

# HOUSING NEED AND ASPIRATION: THE ROLE OF MID MARKET RENT

A summary of research findings and points for  
consideration by the housing sector



**Wheatley**  
Group



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## ABOUT THE RESEARCH

This research was commissioned by CIH Scotland in partnership with Wheatley Group in order to better understand some of the strategic drivers behind the development of mid market rent (MMR) housing. The project sought to better understand people's perception of MMR, whether MMR might be an attractive option for a wider range of customers, such as young people, older people or families, and how it fits with wider strategic housing goals.

This summary document sets out some of the key findings followed by more details of the research and methodology. Points for discussion arising from the research are listed at the end. This document is not a definitive guide to MMR in Scotland but provides a useful starting point for housing organisations thinking about developing or expanding their MMR offer.



## FACTS, FIGURES AND KEY FINDINGS FROM THE RESEARCH

### Current supply and customer base

- It is estimated there are currently between 3,000 and 4,000 MMR homes across 21 local authority areas in Scotland.
- The most common property type is a two bedroom flat.
- Typical MMR tenants are single people or couples with modest household earnings, between £20,000 and £30,000.

### Potential for MMR offer to other groups

- There is potential demand for MMR from more families but only if the development model can deliver family sized homes that are affordable.
- It is less clear whether there could be significant demand for MMR from older people, particularly homeowners who may be reluctant to return to renting.
- However, MMR was seen as a potentially attractive option for an older person or couple looking to move for health reasons but facing a long wait for social housing or another suitable alternative.
- MMR would not be an affordable option for many of the young people who took part in the research.



### What do current tenants think about MMR?

- Most current tenants who took part in the research said that they ended up in MMR by chance and considered themselves '*lucky*' to have '*stumbled across*' it.
- Most did not have a clear idea of what MMR was before making enquiries and some were confused about the type of tenancy being offered. This highlights a need for better training for housing staff, information sharing and referrals through the Housing Options routes.
- When asked what MMR should be like, 68% of respondents said they would want a landlord who delivers good repairs and maintenance. The next most important factor was security of tenure (62%) and having a landlord that deals promptly with neighbour disputes (61%).
- When asked to comment on different scenarios, MMR was perceived as a particularly attractive option, a 'no brainer', for a young family renting privately but who could gain more space by moving into MMR for the same price.

### What do potential future tenants think about MMR?

- 86% of people surveyed had never heard of MMR. The remainder had heard of it but didn't know anything about it.



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## HOUSING NEED AND ASPIRATION: THE ROLE OF MID MARKET RENT

This research has improved our understanding of the provision of MMR housing across Scotland, particularly around the consumer aspects of MMR. Opinion has been sought from the current customer base on their experience of MMR, and from potential customers and the wider public on their perception of the product.

Estimates of demand have been established for four key market areas in the central belt of Scotland to consider the potential for expanding MMR to different customer groups such as families and older people. The work has concluded on MMR's place within housing strategies and has identified areas for potential change in policy, and its application.

A range of research methods were used including a literature review, secondary data analysis, stakeholder consultation, and market research with 16 current MMR tenants, a telephone survey of 100 potential customers, and three focus groups. The three customer segments of interest were young people in private renting, families in private renting and older outright owners in housing need.

## THE RISE OF MMR IN SCOTLAND

The supply of MMR has increased rapidly over the past decade in Scotland (to December 2015), encouraged through Scottish Government policy and funding. The growth in MMR coincided with a period of decrease in new supply of social rented housing. Accurate numbers on total MMR supply are difficult to establish, but it is likely there are between 3,000 and 4,000 units over 21 Scottish local authority areas. The greatest supply is in Edinburgh, followed by Glasgow, Fife and Highland.

Supply of MMR has been driven by eligibility rules - usually working households, and minimum and maximum household income thresholds which vary by local authority and supplier, but are typically between £15,000 and £36,000. In practice, the product has been focused towards single people and couples with no children, with household incomes of between £20,000 and £30,000.

Most MMR properties are two bedroom flats. A much lower proportion of MMR households are single parent households and older people compared to the social rented sector, and MMR tenants most commonly come from the private rented sector, and at a much higher rate than is found amongst social rented tenants.

