

Market Review - November 2024

Build to Rent in Scotland 2024





Stuck in the *Pipeline*

The Scottish Government has declared a national housing emergency and 13 local authority areas have now called their own local emergencies. The root cause of these emergencies is a lack of housing supply to deal with burgeoning need and demand across all tenures.

With rising migration, increasing homelessness and falling supply, the situation only looks like it will worsen over the next few years.

Build to Rent (BTR) – institutional funds purchasing and building out sites to provide new residential rental accommodation – is an emerging tenure that could deliver new homes quickly and at scale. It has been an important part of new housing provision in the US and many parts of Europe. It has been successfully delivering new homes in parts of the UK for a number of years, especially in Manchester and parts of London, but its presence is limited in Scotland.

A major reason for this is political risk. Scotland has a risk premium due to concerns about future legislative and tax changes. This premium was raised following the introduction of the rent freeze in Autumn 2022 (with no prior consultation or warning) and has remained high due to the prospect of a national system of rent controls proposed in the new Housing (Scotland) Bill, which is progressing through Parliament.

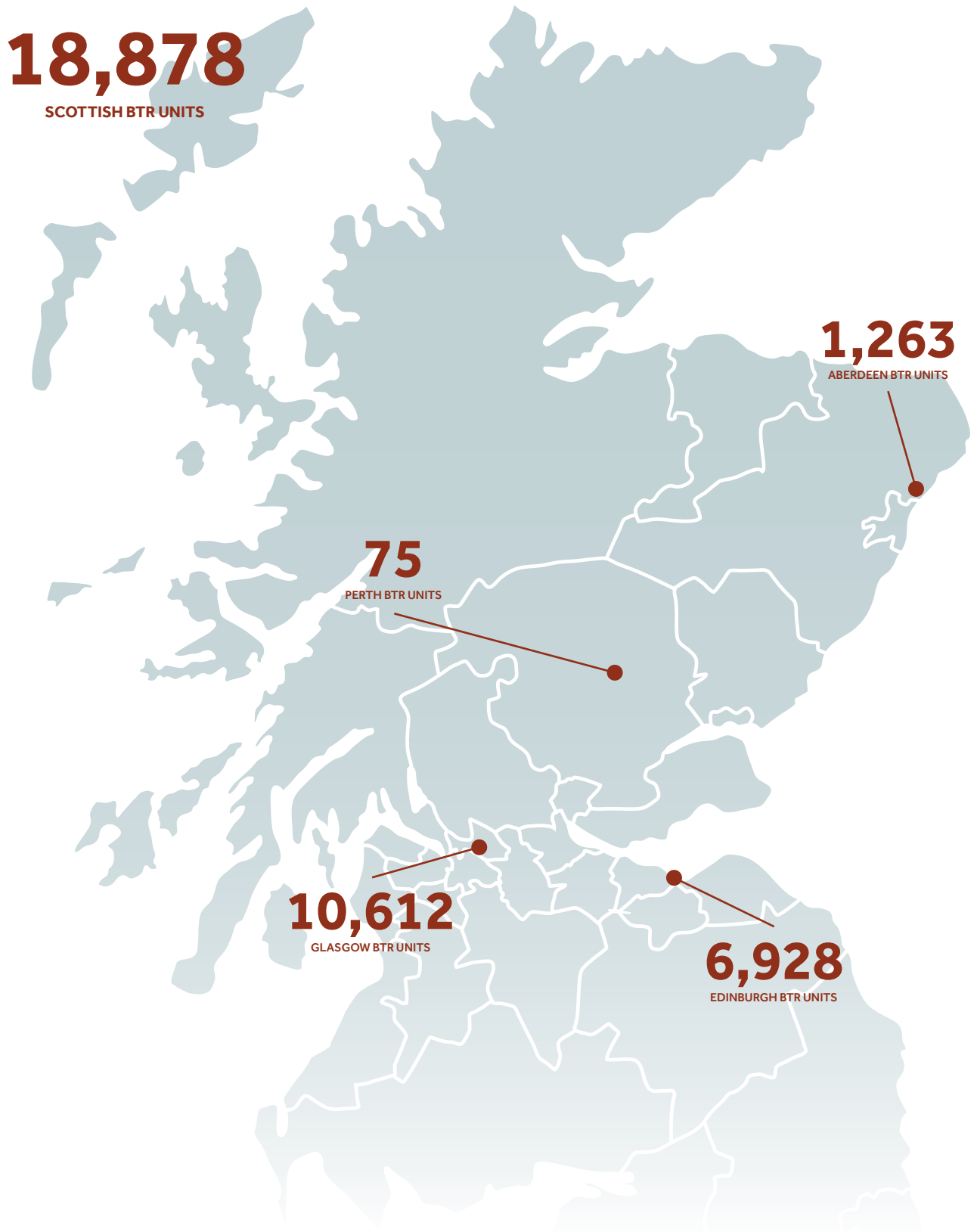
The Scottish Government's proposed amendments to the Bill would see index linked rent rises (which would be acceptable to most investors), but such rises to be capped between as well as within tenancies (which would not be). There is a possibility of an exemption for BTR (with a consultation this Spring), but the wider private rented sector would likely be captured by it. BTR would not then be providing additional rental market capacity (as hoped/intended) but would struggle to replace rental stock lost.

Strong underlying market fundamentals have kept Scotland's BTR sector alive, however, there has been very slow progress over the last year and no new investment in the sector for the best part of two years. While a number of schemes have achieved practical completion over the last 12 months, 2024 to date has seen the fewest number of new units entering the pipeline since 2015. These problems are not unique to Scotland as BTR investment has also significantly slowed in the UK, burdened by rising costs. However, the additional political risk in Scotland has seen its main cities fall well behind BTR delivery in cities like Manchester and Liverpool.

Revisions to the Housing Bill will be required to breathe life back into the sector, otherwise this major new tenure will drift south and beyond the UK.

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BTR National Pipeline & Operational



Underperformance

According to a recent **report by Colliers**, Edinburgh and Glasgow should be positioned 1st and 2nd in the whole of the UK in terms of the attractiveness of residential investment. This is based on an analysis of a series of socioeconomic indicators as well as factors such as liveability.

BTR delivery in Scotland's largest cities has improved over the last 12 months, particularly in Glasgow, where a number of significant schemes have now completed. Despite this, Scottish cities lag well behind many of their wider UK counterparts in terms of the rate of delivery.

