



RETTIE

BUILD TO RENT SCOTLAND

Scottish Market Review
Summer 2020



BUILD TO RENT IN SCOTLAND

BTR STRENGTHS SHINE THROUGH THE DARKNESS

There can be no doubt that 2020 has been an unusual year, with the property sector experiencing a particularly acute impact. The effects of lockdown are set to have long lasting implications from the individual household level to societal issues of housing supply. During the Covid-19 outbreak, the Private Rented Sector (PRS) has made many headlines, as the nature of the landlord tenant relationship once again comes under scrutiny. With over 350,000 PRS households in Scotland, the sector plays a crucial role in the country's housing system. During lockdown many of the accepted housing assumptions and practices have been tested. Against this backdrop, the Build to Rent (BTR) service and delivery models have emerged as offering clear advantages over the traditional landlord.

- In dealing with the most pressing human issues relating to Covid-19, the centralised management of BTR properties and BTR services have offered practical advantages in the lockdown.
- High speed broadband enables effective homeworking.
- Delivery lockers and cool rooms allow contactless delivery.
- Centralised management allows for easier cleaning and repairs.
- Existing communications channels with residents and neighbourhood community groups have enabled tenants to be kept up to date and remain socially connected.

With mental health, as well as physical health, being a major concern during lockdown, it is important to maintain community connections. At Rettie & Co we have seen a marked increase in usage of our resident portal and engagement in community forums, something we hope will continue.

The institutional nature and professional management of the BTR offering has also given us the ability to provide advice and information to residents in regular and timely communication, as well as individual assistance and signposting for anyone facing hardship. This has enabled us to maintain a 98% collection on rent roll, showing BTR to be a robust investment during the most difficult of times.

From a market perspective, there can be no doubt that BTR, much like the wider PRS, is going to be facing a difficult short-term outlook. There are likely to be delays in the delivery of planned developments. However, weaknesses in the sales market, constrained new housing supply, as well as potential challenges for affordability and lending in the wake of the lockdown, may attract new households to the BTR sector. In addition, if there is a lasting economic downturn and weak house price growth, then the financial attractiveness of buying could wane, leading to a rise in rental demand. In the wake of the 2008 Global Financial Crisis, with lending retreating and a stagnant sales market, the PRS tenure increased 5 percentage points across Scotland, 6 percentage points in Glasgow and 10 percentage points in Edinburgh.

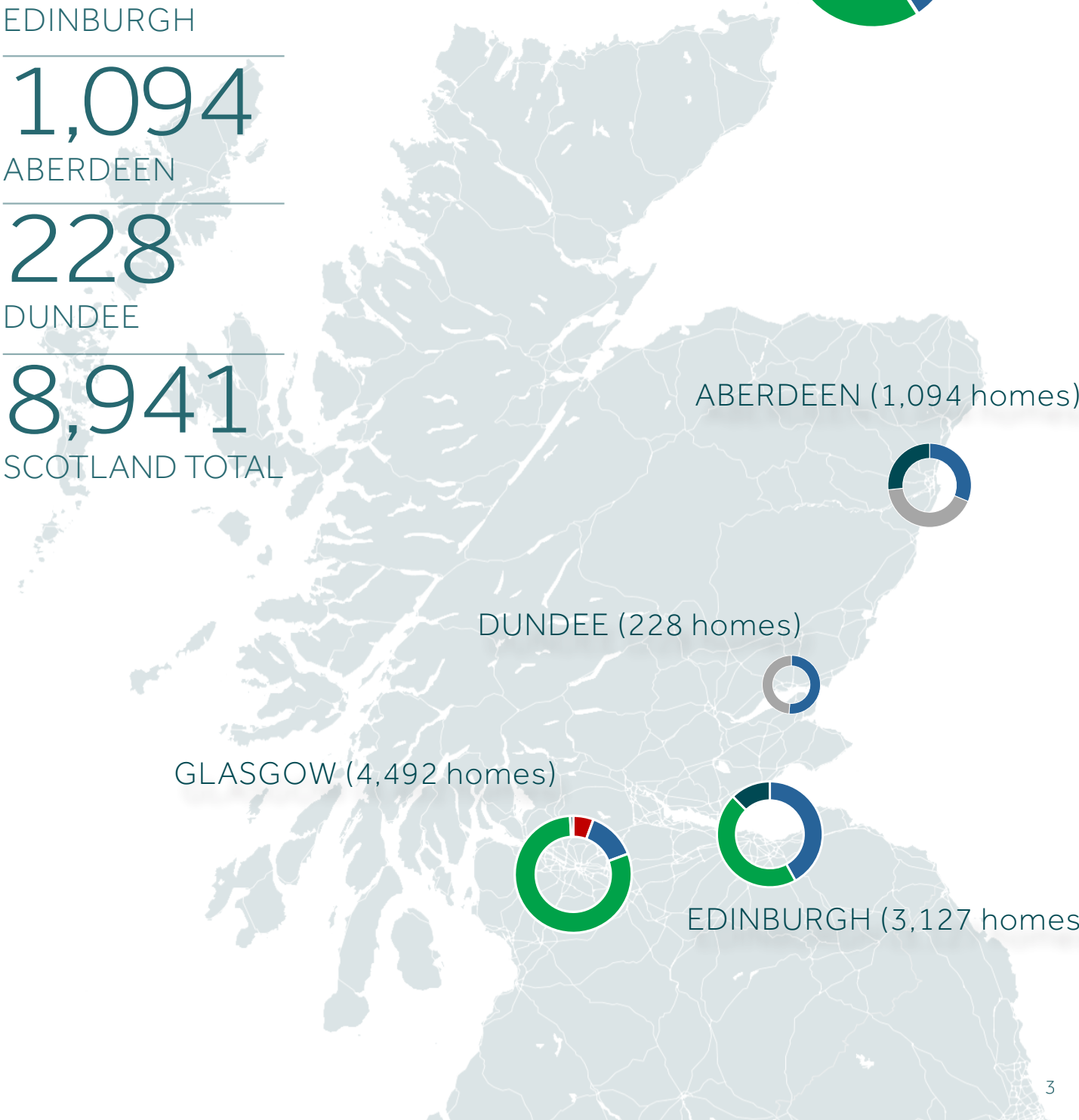
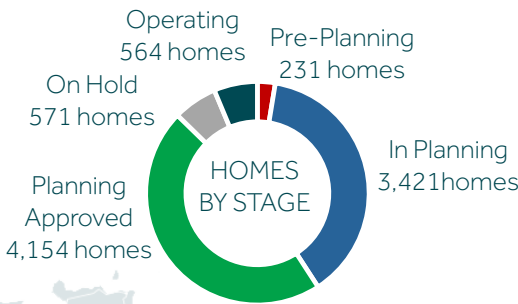
Looking ahead, new BTR supply is still slowly progressing and has not yet translated into high volume homes to occupy. However, new funding announcements for Moda Living's Springside development in Edinburgh by Apache Capital Partners and alternative real asset investment firm Harrison Street, and the new BTR scheme at Distillers House in Glasgow, are examples of continued confidence in the sector.



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4,492
GLASGOW
3,127
EDINBURGH
1,094
ABERDEEN
228
DUNDEE
8,941
SCOTLAND TOTAL

SCOTLAND BTR BY STAGE



POTENTIAL SUPPLY ON THE RISE

The BTR sector in Scotland has continued to grow over the past 12 months, with more schemes being approved or progressing through the planning system. This has included a number of new developments electing to choose BTR as the solution or partial solution for their sites. Announcements of new schemes in both Edinburgh and Glasgow over the last year demonstrates the interest and confidence in the BTR sector in Scotland, despite current headwinds. This confidence has seen the overall pipeline in Scotland increase by over 1,500 units, from 7,236 units to 8,941 units since our previous Briefing last Summer.

