RETTIE

BUILD TO RENT SCOTLAND

Scottish Market Review
Spring 2019

BUILD TO RENT IN SCOTLAND

Introduction by Hazel Sharp Webb

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

This said, while there is growing interest, Scotland still lags the rest of the UK in terms of the volume of planned delivery. With approximately 6,400 BTR homes, completed or in the pipeline, this represents only 1.7% of the 360,000 households in the PRS in Scotland, meaning that BTR is yet to make an impact on Scottish housing supply. This level of supply lags the 4.9% of BTR households in the UK's PRS, and the almost 8% of BTR homes that make up London's PRS. If BTR in Scotland is going to contribute materially to the housing shortage, then there has to be much more effective collaboration across the public and private sectors. To put this in context, if BTR in Scotland provided the same level of stock as down south then the Scottish pipeline would be nearer 12,000 homes, or at London rates, over 28,000 homes.

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

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

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

Hazel Sharp Webb
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BTR SUPPLY & PIPELINE

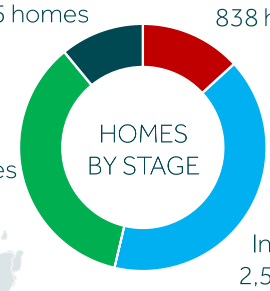
3,770
GLASGOW

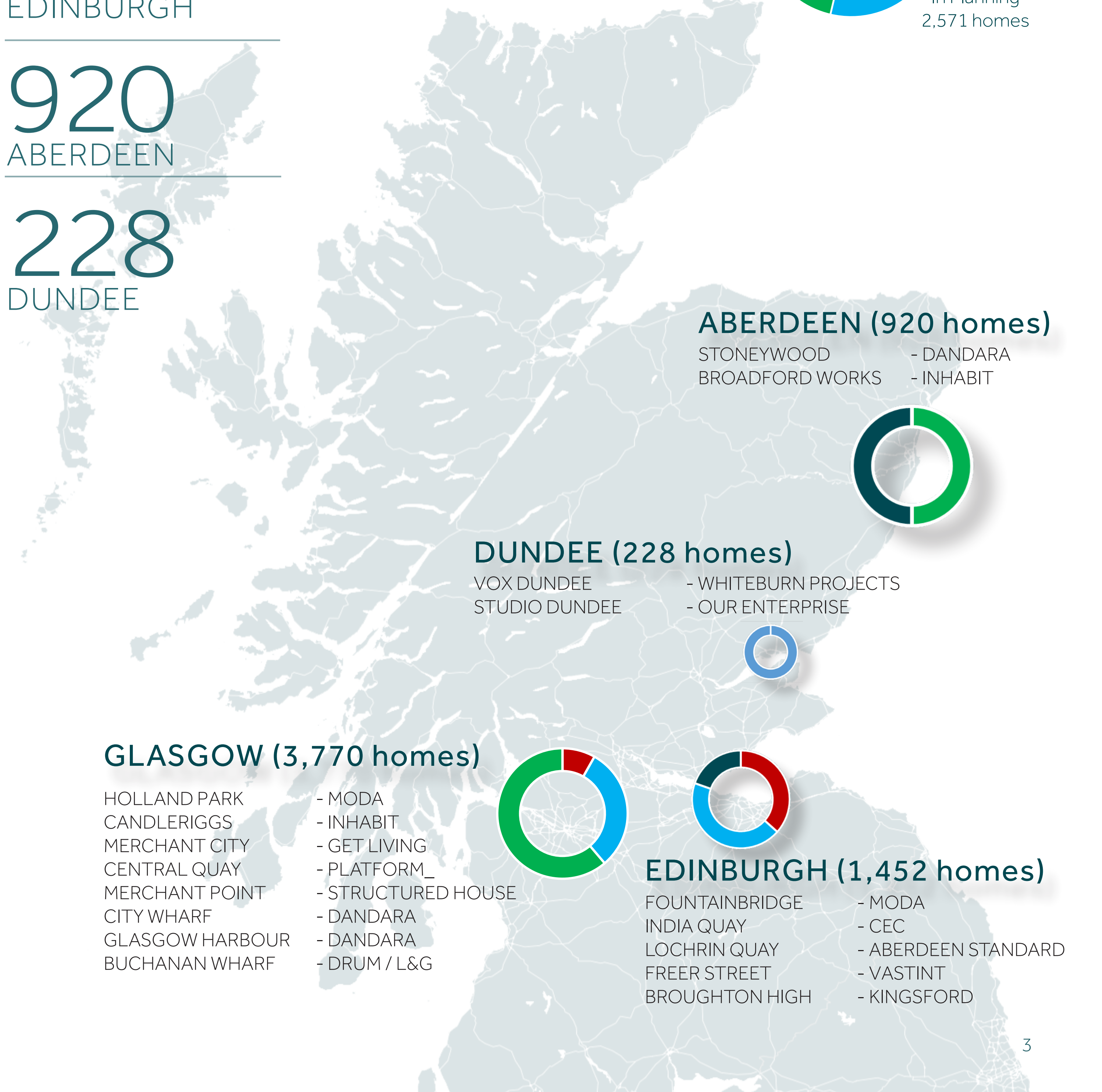
1,452
EDINBURGH

920
ABERDEEN

228
DUNDEE

SCOTLAND BTR BY STAGE





BUILT TO RENT SUPPLY BY CITY

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.

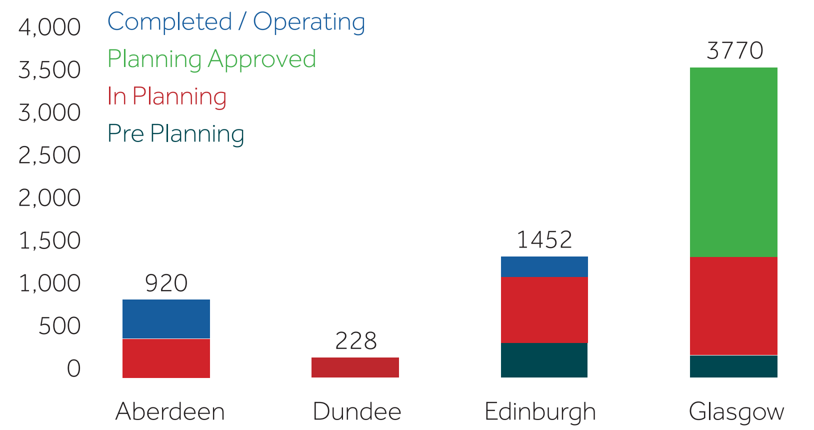
In Glasgow, the historic lack of residential occupation in the city centre has been recognised in council policy, with the aim to encourage the re-occupation of the city centre. Recognising the undervaluing of the city centre for residential, a number of large-scale sites are now set for residential 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 to deliver over 1,000 homes between Inhabit's Candleriggs development and Get Living's arrival in the Glasgow market at the former Blackfriars Car Park to the east of the Merchant City. Combined with recent announcements by Drum Property Group and L&G, Glasgow's BTR pipeline is now over 3,700 homes.

