



Midlothian Council Mixed Tenure Strategy 2024

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1 Introduction

- 1.1 This Mixed Tenure Strategy aims to highlight the affordable housing options available to Midlothian Council, which have the potential to increase the level of affordable housing outwith the existing new build social housing programme. By increasing the housing options available, Housing Services will be able to direct applicants to a variety of tenures more suitable to differing finances and household circumstances other than the council housing waiting list.

2 Local and National Housing Related Policy

2.1 Housing to 2040

In March 2021, the Scottish Government published its first long-term housing strategy 'Housing to 2040'¹ which set an ambition to deliver a further 110,000 affordable homes by 2032, with at least 70% of these for social rent. Meeting this target is ambitious and will require increased investment by the Scottish Government, Local Authorities and Registered Social Landlords and a step change in the pace of housebuilding in order for it to be achieved. The delivery of more affordable housing remains a high priority for Midlothian Council, which is undertaking a further development programme of 1,000 new council houses in Midlothian. In order to increase the supply of social housing in Midlothian outwith the traditional affordable housing programme and increase the housing options available for waiting list applicants, this strategy will examine the other affordable housing tenure options available.

2.2 Strategic Housing Investment Plan (SHIP)

Midlothian's SHIP is the key document for identifying strategic housing projects towards meeting the Government's 110,000 affordable housing target. This document is updated annually to present up to date information on affordable housing investment plans. The latest SHIP² was approved by Council in October 2023 and details the projects either in development or planned by Midlothian Council and Registered Social Landlord (RSL) partners between 2024/25 and 2028/29 and includes potential sites for 2,115 new affordable homes to be built of which:

- 1,885 are general needs homes and 240 are specialist provision homes
- 2,035 will be new build housing and 80 will be Open Market Purchases
- 912 homes will be council housing and 880 will be social rented housing by an RSL
- 14 will be Low Cost Home Ownership – Shared Equity housing by an RSL and 309 will be Mid Market Rent (MMR) housing provided by an RSL.

2.3 Housing Need and Demand Assessment 3 (HNDA 3)

Local authorities are required through legislation to develop a HNDA on a five-yearly cycle, providing an evidence-base for housing policy decisions in Local Housing Strategies and land allocation decisions in Development Plans. The purpose of the HNDA is to estimate the future number of additional housing units to meet existing and future housing need and

¹ [Housing to 2040 - gov.scot \(www.gov.scot\)](https://www.gov.scot)

² [Strategic Housing Investment Plans \(SHIP\) | Strategic Housing Investment Plan 2024/25 - 2028/29 \(midlothian.gov.uk\)](https://midlothian.gov.uk)

demand. Six local authorities came together to produce the South East Scotland HNDA3³ covering the City of Edinburgh, East Lothian, Fife (West & Central), Midlothian, Scottish Borders and West Lothian. The HNDA3 achieved robust and credible status on 28th July 2022 and set Midlothian's Housing Supply Targets for the period 2021 to 2040. Opting for a 'steady growth' scenario set a Midlothian annual housing requirement for 412 affordable housing units of which 279 should be social housing and the remaining 133 should be below market rent.

2.4 Local Housing Strategy 2021-2026

The Housing (Scotland) Act 2001 requires local authorities to prepare a Local Housing Strategy (LHS) for their area. The Midlothian Local Housing Strategy 2021 – 2026⁴ is the sole strategic document for housing and sets out the key issues to be addressed across all tenures to improve access to housing and housing conditions. Relevant mixed tenure key actions within the LHS include:

- Support the development of Mid-Market Rent units and undertake further polling measuring attitudes to MMR and demand in Midlothian
- Investigate extra provision of specialist housing via remodelling existing provision which could be developed by the public or private sector

It is important to note that as part of the LHS consultation sessions held in Winter 2020/21 Midlothian residents and stakeholders were asked to prioritise key housing issues for the strategy. 72% of respondents wished to prioritise the development of Mid-Market Rent properties.

2.5 Rapid Rehousing Transition Plan (RRTP)

The RRTP⁵ sets out our strategy for reducing homelessness through the rapid rehousing transition process which prioritises homelessness prevention in the first instance but if it occurs, providing households with appropriate settled housing as quickly as possible. Relevant mixed tenure key outcomes within the RRTP include:

- Achieving a significant increase in the supply of affordable housing is key to providing homeless households, and others in housing need, with a settled housing outcome as soon as possible. The low supply of affordable housing has been the biggest contributor to issues such as the length of time taken to close a homeless case and lengthy periods spent in temporary accommodation.
- Maximising the opportunities to prevent homelessness from occurring, and for homeless households to have access to the widest choice of housing options.

Housing Statistic

Midlothian's Housing Supply Targets for 2021 to 2040: 412 affordable housing units per annum of which 279 should be social housing and the remaining 133 should be below market rent.

³ [SES Regional Planning — The Edinburgh and South East Scotland City Region Deal \(esescityregiondeal.org.uk\)](https://esescityregiondeal.org.uk)

⁴ [Housing strategy and performance documents | Midlothian Local Housing Strategy 2021-2026](#)

⁵ [Rapid Rehousing Transition Plans | Rapid Rehousing Transition Plan 2023/24 \(midlothian.gov.uk\)](#)

3 Local Housing Context

This chapter examines the current Midlothian housing context including the demand for affordable housing, the supply of affordable housing and a number of housing projects and strategies which seek to increase the number of affordable housing units available and reduce the number of people on housing waiting lists.

3.1 Housing Tenure in Midlothian

The most common housing tenure in Midlothian is owner occupied housing (67%) followed by social rented housing by the council or housing association (24%). In addition, private rented homes comprise 8% of housing tenure⁶.

3.2 Social Housing Demand

An analysis of social housing in Midlothian shows:

- There are 7,272 Council homes in Midlothian⁷. The majority of stock has 2 bedrooms (3,951 units), followed by 3 bedrooms (1,944 units). There are fewer 1-bedroom homes (1,042 units) and properties with four or more bedrooms (335 units).
- There are currently 3,489 RSL properties in Midlothian. Table 3.1 below, shows how many properties each landlord has.
- One- and two-bedroom properties are most in demand on the council housing waiting list; 19% of applicants are waiting for one bed homes, 64% of applicants are waiting for two bed homes, 12% of Housing List applicants require 3-bedroom homes and just 5% need a 4-bedroom home⁸.
- The number of households on Midlothian Council waiting lists has increased from 3930 in 2021 to 4237 in 2022 and to 4468 in 2023. This is an increase of 13.6%.
- The number of homeless applications received by Midlothian Council has risen sharply from 438 in 21/22 to 576 in 22/23 which is an increase of 32%⁹.
- The annual number of homes let by Midlothian Council has increased from 359 in 20/21 to 431 in 21/22 to 475 in 22/23. Leases to new build properties accounted for 108 of this figure which evidences the very low turnover of existing housing stock (5%).

