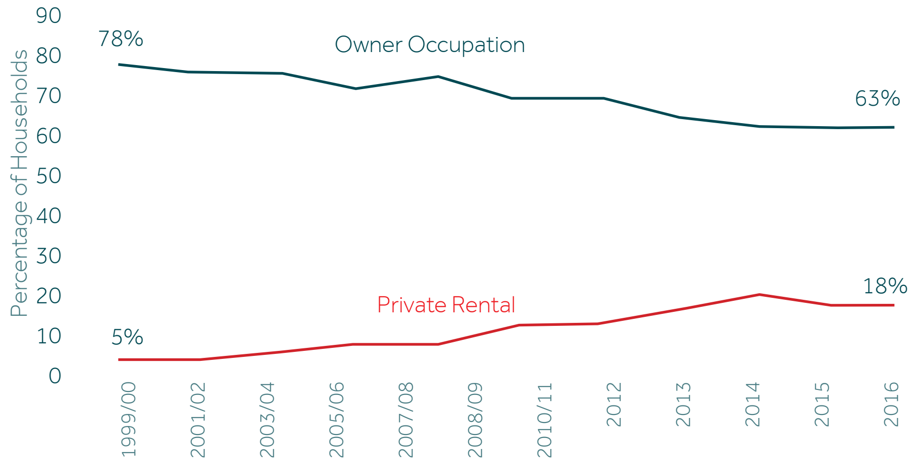
PRS is now the dominant tenure for under 35 year olds, with the sector becoming an increasingly important tenure for all ages under 60 years old.

Edinburgh Tenure Change for 16-34 Year Olds - 1999 to 2015



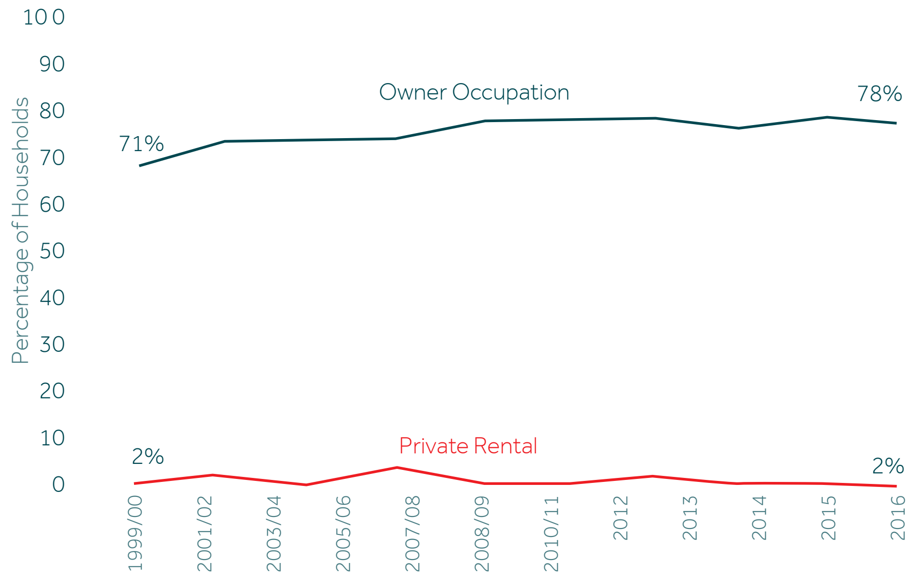
Source: Scottish Households Survey

Edinburgh Tenure Change for 35-59 Year Olds - 1999 to 2015



Source: Scottish Households Survey

Edinburgh Tenure Change for 60+ Year Olds - 1999 to 2015



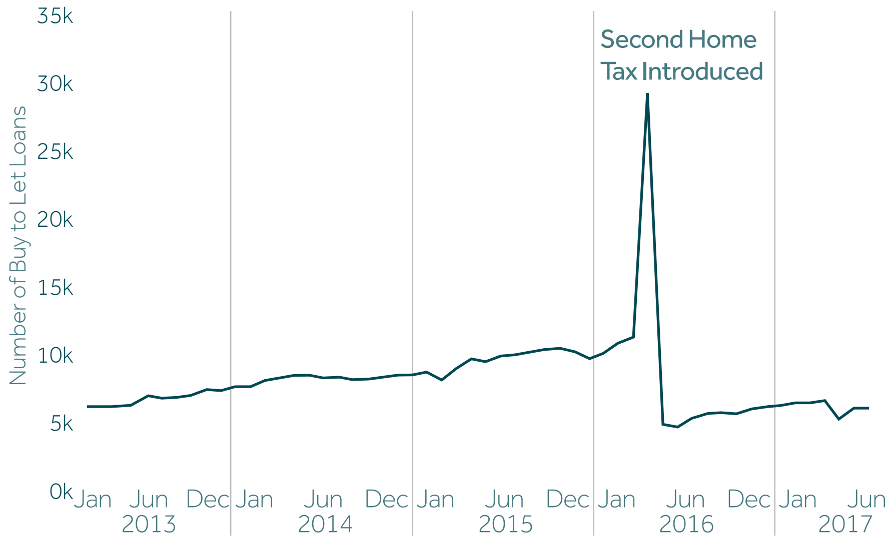
Source: Scottish Households Survey

Buy to Let Lending

- **Additional Dwelling Supplement (ADS) has had a significant impact on the Buy to Let (BTL) sector.**
- **New legislation and taxation is pushing towards a professionalisation of the sector.**

Perhaps the sector experiencing the most significant changes at the moment is the Buy to Let sector, which in Scotland is dealing with the implementation of the Private Housing (Tenancies) (Scotland) Act 2016, changes to Mortgage Interest Relief (MIR) and Wear & Tear Allowance, and the cost of Additional Dwelling Supplement (ADS). Each of these issues are addressed separately in this Briefing, but their combination has the potential to have significant impacts on the individual landlord through to the portfolio investor. The introduction of the Additional Dwelling Supplement (ADS) has already impacted on activity within the sector at a time when rental demand is high and forecast to continue to increase.

The introduction of a second home tax has suppressed the Buy to Let Market
Number of BTL Loans in the UK 2013-2017



Source: Council of Mortgage Lenders

Business Lending

- **Changes to taxes and allowances is driving an increasing number of landlords towards a limited company structure.**
- **The number of specific mortgage products for limited companies has grown by 176% in the past two years.**

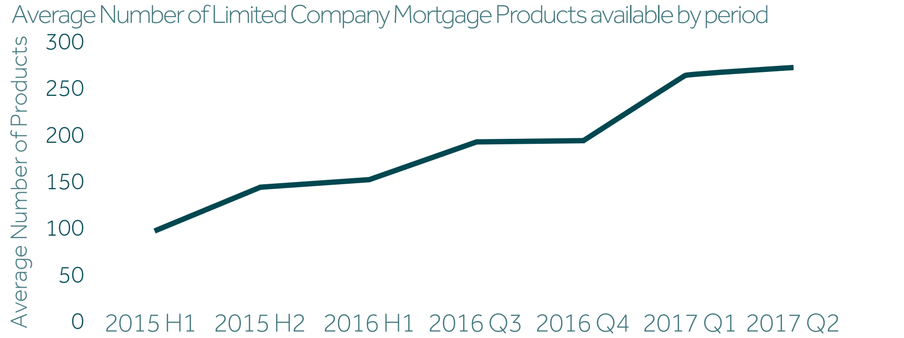
One option for professional landlords considering their portfolio investments is to move their investments into a limited company. While this move has its pros and cons, and may not be suitable for all investors, its popularity has been reflected in the rise in the availability of mortgage products for limited companies, as well as lenders operating in the sector. Over the past two years, the number of specific limited company mortgage products has risen from less than 100 to over 270.