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 in the capital is focused on the Fountainbridge area, with four BTR schemes at various stages within the planning process.

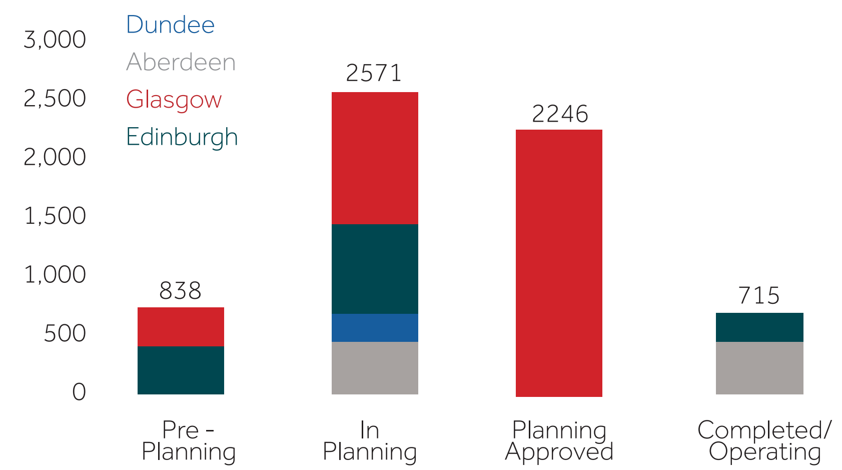
In Aberdeen, the appetite for BTR seems to have waned due to the city's economic situation, with the Broadford Works scheme largely retreating to more traditional tenures from its initial plans for BTR, although a number of BTR homes are still anticipated.

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

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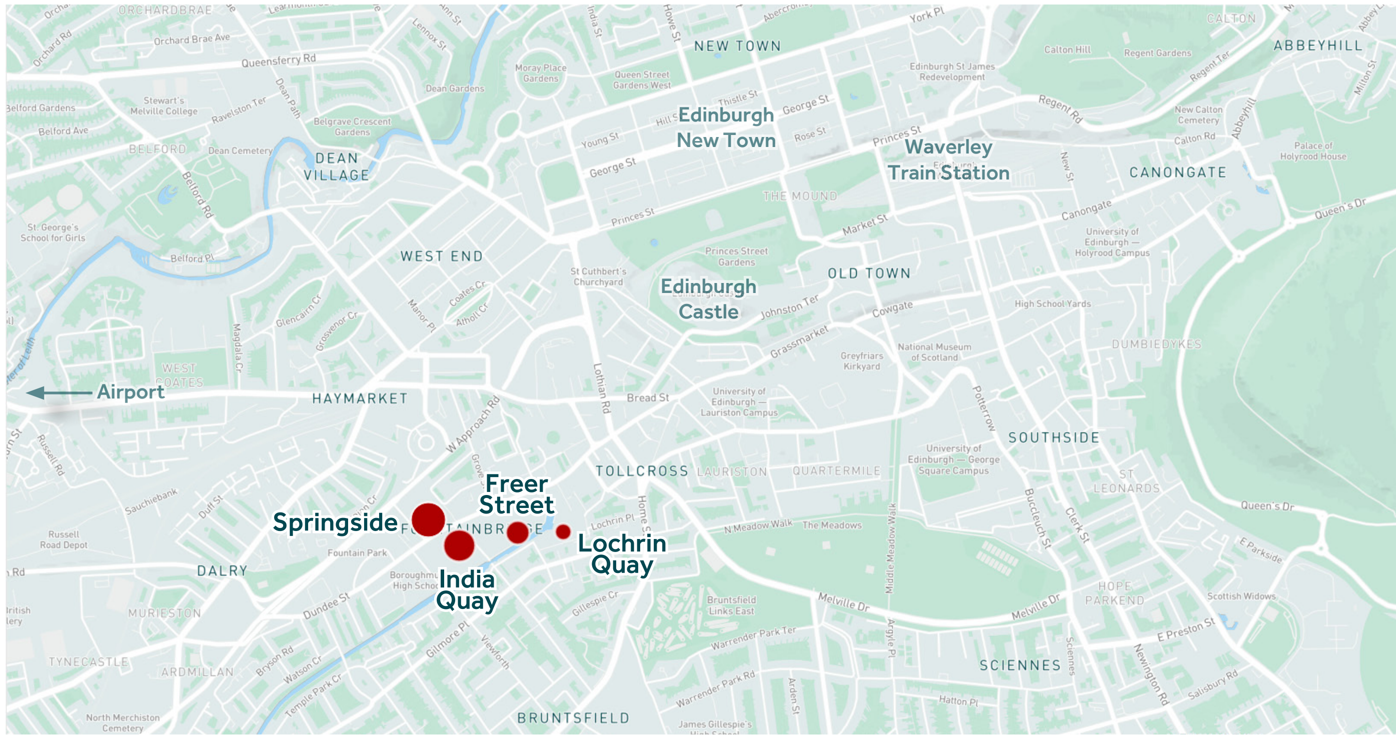


Springside
Edinburgh

Moda / Apache
500+ BTR Homes

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.

India Quay
Edinburgh

EDI Group
400+ BTR Homes

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.

Lochrin Quay
Edinburgh

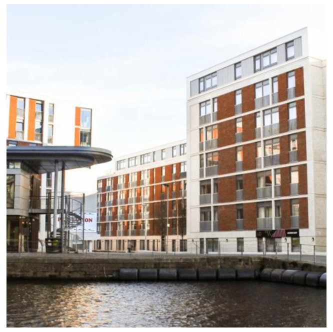
Aberdeen Standard
133 BTR Homes

Completed and operating. The Lochrin Quay development was an asset purchased in 2018 by Aberdeen Standard Investment for £27.5m. The development represents the first operating scheme in the Capital.

