

Mid Market Rent in Scotland

Market Briefing

Summer 2018



RETTIE



Building Affordable Rental Demand

The rise of the rental sector has been notable in recent years, and the affordable rental sectors has been no different.

In 2010/11, affordable rental homes accounted for just over 50 units completed that year, or less than 1% of the 7,231 total affordable housing units completed in Scotland. In 2017/18, there were 1,133 affordable rental homes completed in Scotland, accounting for over 13% of all affordable completions.

With various factors driving an increasing proportion of households into the rental sector, rising demand has seen rent rises putting pressure on affordability. This level of demand for affordable rental options has been clearly

illustrated by the 3,000+ applicants for both phases of Harbour Point (96 homes) and Harbour Gateway (138 homes) in Edinburgh's Western Harbour.

With the recent announcement by PfP Capital of a £150m MMR Fund backed with a £47.5m investment by the Scottish Government, the sector only looks set to grow and develop as a significant tenure within Scotland's housing sector.



Andrew Meehan
Associate Director

Key Findings

- Mid Market Rent annual housing completions have grown from only 16 units to 1,133 over the past decade.
- In the past year, annual MMR completions have increased by over a quarter.
- The Scottish Government has recently announced a £47.5m investment in MMR, in partnership with PfP Capital, with the aim of creating a £150m fund to deliver 1,000 MMR homes.
- Rettie & Co. is PfP Capital's agent for delivering the pipeline of affordable homes and has been appointed to identify and appraise suitable sites. Those who are interested should contact Jamie Macfarlane on 0131 202 0055 or email jamie.macfarlane@rettie.co.uk

The rise of Mid Market Rent

Mid Market Rent is an affordable housing tenure, where rents are lower than those found in the private market, but higher than social housing rents. It is intended for economically active people who are disenfranchised from social house because their earnings are too high, but who are struggling to pay open market house prices or rents.

The delivery of MMR is supported by the government through funded Affordable Housing Supply Programme (AHSP) as well as innovative funding models such as National Housing Trust initiative (NHT) and the Local Affordable Rented Housing Trust (LAR).

The affordable rental sector in Scotland has grown dramatically over the past

decade, rising from only 16 completions in 2007/08 to 1,133 completions in 2017/18. This continued rise saw annual completions jump over a quarter in the past year to a new high point.

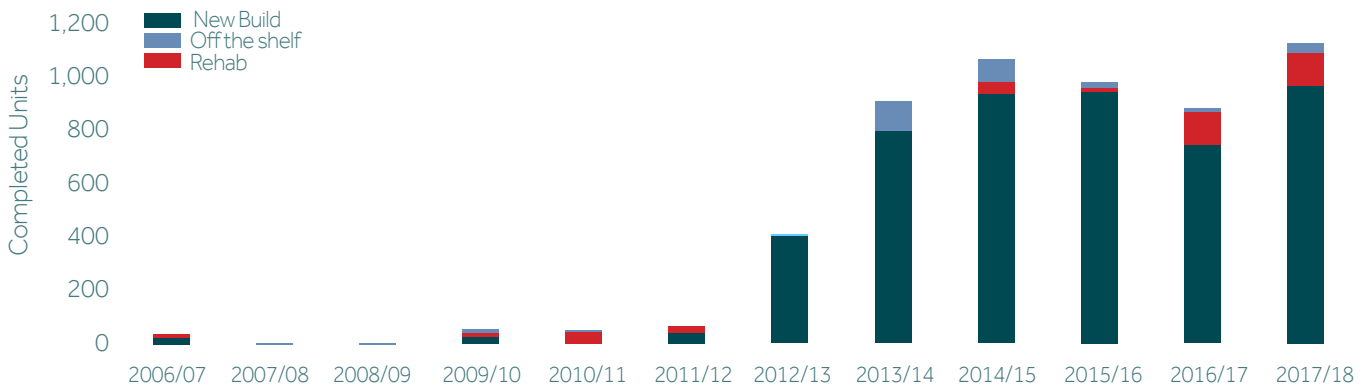
Scottish Government investment in the affordable sector rose by 30% in 2016/17 to over £500m, from £380m the year before. The proportion of this expenditure for MMR also rose from 6% (£24.5m), to 7.5% (£38.2m) in 2016/17.