In Edinburgh, prominent schemes, such as New Town North by Ediston, located in the prestigious New Town, will bring BTR to a prime central location. Parabola's bold masterplan at Edinburgh Park will deliver a new neighbourhood, with a

mixed use scheme including over 900+ BTR homes as part of a 1 million sqft commercial development. The variety of schemes being considered shows the range in BTR investment in the Capital, where site availability remains a constraint. The most visible sign of this confidence has been the recent funding confirmation of Moda's Springside development by Apache Capital and Harrison Street despite the economic uncertainty arising from the Covid-19 lockdown.

Glasgow has seen a continuing expansion of proposed BTR schemes, with site availability in the City Centre less constrained than in Edinburgh. The total number of BTR units in the city's pipeline continues to rise and is now almost 4,500 homes. Again, in contrast to Edinburgh, the majority of the planned BTR units in Glasgow are in large-scale masterplans and higher volume schemes typically

between 300 and 700 units. The increased density of schemes in Glasgow can drive economies of scale.

It is notable that there has been less supply emerging in Aberdeen and Dundee, where challenging market conditions and the size of the market, have made it more difficult to attract the same level of funding interest. However, in Aberdeen, Dandara is progressing their Triplekirk scheme in the city centre, which will deliver over 340 units.

Overall, while the Scottish BTR sector is continuing to grow in terms of pipeline, delivery looks constrained with the number of operating units still only in the hundreds nationally. It does take time to develop sites, especially large-scale strategic sites where the bulk of the pipeline is located, and the market lacks the benchmark evidence available for other property classes given the

INVESTMENT FOCUSES IN TWO CITIES

embryonic nature of the sector, which has probably contributed to some nervousness to 'push the button' on a number of schemes. The current Covid-19 pandemic and continuing concerns about the future political and economic outlook in the UK and Scotland will only augment such nervousness and caution.

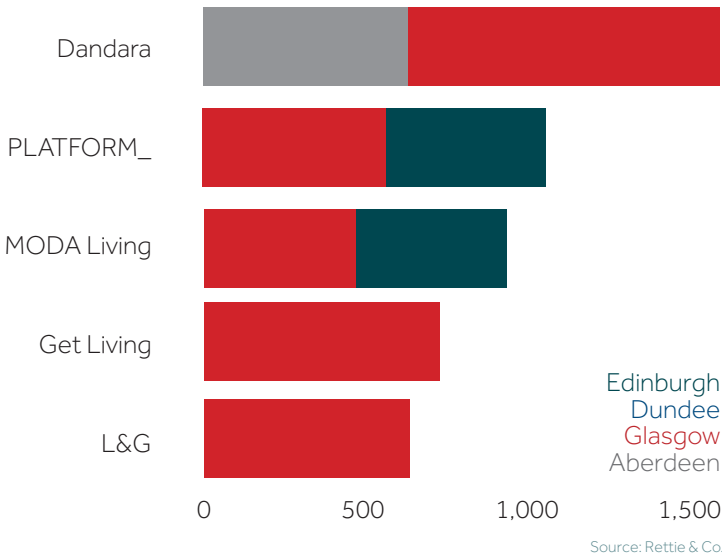
However, there is tangible progress now happening and once schemes start getting out of the ground and demonstrate viability, a surge in activity is still expected. A notable change this year has been the fall in the number of units in the planning system, which is down from over 2,000 units. This reflects the major schemes progressing through the planning system and gaining approval. With the first wave of BTR schemes now through the system, there are a number of other schemes considering BTR and on the brink of entering the planning process.

Many of the major BTR players have now secured some exposure to either one or both main Scottish markets. In terms of operators / developer, Dandara currently retains the largest BTR pipeline, with high volume schemes in Dyce, Aberdeen and Glasgow. Dandara also remain the only provider currently operating BTR at scale in Scotland. PLATFORM_ have moved into second place, with their plans to significantly increase the volume of units being delivered at the Former John Lewis Depot site in Edinburgh. Moda, with their sites at Springside in Edinburgh and Holland Park in Glasgow, have the next largest pipeline of units in the Scottish market.

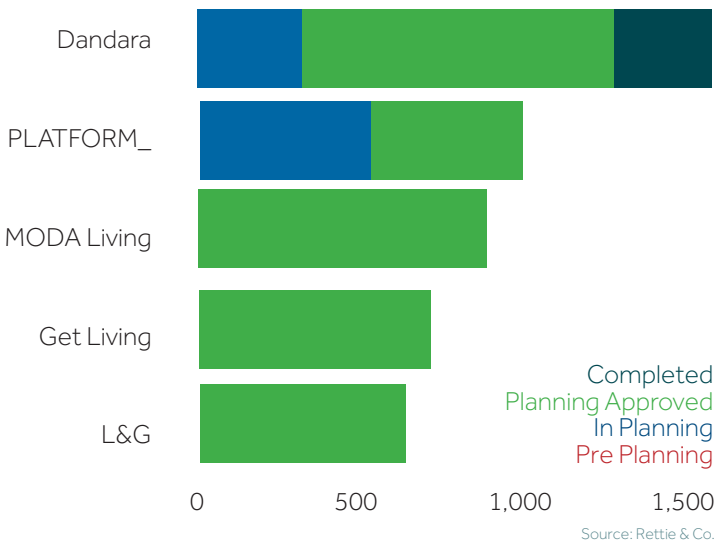
In terms of funding, L&G have been active with major schemes at Buchanan Wharf in Glasgow and Skyliner in Edinburgh. This and other investment means that the total value of construction contracts for delivery of BTR units in Scotland now exceeds £1 billion, with more than half of that figure concentrated in Glasgow.

There are a number of other schemes, especially in Edinburgh, which are now considering BTR as a possible strategy. If these sites progress, then the pipeline of BTR units in Scotland looks set to continue to expand and Edinburgh should narrow the current gap with Glasgow over the next year.

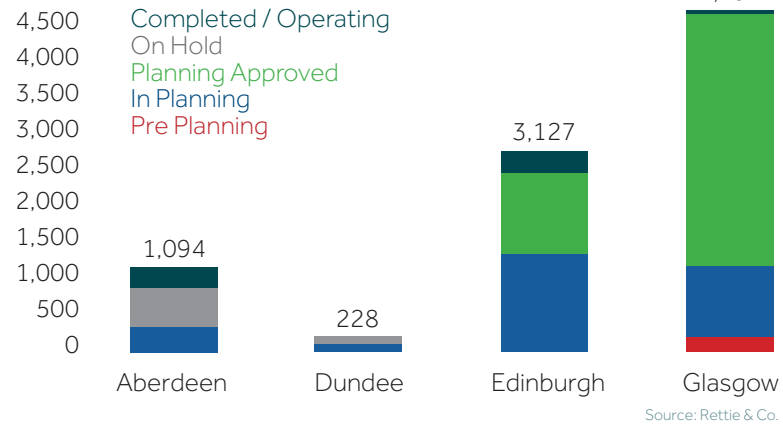
Top 5 BTR Providers in Scotland by Units and City