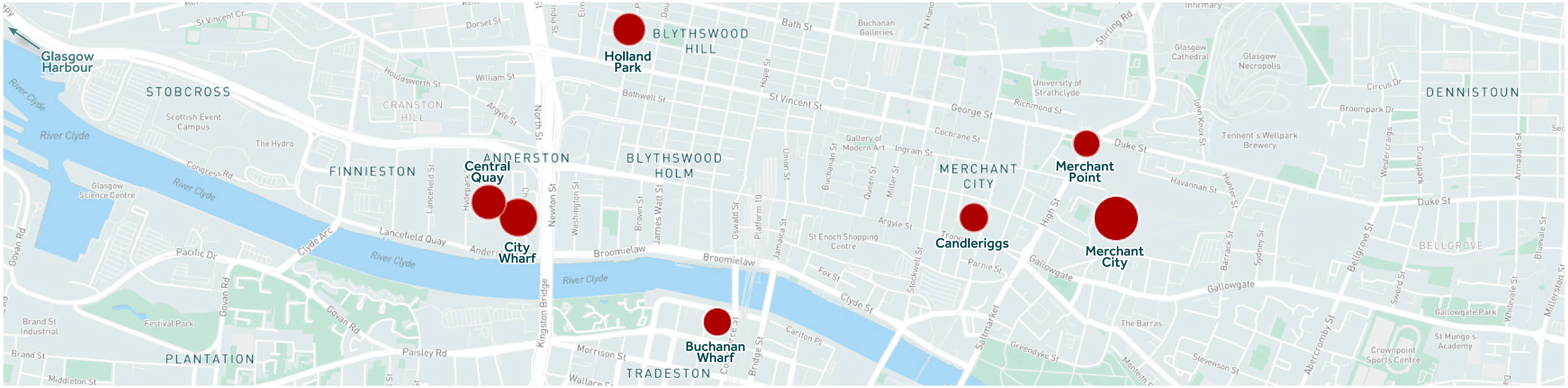
Freer Street
Edinburgh

Vastint
230+ BTR Homes

Vastint Hospitality completed the purchase of 10,000sqm site in 2016. The scheme will contain a mix of offices, residential and a 260 room Moxy Hotel. The scheme occupies a canal side locations within the Fountainbridge redevelopment area.



GLASGOW



Glasgow Harbour
Glasgow

Dandara
342 BTR Homes

The 342 apartments are delivered over 2 blocks at a maximum height of 16 storeys. The development includes 2 commercial units and related facilities on the ground floor and 2 levels of secure basement parking. The development is part of a wider western extension of the river-front.

Central Quay
Glasgow

PLATFORM_
500+ 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.

Holland Park
Glasgow

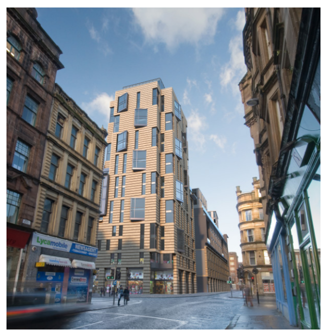
Moda / Apache
400+ BTR Homes

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.

Candleriggs
Glasgow

Inhabit
300+ BTR Homes

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



City Wharf
Glasgow

Dandara
600+ BTR Homes

This scheme will deliver 603 btr apartments in 2 blocks up to 16-storeys. The development is located close to the city centre in an area set to change through development and benefitting from strong connectivity within the city.

Buchanan Wharf
Glasgow

Drum / L&G
300+ BTR Homes

Buchanan Wharf is a major mixed use development on the southside of the River Clyde. The site will provide more than a million square feet of prime Grade A office space, residential accommodation and a mix of local amenities and landscaped public spaces.

Merchant Point
Glasgow

Structured House
400+ BTR Homes

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 1.1acres with current plans proposing 14 stories.

Merchant City
Glasgow

Get Living
700+ BTR Homes

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.

DEMAND DRIVERS

The Scottish market has seen strong rental and house price growth, at a time when indictors 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, 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 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 2017'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.

First Mover Advantage
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.

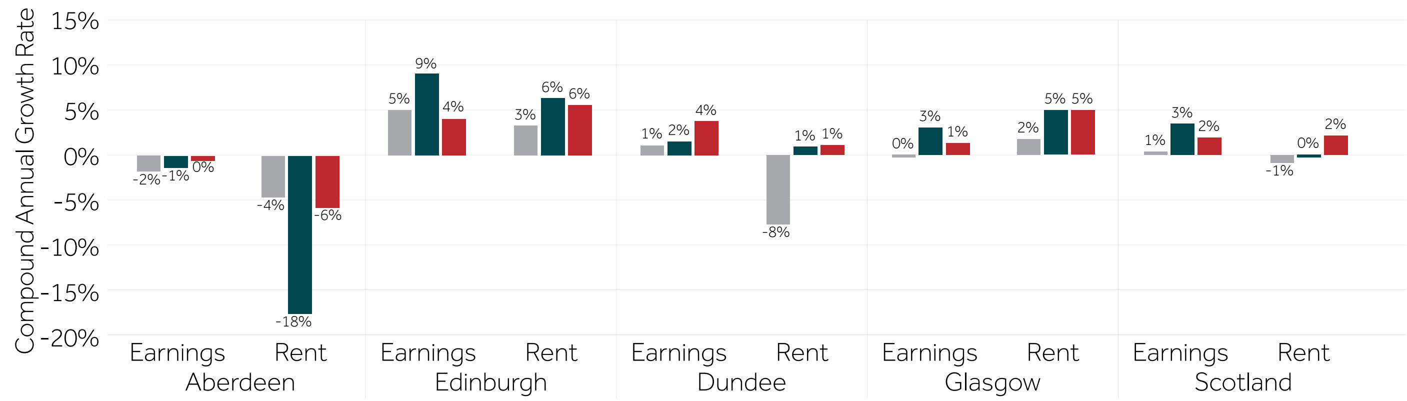
Market Growth & Outlook
Looking forward, the demographic fundamentals of Scotland's major cities, along with their economic outlook, from Dundee's emerging creative and entrepreneurial design culture through to Edinburgh's economic hub, promises strong ongoing potential for investors looking to diversify 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	£473,887	£180,457	£137,163	£260,221	£129,874	£152,799
	Nominal % change from 2007 peak prices	68%	-2.6%	-20.2%	-12.6%	-24.5%	-31.2%
Population	Forecast growth 2016 to 2041	18%	18%	16%	27%	18%	18%
	% 16 - 34 years old	30.0%	39.5%	33.1%	32.6%	32.9%	33.1%
Rents	Average Rents	£1,679	£824	£499	£1,095	£771	£715
	PRS Tenure (% 2015/16)	27%	28%	19%	26%	19%	20%
	Avg Gross Rental Yields	4.3%	5.5%	4.4%	5.0%	7.1%	5.6%
Employment	In Employment	73.3%	67.5%	67.1%	75.7%	66.0%	76.1%
	Avg. Earnings (pw)	£653	£468	£497	£560	£524	£554
	NVQ4+ Education Level	58%	39%	35%	59%	44%	53%

