“A Private Rented Sector provides good quality homes and high management standards, inspiring consumer confidence, and encourages growth through attracting investment.” Scottish Government
Foreword from the Scottish Cities Alliance

The Scottish Cities Alliance is a forward thinking partnership between Scotland’s seven cities and the Scottish Government. The Scottish Cities Alliance principle aim is to encourage and incentivise investment in these cities.

Collaboration is at the heart of everything that the Scottish Cities Alliance do. By collaborating there is the opportunity to attract significant investment and stimulate further economic growth. Jobs, infrastructure and housing are the foundations for sustainable growth, and as such the Scottish Cities Alliance is committed to encouraging investment in PRS.

Professionally managed PRS, with its unique application in each city, is about providing homes rather than just housing. PRS investors want long term happy residents, thus well designed and high-quality buildings are an imperative.

The enhanced quality of housing in tum attracts people to come and live in the area and encourages graduates to stay. This leads to a multiplier effect in the local economy, of job creation and economic growth.

By making PRS a pillar of our strategy, the Scottish Cities Alliance will further progress towards achieving its principle aim. This prospectus sets out what PRS is, why it is relevant and how the Scottish Cities Alliance is supporting it.

“A healthy and thriving Private Rented Sector contributes to the mix of housing available in dynamic cities like Dundee. The sector’s growth makes a positive impact in many ways, offering choice to tenants and boosting the area’s economy. Private Rented Sector accommodation is vital to give people the choice about where and how they choose to live in Scotland’s cities and it is important to ensure we continue to help the sector thrive” Ken Guild, Leader of Dundee City Council

“The Scottish Cities Alliance is supporting the development of our increasing Private Rented Sector in Scotland through our proposition development and on going collaborative work with the housing industry and Homes for Scotland. We are committed to working together to achieve delivery of investible Private Rented Sector housing projects across our cities and regions. The Scottish Cities Alliance recognises that the liveability and attractiveness of our cities is key to building a high performance economy. At the heart of that is the provision of quality homes of all tenures to make Scotland a better place in which to live, work and invest” Councillor Andrew Burns, Chair of the Scottish Cities Alliance
PRS operating businesses, the homes they build and investors they attract are specifically designed for long term rental occupation. The customer experience is at the heart of design principles, with the aim of attracting and retaining those who have chosen to rent.

PRS is about creating a sustainable community through the provision of communal spaces, providing excellent customer service, ensuring that management of apartments is to the highest standards, and providing amenities that are needed and demanded by the modern renter.

These are the types of schemes the Scottish Cities Alliance are encouraging throughout Scotland to help meet the growing demand for private rented accommodation and more broadly the need for more homes.
Why PRS?

There is a significant housing shortage in the UK. Whilst homeownership will certainly provide some of the homes required, there are an increasing number of households renting privately through lifestyle choice or economic necessity. This number is set to continue to rise with research estimating that within five years 27% of UK households will be renting, up from around 20% now.

Building professionally managed PRS communities, without the risk of open market sale, provides an opportunity to increase the housing supply quicker than through the sales market, whilst simultaneously giving those who choose to rent a secure place to call home. Although tenants are the most important part of any successful PRS community, investors are attracted by stable income and central and local government is attracted by the multiplier effect/place-making attributed to such schemes.
Residential Revolution

The student accommodation sector sets the stage for the growth in the PRS sector in the UK. The evolution of the student accommodation sector has seen it move from traditional individual owner let houses through to the high quality professionally managed units that saw over £5 billion of investment in 2015 alone. Upon graduation, these ‘renty-somethings’ expect to have the same level of quality, amenities and services that they have become accustomed to during student life. These ‘renty-somethings’ form the bedrock of the demand for professionally managed PRS, however there are also a growing number of downsizers looking towards renting as a lifestyle choice that reduces the burden placed on them by owning their own home and frees up capital for them for alternative activities.
UK PRS Facts

Currently

- 20% UK dwellings privately rented
- 55% owner occupied
- 27% private rented

Within 5 years

- 35% of renters are aged 25-34
- 18.5% rental growth over last 5 years
- £767 per month, average Scottish rent
Tenure Projections

![Graph showing tenure projections for different tenures over time.]

- **Owner occupied**
- **Private rented**
- **Social rented**

Forecast data indicates expected trends in housing tenure distribution for the years '17 to '32.
Scottish Monthly Rent Analysis

![Rent Analysis Chart]

- **All Scotland**: $972 (Q1 2016) to $865 (Q3 2015)
- **Edinburgh**: $767 (Q1 2016) to $710 (Q4 2015)
- **Glasgow**: $751 (Q1 2016) to $679 (Q4 2015)
- **Aberdeen**: $620 (Q1 2016) to $610 (Q4 2015)
- **Dundee**: $587 (Q1 2016) to $550 (Q4 2015)
Sector Rental Growth

- Edinburgh
- Glasgow
- Dundee
- Aberdeen

Size of sector
2015 rental growth
In addition to UK Government PRS debt guarantee schemes, the Scottish Government is also committed to establishing a fully functioning professionally managed PRS. There are a number of initiatives in place, or being put in place, by the Scottish Government to support this commitment.

- **Private Housing Tenancies Bill**
  - Inflation linked income - offering protection to tenants but also allowing investors inflation capped rental increases in housing pressure zones.
  - Tenancy protection - with a one-way break for tenants, tenants are protected but will also feel more secure and thus more likely to ‘put down roots’. This will reduce tenant churn, and added to continued landlord protection in instance of tenancy breaches, it is also in the interests of landlords.

- **Rental Income Guarantee Scheme**
  The proposal of this scheme is to guarantee a minimum rental income in the phase between completion and a fully let and operational scheme. If adopted, this will prove to be a significant incentive for investment into the PRS, since it will offer investors certainty of income during the stabilisation period of the scheme.

- **Land and Buildings Transaction Tax**
  Through the replacement of SDLT with Land and Buildings Transaction Tax, Scotland is free from having to adopt all SDLT rules decided by the UK Government. In short it can adjust this property tax for local benefit. So whilst it has followed the UK Government lead on an additional 3% on buy to let investment, there is the possibility for an exemption from additional SDLT in the future.

- **Planning and Design Guidance**
  The Scottish Government is anticipating releasing PRS specific planning and design guidance to give certainty as to how this emerging asset class will be treated.
Scottish Cities Open for PRS

Scottish cities can benefit significantly from encouraging the emergence of professionally managed PRS. The Scottish Cities Alliance is open to supporting interested parties and stakeholders in assessing the opportunities presented by the sector.

The Scottish Cities Alliance will build upon the work undertaken by Scottish Government to date and can help support various delivery models including:

**Collaboration**

- Partnerships between private operators with access to public money or land.
- Possibly as part of a joint venture with a developer (such as the Private Rented Sector fund).
- Examples include Mill Group, Bovis Homes and HCA joint venture to deliver varied housing across six sites in southern England.

**Incubation**

- Built by a housing association or local authority with private investment at a more advanced stage.
- Examples include Fountainbridge by EDI (City of Edinburgh Council) who will remain invested.
- Fizzy Living was incubated by Thames Valley Housing Association who sold 80% of a fully let portfolio to a long term partner.

**Speculation**

- An investor buys sites from a developer and establishes its own management platform
- LaSalle Investment Management has forward purchased 292 units at Forbes Place Stoneywood (Aberdeen) from a developer.
- Behere a subsidiary of Wilmot Dixon, manages schemes that its parent company builds for itself.
PRS In Focus: Dundee Waterfront calls for UK developers to partner in city growth

Just 15 years after the £1 billion Dundee Waterfront project was launched, more than £750 million of investment has now been committed to the transformation of Scotland’s fourth largest city.

Turning disconnected gap sites and redundant land into a connected, mixed-use regeneration hot spot along 8 kms of the River Tay is now well underway.

Targeted public sector investment was the initial vital catalyst needed to build the infrastructure and create the development canvas that would excite and engage the private sector. Now in late 2016, there is a growing number of private sector investors keen to take advantage of the surge of interest and wave of development activity across the city.

The investments are at all levels, from micro through to major businesses, with increasing interest from across the UK and overseas. The first phase of investment focused on creating the infrastructure, roads, utilities, open spaces and construction work needed to reconnect the city centre with the River Tay. A wide variety of offices, retail, leisure, travel, residential including PRS opportunities, hospitality and tourism-related projects are now arriving in the Waterfront and the wider city area.

The largest building-related investment is the new V&A Museum of Design, Dundee, which will open in 2018. Representing an investment of more than £80 million, the new V&A Dundee will be a major addition to the UK’s rich portfolio of museum assets. The investment is already attracting thousands of tourists and creating significant opportunities around leisure and business tourism. When it opens, several hundred thousand visitors are expected each year.

A host of other major investments are helping drive the regeneration, including a new railway station complete with a new hotel and retail space, Dundee Port developments and the creation of a new marina. The Scottish Government is also investing £63 million of growth funding under the Growth Accelerator Model (GAM), which will make a major contribution to the next phase of regeneration.

Allan Watt, Dundee Waterfront Project Director, says there are huge opportunities for UK investors to partner with the city on the next stage: “The City Council owns the vast majority of land in the central waterfront, which allows us to work closely with developers, investors and entrepreneurs. There are great opportunities for the UK’s private sector to capitalise on the expansion of Dundee Waterfront. We are very entrepreneurial in our approach, and would urge interested parties to contact the Dundee Waterfront Development team directly to discuss their ideas.”

Allan Watt can be contacted at allan.watt@dundeecity.gov.uk or on 01382 433306.
For further information please contact:

**Stephen Running**
Investment Promotion Manager, Scottish Cities Alliance
07778 596756 / stephen.running@scottishcities.org.uk

**Allan Watt**
Dundee Waterfront Project Director, Dundee City Council
01382 433306 / allan.watt@dundeecity.gov.uk

**Alastair Carmichael**
Head of PRS, GVA
07930 565873 / alastair.carmichael@gva.co.uk