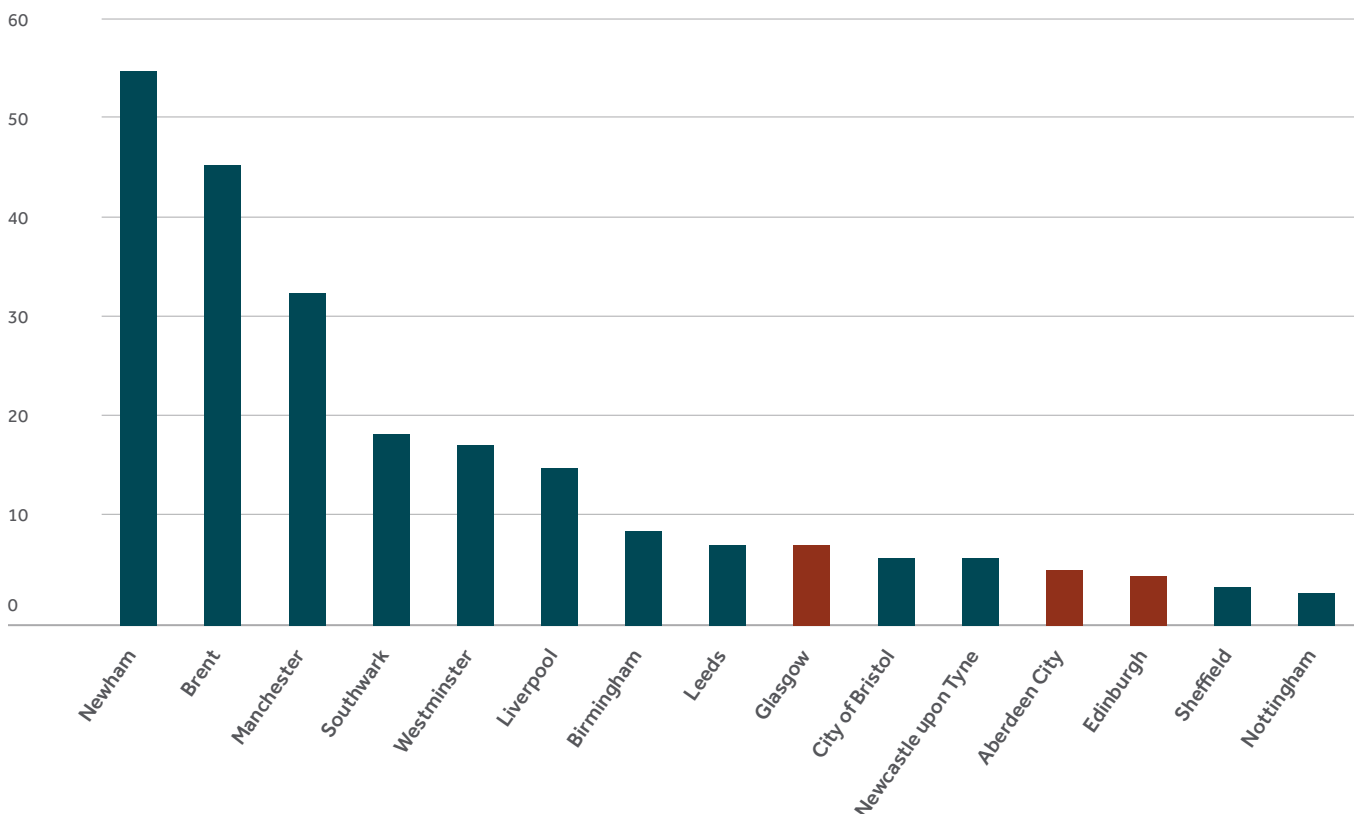
Glasgow's delivery has improved and it's now keeping pace with cities like Bristol, Leeds and Birmingham. However, Edinburgh's performance is lagging well behind the No.1 status given to it by Colliers, with a completion rate below that of Aberdeen.

All the major Scottish cities, however, have low rates of delivery compared to the BTR powerhouse areas of Manchester, Liverpool and a number of the London boroughs.

Figure 1: BTR delivery is lagging in Scotland's main cities

Completed BTR Units Per 1,000 Households

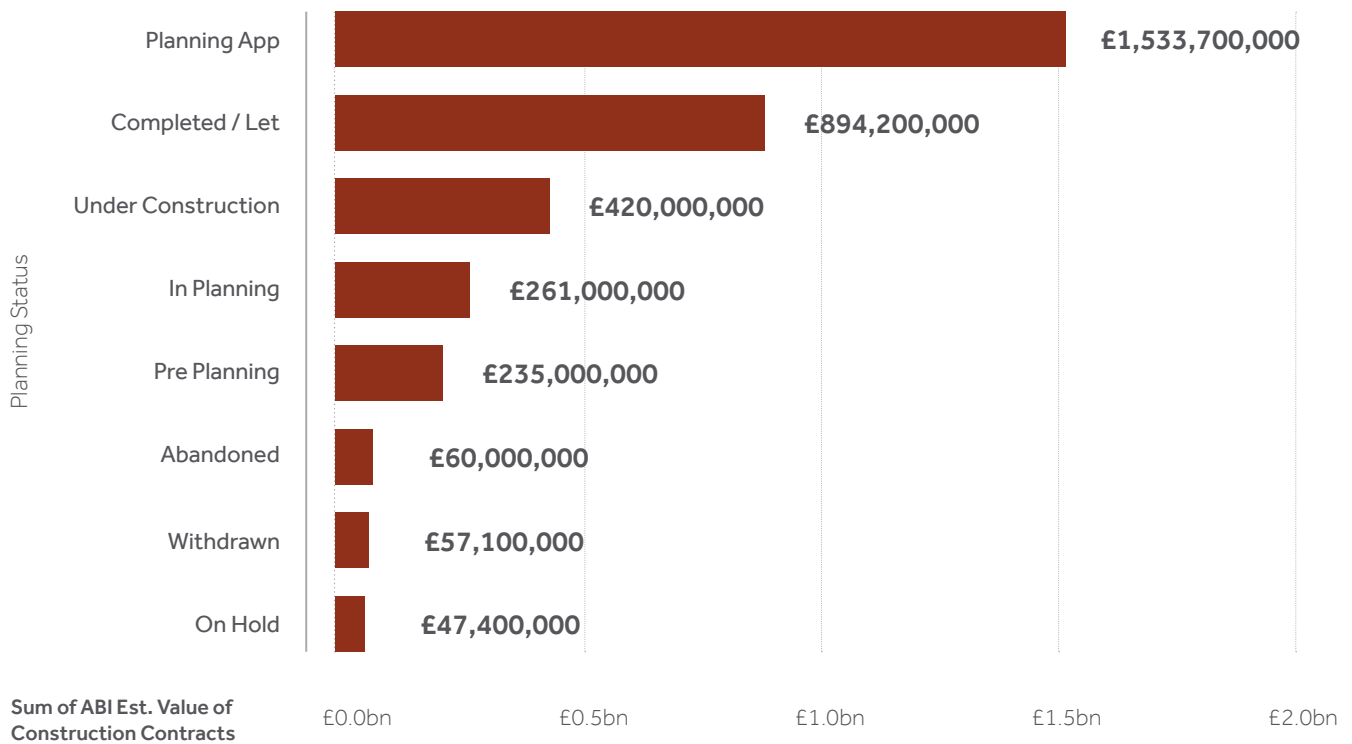
Source: Rettie



There is now an estimated £2bn in construction value (£2.5bn GDV) of BTR units in Scotland, which are identified in the pipeline as either in the pre-planning or planning stages but have not yet committed to construction. These developments total around 14,000 new homes, which are at increased risk of not being delivered. Based on the Homes for Scotland report **'The Social and Economic Benefits of Housebuilding in Scotland'**, which estimates residential development generates 3.5 jobs per house, this would generate the equivalent of around 50,000 jobs over the construction period.

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Figure 2: Construction value by planning status



A notable recent trend has been a number of developments moving away from BTR to Purpose Built Student Accommodation (PBSA) due to the buoyancy of the student accommodation market and the lower level of contributions required as well as the lower regulatory burden. We estimate that around 1,400 BTR pipeline units have moved to PBSA in the past year.

Development Value held within the current BTR planning pipeline



£2.5billion



14,000 BTR Units



50,000 Jobs

Source: BPF / Barbour ABI / Rettie: Values assume £1,000 rent per month gross per BTR unit. G:N 75%.

Development & Deals

While there are challenging conditions, there have been a number of successes in the BTR sector in Scotland over the last year, particularly in Glasgow.

Suburban family BTR arrives in Scotland

With the city's first Single Family Rental (SFR) development at Casa Vista Park, Glasgow's BTR market continues to mature and diversify as city centre apartments have now been joined by suburban family accommodation. The rental homes in Springboig, delivered in partnership between Moda and CCG, provide a 6.5-hectare neighbourhood of high quality terraced, semi-detached and detached house types. The first phase is now completed, with the final phase due to complete in 2025. Residents benefit from smart technology, 24/7 customer service, play parks, wildlife areas and access to community events. Rettie brokered the deal on behalf of Casa by Moda (the investor).



Dalian House tops out August 2024

Maven Capital Partners and Calmont Group have celebrated the topping out of Dalian House, a former 64,000sqft NHS Scotland office building. The development transformed the landmark building into 92 boutique BTR apartments managed by VervLife. The development provides a fitness suite, lounge and co-working areas, a garden terrace, a private dining area and a boulodrome.