We are currently working with specialist mortgage advisors to assist a number of our portfolio clients to determine if this option is financially prudent for their specific circumstances.

The number and variety of loans for Limited Companies has increased significantly
Increase in Limited Company Product by Mortgage Type

Source: Mortgages for Businesses

Mortgage Products available to Limited Companies have increased 176% in two years
Average Number of Limited Company Mortgage Products available by period



Source: Mortgages for Businesses

Legislation: Private Housing (Tenancies) (Scotland) Act 2016

Due to take effect in December2017

The Private Housing (Tenancies)(Scotland) Act 2016, introduces a number of material changes that landlords will have to be cognisant of when managing their properties. The Act abolishes the short assured and assured tenancies, replacing them with a single Private Residential Tenancy (PRT). Purpose Built Student Accommodation and Holiday Lets are excluded from the PRT.

Under this new tenancy, one of the major changes is that 'no fault' ground for repossession is no longer available meaning landlords will have to use one of 18 statutory grounds to gain possession of their property. These grounds are listed on the right. The tenant can terminate the PRT with 28 days' notice and the landlord can terminate the PRT, due to a breach in the lease with 28 days, or after the initial 6-month period, with a notice period of 84 days.

In addition, rents can only be reviewed and increased annually, with a 3-month notice period before a rise takes effect. Tenants can appeal rises to a Rent Officer if they believe the increase to be above open market rents, and this can be appealed by landlords at the First-tier Tribunal (FTT).

A final major factor is the potential introduction of Rent Pressure Zones (RPZ), which could create designated zones where annual rent increases could be capped at a minimum of CPI+1% within local authority areas.

For many landlords these changes will not have a major impact on how they manage their investments. However, for others, measures like the removal of no fault grounds repossession may remove the option of student lets combined with seasonal lets during the Edinburgh festival.

Grounds For Ending a Tenancy

Mandatory

1. Landlord intends to sell the property
2. Let property to be sold by lender
3. Landlord intends to refurbish the let property
4. Landlord intends to live in the property
5. Landlord intends to use the property for non-residential purpose
6. Let property required for religious worker
7. Tenant has a relevant criminal conviction
8. Tenant is no longer occupying the property

Discretionary

9. Landlord's family member intends to live in the let property
10. Tenant no longer needs supported accommodation
11. Tenant has breached a term of the tenancy agreement
12. The tenant has engaged in relevant antisocial behaviour
13. Tenant has associated in the let property with someone who has a criminal conviction or is antisocial
14. Landlord has had their registration refused or revoked
15. Landlord's HMO licence has been revoked
16. An overcrowding statutory notice has been served on the landlord
17. Tenant is in rent arrears over three consecutive months
18. Tenant has stopped being, or has failed to become, an employee

Taxation: 10% Wear & Tear Allowance

One of the first changes to impact the sector from April last year was the removal of the automatic 10% Wear and Tear Allowance. For many, this automatic allowance was factored into their annual budgeting, and its removal will impact on their annual accounts.

However, under the new allowance, landlords can claim the actual cost of the new replacement items; the incidental costs of disposing of the old item; or acquiring the replacement less any amounts received on disposal of the old item. This will allow for the continued management and maintenance of their assets. It should be noted that, for some landlords, these deductions will not be available, as is the case for furnished holiday lettings, where capital allowances will continue.

Mortgage Interest Relief

- **The phasing out of mortgage interest relief has the potential to significantly impact some landlords' rental income.**
- **Highly leveraged portfolios, and higher band tax payers, may be most significantly affected.**

Perhaps the change with the greatest potential impact on the private landlord is the phasing out of mortgage interest relief over the next four years, which started in April this year. This measure means that landlords are no longer able to deduct mortgage interest from their taxable profits, which will result in many landlords facing a larger tax bill and reduced profits. Understandably, this has caused some consternation in the sector, with predictions of it triggering an exodus from the sector by many landlords.

However, the impact on the sector as a whole is unclear, as the impact on individual landlords will depend on the specifics of their income and leverage. As a rule, the higher a landlord's income and the more they are leveraged, then the greater the potential effect.

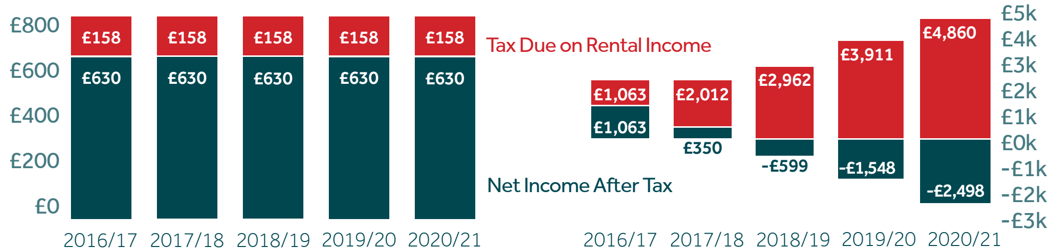
Outlined below are two scenarios which illustrate how, for some, this change will have little impact, while for others an investment may go from a positive return to negative cost.

The case studies compare a lower band taxpayer with modest investment, against a higher rate tax payer with a higher value property. These examples are deliberately contrasting to illustrate the range of impact. For many landlords, the net result may be somewhere the middle.

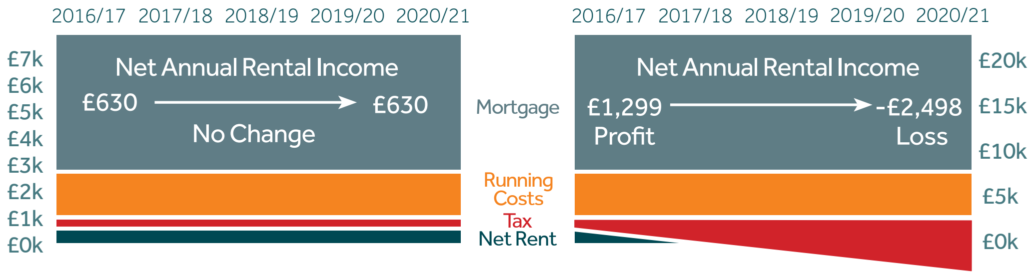
Case Study Examples

Assumptions	No Change	Profit to Loss
Annual Income:	£30,000	£150,000
Rental Property Value:	£150,000	£450,000
Gross Rental Income:	£7,500	£22,500

Taxation & Profitability



Cost Breakdown
(Gross to Net Rent)



**Shared assumptions include 75% LTV, 4.5% mortgage interest rate, 10% management fee, 10% insurance & repairs.*

What are a landlord's options?