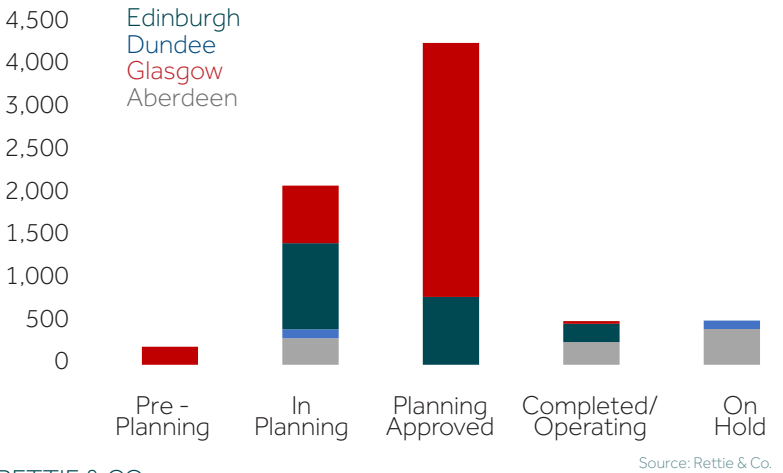
Top 5 BTR Providers in Scotland by Units and Stage



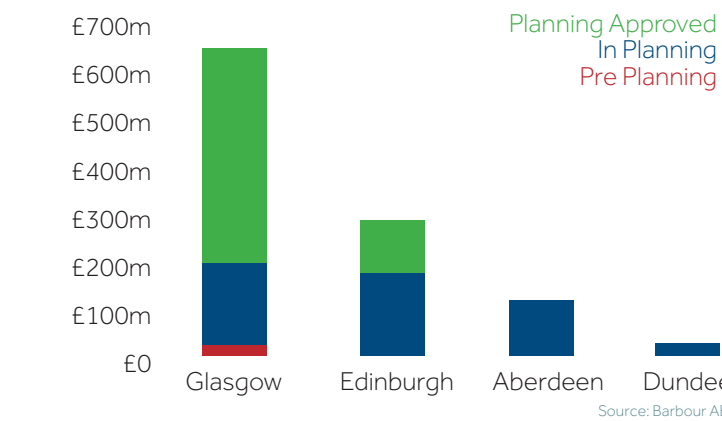
Pipeline of BTR Homes by City



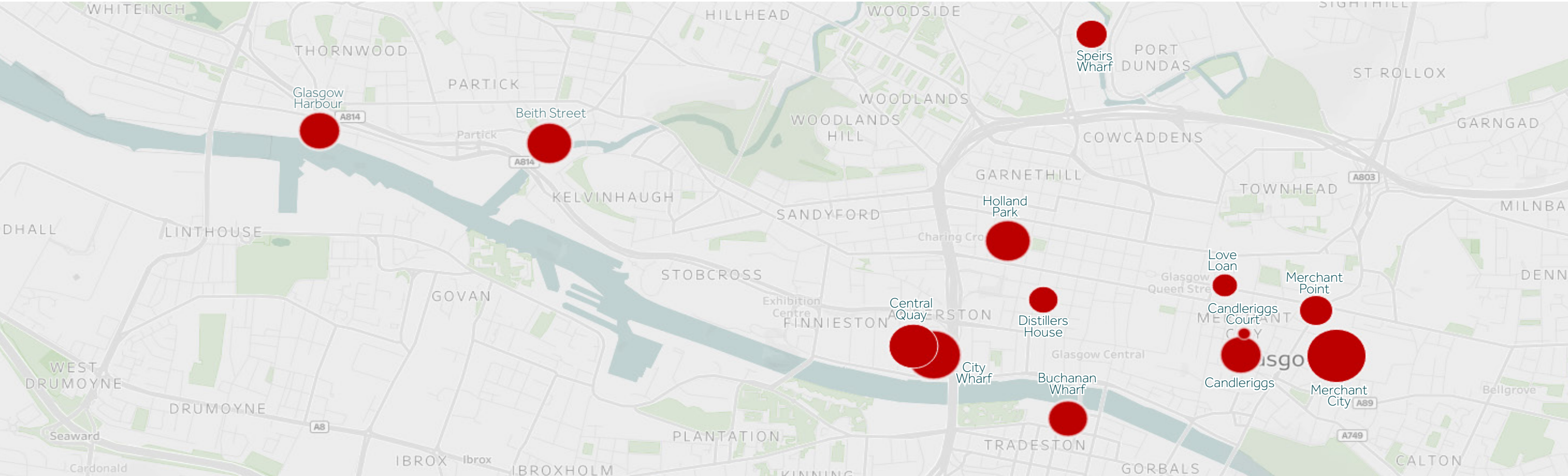
Pipeline of BTR Homes by Stage



Value of Build to Rent Construction Contracts



GLASGOW



Speirs Wharf Glasgow

Beith Street Glasgow

Central Quay Glasgow

City Wharf Glasgow

Distillers House Glasgow

Buchanan Wharf Glasgow

Holland Park Glasgow

Love Loan Glasgow

Candleriggs Glasgow

Merchant City Glasgow

Merchant Point Glasgow

Candleriggs Court Glasgow

Hoxton
202 BTR Homes

KR Developments
425 BTR Homes

PLATFORM_
498 BTR Homes

Dandara
600+ BTR Homes

Brickland Ltd
182 BTR Homes

Drum / L&G
300+ BTR Homes

Moda / Apache
433 BTR Homes

Chris Stewart Group
136 BTR Homes

Drum / Stamford
300+ BTR Homes

Get Living
700+ BTR Homes

Structured House
230+ BTR Homes

Aberdeen Standard
36 BTR Homes

Formerly planned for student housing, this scheme designed by Stallan-Brand architects has gone back to planning to propose 203 apartments over 2 blocks of 20 and 13 storeys. The scheme will include cafe, gym, rehearsal space and roof terraces.

This planned development is located on the banks of the River Kelvin and will comprise 4 blocks between 9 and 15 storeys. The ground floor will contain a mix of retail, restaurant and cafe space, as well as a riverside walk.

PLATFORM_ are looking to build on their 608-unit UK portfolio with this 2-acre £100m GDV scheme, which will deliver apartments overlooking the River Clyde, developed around a central courtyard. Amenity in the development will include a concierge and gym.

This scheme will deliver over 600 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.

Recently announced, the proposed scheme at Distillers House at 64-72 Waterloo Street will provide 182 one, two and three bed BTR apartments in Glasgow City. The scheme has been developed by Ryder Architecture on behalf of Brickland Ltd.

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.

This landmark sixteen storey development will deliver 433 prime rental apartments into Glasgow, revitalising the City Centre. The scheme will include a roof-top terrace, resident's lounge, concierge, cafes, bars and health facilities.

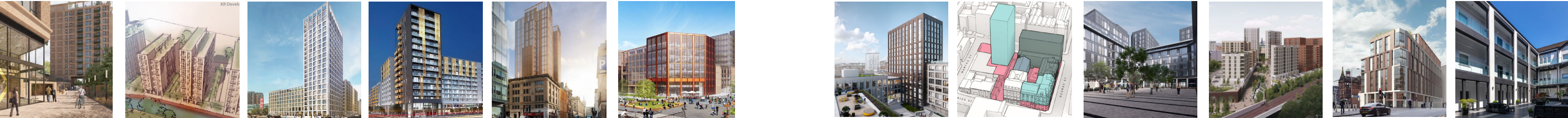
Located between Martha Street and George Street, this mixed use site will include a new 245-bed hotel, office space, leisure and active ground floor along a newly created lane. In addition, there will be 136 BTR homes as part of the development.

The site has an existing planning consent for around 850,000 sqft of commercial, hotel, student, "for sale" and BTR apartments, delivered alongside retail on the ground floor. Having lain derelict for over a decade, this is an important development site in the City Centre.

