

BUILD TO RENT IN SCOTLAND

Getting it right

Build to Rent (BTR) is not a new sector. In fact, it is decades old. But, unlike in the USA and Europe, it has not yet made a significant impact on the UK housing market.

Since the launch of the UK Government's Private Rented Sector Taskforce and BTR Fund, however, there is evidence that this is changing – and fast. The British Property Federation (BPF) say that the BTR sector has reached 96,000 units completed, under construction or in planning across the UK. The rate of construction has increased by 39.6% over the first quarter of 2017, showing the speed at which this sector is now moving.

But, the BPF say, just 1 per cent of the investment driving this is being spent in Scotland.

The BTR sector has reached 96,000 units completed, under construction or in planning across the UK...

...however, only 1% of this investment is being spent in Scotland.

“With strong demand for private renting across Scotland, and a growing recognition from the Scottish Government and local authorities of the potential for BTR to quickly increase the supply of new homes, the opportunity exists for investors and developers to transform the private rented sector offering in Scotland.”

Nicola Barclay, Chief Executive, Homes for Scotland

The Scottish Government have demonstrated serious intent to change this. They want BTR to play a major part in delivering on their commitment to build 50,000 new and affordable homes during this parliament.

The Rental Income Guarantee Scheme (RIGS), launched in October 2017, is their most significant intervention into this market to date. It offers to underwrite a proportion of expected rental income, helping to secure finance for development and providing on-going security for investors. The Government promises to give a decision on applications in no more than two months, ensuring that the RIGS scheme does not slow the pace of BTR development.

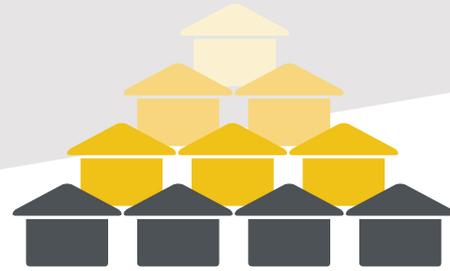
The hope is that RIGS will help attract £500 million of investment and deliver 2,500 private rental homes by 2020 to help address the housing shortage in Scotland.



The Rental Income Guarantee Scheme (RIGS) has the potential to attract £500 million of investment and deliver 2,500 private rental homes by 2020.

“BTR is a crucial additional way of increasing housing supply in Scotland and is also incredibly important in helping the Scottish economy grow. The Scottish Government has already introduced some key measures including a BTR planning advice note and the recently launched rental income guarantee scheme, which we at SFT will manage. We are very keen to work with investors and developers to help Scotland seize this fantastic opportunity.”

Barry White, Chief Executive, Scottish Futures Trust



Scottish Government have committed to deliver 50,000 affordable homes by 2021.

Scottish housing represents a strong offer for investors, with competitive land prices and building costs, high demand for fit-for-purpose housing, potentially delivering attractive and sustainable yields, and material support from Scottish Government – all alongside a stable regulatory environment.

Though currently there is still inconsistent support across Scotland and an element of confusion about what BTR will look like or how it might be delivered, there is no doubt now that BTR has the backing to be a feature of Scotland’s housing stock in the future.

We believe that, delivered in the right way, BTR can transform the private rental market, continuing the trend towards rental becoming a tenure of choice across all demographics; and that, on the way, it will become a new and strong asset class for long-term investors.

“The SPF remains firmly of the view that the key challenge for the residential sector in Scotland is choice and supply. A large-scale, professionally managed private rented sector will play an important part in helping to ease the current housing shortage. BTR can make a significant difference to the number of new homes provided in Scotland as capital can be deployed quickly and delivery is not as constrained by absorption rates as Build-to-Sell. Much of new housing delivery will be through large regeneration sites, where BTR can provide early place-making and help to form the community that makes regeneration schemes successful.”

Mandy Catterall, Government Relations Manager, SPF



What might a Scottish BTR model look like?

In order to be successful, BTR developers should seek facts on which to model developments, especially when it comes to design, amenities and operational delivery.

That the sector has struggled, and that there still exists a palpable lack of confidence in many corners, shows that management information has thus far been sorely lacking.

SERVING 'GENERATION RENT'

The private rental sector is growing. The term 'Generation Rent' has been used increasingly as an explanation for this phenomena. It is usually held to describe young professionals, who previously would have aspired to homeownership, but who now, seeing little hope of financing a first step on the housing ladder, have instead embraced the freedoms that rental can offer.

Marketing in the BTR sector across the UK is mostly geared towards that demographic.

In practice, however, renters are already far more diverse in age. We have seen an increase in the numbers of more mature renters too.



The number of retired renters grew by 13% between 2012 and 2016.

Source: National Landlords Association

According to the National Landlords' Association, the number of retired renters grew by 13 per cent between 2012 and 2016. Sometimes this might be in order to liquidate valuable assets to fund a lifestyle change or assist their family financially. But often it is for similar reasons to those of younger renters – they are unable or unwilling to meet market prices for ownership, or want to enjoy the amenities, services, community and lifestyle which rental can offer.

BTR has the potential to serve the whole market and further broaden the appeal of private rental through a combination of more secure tenancies and professional management.

“We need BTR as part of the solution to our housing supply problem. But it needs to be done well to tackle the misperceptions some hold and, for developers, I believe that means getting input from those who have been there and done it, from feasibility onwards.”

Eric Adair, Operations and Finance Director, EDI Group

THE BTR PACKAGE

The US multi-family model frequently sells on the promise of an impressive lifestyle with a full array of amenities. But the demands of the local market and customer should be considered in shaping the offering of a BTR development. In Scotland, this is more likely to mean amenities such as shared workspaces and meeting rooms, rather than 'aspirational' amenities such as swimming pools or pet care services.

Further, the US model is frequently an all-inclusive package, with utilities wrapped up in rent. The question as to whether a Scottish model should leave customers free to pick and choose their utility providers, or whether Scottish renters would embrace provision by the managing agent is one that has yet to be settled – data needs to be collated to establish a financially sound approach. Certainly, development-wide high-speed broadband is considered an essential offering. But when it comes to energy provision, will the Scottish private rental sector place trust in landlords to secure them the best deal and to be nimble enough to move with the market?

Understanding and delivering what customers actually want will assist in reducing churn and thereby stabilise income, maintaining yields. This must be coupled with continuing investment in a development, to ensure that it maintains that premium look and feel.

Flexibility around tenancies within a scheme will again add to the customer experience. Providing the ability to move within any BTR scheme with ease will further assist in maintaining high occupancy levels and help create community.

As with other opportunities that BTR opens up, these must be considered in the early design stages of a development and based on management information.

“From a planning and development perspective BTR represents an exciting opportunity to develop much needed new homes in Scotland across a variety of different tenures. There is real potential for BTR to contribute towards creating sustainable communities, including by providing a different mechanism to access quality housing developments.

“Planning policy provides the context for BTR developments to come forward, but it is incumbent upon planning authorities and the industry itself to work together to realise the full potential.”

Fraser Littlejohn, Partner, Montagu Evans

Operational delivery is key

Expertise in operational delivery is essential for defining a development and a customer experience. And the on-going capture of relevant data will be essential to ensuring that a scheme delivers against key performance indicators and remains viable in the long term.

In the market today, there are very few managing agents with access to this scale of management information.

UNDERSTANDING PEOPLE

The BTR sector is in its infancy, compared with the US and European models. However, it is clear that analysing all available data will assist in providing schemes that are fit for purpose and sustainable over an extended life cycle. Such data can be used to determine the DNA of a development.

The industry thinks it understands what appeals to a market, but may need to take a data-driven approach to determining what serves that market in the longer term, or risk ‘front-loading’ the rental model, jeopardising BTR’s ability to keep providing a healthy return on investment for years to come.