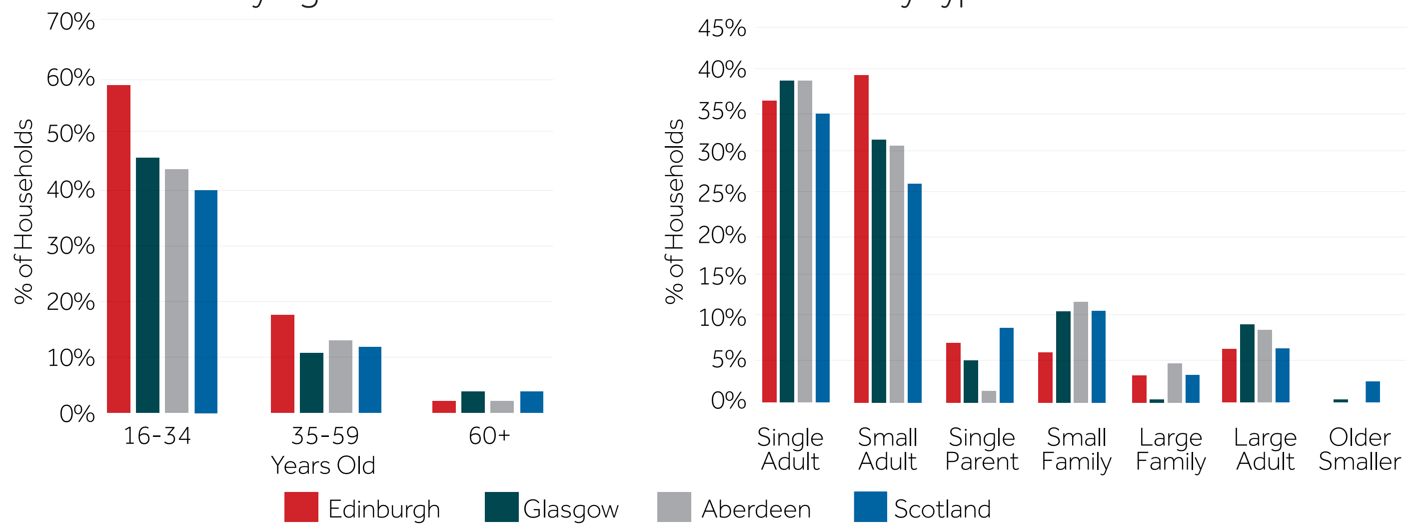
Source: Land Registry / Registers of Scotland / VOA / Citylets / Bank of England / Census / NOMIS

Earnings & Affordability: Comparison of Compound Annual Growth Rates (CAGR)

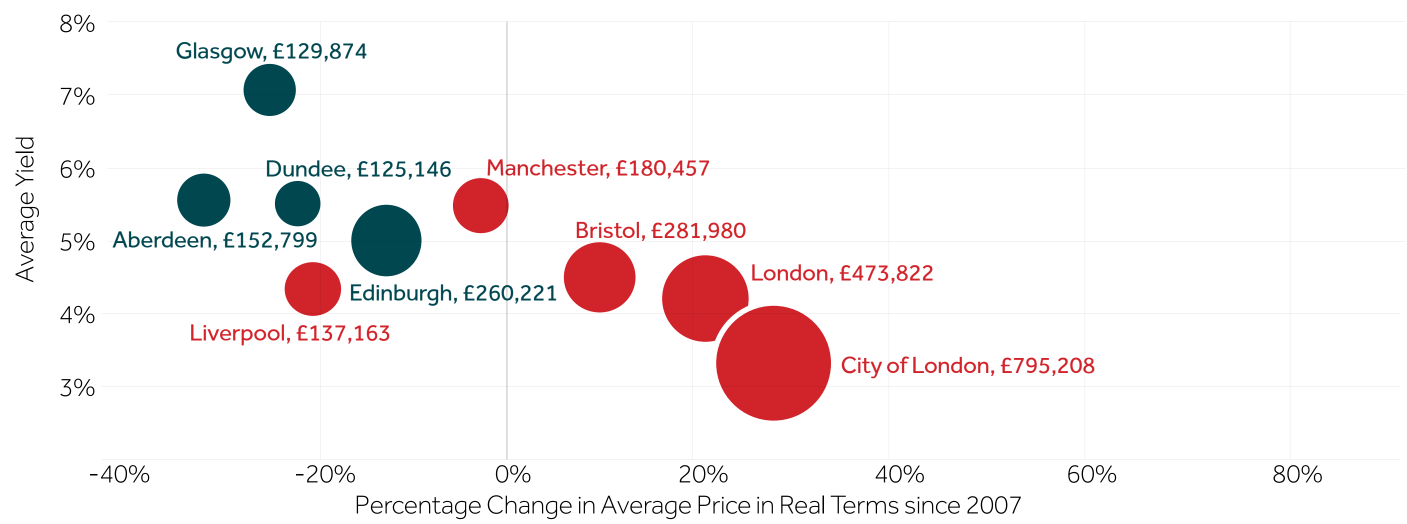


PRS Tenure by Age & Household

PRS Tenure by Type of Household



Comparison of Gross Yields & Change in Average house price since the market peak in Real Terms (Radius=Average Price)



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

RENTAL MARKET

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.

