

First Scottish BTR schemes show strong levels of demand

A small redevelopment in the Candleriggs Quarter of Glasgow's Merchant City has underlined the potential for build-to-rent (BTR) accommodation in the city centre.



This summer, the first tenants will start moving into the 36 two- and three-bedroom flats of Candleriggs Court, a BTR refurbishment project led by Kelvin Properties.

Demand for the flats has been stronger than anyone expected. "Within the first two weeks of launching, we've got 28 out of 36 flats away," says Marc Taylor, director at Tay Letting, which is marketing the flats, where rents range from £995 to £1,350 per month for a two-bedroom home. Four to five people have been haggling over each one, he adds.

“One thing I’ve learned from launching these 36 flats is we certainly could stomach a larger BTR development in Glasgow,” he says. “We’ve got a housing issue and a huge lack of supply.”

So does the success of Candleriggs Court indicate that the floodgates are about to open and more BTR schemes will be built in Scotland? And what has held up BTR development in Scotland to date?

Until now, only a handful of schemes have been completed in Glasgow, while 2,246 BTR homes have planning approval and are in the pipeline for delivery in the city, according to data from agent Rettie & Co. Of these, at least 1,428 will be in the city centre. A further 1,524 homes are at pre-planning stages or are going through the planning process.

Meanwhile, in Edinburgh, 255 BTR homes have been completed and while no other BTR schemes have gained planning permission yet, 1,197 are in the planning and pre-planning stage.

One of the biggest developments in the pipeline is being brought forward by Get Living. The developer plans to break ground in Q1 2020 on a £200m scheme to develop 727 BTR homes on the fringe of central Glasgow, just blocks away from Candleriggs Court. The 7.5-acre site will also include 99 student studio flats and more than 36,220 sq ft of retail and leisure space.

The economics for the development and its location are just right, says Rick de Blaby, executive chairman of Get Living.

“With the BTR model you can’t afford very expensive city centre land, but the scale allows you to achieve operational efficiency,” he says. “You’ve got inflating building costs and more demanding building regulations, so there is a fine line between the revenues you can genuinely sustain and the operating costs you incur delivering the thing.”

Scouting Edinburgh sites

De Blaby says Get Living is also scouting locations in Edinburgh. While the Glasgow flats are aimed at people on a typical Glasgow salary working in both the public and private sector, he says a scheme in Edinburgh would have to be built for a more affluent demographic for it to work because of higher land prices.

What both cities share is a shortage of housing, which supports the case for BTR.

“We’ve got rising demand at a time of constricted supply creating affordability pressures in the market,” says Dr John Boyle, a director in research and strategy at Rettie & Co, who adds that the deficit of new homes in Scotland is at least 80,000.

PRESS CUTTING

In Edinburgh, a lack of supply has helped to push rents up by 6% a year over the past five years on a compounded basis while in Glasgow they have risen by between 4% and 5% a year.

Rental growth in both cities is expected to remain strong over the coming years. Rettie & Co forecasts that there will be 3% to 5% rental growth in Edinburgh and Glasgow over the next three years.

Boyle says sustained rental growth in Edinburgh is “creating real affordability issues, which affect the attractiveness of [the city] as a place to work”, before adding: “As part of a solution to that, we need investment in alternative tenures like BTR.



“We’ve got huge demand from a younger demographic for a new form of housing because the traditional housing market isn’t working for them.” This, he says, is primarily because many do not want, or have the means, to make a down payment on a house. “But the institutional investors haven’t been there – they haven’t seen the size of the opportunity,” he adds.

PRESS CUTTING

The Scottish government has stepped in to make building rental schemes a more attractive proposition. In an attempt to woo BTR developers, it set up the Rental Income Guarantee Scheme (RIGS) in 2017, which subsidises developers if their annual rental income does not exceed 75% of their market rent in the first year or two. "It's seen as something to help stimulate BTR in Scotland," says Neil Kirk, an associate in Knight Frank's valuation and advisory team in Edinburgh.

Kirk points out that institutional investors are also becoming more alert to the opportunity BTR in Scotland offers. Last year Aberdeen Standard invested £27.5m in a 113-unit BTR scheme at Lochrin Quay in Edinburgh. And in January, Legal & General agreed to forward-fund Drum Property Group's 324-home BTR development at Buchanan Wharf on Glasgow's riverfront. The project is anchored by Barclays, which has taken a 470,000 sq ft office campus in the mixed-use development.

Funding source

In a further sign of confidence in the market, in April, Sigma Capital Group launched the £43m Sigma Scottish PRS Fund to focus on forward-funding BTR development in Scotland. The fund may help to bring forward some of the schemes that have planning approval and are ready to go, Kirk says.

"It's a start toward covering all geographies and pricing," Kirk says of the fund, which is the first fund dedicated to BTR in Scotland and is hoped to bring forward more than £40m in new assets per year. "Once that starts coming on board, I think people's perceptions of BTR might change," he adds.

Others, like William Scarlett, founder of Scarlett Land and Development, also note the "much richer mix of funds and private equity hunting for BTR opportunities in Scotland".

However, some have doubts about BTR's potential in Scotland. Andrew Woodrow, associate at planning and design consultancy Barton Willmore in Glasgow, says it is too early to tell whether schemes will work. "We know a number of consents are in place, but [there is] still limited evidence on the ground, from what we can see and hear, to demonstrate that BTR or PRS works here," he says.

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Dr John Boyle, Rettie & Co

PRESS CUTTING

Drum Property Group plans to start work soon on a mixed-use scheme, Candleriggs Quarter, which includes 377 BTR units and will, he says, help to show how well the market is developing.

“Hopefully [the scheme will be] a good indicator of BTR activity,” he says. “It’ll give us more evidence to rely on and understand the sector’s place in the housing market.”

Not all are convinced of the viability of BTR in Scotland but with the sector now piquing the interest of institutional investors and thousands of units either planned or approved, it is clear there is appetite.

All eyes now will be on the schemes coming forward – if they prove successful and other developers move in to capitalise on the opportunity, BTR might finally become established in Scotland.