

# Housing, Homelessness and Fair Work Committee

10.00am, Monday, 20 January 2020

## Support for Build to Rent

Executive/routine Wards Council Commitments	Executive All
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### 1. Recommendations

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- 1.1 It is recommended that Housing, Homelessness and Fair Work Committee:
  - 1.1.1 notes the outcome of engagement with the Build to Rent (BTR) sector and that a pipeline of over 6,000 homes has been identified to address housing demand and support the economic growth of the city;
  - 1.1.2 agrees the approach to securing affordable housing in BTR developments; and
  - 1.1.3 refers this report to Planning Committee for information.

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## Support for Build to Rent

### 2. Executive Summary

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- 2.1 Following engagement with the BTR sector, a potential pipeline of around 6,000 BTR homes has been identified. This pipeline has the potential to generate investment of around £900 million in the local economy. The investment will support the delivery of Council commitments; including delivery of 20,000 affordable homes.
- 2.2 The Strategic Housing Investment Plan 2020/25 (SHIP) identified a funding gap of £71.8 million in the delivery of affordable housing over the next five years, should grant levels remain static. Innovative funding models that require little or no subsidy are therefore critical in achieving the 20,000 homes target.
- 2.3 Committee is asked to note the outcome of engagement with the BTR sector and to agree an approach to delivery of affordable housing in BTR developments.

### 3. Background

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- 3.1 On [24 August 2017](#), Council approved its five-year business plan. The plan sets out an objective to build 20,000 new affordable homes in the city over the next ten years.
- 3.2 On [3 October 2018](#), revised guidance on BTR developments was approved by Planning Committee as part of the report Edinburgh Design Guidance Post Approval Review. A section of the Guidance sets out the key characteristics of 'Purpose Built Homes for Rent'. The revised guidance recognised that delivery of purpose-built rented accommodation with integrated placemaking and services can offer opportunities, particularly for large mixed-use regeneration sites. Edinburgh is the first Scottish local authority to provide specific planning guidance for BTR homes.
- 3.3 On [24 January 2019](#), Housing and Economy Committee considered a report on Approach to Build to Rent. The report highlighted the opportunity that BTR provides to accelerate housing development, supported by institutional investment, whilst delivering 25% affordable housing. Committee agreed that officers would develop a broad policy framework to support development of BTR in the city.

- 3.4 On [29 August 2019](#), Housing, Homelessness and Fair Work Committee received an interim update on BTR, as part of the Strategic Approach to Private Rented Sector report. The report agreed to report back to Committee within two committee cycles on the development of a broad policy framework to support BTR.
- 3.5 On [31 October 2019](#), the Housing, Homelessness and Fair Work Committee approved the SHIP 2020/-25. This SHIP outlines a programme over the next five years which would deliver nearly 9,500 affordable homes across the city. The report highlighted a funding shortfall of £71.8 million over the next five years, should grant levels remain static.

## 4. Main report

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- 4.1 In [January 2019](#), Housing and Economy Committee noted the opportunity that BTR provides to accelerate housing development, support placemaking, increase housing choice and improve customer experience of renting housing in the private sector. In Edinburgh, affordable housing led BTR has been delivering professionally managed, quality rented homes at below market rents for nearly ten years with almost 1,000 homes completed and over 400 under construction.
- 4.2 Private sector led BTR, which is financed and owned by institutional investors and delivered by private developers has taken longer to establish in Edinburgh than other cities; such as Manchester and London. In June 2019 a workshop was held with around 30 BTR developers and investors to explore challenges and potential solutions to accelerate development of BTR in the city. The event was informed by responses to an online questionnaire, which revealed significant interest in BTR, with target investment ranging from below £25 million to over £500 million. The industry expressed interest in all house types from apartments to suburban family housing. The main challenges identified by the workshop were in relation to land and delivery of 25% affordable housing.
- 4.3 In Edinburgh, there is intense competition for available private sector sites, local authority and other public sector sites are required to meet a range of needs, such as for social rented housing and early years provision. Traditionally, BTR investors and developers have indicated a preference for city centre locations; where there is a limited number of sites and competition from hotel and student accommodation developers as well as build for sale. The workshop was successful in highlighting citywide demand for rented housing; at a range of prices with significant opportunity to develop at scale in less central locations.
- 4.4 The workshop and wider engagement with the industry also provided an opportunity to address approach to delivery of 25% affordable housing within BTR developments. In 'Build for Sale' developments, Registered Social Landlords (RSLs) enter into contracts with private developers to deliver affordable housing. The RSLs development is supported by Scottish Government grant funding. The outcome is that part of the development is owned and managed in the long term by an RSL with the remainder of the development in individual private ownership. BTR

developers advised that investors wish to retain 100% ownership of developments to protect their long-term investment in the estate.