Limited Company
An increasingly popular option is to set up a limited company and sell properties in to the entity, which will trigger CGT and LBTT. This will also require re-mortgaging. However, this would allow the income from the rent to be treated as profit and taxed at the current corporation tax rate of 20%, rather than 40% for higher rate payers. In addition, incorporation will allow the continuation of mortgage interest relief as an allowable expense for companies that hold properties. There can also be estate planning benefits to this approach. There are, however, issues and complexities to consider in incorporating. The first issue will be re-mortgaging. While the number of mortgage products available to limited companies is increasing, market choice is still comparatively limited. There may also be higher fees and rates may not be as competitive. Another consideration, depending on the landlord's personal finances, is whether they are leaving the rental profits to accrue within the company, or withdrawing as part of your income. In the latter case, this would mean paying 20% corporation tax, followed by 32.5% dividend tax for higher rate tax payers.

Consolidation & Leveraging
If a landlord has a portfolio of properties, then it may be worth considering rationalising and restructuring their holdings to sell poorly performing properties. By consolidating and deleveraging the stronger assets, the impact of the removal of mortgage interest relief can potentially be mitigated. Our Sales and Lettings Teams have been working closely with clients and mortgage advisors to work through the specifics of individual investment scenarios. If you would like advice please do not hesitate in contacting our Lettings Team.

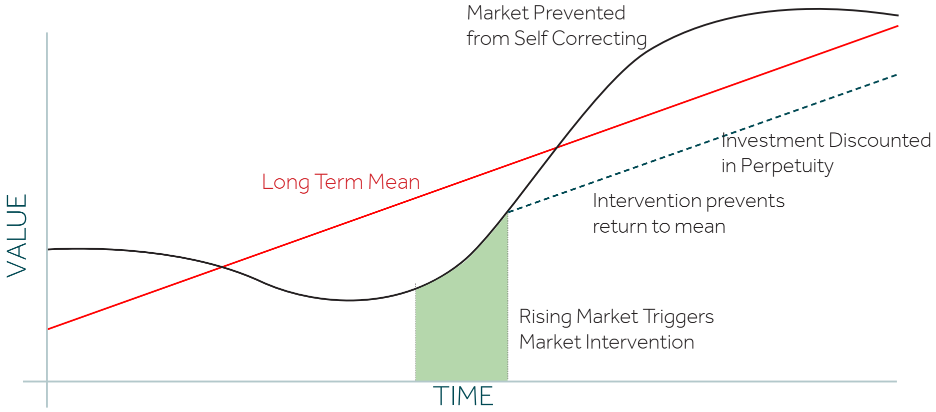
Rent Pressure Zones (RPZs) and housing investment

We have considered the pros and cons of rent control previously here.
For Scottish cities, facing housing shortages, the pressing concern is how RPZs may impact on investor appetite, especially at a time Build to Rent (BTR) investment is being courted to deliver a new generation of housing.

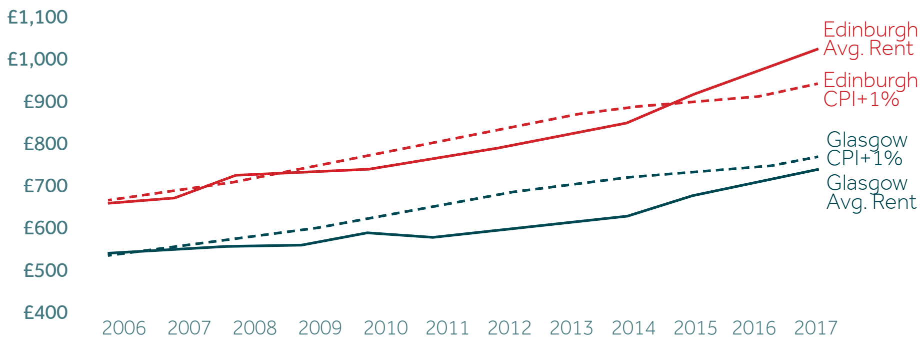
A risk of market intervention for investors, as the first chart on the right illustrates, is that if an intervention is made when prices are rising, after a period of below long-term market performance, then the investment is potentially discounted in perpetuity. In a sector seeking to encourage long term investment, this would mean absorbing years of subpar performance in the market cycle, without then seeing the upside that would balance out the investment to the long-term mean.

Placing this scenario in context, in the second chart, Edinburgh and Glasgow rent rises have been below the CPI+1% for most of the past decade, with Edinburgh only rising above this level in 2015. The issue becomes more complicated when stepping below the city-wide averages and defining local markets. For example, at Fountainbridge and Quartermile in Edinburgh, two new build developments have increased the local average rent by almost 10%. These developments also achieve between 50% and 100% premiums over the EH3 9 postcode sector. These premiums are based on a limited new build product with high modern amenity, as is common with many BTR schemes. How such circumstances would be defined under RPZs is unclear, and when combined with intervention and restriction on returns over the market cycle, then the risk is that investment capital may choose to find a home in Manchester or Liverpool, rather than Edinburgh or Glasgow.

Market intervention can discount investment returns below the long-term mean
Impact of intervention against market self correction.



Edinburgh has only recently risen above CPI+1% over 10 years of market activity
Comparison of market performance against CPI+1% since 2006



RPZs: What you need to know

When will it be introduced?
There are no current plans to introduce Rent Pressure Zones as things stand, however, the first steps have been taken by some councils to initiate consideration of the issue. Scottish Ministers need to approve the case for an RPZ.

Evidentiary bar to be set
There is a challenge facing the introduction of Rent Pressure Zones based on data available. Currently, there is no definitive register of rents on which to base analysis of the market. Portals such as Citylets have a strong coverage of advertised rents, and referencing companies and landlord registration may provide more accurate information on current rents. Establishing an accurate and detailed measure of current rents will be a critical first step before further steps should be taken.

Affordability & Geography
A central question remains on how an area may be judged to be affordable or not, and what level would trigger a market intervention.

What would rents be controlled at?
The Private Housing (Tenancies) (Scotland) Act 2016 has proposed a mechanism of CPI+1%+N. This would mean a base annual increase of CPI+1%, at a minimum.

Rent setting and increases?
Under the proposals the RPZ does not prevent negotiation at the outset of the tenancy, meaning the rent can revert to the open market value between tenancies, but is capped during the tenancy.

How long will it last?
Once designated, an RPZ can last up to five years.