## IS THERE A MARKET FOR MMR FOR FAMILIES AND OLDER PEOPLE?

Based on the market research with prospective customers, the key demand groups for MMR are (most likely first):

- Couples, single people and families currently in private renting, but waiting for a move to social renting – their drivers are affordability, better quality and bigger size (for families)
- Couples and families looking for a move within social renting – looking for a different sized home, a different location, or a new build quality home
- Young single people or couples, moving from the parental home to owning but looking to rent on the way, although this group may equally chose to stay at home to save for their deposit. A potential alternative to MMR for this group is rent to buy products, of which there are very few on offer in Scotland but are more common place in England
- Young single people living in social renting either with their parents or independently – but MMR is unlikely to be affordable for most of this group.

Opinion from MMR developers and consumers, and evidence from the demand estimates, all point to demand for MMR from families assuming the right product, place and price relative to other options. However, there are tensions around minimum and maximum income thresholds, and the affordability of MMR for families relative to other options.

For example, a maximum household income threshold of £36,000 could act as a barrier to family households where both adults are earning low to moderate incomes which takes them slightly above this threshold, and so excludes them from MMR.

There are affordability questions around MMR for larger properties: comparing average MMR rents and household incomes at 25% gross household income ratio, MMR is generally affordable for smaller properties, but not for the most expensive 3-bedroom and 4-bedroom properties, which in some markets require incomes of up to £40,000 to be affordable.

At the same time, wider market analysis shows that at this level of income, it is usually possible to find a private rented option that is affordable in most areas of Scotland: the key issue is whether families can find the right size, type and quality of rented housing at an affordable price. MMR for families could fill this gap, but in more pressured markets there is likely to be a continuing tension between development feasibility and affordability for tenants.

The research has found that the MMR market for older people is less clear. Older owners in housing need looking to downsize, or find something more suitable for their needs, are more likely to be aligned to equity release products, whether shared equity or shared ownership. There is a generally held view from consumers that renting in later life after home ownership is *'a backward step'*.

While the attachment to home ownership at different life stages may represent a significant barrier to the idea of MMR, some older people are more open to renting where there are clear benefits of a more comfortable, safe and easier life.

There may therefore be a small, niche MMR market from existing older renters, including those who cannot wait any longer for a more suitable social rented home that meets their needs, and those who see the benefits of someone managing their property as they become less able.

The market research found that locational drivers, and preferences for social renting are potential barriers to MMR – a sizeable proportion of people surveyed stated that they would not move location, and would continue to *'just wait for social housing'*.



Overcrowded families and older people in housing need that are already renting have less faith that the social rented sector would provide the right option, and so were more supportive of MMR as a solution to housing needs. But younger people living with their parents and waiting for social housing were more supportive of a *'sit-tight'* approach, since they generally admitted that staying with their parents was a good interim option and that they *'knew which side their bread was buttered'*.



## OPINION FROM CURRENT MMR TENANTS

In exploring current MMR tenants' experience of MMR, it was found that there had been a general lack of awareness of MMR, with people feeling *'lucky'* to have *'stumbled across it'* as an option, often by passing a new build development under construction. This confirms the infancy of the tenure, but also the need for better training for housing staff, information sharing and referrals through the Housing Options routes.

The key attraction to MMR from consumers is access to quality rented housing for working people. Many of the consultees were clear about the distinction around working households, and mixed tenure MMR developments with social rented housing caused some dissatisfaction for a few, but not all tenants.

MMR tenants stated that they had made a trade-off between quality and affordability when choosing MMR. They emphasised the value for money arguments, revealing that MMR is not necessarily the cheapest, or most affordable renting option. But they consider it as good value for money when taking into consideration the new build quality and the management services compared to most private renting options. One tenant encapsulated the views of many MMR tenants summarising it as the *'best of all worlds'* – combining the best of private renting and social renting.

Most current MMR tenants had either come from private renting, or had been looking at private renting as a housing option when they found their MMR home. This confirms the view from MMR providers that this product requires private rented sector service approaches, with experiences revealing significant learning curves and culture change required to shift RSL service approaches for their MMR offer. It cannot be assumed that a social rented sector management approach will attract or satisfy MMR tenants.

The perceived security of tenure is also a key feature for MMR tenants, whether this is misunderstood as real security of tenure, or understood as institutional security of tenure afforded through the professional status and ethos of the provider which is most often an RSL subsidiary. Half of current MMR tenants see this as a long term home and half as a stepping stone to ownership later, confirming the potential of the rent to buy market.

