12 January 2023

**Briefing for Miles Briggs MSP by the Scottish Property Federation – the Cost of Living Statement**

**Introduction**

The Scottish Property Federation (SPF) is the voice for the real estate industry in Scotland. We include among our members: property investors, including major institutional pension and life funds; developers; landlords of commercial and residential property; and professional property consultants and advisers. Our members build Scotland’s workplaces, invest in homes of all tenures but particularly build to rent housing and purpose built student accommodation, invest in shops, schools and other facilities and the infrastructure that serves them. Our industry is therefore a core component of the Scottish economy.

**Background**

1. The Scottish Government is expected to make a statement on the Cost of Living (Tenant Protection) Act as required by the Act to review the necessity and proportionality of the emergency legislation on a quarterly basis. This will inform the Scottish Ministers’ decision whether to extend the provisions of the Act past 31 March 2023.
2. The Scottish Government has consulted with stakeholders ahead of the 31 December review deadline and indeed officials have met with a wide range of our members and stakeholders. The experience and perspectives of our members on the impact of the legislation on risk and uncertainty, the loss of investment in new rented homes and the gap in policy evidence of existing tenancy rental increases identified consistently not just by the industry but indeed by the government itself.
3. Since the announcement of the emergency legislation on 6 September the tax and regulatory position for individual investors in the private rented sector has worsened considerably. The mixture of financial market changes, particularly on mortgage rate increases, the lack of mortgage interest rate relief, the increase in LBTT on top of regulatory demands and the emergency legislation are reducing the supply of available private rented homes.
4. The crisis for rented housing is part of a wider crisis for housing in Scotland. We understand there are close to 180,000 people on housing waiting lists. There are already signs that the change in the financial markets is impacting new housing investment. The increased cost of mortgages is also restricting the ability of people to finance house purchases. Taken together these factors should suggest a need and demand for the private rented sector to provide more homes yet the emergency legislation. Unfortunately, as we explain below, the emergency legislation has effectively stalled the rapid momentum in the delivery of new homes available for rented accommodation through the build to rent sector.
5. The impact of this legislation on the future delivery of new rented homes has been sudden and severe. We calculate that already over £700m of investment has been paused or indeed lost after the 6 September statement. We are greatly concerned for the future of the potential £3.5bn estimated value of the build to rent pipeline for Scotland, the vast majority of this investment (est. 74%) currently being at planning or pre-planning stages.

**Key Points**

* + The SPF is concerned that the debate surrounding the emergency legislation on in tenancy rental increases continues to be confused by references to increases in starting rents for new tenancies.
  + The same issue is clearly identified in the quarterly Scottish Housing Market Review. Q4 published on Friday 6 January estimated annualised increases in rents to end November 2022 to be at 4.4%. This has increased as the Quarterly Review notes since summer when 3.6% was reported. However, the 4.4% figure is nowhere near the increase in new rents frequently highlighted by the Scottish Government. The whole policy has therefore been established on a questionable premise.
  + The government consulted with stakeholders ahead of the first review of the Cost of Living legislation. The review asked a balanced set of questions and our members welcomed the opportunity to provide direct evidence of the impact the legislation had made on investment and perceptions of risk in respect of Scottish investments.
  + We found clear and unequivocal evidence of increased risk and uncertainty associated with Scottish located projects from a variety of investors and funders, including long term pension and life funds.
  + The evidence we received from our members suggested that even in the short time since the emergency legislation was announced that over £700m of residential investment has been paused or indeed lost to the rented housing sector in Scotland. This represented nearly 4,000 modern energy efficient homes that may now not appear in the Scottish rented sector.
  + The end of the rent cap for the social housing sector was welcomed and necessary. The unforeseen consequences of the emergency legislation had clearly imperilled much needed private investment for that sector.
  + The emergency legislation will exacerbate the crisis in the supply of homes in Scotland. For the rented sector the housing crisis is acute. A recent example found some 670 applicants seeking one letting – this is an extreme case but it is not alone. Property experts report that there has been a fall of 29% in the number of properties available to let since 2016. This is clearly contributing to upwards pressure on rental values in the private rented sector. The emergency legislation unfortunately exacerbates this position as it has deterred investment and is reported to be encouraging more landlords to be leaving the sector.
  + It is vital that the government enters a constructive dialogue with the real estate sector on the future of regulation for the private rented sector. These market interventions have major implications for investment by the new build to rent sector that is set to deliver hundreds of thousands of new homes to the UK. Unfortunately, and as explained earlier, the emergency legislation has fuelled uncertainty and added risk to Scottish build to rent investment proposals.
  + Should the Scottish government propose to continue the rent freeze, then such a decision poses the question as to how Scotland now attracts long term patient capital into the market to help meet our ambitious, vital targets for delivering new homes at the new energy efficient standards.

* + Should the government decide to retain the rent cap but at a higher rate than 0% it is vital that the government still enter into effective and constructive dialogue with potential and known investors, particularly the institutional (pension and life fund). The legislation has increased uncertainty and consequently the risk associated with Scottish investment in the build to rent sector. Perception can be a significant factor for investors allocating major long term investment capital and we are clearly seeing feedback that the appetitive for Scottish investment has been severely hurt by the emergency legislation.

1. The SPF would be pleased to answer any further questions on the points raised above. Please contact David Melhuish on the details below.

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