The Build to Rent Sector

Build to Rent (BTR) in Scotland is fast becoming the most discussed topic in the PRS. With much hope being placed in the sector by government and industry alike, this emerging tenure has some challenges ahead if it is to deliver on its promise.

While there are a number of high profile schemes now progressing through the planning system, identifying suitable sites in Scotland's major cities can prove challenging when balancing target values against site availability in desirable locations and market competition from other tenures such as purpose build student accommodation (PBSA), or for sale product.

In addition to market challenges, the possibility of RPZs is raising concerns from some investors, while others, used to long-term investment horizons, are more accepting.

For more information on the sector visit; www.btr.rettie.co.uk

Hazel Sharp Webb joins Rettie & Co. to head up PRS & BTR Services

Rettie and Co. are delighted to have Hazel working alongside and advising our PRS and BTR Teams. Hazel is a chartered surveyor and business professional with over 10 years executive business management and UK-wide residential investment management experience.

Hazel is actively involved in a number of voluntary committees and forums:

-SPF Residential Investment and Management Committee Chair
-SPF Policy Board member
-RICS (Scotland) PRS Forum member
-PRS (Scotland)Working Party member and Tenancy and Regulation Sub-Group Chair
-ULI UK Residential Council
-Link Group Board member and Development Sub-Committee member

Hazel's presence will further allow Rettie & Co. to secure its postiion as the leading BTR advisors in the Scottish Market.

Contact Hazel at:

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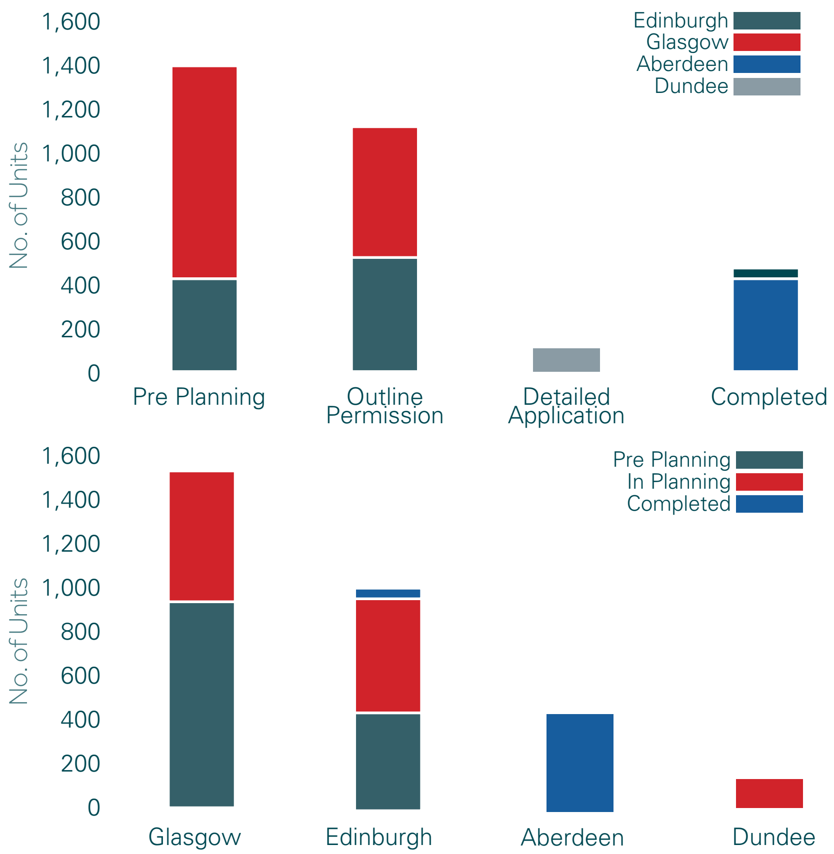
hazel.sharpwebb@rettie.co.uk

BTR delivery is focused in Edinburgh & Glasgow
Scottish BTR Units by Planning Stage (above) / City (below)



UNITS PIPELINE
BY CITY

1500
GLASGOW

1000
EDINBURGH

350
ABERDEEN

Airbnb and Festival Lets

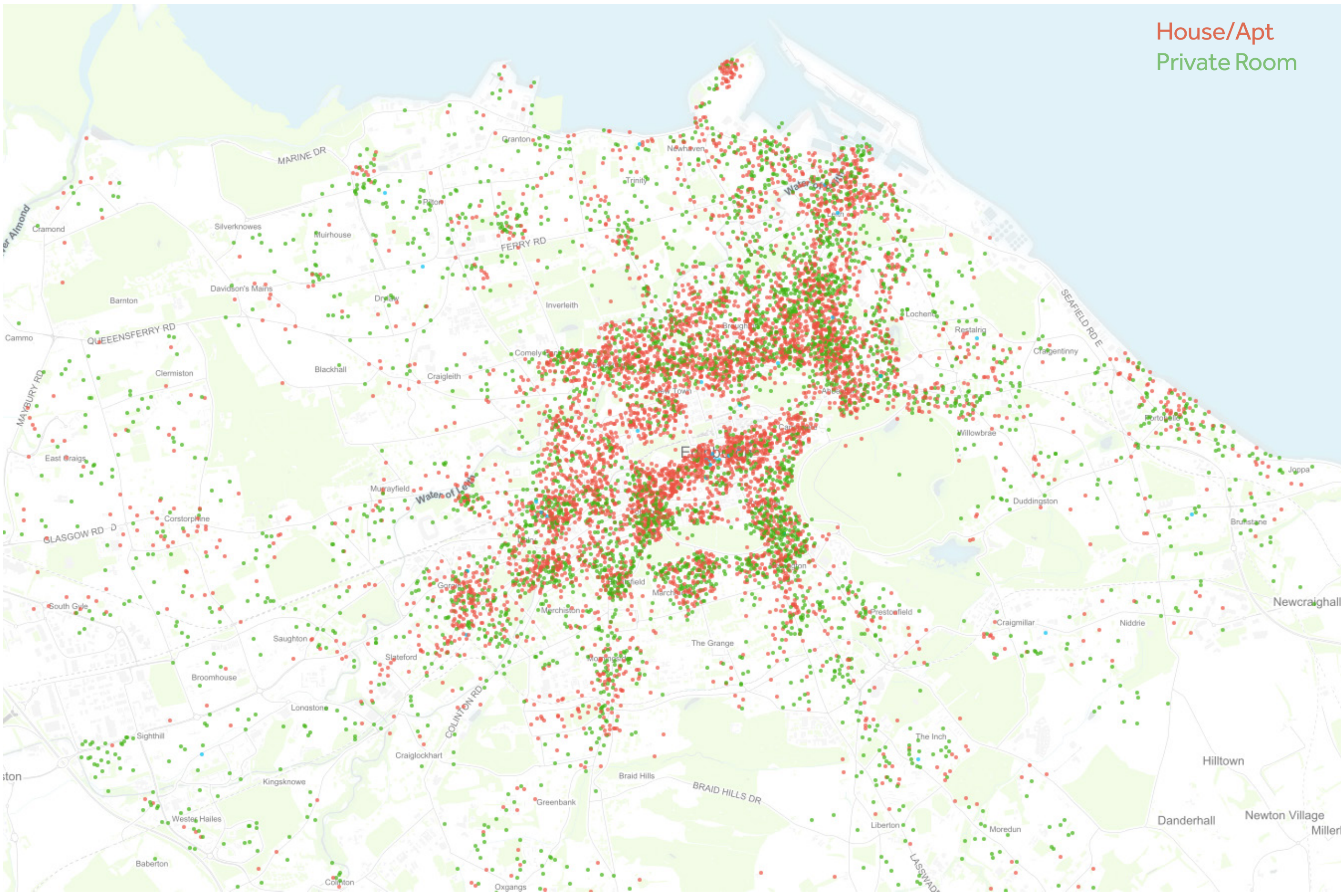
- The introduction of the Private Housing (Tenancies) (Scotland) Act 2016 may signal the end of the current student / festival rental model in Edinburgh.
- There has been an increase in the tax free allowance for people renting out rooms.