With the announcement of £47.5m of Scottish Government investment in the PfP Capital MMR Fund, there is significant potential for the volume of delivery to grow significantly in the coming years.

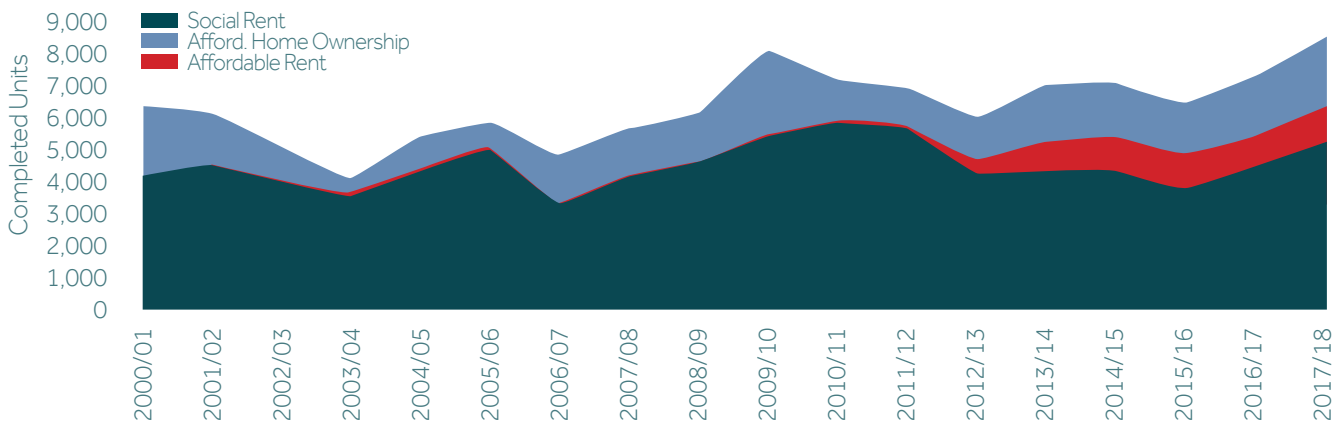
1,133
AFFORDABLE HOUSING
COMPLETIONS IN 2017/18

+27%
ANNUAL INCREASE IN
AFFORDABLE HOUSING
COMPLETIONS

Affordable Rent Completions in Scotland by Year



Scottish Affordable Housing Delivery by Type



Places for People £150m MMR Investment Fund

Rettie & Co.'s Development Services division has been appointed to support in the delivery of one thousand affordable homes across Scotland, through the intended use of a Mid Market Rent (MMR) Fund, following a long-term loan of £47.5 million from the Scottish Government. The fund, when established, will be managed by PFP Capital, a full scope UK AIFM and a subsidiary of regeneration group, Places for People (PFP). This strategy forms part of the Scottish Government's blueprint to build over fifty thousand affordable homes by 2021. PFP Capital intends to raise capital from third parties over the coming months. It is intended that the MMR Fund will be registered with the Financial Conduct Agency (FCA) as an Alternative Investment Fund. Rettie & Co. is PFP Capital's agent for delivering the pipeline of affordable

homes and has been appointed to identify and appraise suitable sites. The appointment comes on the back of the property group's expertise in Build to Rent and Mid Market Rent, including having worked alongside Forth Ports on the latest phase the Western Harbour regeneration in north Edinburgh – where there were over 3,000 applications for 138 homes – and advising developer Moda Living on Springside in central Edinburgh and Holland Park in Glasgow, two of Scotland's largest Build to Rent developments.