Table 3.1: Number of Registered Social Landlord (RSL) properties in Midlothian¹⁰

Registered Social Landlord (RSL)	Number of properties
Melville Housing Association	2017
Castle Rock Edinvar Housing Association	1075
Bield Housing Association	116
Dunedin Canmore Housing Association	164
Trust Housing Association	35
Viewpoint Housing Association	34
Blackwood Housing Association	23
Link Housing Association	20
Ark Housing Association	5

⁶ [Supporting documents - Scottish Household Survey 2022: Key Findings - gov.scot \(www.gov.scot\)](https://www.gov.scot/resources/documents/2022/04/Supporting_documents_-_Scottish_Household_Survey_2022:_Key_Findings_-_gov.scot)

⁷ Internal statistics January 2024

⁸ Midlothian Pressure Analysis 2022/23

⁹ Midlothian Council HL1 data 2022/23

¹⁰ Scottish Housing Regulator January 2024

3.3 Affordable Housing Development in Midlothian

Table 3.2 shows the level of investment in new affordable homes in Midlothian since 2006 (when the Council began building new homes again). It shows that 1,360 council homes have been provided, and a total of 1,861 council and RSL affordable units have been built overall. The investment and supply of new social housing has continued for almost twenty years whilst demand continues to rise. It should be noted that these figures report completions by calendar year up to December 2022 and don't include open market purchases or shared equity purchases.

Table 3.2: New Affordable Housing in Midlothian since 2006¹¹

Year of completion	No. of completed Council units	No. of completed RSL units (Social Rent and Mid Market Rent)
2006	0	19
2007	28	12
2008	172	42
2009	237	10
2010	88	20
2011	160	33
2012	170	121
2013	76	6
2014	0	20
2015	48	0
2016	41	28
2017	87	0
2018	0	103
2019	10	39
2020	31	0
2021	90	48
2022	122	0
Total	1360	501

¹¹ [Housing statistics quarterly update: new housebuilding and affordable housing supply - gov.scot \(www.gov.scot\)](https://www.gov.scot/housing-statistics-quarterly-update-new-housebuilding-and-affordable-housing-supply)

3.4 Midlothian Council Rent Setting Strategy 2023/24 – 2025/26

The Rent Setting Strategy¹² introduced a 4.8% rent increase per annum for 2023/24 – 2025/26. This will support current investment in new social housing and existing stock as well as providing additional investment of £77.640 million for a further phase (phase 5) of New Social Housing of approximately 300 properties. Any additional council new build projects which are not currently budgeted for will require additional funding.

3.5 Open Market Purchase Scheme

This scheme¹³ allows Midlothian Council to purchase ex-local authority properties which were sold under the Right to Buy scheme and return them to council housing stock. This increases the number of council homes by approximately 16 per year.

3.6 Wheelchair Accessible Housing Targets 2022/23 – 2026/27

Setting wheelchair accessible housing targets was a required action of the Midlothian Local Housing Strategy 2021 – 2026. In 2022 Midlothian Council set targets to ensure a set number of properties would be built which would ‘as a minimum comply with the design criteria indicated as a ‘basic’ requirement for wheelchair users, as outlined in Housing for Varying Needs (HfVN)’¹⁴. In order to address constraints within the private sector the wheelchair accessible housing target was set over a five-year period; 100 homes will be built between 2022/23 and 2027/28 with 50% to be supplied by both the social and private sectors. This mixed tenure strategy will examine other sources of wheelchair accessible homes outwith the existing council new build programme.

3.7 Private Rented Sector (PRS)

In Midlothian only 8% of housing is provided by the private rented sector which is lower than the Scottish average (13%¹⁵). The Scottish Association of Landlords (SAL)¹⁶ has suggested that the availability of housing in the private rented sector may be declining as an unintended result of the Cost of Living (Tenant Protection) (Scotland) Act 2022 which introduced a temporary rent cap and a temporary moratorium on the enforcement of evictions until March 2024.

Midlothian’s proximity to Edinburgh is an issue for the private rented sector; Midlothian is in the same Broad Rental Market Area as Edinburgh and East Lothian and as such has the same Local Housing Allowance (LHA) rates. The Local Housing Allowance sets the maximum weekly Housing Benefit a private tenant can claim and as the LHA rate is the same in Edinburgh and Midlothian, many Midlothian landlords set rent levels which are on par with those in Edinburgh. The average rent in the Lothian Broad Rental Market Area in 2023 was £1,192 per month, the Scottish average was £841.

Table 3.3 below illustrates the average current rent levels in the private sector in Midlothian; a flat with two bedrooms has an average rent of £909 per month whilst a house with three

¹² [Housing strategy and performance documents | Midlothian Council Rent Setting Strategy 2023/24 - 2025/26](#)

¹³ [Open Market Purchase Scheme | Midlothian Council](#)

¹⁴ [Wheelchair accessible housing target: guidance note: MHDGN 201902 - gov.scot \(www.gov.scot\)](#)

¹⁵ [Supporting documents - Scottish Household Survey 2022: Key Findings - gov.scot \(www.gov.scot\)](#)

¹⁶ [Coalition steps up court fight over rent control and eviction ban - Scottish Association of Landlords \(SAL\) \(scottishlandlords.com\)](#)

bedrooms has an average monthly rent of £1360. Overall, the average rent for a private rented sector property in Midlothian is £1245 per month.

Table 3.3: Average PRS Rents in Midlothian¹⁷

Property type	1 Bedroom	2 Bedrooms	3 Bedrooms	4+ Bedrooms	Average rent
House	N/A	£1055	£1360	£1945	£1453
Flat	£746	£909	£1180	£1318	£1038

This contrasts with the equivalent rent for new Council properties since the 4.8% uplift in rents in 2022, which are as follows:

Table 3.4 Midlothian Council rent new builds

	1 bed	2 bed home	3 bed home	4 or more bed
Average weekly rent (2 bedroom)	£89.12	£102.77	£110.47	£115.76
4 weeks rent	£ 356.48	£ 411.08	£ 441.88	£ 463.04

This highlights a significant rental gap of, for example, circa £500 between the rent for a PRS 2 bed flat and the rent for a 2 bed Council new build.

As a result of low stock numbers and high rent, the Private Rented Sector in Midlothian only supports a small proportion of households to access housing and even lower numbers to help alleviate homelessness adding further pressure onto the demand for affordable housing.