Airbnb Bonus

A positive change for those AirBnB'ing a room is the increase in the tax free allowance which increases from £4,250 per annum to £7,500 per annum. With over 4,000 households in Edinburgh renting out rooms through Airbnb this change will be welcomed by many in the Festival city. With fewer than 1,000 households doing the same in Glasgow, this measure may be less impactful in the west.

In recent years you may have noticed the rumbling of wheeled suitcases down residential streets, or small black boxes appearing in doorways. These clues point to the controversial rise of Airbnb. As a Festival city, Edinburghers have long warmly opened their homes to accommodate the troubadours, thespians and joculators that have been making their cultural pilgrimages to the capital over the past 70 years. With over 20,000 performers, putting on over 50,000 performances to over 1,200,000 patrons, the demand for accommodation has never been so high....or lucrative. It is estimated that over £1m is spent every day during the Festival, just on accommodation. It is therefore no surprise that there are now over 4,500 people in Edinburgh who call themselves Airbnb 'hosts', with the average price per night over £100. Edinburgh represents a particularly interesting confluence of issues in this sector. Changes to the private tenancy, and the removal of no fault grounds for repossession, may prevent the traditional model of student lets for 10 months a year and 2 months of Festival letting. Notably, Purpose-Built Student Accommodation (PBSA) is excluded from this restriction. The loss of those lucrative months may then combine with changes to taxation to make previously well-yielding investments less viable. The question moving forward is, will this reduce the much-needed fluid Festival supply from the market, or move more housing stock out of the PRS and into short-term lets where higher returns, and fewer restrictions, may make more financial sense?

There are now approaching 10,000 active Airbnb Listings in Edinburgh
Distribution of Airbnb Listings by property type.



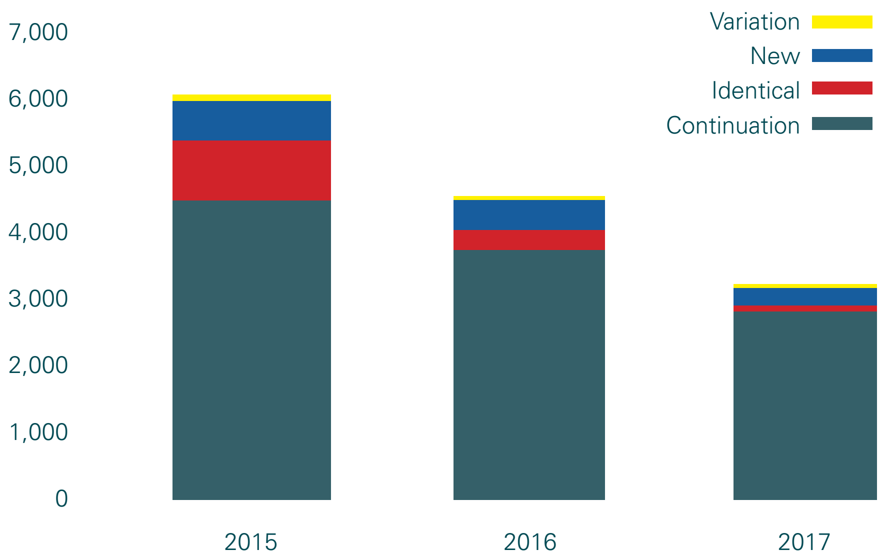
Source: Inside Airbnb

Houses in Multiple Occupation (HMO) Sector Under Pressure

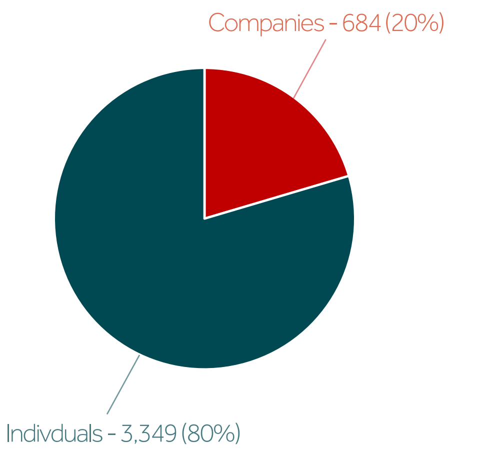
- The move towards Purpose Built Student Accommodation (PBSA) has seen many students turn away from poor quality HMO properties.
- An advantageous planning status has allowed PBSA blocks to be developed in prime city locations.
- Airbnb has offered an alternative year round income model for larger city centre flats that once would have relied on students and Festival lets.

The HMO flat used to be a mainstay of the Edinburgh rental market, with 3+ bed flats let out under license to students to maximise the rental income on a per room basis, then reclaimed for the festival. This trend was driven by larger scale historic flatted housing stock in the city centre being less appealing to family occupiers, or affordable to first steppers, both of whom defaulted to the owner occupation in family or more affordable neighbourhoods. Over the past few years, the number of new HMO licenses being applied for, or current licenses being renewed, has seen a downward trend. This shift has been driven by the rise of the PBSA, which is more attractive for many students, especially overseas students. With an advantageous planning status, PBSA blocks have been developed in prime city centre locations, providing students with convenience and modern amenities. Compounding this effect on HMO license is Airbnb, which now offers owners of larger apartments a short-term rental option; there are now c.900 properties in Edinburgh with 3 or more bedrooms which are available for rental through Airbnb.

