



# Building the Rented Sector in Scotland

Attracting **new sources** of funding to expand a growing market

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**The following recommendations are extracted from the full report prepared for Homes for Scotland by LSE London / Cambridge Centre for Housing & Planning Research. A link to the full report will be circulated to conference delegates as soon as it is published.**

There are a number of stakeholders that need to be proactively involved in ensuring the successful extended development of the rented sector in Scotland. They include at least the following: builders and developers, financial institutions, property management and service providers, housing associations, trade bodies, local government and the Scottish Government. All already have an active interest, but most do not see developing a new model of private renting as their first priority. This has to change if the opportunities now becoming available are to be realised.

## **Recommendations**

The recommendations are ordered by the main issues that need to be addressed: improving information, smoothing the path for development, engaging institutional interest and providing high-quality management.

To deliver on these recommendations will require commitment by all stakeholders although where possible we have identified the appropriate leadership.

The first four recommendations address issues around how better to **inform** these stakeholders of the opportunities that could exist or already do.

### *Recommendation 1*

There should be a **small focused and time-limited working party set up**, possibly led by the development industry and facilitated by the Scottish Government. Building on this report, it would identify and monitor pinch-points that are holding back development and institutional involvement, recommend how these could be overcome and inform stakeholders about mechanisms being employed.

### *Recommendation 2*

The working party should identify a **Private Rented Sector Champion** who would chair the group and take forward the initiatives it identified as necessary to enable potentially viable projects to reach fruition.

### *Recommendation 3*

An acceptable residential benchmark index for Scotland needs to be put in place. The IPD index is the only suitable index available, but it includes only a few Scottish residential properties. IPD is working to extend its coverage across the UK, and institutional owners, landlords and housing associations need to take the lead in **providing data to IPD**; negotiating with them about what is necessary to generate a **Scotland-specific index**; and agreeing with IPD how more broadly located property information could be of value to decision-makers in institutions and housing associations.

#### *Recommendation 4*

A more detailed analysis should be undertaken of **who is in the market and intermediate rented sectors and why** to support better understanding of future new construction market opportunities. Such research might be supported by the construction industry and/or interested institutions as well as by the Scottish Government.

The next seven recommendations relate to the **housing development** stage.

#### *Recommendation 5*

The valuation of rented housing means that developments of rented housing often cannot outbid owner-occupied housing. In addition, planning risk and the need to identify appropriate sites in suitable areas where private renting has a comparative advantage must be addressed. We recommend that local authorities, initially in Edinburgh, Glasgow, Aberdeen and Inverness, **make suitable demonstration sites available for residential rental development that will give the opportunity for large scale institutional investment**. The local authorities could act as equity stakeholders of that land and host competitions among developers and investors to provide higher-density new developments in central city areas with a mix of tenures (including e.g. owner-occupied, market rented and affordable homes).

#### *Recommendation 6*

In this context it may be appropriate for the Scottish Government and local authorities to consider effectively **supporting a limited number of initial projects to demonstrate demand potential for all involved**. Whilst it would be difficult to use funding for such a role it might be value for money in that it could demonstrate the social value of building a professionally rented sector and would allow the Scottish Government to have a say in the standards being applied.

#### *Recommendation 7*

The issue of how to **contract developments to ensure properties remain in private renting into the longer term** must be examined. We recommend that the Scottish Government leads on more detailed discussion on how the 2010 and 2011 Acts can best support the use of long leases. A study of whether and how a form of 'covenanted' private renting as being tested for publicly owned land in England might be made operational within Scottish law.

#### *Recommendation 8*

Local authorities should carefully consider how they might **better evidence the need for private rented housing within their Housing Need and Demand Assessments**. We recommend that local authorities strengthen their analysis of demand across tenures, identifying private renting separately where appropriate.

#### *Recommendation 9*

**Local authorities should consider exercising more flexibility in the determination of S75 and similar developer contributions**. We do not support the idea that market-rented housing should be treated as if it were affordable, but we recommend that local authorities should consider exercising flexibility in assessing S75 and similar developer contributions from rental-housing developments addressing particular needs such as for higher density provision for younger households as has been done with respect to student accommodation.