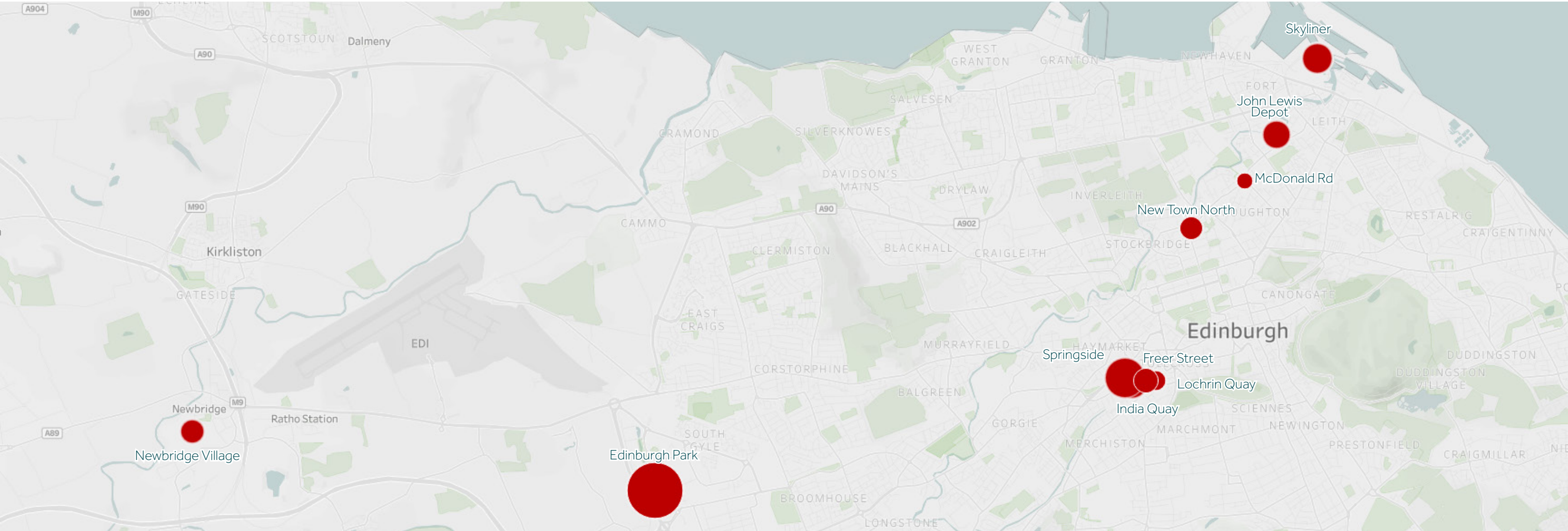
This 7.5 acre site has the potential to deliver the most BTR homes in a single scheme in Scotland. The scale of the development, location, and Get Living's track record of delivering volume sites across the UK, provide the potential to create a new residential destination.

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

A boutique development of 36 units located in the Merchant City. The development comprises 1, 2 and 3 beds, with 80% 2 beds. The development is completed and operating with full occupancy.



EDINBURGH



Newbridge Village Edinburgh

Newbridge Residential
161 BTR Homes

A residential-led masterplan located to the West of Edinburgh. The development will be mixed tenure with an element of BTR to be included alongside private for sale and MMR units.



Edinburgh Park Edinburgh

Parabola
1,180 BTR Homes

The Edinburgh Park masterplan contains a mix of uses including 1m sqft of commercial space, a civic square, medical facilities, conference facilities, leisure and recreation as well as over 1,700 homes.



India Quay Edinburgh

Edinburgh Living
259 BTR Homes

This site, controlled by Edinburgh Council, will anchor the Fountainbridge masterplan and is anticipated to start work on-site this year.



Freer Street Edinburgh

Vastint
175 BTR Homes

This mixed-use scheme, which will include a hotel, BTR and commercial space, is progressing through planning and is set to continue the expansion of the Lochrin Basin.



Lochrin Quay Edinburgh

Aberdeen Standard
113 BTR Homes

This scheme, which was acquired by Aberdeen Standard Investment for £27.5m, has found strong demand and is at full occupancy.



Springside Edinburgh

MODA Living
460+ BTR Homes

This flagship Fountainbridge development has now been approved. The scheme will deliver high quality, high volume BTR product to the city.



McDonald Rd Edinburgh

Kingsford
75 BTR Homes

This boutique scheme, at the former Broughton High School building, includes gym, a roof terrace, a club room and co-working space, with current rents from £875 pcm.



Skyliner Edinburgh

S1 / L&G
253 BTR Homes

Previously planned for sale, Skyliner emerged with a forward funding deal from L&G for BTR and now has planning approval.



New Town North Edinburgh

Ediston
150 BTR Homes

The New Town North development will see up to 350 homes, premium office space and a hotel replace the existing 1970s office block, formerly home to the Royal Bank of Scotland.



Former John Lewis Depot Edinburgh

PLATFORM_
527 BTR Homes

The 4.8 acre site was previously under offer to Artisan Real Estate and has planning for 220 units. PLATFORM_ have submitted a new higher density scheme to increase the number of units from 220 to 527.



EDINBURGH vs GLASGOW

Understanding market affordability and depth of market are key components to the successful placement of BTR product within a local market, as is understanding the changing values within the market. With many investors and developers considering both Edinburgh and Glasgow for BTR development, the different dynamics within each market and change over time are important considerations when determining viability.

The comparative distribution of rental values by the number of bedrooms shows marked differences between Edinburgh and Glasgow (see right). In Edinburgh, not only is the average rent ahead of the equivalent in Glasgow, but there are a greater number of lettings at higher price points. This depth of higher value rentals supports a different pricing strategy. Comparing the advertised rent at the 90th percentile for 2-bed apartments in both Edinburgh and Glasgow reveals a difference of £300 pcm between the two cities, or 30%. At the median rent, the difference narrows slightly to 27% but still equates to a £200 pcm difference.

Another key aspect of the two markets has been rental price growth in recent years. Between 2015 and 2019, the median advertised rent in Glasgow has risen by around 15%, or 3.6% per annum. In Edinburgh, the median rent has increased by 21%, or almost 5% per annum. In addition, market growth has not been consistent across price brackets, with the strongest growth in Edinburgh being in the upper half of the market, while, in Glasgow, the strongest growth has occurred in the middle market between the 40th and 60th percentiles.

This change in average rents has also been accompanied by changes in average earnings in both cities, which has implications for affordability. The average wage in Glasgow has risen by 9% over the past four years, lagging rental growth of 15%. In Edinburgh, wages have risen faster (up 14% between 2015 and 2019), but rents have also outstripped wage growth here (by around 6 percentage points). This trend of rents outperforming average earnings is common in most UK geographies but has had implications on measures of affordability.

Distribution of Rents by City and Beds



Rent Decile by City for 2 Bed Apartments



Taking the average earnings in Edinburgh of just under £34,000 and comparing it to the average advertised rent in the city in 2019 of £1,134 pcm, provides a gross rent to income ratio of 40%. This is materially higher than the Glasgow average of 35%. While a blunt proxy for affordability, both cities have seen this ratio extend by around 2 percentage points over the past four years.

The distribution of earning and rents, and their change over time, across a city can be more telling. The two maps on the right show the average rent of 1- and 2-bed flats in 2019 against the earnings in the local area. This provides a ratio of rents against gross earnings to give an indicator of affordability at a local level.

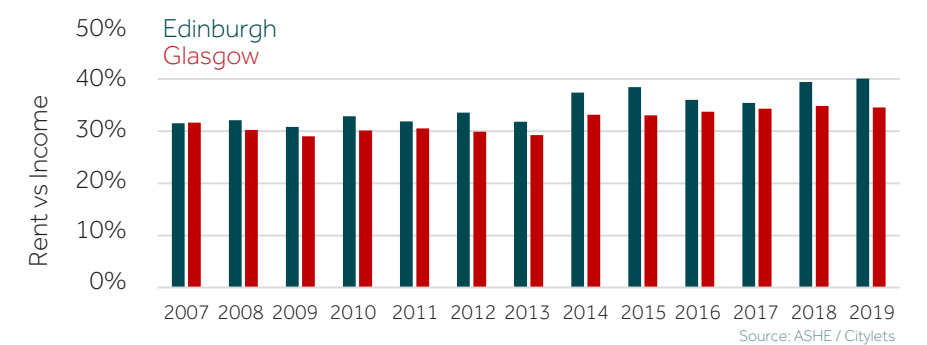
The maps of Edinburgh and Glasgow show areas in red, where average households are paying a higher proportion of their income to afford the average cost of a 1- or 2-bed apartment. While certain patterns may be expected, such as higher rental values and expenditure occurring in city centres, there are more subtle changes at a neighbourhood level.