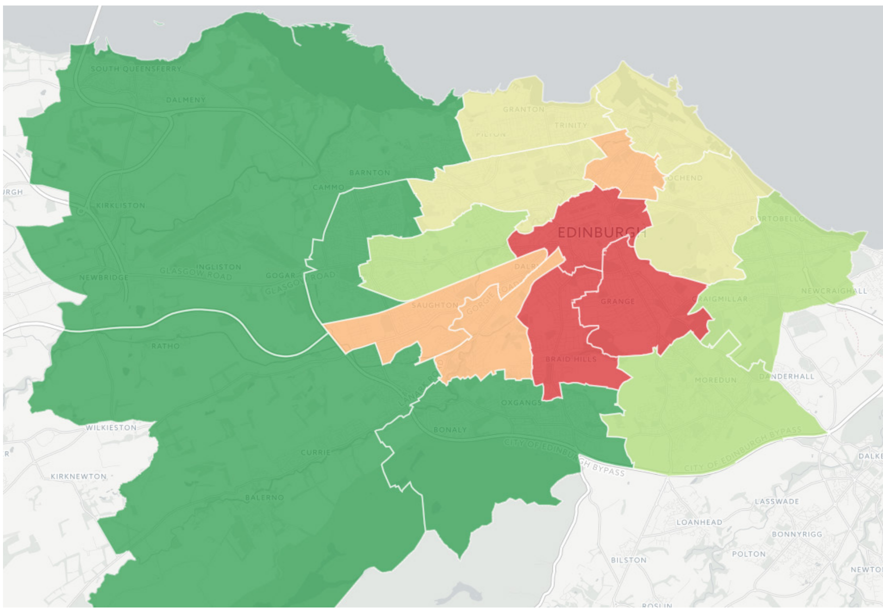
The number of HMO licenses has been declining in recent years.
Count and type of HMO license by year in Edinburgh



Individual landlords remain the main HMO owners
Company vs. Individual Ownership in Edinburgh



The city centre and the southside of Edinburgh have the highest number of HMOs
Distribution of HMO by City Ward



Number of HMO Licenses by City Ward

Meadows/Morningside	1918
Southside/Newington	1603
City Centre	1443
Leith Walk	388
Sighthill/Gorgie	242
Fountainbridge/Craiglockhart	199
Leith	117
Inverleith	102
Craigentinny/Duddingston	85
Corstorphine/Murrayfield	42
Forth	32
Liberton/ Gilmerton	29
Pentland Hills	27
Portobello/Craigmillar	20
Almond	8
Colinton/Fairmilehead	5
Drum Brae/Gyle	4

The Importance of Tenancy Management

- **Tenant behaviour suggests that the impact of shorter initial periods is unlikely to impact significantly on tenancy lengths for most landlords.**

- **Proactive and professional tenant vetting can mitigate this risk as Rettie & Co. average tenancy length statistics illustrate when compared to national averages.**

The introduction of the new Private Residential Tenancy (PRT) has obviously raised concerns amongst landlords that changes to the initial period will lead to shorter tenancies and increased void periods. While technically possible under the legislation, this would require a significant shift in behaviour.

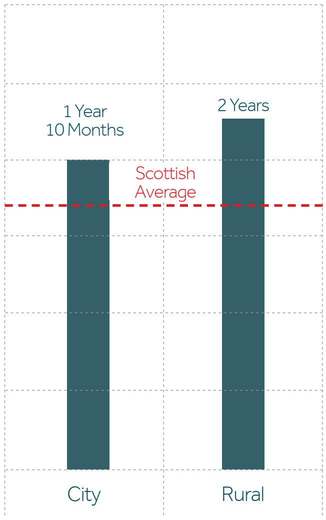
Analysis of our portfolio shows that our average tenancy for managed properties is c.22 months, depending on location and property type. This is far longer than statutory minimum term under the Short Assured Tenancy. The time and cost of moving means that, for most tenants, the theoretical flexibility of short-term leases is, in reality, contrary to life and work drivers.

This said, a mitigation of this risk is a professional approach to tenant vetting. Traditionally, many letting agents work on a first come, first served basis, rewarding speed of application, rather than suitability. Under the new PRT, the detailed vetting of applicants, as Rettie & Co. do as best practice as standard, will be important in understanding the situation and intentions of applicant tenants. The fact that the average Rettie & Co. tenancy is 22 months, and is longer than national average of 18 months, reflects the benefits of diligent vetting.

For these reasons, we believe that there is unlikely to be a significant shift in tenancy lengths for the majority of landlords, and the limited downside risk can be mitigated by proactive asset management.

Rettie & Co. Average Tenancy Length by Location

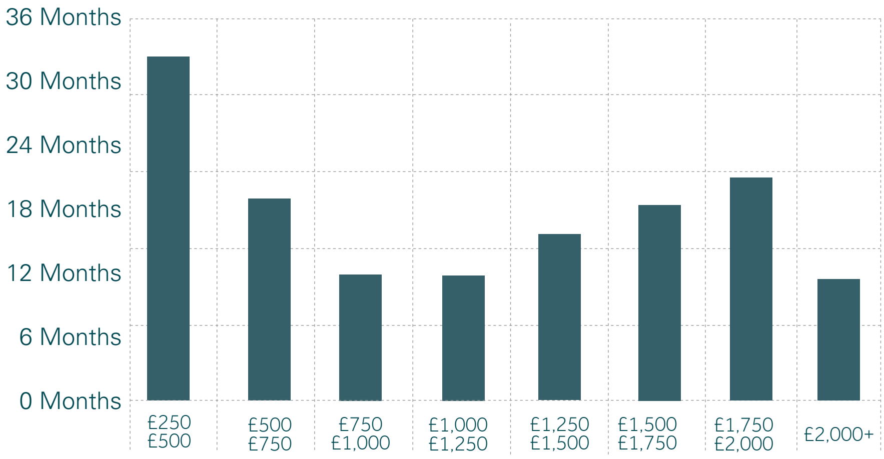
Cities vs. Rural / Commuter



Council Area

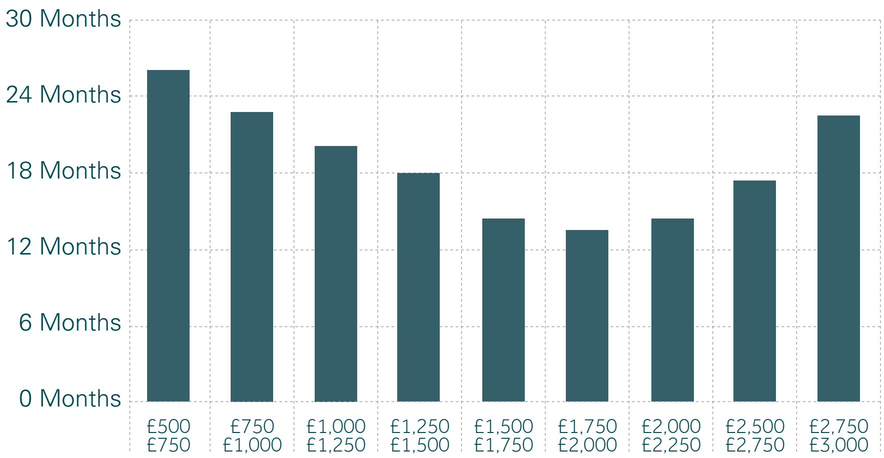
Glasgow Tenancy Length is constrained by affordabilty and housing profile in the city

