July 2023

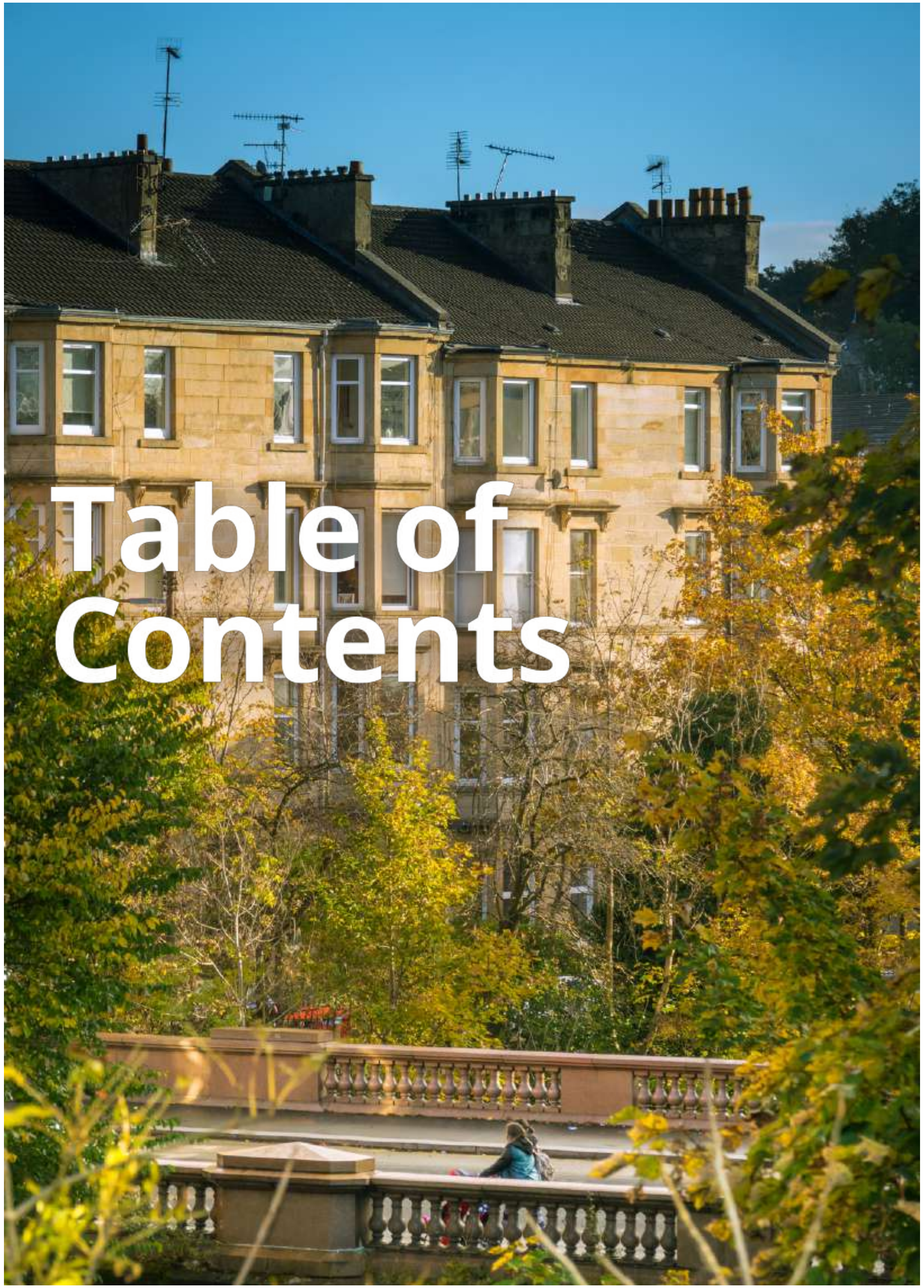
The Future of **Scotland's Residential Rental Market**

REPORT

The Scottish Property Federation

Source: Lochrin Quay, Edinburgh

SPF



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Source: Bertha Park, Perth, Sigma Capital

With the expectation that a permanent form of rent control could be included in the upcoming Housing Bill, this report provides a holistic overview of the Scottish residential rental market and our members' perspectives on rent controls.

Demand for the PRS

In the last 20 years, there has been a significant increase in the number of private rented sector (PRS) households, increasing from 155,000 properties in 1999 to over 360,000 in 2019 across Scotland. There has been a notable change in the housing choices for younger people, where the proportion of those aged 16 to 34 in rented accommodation has increased by 28% since 1999. While homeownership has become less attainable for many younger households - which partly explains the recent growth of the PRS, it is important not to overlook that many people increasingly opt to rent for differing lifestyle choices that prioritise flexibility, convenience and greater mobility.

Supply Issues in the PRS

It has been widely reported that the current supply of the PRS is unable to keep pace with the demand in the sector. The current supply and demand imbalance is contributing to many adverse consequences such as higher rent pressures and increased stress in securing a tenancy.

The Cost of Living (Tenant Protection) (Scotland) Act 2022 introduced temporary rent controls measures to deal with rising rents for sitting tenants. This has created widespread uncertainty for the investment community which has significantly increased the risk of investing in build-to-rent (BTR) - an emerging institutional asset class with the potential to deliver a large number of units within a single complex. The SPF initially estimated some £700m of investment was lost or paused in the sector as a consequence of the sudden introduction of a rent freeze in the PRS. Subsequent reports estimate some £2.5bn of sorely needed investment might be at risk if we regulate poorly for this emerging sector. There is also clear evidence that the ongoing rent control measures are exacerbating the shortage of rental supply at a time when we most need new rental homes to be delivered.