- 4.5 Intermediate rent (or unsubsidised mid-market rent) is an existing and accepted affordable housing tenure, defined in the Council's Affordable Housing Guidance (February 2019) as: 'Private rented accommodation, unsubsidised, available at rents below market rent levels in the city'. This tenure lends itself to delivery as part of BTR developments.
- 4.6 Homes would be affordable for a minimum of 25 years and this would be secured by Section 75 Legal Agreement. A separate annex within the Section 75 would set obligations in respect of management, rent setting and rent increases.
- 4.7 The following principles for a BTR framework could provide greater certainty for BTR investors seeking to bring forward planning applications whilst delivering the Council's strategic objectives in relation to affordable housing:
  - 4.7.1 BTR developments would deliver purpose built rental accommodation;
  - 4.7.2 the full percentage of homes required by the Affordable Housing Policy will be sought on BTR developments;
  - 4.7.3 affordable housing within a BTR development will normally be delivered as 'Intermediate Rent' by the BTR operator; intermediate rent homes will be secured as affordable through a Section 75 Legal Agreement for a minimum of 25 years; and rents for the affordable homes will be capped at Broad Rental Market Area (BRMA) 30<sup>th</sup> Percentile and rent increases will be restricted by the Section 75 Legal Agreement; and
  - 4.7.4 Tenants will be granted Scottish Private Residential Tenancies
- 4.8 BTR affordable homes; unlike RSL affordable housing, does not benefit from Scottish Government grant subsidy and the developer is not able to secure an immediate financial return from selling homes. Affordable rents, therefore, need to be set at a level which is viable in relation to development costs but is also affordable to people on low to medium incomes.
- 4.9 Rents at BRMA 30<sup>th</sup> Percentile continue to be a benchmark of affordability and are on average almost 30% less than market rents. BRMA 30<sup>th</sup> Percentile have been used as the basis for rent setting for Scottish Government's Mid-Market Rent Invitation and the maximum level that RSL grant funded mid-market rents can be increased to, with the local authorities' consent, under Scottish Government grant guidelines.
- 4.10 The Council's Affordable Housing Policy sets out a 'Definition of Priority Clients'; those people who are in housing need, who cannot afford to access accommodation through the regular functioning of the housing market and earn below average household income. Rents at the 30<sup>th</sup> Percentile are affordable to people within the defined client group earning less than the average household income of £44,000 per year. Affordability of rents is noted by both Scottish Government and Shelter Scotland as being less than 35% of income. BRMA 30<sup>th</sup>

Percentile rents can offer an affordable alternative for people on lower than average incomes.

- 4.11 Local Housing Allowance (LHA), set by the UK Government, is the maximum amount of benefit which a person can claim. LHA was formerly based on the 30<sup>th</sup> Percentile of rented homes from across the BRMA; the lowest priced third of the rental market in an area. LHA rates were frozen for four years from 2014, during this time LHA became disconnected from BRMA rates. In the same period construction costs, land values and market rents all increased. Scottish Government figures show that in 2018, across Scotland, it was the Lothian area (including Edinburgh) that had the biggest gap between LHA and the lowest third of the rental market. The table below sets out the difference.

**Table 1: LHA, BRMA and market rents 2019**

Monthly Rents	LHA 2019/20	BRMA 30th Percentile	Average Market Rent	Market Rent compared to BRMA 30 <sup>th</sup>
1 Bedroom	£551.76	£648.22	£764.00	<b>+£115.78</b>
2 Bedroom	£668.55	£797.81	£1,013.00	<b>+£215.19</b>
3 Bedroom	£832.26	£1,196.69	£1,470.00	<b>+£273.31</b>

- 4.12 In recognition of this, a motion was approved by Housing, Homelessness and Fair Work Committee on [29 August 2019](#) for the Convener to write to the UK's Chancellor of the Exchequer in support of Crisis's 'Cover the Cost' campaign. The campaign recognises the disconnect between LHA and market rents and asks that people write to the Chancellor to request that LHA be realigned to 30th Percentile.