Distribution of average tenancy lengths by price in Glasgow



Tenancy length in Edinburgh is a balance of affordability and scarcity

Distribution of average tenancy lengths by price in Edinburgh



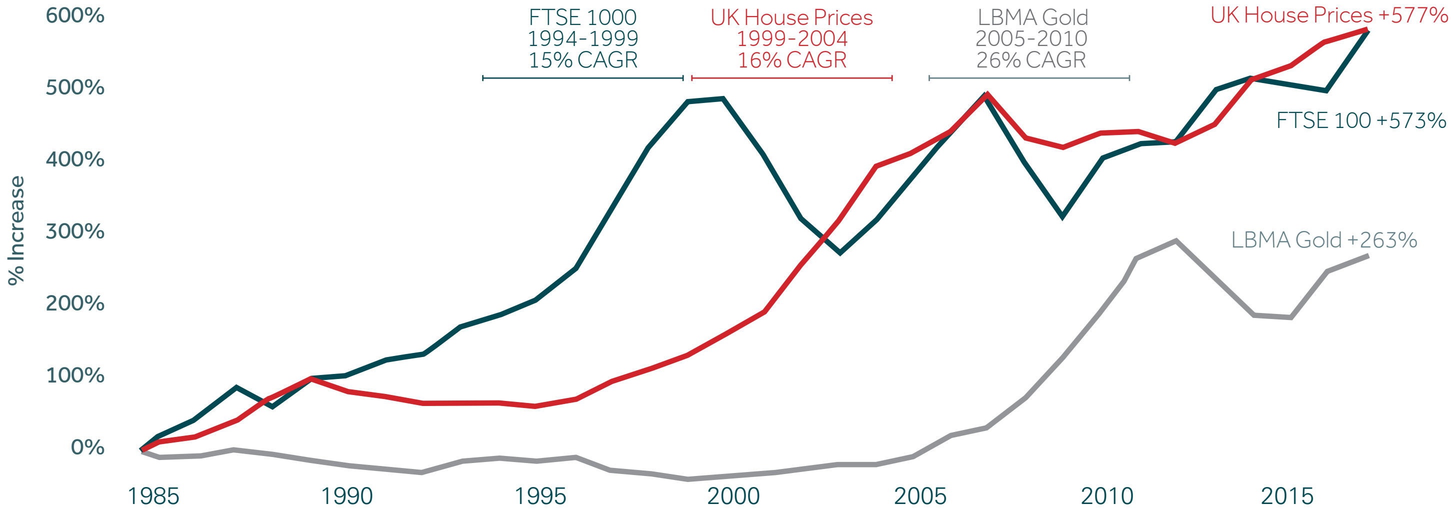
Residential Investment Still Performs Strongly

- **Over the long-term, residential property investment remains a strong performing and comparatively stable asset class.**
- **While short-term asset returns can widely vary, residential property has been subject to less downside risk.**

The comparison of asset performance is often divisive, with investment horizons balanced against risks and so on; this is illustrated by the litany of emails and news stories extolling one strategy over another. Looking back over the past 20 to 30 years, investments in shares, property and commodities have all seen periods of strong performance, but equally, periods of market correction.

However, residential property has remained a consistent investment choice due to the longer-term performance and robustness against severe market correction that has been seen in more liquid and speculative asset classes. With housing demand strong and new housing supply weak, we believe that the fundamentals underpinning residential property investment remain compelling.

Residential Property has remained a robust and successful asset class
Comparison of UK Average House Price growth, FTSE 100 performance and Gold Price (Base 1984)

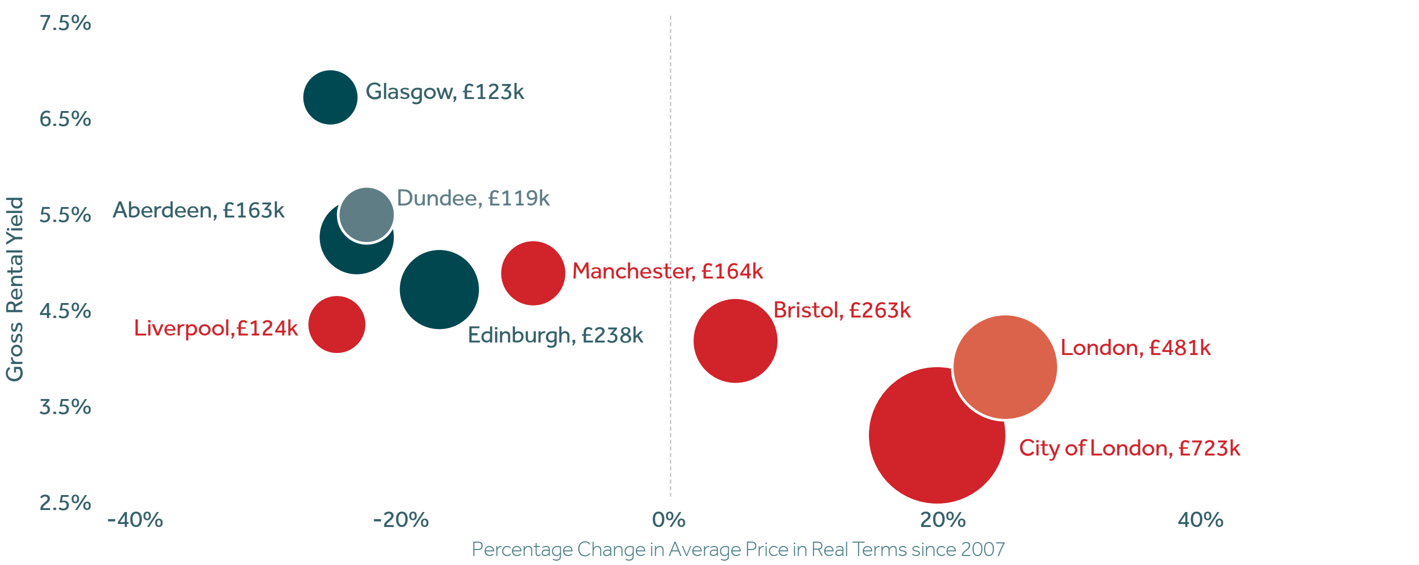


Investment Market Comparison

- **Scottish cities are yet to return to peak levels, in real terms, supporting potential for further upside returns.**
- **Markets, such as London, have seen price falls, suggesting over valuation.**

Average house prices in Scottish cities are yet to return to peak levels in real terms. The fact that Scotland's main cities are still 20% to 30% below their 2007 peak levels, in real terms, is driving many investors - both individual and instiutional - to look north of the border as it offers a compelling investment case when compared to overheating southern markets. Strong underlying fundementals of growing demand, weak supply, professional employment and good earnings, make the likes of Edinburgh and Glasgow attractive for investors. This is especially true when London values are falling and the capital entry requirements are far greater to enter.