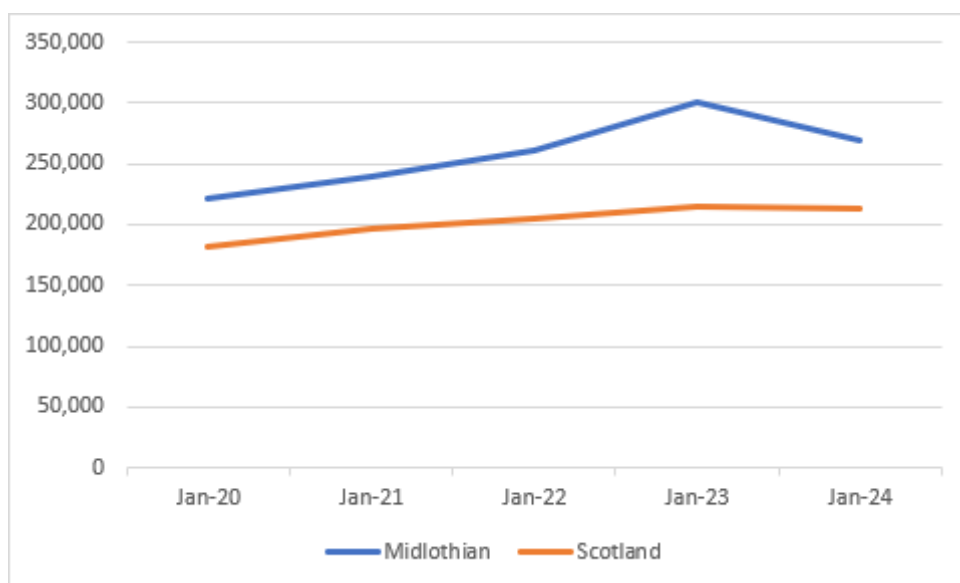
3.8 Owner Occupied Housing

In January 2024 the average price of a property in Midlothian was £268,754 whilst the average price in Scotland was £213,446^[1]. Chart 3.1 below details the average house prices in Midlothian and Scotland between January 2020 and January 2024. It illustrates that prices were generally parallel until January 2022; Midlothian's average house prices were higher but were increasing at a similar ratio to those nationwide. Between January 2022 and January 2023 the average price of a property in Scotland rose by 4%, in Midlothian it rose by 15%. Whilst the average house price in Midlothian has since decreased by 12%, they are still 26% higher than the Scottish average.

¹⁷ Source internal monthly data gathering from Zoopla Jan-December 2023

[1] [House price statistics - Registers of Scotland \(ros.gov.uk\)](https://ros.gov.uk)

Chart 3.1: Average house prices in Midlothian and Scotland



Midlothian's private housing market does not represent an affordable alternative for waiting list applicants. Table 3.4 contains the financial data incurred from purchasing a property at both the average Midlothian house price and a two-bedroom ex council property in Bonnyrigg at home report value ¹⁸and compares this to a gross household income based on a full-time employee who receives the minimum national living wage (£10.42 per hour). It is suggested that when housing costs exceed 30%-35% of a household's income, the cost is judged to be unaffordable.

Mortgages for both properties require a minimum 5% deposit prior to purchase and a £999 product fee and are based on a two year fixed mortgage rate of 5.51%. The former council property would cost £1022 per month which is 61% of the monthly wage whilst the home at the average Midlothian purchase price would cost £1668 per month and therefore more than the monthly wage of someone on the minimum national wage.

¹⁸ [2 bedroom Semi Detached House for sale, Sherwood Terrace, Bonnyrigg, EH19 | £165,000 \(your-move.co.uk\)](https://www.your-move.co.uk) Nov 2023

Table 3.4: Midlothian mortgage affordability calculation

Cost of property	Eligibility deposit required (5%)	Product fee	Monthly repayments	Gross monthly wage	% of monthly wage
£175,000 – 2 bed ex council property in Bonnyrigg	£8750	£999	£1022 ¹⁹	£1667.20	61%
£285,709 – average Midlothian property price	£14,286	£999	£1668	£1667.20	100%

3.9 Conclusion

When considering demand for affordable housing in Midlothian, it is clear that despite a strong affordable new build programme from both Midlothian Council and RSLs in the area, demand is far greater than supply.

The private rented sector is small in Midlothian and as a result of low stock numbers and high rent, the Private Rented Sector in Midlothian only supports a small proportion of households to access housing and even lower numbers to help alleviate homelessness adding further pressure onto the demand for affordable housing.

67% of homes in Midlothian are owner occupied. However, it is becoming increasingly difficult to afford a home to buy as prices in Midlothian rise.

There is a significant gap between the cost of renting a home privately or buying a home and the cost of a Council home available for social rent.

The following chapter will explore a spectrum of intermediate housing options which, if made available and accessible to waiting list applicants, could help to alleviate some of the pressure on existing housing stock.

¹⁹ [Halifax Mortgage Calculator - Online Mortgage Rate Calculator](#)

4 Housing Options – Ownership

There is a range of alternative options for people unable to access social housing provided by Councils and RSLs. These tenures are still classified as ‘affordable housing’ in the National Planning Framework 4 (NPF4) and include mid-market rented, shared-ownership, shared-equity, housing sold at discount (including plots for self-build), self-build plots and low cost housing without subsidy²⁰. Some affordable housing options are for rent whereas some are for home ownership.

Housing Statistic
492 current housing applicants have requested further information on ‘low cost home ownership’ ‘options’ (Nov 2023)

Ownership Options

4.1 New Supply Shared Equity (NSSE)

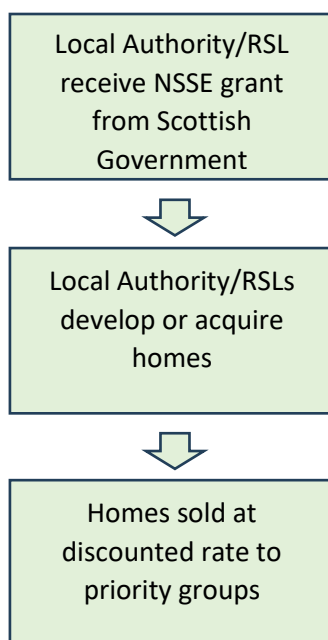
The New Supply Shared Equity Scheme is part of the Scottish Government’s Low-cost Initiative for First Time Buyers (LIFT) shared equity scheme and enables first time buyers and priority access groups²¹ to buy a new build home from a housing association or council without having to fund its entire cost. Potential buyers pay for the biggest share of equity (usually via a mortgage) and own the property in its entirety. The Scottish Government holds the remaining equity under a shared equity agreement. If the property is sold in the future, the Scottish Government receives the shared equity percentage of the sale value e.g. if the owner owns 70% of the share via mortgage and the Scottish Government holds 30% under a shared equity agreement, the Government will receive 30% of the sale value. The scheme is aimed at households on low to moderate incomes, who can demonstrate they can’t buy a new build house to suit their needs without help from the scheme.

New supply shared equity homes can be built by local authorities or RSLs or purchased by local authorities or RSLs at an appropriate discount from private developers with grant support from the Scottish Government. They can then be made available to aspiring home owners as shown in figure 4.1 below.

²⁰ [Annex F – Glossary of definitions - National Planning Framework 4 - gov.scot \(www.gov.scot\)](#)

²¹ [New Supply Shared Equity scheme - mygov.scot](#)

Figure 4.1: New Supply Shared Equity Methodology



One Registered Social Landlord plans to develop shared equity properties in Midlothian. The most recent Strategic Housing Investment Plan contained details of 14 properties in Shawfair which are scheduled to start on site in 2026/27. Midlothian Council has never opted to build properties for shared equity. Doing so could enable some waiting list applicants and current tenants to purchase shared equity homes, reduce waiting list numbers and in some instances, free up valuable council homes as the following priority groups can apply:

- people aged 60 and over
- social renters (people who rent from the council or a housing association)
- disabled people
- members of the armed forces
- veterans who have left the armed forces within the past two years
- widows, widowers and other partners of service personnel for up to two years after their partner lost their life while serving

A list of current New Supply Shared Equity developments in Scotland can be found here:

[Find a project in your area - mygov.scot](#)

When building social housing for general rent, the financial process is relatively simple whereas table 4.1 below, illustrates the Scottish Government's shared equity finance model for the housebuilder. Whilst there are no shared equity grant benchmarks (a fixed amount received per new build unit), the table shows how the grant per property is calculated; the total sales income is generated via the shares sold to homeowners, this is deducted from the total project cost and then divided by the number of units built.