Overview

Rent controls are not seen as an attractive operating environment for investment in the PRS, creating uncertainty and increasing the likelihood that funds will be diverted away from Scotland. But if rent controls are to be introduced, we urge the Scottish Government to support our members' recommendations on how the mechanism could work and yet still deliver the three strategic aims identified below. Our recommendations aim to ensure investment in residential rental development is viable.

Strategic aims

1 Increase the supply of homes of all tenures

Ensuring sufficient and quality homes of all rental tenures such as mid-market rent, BTR, single family housing, co-living and PBSA is essential if we are to accommodate the rising needs for different rental demand, tackle affordability and help with our transition to net zero.

2 Ensure Scotland is an attractive & stable place to invest

We urge the Scottish Government to prioritise fostering confidence and trust with the investment community to ensure Scotland is an attractive and competitive place for development. The government must avoid introducing policies the heighten the risk of investing in Scotland.

3 Recognise new PRS supports placemaking & the economy

The Scottish Government must recognise that new PRS goes beyond just providing the residential development; it involves enhancing the public realm and investment in neighbourhoods to promote better lifestyles which supports placemaking and the economy.

Recommendations for a rent control mechanism

- An index related mechanism with a cap of CPI+ or 6% cap.
- A national system of rent control but with provisions for local flexibility.
- A review period of 1 - 3 years.
- Allow additional rent increases for improvements for energy efficiency in properties.

Key facts from SPF membership survey

52% voted for **local flexibility while** **48%** voted for a **national mechanism**

84% responded stongly agree/agree to **CPI +/ 6% cap and** **56%** responded stongly agree/agree to **CPI +/ 5% cap**

37.9% voted for an **annual review while** **33.3%** to review it **after 3 years**

Introduction

This report makes recommendations on how the government's rent control policy can be made to work, while restoring industry confidence in Scottish build to rent investment.

The Scottish Property Federation represents the views of real estate industry business and professionals in Scotland. Our membership includes a wide range of businesses and professionals, agents, investors, lenders, lawyers, planners and architects. We provide their perspectives to the government of the day at local, Scottish and UK levels.

To provide the context in which the rent control policies are being formulated, this report summarises the analysis of many expert commentators on the growing imbalance of supply and demand in the Scottish private rented sector (PRS). We highlight the impact of this imbalance on people and consider the trends leading to the present state of the market. We underline the vital importance of increasing the supply of properties available to let. And, we illustrate the perspectives of investors crucial to achieving this step change in new supply in Scotland. We examine how the need for a new form of rental offer in Scotland is an opportunity for policy makers to shape our future places, and provide new choice and quality in the housing market.

To inform this report, we undertook a brief targeted survey. Within a limited time span of two weeks to respond to this survey, a **total of 25 member companies** responded, which included a mix of **agents, developers, investors and lawyers** providing detailed comments on how a rent control mechanism needs to be shaped if it to secure investor confidence and enable vitally needed investment to come to Scotland.

Our members have provided detailed insights on a potential rent cap and explored index related options. We assess how long a rent cap mechanism should be in force before being reviewed, and whether it should be imposed on a national or local basis.

Whilst the SPF and its members do not support rent control as a policy, in the event that some form of rent control is to be brought in on a permanent basis, we have sought members' views on what options could create an environment where investor confidence in Scotland could be restored.

The arrival of Build to Rent

Source: Solasta Riverside, Glasgow

Build to Rent

The nascent modern build to rent (BTR) market in Scotland stands at a crossroads. The sector in Scotland lags behind the wider UK in the delivery of this new kind of living. But there is a clear appetite for this new form of accommodation from investors and customers with some 17,000 units poised to be in operation in the near future to deliver much needed new bespoke private homes for rent. But uncertainty continues to weigh down the potential of the sector in Scotland. The SNP-Scottish Green Agreement for Government is to introduce in Scotland a system of national rent controls for the PRS, with some form of local flexibility.

What is Build to Rent?

The modern bespoke build for rent private residential sector is a new phenomenon in the UK property markets. It now accounts for over 76,000 households in England and is projected to grow strongly, with a pipeline of some 236,000 in operation, under construction or planned. In England, this has now led to a diversification of rental options in the sector, with houses for rent as well as apartments and discounted rental options growing in quantity. The recent reports from Rettie & Co and BPF highlight the differences between the modern BTR sector and the more traditional PRS where properties were not initially intended for the private rental market.

The main hallmark of BTR is a service oriented approach, which includes more rights for BTR tenants in relation to options for pets and furnishings, as well as onsite support and communal facilities. There is also often WiFi provided as part of the lease and sometimes concierge services whereby arrangements can be made for deliveries to be looked after for tenants. The buildings are deemed to be secure and, being modern, are much more energy efficient. There are often social events organised within the BTR building community.

The policy environment

The PRS sector in Scotland has faced many years of unpredictable policy and regulatory interventions. The current proposals for a rent cap follow within a few years of the unimplemented proposals for Rent Pressure Zones and the introduction of the Scottish Private Rented Tenancy. There have also been tax changes for PRS landlords making the sector less favourable for investment. The current cost of living emergency legislation imposing first a sudden rent freeze for six months, and then a 3% rent cap on in-tenancy increases will end on 31 March 2024.

As a recent BPF report notes, there are examples of rent controls that work in diverse PRS markets outside of the UK and can still be investible. However, recent experiences in the USA, Ireland, Sweden and Germany show that these have come with unintended consequences. Berlin's rent control policy has created a 'substitution effect' which has worsened affordability in the neighbouring districts including the city of Potsdam. Rent controls can also restrict supply, where Stockholm has experienced a 62% fall in the supply new builds, a figure three times lower than it should be. San Francisco has also suffered from a 15% fall in the supply of PRS builds, a factor said to be related to rent controls which has also led to a 5.1% increase in rents.

