

Elected Member Briefing – Mid-Market Rent

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About this Briefing Note

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Date: 19th August 2025
Subject: Mid-Market Rent

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if exempt or confidential explain risks and consequences.

1. Purpose

Mid-Market Rent for Shetland has reached an important stage in the development of the project and the seminar held at Market House on Tuesday 19th August 2025 took Members through the journey so far and addressed questions.

The slide pack presented at the session is attached for information and members are invited to read in conjunction with the information provided below.

2. Background

The Director of Development is chairing a Project Board which alongside a Project Team and consultancy support have been taking this project forward. The process is a complex one as demonstrated through the presentations, but the potential benefits for Shetland of the Council developing a Mid-Market Rent portfolio could be transformational.

The Mid-Market Rent project has been in development for some time. If you look back over previous Local Housing Strategies and Strategic Housing Investment Plans and corporately in change programmes, transformation programmes and corporate plans, there has been recurring references to the need to find ways to expand and diversify the affordable housing options available in the Shetland housing market. That doesn't mean that the Council are responsible for fixing the gaps in the market. A balance of appropriate interventions is needed in line with the evidence-based priorities described in the Local Housing Strategy and the Strategic Housing Investment Plan.

The Council needs to be careful not to create imbalances in the market with any interventions it undertakes and the briefing provides the evidence that builds the case for Mid-Market Rent.

3. Key points

Current Housing Composition - The composition of the Shetland housing market demonstrates that the majority of housing supply is Owner Occupiers at 73% (that's privately owned properties). Social rented (Council and Hjaltland properties)

accounts for 22%, so properties that are available for private rent only represents 5% of the total housing market. If you compare that pie chart across other local authority areas, you will see that Shetland has a much higher level of Owner Occupiers and a much lower proportion of private rented properties (we have the lowest % of private rented accommodation in Scotland per Council area). So, our starting point is challenging, and that's before we factor in other demands and pressures that already exist in the Shetland market. The composition of the housing market in Shetland shows that there is a need for alternative housing options to meet demand.

Economic Drivers - Mid-Market Rent is not just about housing supply and it needs to be viewed in the wider context. The drivers which impact supply and demand for accommodation in Shetland are closely linked to the wider economic pressures and the impacts they have on the housing market. A buoyant economy with a pressurised job market drives up wages, which sounds great and should help affordability in terms of accommodation, but if the delivery options aren't there, it just creates more pressure in an already stressed system. There are some unique additional challenges in Shetland that create these market fluctuations – (as seen by major projects such as the Gas Plant / Wind Farms, etc.)

Mid-Market Rent - Mid-market rent offers a rental option that is targeted at low to moderate income households and offers a rental that is lower than private rent but higher than social rent. It offers a rental opportunity for those that are priced out of owner-occupation or private rent, and who do not demonstrate sufficient housing need to be offered mainstream social housing. It can be targeted at particular sectors or income levels to support and encourage working age population and is particularly attractive for younger people in employment who are otherwise excluded from access to the housing market. Potential benefits of this being assistance with recruitment and the retention of population, especially younger people.

Pilot & Pipeline - The presentation refers to the "Pilot" project at North Road, Lerwick, that being the development of 6 x One Bed flats. It is important to note that this project has been in the Strategic Housing Investment Plan for a number of years and is due for completion prior to Christmas.

However, this "pilot" is designed to establish the concept of Mid-Market Rent at a scale that is manageable (only 6 properties) with the aim of expanding Mid-Market Rent in future developments. It has always been the aspiration of the Knab Redevelopment to provide future-fit housing to address the gaps in the market and not compete directly with social rented housing provision. This can then build a future pipeline of projects subject to demand and funding options being reviewed and evaluated.

Data / Evidence / Benefits – The data and evidence that builds the case for Mid-Market Rent in Shetland are contained in the slide pack on slides nos. 6 – 19. This section steps through the availability of rental options in Shetland and clearly demonstrates the housing market and affordability pressure on different areas and

how the intervention of Mid-Market Rent could benefit in addressing that demand. Headline figures conclude that:

- Housing options in Shetland are very limited due to the small market rent sector
- Almost 2/3rds of the population can't afford the average house price
- 46% of the population can't afford private rent
- Better rental options are required in Shetland, particularly for working age households
- Mid-Market Rent improves housing affordability for 10% of households across Shetland Islands Council
- Households in Shetland need to earn £30K to afford the average Mid-Market Rent

Legal Justification / Deliverability– In order to deliver Mid-Market Rent, the Council is required to establish an Arms Length External Organisation (ALEO). The explanation and detail of the requirement is contained on slide nos. 20 – 25 together with a proposal to enter into an arrangement with Scottish Futures Trust as our partner in this project (slides nos. 26 – 34).

An ALEO is a tried and tested mechanism for delivering a project of this nature and the proposal to have Scottish Futures Trust as our partner brings their professional knowledge and experience, already being a partner in other local governments who are providing Mid-Market Rent.

Finance / Grant Subsidy – It is important to note that the financial information contained on slides nos. 35 – 37 is illustrative only for seminar purposes as it relates to the purchase of one-bedroom flats from a local developer. The proposed funding is shown on slide no.37 with a figure of £741,450 being identified as the requirement from the Council. This will be detailed further in the report to Full Council seeking permission to proceed (see Overview section below).

Governance – The key to success of this project is the establishment of the correct governance and reporting structure with appropriately qualified and experienced personnel appointed to the Board and Management Team of the ALEO. The proposed approach to the set up is detailed on slides nos. 38 – 43 and agreement to this shall be sought at Full Council.

4. Overview

A report seeking authority to create an ALEO with the purpose of delivering Mid-Market Rent in Shetland is to be discussed at the meeting on 24th September 2025. The key ask of the meeting shall be:

- Agree with the principles and benefits of Mid-Market Rent and the positive impact it can have on the deliverability of affordable housing in Shetland
- Permission to set up an ALEO
- Identify funding sources for the balance of the purchase price
- Agree structure and reporting mechanisms

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