Table 4.1: Scottish Government Shared Equity Finance Model 2023²²

Unit type	No. of units	Market value	Total sales value	Assumed tranche sales	Sales income
3 person/ 2 bed house	2	£147,500	£295,000	65%	£191,750
3 person/ 2 bed flat	2	£137,500	£275,000	65%	£178,750
5 person/ 3 bed house	2	£162,500	£325,000	65%	£211,250
Total unit sales	6				£581,750
Total sales value			£895,000		
Total project cost					£880,000
Total grant required					£298,250
Total grant required per unit					£49,708

Illustration – New Supply Shared Equity

A couple who live in Midlothian have been on the Council’s waiting list for years but have never received an offer of housing. They both work full-time and have a low to medium income but cannot afford to buy a property outright. The couple have heard that a Registered Social Landlord is building homes that will be sold under New Supply Shared Equity arrangement in Midlothian and contact them for further information. They are told that if they qualify, they will be able to purchase between 60-80% of a new home with the remaining percentage of the equity/finance being provided by the Scottish Government. The couple would have complete title to their home and would be responsible for:

- paying the mortgage
- factors costs
- home contents insurance
- building insurance
- repairs and maintenance
- council tax
- heating, lighting and water bills
- fittings and furniture

The couple are aware that if they ever choose to sell the home, the Scottish Government will get a share of the money e.g. if they have a 70% share of the home and decide to sell it, they’ll get 70% of the selling price and the Scottish Government will get 30%. The couple can also choose to increase their equity share in their home by 5% increments up to 100%. The couple decide to proceed with their application and provide the Registered Social Landlord with details of their current income, the size of mortgage they are able to afford, how much of a personal contribution they are able to make to the cost (e.g. whether they have saved a deposit) and information about their household and current accommodation. The couple are delighted when their application is successful, they have a mortgage offer in place and are able to submit a successful offer for a new build two bedroom flat in Shawfair.

²² <https://www.gov.scot/publications/affordable-housing-supply-programme-ahsp-process-and-procedures-mhdgn-2023-01/>

Local authorities that have built and sold new supply shared equity homes highlight the following:

- NSSE only works if the valuation of the properties is comfortably higher than development costs but not too high to ensure that the purchase price remains affordable. In current market, higher development costs make this harder to achieve and therefore more difficult to sell under scheme.
- The current mortgage crisis has seen mortgage rates soar, thus making it harder for many to access an affordable mortgage, even for discounted sale.
- The scheme is very resource intensive so Midlothian Council would require either dedicated officers or an external agency to undertake the management of the project.
- New Supply Shared Equity Homes are not affordable housing in perpetuity as properties can be sold on the open market if the initial applicant decides to move.

Conclusion - New Supply Shared Equity

- New Supply Shared Equity is a recognised form of affordable housing.
- NSSE should be considered as a viable social housing option when/if both housing materials and labour costs reduce and mortgage interest rates stabilise.
- NSSE would require staff management resources.
- Existing and future NSSE developments in Midlothian should be highlighted during housing options interviews
- Midlothian Council's housing application form should be updated to improve housing options advice (including details of NSSE)
- NSSE may be suitable vehicle to secure delivery of wheelchair accessible homes. Midlothian Council's Wheelchair Accessible Housing Targets, set in 2022, are for 20 wheelchair accessible homes to be built per annum (10 from the social housing sector and 10 for owner occupancy). Of those surveyed, 52% chose 'home ownership' as their preferred housing option.

4.2 Golden Share

Golden Share is a form of affordable housing similar to New Supply Shared Equity in that a buyer can purchase a percentage (80%) of a new build home if they are unable to afford the full price. Golden Share differs from NSSE as the property is bought directly from a private developer with the Local Authority providing application assessment as there are restrictions on who can apply. Potential buyers must have:

- a local connection to the area
- proof of the number of bedrooms required to prevent overcrowding/underoccupation
- proof that they are unable to finance the purchase at full market value

If the owner decides they wish to sell the property in the future, the sale price is fixed at 80% of the market value at the point of resale. The owners must obtain a Home Report completed by an independent surveyor which must be sent to the Local Authority. The property can then be marketed and must be advertised to the majority of the market. The property cannot be sold for more than the Golden Share resale price. The property will be revalued each time the property is sold. It is important to note that the Local Authority does not assist with mortgage or finance queries, potential buyers are responsible for their mortgage arrangements.

Eight Golden Share properties were marketed at one private developer site in 2023 with Midlothian Council acting as application assessor. Feedback from Midlothian Council staff suggests an easy, straightforward process however the following points were made:

- More notice required from private developer(s) to allow staff time to plan
- Greater staff resources required if the use of Golden Share is to expand
- Potential buyers all wanted to buy properties with more bedrooms than they were entitled to.

It is important to note that Golden Share is an affordable housing option and therefore counts towards the 25% affordable housing contribution on privately owned sites. In practise this will reduce the number of social housing units built.

Conclusion – Golden Share

- Golden Share is a recognised form of affordable housing
- Golden Share requires no financial input from Local Authorities
- Golden Share allows some households unlikely to receive an offer of social housing, to step onto the housing ladder thus reducing the demand on the waiting lists.
- The property price is capped at 80% of open market value from the initial sale and for subsequent re-sales, which suggests that it remains affordable in perpetuity.

4.3 Local Authority Development of Homes for Sale

In June 2023 the Scottish Futures Trust reported that a number of Scottish Local Authorities have shown interest in developing their own homes for sale²³. It is important to note that this proposal doesn't refer to a council tenant's capacity to purchase their council home (the 'Right to Buy' scheme ended in Scotland in 2016), this proposal examines a local authority's ability to develop homes for sale on the open market. This differs from the New Supply Shared Equity Scheme (chapter 4.1) as those properties are sold to specific priority groups.

²³ [Can Local Authorities Deliver Housing for Sale or Market Rent in Scotland? - News - Scottish Futures Trust](#)

The reasons for local authority development are wide ranging but include:

- Depopulation or ageing population – where a local authority is seeking to attract or retain a higher proportion of working age population through the provision of more or better family homes for sale
- Where the nature of the site fails to attract developer interest due to prohibitive cost of enabling infrastructure or remediation required.
- Land in Council ownership – where Councils have control of land but are struggling to attract suitable private sector investment or want a different kind of housing product in a settlement to support regeneration or potentially placemaking and low carbon policies.

Population growth, a high and sustained level of developer activity in Midlothian and a lack of large Council owned site indicate a lack of need for the Council to take on a developer role in delivering homes for undiscounted sale. However, the delivery of specific house types and potential need for homes for discounted sale, as highlighted under NSSE and Golden Share, do indicate where needs may arise.

