

Funding & Investment in Scottish Housebuilding

Homes for Scotland Annual Conference
15 November 2018

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Rettie & Co.



Agenda

Sources of Finance

- Large developers
- Medium-sized
- Small

Govt Initiatives

- Scottish Govt
- City Deals
- Homes England

Outlook

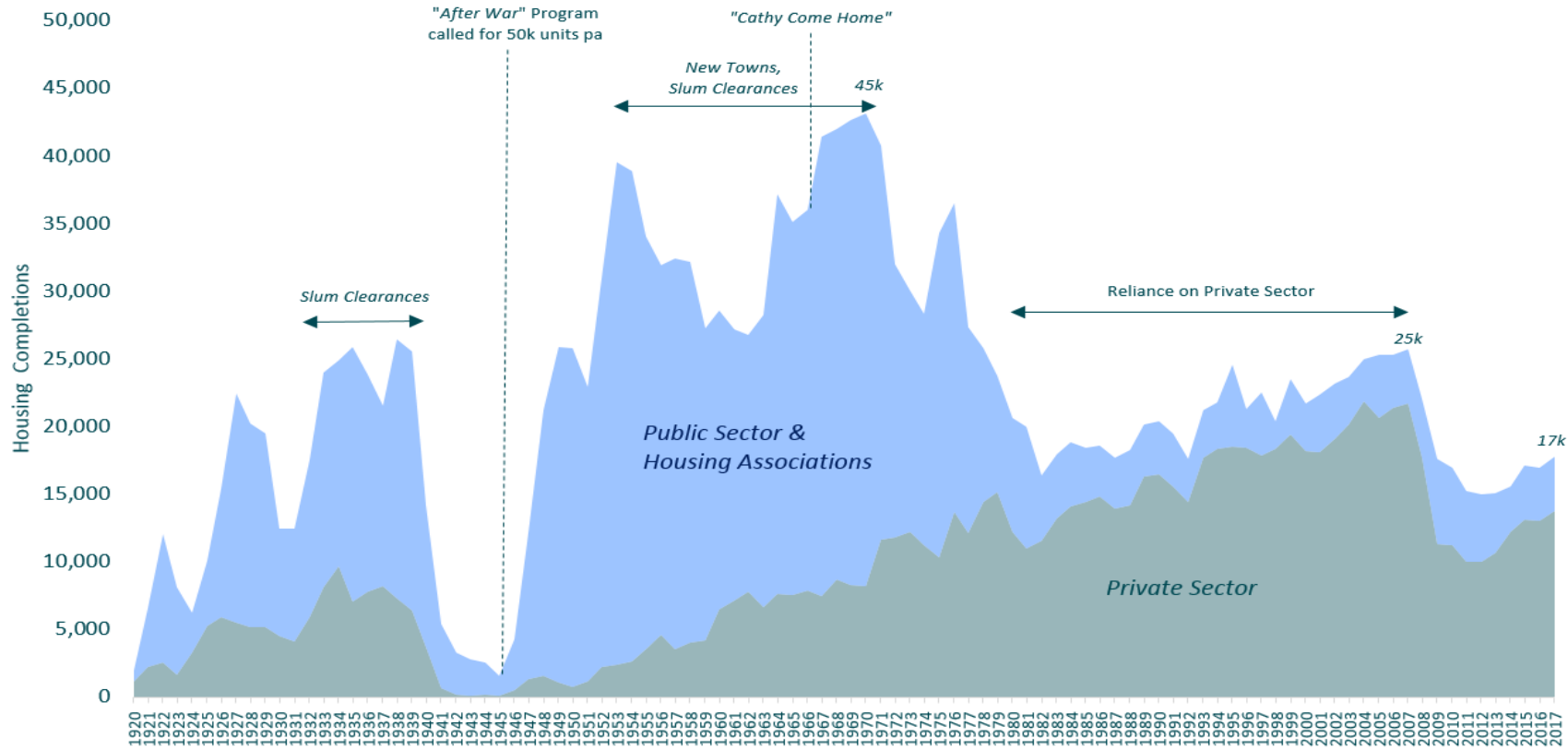
- Post-2021
- The Future?
- What Needs to Happen