In Edinburgh for example, over the past 5 years, rising rents and demand in the city, with the associated loss of stock to the short-term rental sector, has seen demand displaced to neighbouring areas, resulting in sharply rising rents in these neighbourhoods. This has meant that areas that might still be considered relatively affordable within the city context have become less affordable to residents. This includes areas such as Dalry and Gorgie.

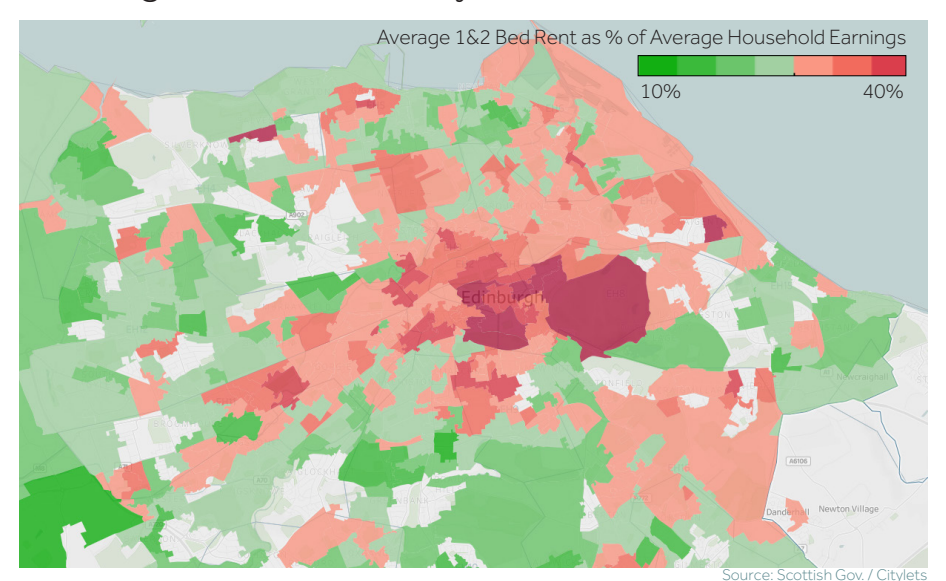
In Glasgow, similar gentrification pressures have resulted from rising demand. With prime demand focused on the West End, Finnieston to the south has seen a rapid gentrification in recent years with new build development and new bars and restaurants. This has pushed up rent levels in this area too. However, affordability pressures are clearly not as significant in Glasgow as they are in Edinburgh.

For BTR development, where lead-in times to full occupation may take years, understanding the patterns and change within a city can make all the difference in terms of capturing the upside and reducing development risk.

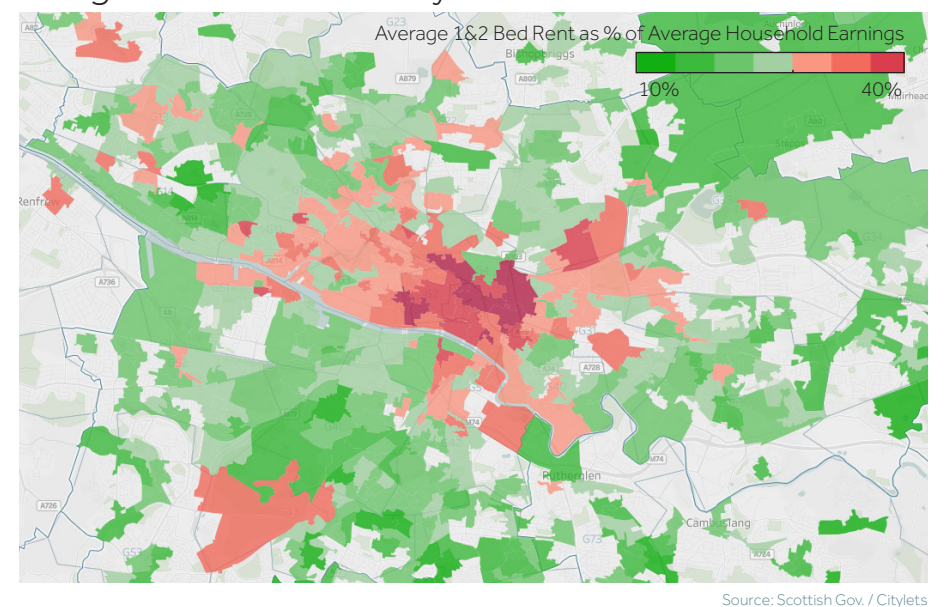
Average Household Earnings vs Average Rent



Edinburgh Rental Affordability (2019)



Glasgow Rental Affordability (2019)



A YEAR OF CHANGE

2020 will be known as the year of the Covid-19 pandemic. While people may scratch their heads a little in years to come about what happened in 2018 or 2019; 2020 will be one of those years that everyone will remember. This year and its aftermath will produce profound changes in the economy and wider society. It will also create and accelerate shifts in all property markets. In turn, there will be knock-on effects and impacts, many unexpected. The property world we are looking at now will be very different in ten years' time.

In the wider private rented sector, we are already seeing some significant changes. The short-term let accommodation market has been seriously impacted by the pandemic and accompanying lockdown. Airbnb listings have dropped by 39% in the city from Q4 2019 to May 2020. With the tourism market likely to be one of those most detrimentally affected, the downturn in the short-term let sector does not look like a passing phase. Many properties have already shifted to long-term (traditional) rent, which has boosted supply in the sector. The number of listings on Citylets in Edinburgh, for example, has risen by 28% year-on-year in the first four months of 2020 and will likely see rents drop back until demand recovers.

Over the medium to longer term, the case for BTR still looks solid in Scotland. The country has an increasing population and the size of its private rental sector has expanded considerably in the last 20 years, particularly in the main cities, with very little existing professional BTR activity. There are also growing numbers of skilled young workers in cities like Edinburgh and Glasgow who do not want to be 'mortgage prisoners' but desire quality accommodation in central locations.

However, there will be short-term effects for BTR in Scotland as there will be for all property classes. Specifically, the increased supply of long-term rented accommodation will create more competition and likely reduce rents for a time. Rents in Scotland's two main cities had been growing at around 4-6% per year in recent years but that looks like being reversed in 2020 and any pick-up may take another year or two

afterwards. Rents were also depressed for a time after the 2008/09 market crash but did surge afterwards due to the demand/supply imbalances.

For investors taking a long view on returns, the pandemic will be a blip on a chart but the short-term impacts cannot be overlooked, especially for those making decisions now on development and investment. At Rettie & Co, we will continue to track the market and its key drivers closely so that we can inform our clients of changes and their impacts.