The legal basis for developing homes for sale on the open market by a local authority is under discussion, however the Scottish Futures Trust cites the local authority statutory power to do “anything which they consider likely to promote or improve the wellbeing of its authority or people within the area”, commonly referred to as the power to advance wellbeing (The Local Government in Scotland Act 2003 part 3).

The ultra vires doctrine restricts local authorities to do only what they are specifically empowered to do. In order to develop homes for sale, a Local Authority must clearly determine why doing so will contribute to the wellbeing of the area and how it will benefit from the regeneration of specific sites. The power to advance wellbeing does not support building homes for sale to generate revenue for cross funding services.

There are very limited circumstances in which Local Authorities can undertake trading operations. Again, Midlothian Council would need to make it clear that the development of homes for sale is driven by regeneration priorities, not from the need to generate an income.

Conclusion - Local Authority Homes for Sale

- Midlothian Council could consider this as a viable housing option only once the legal basis for selling local authority homes has been resolved.
- The provision would have to directly 'advance wellbeing' e.g. Midlothian Council may be able to develop wheelchair accessible homes for sale to address a market failure to deliver these.
- A case would need to be made evidence the justification of developing homes for sale on the open market over other forms of affordable housing. Possible benefits include:
 - Meeting unmet housing requirements
 - Estate regeneration
 - Ability to deliver on sites which are not viable for the private sector

5 Housing Options – Rental

5.1 Mid-Market Rent (MMR)

Mid-market rent (MMR) is a type of affordable housing with rents being lower than in the private market, but higher than in the social housing sector. MMR aims to help households on modest incomes, who are unable to afford to buy their own home or rent privately but have difficulty accessing social rented housing. Mid-market rent properties are commonly delivered by companies set up by Housing Associations and Local Authorities for this purpose.

MMR is aimed at households who have a consistent income and can sustain a tenancy. Scottish Government guidance states that prospective tenants must not be discriminated against because of the source of income. MMR is not restricted to those in employment.

MMR tenancies are let under a Private Residential Tenancy (PRT) Agreement. A Council or RSL cannot offer a PRT directly. Therefore, they must let homes for MMR via an arms-length external organisation (ALEO).

MMR properties funded by the Scottish Government's Affordable Housing Supply Programme must ensure that the starting rent level for each mid-market rent home (including any service charge) should be no more than the relevant Local Housing Allowance rate for the property size in question²⁴. Midlothian is in the same Broad Rental Market Area (BRMA) as Edinburgh and as such has the same Local Housing Allowance rates.

Housing Statistic
806 current waiting list applicants have indicated via their housing application forms that they are interested in MMR – November 2023

Table 5.2 below illustrates the weekly rent difference between privately rented properties in Midlothian and the starting rent for MMR properties based on Local Housing Allowance rates if the full BRMA rate is used²⁵. A one-bedroom MMR property would have up to 17% lower rents than a privately rented property in Midlothian, two-bedroom properties would have 29% lower rents, three-bedroom properties would have 25% lower rents and properties with four bedrooms would have 4% lower rents.

²⁴ [Affordable Housing Supply Programme \(AHSP\): process and procedures MHDGN 2023/01 - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/affordable-housing-supply-programme-ahsp-process-and-procedures-mhdgn-2023-01-2023-02/pages/100-109.aspx)

²⁵ [Local Housing Allowance Rates: 2023-2024 - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/local-housing-allowance-rates-2023-2024/pages/100-109.aspx)

Table 5.2: Midlothian PRS rent comparison with Lothian Local Housing Allowance Rates 2023/2024

Property size	Average weekly Midlothian PRS rent	MMR weekly rent	% difference
Shared accommodation rate	N/A	£94.82	N/A
1 bedroom rate	£186.50	£158.79	- 17%
2 bedroom rate	£245.50	£189.86	- 29%
3 bedroom rate	£317.50	£253.15	- 25%
4 bedroom rate	£407.75	£390.08	- 4%

It should be noted that Local Housing Allowance rates have been frozen since April 2020 with rates set to increase in April 2024²⁶. This will increase Housing Benefit and Universal Credit awards and could raise future MMR starting rents. Furthermore, MMR rents are often charged at 80-90% of BRMA rent, with levels varying depending on the economies of individual sites.

5.2 Diffley Partnership MMR Survey Report May 2021

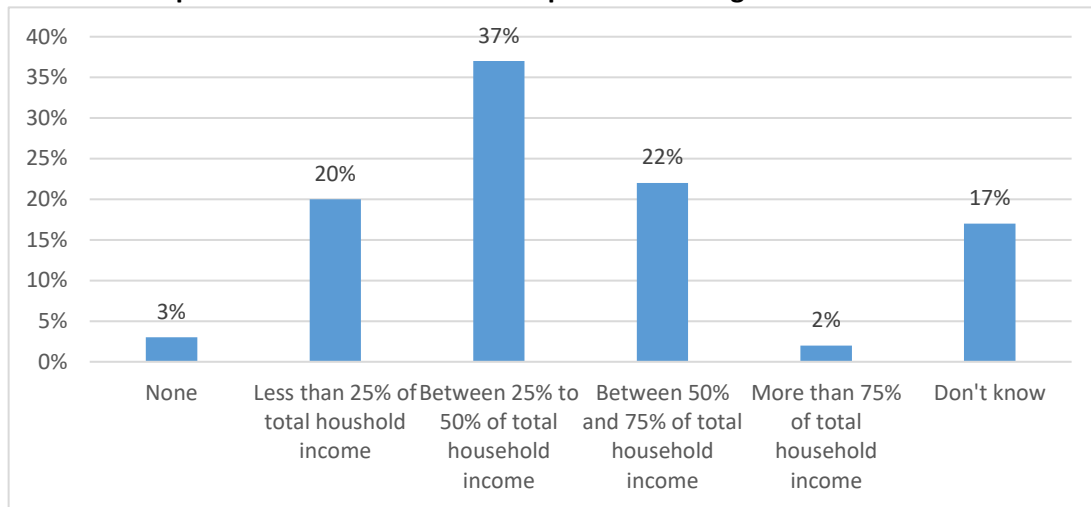
Between April and May 2021, the Diffley Partnership carried out a survey amongst Midlothian waiting list applicants who had previously indicated on their housing application forms that they were interested in Mid-Market Rent properties. A total of 480 questionnaires were issued, 138 were completed in full which resulted in an overall response rate of 29%. Respondents were asked questions relating to the adequacy of their current homes (in terms of size, cost, location etc.), their current tenure (44% of whom rented privately) and their current housing costs. It should be noted that:

- Just under half (47%) of all respondents paid £600 or more on their housing per month
- Over a third (36%) of those who rented their housing paid £700 or more in housing costs per month

Chart 5.1 below shows the proportion of the household income spent on housing costs. Around a quarter (24%) of respondents paid 50% or more of their total household income on housing costs. Over a third of respondents paid between 25% and 50% of their total household income on housing costs. An accepted test of affordability suggests that when housing costs exceed 30%-35% of a household's income, the cost is judged to be unaffordable.