A core proposal from the recent Rettie & Co. report, commissioned to look at the impact on investors of the Scottish Government’s rent freeze announcement in September 2022, was for the government to work with the investment sector to restore investor confidence so the development of this emerging tenure can be viable.

Communal Space, Solasta Riverside, Glasgow

Co-living Suite at the Point in Aberdeen by Dandara Living

The imposition of rent controls on the Scottish PRS is not a policy favoured by the SPF, but if this is the government’s decision then we wish to ensure that we have a system that can still attract vital investment in the sector.

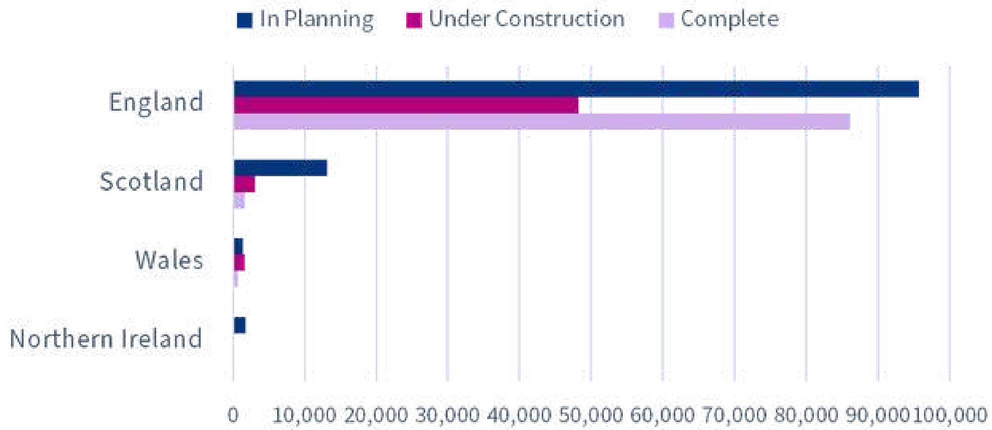
Supply

The PRS market has expanded beyond traditional buy-to-let landlords, to include institutional investors in **BTR**, providers of **mid-market rent, social housing partners and single family renting (SFR). Co-living** is also an emerging tenure which caters to individuals seeking affordable, modern, communal private accommodation.

The realisation of BTR in Scotland has been gradual, with the number of new BTR homes in our urban centres significantly below that of comparable cities such as Manchester. Rettie & Co. estimated that relative to their populations, Glasgow should have 28 BTR units per 1000 households and Edinburgh should have 30. Currently, Glasgow has only 1.9 units per 1000 households and Edinburgh has 2.2. These figures lag considerably below Manchester where there are 68.4 BTR units per 1000 households.

The number of rented households in Scotland has increased by 132% in the last 20 years which is partially related to decreasing home ownership. Yet, supply has not kept pace with demand. The under supply of rented accomodation coupled with increased demand has in turn, put pressure on rents.

The supply of Build to Rent homes across the UK

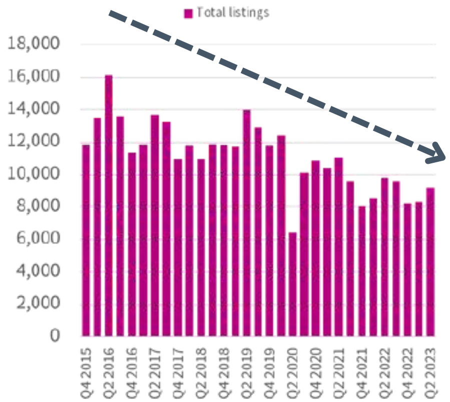


Source: Savills, Molior, British Property Federation

The number of PRS households has grown significantly

Source: Scottish Government Quarterly Housing Review, June 2023

Number of properties available to rent on Rightmove



Source: Savills, Rightmove

The PRS is particularly exposed to changes in regulatory and financial circumstances which can fluctuate quickly, and negatively impact the supply of rented homes. For example, the recent repeated increases in the Bank of England Base Rate have affected buy to let landlords as well as homeowners, and this is said to have led to a significant exodus of landlords from the PRS sector. This has compounded landlord concerns with pressure to achieve energy efficiency improvements, changes to mortgage interest relief and more restrictions on tenure arrangements with tenants.

The short term factors impacting the supply of rental housing

Source: Bertha Park, Perth, Sigma Capital

The Pandemic

Governments across the UK moved quickly during the pandemic to introduce temporary enhanced tenancy protections against evictions and rental increases. This included some financial support for landlords as well as tenants and these emergency measures ended in early 2022. However, many landlords suffered significant financial losses during the pandemic.

Cost of Living and the Rent Freeze/Cap

With greater financial policy interventions, a number of commentators have stressed that this could lead to a reduction in rented housing providers. For example Propertymark has reported that 85% of their landlord clients are planning to leave the PRS.

A further unintended consequence of the policy is loss of investor confidence, where Rettie & Co found £2.5bn worth of investment to be at 'risk'. The clear concern from investors was that rent control regulations distorts rental markets, creates uncertainty and therefore, deters investment.

Political Uncertainty

There is great uncertainty that looms over the PRS investment market in Scotland as evident through the Rettie report. Although nominally, there are some 17,000 BTR led new homes in the pipeline in Scotland, there is no guarantee that these new houses will be delivered.

Our industry is concerned that the uncertain policy environment in Scotland is a disincentive to investment, with investors looking to divert capital to other parts of the UK.