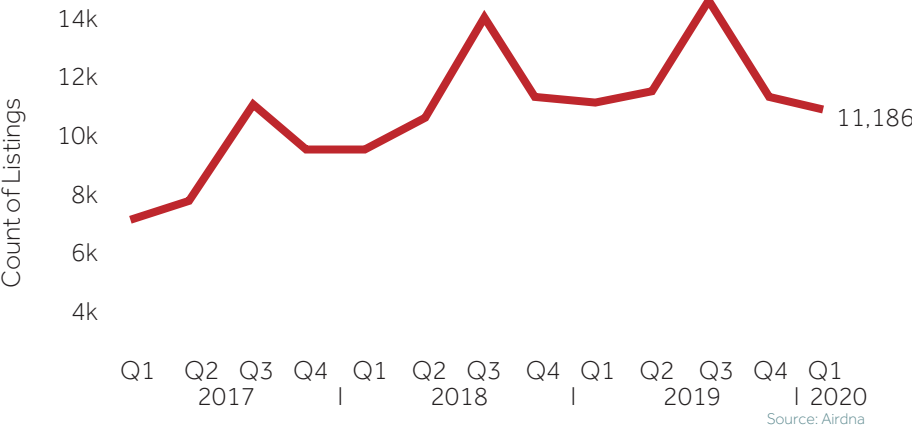
By offering flexible accommodation, BTR has the ability to pivot to meet new needs arising from the pandemic, particularly around people's requirement to work from their home. BTR is also showing itself to be adaptable, for example in its move to suburban locations. This type of flexibility will be needed to beat the worsts of the recession.

"For investors taking a long view on returns, the pandemic will be a blip on a chart but the short-term impacts cannot be overlooked..."

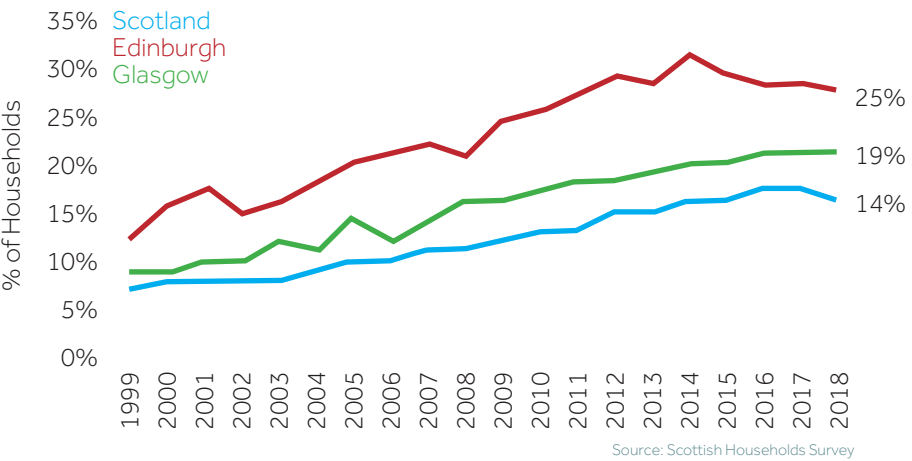


Dr John Boyle
Director, Research and Strategy
Rettie & Co.

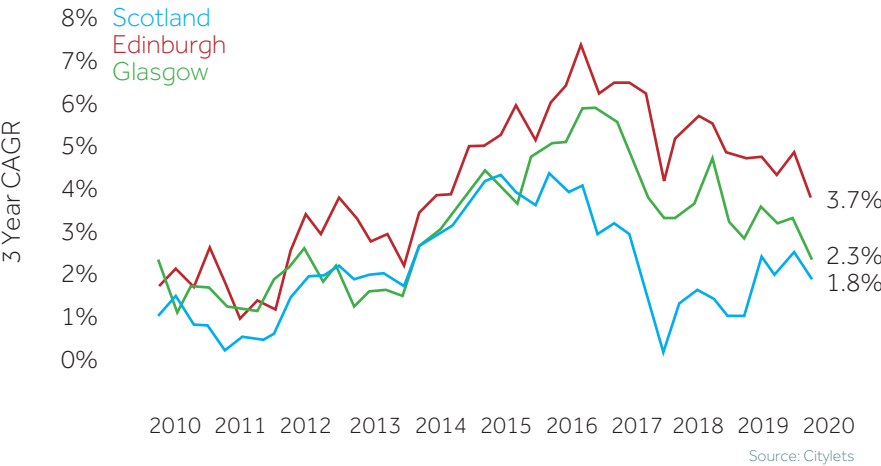
Short Term Listings in Edinburgh Q1 2017-Q1 2020



Households in the PRS in Edinburgh, Glasgow & Scotland



3 Year Average Rent Compound Average Growth Rate



INDUSTRY VIEW: TONY HORDON

The development of Edinburgh Park to date has been almost entirely focused on offices, with approximately 1.2 million sq ft of office space, together with two budget hotels. As the owner of the remaining 43 acres of land to the south of Edinburgh Park, we always recognised that in addition to creating new, high quality office and commercial space, creating a new quarter of the city would involve developing homes for this new community.

The vision for Edinburgh Park that Parabola has been pursuing is focused on well-being and sustainability. At the core of our ambition is creating a new type of development – a new community designed around the happiness and success of its people.

Parabola is aiming to break new residential ground. Edinburgh Park will have over 1700 new homes – of various types and tenures complemented by supporting amenities and facilities in a crafted parkland setting.

As part of the evolution of our vision, the development team, led by Peter Millican, Parabola's founder and chairman, set out to explore and evaluate the very best in class worldwide. Our study tours have been highly influential in terms of the vision, design and focus of Edinburgh Park. We have examined housing exemplars in Amsterdam, Basel, Zurich, USA and the UK in order to finalise our masterplan. The relevance of Edinburgh Park as a major residential settlement, within the context of the Edinburgh market, is based on four core attributes; accessibility, employment, amenity and design.

Early in the development of the vision for the residential aspect of Edinburgh Park, it was recognised that BTR would play an important role in delivering the quality homes that we are committed to building. Our proposals set out 1,180 BTR homes at Edinburgh Park.

As is widely accepted, BTR provides a viable solution to the housing crisis and, given the housing needs in Edinburgh, it will be a long-term component of that market. Edinburgh has experienced a population growth of 13.1% over the last 10 years and as a response, the city is beginning to pick up the pace in terms of the number of BTR developments across the capital. It is catching up on its rival in the west that already dominates the Scottish market.

The BTR product and location have to work in tandem and we consider that the attention to design quality that Parabola champions will ensure that Edinburgh Park's BTR will be an exemplar in the city. Thoughtful planning and intelligent design, combined with high quality materials, public realm and optimising daylight, sunlight and views, will result in the BTR product at Edinburgh Park leading the market.

In designing the buildings for the site, Parabola and their professional team have focused on offering a high quality of design and finish with exceptional landscaping and resident amenities, fully embracing the customer centric ethos of BTR. Masterplan design is by Dixon Jones, with the design of the BTR accommodation at Edinburgh Park being led by HTA architects and Sutherland Hussey Harris.

As a team, we are passionate about making positive commercial and social impact. We are committed to building a new, thriving community and architectural exemplar loved by its citizens, with real and long-lasting financial, cultural and social value. The BTR homes at Edinburgh Park offer an important component in ensuring our commitments are delivered; providing 25% affordable housing on-site, in a way that is viable, well-integrated and tenure-blind, and incorporates a range of approved tenures,

PARABOLA

Edinburgh Park is designed to function as a whole, with an emphasis on increasing travel by public transport and on creating an increased sense of community and amenity through the proximity to public spaces. These groupings allow a high-quality residential environment to be maintained, whilst proximity to the commercial development ensures the mixing of the residential and commercial communities to create an attractive ambience and to support amenities on the Park. The masterplan brings a high-quality landscaped city centre urban feel to a suburban location, creating more human formal and informal spaces, art and bringing together a range of building uses employing high-quality architecture.

Edinburgh Park will represent a new zero carbon urban quarter for Edinburgh. Its development is a once-in-a-lifetime opportunity to create a new urban quarter for the city, for people to live, work and enjoy the arts. BTR will be an important component in ensuring that Parabola delivers a master plan for Edinburgh Park. Our innovative, bespoke BTR product will meet residents' desires for a great place to live and for a new community to thrive. We look forward to seeing this created at Edinburgh Park – as Parabola's vision is realised.