Everything comes down to finance



Fundamental problem remains

Scottish housebuilding, 1920-2017



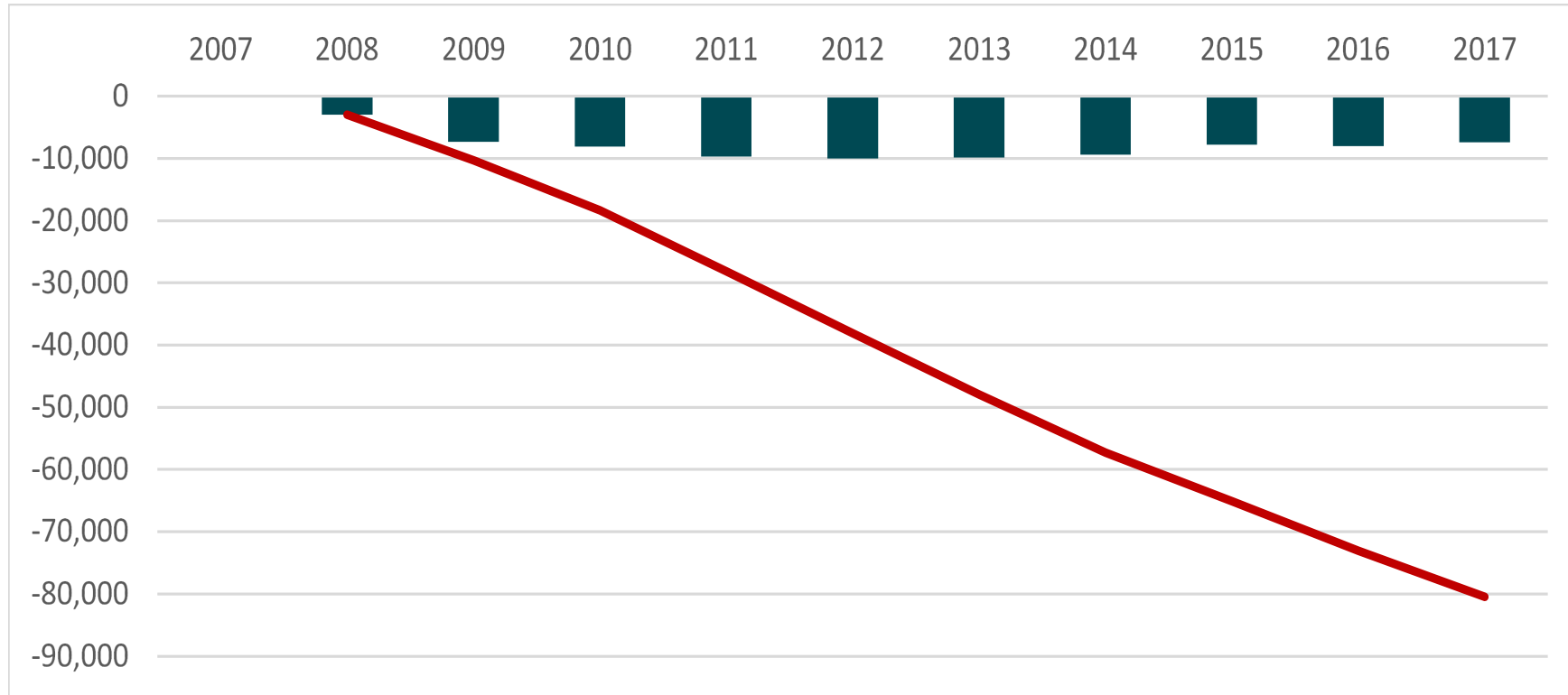
Source: Rettie & Co/Scottish Govt

Everything comes down to finance



Fundamental problem remains

Annual shortfall and cumulative undersupply in Scotland against nominal 25k pa target, 2007-17



Source: Rettie & Co/Scottish Govt

Everything comes down to finance



Sources of Finance



Different responses to debt crisis

What Was the Right Strategy?