There is also uncertainty as to what further measures the government may introduce as it transitions from the Cost of Living (Tenant Protection) (Scotland) Act 2022 to the new Housing Bill. Stagnation in supply may be short term, but its impact will be felt over a longer period of time as the availability of properties for rent takes time to secure planning permission and be delivered.

The clear concern from investors was that rent control regulations distorts rental markets, creates uncertainty and therefore, deters investment.

Inflation

Over time, rental increases for most sitting tenants have kept pace with inflation until recent years. Clearly, recent factors such as high inflation and interest rates have led to higher rental increases in recent years as landlords seek to cover higher mortgage costs. But the major increases in rents have been a result of the imbalance between supply and demand in the market, thus affecting new lets more than in-tenancy rental increases. Higher mortgage costs can also lead to financial pressure on landlords to sell their houses, which in turn, undermines the supply of homes for rent. This exacerbates upwards pressure on rental values as more people are simply chasing fewer homes to rent in key locations.

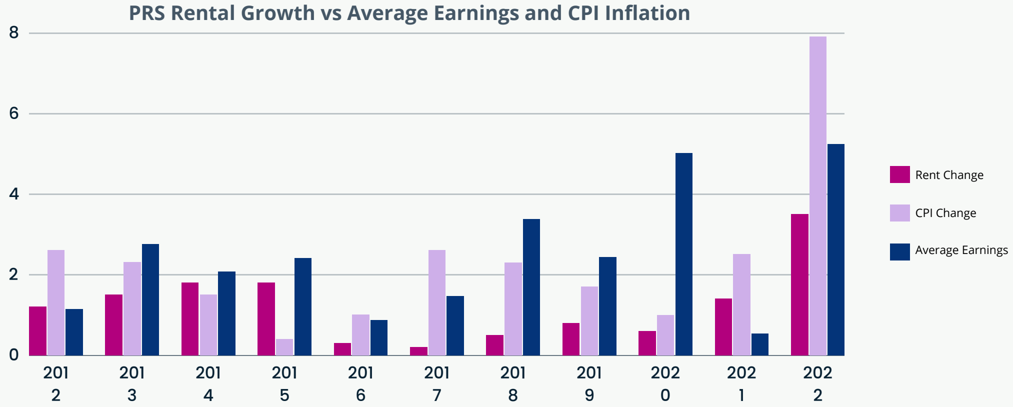


Figure 1: (Source: ONS 2023)

Despite the increase in inflation (and interest rates), the graph above shows that the average rent change over the years has been considerably below the Consumer Price Index (CPI) and annual income change.

If rent increases are frozen or capped too low then investment in the new build-to-rent sector will become unsustainable, and critical capital investment will be lost. In addition, the existing PRS sector may dwindle as returns are less attractive and potentially not covering landlord costs such as new regulatory demands to make energy efficiency improvements.

The imbalance between supply and demand is continuing to impact the sector. The latest rental market index shows the average rent increase for new lets or new tenancies in Scotland is at par with London; Edinburgh tops the list with 13.7% and Glasgow is in third place with in the UK at 12.3% despite rent regulations in place. This illustrates how the lack of supply is continuing to fuel rent costs. The recently published Zoopla report highlighted that rents have been rising faster than earnings for 21 months which has created the worst affordability for a decade; there are early signs of stress emerging for some renters' ability to pay.

Housing is a fundamental need for people. We need the government to acknowledge these underlying reasons, balance the supply of new rented housing with the demand, and create a stable environment that supports investment in the sector.

Supporting new supply

Source: Sailmaker Street, Edinburgh

Growing Build to Rent

Build to rent offers the opportunity to make a significant step change to Scotland's supply of new housing in a relatively short period of time. The 17,000 strong pipeline identified earlier could be expected to be delivered within a five year timespan. In itself this could add a significant proportion of new housing. To cultivate a supportive environment for build to rent there should be continued policies incentivising large scale investment for the sector in Scotland. The Scottish Government has already acted positively with some policies. For instance, the relief from the Additional Dwellings Supplement (ADS) for 6+ dwellings in one transaction, incentivises major developments and future investment. The Scottish Futures Trust also played a strong role in promoting investment in the sector including through its Rental Income Guarantee Scheme which signalled the government's support for this new form of housing. But there should also be support for the existing PRS stock if we are to retain and improve the PRS sector as a whole. This includes support for adapting to more demanding energy efficiency targets and the broader decarbonisation agenda.

More such tax or carbon offset incentives would not only facilitate and encourage new build 'BTR' but stimulate and protect the supply side of the sector. The development of BTR and its related offers in the UK stands significantly behind Europe and the US, but England is embracing BTR strongly and quickly, growing to a potential pipeline of over 230,067 in Q3 2023 statistics provided by Savills. In Scotland, we are significantly behind the growth of this market compared with England. If we are to seize the opportunity for new supply to the private rented sector, we must encourage and facilitate new investment.

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Diversifying Build to Rent

To accommodate the ever-increasing and diverse demand for housing we need policies that will support investment in all forms of housing tenure. With growing demand, there is pressure on the diversity of all tenures including the supply of affordable, sustainable, and bespoke accommodations. The build to rent sector can offer a wide range of housing such as single family rentals, mid-market rentals, or co-living. To attract investment into these new sectors there should be a supportive policy environment to foster a step change in the range and supply of new build rental housing in Scotland.

Co-Living

Source: The Point, Co-Living Suite, Aberdeen

Whilst co-living has always been around, there is increasing demand from graduates and young professionals seeking to share living spaces as home ownership has become less attainable for this age group. Although professionally managed co-living developments are few in Scotland, Savills recently estimated the potential size of the core-target market in Scotland to be 56,520 people. The types of spaces being designed in comparable cities such as Manchester are constantly evolving, where co-living developments – similar to BTR models - offer high quality living spaces, wellness amenities, and can accommodate tenants' increasing desire for convenience and social interaction.