#### *Recommendation 10*

There are specific opportunities to expand the student accommodation and young professional sector. We recommend that the working group enter into discussion with universities, employers, local authorities, Homes for Scotland and potential providers to

come up with a **detailed building specification for high-density accommodation for students, young professionals and mobile singles.**

*Recommendation 11*

While it is too early to say for certain that the Build to Rent Fund has proved to be value for money in England it has undoubtedly brought new players into the market and raised the possibility of large scale investment becoming more readily available for purchase by institutions. We therefore recommend that **the Scottish Government consider creating its own market-priced Build to Rent Fund.**

The next five recommendations address the issue of how to **match institutional investment with new development.**

*Recommendation 12*

In order to raise awareness of the opportunities for institutional investment in Scotland we recommend that the working party's role includes **the development of a prospectus to attract institutional investment in rental housing in Scotland.**

*Recommendation 13*

In line with this approach we recommend that Scottish Financial Enterprise (SFE) set up a **Sector Policy Group to explore the potential for the industry to engage with investing in this sector** and to secure the pre-conditions for it to do so.

*Recommendation 14*

Developers and institutions, especially those who have already been involved in discussions with government and other stakeholders, should take an active part in **taking forward the sites identified as suitable demonstration sites available for residential rental development under Recommendation 6 to completion and transfer.**

*Recommendation 15*

Aggregation could be one way of bringing institutional funds into both market and intermediate through the transfer of single developments into diversified portfolios. We therefore recommend that **Homes for Scotland develop its role as a potential aggregator in partnership with the industry.**

*Recommendation 16*

The private rent guarantee scheme which is still in the early days of development in the English context is a UK-wide scheme. It involves state aid and therefore provides a subsidy to investors who wish to use debt finance for purchase. This may offer a new source of funding for a range of institutions. We recommend that the **construction sector and landlords in Scotland consider this route and pursue applications where an opportunity arises to do so.**

The next two recommendations relate to barriers with respect to **management.**

*Recommendation 17*

The costs of management and maintenance and their effect on the gap between gross and net yield remain a serious problem area. What little evidence there is suggests that these costs are above average in Scotland. **A study of the reasons for high management costs and how they might be reduced is required.** Housing associations, management agents and consultants involved in providing management services should be encouraged to examine good practice as well as investigating whether management of purpose-built provision costs less.

### Recommendation 18

Equally there needs to be better understood and more transparent means of ensuring that consumers can expect professional standards of management. The working group should consider how best to **recognise and encourage good management practice** in the sector without adding to the regulatory burden on landlords.

Bringing these different elements together is a major task involving both vision and detail. Recommendation 19 sets out a starting point.

### Recommendation 19

We do not make any recommendation suggesting that one specific model is the best approach to developing a professional private rented sector. The evidence of developments across the UK is that there are many different approaches which will work in different circumstances and it is far too early to rule out possibilities. We therefore recommend that **the working party takes initial responsibility for cataloguing and assessing existing and proposed financial models for additional provision of rented housing across the UK.**

The final recommendation provides a word of warning and addresses the issue of maintaining **continued confidence and competitiveness** in the development of a professional private rented sector at scale.

### Recommendation 20

One of the most important messages from this research has been the **need for stability in the policy, taxation and regulatory environments**. Although there is enthusiasm and considerable activity, there is also fragility. We therefore **recommend that the Scottish Government should ensure that all parties are fully aware of the very positive approaches taken in legislation with respect to the twenty-year rules and the introduction of Land and Buildings Transaction Tax in April 2015 (the successor to Stamp Duty Land Tax).** There also needs to be a clear commitment to ensure that the **tax and regulatory environment does not negatively differentiate Scotland from the rest of the UK.** The value of continued commitment to maintaining a predictable transparent regulatory environment cannot be overstated.

### Recommendations from the "Building the Rented Sector in Scotland" report

prepared for:

*improving living in scotland*



by:

