



SPF VOICE

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TO
LET

INSIDE THIS ISSUE

Chair's Column
Policy Insight

Regional Spotlight
Industry Insight



Stephen Lewis

SPF Chair

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This has been a strange and historic month. The start of the month saw a new Prime Minister appointed and a radically changed UK government in terms of personnel. This was quickly followed by the sad news of the Queen's passing and a national period of mourning that saw business as usual stop. It's fair to say that political events both in Scotland and the rest of the UK have continued to be anything less than normal.

The major political event in Scotland for the industry is clearly the Scottish Government's announcement of a residential rent freeze and a moratorium on evictions. This decision represents an ill-considered and opportunistic attack on major and progressive property investment in the rented sector in my view. We have made our concerns about the proposals to the Scottish Government clear both directly and via the media. The consequences of the policy, will be to block investment into the build-to-rent sector and encourage more property owners to leave the market.

"This decision has clearly all been about politics"

This decision has clearly all been about politics more than the substantive issues at stake. The lack of consultation is rightly a concern to those who want to invest and build in Scotland, and we will continue to call for the government to inject some certainty into their proposals in the days ahead. As I write, I

understand our MSPs will have less than one hour to see the detail of the Bill before having to debate its principles. We explore this announcement more in this edition of Voice with our industry insight penned by Dr John Boyle, Director of Research & Strategy at Rettie & Co.

On the UK front, a welcome - albeit inevitable - announcement on energy price capping should hopefully keep the lights on for businesses during the height of winter, but long-term certainty of affordable energy remains elusive. Interesting manoeuvres from Westminster on taxation have also widened the gap between income and land taxes (SDLT & LBTT) either side of the border, and eyes will be on the Scottish Government to see what it does with the consequential payments. But clearly the major concern for the housing markets is the reaction to the UK fiscal event. For the housing market in particular the withdrawal of over 1,600 mortgage products earlier this week will be a major concern.

I'd like to finish by thanking those who joined me and officials at our Aberdeen and Inverness events this month, and I look forward to seeing more of you at our largest in person event on 26 October at the EICC. Our keynote speaker is experienced broadcaster, and Truss-Sunak hustings chair, John Pienaar, who I'm sure will be keenly anticipated.

SPF Annual Dinner 2022

Wednesday, 26 October

Edinburgh International Conference Centre

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With veteran political
broadcaster
& radio host
John Pienaar



Government by headline

David Melhuish

Director

Scottish Property Federation

The Scottish Government's Programme for Government made the cost-of-living crisis its centrepiece. Unable to directly cap household energy bills, the First Minister turned to the residential rented sector for ideas. The announcement, without consultation, of a rent 'freeze' between 6 September 2022 and 31 March 2023 on public and private rented tenancies has been coupled with a moratorium on evictions for the same period.

This unheralded intervention is arguably the most radical since the 1970s. Clearly it has been cheered by campaigning organisations including Living Rent, but the short term 'win' cannot hide the serious longer-term impacts of the proposals.

The response from investors and others seeking to boost supply and bring forward new, energy efficient, and well-maintained rental homes has been instant with many pausing their work on Scottish projects, or simply ruling out investing in Scotland all together. Within days we were aware of hundreds of millions of pound worth of investment that had been put on hold. Indeed, feedback from members has been almost universal in the view that Scottish BTR is now at a serious competitive disadvantage. This is a huge concern and we have fed this into the government directly.

"The lack of detail is not helping investors to understand the government's full intentions"

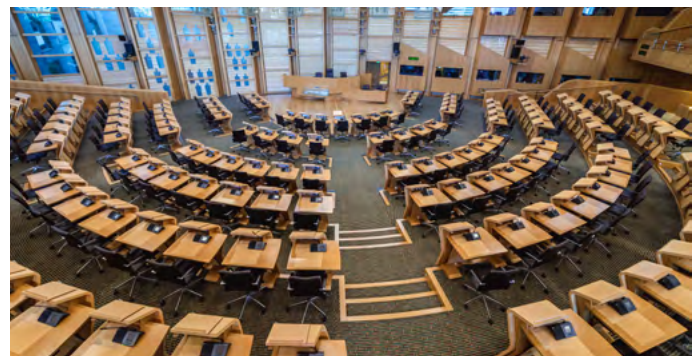
The lack of detail is not helping investors to understand the government's full intentions. A day after the FM's statement, Minister for Tenant's Rights Patrick Harvie revealed that it was intended to also include the PBSA. How this will be done, given the nature of PBSA tenancies and the academic year, is not clear. There is also further political pressure to go beyond the proposed 31 March 2023 end date.