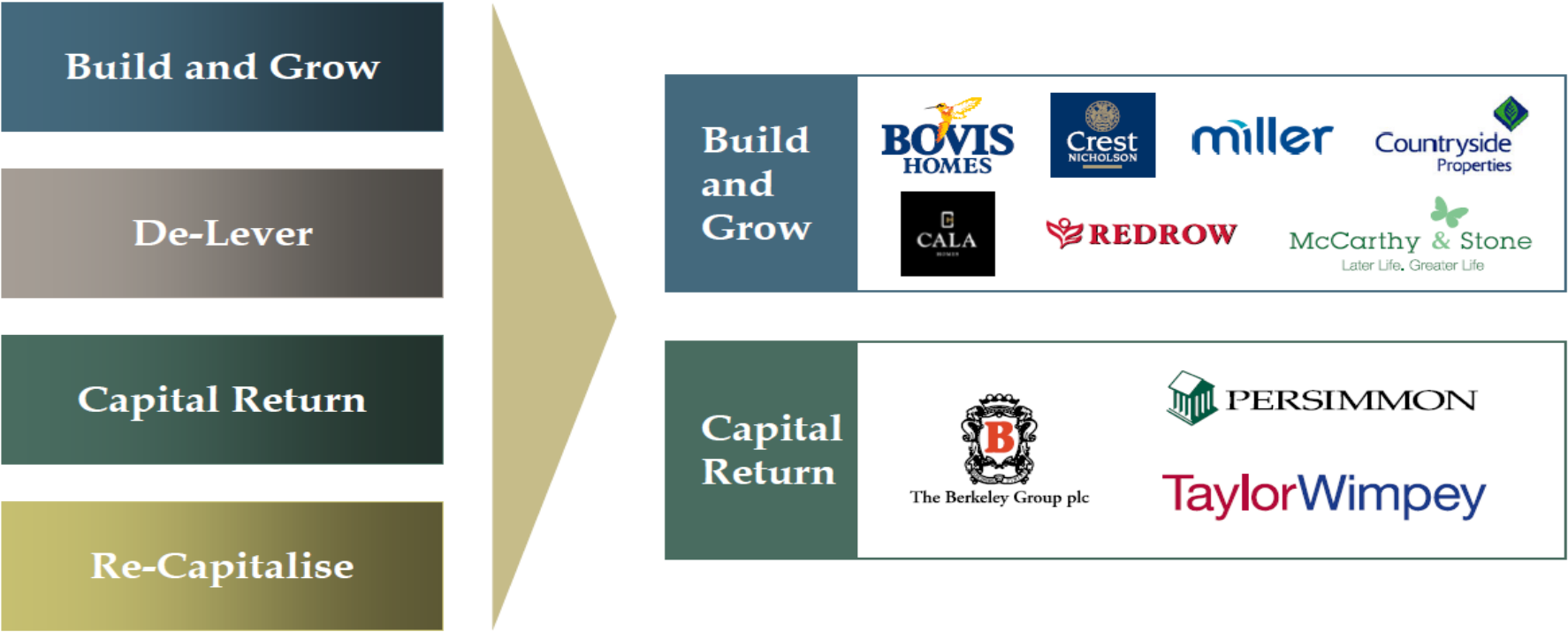
MOELIS & COMPANY



Different responses to debt crisis

What Is the Right Strategy Now?

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Smaller Companies Found It More Difficult to Respond

Table 2: Q. What would you say are currently the main constraints, if any, on your ability to build more houses? (responses to this question from 2012-2018 surveys)

Constraints	2018	2017	2016	2015	2014	2013	2012
Lack of available and viable land	59%	62%	67%	68%	51%	55%	n/a
The planning system	51%	49%	50%	57%	43%	48%	41%
Lack of finance to the company	46%	54%	50%	62%	62%	60%	72%
Shortage of skilled workers	44%	42%	39%	27%	n/a	n/a	n/a
Cost of Section 106 agreements	30%	29%	31%	34%	31%	29%	46%
Restricted mortgage availability	29%	21%	33%	47%	35%	42%	56%
Cost of Community Infrastructure Levy	29%	29%	22%	22%	24%	24%	25%
Materials shortages	24%	23%	14%	9%	12%	n/a	n/a
Cost of national regulation	15%	14%	17%	22%	12%	19%	24%
Cost of locally imposed standards	13%	16%	17%	19%	12%	17%	21%
No constraints	6%	3%	4%	0%	14%	8%	n/a

Source: FMB Housebuilders' Survey

“Poor loan to asset values were the most significant financial concern followed by limitations on business overdraft facilities.”

“47% of respondents reported that there are sites they are interested in that are stalled for financial reasons.”