Overall, Rettie & Co.'s Build to Rent team, headed up since last year by Hazel Sharp Webb and supported by Scotland's largest private sector property research team led by Dr John Boyle, has advised on the majority of the 4,000 plus units in Scotland's Build to Rent pipeline.

Matthew Benson, Rettie and Co. Director and head of Development Services, said;

The PFP fund is a significant development for Scotland and the economy and we look forward to supporting the PFP team as they work towards delivering Scotland's largest ever project of this kind."



Matthew Benson
Director
Rettie & Co.

Scottish Government: Kevin Stewart, Housing Minister

"This investment will support people on low and modest incomes to access high quality rented accommodation at affordable rates and is one of the many ways in which we are delivering on our target of 50,000 affordable homes by 2021, backed by over £3 billion.

Affordable housing is about more than just bricks and mortar. We want everyone to have a safe, warm home and schemes like this will help to create a fairer Scotland, while delivering great economic benefits."



Kevin Stewart
Housing Minister
Scottish Government

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

Opinion - MMR Sector

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 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 applicant 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 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.



Sharon Ross
MMR Portfolio Manager
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MMR Case Study - Harbour Gateway, Edinburgh

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 over-subscribed Harbour Point. In this application process, over 3,000+ 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.

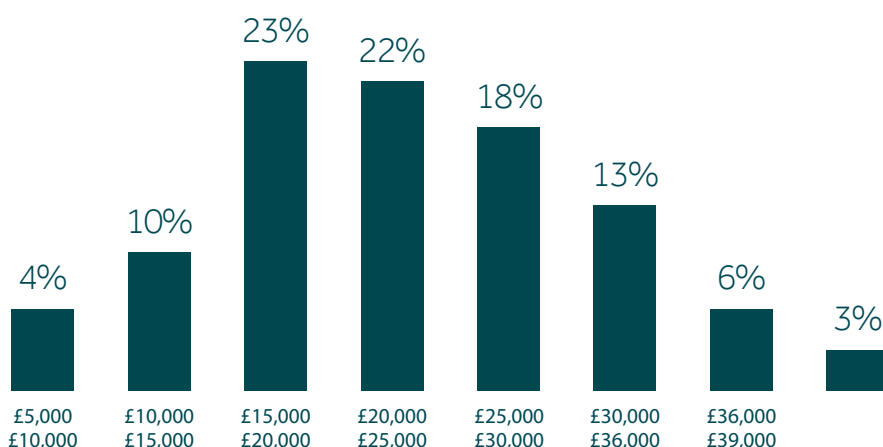
In addition, schemes, such as Harbour Point and now Harbour Gateway, show the potential to deliver affordable BTR into secondary locations within a city if the value proposition being offered to residents is well considered, the buildings appropriately specified, and the overall lifestyle and value proposition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