Single Family Rentals

Source: Bertha Park, Perth, Sigma Capital

Single Family Rentals is accommodation catering to young families and working professionals. A Savills UK wide report from 2022 found 60% of SFR households to have children, compared with just 30% of households across the wider PRS. The report also highlighted that there are 15,000 single family rental (SFR) homes in the UK planning pipeline which is double a 2021 estimate. This year, Savills reported that Q1 was a record quarter for SFR as £500m was invested. In Scotland, there are examples of projects such as Bertha Park in Perth, a mixed-use community development scheme that features a mixture of affordable and market rents, homes for sale, recreational spaces and a Microsoft flagship school designed to support families.

Mid Market Rent

Source: Salamander Street., Edinburgh

Mid market rentals (MMRs) are set at a discounted rate compared to the area's prevailing market rents. MMR is an attractive option for individuals or households who cannot qualify for social housing but will struggle to afford market rent in their location. MMR housing is also positively used to support key workers in some developments.

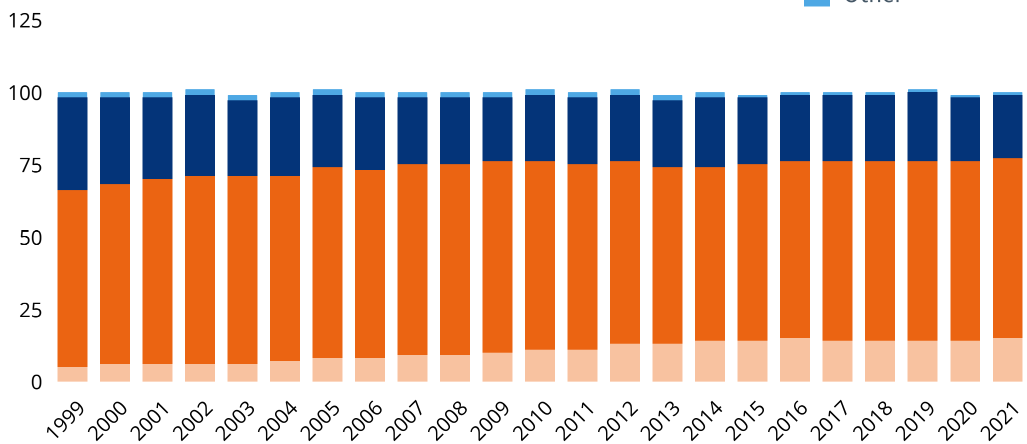
Demand

In the last 20 years, there has been a significant growth in the PRS market in Scotland where the number of rented households has increased by 15% in Edinburgh and 7% in Glasgow between 1999 and 2019. This trend is most apparent in younger demographics where there has been a 28% increase in the proportion of 16–34-year-olds renting between 1999 and 2016.

Source: Scottish Household Survey (1999-2021)

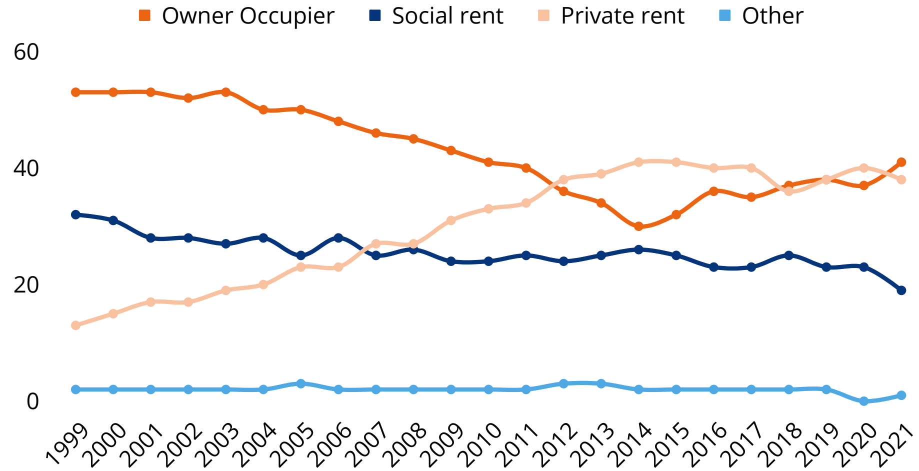
Tenure of Household

Scottish Household Survey (2021)



Tenure of Household by age (16-34)

Scottish Household Survey (1999 -2021)



28%

increase in the number of 16-34 year olds renting

Source: Scottish Household Survey (1999-2021)

10%

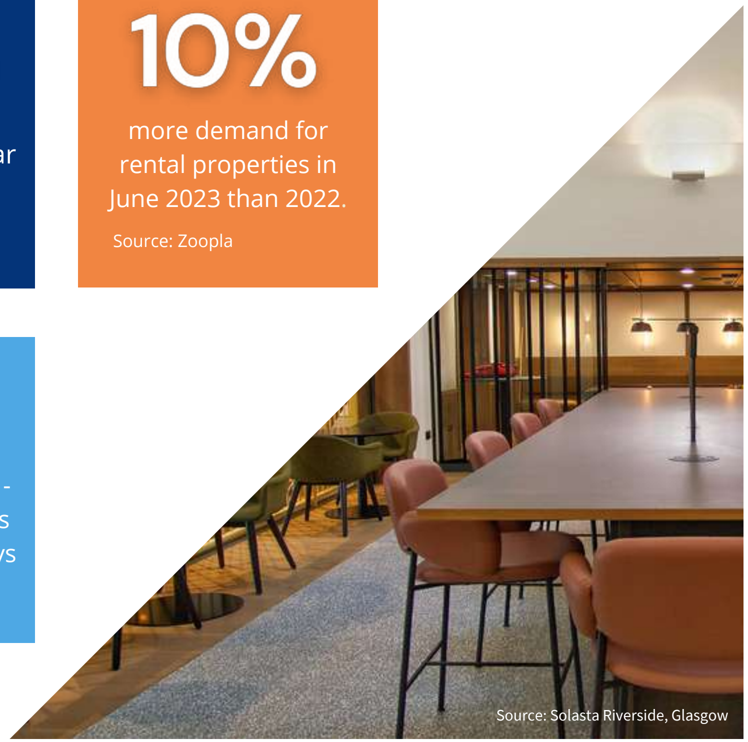
more demand for rental properties in June 2023 than 2022.

