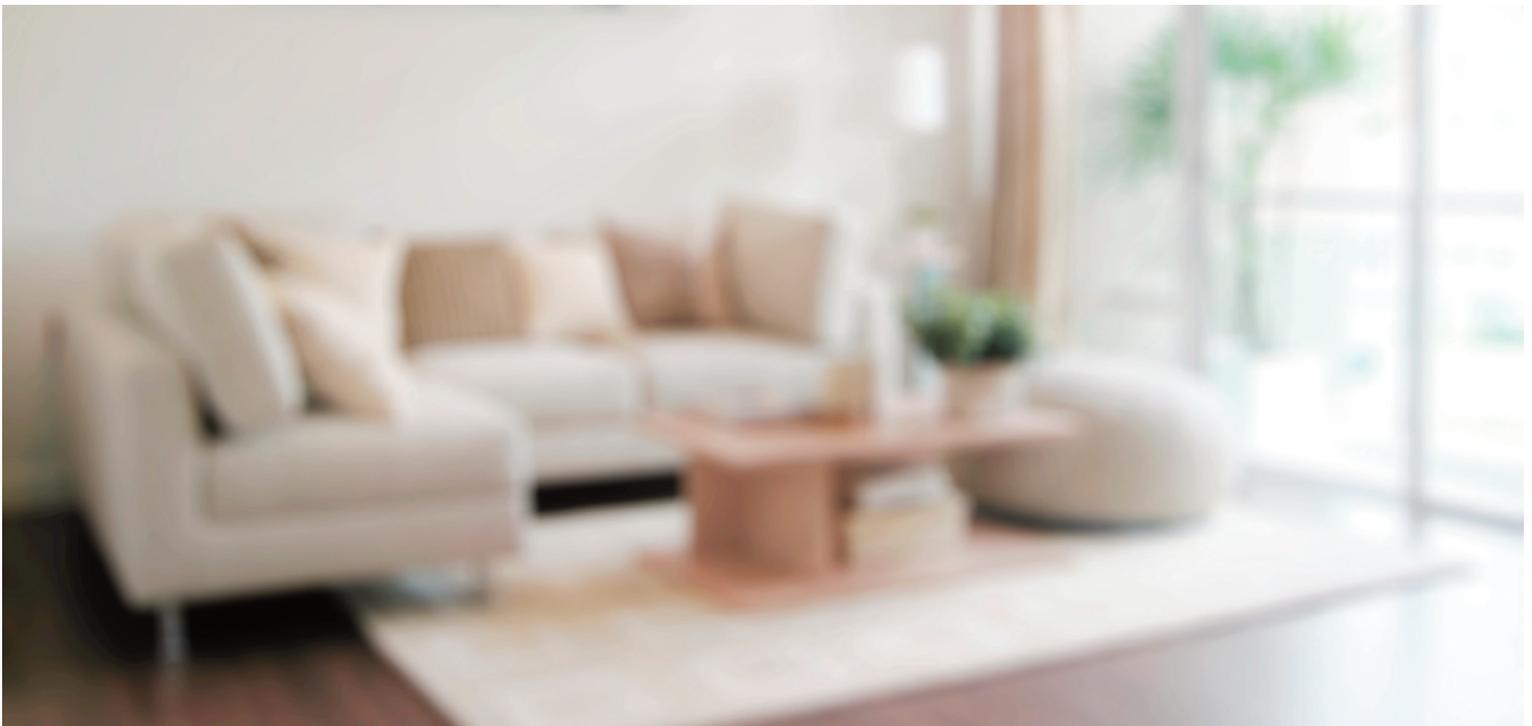


# RIGS

## RENTAL INCOME GUARANTEE SCHEME INFORMATION NOTE

OCTOBER 2017



## 1. Background

Scottish Government (“SG”) is keen to support the development of a “Build to Rent” sector across Scotland which will deliver purpose built, professionally managed and institutionally funded accommodation for private rent.