138
MMR Homes

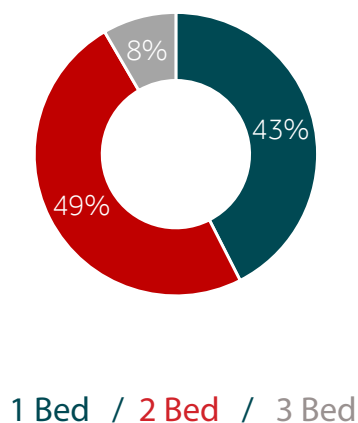
+ 3,000
Applicants

90% in Full Time Employment
Average Age of 32 Years Old

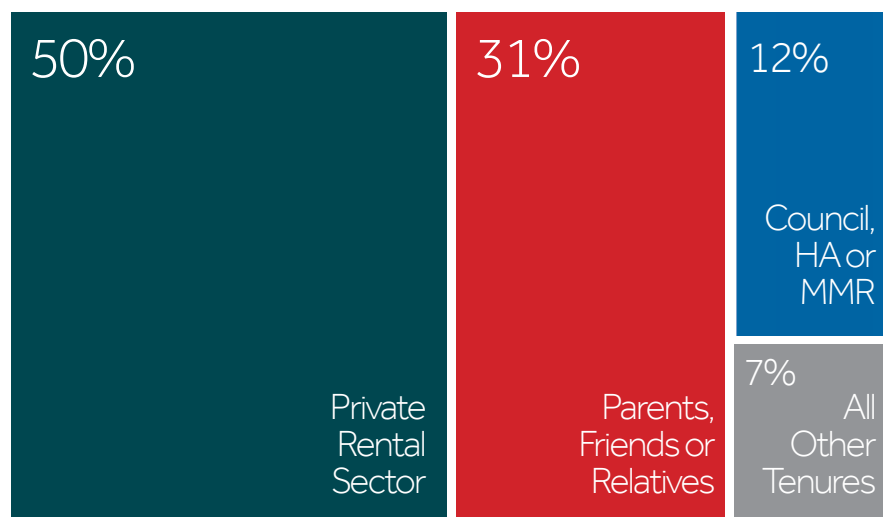
Applicant Income Distribution



Preferred Apartment Size



Tenure of Applicants



Setting Up Home for the First Time



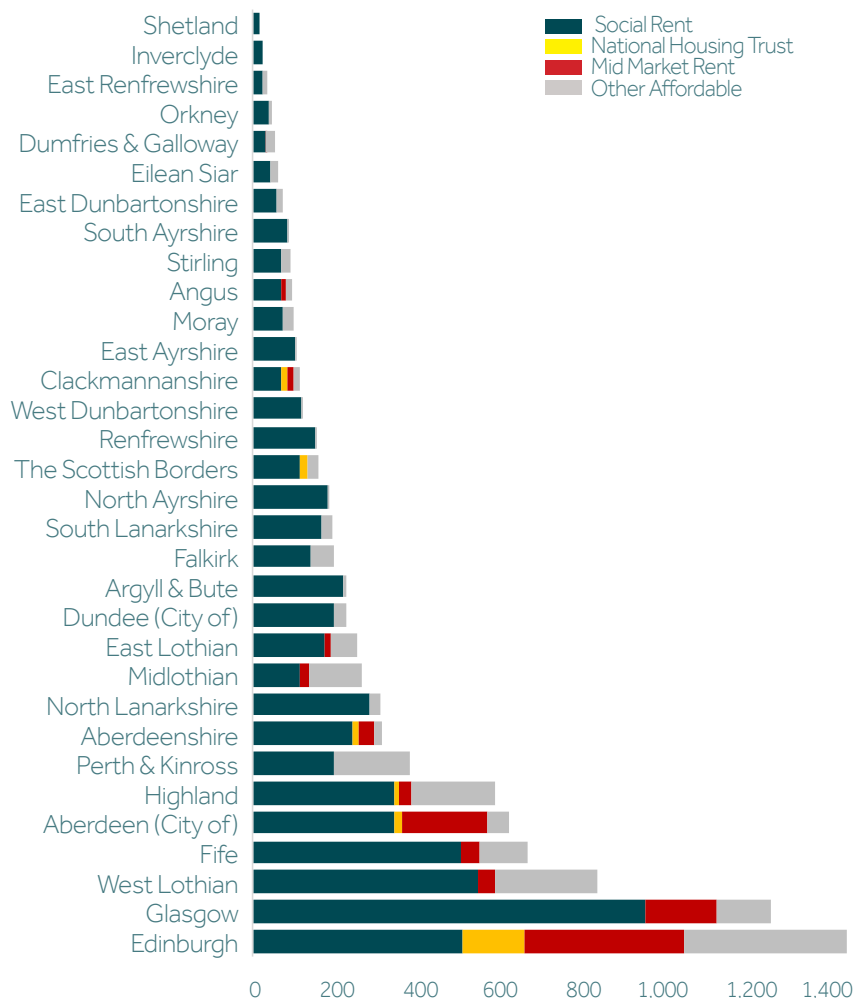
Rental Affordability



Proximity to Work



MMR Supply: Social site 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 units 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).

The MMR Team



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