### **Build to Rent Pipeline**

- 4.13 Officers have engaged with the BTR sector and now have a pipeline of around 6,000 homes that can accelerate residential development on brownfield land. Purpose built rental accommodation responds to the housing needs of our city, supports economic growth, and is backed by considerable institutional investment. Sites such as Western Harbour and Edinburgh Park could deliver area regeneration at a scale and pace which has not been seen in our city for decades. Those sites alone could deliver almost 3,000 homes for rent before 2025.
- 4.14 On 31 July 2019, the application for 234 BTR homes at 159 Fountainbridge was approved by Development Management Sub Committee. The development includes 58 tenure blind affordable homes that will be owned and managed by the BTR operator Vastint and secured as affordable housing for a minimum of 25 years.
- 4.15 On 25 September 2019, planning applications for 330 BTR homes at Skyliner, Ocean Drive and 940 homes at Western Harbour were both approved by Development Management Sub Committee. These tenure blind affordable homes will also be affordable for a minimum of 25 years and secured by Section 75 Legal Agreement.
- 4.16 On 4 December 2019, a planning application by BTR operator Moda, for 476 BTR homes at Fountainbridge, was approved by Development Management Sub

Committee. Tenure blind affordable homes will be delivered on site and will be affordable for a minimum of 25 years, secured by Section 75 Legal Agreement.

4.17 Committee is asked to note Appendix 1, which sets out the BTR Pipeline.

## **5. Next Steps**

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- 5.1 Officers will continue to work with BTR developers to support the delivery of a potential pipeline of around 6,000 homes across the city over the next few years. The number of homes is an estimate at this stage, as some of the sites have only recently submitted planning applications and could still be subject to change. The Council is also aware of initial discussions being held with landowners on other sites, that could result in more BTR developments being brought forward.
- 5.2 Awareness raising, information and training will be provided for housing and planning officers on BTR and its role in supporting the delivery of Council objectives and commitments.

## **6. Financial impact**

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- 6.1 A pipeline of around 6,000 BTR homes could generate around £900 million investment in the city. These homes also bring significant benefits in terms of area regeneration, long term management and support for the local economy.
- 6.2 The SHIP 2020/25, approved by Housing, Homelessness and Fair Work Committee on [31 October 2019](#), identified a shortfall of £71.8 million in grant funding for affordable housing over the next five years.
- 6.3 Grant funding is not required for the delivery of affordable BTR homes. The 25% affordable homes from the BTR pipeline would have required grant of £90 million if being delivered by an RSL, based on average grant rates of £60,000 per property. Grant freed up from supporting delivery of mid rent housing could be targeted at delivery of social rented homes.

## **7. Stakeholder/Community Impact**

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- 7.1 Consultation and engagement with local communities will take place on a site by site basis. BTR creates opportunities for residents to have long term involvement in the ongoing management and maintenance of buildings and estates.
- 7.2 RSLs who are actively developing new housing within the city have been consulted on the proposal for BTR and were supportive. RSLs have been delivering affordable housing led BTR in Edinburgh for almost ten years. Consultation with RSLs will be ongoing as the city's BTR strategy develops.

## **8. Background reading/external references**

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- 8.1 [Approach to Build to Rent](#) report to [24 January 2019](#) Housing and Economy Committee.
- 8.2 Strategic Approach to Private Rented Sector report to [29 August 2019](#) Housing, Homelessness and Fair Work Committee.
- 8.3 Strategic Housing Investment Plan 2020-2025 report to [31 October 2019](#) Housing, Homelessness and Fair Work Committee.

## **9. Appendices**

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- 9.1 Appendix 1 – Build to Rent Pipeline

Appendix 1 – Build to Rent Pipeline.

<b>Site/Location</b>	<b>BTR Operator</b>	<b>BTR Homes (Approx.)</b>	<b>Affordable Homes (Approx.)</b>	<b>Planning Status</b>
159 Fountainbridge	Vastint	234	58	Granted
Skyliner, Ocean Drive, Leith	Legal & General	338	84	Granted
Moda, Fountainbridge	Moda	470+	15	Granted
Western Harbour, Leith	Forth Ports	1,600	1,600 Estimate, subject to planning consents.	One of two applications granted – 940 homes
Citywide (4 sites)	Places For People Capital	500	500 Estimate, subject to planning consents.	Various stages - Oxfangs Green approved.
Citywide – Market Led Mixed Use Sites (4 sites)	To Be Appointed	2,050	625 Estimate, subject to planning consents.	Pre Planning
Citywide - Council Mixed Use Sites (3 sites)	To Be Appointed	1,200+	420+ Estimate, subject to planning consents.	Pre Planning
<b>Total:</b>		<b>6,400+</b>	<b>3,300+</b>	