2016 Scottish Govt Survey of SME Builders – Finance was their main obstacle

No. of active housebuilders building <50 units pa in Scotland fell by 41% 2007/08 to 2017/18

No. of units built down 44%

Source: Registers of Scotland

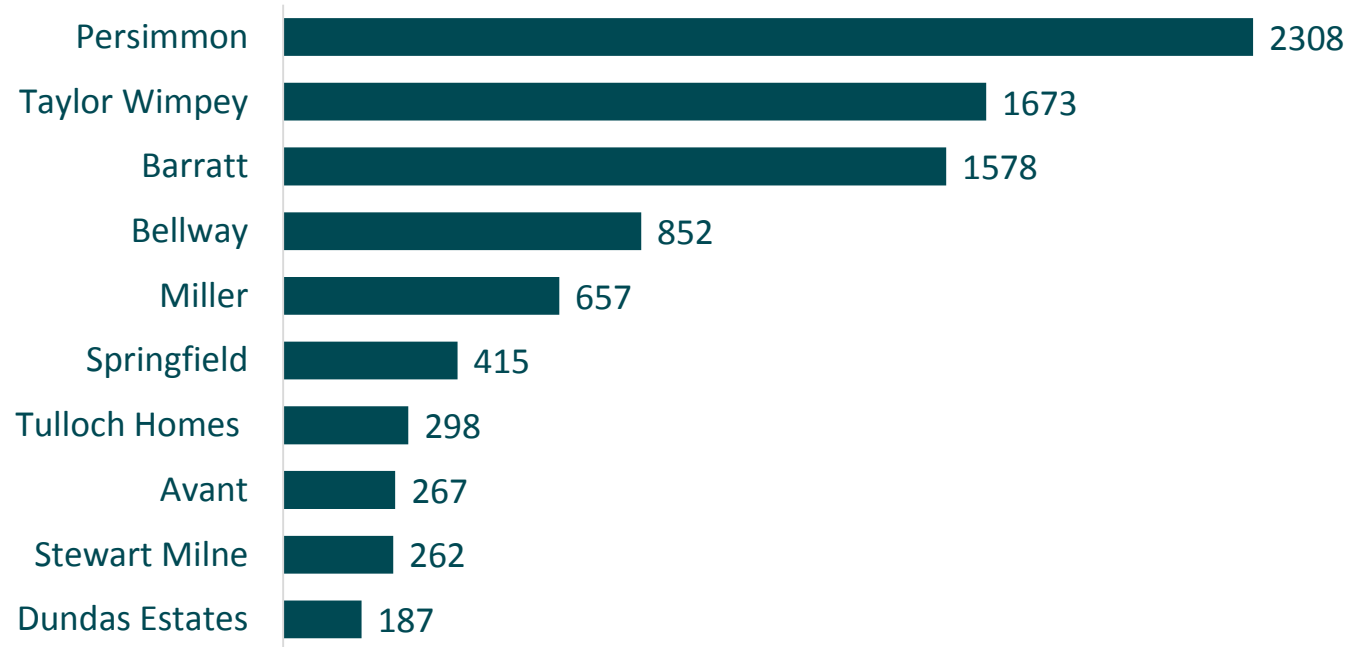


Govt Initiatives



Help to Buy has Fuelled Growth

No. of Help-to-Buy (Scotland) loans by housebuilder



One-third now ring-fenced for Small Developers

Future in Scotland post 2021?

Source: FOI / Scottish Government

Help to Buy helped those developers who were already selling

Scottish National Investment Bank

- Provision of debt & equity finance on commercial basis
- Supporting SMEs – finance & advice
- Infrastructure delivery
- Can take long-term view (patient capital)

Scottish National
Investment Bank



We have committed to investing £2 billion over the next ten years in a new publicly-owned investment bank. More at: gov.scot/scotlands-economy/

But....

- Lot of calls on the cash – Retail, Life Sciences, Digital Media, Food & Drink, Energy
- Is £200m pa enough?
- Govt owned (Can it attract top talent? Could be too risk averse?)

Game changer or lame duck?

