



Build to rent in Scotland: What is different?

GERRY MORE

Homes for Scotland

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As with the rest of the UK, the composition of Scotland's residential market continues to evolve, but one of the most notable market trends in recent years is the marked growth in the private rented sector (PRS), matched by a simultaneous downturn in the rates of home ownership and social renting.

One of the Scottish Government's key aims is to boost the supply of housing across all tenures. It sees Build to Rent (BTR) as an opportunity to increase PRS supply and quality significantly in a relatively short timescale and, therefore, has been engaged in the reform of the PRS tenancy regime and establishment of a supportive planning and investment framework, as outlined below.

Scotland's Housing Market

Over the past century, Scotland's housing market has undergone significant structural change in terms of the patterns of home ownership and renting. In the early twentieth century social housing was virtually non-existent, with the two dominant housing tenures being owner occupation and private rented accommodation. There was a structural shift through the twentieth century, such that home ownership progressively increased from 25% in 1961 to 61% in 2015, although it peaked at 66% in 2009.

Over the same period, there was a commensurate fall in households in the PRS, from 41% to 14%, and a rise (to 34% by 1961) and then fall back (to 24% in 2015) in social housing^{1,2}. These longer-term changes are rooted in the more tenure neutral housing policies adopted across the UK since the 1960s, the significant reduction in social/affordable housing supply as a consequence of 'Right to Buy' and the lack of investment in replacement and additional stock, amplified by the affordability challenges faced by potential homebuyers since the global financial crisis³.

However, the dynamics of the private rented sector are changing (see Figure 1) and what was often seen as the tenure of last resort is no longer the case. Many are renting over the long term as a lifestyle choice. This, together with the continued and expected rise in the number of households and population in general in coming years⁴, is putting pressure on all sectors of the market, not just the PRS⁵.

¹ Scottish Government (April 2012): Evidence review of the private rented sector in Scotland.

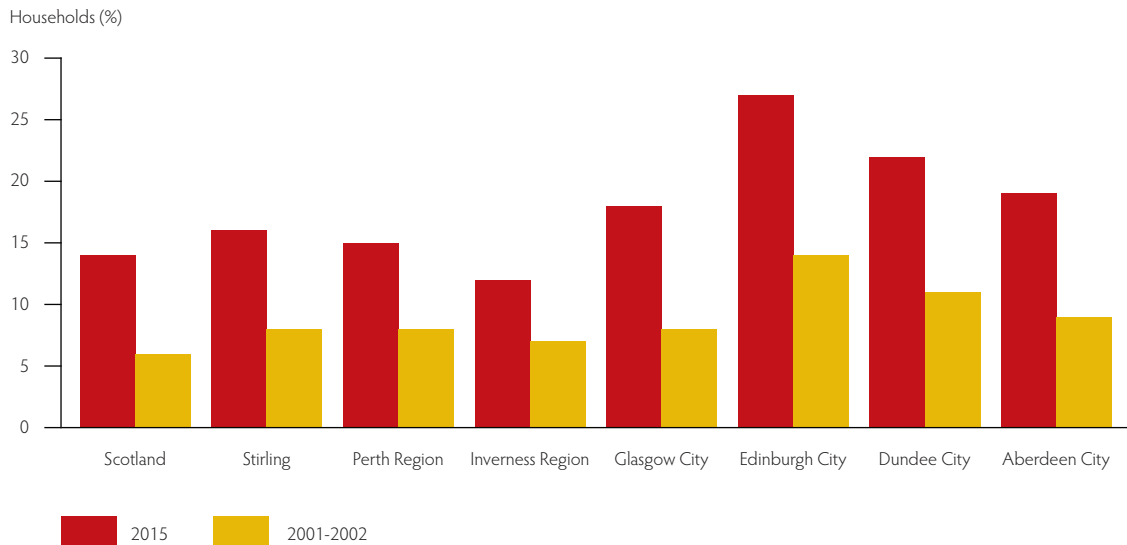
² Scottish Government (November 2016): Scottish Household Survey 2015.

³ See also Paragon (2015): Today's Private Rented Sector: A home for one in five households.

⁴ National Records of Scotland: Household and Population Projections.

⁵ Scottish Government (November 2016): Scottish Household Survey 2015.

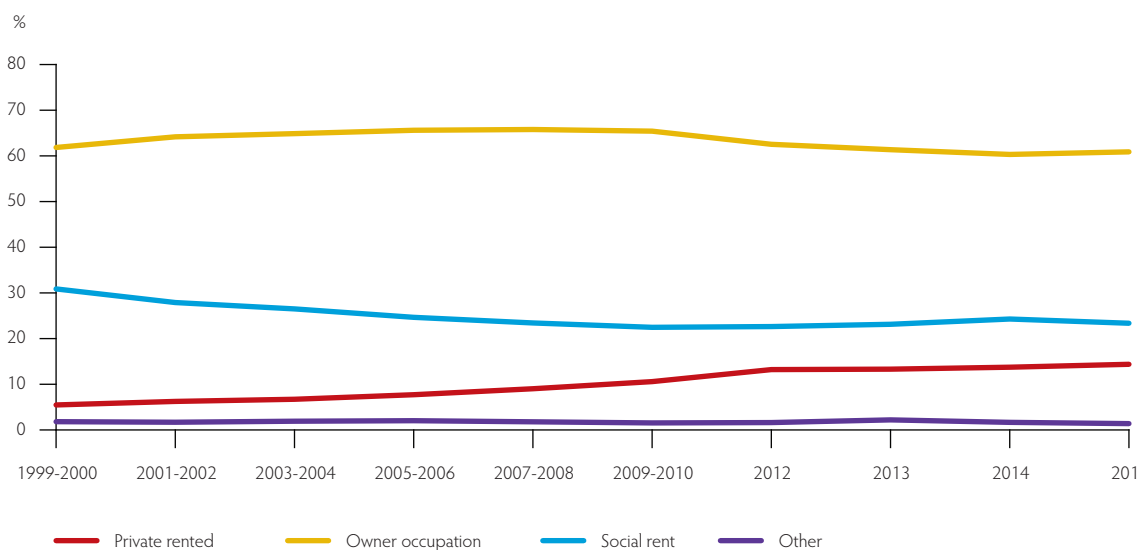
Figure 1: **Households in PRS by region**