## LESSONS AND LIMITATIONS IN FUNDING, VIABILITY AND ALTERNATIVE MODELS

A strong theme coming from MMR developers is the limitations of the approach for pricing MMR by the Local Housing Allowance (LHA). The argument is that the LHA is not sufficiently nuanced for local markets, and so can limit development viability.

There are calls to move to Broad Market Rental Areas (BMRAs) or other local alternatives that are agreed between the developer and local authority. The counter to this argument is around affordability – this research has found that rents based around LHA are affordable for most sized properties at 25% ratio, and moving to potentially higher rents could compromise this affordability, and the Scottish Government's policy to ensure that MMR is an affordable tenure. One solution identified to ease the tension between viability and affordability would be to increase grant rates for MMR.

A similar theme was identified by developers and strategists around the 'hard' application of minimum and maximum income thresholds, typically £15,000 to £36,000. At the higher end, developers discussed the limitations this can have for access for some households where two people in the household are working – for example, two key workers earning low £20,000 incomes. At the lower end of the income scale, some argued for greater access to MMR for households on housing benefit. This income debate comes back to the policy intention of MMR, and the efficacy of use of public funds to subsidise housing for people earning up to £40,000 who could feasibly find an affordable solution in the market.

Over the last five years, a range of different MMR models have been emerging, especially off balance sheet and investment models, and those provided by the unregulated sector. This may mean an increasing diversification of funding models away from MMR Housing Association Grant.

Alternative models and providers include LAR Housing Trust, Local Authority Housing Revenue Account and General Fund financed models, grant free and low grant institutional finance funded models. The Scottish Government has recently encouraged this move by inviting prospective MMR providers to submit proposals for expanded MMR provision in Scotland under its "Mid-Market Rent – New Offer" initiative, which is expected to substantially increase MMR supply, funded through a majority of private finance.

However, new models and new players are not risk free as demonstrated by a recent example from QSH aimed at providing affordable housing without grant. Its joint venture with Octopus Investments was wound up by mutual agreement in autumn 2016, with the fund manager stating that it was unable to source a pipeline of development opportunities. QSH is now seeking alternative investment partners.

The Scottish Future's Trust (SFT) sponsored National Housing Trust (NHT) model has delivered a third of the MMR completions to date, mainly in Edinburgh, Fife and Highland.

Discussions with some local authorities show concerns over this guarantee model which requires sale after 5 -10 years, with strong preferences for in perpetuity rental models. This is an area which SFT is exploring for future iterations of the model.

However, despite local authorities' concern over the rent and sale guarantee model, demand estimates and consumers suggest there is a market for rent to buy models, but one which is structured with a deposit saving scheme to enable renters to move to ownership in a planned way.

## THE FUTURE ROLE OF MMR IN LOCAL HOUSING STRATEGIES

The key areas for further consideration by local authorities, Scottish Government and MMR providers are:

- **MMR viability versus affordability for tenants** – The use of LHA as a pricing mechanism is too crude a tool and does not recognise the nuances of smaller local markets. But there are tensions between development viability and the potential for pushing up rent levels at the cost of affordability. While tenants will make their own value for money judgements over price versus quality, government and developers should not lose sight of the affordability imperative where public subsidy is used.
- **Rent or sale models** – The MMR market is broadly split in two – those who plan to rent for the long term and those that want to buy. There is therefore a distinct market for rent to buy models, with an option of continuing to rent if purchase is not an option, from young households saving for home ownership.
- **Widening the MMR market** - There is potential for family MMR where there are few, affordable alternatives for families in the market, whether renting or ownership. The MMR market for older people is less clear, but may suit those that are currently renting and looking for something more suitable for their needs, with the comfort of a quality service and property management. Older owners are more likely to look to ownership or equity release options.
- **Political support** – The majority of local authorities support the MMR concept, although there are some concerns over the guarantee and sale models. There is scope to share knowledge of the positive role MMR can play in some areas where there has been resistance to the concept, regardless of the potential market, and positive role that MMR can play.

- **Private rented sector competition** – MMR can play many positive roles to increase supply of affordable housing, increase choice of type of housing, and contribute to regeneration. However, using public subsidy to compete directly with the private rented sector could be problematic, and specific guidance should be provided to developers on competition and state aid considerations.

## THE AUTHORS

This comprehensive research was undertaken by Anna Evans, Mandy Littlewood, Regina Serpa and David Ogilvie. The telephone survey was undertaken by IBP Strategy and Research.



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