Tony Hordon
Managing Director
Parabola

Balcony View at Edinburgh Park



New Station Square



Roof Gardens



Street View



Night View



Station Square



INDUSTRY VIEW: DAN BATTERTON



Legal & General's Build to Rent (BTR) Fund are committed to providing high quality rental homes across the UK. Fundamentally targeted at the 'mass-market', this does not preclude a broader demographic from enjoying our product; indeed our residents range in age from 0 to 70+, which have included 3 home births. By collaborating with local authorities from an early stage, we have been successful in entering long term partnerships that complement our long term investment target.

Our desire to input into design process and to closely manage the project throughout the development phase means that we will be able to handover an optimal product to our operations function, which is fit for purpose for the existing local rental market and for efficient long term management. Fundamentally there is a lack of quality housing for rent, to that extent, we consider that BTR will significantly improve on the existing rental experience that is currently available in a particular authority and increasingly as evidence is available policy makers seem to agree.

Scotland is a key location for us, particularly Edinburgh and Glasgow. Both are vibrant and interesting cities, with ambitions for redevelopment and regeneration. Further, both have set targets for reducing carbon emissions, which aligns with our own aspirations. Edinburgh is one of the most desirable cities to live in, with an affluent rental population and is well placed to take advantage of growth industries, particularly tech. Backed by local government, Glasgow has seen significant investment in the City Centre, with finance companies in particular opening large-scale operations.

Last year, we committed to fund the development of 324 BTR apartments in Tradeston, as part of the wider, one million sq ft, mixed-use redevelopment site to include the Barclays Bank campus. The homes will be delivered in Q2 2022 and will be a mix of studio, one, two and three bed apartments. As with all of our developments, there will be a key focus on amenity areas, which are carefully planned to accommodate areas for flexi-working, in addition to games and lounge areas. As we see an increase in working from home, we will also look to provide the best internet connectivity in the city. We are seeking to invest further in Glasgow and Edinburgh this year.

With our aims so clearly focussed on resident satisfaction, we have carefully considered all aspects of the rental experience within our buildings. Apartment layouts are designed to accommodate our bespoke furniture pack, typically provided in up to 90% of the apartments, although residents are always given the option to rent unfurnished homes. Our 24-hour staff members are receptive and responsive to customer requests/suggestions and we are constantly exploring ways to improve our offer. All our on-site staff receive a customer service training course designed for BTR and delivered by airline first class cabin crew. We can design and build the most amazing spaces but personal experience will always rank as more important.

In light of the current pandemic and shifts in working patterns and behaviours, we are assessing ways to maximise 'work from home' options. As well as increased provision of working space in the amenity areas, we are looking at the options of

providing 'alternative' furniture packs, to include a home office set up for additional habitable rooms within larger apartments.

Such long term investment and asset management in a given location requires careful consideration of the current and future prospects of the location. Covid-19 has created greater near term uncertainties but the need for good quality well managed rental accommodation to support growing cities remains.

"In light of the current pandemic and shifts in working patterns and behaviours, we are assessing ways to maximise 'work from home' options."



Dan Batterton
Head of Build to Rent
Legal & General

Buchanan Wharf, Glasgow



Skyliner, Edinburgh



THE DIFFERENT POLITICS OF SCOTLAND

Anyone doing business in the BTR sector in Scotland needs to be aware of the different legislative landscape that now exists here. BTR tenancies would be Scottish Private Residential Tenancies (SPRT) and come under the terms of the Private Housing (Tenancies) (Scotland) Act 2016.

In terms of tenant and landlord rights, the Scottish PRS is now a different place than before the new legislation was enacted in December 2017. For example, tenancies have no end date but tenants can terminate tenancies with 28 days' notice; there is no "no fault possession" now and landlords/owners must enact a number of mandatory or discretionary grounds to take possession of a property; rents can only be raised once per year; and there is a possibility of any local authority in Scotland requesting powers to become a Rent Pressure Zone (RPZ) and control rent rises in all or part of their area.

As a response to the Covid-19 pandemic, there have been further legislative changes. The Coronavirus (Scotland) Bill was passed on the 1st April. This legislation is temporary and will expire on 30th September 2020, subject to extension, but, while it is in effect, mandatory grounds for possession are now discretionary. This means that a tenant may only be evicted if the First-tier Tribunal finds the application submitted by the landlord to be reasonable to justify eviction. It should be noted that First-tier Tribunal hearings have been postponed to 9th July 2020, subject to review and may be further postponed.

There have also been attempts to introduce other measures, for example the MSP Andy Wightman brought forward a Bill amendment for a two-year rent freeze across the PRS in Scotland and a ban on evictions resulting from rent arrears during the crisis. This was defeated in Parliament after it failed to win Government support but did have a lot of parliamentary support. There remains an ongoing campaign to introduce rent controls. The Labour MSP Pauline McNeill has brought forward a Bill to more directly introduce measures to limit rent

increases compared with RPZs and to increase the availability of information about rent levels. This Bill has now been lodged at the Scottish Parliament and its progress is one to watch.

In addition, there is also the local authority politics to consider. In Edinburgh, for example, BTR schemes of 12 units or more need to make provision for 25% affordable units. After negotiations with the local Council (which Rettie & Co played a full part in on behalf of clients), there now appears to be clarity that such affordable units can be provided at intermediate rent (i.e. at the 30% percentile of the Broad Rental Market Area). Edinburgh also has its own wider BTR guidance and its latest Choices document discusses other possible planning changes, including raising affordable contributions from developers to 35% of units. Glasgow has no similar affordable housing policy but has its own residential strategy with which BTR provision will need to align. Knowing the politics in Scotland and likely changes is vital to informing schemes.



Dr John Boyle
Director, Research and Strategy
Rettie & Co.

BTR SUPPLY & SUBURBIA

The past year has been a positive period for BTR schemes progressing through the planning system and nearing delivery. The Scottish pipeline has risen to almost 9,000 units, although only a small percentage are operational. This increase in pipeline has seen the proportion of BTR units, as a percentage of total PRS households in Scotland, increase to 2.6% (from 1.8% last year). This figure still lags the UK as a whole, where the BTR pipeline accounts for around 3.4% of PRS households. This said, London is a key driver of this figure, with BTR accounting for around 7.4% of PRS households. Outside London, the figure is 2.3% and now broadly in line with Scotland's overall figure.

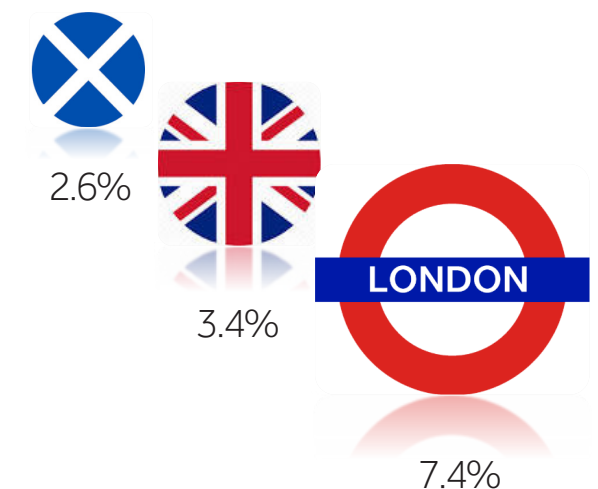
In Scotland, BTR is mainly concentrated in the two major cities of Edinburgh and Glasgow, with 80% of the national pipeline in these two centres. With 3,217 BTR units in the pipeline in Edinburgh, this equates to around 5.2% of PRS households. If Edinburgh was delivering at a similar rate as London, the pipeline would be expected to be around 4,400 households.

