

<b>MEETING BETWEEN KEVIN STEWART, MINISTER FOR LOCAL GOVERNMENT AND HOUSING GRAHAM BARNET , CHIEF EXECUTIVE, SIGMA CAPITAL</b>	
<b>TIMING</b>	20 September 2018 15:00-15:45 Parliament Room T4.44
<b>ATTENDEES</b>	Graham Barnet, Chief Executive, Sigma  Andrew Bruce, Scottish Futures Trust  <u><b>Official Support</b></u>  [REDACTED], Financial Innovation Unit, More Homes [REDACTED]
<b>AGENDA</b>	Single item agenda to discuss the potential for Suburban Build to Rent developments within Scotland.
<b>YOUR MAIN OBJECTIVE</b>	Mr Stewart requested the meeting with Graham Barnet during a meeting with officials to discuss his summer tour visits to Build to Rent developments in Liverpool which included a visit to Sigma Capital's suburban BtR development at Norris Green  This meeting will allow the Minister to gain further insight into the existing suburban BtR market in England and its potential growth within Scotland.  <u><b>Key Message:</b></u> The SG, working closely with industry, is supporting the growth of Build to Rent in Scotland to encourage economic growth and increase quality of choice for private rent tenants.
<b>PRACTICAL ARRANGEMENTS</b>	N/A

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Cabinet Secretary for Communities and Local Government Cabinet Secretary for Finance, Economy and Fair Work					<ul style="list-style-type: none"> <li>•</li> <li>•</li> </ul>
Director for Housing and Social Justice Deborah Smith Katherine Peskett [REDACTED] [REDACTED] [REDACTED] Callum McCaig Jeanette Campbell DG Education, Communities & Justice Communications CSSE [REDACTED] [REDACTED] [REDACTED]					

<b>ITEM 1</b>	<b>Potential for Suburban BtR Developments in Scotland</b>
<b>ISSUE/ BACKGROUND</b>	<p>Sigma has delivered 4,500 family homes across all tenures in partnership with local authorities and investment partners. Sigma has also, as part of the overall regeneration of its schemes, delivered community facilities and 8 schools.</p> <p>Sigma has partnerships with institutional funding, house builders and local authorities and has some key funding arrangements (detailed in Annex A) that has created the potential for Sigma to deliver a further 20,000 new homes.</p> <p>Sigma's head office is in Edinburgh and they are showing interest in developing in Scotland.</p> <p>Gwynn Thomson, the Property Investment Director at Sigma attended the PRS dinner in Edinburgh on the 11<sup>th</sup> September.</p> <p>They have had a number of discussions with housebuilders in Scotland as potential partners, as well as some high level discussions about a possible investment from SG through the Building Scotland Fund. They are aware of a number of possible sites.</p> <p>Unlike with city centre flatted BtR, (where it is important for developers to understand Local Authority's emerging planning approach for a new sector in order to bid for land) Sigma's housing is the same as 'For Sale' stock by housebuilders and therefore tends to be uncontroversial in planning terms. However there is also the opportunity for Local Authorities to use family BtR to regenerate difficult localities by partnering with Sigma. We do not believe that any such conversations have taken place to date in Scotland.</p>
<b>WHAT THE STAKEHOLDER MAY SAY/ASK</b>	<ul style="list-style-type: none"> <li>• Does SG have any concerns about this product in Scotland?</li> <li>• Does SG see a role for family BtR to play a role in regeneration in Scotland?</li> <li>• What is the availability of the Building Scotland Fund investment to support their development plans in Scotland?</li> </ul>
<b>KEY MESSAGE(S)</b>	<ul style="list-style-type: none"> <li>• SG continue to support the growth of Build to Rent in Scotland, which includes this more family focussed product, to encourage economic growth and increase quality of choice for private rent tenants.</li> <li>• That these sites demonstrate regeneration and focus on placemaking.</li> <li>• Current and ongoing affordability for the target tenants.</li> </ul>
<b>SUGGESTED QUESTION(S)</b>	<ul style="list-style-type: none"> <li>• What difficulties do you see in trying to deliver your product in Scotland?</li> <li>• Are you currently looking at any active development sites?</li> </ul>

	<ul style="list-style-type: none"><li>• When realistically do you think you could start on development in Scotland?</li><li>• Do you have any development partners intended for Scotland?</li><li>• How do you go about managing affordability within your schemes and will this be the approach taken in Scotland?</li></ul>
<b>CONTACT POINT</b>	[REDACTED], Financial Innovation Unit, More Homes [REDACTED]

## **ANNEX A ADDITIONAL BACKGROUND INFORMATION**

### **Suburban Build to Rent**

- The suburban build to rent market has emerged in England within the past 5 years – targeting tenants who are economically active but who cannot afford, or do not want, to own their own house yet still want to establish a permanent base.
- This type of tenure has proven to be in high demand in England and could play an important role in addressing the shortage of housing in Scotland.
- Suburban BtR has a lower density of build (generally houses rather than flats) and would therefore tend to target sites that are within 10 miles of major centres of employment with good transport links and local schools.
- In Scotland the suburban BtR market could potentially have applicability on large housing sites in areas such as the Lothians, Glasgow and Aberdeenshire.

### **Sigma Capital**

- Sigma Capital was the first Suburban BtR developer.
- Under their DifRent brand they developed around 1,000 2, 3 and 4 bedroom new build family houses - at market rents circa £600, £700 and £800 pcm respectively – across Merseyside and Greater Manchester.
- The biggest project for Sigma is the Norris Green development in Liverpool which delivered circa 829 units (394 for sale, 214 for social rent and 221 family BtR).
- Sigma recently established a London listed Real Estate Investment Trust (REIT) to be the long term owner (and therefore landlord) of the suburban BtR properties that they develop.
- This was the first REIT which specialised in residential family property (rather than commercial). Homes England provided an upfront £25m commitment to the REIT (using Financial Transactions) and a further £5m in March 2018. In addition they have also lent Sigma £45m in a debt revolving credit facility (again from FT's) to finance the upfront development of the houses before they are sold to the REIT. Sigma have indicated that the support from the UK Government was influential in persuading institutions to back the new venture.
- By investing £75m of equity and debt at commercial rates of return, Homes England have levered £470m of private sector equity and £200m of private sector debt towards the building of more homes for working families. This has created a substantial number of new jobs both directly in construction and indirectly in the supply chain and local services.

- The sales rate per site for new build houses in Scotland (including with Help to Buy) is on average 1 unit per week, hence annual sales tending to be no more than 50 houses. Demand levels in England show that with suburban BtR the rate of occupation is on average five times this speed.
- As part of the tenure mix on large housing sights, suburban BtR can potentially accelerate the establishment of new community/place and assist in improving the sales rate for Build for Sale properties and associated s.75 Affordable Housing Provision on these sites.
- Previous high level discussion has taken place between Sigma and SFT to determine what prevents them from operating in Scotland the same way as in England. The following key requirements were identified:
  - Support from key Local Authorities;
  - Support from Scottish Government;
  - A developed relationship with one or more at scale Scottish Housebuilders (although one of Sigma's main existing housebuilding partners, Keep Moat, do operate in Scotland).
- As a result of these discussions representatives from Glasgow and Edinburgh councils visited Sigma sites in Greater Manchester and Merseyside. Further early engagement has taken place between Edinburgh Council and Sigma and is also expected to do so with Glasgow.