²⁶ [Local Housing Allowance Rates: 2024-2025 - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/local-housing-allowance-rates-2024-2025/pages/10.aspx)

Chart 5.1: Proportion of household income spent on housing costs



Respondents were asked whether they would be interested in mid-market rent if Midlothian council or a housing association were to develop more; 96% answered yes. It should be noted that awareness of mid-market rent was found to be limited, with around half of respondents (52%) having a little knowledge of mid-market rent housing, and a third of respondents requiring more information (31%).

5.3 Bonnyrigg Mid-Market Rental Assessment

In June 2021, Rettie & Co Consultancy and Research Services was commissioned by Wheatley Group to report on the potential demand for Mid-Market Rent (MMR) properties at a proposed development located in Bonnyrigg.

The resulting assessment reported:

- Demand for MMR in particular localities broadly mirrors demand for open market rent, i.e. where this is good demand for open market rent, there is demand for MMR and vice versa.
- Demand for MMR is forecast to be strong across the board and is anticipated to be strongest in areas that also experience good open market rent demand. While the rental market in Bonnyrigg is relatively compact, the area has seen strong sales demand in recent years and this has put pressure on affordability. The provision of affordable rental units would be anticipated to find demand among residents in this popular location.
- MMR rents at 100% of LHA were expected to be well received by the market based on the area profile and comparable evidence given the site location and product profile. Rettie and Co suggested dropping rents to 90-95% of LHA to ensure demand for properties with four bedrooms as LHA rates were above average PRS rates resulting in higher rent levels for MMR properties than PRS properties. This finding is echoed in table 4.2 which showed only a 4% difference between average Midlothian PRS rent levels in 2023 and predicted MMR rent levels for properties with four or more bedrooms.

5.4 MMR models

There are a number of Registered Social Landlords currently letting mid-market rent homes in Midlothian including Melville Housing Association, Places for People and Dunedin Canmore Housing Association. Each RSL lets their MMR homes in a slightly different way however all require arms-length subsidiary companies to manage their properties:

- Melville Housing Association manage their mid-market homes through Ironmills Developments Ltd (IDL); a non-charitable, subsidiary company owned by Melville. Melville have an MMR waiting list which they use to allocate properties and applicants must have a local connection. In terms of assessing housing need, applicants are checked to see if they are registered on the local authority or Melville housing lists or are current social housing tenants.
- Dunedin Canmore lease their MMR properties via Lowther Homes property management, factoring and letting services. Fourteen new MMR properties were completed in Roslin in 2023 with another 24 planned for Bonnyrigg (scheduled completion in 2027) and 30 in Shawfair (scheduled completion in 2027). It should be noted that the City of Edinburgh Council and East Lothian Housing Association also let their MMR properties via Lowther Homes. Dunedin Canmore let their MMR homes to applicants who work, earn under £40,000, have no priority for social housing, but cannot afford to buy their own home or pay full-market rents.
- Touchstone Property Management manage MMR properties for Places for People. These are advertised via a third party. In May 2023 Places for People owned 109 MMR properties across Midlothian in Shawfair, Bilston and Dalkeith. Future Places for People MMR developments include 12 properties in Dalkeith (scheduled for completion in May 2024) and 12 in Shawfair (scheduled for completion in 2027). Touchstone Property Management confirmed that local connection is not a requirement but is taken into consideration when homes are let.

Some of these MMR properties are advertised openly on websites such as Rightmove. Demand for these homes is high and there is limited prioritisation of local Midlothian residents in housing need when RSLs are letting homes for MMR.

In contrast, East Lothian Council have their own arms-length company to manage their MMR portfolio of 60 MMR properties which are advertised via a third party and priority is given to applicants with a local connection. A further priority group and ranking system is used, and preference is given to:

- Those on Council or Housing Association housing list who have a local connection to the particular housing area.
- Those on Council or Housing Association housing list who have a local connection to East Lothian.
- Potential first-time buyers in employment but unable to secure a mortgage.
- Those currently living in unaffordable private rented housing or with relatives within the East Lothian area.
- Those who have been forced to sell their home due to a change in circumstances (e.g. reduced income) and who cannot obtain a mortgage nor afford private market rents.

MMR properties must be let using a Private Residential Tenancy Agreement. If Midlothian Council were to build mid-market rent properties, Midlothian Council could establish a subsidiary company or employ an existing property management company to acquire these from the Council and let them. An external property management company would likely be required to manage the homes separately from the Council's social rented stock due to differences in how PRT and Assured Tenancies would be managed.

A Local Lettings Initiative or allocation policy for MMR properties could take local factors into account and make best use of stock e.g. by stipulating that applicants have a local connection to the area and have a particular housing need. This would allow MMR homes to be offered to households on Midlothian Council waiting lists for social housing but who can afford to pay a higher rent than that offered by social housing.

Melville Housing Association and Ironmills Developments Ltd.

In 2012 Melville Housing Association developed Ironmills Developments Ltd, their own subsidiary company to manage their 11 MMR properties in Mayfield, Midlothian.

Turnover for these properties is extremely low and demand is high; as of December 2023 there were 104 on a closed MMR waiting list. The waiting list was briefly opened between March and May 2023 with 56 new applicants added. Applicants must have a minimum income of around £15,700 and a maximum income of £40,000. Anyone with more than £3,000 in savings is not eligible to apply. Applicants must have a local connection either through work, study, family or culture.

All 11 properties have two bedrooms and the monthly rent is £564.14.

Melville HA is currently developing 28 MMR properties in Mayfield. Completion is scheduled for March 2026.

5.5 Funding MMR

5.5.1 Affordable Housing Supply Programme

Traditionally mid-market rent properties have been part funded via the Scottish Government's Affordable Housing Supply Programme. Table 5.3 below details the funding available to both Local Authorities and Registered Social Landlords to develop MMR via the Affordable Housing Supply Programme. As a benchmark, Midlothian Council would receive £57,281 per unit for a 2-bedroom property in a city and urban setting.

Table 5.3: Social Housing Baseline Benchmarks²⁷

Project type	West Highland, Island authorities, and remote/ rural Argyll	Other rural	City and urban
RSL social rent	£111,640 (3 person equivalent)	£97,027 (3 person equivalent)	£91,182 (3 person equivalent)
Council social rent	£97,027 (3 person equivalent)	£88,260 (3 person equivalent)	£83,584 (3 person equivalent)
RSL mid-market rent	£68,387 (3 person equivalent)	£66,049 (3 person equivalent)	£62,542 (3 person equivalent)
Council mid-market rent	£61,957 (3 person equivalent)	£60,204 (3 person equivalent)	£57,281 (3 person equivalent)

In order to complement baseline funding, Midlothian Council could apply for additional quality measure benchmarks as shown in table 5.4 below. If the MMR properties were built with certain improvements (e.g. space for home working or electric vehicle charging points), further funding is available.