Source: Zoopla

21

days is the average time taken to let for 1-4 bedroom properties compared with 37 days in 2019.

Source: Citylets



Source: Solasta Riverside, Glasgow

What explains higher demand?

Source: Bertha Park, Perth, Sigma Capital

Harder to access the property ladder

Whilst homeownership remains the most common form of tenure in Scotland, there has been a 15% decrease in the proportion of households owned by younger people (aged 16 – 34) which dropped from 53% in 1999 to 38% in 2019. Reasons for this drop include stricter lending conditions, sizeable deposits, higher interest rates and increasing house prices relative to income. For first-time buyers, these factors are significant barriers to home ownership and this is one of the main reasons why younger people are staying in private rented accommodation for longer.

Growth in student numbers

In Scotland, the student population has increased by 30.9% since 2006. There are now a record number of students at Scottish Higher Education Institutions (HEIs) and in 2021-22, there was a 6.5% increase in new entrants compared to the year before.

The number of overseas students enrolled in Scottish HEIs has also risen, marked by a 36% increase in the last ten years. According to the UK-wide National Student Accommodation Strategy 2023, 46% of students rent from a private landlord which means that almost half of the student population relies on the PRS sector for accommodation.

Increased flexibility and lifestyle choices

It is important to recognise that many tenants choose to rent as it offers a more flexible tenure of living compared with home ownership. Renting can enable greater mobility, allowing people to live in prime neighbourhoods more easily and avoids the costs of property repairs and maintenance. It can also be a more affordable tenure especially if tenants co-live. The recent popularity of BTR suggests tenants are also increasingly attracted to the variety of onsite services and social spaces.

There have also been cultural shifts that are influencing housing preferences, where there is now greater demand for smaller dwellings and a particular increase in single person households. Individuals are making increasingly different lifestyle choices such as delaying marriage and having children as well as prioritising convenient, affordable and sustainable living.

Demand for employment and emerging from the pandemic

Recent rental demand has also been accelerated by shorter term factors including a strong labour market where renting enables access to better job opportunities without having to commit to a long-term mortgage. Companies are also increasingly seeking to recruit from abroad to fill vacant positions, which partly explains why in 2022, the UK experienced higher than pre-pandemic net migration levels. Immigration adds pressure to the rental market as those who recently move to the UK (within 5 years) are 74% more likely to rent in private accommodation as it gives them the flexibility to explore different locations. The UK Government also extended the length of certain visas including the post- graduate visa, which coupled with the ending of lockdowns following the pandemic, saw an increase in the movement of people at the same time. This could be a short term factor contributing to a recent surge in demand.

The unintended consequences of the current approach to rent control

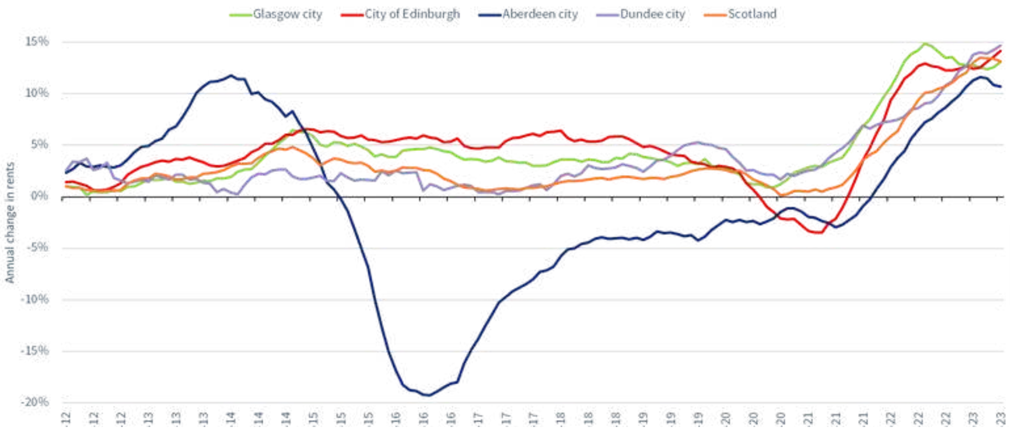
Source: Salamander Street., Edinburgh

Rising Rents

The imbalance of supply and demand in the PRS sector has contributed to rising rental values as competition for rental properties has become more acute. In Q2 of 2023 the average price for new lets increased by 12% across Scotland, 12.3% in Glasgow and 13.7% in Edinburgh. Although both cities have experienced year-on-year increases of around 5-6%, there has been a marked growth in new rental prices, even following the Cost of Living (Tenant Protection) (Scotland) Act 2022.

Zoopla reported that Edinburgh experienced the greatest annual percentage increase in new let rental value, with Glasgow the third highest in the UK. This trajectory is likely to continue unless we have a substantial increase in the supply of rental homes which will help to reduce pressure on rental prices.

