



06 February 2024

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Dear Euan,

Firstly, thank you for providing the Scottish Property Federation with the opportunity to present our views on the progress towards meeting Housing 2040. We welcome many of the aims that Housing 2040 seeks to achieve and many of our members already play a vital role in supplying high-quality, energy efficient homes. That said, delivering Housing 2040 and meeting the supply targets in particular, requires a coordinated approach from both the government and the private sector. We are deeply concerned that the recent budget announcement to cut the affordable housing supply programme by 26% is a step in the wrong direction and will be a significant barrier towards delivering 110,000 new affordable homes by 2032. It appears that the Scottish Government's housing budget policy is not only at odds with increasing the supply of affordable homes but also in our transition to net zero and the requirement to retrofit existing buildings. Below we have outlined some of the key requests for evidence to help inform the inquiry to Housing 2040.

The Scottish Property Federation (SPF) is the voice for the real estate industry in Scotland. We include among our members: property investors, including major institutional pension and life funds; developers; landlords of commercial and residential property; and professional property consultants and advisers. Our members build Scotland's workplaces, homes, shops, schools and other facilities and the infrastructure that serves them. Our industry is therefore a core component of the Scottish economy.

The potential impact of the proposed cuts to the affordable housing supply programme budget

As mentioned, we are disappointed by the cut to the affordable housing supply programme. It is difficult to understand how we intend to meet the supply targets set in Housing 2040 when affordable housing provision has not been prioritised in the most recent budget.

We are concerned that the proposed cuts will limit the ability for housing associations to have the funds needed to bring forward development, thus reducing the supply of affordable housing. The cuts also

pose a knock-on effect in the private sector, where certain schemes combining affordable, private for sale (and other tenures such as PRS) could be delayed until funds can be unlocked for the affordable supply side. It is possible that whole sites may be at risk because housing associations and private developers work in tandem to make schemes viable. This would then have the effect of reducing traditional private for sale properties on the market.

Are we building enough homes or bringing enough homes back into use to meet Scotland's current and future housing needs?

No. There is a current lack of supply of homes of all tenures including social, affordable, PRS, private for sale and student accommodation. In the last year, three local authorities declared a 'housing emergency' in response to a serious shortfall in their budget to accommodate a rise in homelessness. Not only are we concerned that local authorities are already insufficiently resourced to accommodate local housing needs, but the new housing budget cut poses a further threat to achieving the supply aims of Housing 2040. For example, in 2020, the Edinburgh Poverty Commission recommended that the City of Edinburgh Council double its housing plan to build at least 2000 new social homes every year for the next ten years. Since then, the actual completion rate of new build social housing has been 694 (in 2020), 245 (in 2021), 453 (2022) and 185 (in Q1 & Q2 of 2023) which is significantly below the targets outlined by both the Edinburgh Poverty Commission and the Council. Compounded by this, is increased regulation of the PRS market and the uncertainty around the future of rent control policy which means that emerging housing tenures like BTR - which have great potential to address the availability crisis by supplying largescale numbers of quality new green homes on brownfield sites – are yet to properly take off. As we speak there is an estimated £2.5bn of investment in BTR and Mid-Market Rent assessed at being at risk of being diverted away from Scotland, or changed to alternative forms of the built environment, or put on hold. There are nominally [17,000 BTR homes](#) in the Scottish pipeline but there is no guarantee they will be delivered due to the uncertain policy environment. The government must work in collaboration with the private sector to make the country a more attractive place to build homes of all tenures, or we risk losing investment to other areas of the UK. At the same time, there is growing evidence to suggest a shrinking of the more traditional buy to let sector who also provide an important role in the provision of housing. [Recent data](#) shows Scotland is the only UK nation where the proportion of landlords selling off has risen, from 10% in 2022 to 12% in 2023. A reduction in the number of rental properties is likely to undermine rental affordability and reduce choice in the market which contradicts the aims of Housing 2040.

Are we building homes with a focus on placemaking?

Place-making' is already heavily enshrined within national planning policies, most notably in the new NPF4 – 'Local Living and 20 Minute Neighbourhood' planning guidance and is also an overarching principle within local development plans. Developers are therefore obliged to ensure their plans complement the principle. In addition, developer contributions play a crucial role in supporting the wider placemaking initiative where developers already heavily invest in local infrastructure, improvements to the public realm and affordable housing. The types of developments that our members seek to build

vary but we can offer examples of how the ‘placemaking’ principle is a key facet to their projects. Most notably is the Build-to-Rent model which provides large scale, high quality, and convenient city centre living. The BTR model aligns well with placemaking principles as they are highly sustainable developments that provide a wealth of amenity space and help to foster a sense of community. Pension funds are often key investors of BTR who seek predictable and steady returns to support their fund mandates. As a result, they have a strong incentive to maintain the quality of their building and there is a real willingness to ensure their developments continue to be located within vibrant, inclusive, and functional surroundings. Co-living and purpose-built student accommodation (PBSA) provide similar high-quality living standards, offering a variety of onsite amenities and social spaces. It is important to recognise the wider contribution that these developments will bring, such as increased footfall within the area and cultural vibrancy. It will be important to ensure that the necessary social infrastructure is delivered to support city living if we are to realise the full potential of revitalising our town and city centres for residential purposes.