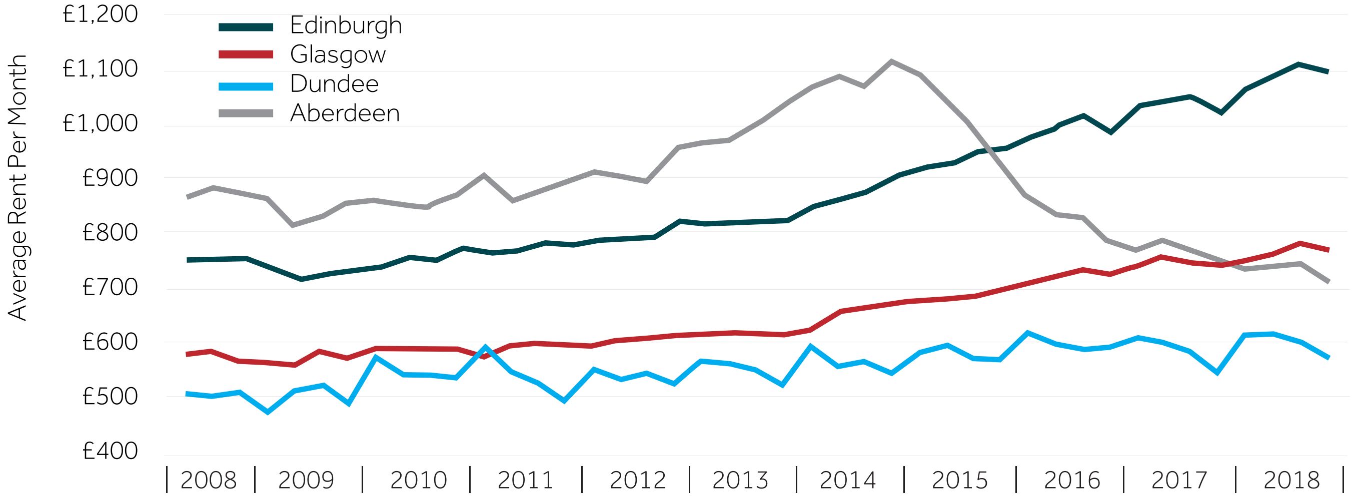
Edinburgh has shown the strongest rental growth in recent years, with a compound annual growth rate of 7.9% between Q1 2015 and Q1 2018. This was highest for 1-bed apartments, which have had a 9.3% CAGR over this time. The displacement of professionals from City Centre locations has contributed to this price inflation throughout the city. The EH3 postcode, which covers the New Town and the Quartermile 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.

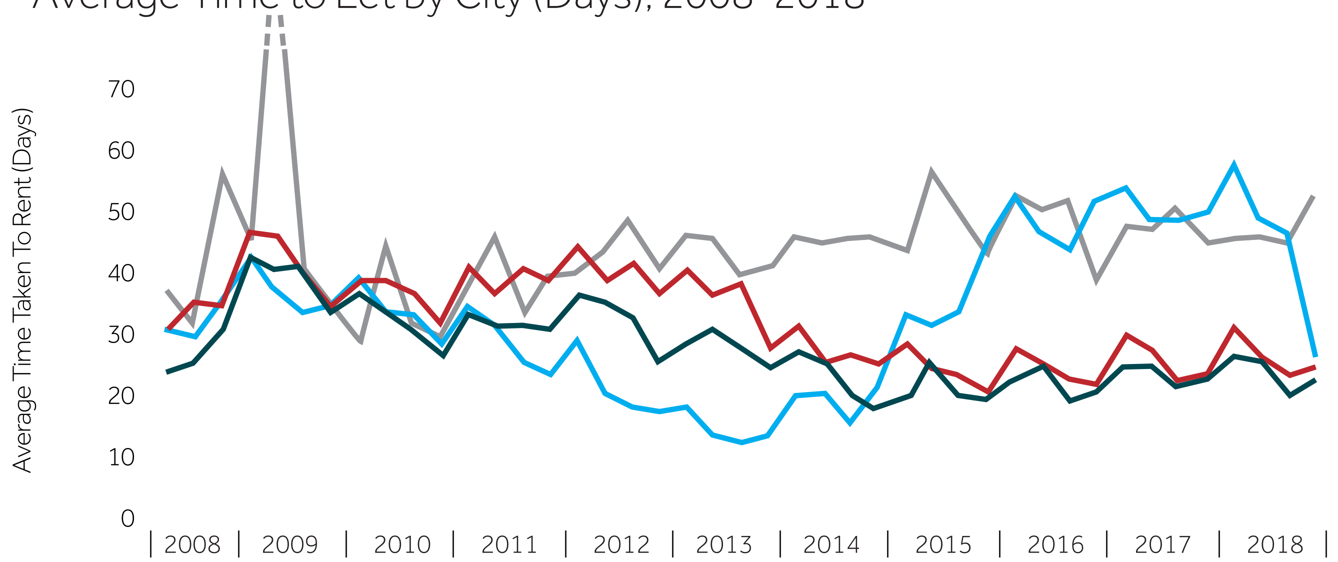
The Aberdeen rental market has been severely impacted by oil prices over the past 4 years, seeing average rental values fall dramatically and taking the city from the most expensive rental market to the third ranked city in Scotland. This fall has discouraged BTR development, but the market now appears to be stabilising.