How this policy is set to unfold in the next week at Holyrood will be critical for the continued attraction of build to rent in Scotland. Key concerns include include any potential for an extension beyond the proposed end date and if the government will

offer any support to property owners who face the potential of receiving no rental income for 6 or more months as a result of the moratorium. It is important that the government makes clear that people who can pay their rents should do so. A key question remains of what of the crucial private finance that supports the affordable housing sector? And what of the wider housebuilding industry, who are so intricately linked to Registered Social Landlords to meet their affordable housing contribution requirements?

At the time of writing, MSPs may have just one-hour on Tuesday, 4 October to consider the emergency legislation before they are asked to approve its measures in principle. This is despite the gap of a month between the announcement of the Scottish Government's intention to lay emergency legislation and the Bill being introduced to parliament. It did not need to be done this way. If the government had wished to work with the sector to consider rent regulation, then many members had already indicated that if you knew the broader intentions behind such a measure then the detail could be considered. Some members already use arrangements that provide certainty for investors and affordable predictable rent review measures for tenants.

Unfortunately, the government has decided to put headlines before such collaboration and the current result is a potential break on hundreds of millions of new investments for Scotland including thousands of new, quality homes, communities, and jobs.



MSPs will have little advanced sight of the emergency legislation before it is debated

REGIONAL SPOTLIGHT

Highlands

Earlier this month we hosted a dinner in Inverness that saw SPF members and guests from the Scottish Government, Scottish Land Commission and Highland Council come together. The evening covered a wide range of topics including the development pipeline and the Highland Region Growth Deal. Ongoing plans for mixed-use development and constraints imposed by transport infrastructure were also highlighted by members.

Aberdeen

SPF Chair Stephen Lewis hosted members at an event in Aberdeen that included city council guests and discussed the outlook for the market in Aberdeen, as well as development and investment opportunities. Other key items for discussion included prospects for the Green Freeport bid and the Programme for Government announcement on the rent freeze and the moratorium on evictions for residential sectors.

Edinburgh

The City of Edinburgh Council is **consulting** on updated planning guidance for short-term lets in Edinburgh. The guidance will give more detail on how they will make decisions on planning applications. The consultation comes as the city's short term lets control zone takes effect from 1 October, which will require property owners to receive planning permission to change the use of a dwelling to a short-term let.



A look at Scotland's rent freeze

Dr John Boyle

Director of Research & Strategy
Rettie & Co.

Somewhat unexpectedly, the Scottish Government announced an immediate rent freeze for the whole rental sector in Scotland (social and private) on 6th September to last to the end of March 2023. A ban on evictions was also introduced for this time period. The Government stated that this was due to the cost-of-living crisis and the need to protect tenants from increasing hardship.

While welcomed by some tenant and consumer advocacy groups, this announcement has met with a hostile reception from housing providers and institutional investors, who were not forewarned and believe that the effects of this on future levels of supply and investment could be very damaging. This has been made clear to the Scottish Government in very blunt terms.

“the unpredictable nature of government intervention in Scotland may cause some reflection among larger investors”

While a 6-month rent freeze and eviction ban will likely have limited impact, an extension of this emergency legislation will have consequences for investor participation in the sector. While the further loss of small-scale PRS housing providers could create more room in the market for institutional investors, the unpredictable nature of government intervention in Scotland may cause some reflection among larger investors.

Scotland and its main cities are well-placed to benefit from BTR expansion and **Rettie & Co's latest BTR Briefing** shows that there are over 13,000 BTR homes are now operational, under construction or in planning across the country, 25% up on last year's total. The sector is now estimated to be worth around £3.5 billion in Scotland. BTR has the potential to deliver the new housing that parts of Scotland clearly need at volume; to create new vibrant communities; and to enable the viability of sites that otherwise may prove challenging in the emerging economic and

market conditions. If the Scottish Government wants a thriving BTR and sees it as part of the solution for the housing crisis, it needs to quickly reassure institutional investors looking to fund this significant increase in the supply of homes that this is purely temporary measure.

Moda, which is planning to develop and operate around £1 billion of projects in Scotland, have stated that they remain committed to Scotland despite this new policy measure, which is very welcome news. The Scottish Government needs to be working with the likes of Moda to maintain their confidence and that of their investors.

“The Scottish Government also needs to better understand the market”

The Scottish Government also needs to better understand the market. There is a lack of data on the private rental sector in Scotland. Although it has said that the rent freeze has been introduced to deal with rapidly rising rents, the Government has no reliable measure of what is happening to actual rents across the country. The data it uses is nearly exclusively advertised rents on new leases, which only accounts for around 10-15% of the stock in a given year. The industry may need to step up to the plate and assist in collecting this data. Without it, there will continue to be a clamour for populist interventions based on little more than assertion and misinformation.