Following extensive market engagement, the Rental Income Guarantee Scheme (“RIGS”) has been developed by Scottish Government as a key component of a wider set of measures and positive interventions designed to facilitate the growth of the Build to Rent sector in Scotland, and the delivery of the desired standard of accommodation for private rent.

Further details about the [Build to Rent Opportunity in Scotland](#) can be found here..

RIGS will be managed by Scottish Futures Trust Limited (“SFT”).

Any potential applicant who is interested in RIGS, and who would like to discuss their proposed Build to Rent scheme in detail with the RIGS Team should contact SFT at [info@rigs.rent](mailto:info@rigs.rent).

## 2. The Guarantee

### 2.1. Guarantee Amount

RIGS offers an SG guarantee of a slice of the core rental income forecast to be generated by eligible units during a three or five year period (the “guarantee period”) commencing on the commencement date. Applicants can choose between a three or five-year guarantee period.

During any year of the guarantee period, if the actual annual core rental income falls below an agreed annual core rental income forecast (the “ARIF”) for that year, the beneficiary will be entitled to payment of an amount (the “guarantee amount”) set out below:

Actual annual core rental income as a percentage of the ARIF for that Year	Guarantee Amount
Less than 100% but greater than or equal to 95%	The amount which is 0% of the ARIF for that year
Less than 95% but greater than or equal to 75%	The amount which is 50% of the difference between (i) 95% of the ARIF for that year; and (ii) the actual annual rental income for that year.
Less than 75%	The amount which is 10% of the ARIF for that year.

For example:

In a development of 30 eligible units:

Year	ARIF	Actual Annual Rental Income	Actual Annual Core Rental Income as a % the ARIF	Guarantee Amount
X	£360,000	£216,000	60%	£36,000
Y	£432,000	£396,000	91.67%	£7,200
Z	£518,400	£504,000	97.22%	£0

## 2.2. The ARIF

The ARIF is set during the application process, and will be calculated for the period of 12 months from the commencement date, and for each subsequent period of 12 months commencing on each anniversary of the commencement date until expiry of the guarantee period.

Applicants will submit a unit by unit annual core rental income forecast supported by (i) a completed set of **application templates**; and (ii) a rental income valuation report (the "applicant's forecast") to SFT.

SFT's appointed property advisor will audit the applicant's forecast together with all other information included in the completed application form, assess the potential market conditions relating to the applicant's development proposal, and issue a report addressed to SFT and SG (the "PA report").

The PA report will include:

- a summary of the terms of the applicant's forecast;
- a summary of any differences between the applicant's assessment of the market conditions contained in the applicant's forecast and the property advisor's own assessment;
- an assessment of the relevant risk factors which could influence the rents achievable at the applicant's development, considering both the detail of the proposed development and the wider market conditions; and
- the property advisor's own unit by unit annual core rental income forecast.

Following review of the PA report, SFT will propose an ARIF to the applicant. The ARIF may be equal to, higher or lower than the applicant's forecast. If accepted, the ARIF will be the basis on which the guarantee amount is calculated as outlined above.

During the construction phase, applicants are permitted to make any amendments to the specification, services and / or amenities detailed in their application considered necessary. Any amendments must be reported to SFT no later than 30 days prior to the commencement date.

If SFT is notified of any amendments, the ARIF may be adjusted. Any costs arising in connection with changes to the specification, services and / or amenities (including costs arising in connection with any required amendment to the ARIF) will be met by the applicant.

## 2.3. Commencement Date

The guarantee period will commence on the date confirmed in the Commencement Notice (annexed to the Guarantee). The Commencement Notice will be issued by SFT promptly on SFT being able to confirm that it has received the necessary confirmations from the relevant parties set out in the Commencement Notice. These include:

- confirmation from an employer's agent owing a duty of care to SFT and SG that the eligible units are completed, in good and substantial repair and ready for immediate occupation as residential property, and benefit from all of the services and amenities detailed in the Guarantee;
- confirmation of the number of eligible units; and
- confirmation that SFT has received from the employer's agent details of any changes to the specification disclosed to it prior to the signing of the Guarantee, and if appropriate that an amended ARIF has been agreed.