College Gardens back with a new scheme

After Get Living previously obtained planning permission for 823 BTR apartments east of Glasgow City Centre, Galliard Apsley are taking the site forward following their purchase of it earlier this year. A new proposal for around 560 BTR homes within a larger mixed-use development of co-living units and student accommodation has been submitted. The development is targeting first occupation in the second quarter of 2028.



Holland Park delivered

Moda Living achieved practical completion in August on their Holland Park development in Glasgow, with all of Phase 1 pre-let. The 433-unit scheme provides a 24/7 gym, private dining rooms, a cinema and roof terraces. The project employed a total of 1,226 people, with training for 24 apprentices and 120 jobs for workers under the age of 24. During the construction phases, £38 million was estimated to be injected into the local economy. Funding was from Harrison Street, NFU Mutual and Apache Capital, with design by Haus Collective and Ryder Architects. Rettie provided ongoing advice on this scheme for a number of years to Moda and its financial backers.



Yorkhill Quay obtains detailed planning

Peel Waters obtained detailed planning permission for their Yorkhill Quay development in Glasgow's West End, which will deliver 500 BTR homes within a larger mixed-use scheme, including co-living, a 200-bedroom hotel, retail and leisure.



Final phase at Collegelands Park progressing

Drum Property Group are progressing with the final phase of the Collegelands masterplan in Glasgow City Centre, with a proposal that includes 182 BTR apartments alongside student accommodation. The development proposal includes a 2.5-acre urban park, in addition to an arts facility, café and courtyard. The £95 million project is expected to create 250 jobs during the construction phase.



Platform launches first phase at Bonnington

In Edinburgh, Platform completed the first phase of their Bonnington Road development representing the only new BTR development in Edinburgh to opens its doors to residents in 2024. Phase 1 introduces 365 apartments for rent with gym, yoga studio, co-working, lounge, guest rooms and private dining. The development also includes a new riverside walk and urban park. The development was backed by Heimstaden.





Development & *Investment* in BTR

It's now 13 months since Rettie were tasked with facilitating a meeting between Scotland's Housing Minister and BTR investors / developers in London. Rent controls and the issues they create were openly discussed and, in the months since that initial meeting, the Minister and his team cannot be faulted in their mission to consult with all parties.

The Housing Bill was finally brought forward in March 2024, with little detail on the proposed rent controls.

The Housing Minister provided an update to Parliament at the end of October 2024, confirming that Stage 1 of the Housing Bill would be completed by the end of November 2024. The speech and answers to subsequent questions confirmed the following.

Clarifications

1. A national system of Rent Control will be brought in by 2026.
2. Rent controls will apply for a fixed period of time within Rent Pressure Zones (RPZs).
3. RPZs can be established by local authorities for all or parts of their areas.
4. Rental growth within these zones would be limited to the Consumer Price Index for that year plus 1% but limited to 6% per annum.
5. Rental growth would be restricted within existing tenancies and also apply to any new tenancy during the RPZ adoption period.
6. Potential exemptions for housing that offer a socially good outcome and purpose-built residential at scale, which may include BTR and Mid-Market Rent (MMR).
7. Stage 2 would commence in early 2025 and more consultation would be undertaken with stakeholders.

Questions

1. Where will RPZs appear?
2. What is the justification for declaring an RPZ and drawing boundaries for same?
3. How long will a RPZ exist for? It could be up to 5 years but can then be rolled on?
4. How will Scottish Government monitor rent setting within an RPZ to ensure used appropriately?
5. What defines housing at scale?
6. Will these questions be defined within Stage 2?
7. When will Stage 2 and 3 be completed?
8. Will secondary legislation be pushed through in this or the next Parliament?
9. When will investors have certainty rather than a rough idea of direction of travel?

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The scale of the problem is huge, the scale of the investment opportunity is also vast. We estimate that there is approximately £2.5bn of residential development that could quickly be brought forward through current BTR opportunities. In Edinburgh, this would also include a minimum of 25% for affordable housing and could be up to 35% of any development with the adoption of the new City Plan.

Affordable housing is largely delivered through a system of grant funding for Registered Social Landlords, but the delivery of this stock has been threatened by build cost inflation and the cuts by the Scottish Government to its Affordable Housing Building Supply Programme (AHSP).

The consequence of these delays, policies and uncertainties has meant fewer affordable housing completions, and a number of business failures within the construction sector.

We shall see what the Scottish Budget brings shortly, there appears to be some additional capital from the UK Government via the Barnett consequential formula, but will we see that investment channeled into housing?

Unfortunately, for our clients and tenants, BTR investment remains stuck in a holding pattern and waiting for much needed clarity. In the meantime, pens hover over several large regeneration deals.

Success Stories in Housing Delivery

I thought I would end with a ray of hope.

Rettie have advised Thriving Investments MMR Fund from its inception in 2017. No grant funding is used in this delivery model, which suggests there are other ways of delivering long term rental stock. The MMR Fund has raised a total of £225m and is now closed on the fundraising side. The Fund has deployed most of that capital and now has 736 units operational and under management, with another 335 units purchased and in the pipeline. In addition, the Fund remains acquisitive and is under offer on another 79 units – taking the total to 1,150 units.

The Fund is managed by William Kyle, who comments:

“The New Avenue Living Mid-Market Fund has tapped into a sector of great need for essential workers across Scotland’s two largest cities. We are experiencing high demand, high occupancy rates and very positive customer feedback. We believe the model works well and is a credit to all of our delivery partners. We look forward to growing and evolving the model in the coming years.”

Sandy Gilmour
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View from the *Industry*

Moda has a passion for Scotland. This is the key reason why we accepted an invitation in April 2024 from the Government to join the Housing Investment Taskforce, chaired by the Housing Minister Paul McLennan MSP.

Scotland has huge potential for additional Build to Rent (“BTR”) neighbourhoods and the success of our existing neighbourhoods at Moda, Holland Park and Casa, Vista Park in Glasgow, as well as Moda, The McEwan in Edinburgh, is testament to the demand for high quality, professionally managed rental accommodation. The introduction of rent controls over two years ago and the publication of the March 2024 Housing Bill saw residential investors forced to turn away from Scotland at a time when the demand for housing outstripped supply and major cities and the Scottish Government themselves declared housing emergencies.

The unintended consequences of rent control were there for all to see. Learning from the Scottish experience, the Welsh Government recently concluded in its Housing and Fair Rents White Paper (October 2024) that “rent control measures could have a detrimental effect on private renters, as it could lead to a reduction in the supply of rental properties in Wales, potentially increasing rental costs and in turn increase the risk of homelessness”.

The BTR sector is remarkably diverse, covering city centre, suburban and rural locations providing apartments, terrace housing through to semi and detached houses. Our city centre neighbourhoods at Moda, Holland Park and Moda, The McEwan, with their inclusive rental packages including 24/7 concierge, health and wellbeing services, internet provision, furniture packages, co-working spaces and a myriad of internal and external spaces are hugely popular attracting people of all ages from all walks of life. Our suburban neighbourhood at Casa, Vista Park is let before the new homes come to market with three-quarters of residents coming from Glasgow, freeing up homes elsewhere in the city whilst over 20% receive benefits, 21% are key workers and about a third work in the public sector focused on health, education and social care.

The voice of the rental sector has cried out for certainty over many months, and this has been repeated and echoed loudly during all our taskforce discussions. Credit to the Housing Minister for bringing together such a varied collection of public and private taskforce members. The discussions have been energised, engaging and challenging as we strive to attract investors back towards Scotland.

The Programme for Government, launched on 4 September 2024, confirmed Housing Bill amendments and this was followed by a Housing Minister statement on 31 October 2024, which amongst other things, recognised that the “the rented sector is a critical part of Scotland’s overall housing system”. This statement identified the Housing Bill amendments and an exemption consultation to begin in early Spring next year.

Our passion for Scotland remains undiminished and whilst optimism is starting to return to investor discussions, time continues to slip by as the demand for quality rental homes in Scotland grows daily.

James Blakely
Planning & Engagement Director
Moda Group

Rental Market *Review*

Market Context

Driven by the increasing cost of home ownership, demand for private rented sector (PRS) housing has been on the rise since the start of the century. The last 20 years has seen younger households (under 35 years-old), in particular, move away from owner occupation and into the PRS. In Scotland, the percentage of all households in the PRS has risen from 5% to 14% since the start of the century. In Edinburgh, since the start of the century, the percentage of households under the age of 35 in the PRS has risen from 31% to 63%.

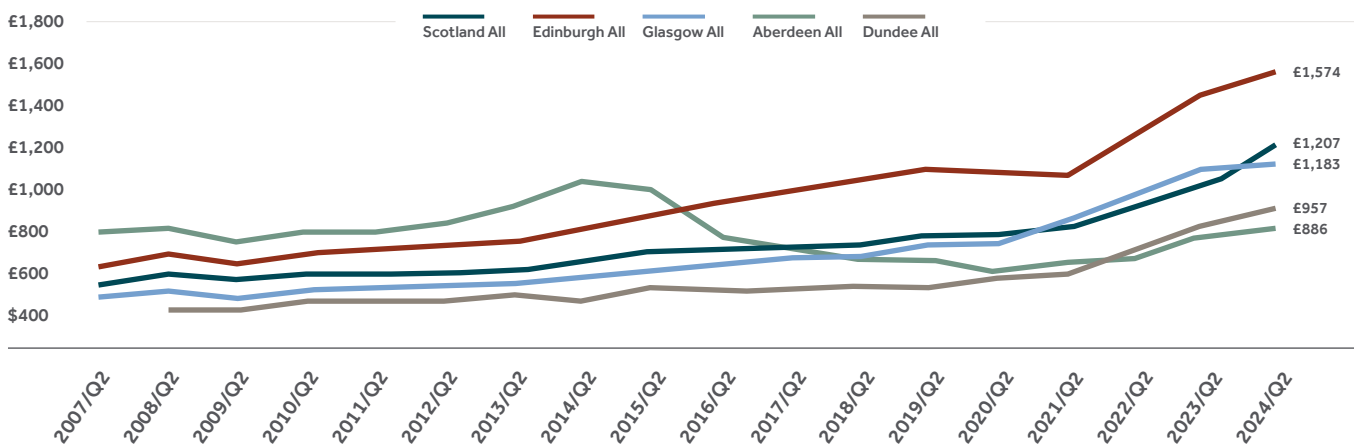
The average rent and average mortgage payment in Scotland were on even terms at the beginning of the year, with the average mortgage cost since falling slightly above the average advertised rent for the first time since 2022, which creates more of an incentive for people (especially younger people) to buy rather than rent, taking some demand out of the rental market. The pace of rental growth now appears to have slowed after accelerating over the previous two years, while the time

to let a rental property is rising slightly again after falling to record low levels at the start of 2024.

It does appear that some of the heat has come out of the market for a time, but the demand/supply imbalance persists, which will affect future availability and affordability if not corrected. Availability still appears to be constrained, with the volume of new listings onto the market continuing to drop back. This is likely due to some landlords exiting the sector but also because general shortages mean that tenants are staying in their property for longer.

A strict rental control regime (a potential outcome in the latest Housing (Scotland) Bill) will likely exacerbate supply constraints. If demand does not fall back significantly (unlikely), then, in the absence of price inflation, the economic concept of scarcity will likely express itself in queues and shortages of rental accommodation.

Figure 3: Average advertised rents are now cooling after accelerating for the previous two years

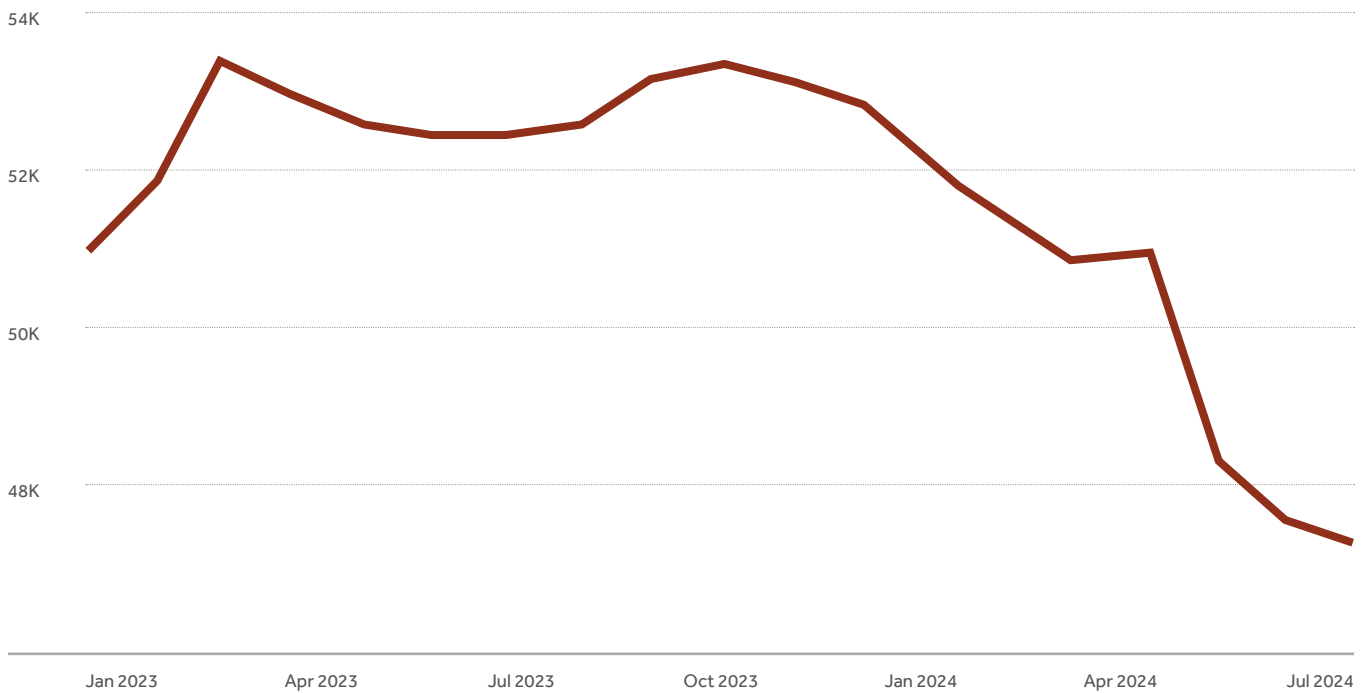


Rank	Scotland	Edinburgh	Glasgow	Aberdeen	Dundee
Annual Change %	12%	7%	4%	6%	7%
5 Year Change %	45%	39%	48%	21%	55%
5 Year CAGR	9%	7%	9%	5%	9%

Source: Citylets

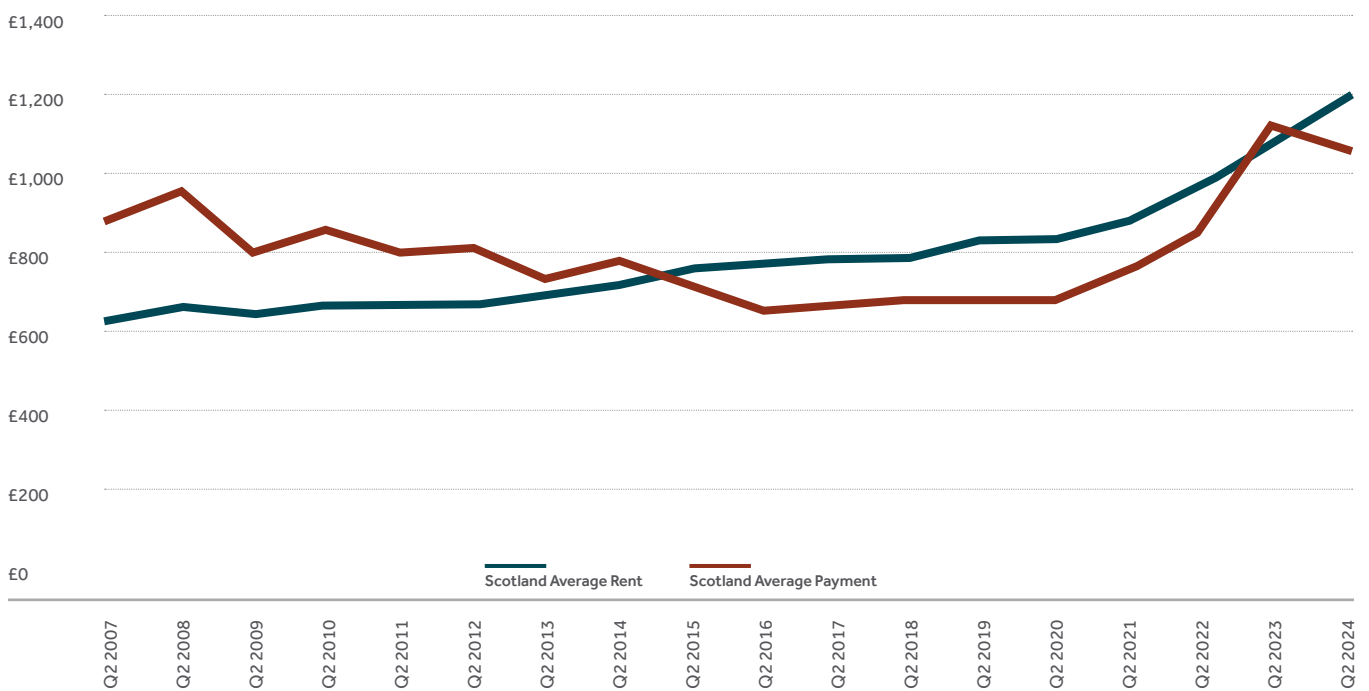
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Figure 4: The 12-month rolling count of listings in Scotland continues to track down



Source: Rightmove

Figure 5: The average mortgage payment in Scotland is now tracking below the average advertised rent



Source: Rettie

Market Context

The latest findings from the British Property Federation (BPF) identified a sizeable uplift in completions across the country, but a decline in developments under construction and in planning. The report can be viewed here: **BPF Build to Rent Report - Q3 2023**.

There has been an emerging pipeline coming through, but the more difficult financial and economic conditions is causing a bit of a pause.

In Scotland, BTR completions have far outpaced the number of new starts in 2024. New starts have had their lowest total since 2015, when the sector was embryonic (see Figure 8). Only 597 new BTR units have been added to the pipeline, including Glasgow Enlightenment's planning application for the final phase of the Collegelands Park masterplan and CXG Glasgow's proposal at Charing Cross. As well as the difficult financial and economic conditions faced in the wider UK, the political environment in Scotland makes the financing and delivery of BTR much more difficult.

2024 has seen a number of key BTR schemes progress from construction stages to completion. Over a fifth of Scotland's pipeline is now complete and/or fully operational. This represents a 10% growth in completions over the past year.

An additional significant proportion of the pipeline benefits from detailed planning permission, which will help to support future growth. Just under 50% of the

pipeline has had planning approved, indicating that there is potential supply that can be released. However, with only 3% of units under construction, conditions will need to improve in order to maintain the delivery pace in 2024. At the moment, it looks like delivery will slump next year.

Almost 1,400 units that were added to the pipeline in 2020/21 have now been abandoned in favour of PBSA, while others have been placed on hold while alternative planning applications are processed. Almost 3,500 units entering the pipeline across 2022 and 2023 have had planning approved but have yet to reach the construction phase.

Figure 6: BTR units by status in Scotland

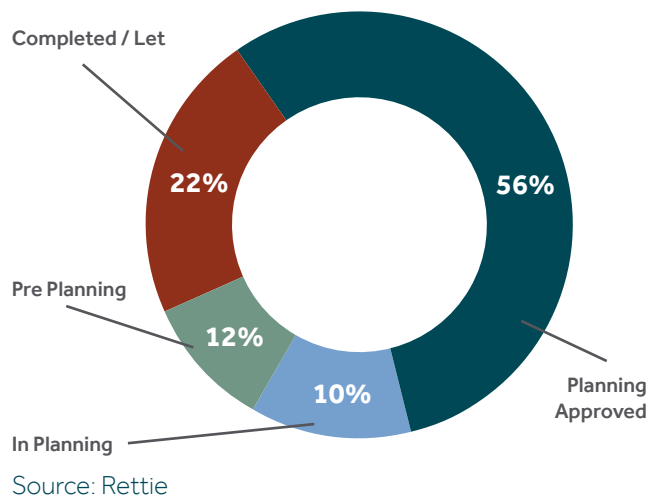
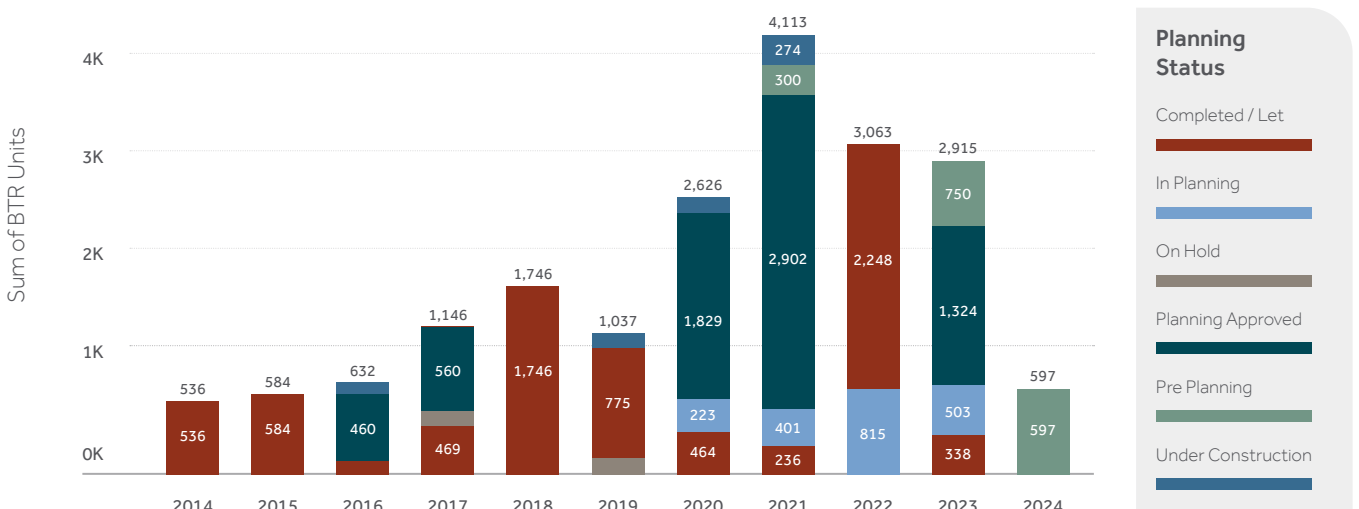