City Deals



Inverness & Highland
Inbhir Nis & A' Ghàidhealtachd



City-Region Deal
Cùmhnant Baile-Roinne

**Stirling &
Clackmannanshire
City Region Deal**

Heads of Terms Agreement

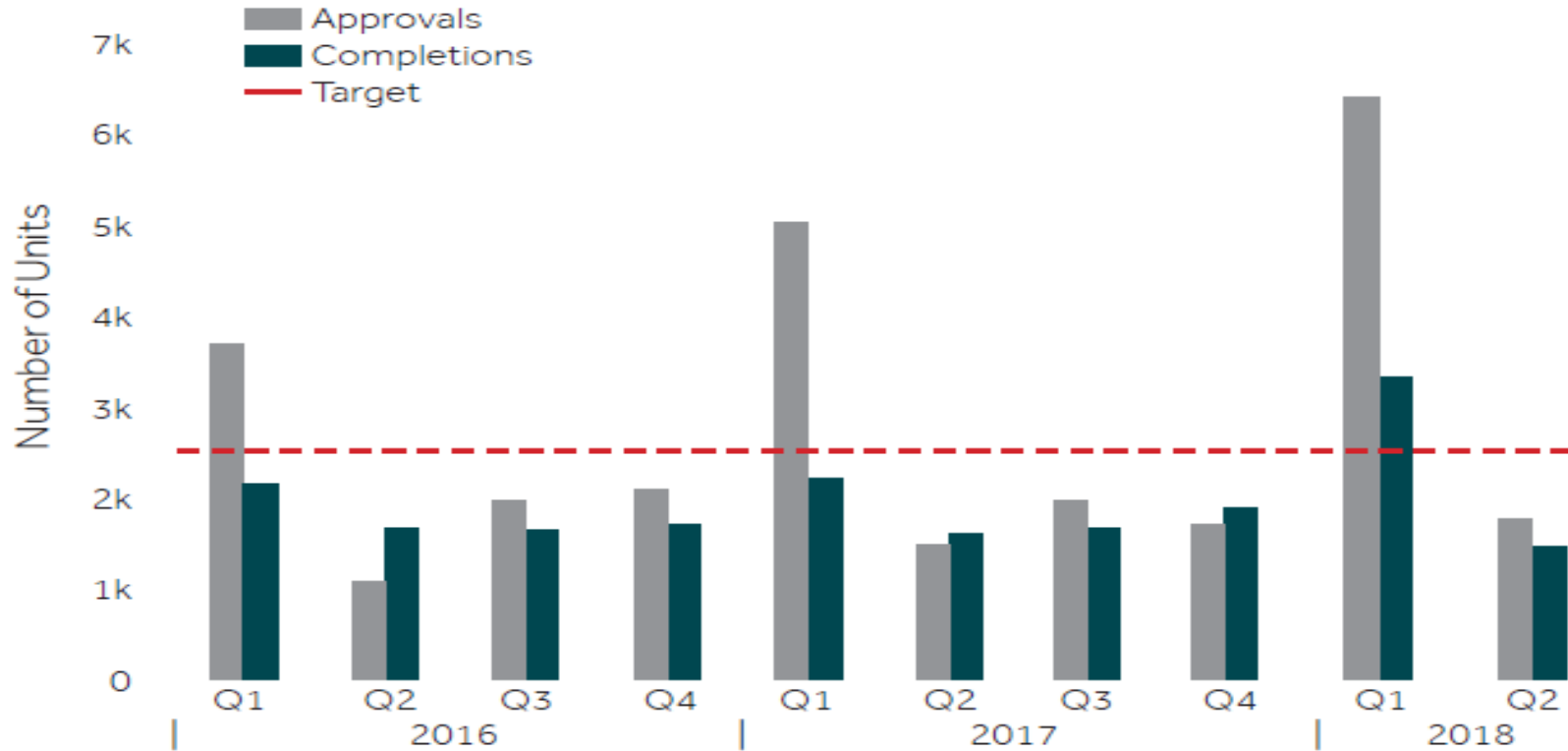
31 May 2018



Massive investment in infrastructure, connectivity and innovation

Progress on Affordable Housing

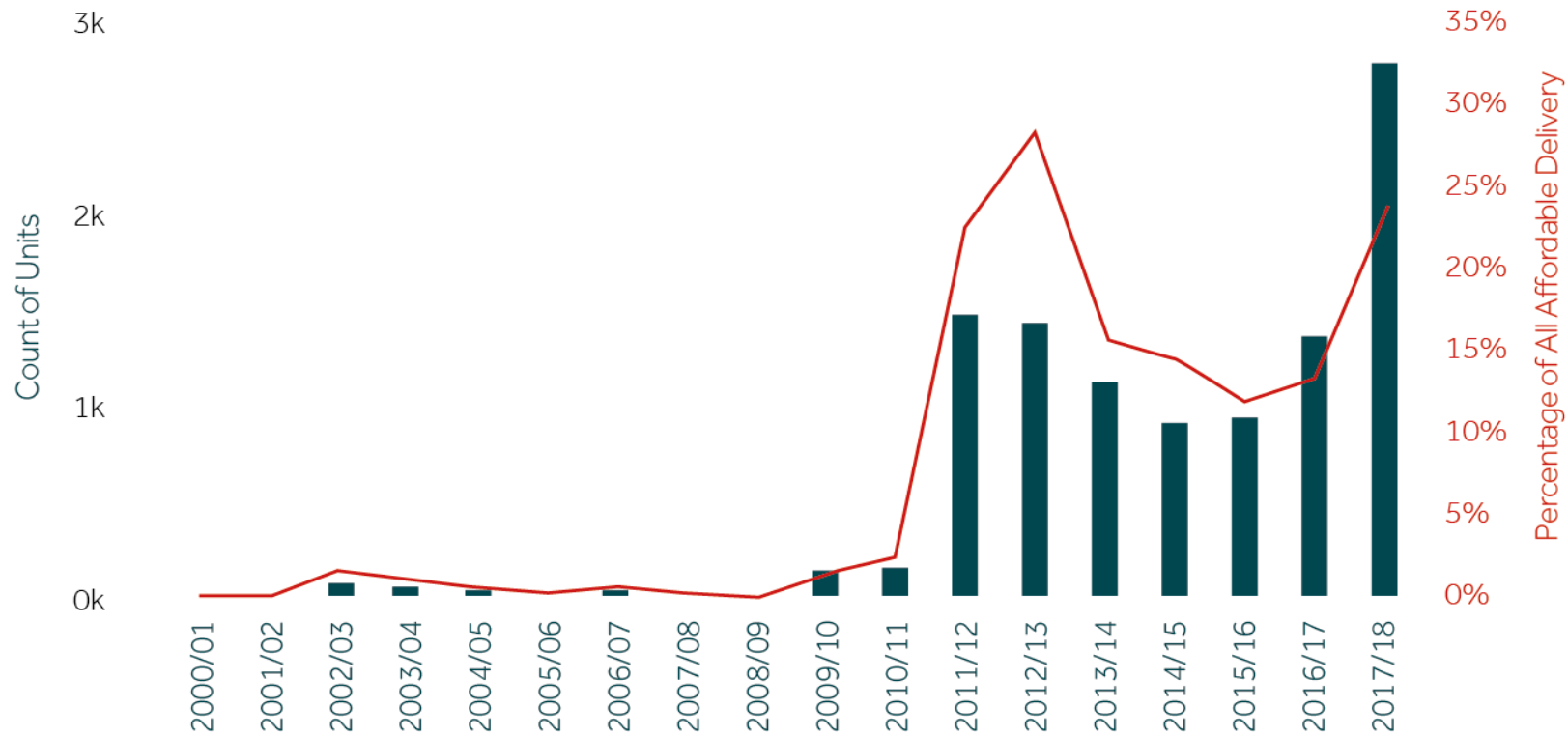
Affordable Housing Approvals & Completions versus target



Source: Scottish Government / Rettie & Co. Research

Approvals are meeting target levels but not completions

MMR is Making a Difference



Source: ASHP Outturn Report 2017/18

Affordable Rent now constitutes one-quarter of all affordable housing approvals in Scotland

PfP Capital

PfP Capital require 1,000 private homes for mid market rental portfolio

A new fund launched via a public and private partnership of PfP Capital and The Scottish Government is targeting 1,000 homes to be held for 25-years for mid market rent.