The first year of the guarantee period will be the consecutive period of 12 months commencing on the commencement date, and each year following will commence on the anniversary of that date.

Notwithstanding that the guarantee period will begin on the commencement date, applicants should note that the Guarantee will be signed up to two years in advance of the commencement date, and that by signing the Guarantee it will be undertaking to perform certain obligations prior to the commencement date.

#### **2.4. Core Rental Income**

"Core rent" or "core rental income" is the minimum rental income which is forecast to be generated by operation of residential tenancy agreements signed by tenants occupying eligible units.

Core rent is exclusive of any additional income which may be generated by optional extra services offered to tenants in exchange for fees which are in addition to core rent.

For example, if a residential tenancy is offered in exchange for a rent of £1,000pcm which includes the occupancy of a self-contained dwelling, and in addition, non-optional services such as a high-speed broadband connection and access to onsite amenities including a gym, the relevant core rental income for that unit will be £1,000pcm.

Alternatively, if a residential tenancy is offered in exchange for a rent of £800pcm which includes the occupancy of a self-contained dwelling only, with the tenant having access to optional additional benefits such as a high-speed broadband connection and access to onsite amenities including a gym in exchange for an additional monthly payment of £200pcm, the relevant core rental income for that unit will be £800pcm, notwithstanding that the applicant's income in respect of each unit occupied by a tenant who has "opted - in" to the optional extra services will be £1,000pcm.

Core rent is stated after adjustment for forecast initial let-up void; ongoing void allowance; bad debt allowance and annual indexation.

#### **2.5. Eligible Units**

Guaranteed core rental income must be generated by eligible units.

The Guarantee sets out in full the eligibility criteria which apply to units which are intended to generate guaranteed core rental income. Important criteria which should be noted at the application stage are:

- units should not constitute affordable housing (housing which is provided as affordable or low cost or social housing or mid-market housing for rent and / or as sheltered housing or retirement housing);
- units must be owned by an appropriately regulated corporate entity or partnership;
- the guaranteed core rental income must be generated by at least 30 eligible units; and
- the eligible units must be complete and available for letting within 2 years of the date the Guarantee is signed.

## **2.6. Transferability**

If the eligible units are sold prior to the end of the guarantee period, the rights of the beneficiary in terms of the Guarantee may be transferred to the new owner, provided the relevant conditions set out in the Guarantee are met.

The beneficiary in terms of the Guarantee may at any time constitute an assignation in security over its rights, title and interest in the Guarantee in favour of a funder who meets the criteria set out in the definition of "Funder" in the Guarantee.

## **3. Eligibility and Applications**

### **3.1. Eligibility**

Before applying for a Guarantee, applicants should be satisfied that the following mandatory criteria can be met:

- all eligible units are (or will be) in Scotland;
- the core rental income to be guaranteed will be generated by at least 30 eligible units;
- the applicant can demonstrate that it has, or will have prior to the commencement date, good and marketable title to the eligible units;
- the site on which the eligible units are to be developed benefits from at least outline planning permission for the development;
- the intended management and maintenance provider of the eligible units is (or will be prior to the commencement date) registered as a managing or letting agent with the relevant Local Authority under applicable legislation, an accredited letting agent with Landlord Accreditation Scotland or any replacement body, and complies (or will prior to the commencement date comply) with any applicable letting code of practice;
- the completed application templates (including financial model and sensitivity analysis) demonstrate the long – term financial viability of the eligible units; and
- the applicant has reviewed the terms of the Guarantee and knows of no reason why it will be unable to comply with those terms.

If a Guarantee is requested for core rental income generated by eligible units which, due to having different completion dates in terms of the relevant development timetable, would have different commencement dates, the eligible units can be grouped into phases of at least 30 eligible units, all units in each phase having the same projected commencement date. A separate Guarantee may be granted for each phase, subject to each phase being assessed independently of the other relevant phases.