Glasgow has a larger population than Edinburgh but a similar number of PRS households. With a pipeline of almost 4,500 units, the role of BTR in the PRS is currently more significant here, with the pipeline representing around 7.5% of PRS households and now around London levels. While Glasgow is leading the way in Scotland, if comparable levels of BTR delivery in the UK were happening in Scotland, the current pipeline of almost 9,000 units should be nearer 12,000 units.

A future trend, which is already established south of the border, and was signalled by Sigma PRS Management Ltd's deal with Springfield Properties PLC, is the growth of suburban BTR in Scotland. Suburban BTR makes a compelling investment case. Low turnover and low operational cost; reliable occupancy and revenue streams; and more available, less prime product compared to the urban flattened market are all factors driving suburban BTR investment. Analysis from England suggests that just under 30% of operating BTR schemes could fit a suburban profile.

With an increasing number of families and mature households electing to remain, or return to the in the rental sector, future demand appears strong. If a similar proportion of suburban BTR schemes were delivered in Scotland as in England, then combined with the urban sites currently considering BTR, Scotland may get closer to English BTR levels.

BTR Pipeline as % of PRS Households



Andrew Meehan
Associate Director Research
Rettie & Co.

COVID-19: MAINTENANCE DURING THE LOCKDOWN

Across the property sector, all experiencing the effects of the global pandemic that is Covid-19 in different ways. As Residential Services Manager for the Build to Rent team for Rettie & Co, one of the challenges I have faced is to continue to offer residents the best possible service in the face of practical challenges and lockdown restrictions.

Since the lockdown, I have modified our maintenance reporting platform to include Covid-19 specific questions to ensure that residents and contractors alike feel safe when attending to any maintenance issues. I have also utilized the residents' portal to keep rental clients up to date with the services that we are continuing to provide whilst the lockdown restrictions are in place.

Due to the restrictions, I have been arranging emergency and essential repairs only; this is to reduce the amount of movement, risk and access requirements to residents' homes. I have found, almost across the board, that residents have taken a pragmatic approach to the lockdown and the reporting of maintenance issues. Whilst emergency repairs are still being reported at pre Covid-19 levels, I have seen a steady decline in non-essential repairs being reported.

For any emergency maintenance issues reported, the key focus is to get as much information as possible about the issue the resident is experiencing, and also to ensure that they are not shielding or self-isolating, therefore mitigating any risk to both the resident and the contractor. Once I have opened a dialogue with the resident, I can then ensure that the contractor has as much information as possible prior to attending. This also limits the chain of face-to-face contact. When arranging essential maintenance such as any Gas Safety, PAT & Legionella certificates, which are still required by law, I have used a flexible and empathetic approach with residents by maintaining an open dialogue and mutually agreeing access arrangements that they feel comfortable with.

For all our attending contractors I have maintained regular communication to ensure that they were still able to provide the required service during the lockdown period, confirming that they have PPE equipment and they themselves were also not showing any symptoms of Covid-19.

Going forward, as we look to move out of the lockdown, all contractors are required by law to complete a Risk Assessment and will not be allowed to attend any properties until this is completed and returned to Rettie & Co. As we progress through the lockdown, I will continue to ensure ongoing communication with residents so they always feel safe whilst maintenance is undertaken in their home.

"For all our attending contractors I have maintained regular communication to ensure that they were still able to provide the required service during the lockdown period..."



Carrie Wilson
Resident Services Manager
Rettie & Co.



Deposit Free & Rent Passports

Rettie & Co. is working exclusively with Canopy in Scotland, which provides an improved referencing experience for prospective renters and more robust checks for landlords, relative to traditional referencing, with enhanced income verification/affordability checks and added legal/regulatory warnings, politically exposed person checks and international sanctions checks.

All applicants are invited to complete a 'RentPassportTM', with built-in eligibility criteria, which means they can be pre-approved prior to allocation of a home. The 'RentPassportTM' also enables anyone renting to add their rental payments to their credit history. Renters can also be given the option of a 'DepositFreeTM' insurance policy (backed by Hiscox) as an alternative to a cash deposit.

Resident Portals

Engage allows us to deliver bespoke, uniquely branded, online residents' portals for each of our developments. These are designed to enhance communication and customer service for residents, with the efficiency of interfacing with the Qube Living property management software. It provides:

- facility to report repairs & maintenance
- ability to make online payments & retrieve tenancy documents
- information on the home (such as user manuals, hints & tips)
- information on the local neighbourhood
- news (updates from us)
- forums (for use between all residents within a community)
- offers (from local businesses)
- feedback forms



E N G A G E



Back Office Management & Reporting

QUBE Living is a back-office letting and property management platform, used by many BTR players south of the border. It supports the holistic management of our BTR developments. Amongst its many benefits is its powerful reporting suite, with over 400 industry-standard reports to choose from and an in-built custom report writing tool. This allows us to monitor and analyse portfolio performance at the touch of a button, and provides the capability to produce bespoke reports to meet our clients' objectives and requirements.

PfP CAPITAL UPDATE

PfP Capital MMR Fund Secures Pipeline of 855 Affordable Homes

Affordable homes provider PfP Capital have now secured 8 sites across Scotland for the delivery of 855 mid-rent homes. The fund is now operating a portfolio of new homes at Abbotsway in Paisley, with further homes currently under construction. The total value of the pipeline secured now amounts to c. £135m. The initial fund target of 1,000 homes will bring the total value of the fund to around £160m, with sites acquired on both a forward fund and forward commit basis.

The 30-year fund is backed by a £47.5m Scottish Government loan, and is seeking long-term CPI-linked returns along with capital growth. Rettie & Co. advised on the acquisition of these sites and continues to review site opportunities which meet the fund requirements. A range of low density apartments and family homes will be included within the pipeline. PfP Capital are currently working with a range of developers.

For more information contact:



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Abbotsway



Developer: Keepmoat
Location: Paisley
Units: 66 New Homes

Oxgangs Green



Developer: Hopefield Partnership
Location: Edinburgh
Units: 85 New Homes

Millerhill, Shawfair



Developer: Mactaggart & Mickel
Location: Edinburgh
Units: 43 New Homes

Maxwell Road



Developer: New City Vision
Location: Glasgow
Units: 170 New Homes

Royston Road



Developer: Swan Group
Location: Glasgow
Units: 100 New Homes

Niddrie Mains Road



Developer: Places for People
Location: Edinburgh
Units: 136 New Homes

Salamander Place



Developer: Cruden
Location: Edinburgh
Units: 151 New Homes

The Wisp



Developer: Springfield
Location: Edinburgh
Units: 104 New Homes

"We are delighted to announce these new acquisitions across Edinburgh and Glasgow, working with a range of delivery partners. We continue to see mid-market rent as a means of rapidly increasing the availability of good quality homes available to a large proportion of Scottish households. Given the uncertain outlook, the requirement for professionally-managed stock with security of tenure is more relevant than ever, and is something we are committed to delivering."

William Kyle
Fund Director
PfP Capital

"These acquisitions demonstrate the scale of the underlying opportunity within the mid-rent sector across Scotland, and how new capital can be introduced to help address our housing shortage. Covid-19 has revealed the resilience of this sector versus other asset classes through delivering stable occupier demand. The mid-rent approach can also provide certainty to housebuilders during what is expected to be a turbulent period within the private for-sale market. We continue to seek site opportunities on behalf of PfP Capital to deliver more high quality, affordable homes."

Matthew Benson
Development Services Director
Rettie & Co.



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.



MANAGEMENT

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



ASSET OPTIMISATION

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



EXIT STRATEGY

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

Build to Rent Team



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