The fund is targeting:

- Property located throughout Scotland
- Units in planning with development teams ready to start
- Units under development
- Completed developments

The fund will require:

- Property to be private units with no affordable Section 75 obligations
- Units to be able to be handed over to the fund before the end of 2021
- Developments to meet the set investment criteria

We will consider the following deal structures:

- Forward fund development
- Forward commit / turn-key
- Review the potential of land with planning permission, with a view to sourcing development partners
- Acquire or fund part of a larger development



BTR SUPPLY & PIPELINE

3,146

GLASGOW

1,198

EDINBURGH

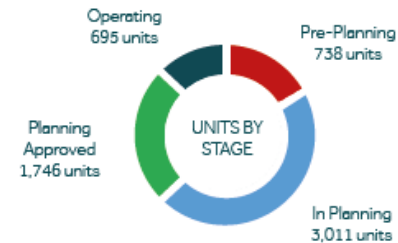
920

ABERDEEN

228

DUNDEE

SCOTLAND BTR BY STAGE



GLASGOW (3,146 units)

- | | |
|-----------------|--------------------|
| HOLLAND PARK | - MODA |
| CANDLERIGGS | - INHABIT |
| MERCHANT CITY | - GET LIVING |
| CENTRAL QUAY | - PLATFORM |
| MERCHANT POINT | - STRUCTURED HOUSE |
| CITY WHARF | - DANDARA |
| GLASGOW HARBOUR | - DANDARA |

ABERDEEN (920 units)

- | | |
|-----------|-----------|
| STONEWOOD | - DANDARA |
| BROADFORD | - INHABIT |

DUNDEE (228 units)

- | | |
|---------------|----------------------|
| VOX DUNDEE | - WHITEBURN PROJECTS |
| STUDIO DUNDEE | - OUR ENTERPRISE |

EDINBURGH (1,198 units)

- | | |
|----------------|---------------------|
| FOUNTAINBRIDGE | - MODA |
| INDIA QUAY | - EDI GROUP |
| LOCHRIN QUAY | - ABERDEEN STANDARD |
| SPRINGSIDE | - AMA |
| BROUGHTON HIGH | - KINGFORD |

Homes England



Making homes happen

A 'disruptor'

£27bn of investment for new homes

Strategic Plan

2018/19 – 2022/23

SMEs – Home Building Fund (£4.5bn)

- Filling market gap for SMEs at commercial rates
- Smooth process and 12-week timescale
- Up to 80% LTV
- Typical terms of up to 5 yrs (development finance) and 20 yrs (infrastructure loans)
- Sales recycling allowed to reduce loan value
- Allows developer profit of c20%

Partnerships

- Strategic delivery on large sites
- Acquiring sites and using public sector land
- Providing finance and infrastructure

Will there be a Scottish equivalent?

Outlook



Housing Beyond 2021

- Scottish Govt Discussion Paper
- Currently at Stakeholder Engagement
- *“As a society, we will need to spend more on health & social care”*
- *“The current level of spend [on affordable housing] would be difficult to sustain”*
- *“Even this level of investment would not be sufficient to meet Scotland’s housing needs”*
- *“We need to make the best use of any government expenditure, seeking new and innovative ways of supporting housing delivery.”*

Cliff edge for affordable?



Different Ways to Fund Development

Sector	Investor Types	Net Operating Income (NOI) Target	IRR Target (Ungeared/Geared beyond Core)	Strategy	Timescale
Core	Institutions REIT's Pension Funds RPs	4.5% - 5.0%	7.0% - 10.0%	Buy and hold at scale to gain a large NOI and build market cap. Aim to aggregate.	Long term, market driven.
Core +	Institutions REIT's Pension Funds	4.5% - 5.5%	8.0% - 11.0%	Increase NOI. Might sell when asset becomes Core + and market moves 100 - 150 bps.	Mid - long term, market driven.
Value Add	Institutions Private Companies Pension Funds	5.0% - 6.5%	12.0% - 16.0%	Drive increase in NOI through forward funding and alpha in management. Might sell when yield moves 100- 150 bps.	3 - 5 years.
Opportunistic	Property Companies Private Equity	5.5% + (or lower if purely cap growth driven)	17.0% - 20.0%	Appetite for development risk and work on stalled schemes. Can develop and hold or sell. Focus on total returns and capital growth.	2 - 5 years, market driven.

We need to shift the ratio of public to private capital

What Needs to Happen

- Raising SME delivery to pre-recession levels could produce another 2,000 units pa
- National Infrastructure Agency – predict, plan, fund and deliver
- SNIB to have housing as a priority
- Govt working with industry, not against it
- City Deal progress – move to ‘spades in the ground’
- Advance solutions to post-2021 conundrum
- Attracting more institutional investors to the sector
- Willingness to be innovative and brave, and make quick decisions



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