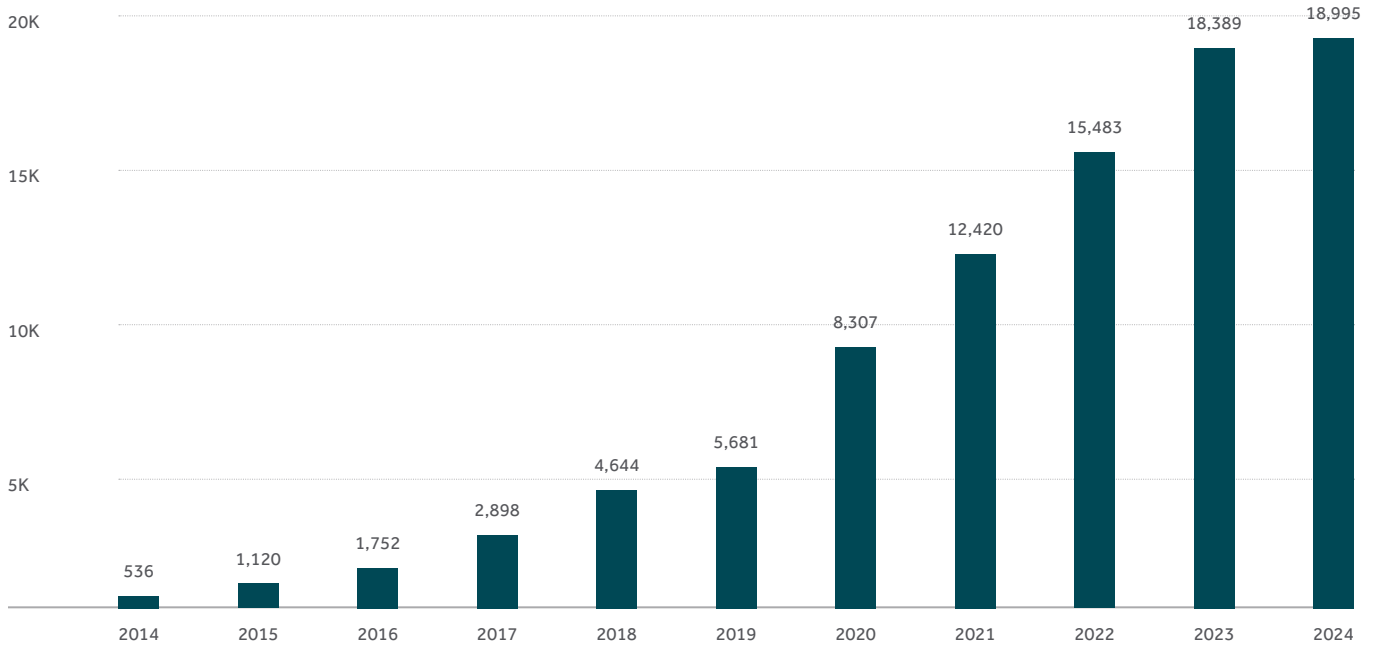
Figure 7: BTR units by status of by year planning submitted



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Figure 8: Scottish cumulative BTR operational and pipeline units has plateaued

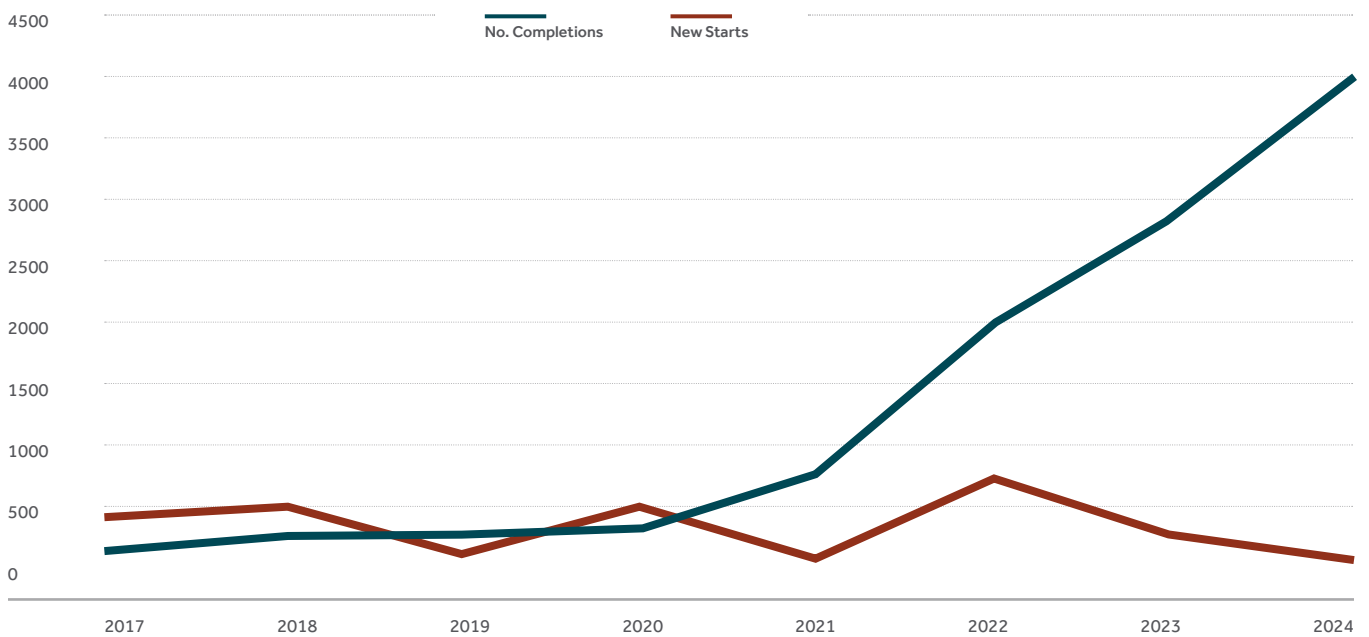
BTR Units by Year



Source: Rettie

Figure 9: BTR completions vs. new starts (12-month rolling basis)

Completion vs. New Starts 12 month rolling



Source: Rettie

Supply by City

Glasgow has regularly outpaced Edinburgh in pipeline growth over the last few years. Over the last year, Glasgow has seen a significantly higher number of planning approvals for new schemes than Edinburgh, with major regeneration projects taking place along the Clyde and around the Merchant City.

While almost 3,000 units were added to the Scottish pipeline in 2023, following a similar increase in 2022, only around 600 units have been added in 2024. Glasgow is now responsible for over half of Scotland's BTR operational and pipeline units. Glasgow has also separated itself from Edinburgh in terms of both the number of schemes and average scheme size (see Figure 12).

In Edinburgh, no new BTR sites were added to the pipeline in 2024 to date. Demand remains high for those schemes that do complete but the regulatory environment will need to change to encourage more new starts.

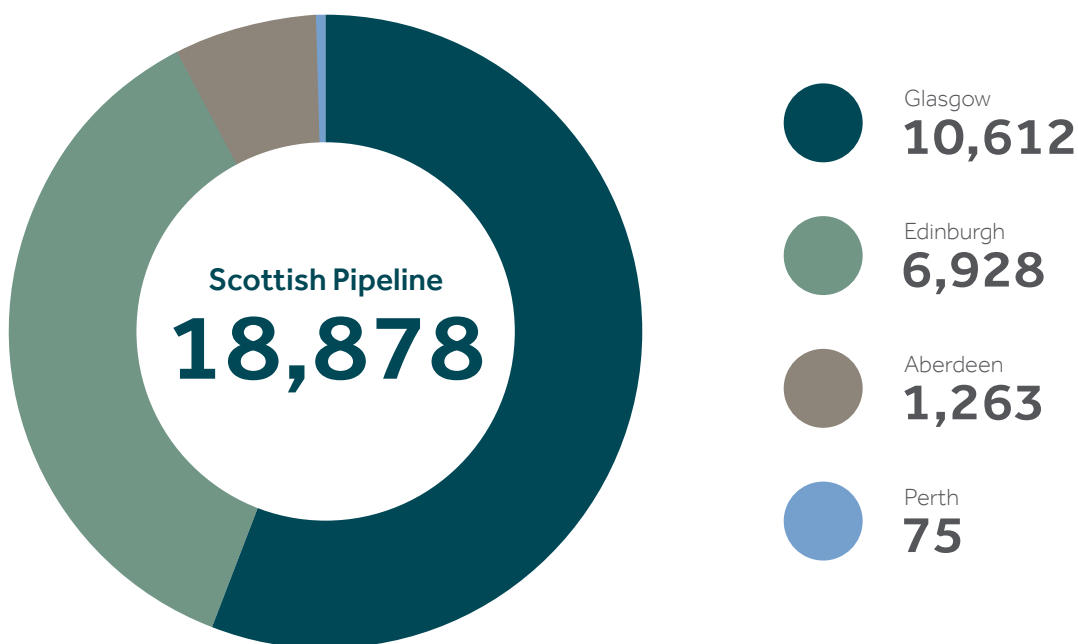
With around 50% of the Scottish pipeline benefitting from planning permission, it remains to be seen how many of these applications will enter the construction phase over the next year or so, or convert to other uses

such as PBSA. The number of developers reconsidering their BTR approvals in favour of PBSA has increased significantly over the last 12 months. In Edinburgh, Ediston are progressing plans to incorporate 580 student beds into their New Town Quarter development, in place of 144 BTR units that were previously granted planning permission. In Glasgow, Galliard Apsley, which purchased Get Living's College Garden site in Glasgow, have removed almost 300 BTR units from their development proposals and replaced them with additional co-living and student accommodation. Also in Glasgow, Watkins Jones are now pressing ahead with 784 student beds at Portcullis House in place of 684 BTR and co-living units.