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

Average Rents by City, 2008-2018



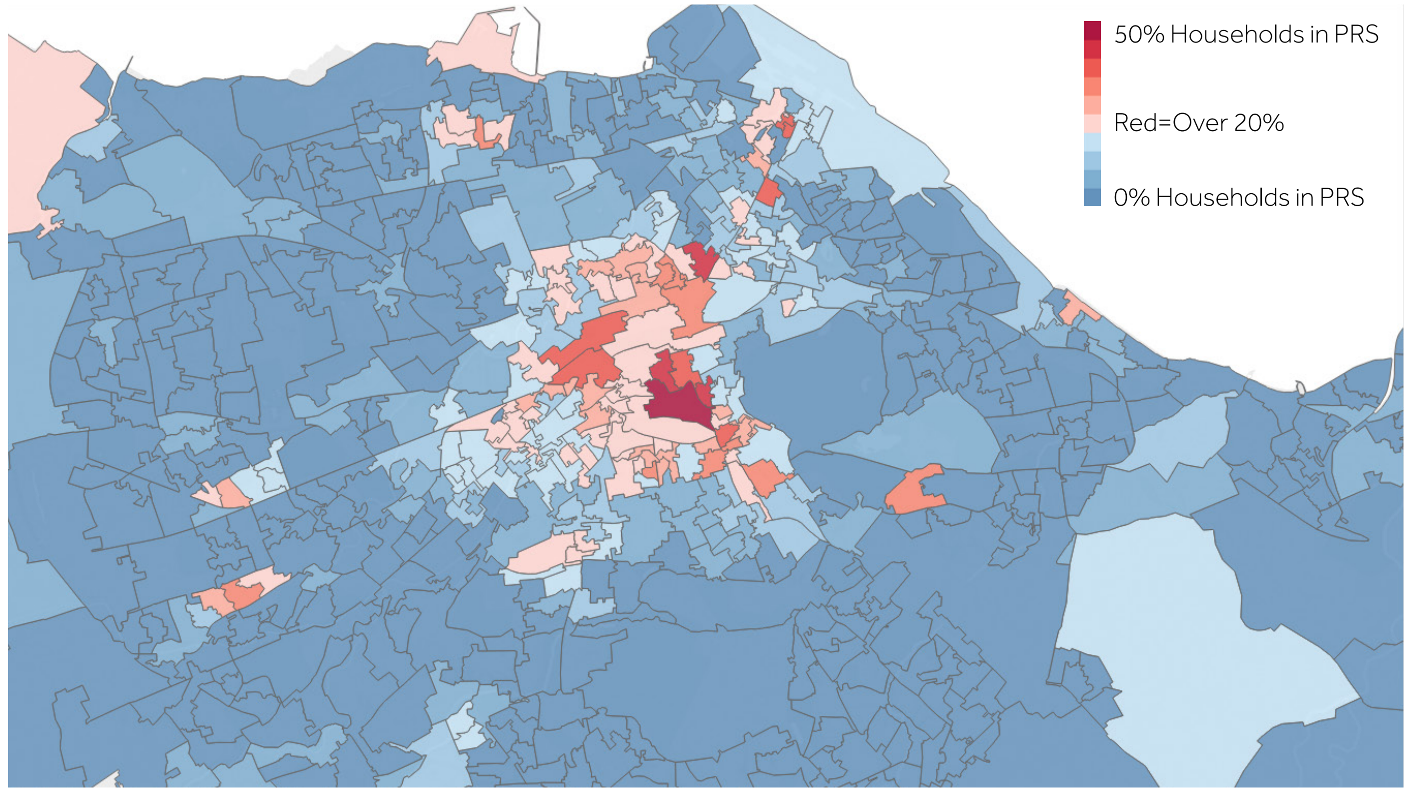
Average Time to Let by City (Days), 2008-2018



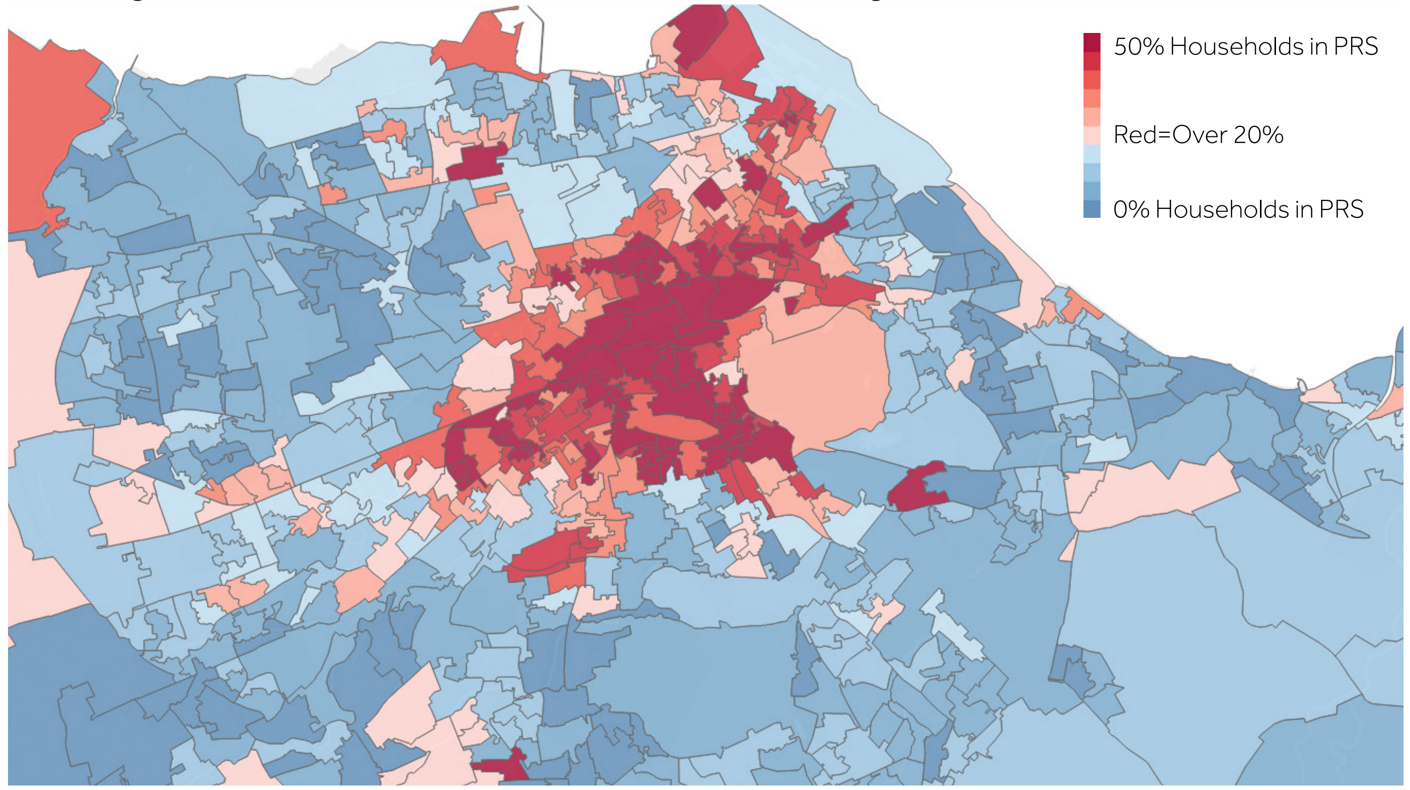
Source: Citylets

The Rise of Rental Demand 1991 to 2011: Edinburgh Case Study

Percentage of Households in the Private Rental Sector in Edinburgh (1991 Census)



Percentage of Households in the Private Rental Sector in Edinburgh (2011 Census)



MAKING BTR 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 to 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 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
Director, Research and Strategy
Rettie & Co.

BTR SWOT

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.