Scottish Cities have higher yields, lower capital requirements and potential for market growth
Comparison of Gross Yields & Change in Average Price since 2007 in Real Terms



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

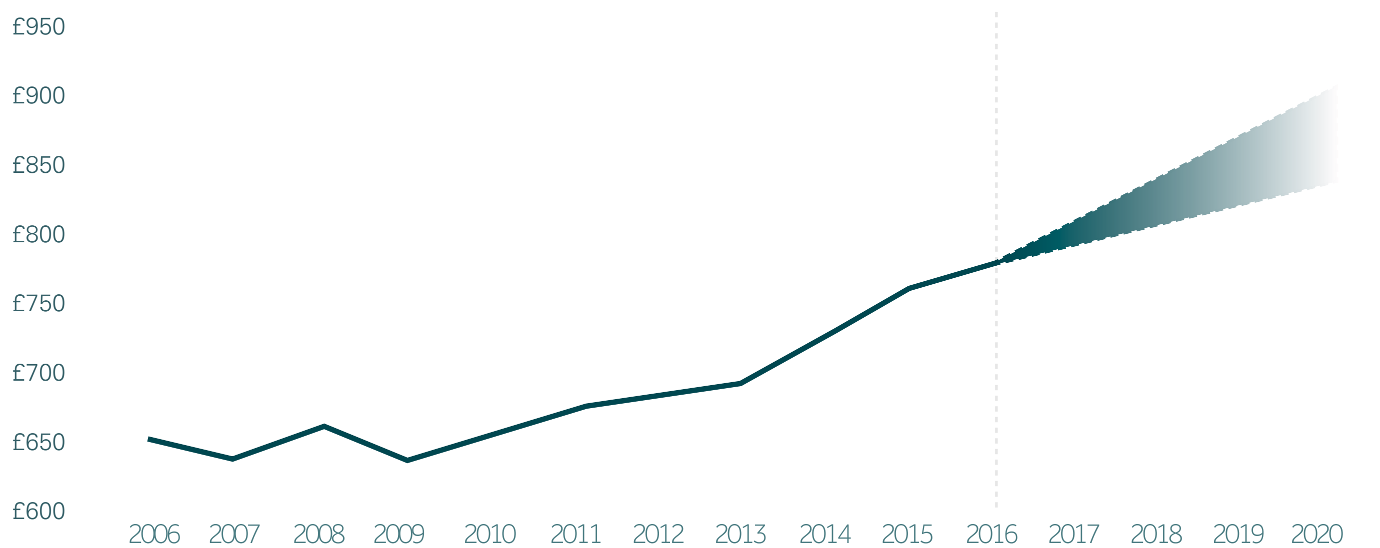
Outlook	Changes	Mitigation & Opportunity
	Market Demand	Rising population and household numbers, combined with the undersupply of new house building looks set to support rental demand.
	Rental Values	Strong demand drivers are set to support rental values as long as the current fundamentals of low supply and limited access to purchase persist.
	Initial Terms	Current tenant behaviour & average tenancy lengths suggest that short initial periods are unlikely to impact on the vast majority of tenancies, and this can be mitigated through diligent applicant vetting.
	Notice Periods	While longer tenancies will see the notice period increase by a month and will require additional planning, the new system should speed up the recovery of a property where there has been a breach.
	Mandatory Grounds	While the no fault basis for recovery has gone, the 18 mandatory grounds and streamlined system should be beneficial in most cases.
	Wear & Tear Allowance	Itemised wear & tear, up to 10%, will still be able to be claimed but will now require more careful management over the tenancy.
	Mortgage Interest Relief	This will have the greatest effect on highly leveraged, higher rate tax payers, but with careful portfolio management & planning, its impact can be mitigated.
	Rent Pressure Zones	The introduction and potential shape of rent controls is yet to be decided, but annual increases, a CPI+1% base and rebasing to market rents between tenancies should limit its negative impact in most scenarios.
	Short-Term Lets	The increase of the tax-free allowance for renting out a room from £4,250 to £7,500 is a benefit, but council considerations on limiting the number of days a property can be short-term let may impact some investors.
	Overall Outlook	The rental market is experiencing high demand, limited supply and rising values which are compelling investment drivers. The reality of many of the percieved risks of the PRT can be mitigated against through planning & management.

Rental Market Forecasts

The Scottish rental market has seen strong annual growth since 2013, responding to the combination of low levels of new housebuilding, tighter mortgage lending criteria introduced in 2014 as a result of the Mortgage Market Review, and a moving tenure balance towards the PRS. Having averaged 1% annual growth between 2007 and 2013, the market jumped to 5.7% growth in 2014 and 4.4% growth in 2015. In 2016, a cooling in rental values towards the end of the year, returned 2.6% growth. Over 2017, stronger rental growth has returned to the market with Aberdeen's return to positive territory influencing the overall Scottish average, alongside upturns in Edinburgh and Glasgow.

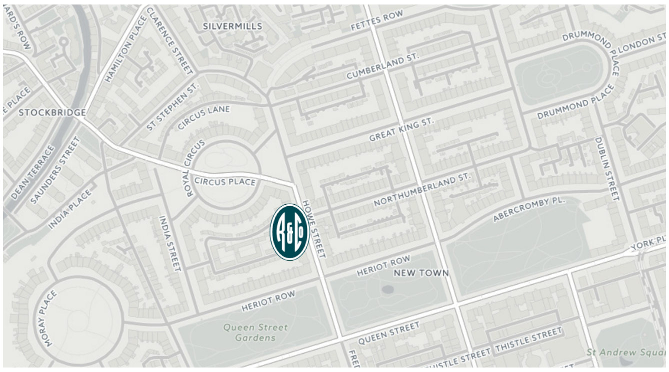
Looking forward, with the fundamentals of strong demand, constrained supply and limited pipeline of new homes, we expect rental values to grow between 2% and 4% per annum across the country over the next few years.

The rental market is expected to experience between 2-4% growth over the next few years
Scottish Average Rents by Year 2006 to 2016 and forecast from 2017 to 2020



Source: Citylets / Rettie & Co. Research

Offices



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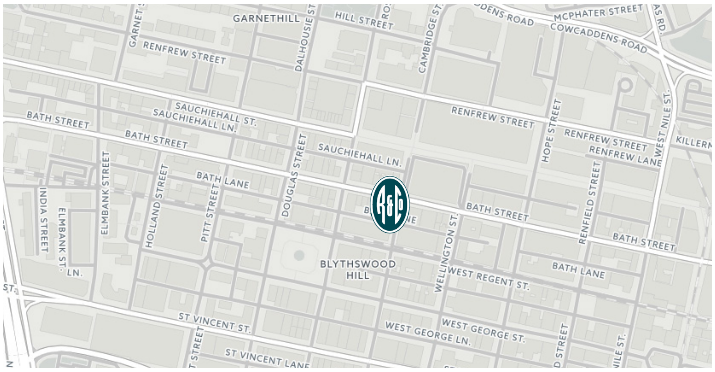

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