While around half of the Scottish pipeline benefits from planning approval, very few units are in the construction phase. Currently, across Scotland, there are a total of 172 units under construction, representing approximately 1% of the operational and pipeline BTR sector. Developments that have completed all entered the pipeline in 2021 or earlier.

The relatively strong number of completions in 2024 is a welcome addition to the cities' rental markets, but operational BTR still accounts for a very small proportion of the overall PRS market (only around 1%).

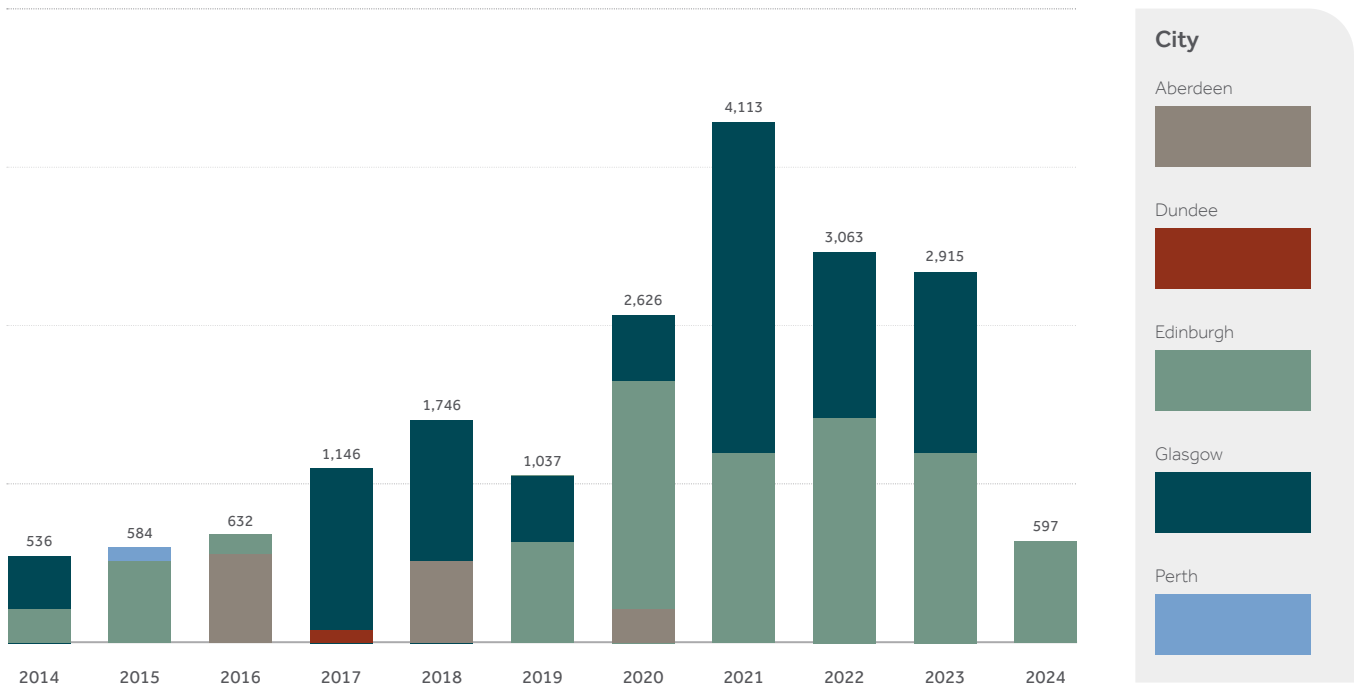
Figure 10: Operational and Pipeline BTR Units by City



Source: Rettie

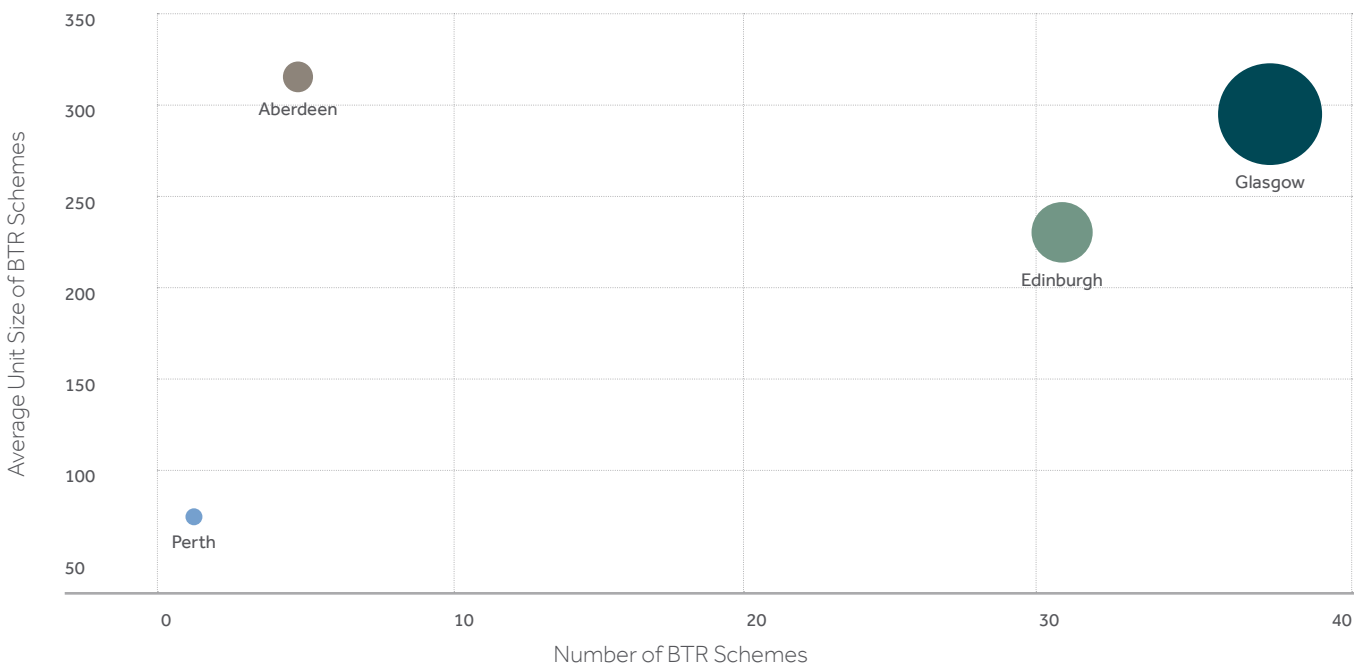
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Figure 11: Operational and Pipeline BTR Units by City and Year



Source: Rettie

Figure 12: Average scheme size and number of schemes are moving ahead in Glasgow compared to other cities



Source: Rettie

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Figure 13: Glasgow BTR Pipeline & Operational