Annual change in rents
Source: Savills



1 in 5 students at the University of Edinburgh did not have a tenancy secured by Semester 1 in 2022.

Source: Student Housing Crisis Survey, Slurp 2023

35%

of students rely on HMO properties

Source: CBRE 2023

59%

of 18–44-year-olds believe they will have to put their lives on hold because of housing issues.

Source: Shelter 2016

13%

average increase in advertised rents across Scotland since 2022.

Source: Zoopla 2023

Impact on students

While student numbers have risen sharply, the supply of Purpose Built Student Accommodation (PBSA) has not been proportionate. Recent figures show the ratio of existing students to PBSA beds in Glasgow is 4:1 and likely to be similar in other student cities which suggests there has been a definite spillover of students into the PRS.

Yet, the supply of appropriate student housing in the PRS is also limited given the amount of HMO licenses in force each year which has not kept pace with the growth in student numbers. Only 2,981 more HMO licences were in operation in 2021 (14,862) than ten years ago (11,881). With 35% of students relying on HMO accommodation, the lack of supply has made securing a tenancy before term time even more challenging.

This is also forcing students to find accommodation in different cities and is driving an earlier letting cycle for HMO properties, which means students could be rushed into make housing decisions that are not necessarily appropriate for them.

Impact on the wider economy

Housing plays a key role in the attraction and retention of talent. Scotland must be able to offer quality, sustainable and affordable housing if it is to offer a competitive advantage to professionals and recent graduates who may be willing to move elsewhere in the UK. If the current undersupply persists then this may reduce the attractiveness of Scotland as a place for companies to invest in hiring or relocating staff, which will impact economic growth. Given the rise of BTR in comparable cities such as Manchester and Birmingham, Scotland is seriously underperforming in the supply of new, quality rental accomodation and is already missing out on the economic benefits this supports such as jobs, urban regeneration and tax revenue.

Impact on individuals

There are well-recognised impacts associated with the lack of suitable housing options for younger people. Most notable, is the ability of this generation to meet major milestones. Delaying marriage, having children, planning retirement and the ability to find suitable jobs were major factors in which young people attributed to a lack of suitable housing. The difficulty in securing a tenancy also has effects on people's wellness. Due to the volume of applicants, several letting agents have reported recent investments in additional training for staff to help them deal with unsuccessful applicants. Evidently, the shortage of housing is exposing people to certain vulnerabilities that are having significant effects on their lives.

Policy Implications

Source: The Point, Dandara Living's 342 unit BTR development in Aberdeen

The Impact of the Cost of Living (Tenant Protection) Act on BTR

The Cost of Living (Tenant Protection) (Scotland) Act 2022 was introduced to protect tenants during the cost-of-living crisis. Initially a 0% cap was placed on any rental increases but is now capped to a maximum of 6% (+3% for approved additional cost) for private rented landlords, alongside a continuation of the evictions moratorium to last until March 2024.

There have been many unintended consequences of the legislation on BTR in Scotland. The nature in which the emergency legislation was enforced without evidence-based data or engagement with the sector has contributed to a loss of confidence in the investor community with the Scottish Government. We estimated that in September 2022, **£700m** worth of BTR schemes were put on hold at the onset of the decision, which risks deepening the housing shortage.

In addition, the rollover of the emergency legislation and the likelihood that a future form of rent control is to be included in the upcoming Housing Bill is continuing to elevate the risk of investing in BTR in Scotland.

> "I understand entirely the need to protect the tenants but we have to ensure the gross under supply is addressed by making development viable."
>
> **Source: Comment from a member in the SPF's Rent Control Survey**

Looking to the future

Ahead of the new Housing Bill, the Scottish Property Federation and its members urge the Scottish Government to ensure that any future rent control policy does not risk further undermining investment into housing. There is a serious undersupply of housing of all tenures in Scotland and the PRS is an integral part of the market which caters to a wide range of people, especially a growing proportion for whom home ownership is beyond reach.

In the following pages, we analyse feedback from our members on how a system of rent control could work to ensure the PRS market remains investable before outlining several strategic aims for the Scottish Government.

Our three strategic aims for the PRS in Scotland

Source: Bertha Park, Perth, Sigma Capital

The Scottish Property Federation and its members have identified three strategic aims for the Scottish Government to help address some of the challenges in the PRS. It is essential that if a rent control mechanism is introduced that it is constructed in way to able to support the strategic aims outlined below.

1 Increase the supply of homes of all tenures

2 Ensure Scotland is a stable and attractive place to invest

3 Recognise new PRS supports placemaking & the economy

SUPPLY

Ensuring sufficient and quality homes of all rental tenures such as mid-market rent, BTR, single family housing, co-living and PBSA is essential if we are to accommodate the rising needs for different rental demand. Increasing the number and variety of rental homes will help to tackle affordability pressures and reduce the distress involved in securing a tenancy. Importantly, new homes will increase the stock of greener, more energy efficient homes which is recognised by Housing 2040. **To deliver this increase in housing supply, the government should recognise that BTR has the potential to play a key role in delivering a step change in the supply of new homes in our key urban centres in particular.**

INVESTMENT

The Scottish Government must work to create a stable political and policy environment to regain trust from investors. The government must avoid making policy decisions that heighten the risk associated with investing in Scotland as investors in residential development seek long-term policy certainty, consistent and stable returns. Nuances in policy across the UK mean investors may hold back and therefore we welcome legislation that is not excessively complex. **We urge the Scottish Government to prioritise fostering confidence and trust with the investment community to ensure Scotland is a stable, attractive and competitive place for BTR development.**