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.

OPPORTUNITIES

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

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

INVESTMENT & GOVERNMENT SUPPORT
- RIGS and ADS exemption encourage investment.

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

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

THREATS

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

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

Moda in Scotland

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 modal 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

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

Sandy Morrison
Partner
HTA Design

MID MARKET RENT
Affordable Build to Rent

MMR Demand by Sharon Ross

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

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

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

The ratio of 27 applicants to every property reveals the attractiveness of Harbour Gateway to the market. With 1 bed rents of £501, 2 beds rents of £608 and 3 beds rents of £803, for a brand-new apartment in Edinburgh's Western Harbour, the value on offer is compelling. In addition to value, there are a number of other benefits that Harbour Gateway offers residents. The fully managed block benefits from a 24-hr helpline and an online residents' portal to make payments, access tenancy information and report repairs. Rents tied to the Consumer Price Index (CPI) gives tenants security over costs going forward. Also, for the over 90% of applicants who said the opportunity to buy in future was an important consideration, under the National Housing Trust (NHT) model, residents will be given priority to purchase when the homes come to the market between 2023 and 2028. This is supported by a residents' saving scheme, which will entitle them to a 2% developer contribution and additional government support.

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

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Harbour Gateway
Demand Case Study

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

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

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

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

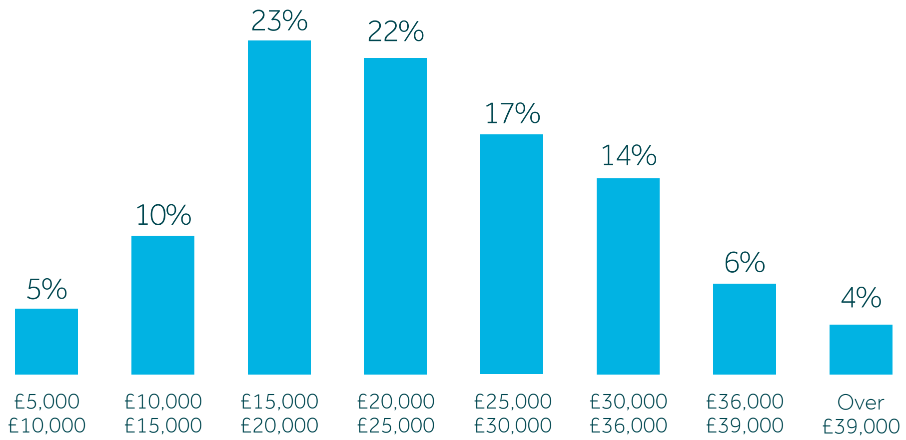
138
MMR Homes

+3,700
Applicants

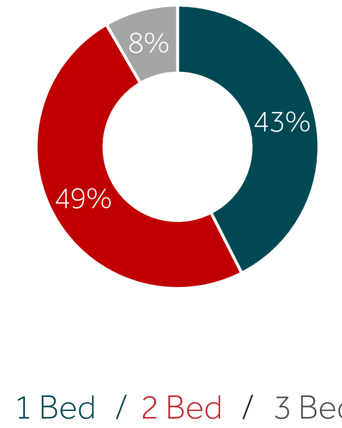
90% in FT Employment

Average Age of 32 Years

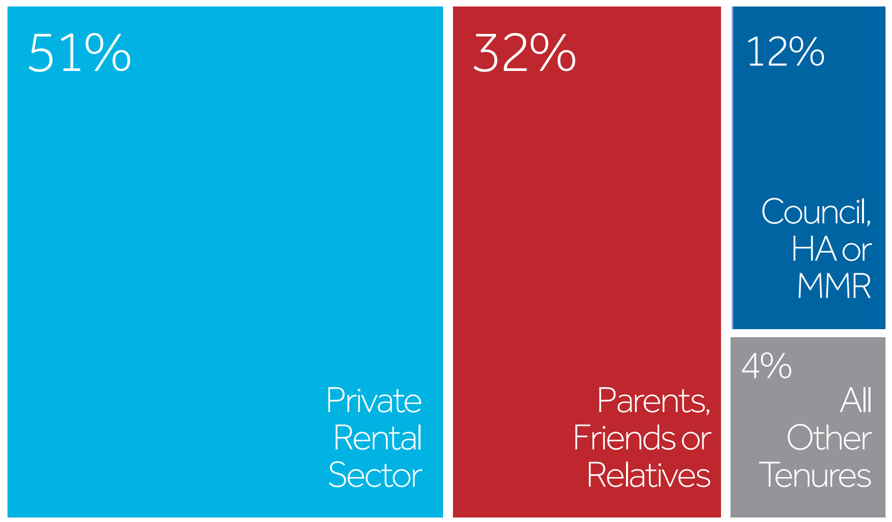
Applicant Income Distribution



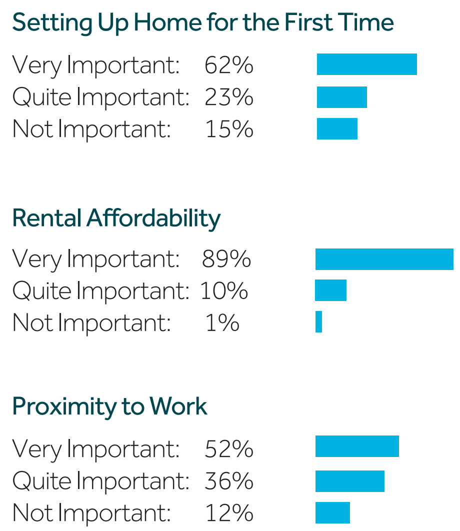
Preferred Apartment Size



Tenure of Applicants



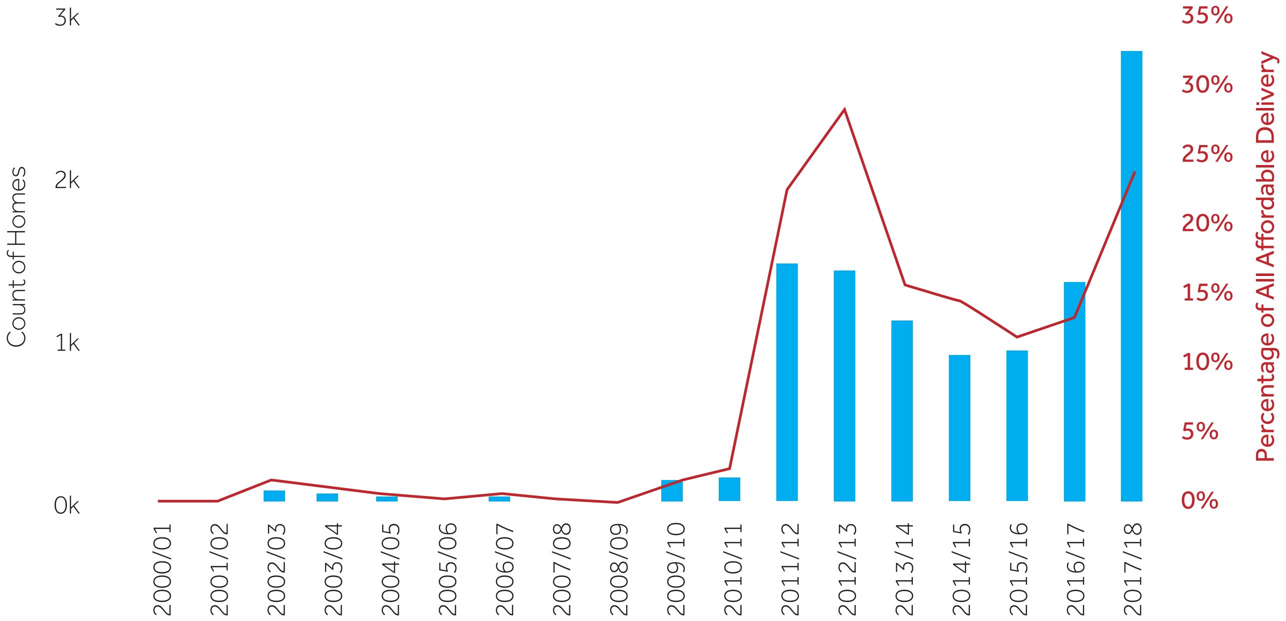
Motivating Factors



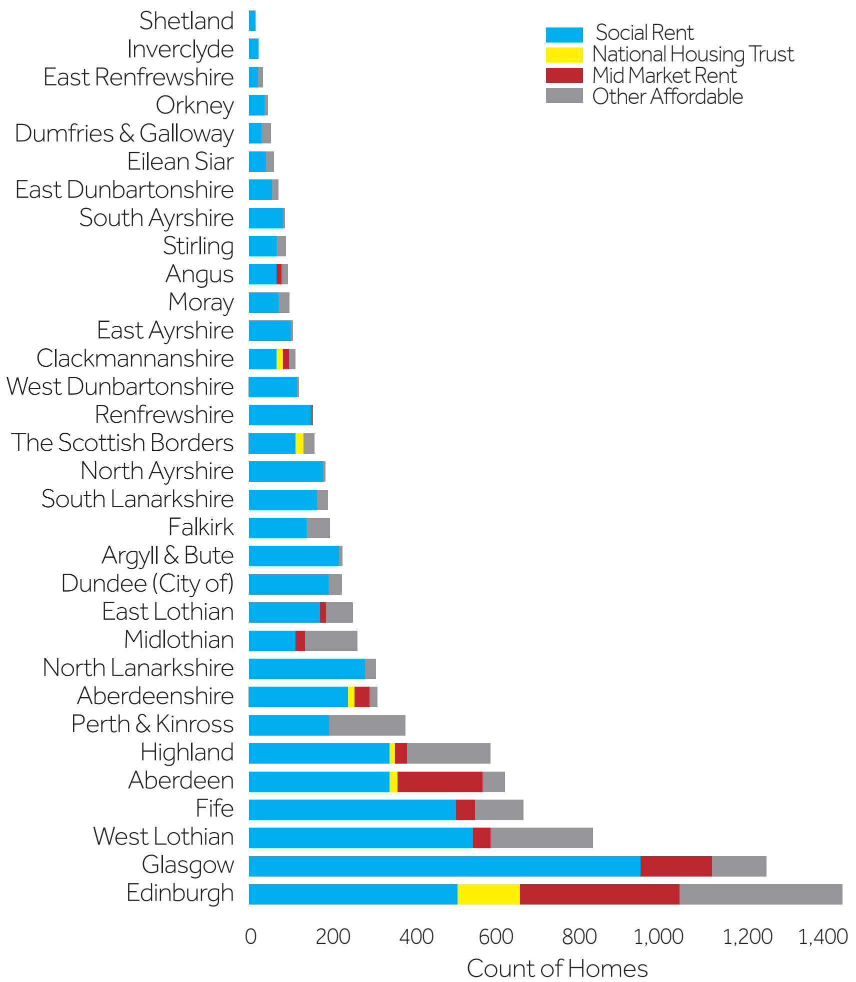
MMR ON THE RISE