Table 5.4: Additional quality measure benchmarks

Additional quality measure benchmarks	Benchmark
Delivering homes to Section 7, Silver Level, of the 2019 Building Regulations in respect of Energy for Space Heating (that is, full Bronze Level plus Aspect 2 of Silver Level). ¹³	£2,338 per home (3 person equivalent benchmark)
Provision of balconies within flatted developments to enable people to sit outside, where the provision of private or communal outdoor space cannot otherwise be accommodated.	£4,676 per home (3 person equivalent benchmark)
Provision of space for home working or study – to note that this benchmark does not apply to projects meeting current Housing for Varying Needs standards ¹⁴ . In all other circumstances, grant applicants should demonstrate that additional space is necessary to deliver this measure in order for this benchmark to apply i.e. it is not possible to incorporate this within the design of the homes under current space standards. ¹⁵	£4,092 per home (3 person equivalent benchmark)
Digitally-enabling – when a tenant gets the keys to their home they should be able to arrange for an internet connection to 'go live' without the internet service provider having to provide additional cabling to the premises. ¹⁶	£351 per home (3 person equivalent benchmark)
Installation of ducting infrastructure for electric vehicle charge point connectors.	£585 per connector (3 person equivalent benchmark)

Additional quality measure benchmarks	Benchmark
Installation of electric vehicle charge points (excluding installation of ducting infrastructure). ¹⁷	£585 per charge point (3 person equivalent benchmark)
Installation of automatic fire suppression systems.	£3,507 per home (3 person equivalent benchmark)
Installation of heating systems which produce zero direct emissions at the point of use. ¹⁸	£4,676 per home (3 person equivalent benchmark)

The remainder of the cost of building homes for MMR must be borrowed. This cannot be borrowed by the Housing Revenue Account, but by the General Services Capital Fund as the HRA cannot support MMR homes as they are let via a Private Residential Tenancy

²⁷ [Affordable Housing Supply Programme \(AHSP\): process and procedures MHDGN 2023/01 - gov.scot \(www.gov.scot\)](https://www.gov.scot/government/affordable-housing-supply-programme-ahsp-process-and-procedures-mhdgn-2023-01)

5.6 Alternative Funding Models - MMR

5.6.1 Affordable Residential Lease Model

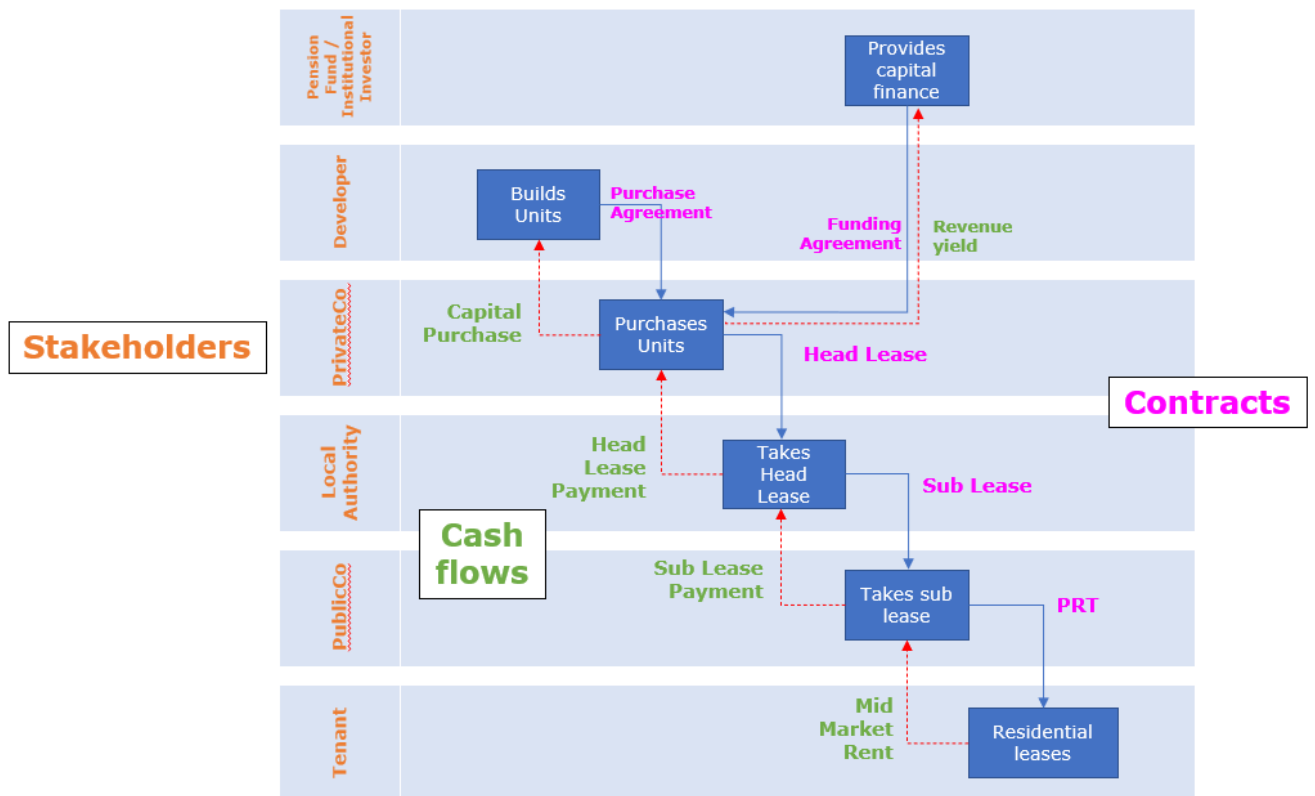
In 2019 the Scottish Futures Trust issued a briefing note to the Association of Local Authority Chief Housing Officers members (ALACHO) on leased mid-market rent schemes; a new funding model which 'delivers MMR units which are managed and maintained by a Local Authority' and 'has the potential to enhance the supply of MMR in a given local authority area without having to have the units funded by Local Authority provided capital resources'. In essence, the Affordable Residential Lease Model aims to create affordable homes without Local Authority investment or funds from the Scottish Government's Affordable Housing Supply Programme:

- Investors (for example pension funds) requiring low risk and low return investments fund private developers to build MMR properties.
- Local Authorities act as guarantor and form external partnerships with the investors who continue to own the homes and receive lease payments for a set period (usually 40 years) from the local authority.
- Local Authorities's MMR ALEO lease the homes and act as landlord and are therefore responsible for sub-letting the homes to tenants, the maintenance of the properties, managing neighbourhood complaints and rent collection.
- At the end of the (say) 40 year lease period, the Local Authority can buy the properties for a nominal sum.

The potential advantage of this model is that the local authority is not required to fund the upfront capital investment and loan charges to develop the homes upfront but pays the cost of the head lease instead. The cost of the head lease should be recouped from letting the homes to tenants for MMR. In the event of voids, the local authority is required to continuing paying the lease costs for these homes.

The Scottish Futures Trust currently chairs the Affordable Residential Lease Model Short Life Working Group which is examining the financial, legal, economic and governance aspects of the model. The group was due to release a report of their findings in late 2023 but this has been delayed. Chart 5.2 illustrates the potential Affordable Residential Model Lease structure.

Chart 5.2: Potential Residential Lease Model



The City of Edinburgh Council and East Lothian Council have both taken part in lease based pilots and their feedback would help form a report by SFT which will detail the economic, financial, governance and legal aspects of the model going forward.