PLACEMAKING & THE ECONOMY

We urge the Scottish government to recognise that new PRS supports placemaking and the wider economy. Developers have a keen interest and role in ensuring that this kind of tenure is shaped around the desires and needs of the people who are likely to rent for the long term. This goes beyond just providing the residential development; it involves enhancing the public realm and investment in neighbourhoods to promote better lifestyles. This includes investment in green spaces, the regeneration of empty properties, provision of community facilities and mixed-use developments which all promotes wider economic growth and supports the initiative of 20 minute neighbourhoods. **It is vital that the Scottish Government recognises that new PRS supports placemaking and the wider economy, and should not overlook its importance in the regeneration of urban spaces.**

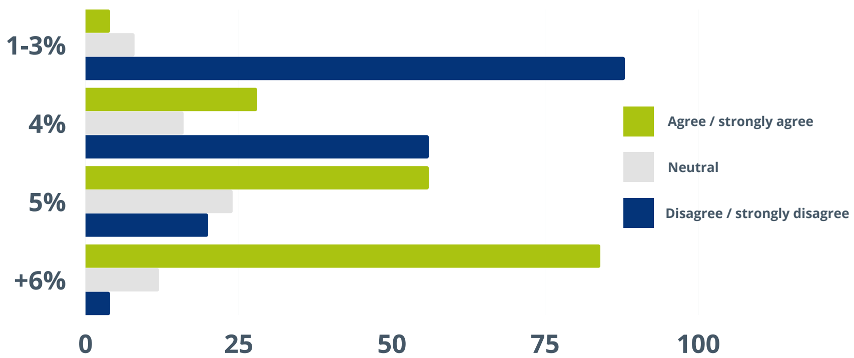
Investor confidence in a snap shot

Source: Bertha Park, Perth, Sigma Capital

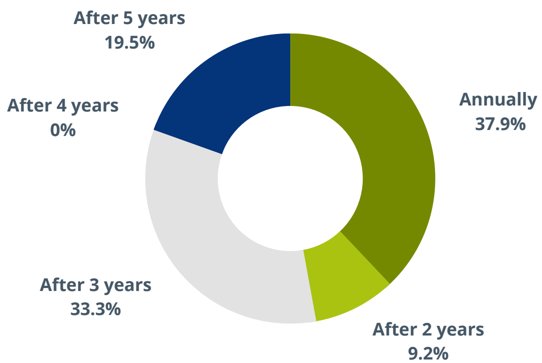
It is vital that if the Scottish Government is to introduce a rent control mechanism, it is informed by data and evidence. Although this is not a policy we support, and will likely disadvantage the Scottish PRS and wider economy, we have collected feedback from a range of investors, developers and legal advisors as to how a rent control mechanism could work to ensure investment in the PRS remains viable.

Key findings from SPF membership survey on rent controls

Do you you think any of the following rent cap percentages would allow investment to continue in the Scottish PRS/BTR?



When should the rent control mechanism be reviewed?



Would you like to see a rent control mechanism with local flexibility or one that is applied nationally?

Creating and maintaining a stable and fair policy mechanism

Source: Lochrin Quay, Edinburgh

Key considerations

- a fair and stable policy.
- does not disincentivise investment.
- part of the solution to the housing market problem experienced in Scotland.

1

Index related measure with a cap of 5+%

An index-related measure with a cap of 6%+ is the preferred option by respondents (84% strongly agree / agree), with a majority also accepting 5% as a viable cap (56% strongly agree / agree). Strong disagreement was expressed with a cap of anything less than 4% as this would not leave investors with a sufficient and competitive rate of return or allow them to reinvest in maintaining quality stock.

Most respondents suggested the mechanism should be linked with the Consumer Price Index (CPI) as it is already an established and well understood economic indicator. Some were concerned that fluctuations in interest rates would mean that a fixed cap would not suit the current conditions (i.e., be too high or too low) and therefore be unfair for either the tenant or landlord.

2

A national system or local flexibility

Narrowly, more respondents supported a mechanism with local flexibility (52%) than a national system of rent control (48%) but we recognise this is quite an even split. We suggest rent controls should be applied nationally but there should be provisions for local flexibility where there are extreme cases of market pressures to prevent rents rising faster than they should. Respondents supporting a national system explained this would create greater policy consistency and certainty for investors, operators and tenants.

Provisions for local flexibility could be granted providing local authorities are properly resourced and informed by data which would help to account for the nuances in local markets where rising rents tend to be in specific geographical places.

3

Review period

There was a split in consensus as to when the rent control mechanism should be reviewed, with the majority either suggesting an annual review (37.9%) or after 3 years (33.3%). What is clear from the feedback is the importance of allowing scope for assessment and evaluation of the mechanism's success to be balanced with the time required to allow the legislation to 'bed in' to give investors certainty and ability to forecast returns.

4

Developing an interim mechanism & other key considerations

Investors look for predictability so any bridging mechanism between the end of the emergency legislation and the new rent control system should not be wildly dissimilar. Concern over how the rent adjudication process will work and be resourced is a key issue as it is likely that any rental increase will be challenged by tenants and could overburden the system.

5

Additional rent increases for improving energy efficiency of properties

The majority of respondents think additional rent increases should be granted for property owners who make energy performance improvements to their buildings. Although this is not such an issue for BTR operators who are already delivering highly sustainable builds, there is clearly a need to incentivise the decarbonisation of older stock.

The need to comply with the new Heat in Buildings Standard will be compounded by inflationary cost pressures, so allowing additional rent increases will mean direct capital is available to improve energy performance and improve or maintain the quality of PRS stock.

Source: Solasta Riverside, Glasgow

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