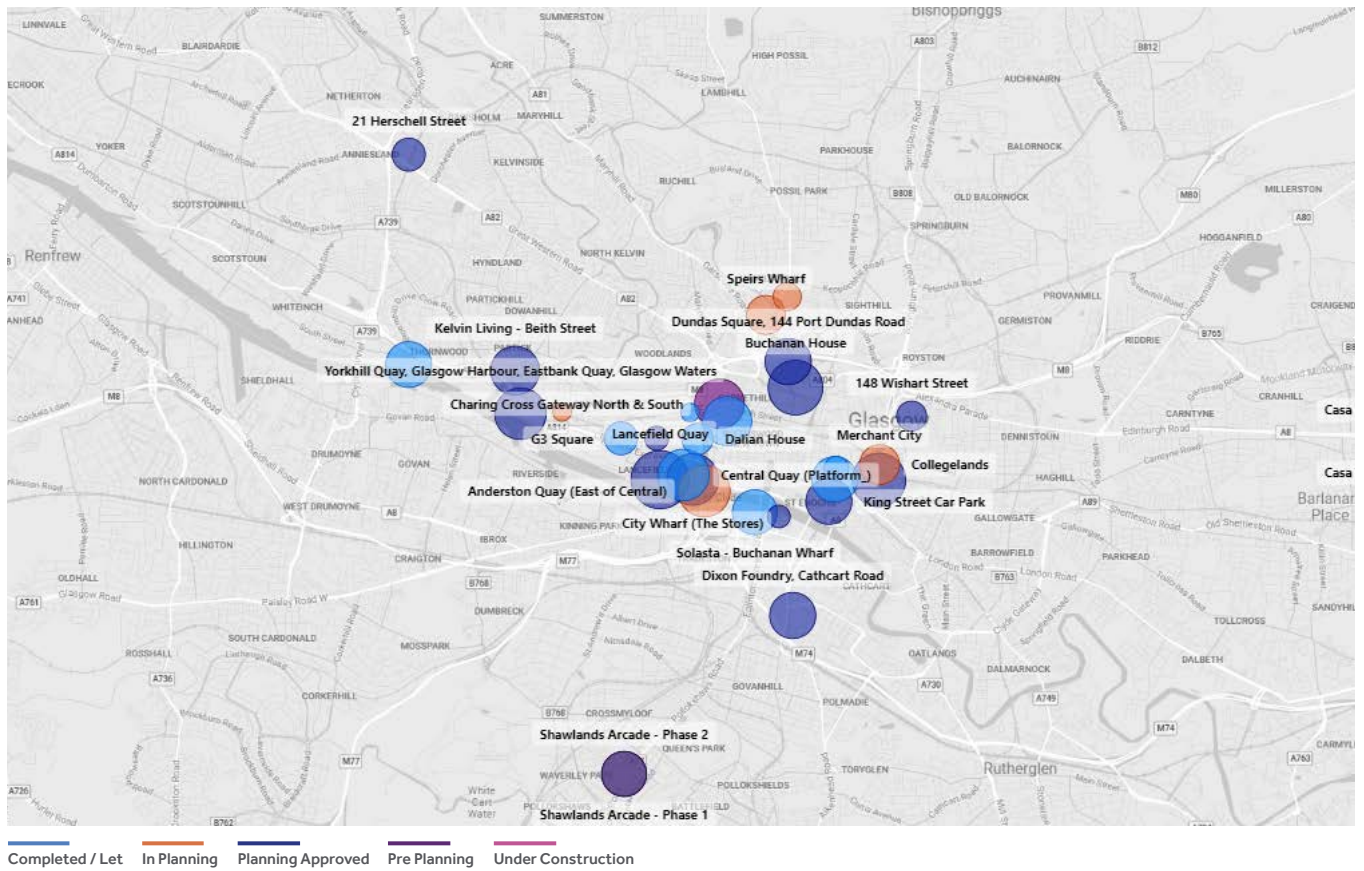
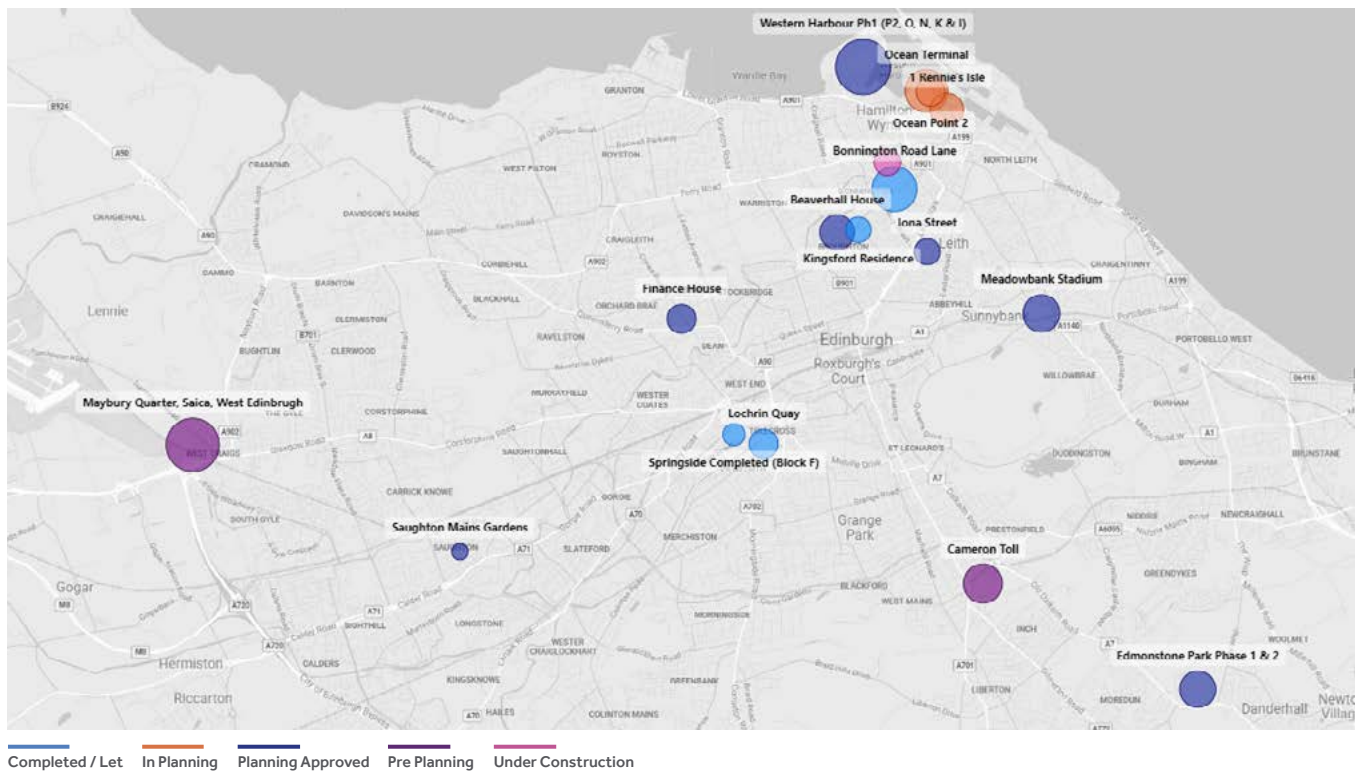


Figure 14: Edinburgh BTR Pipeline & Operational



Rettie BTR Services

Management & Operations

Our Build to Rent (BTR) team is at the heart of the private rented sector in Scotland, with almost £1bn in assets under management. We provide a comprehensive range of BTR services and have the research expertise, experience, and network to make Build to Rent work north of the border.

Consultancy & Research

Our Consultancy & Research team is the largest in the Scottish Private Sector and provides a broad range of services to both private and public sector clients. Covering all parts of the Scottish residential market, the team provides clients with in-depth, reliable, and up-to-date information that enables evidence-based decision making.

Land & Development

Our Land & Development team advises on land and property development projects, on residential investments, and Build to Rent. We cover residential, non-residential, and mixed-use development sited and advise on every stage of the project cycle, from early appraisals and funding through to site disposals.

Structured Finance

Our Structured Finance team provides innovative funding solutions for both private and public sector developments. We are expert in all project stages including initial financial modelling; JV/contract structuring; sourcing and securing short- or long-term funding; legal negotiations; public sector procurement; and asset management and rental.

Lettings & New Homes

In addition to our development services, Rettie is a multidisciplinary company with specialities in sales, new homes sales and lettings. This position, and market exposure, provides Rettie with a unique insight into the residential property sector in Scotland.

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