Any potential applicant who is interested in RIGS but is unable to satisfy the mandatory criteria should contact SFT at [info@rigs.rent](mailto:info@rigs.rent) to discuss their proposed Build to Rent scheme.

Potential applicants should note that in addition to completed application forms demonstrating that the mandatory criteria have been satisfied, all necessary information required to allow the proposal to be assessed by SFT must be provided for an application to proceed through the application process.

### **3.2. Viability Assessment**

The overall long-term viability (including the financial viability) of an applicant's proposal will be assessed by SFT. All information provided in the application form will be considered.

### 3.3. Guarantee Fee

There is no application fee. The Guarantee carries an annual fee of 1.22% of the ARIF for each year of the guarantee period.

The guarantee fee is payable as follows:

- a deposit of 25% of the first year's fee payable on issue of the Guarantee;
- the remainder of the first year's fee is payable on the commencement date; and
- for each subsequent year, the annual fee is payable on the anniversary of the commencement date.

The guarantee fee payable in each year of the guarantee period will be confirmed in the Guarantee Fee Letter (annexed to the Guarantee).

### 3.4. Application Process and Assessment Timetable

Applications will be assessed in the order of receipt and processed within the following indicative timescales as far as possible.

STAGE	PROCESS	TIMESCALE
<b>PRE-COMPLETION</b>		
1	Applicant downloads the RIGS <b>application form</b> from the RIGS website: <a href="http://www.rigs.rent">www.rigs.rent</a>	
2	Applicant submits its completed application form together with supporting documentation to <a href="mailto:applications@rigs.rent">applications@rigs.rent</a>	
3	SFT undertakes an initial review of the application form and supporting documentation received to confirm that (i) all necessary information has been provided to allow the proposal to be assessed; and (ii) the mandatory criteria have been met.	SFT will confirm to the applicant that (i) all necessary information required to assess the proposal has been received; and (ii) the mandatory criteria have been met, within 5 business days of receipt of the application form and supporting documentation.
4	SFT instructs an independent property advisor to produce the PA report.	SFT will instruct an independent property advisor within 3 business days of completion of Stage 3. The property advisor is expected to report to SFT within 21 days of receipt of SFT's instruction, however depending on the number of completed application forms being assessed at any one time, the time required may be longer. If the independent property advisor requires additional information from the applicant to produce the PA report, the 21 day period will be paused until the last piece of requested information is provided.

STAGE	PROCESS	TIMESCALE
<b>PRE-COMPLETION</b>		
5	SFT undertakes viability assessment	SFT will aim to complete the process within 10 business days of receipt of the PA report.  Should SFT require clarification or further information from the applicant to complete the assessment, the 10 business day period will commence once the last piece of requested information has been obtained.
6	SFT seeks RIGS Risk Group approval	Following successful completion of stage 5, SFT will submit its recommendation that the proposed scheme be granted a Guarantee to the next scheduled meeting of the RIGS Risk Group for approval (the Group sits in March, June, September and December).
6(a)	In certain circumstances, following approval by the RIGS Risk Group, an application will be referred to SG for final approval.	Following approval by the RIGS Risk Group, applications will (if applicable) be sent to SG for final approval within 5 days of the relevant meeting of the RIGS Risk Group.  It is expected that SG will notify SFT of its decision on whether or not the application is approved within 5 days of the date of SFT's submission
7	SFT issues a Guarantee commitment letter, guarantee fee letter and Guarantee to the applicant.	SFT will aim to complete the process within 5 business days of a positive decision by the RIGS Risk Group.
8	Applicant returns signed Guarantee and signed guarantee fee letter, and pays deposit fee to SFT.	Applicants should complete this process within 10 business days of receipt of the documentation.
9	Applicant appoints an employer's agent who will also report to SFT on progress of the construction of the eligible units.	The employers agent is required to deliver to SFT and Scottish Ministers a written report in respect of each 3 month period following the date of signing of the Guarantee and up to the commencement date detailing the progress made with construction of the eligible units in that period, any changes to the projected timetable and projected date of practical completion.
10	Applicant completes construction of eligible units.	Applicants must complete construction of the eligible units and be in a position to commence rental of the eligible units within 2 years of the last date of signing of the Guarantee.