Are we creating and sustaining a mix of housing that is financially and physically accessible to all?

We fundamentally believe that we must increase housing of all tenures to improve affordability and so renters and buyers have choice within the market. However, we are concerned that there is a current lack of supply across all housing types including social, affordable, the private rented sector and private for sale. A lack of supply coupled with recent legislation in the PRS market has undoubtedly created an affordability crisis with rents having recently reached a record high in Scotland. Therefore, we acknowledge that currently housing is not affordable for all. Increasing the supply of housing is the best way to put downwards pressure on rents. As previously mentioned, we ask that the Scottish government to create policy certainty to make Scotland a more attractive place for investment to ensure we can meet our housing needs. It is also important to recognise that we need diversity in the housing market so we can offer people suitable choice. The provision of new PRS housing developments such as BTR is likely to be set at the prevailing current market rate and therefore while it may not be suitable for those on lower incomes it is an increasingly attractive option for young professionals seeking to live in our city centres. According to our own in-house report, [‘Who Lives in Build-to-Rent’](#), BTR rental values in England tend to align with the rest of the PRS where the most common income band for renters in BTR is £26,000 to £31,999.

We believe there is already strong planning and building regulations in place to ensure homes meet an accessible standard. This is particularly the case for the affordable housing sector where developments such as mid-market rent and new supply shared equity housing must meet the ‘housing for varying needs’ criteria. At times, the legislation is overly perspective, and must be balanced against the costs. We highlighted these concerns in a recent consultation on the accessible homes standard in December 2023.

Are we building homes and retrofitting existing homes to provide for affordable warmth and zero emissions?

Our industry acknowledge that we must take action to ensure that our homes are energy efficient to facilitate our transition to net zero. It is encouraging to see the impact of the Warmer Homes Scotland scheme which has benefitted over 5,311 homes between 2021 and 2022. But considering there are over 2.7 million homes in across Scotland, the programme requires significant upscaling if we are to make any radical impact. In addition, the recent cut to the fuel insecurity fund from £21.8m to £1.7m shows a lack of prioritisation by the government to tackle fuel poverty – a key aim of Housing 2040.

We are also concerned with the lack of guidance and financial support by the government for the private sector to meet the newly proposed minimum energy standards in the PRS sector by 2028 and for owner-occupiers by 2033. With technology developing to enable heat network expansion, there are outstanding questions over the financing and distribution of costs. It is unclear who is expected to cover the connection costs or indeed who will finance the local heat network. In the meantime, higher unit prices on electricity compared to gas do little to incentivise this transition. Our members have also highlighted the wider impracticalities of retrofitting older buildings such as the difficulty in connecting tenement blocks to a heat network and installing insulation. Concerns also remain over the skills and resourcing of the sector where members have reported instances of exchanges having cracked due to poor installation. This also raises the question of whether there is simply enough skills and capacity within the construction sector to accommodate an influx of homes required to be adapted to meet the energy efficiency standards within the next four to nine years.

At the same time, we are concerned that overheating is not considered where fabric upgrades have reportedly led to cooling problems. Our members are increasingly being contracted to find cooling solutions to developments, particularly in the non-domestic sector.

Are we ensuring that new and existing homes are safe and of a high quality?

As mentioned, our members are heavily involved in Build to Rent where the value of the Scottish BTR pipeline is estimated by [Rettie & Co](#) to be “around £4.5 billion based on pipeline size, average rents and approximate cap rate”. BTR tends to be developed for a long-term investment so there is an incentive for operators to maintain high tenant satisfaction. Thus, a core tenant of the BTR model is to provide a high-quality resident experience where there is a strong focus on tenant retention and community building. Each rental unit comes fully furnished to a high standard where an average of 11% of floorspace is given over to other amenities. Our recent report, ‘Who Lives in Build-to-Rent’ noted that over 75% of schemes provide a garden or roof terrace and popular amenities include concierge service (60%), a social / events calendar (55%), coworking spaces (40%), gym (40%) and residents lounge (40%). The quality of the schemes can be reflected in the positive tenant testimonies referenced in our report as well as in the proportion of those who renewed their tenancy which is an average of 53% (UK wide). A key difference of BTR compared to the more traditional PRS market is that schemes are professionally managed and have onsite staff who are readily available and well-equipped to address



maintenance, groundskeeping, and any safety/security issues that may arise. The property management strategy is a key component of the BTR model, which contributes to the convenient, hassle-free living that makes this tenure an increasingly popular option.

Thank you for providing us with the opportunity to present our views.

Kind regards,

David Melhuish

Director,

Scottish Property Federation