PfP Capital

Affordable Rent is now a mainstream tenure in Scotland
Affordable Rent : Count of approvals by year and proportion of all affordable delivery



Edinburgh has led the way in MMR delivery
Social starts by type and Local Authority 2016/17



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

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

PfP Capital is targeting a total fund size of £150 million, which will be comprised of a £47.5 million investment from the Scottish Government and an initial £10 million capital commitment from Castle Rock Edinvar. The Fund is expected to benefit from index-linked returns derived from the rental income and will target institutional and pension fund investors, with a focus on Local Government Pension Schemes ("LGPS"). The Fund will source sites for, and develop and operate, around 1,000 MMR homes across Scotland, providing affordable housing to people on low and modest incomes. The investment from the Scottish Government is a significant commitment to implement its plans to deliver 50,000 affordable homes by 2021. PfP Capital has appointed Noble & Co as financial adviser and placement agent on the launch of the Fund, with Rettie & Co. appointed as property adviser to identify suitable mid-market rent investment opportunities.

To learn more contact

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PfP Capital: Chris Jones, Managing Director

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

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

Chris Jones
Managing Director
PfP Capital

Potential Site Selection Criteria & Opportunity

- Property located throughout Scotland
- Units in planning with development teams ready to start
- Units under development
- Completed developments

- Property to be private units with no affordable Section 75 obligations
- Units to be able to be handed over to the fund before the end of 2021
- Developments to meet the set investment criteria

- Forward fund development
- Commit to fund or acquire units swiftly
- Review the potential of land with planning permission, with a view to sourcing development partners.
- Acquire or fund part of a larger development.

Rettie & Co. Build to Rent Services

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

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

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

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

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

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

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

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

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

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