STAGE	PROCESS	TIMESCALE
<b>POST-COMPLETION</b>		
11	Applicant informs SFT of any changes to the specification of the eligible units and / or the services and amenities.	Applicants will advise SFT no earlier than 100 days and no later than 30 days prior to the commencement date of any changes.
12	SFT recalculates the ARIF to reflect the changes to the specification of the units and / or the services and amenities (if any) and advises the applicant of any required amendments to the ARIF.	SFT will advise the applicant of any amendments required to the ARIF within 7 business days of receipt of the applicant's notification of changes to the specification of the eligible units and / or the services and amenities.
13	Applicant pays the guarantee fee, less the deposit fee to SFT.	Applicants must make payment on or before the commencement date.
14	SFT issues a Commencement Notice to the applicant.	SFT will issue a Commencement Notice promptly on being able to confirm that all of the conditions precedent to the Guarantee becoming effective have been met.

#### 4. Further Information

The application form and Guarantee document are available from the RIGS website: [www.rigs.rent](http://www.rigs.rent).

SFT plans to hold an information session for potential Applicants later in 2017. It is expected that the venue will be SFT's offices in Edinburgh, however this will be confirmed in advance. Anyone wishing to be informed of the date and venue of the information session should contact SFT.

If you would like further information about RIGS or Build to Rent in Scotland, or to discuss a potential application or any aspect of the Guarantee or the application form, please contact SFT at [info@rigs.rent](mailto:info@rigs.rent).

#### 5. Disclaimers

Whilst the information in this Information Note has been prepared in good faith, it does not purport to be comprehensive nor has it been independently verified.

Neither SFT nor its advisors, nor their respective directors, officers, members, partners, employees, other staff or agents:

- make any representation or warranty (express or implied) as to the accuracy, reasonableness or completeness of this Information Note; or
- accept any responsibility for the information contained in this Information Note or for the fairness, accuracy or completeness of that information nor shall any of them be liable for any loss or damage (other than in respect of fraudulent misrepresentation) arising as a result of reliance on such information or any subsequent communication.

Any persons considering making a decision to enter into contractual relationships with SFT and SG following receipt of this Information Note should make their own investigations and their own independent assessment of SFT and SG and its requirements and should seek their own professional advice (including financial and legal advice).

A brief summary of the terms used in the Information Note is as follows.

Full details are included in the main body of the Information Note, however if you would like any further information please contact SFT at [info@rigs.rent](mailto:info@rigs.rent).

<b>applicant's forecast</b>	is the unit by unit annual core rental income forecast submitted by the Applicant and supported by (i) a completed set of <b>application templates</b> ; and (ii) a rental income valuation report;
<b>ARIF</b>	is the agreed annual core rental income forecast which will be the basis on which the guarantee amount is calculated;
<b>commencement date</b>	is the date of commencement of the guarantee period;
<b>core rental income / core rent</b>	is the minimum rental income which is forecast to be generated by operation of residential tenancy agreements signed by tenants occupying eligible units, exclusive of any additional income which may be generated by optional extra services offered to tenants in exchange for fees which are in addition to core rent;
<b>eligible units</b>	are the units intended to generate guaranteed core rental income and which on the commencement date meet the eligibility criteria set out in the Guarantee;
<b>guarantee amount</b>	is the amount payable to a beneficiary in terms of the Guarantee;
<b>guarantee fee</b>	is the annual fee of 1.22% of the ARIF payable in each year of the guarantee period;
<b>guarantee period</b>	is the three or five year period commencing on the commencement date;
<b>PA report</b>	is the report produced by SFT's appointed property advisor and addressed to SFT and SG;
<b>viability assessment</b>	is SFT's assessment of the overall long-term viability (including the financial viability) of an applicant's proposal.