BTR investors need to acquire a greater understanding of the lifecycles of these assets. Accurately predicting the operational costs of any scheme is essential for long-term viability. Premium rents cannot continue to be justified over the medium to long term unless a development is well maintained and on-going investment is planned.

Amenities that might make an exciting marketing prospect might be impractical to service and under-utilised, resulting in onerous operating costs and having a direct impact on the development’s gross to net value.

Managing and minimising customer churn is key to maximising returns. When so much hinges on brand, making headlines for leaving customers

without services is not an option. The integrity of a BTR investment must be protected by management of the highest levels of professionalism.

“I was delighted to see the recent launch of the Scottish BTR Opportunity Document and Scottish Government Rental Income Guarantee Scheme (RIGS) and also the Scottish Government’s note of Planning Delivery Advice on BTR. These are all great evidence of the fact that Scotland is taking the BTR market and opportunity seriously and is very keen to attract further inward investment.”

Russell Munro, Partner, Pinsent Masons LLP

A SENSE OF PLACE

The success of a BTR development depends on more than just providing well-maintained facilities. Successful developments house thriving communities and create a sense of place.

This is key to engendering customer satisfaction and nurturing a sense of belonging, and a major factor in managing churn. In the end, the character of the community makes the reputation of a development as much as the quality of the individual residences.

From understanding and encouraging the use of communal areas, to initiating collective activities, this ‘placemaking’ approach requires a broad view of the development experience right across the spectrum. Substantial expertise in this approach is needed in the management of BTR developments, and management staff should have a proven ability to develop the relationships that make a community.

Getting it right

With each new BTR development, the sector has an opportunity to learn. The traditional property management approach currently catering to buy-to-let landlords isn't adequately scalable to serve BTR. This represents a risk for the sector. For BTR to stabilise quickly and be sustainable, professional management is essential.

Developers and investors need to commit to this professionalism and to this long-termism, from the earliest stages of planning to the on-going management of a site across many years.

Government too – national, regional and local – need to sustain their commitment to BTR and to infrastructure to support large-scale residential developments to make a real impact on Scotland's housing shortage.

“A key challenge now is to clarify the fundamental differences between BTR and Build-to-Sell. There is a lack of understanding of this market within local authorities and therefore an unfortunate perception that it is the same as conventional housing. BTR will be delivered in a fundamentally different way to conventional housing for sale.”

Mandy Catterall, Government Relations Manager,
Scottish Property Federation

In the end, management excellence will directly impact on returns and, in turn, the value of the investment. Get it right and the sector could provide the type of rental space that people have been waiting years for.

“I am convinced that the emergence of a new, professionally managed, institutionally invested, purpose-built private rented sector will result in the rapid delivery of high-quality new homes, boosting volume, flexibility, choice, and affordability in doing so.

“With innovative design and modern construction techniques, supplemented by new standards of professional management and service delivery, BTR presents an opportunity to transform the customer experience while simultaneously creating a strong asset class for investors and developers in Scotland.”

Nicola Barclay, Chief Executive, Homes for Scotland



Acknowledgements

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- Nicola Barclay, Chief Executive, Homes for Scotland
- Barry White, Chief Executive, Scottish Futures Trust
- Mandy Catterall, Government Relations Manager, Scottish Property Federation
- Eric Adair, Operations and Finance Director, EDI Group
- Fraser Littlejohn, Partner, Montagu Evans
- Russell Munro, Partner, Pinsent Masons LLP

and other representatives of Scottish Government and industry.

Do you want to explore Build to Rent further?

FirstPort is the UK's premier property management group, spanning 184,000 homes across more than 3,900 developments in the residential, retirement and luxury markets. With a 30-year track record, we offer home builders and institutional investors a uniquely scalable combination of residential property planning and asset management backed by our national reach.

Our Build to Rent proposition delivers an integrated solution that spans skilled consultancy, property and asset management, residential services, tenancy and lettings management.

If you would like to learn how FirstPort can help support your Build to Rent investment today and well into the future, while providing an exceptional experience for customers, then come and talk to us.

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