Source: Scottish Household Survey – Annual Report 2015 – LA Tables. Published November 2016

Indeed, there is clear evidence of a growing demand for private rented accommodation in Scotland⁶ over the last 15 years (see Figure 2), suggesting that this is not simply a result of short-term effects of mortgage affordability. Data indicates that the average length of a lease is around 15 months⁷ with an average length of stay in PRS accommodation around 2.7 years⁸. PRS in Edinburgh is now the second tenure of choice, and the situation in Aberdeen and Stirling is moving quickly in the same direction. A closer look at specific city centre locations across Scotland shows that PRS is clearly becoming the first tenure of choice. Based on 2011 Census data around 50% of households in city centre neighbourhoods were in PRS, and this proportion is likely to have risen further since then⁹.

Figure 2: **Growth of PRS as part of Scotland's tenure mix**



Source: Scottish Government: Scottish Household Survey 2015, Published November 2016

⁶ E Trevillion & D Cookson, Demand Patterns in the Private Rented Sector in Scotland: Time to Commit to Residential Investment; Homes For Scotland (September 2016).

⁷ ARLA: Private Rented Sector Report (June 2016).

⁸ Scottish Government (November 2016): Scottish Household Survey 2015.

⁹ See footnote 6.

Recent Scottish Government PRS initiatives

A. TARGETING BTR

- **Rental Income Guarantee Scheme (RIGS)**

RIGS has been developed to help kick start the BTR sector in Scotland by providing greater confidence during the early stages when letting risk is likely to be highest. Should participating investors fail to achieve their anticipated level of rental income, a Scottish Government guarantee would compensate them for part of this, with the Scottish Government sharing equally with the investors in the shortfall within a defined tranche. The final details of this initiative are due to be announced shortly.

- **Multiple Dwellings Exempt from 3% LBTT Additional Dwellings Supplement**

There are a number of differences between Scotland and the rest of the UK worth noting when considering the Land & Building Transaction Tax (LBTT), Scotland's equivalent to Stamp Duty Land Tax (SDLT). Firstly, the bands have been structured differently, with LBTT kicking in at a higher level than it does under SDLT (£145,000 compared to £125,000). Secondly, the 10% rate comes into effect on transactions valued over £325,000 – much earlier than for SDLT. However, analysis to date indicates that 92.5% of LBTT transactions do not exceed this band limit¹⁰, with average house prices across Scotland's seven cities falling well short of this threshold¹¹.

The Scottish Government has also made available a multiple dwellings relief where six or more residential properties are purchased in a single transaction. This is comparable with the multiple dwellings relief under SDLT but such transactions in Scotland are also exempt from the 3% LBTT Additional Dwellings Supplement, unlike the rest of the UK in respect of the 3% SDLT surcharge.

NOTE: investors purchasing six or more residential properties in a single transaction may opt for the acquisition to be treated as a non-residential transaction, which is subject to a different SDLT scale of rates and is not subject to the additional 3% surcharge.

B. A NEW TENANCY SYSTEM

A new PRS tenancy is set to be implemented from December 2017 and aims to strike a balance between the needs of landlords and tenants. Rather than having an initial term, the tenancy is open-ended, which landlords are able to terminate using 18 grounds for repossession, and tenants by providing a 'notice to leave'. All initial rents will be market-led and can be increased once a year. Enforcement of the new tenancy regime will be via a specialist housing tribunal.

C. AN ENABLING PLANNING FRAMEWORK

The Scottish Government's Chief Planner wrote to all local authorities in October 2015 encouraging them to consider the potential of BTR to meet housing need in their localities, and to take a flexible approach in dealing with planning applications and planning gain contributions. Draft planning guidance is currently being finalised, which will formalise this support still further.

BTR is also seen as supporting place making, given that it can unlock sites by bringing forward vibrant, dynamic new communities quickly. Scotland's new policy statement on architecture and places, 'Creating Places', states "Successful places can unlock opportunities, build vibrant communities and contribute to a flourishing economy".

¹⁰ Revenue Scotland LBTT Statistics February 2017

¹¹ Your Move Acadata Scotland HPI – Scotland's Seven Cities January 2017 (Published 17 March 2017)

Outlook

Strong Scottish Government support for BTR is helping to create a favourable investment environment for the sector, which is now poised to grow significantly in the short to medium term. This growth will be further underpinned by the collaboration of RICS Scotland with RICS England & Wales to issue updated valuation guidance on the sector.

A number of high-quality, BTR developments are already underway, including: India Quay, a mixed use canal side development incorporating 300 BTR homes in the heart of Edinburgh; Stoneywood in Aberdeen, a development of around 300 homes delivered by Dandara for La Salle Investment Management; Vox Dundee, a landmark redevelopment of over 100 BTR homes within the city's former commercial college; Threesixty's Edinburgh development of 191 homes at Lochrin Place; and Moda Living with their prominent scale development proposals for Fountainbridge in Edinburgh and Pitt Street in Glasgow.