Conclusion – Mid Market Rent

- Mid-market rent (MMR) is a type of affordable housing with rents being lower than in the private market, but higher than in the social housing sector. MMR aims to help households on modest incomes, who have difficulty accessing social rented housing, buying their own home, or renting privately. Given the gap between private sector rent and mortgage costs and social rent in Midlothian, there appears to be scope for this tenure in Midlothian.
- Survey indicate demand for MMR housing in Midlothian. As of November 2023, 806 waiting list applicants have indicated via their housing application forms that they are interested in MMR.
- Midlothian Council is unable to deliver MMR directly. It would require an arm's length subsidiary company to access grant funding and to let the homes via a Private Residential Tenancy Agreement. Midlothian Council could also enter into an agreement with an alternative provider/partner.
- MMR developments are not classified as 'social housing' and therefore borrowing costs cannot be met via the Housing Revenue Account. MMR would therefore need to be financed from borrowing from the General Service Capital Fund.
- There is interest from institutional investors such as pension funds in financing MMR in Scotland however an investment structure would need to be agreed and put in place to facilitate this. Midlothian Council is currently engaging with the Scottish Futures Trust on alternative structures such as lease based models that could attract institutional investment into MMR.

5.7 Build to Rent and Intermediate Rent

Build to Rent (BTR) is a relatively new market in Scotland in which homes are built specifically for private rent, rather than for sale, by institutional landlords. Intermediate Rent properties are a form of housing that has been included within Build to Rent developments in Edinburgh in order to meet the requirement to deliver a more affordable tenure within this model. Intermediate rent does not currently meet the definition of affordable homes under current planning legislation²⁸.

Build to Rent schemes aims to supply large scale developments that comprise homes for rent which are managed by on site property management teams. These developments tend to come forward in areas where there are strong public transports links to employment centres and easy access to facilities for tenants. Some recent examples of BTR developments are:

- Dockside, Leith (280 Build to Rent, 93 Intermediate Rent units)
- New Town Quarter, Edinburgh (210 Build to Rent, 108 Intermediate Rent units)
- New Fountainbridge, Edinburgh (189 Build to Rent, 64 Intermediate Rent units)

There are currently 11,674 Build to Rent and Intermediate Rent properties in Scotland²⁹ (March 2024) either in the planning process, under construction or in operation. None are

²⁸ [Annex F – Glossary of definitions - National Planning Framework 4 - gov.scot \(www.gov.scot\)](https://www.gov.scot/resources/documents/2023/09/Annex-F-Glossary-of-definitions-National-Planning-Framework-4.pdf)

²⁹ [Build to Rent Pipeline in Scotland | Scarlett Land and Development \(scarlettdev.co.uk\)](https://scarlettdev.co.uk/build-to-rent-pipeline-in-scotland/)

currently in operation in Midlothian, however some queries have been made about delivering BTR in Shawfair.

BTR seeks to offer good quality, well managed developments as an alternative to the traditional PRS sector. They are managed by a single landlord. The rental model is not compatible with the approach of an RSL or Local Authority taking ownership of up to 25% of homes for affordable let therefore, the intermediate rental model has evolved in Edinburgh to ensure a form of affordable homes are provided by this model.

Intermediate Rent is unsubsidised private rented housing, provided to tenants at rents below private rent levels. Intermediate Rent is seen as a viable option in Build to Rent neighbourhoods to accommodate the required affordable housing contribution (usually 25% of private developments). Intermediate Rent developments differ from traditional affordable housing developments in that they:

- Are owned by an investor, not by a Registered Social Landlord or Local Authority
- Do not require Scottish Government Affordable Housing Supply grant as they are homes where a discounted rent is charged by their a landlord without subsidy being provided.
- The properties do not currently qualify as affordable housing. The City of Edinburgh Council altered the definition of the Affordable Housing requirement for any residential scheme in Edinburgh and introduced a policy to accept these in lieu of affordable housing contribution.
- Rental levels are set using Local Housing Allowance (LHA) rates. These are higher than social housing rent levels but lower than private rent levels.
- Most Intermediate Rent properties revert to private tenure after 25 years

Conclusion – Build to Rent/Intermediate Rent

- In Edinburgh Intermediate Rent provides homes for a discounted, more affordable cost within Build to Rent developments, with up to 25% of any potential new build BTR development attracting intermediate rent as opposed to social rent.
- As a third party would build these units and the units would subsequently be managed by private landlords there is no resource implication to the Council.
- Intermediate Rent property rental levels are set using Local Housing Allowance Rates
- Intermediate Rent and Build to Rent developments are funded by investors, no grants are required.
- There are no Build to Rent developments in Midlothian however it has been proposed in potential BRT developments in Shawfair.

6 Conclusion & Recommendations

Midlothian Council's new build housing programme faces challenges including rising material and labour costs, a lack of council owned sites, the rising cost of affordable housing provision within private developments, reduction in Scottish Government grant availability in the coming years and uncertainty around resource planning assumptions in 2025/26.

In addition, Midlothian Council has a rising demand for affordable housing, rising costs associated with renting privately or purchasing a home and a lack of private rented sector properties. This context necessitates a review of the additional mixed tenure options that are and could be made available to those in housing need in Midlothian other than social housing.

Additional tenure options are available in both the private and public housing sectors. Expanding delivery of these will provide alternative housing solutions suitable for differing finances and household circumstances other than the council housing waiting list. This can be reflected at housing options interviews and online resources.

Midlothian Council continues to have a strong social housing building programme and the continuation of this alongside the expansion of the affordable housing options within this strategy have the potential to maximise the provision of affordable housing tenures in Midlothian.

Recommendation 1

Enhance range of ownership models supported in Midlothian by the Council and Registered Local Landlords (RSLs). Raise with partners as part of Strategic Housing Investment Plan (SHIP) process and in the scheduled Local Housing Strategy review in 2026/27.

Recommendation 2

Promote delivery of 'Golden Share' homes for affordable sale with private developers as way of contributing towards the 25% affordable homes requirement in Midlothian Local Development Plan 2.

Recommendation 3

Explore capacity and business case for Midlothian Council to build homes for sale under the New Supply Shared Equity Scheme.

Recommendation 4

Deliver Mid-Market Rent (MMR) units within Midlothian Council developments, initially through partnership with RSL. This should only be done where the RSL partner has an allocation policy that aligns with prioritisation of Midlothian residents.

Recommendation 5

Continue to explore potential for establishment of Arm's Length External Organisation, if resources allow, for directly delivered MMR homes by Midlothian Council.

Recommendation 6

Agree development of a business case by Scottish Futures Trust (SFT), the Scottish Government's Infrastructure agency, in advantage of leveraging in institutional investment for delivery of MMR by Midlothian Council via a potential lease-based model.

Recommendation 7

Amend Housing Application form and approach / service training to ensure prospective tenants are made aware of alternative tenures that may provide means to obtain affordable home ownership or rental without becoming tenants of Midlothian Council.

Recommendation 8

Update planning policy on Affordable Housing through Local Development Plan review to ensure it is reflective of support for mixed tenure approach to deliver affordable housing.

Recommendation 9

Update planning policy on Affordable Housing through Local Development Plan review to support delivery of Intermediate Rent where Build to Rent housing is being delivered in Midlothian, with appropriate mechanisms being put in place for establishing and monitoring discounted rental levels.