

# The Two-Tier Trap

Moving Beyond Rent Caps for Mid-Market Rent and Build-to-Rent in Scottish Housing Policy

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## Executive Summary

Across the UK, tenants are increasingly burdened by rental cost pressures. While Scotland has historically been regarded as more tenant-friendly than the rest of the UK, its private rented sector is experiencing significant issues. Private rents in Scotland have risen sharply in recent years, particularly in Edinburgh and Glasgow, and the supply of new rental housing has not kept pace with demand. The shift towards a larger private rented sector, alongside falling housing quality and tightening supply, has increasingly undermined affordability, especially for younger and moderate-income households.

Recent policy measures have contributed to this imbalance. The *Cost of Living (Tenant Protection) (Scotland) Act 2022* introduced temporary rent caps to protect tenants during a period of increased inflation. While the intention was to safeguard affordability, the policy had unintended consequences for housing development confidence, with an estimated £700 million of Build-to-Rent (BtR) projects paused following its introduction. As supply tightened further, rents for new lets continued to rise at some of the fastest rates in the UK.

In response, the Scottish Government has introduced the Housing (Scotland) Act, which seeks to establish long-term rent control but proposes exemptions for Mid-Market Rent (MMR) and BtR schemes to attract investment and accelerate new housing delivery. MMR is designed to provide below-market affordable rents for moderate-income households, while BtR offers institutionally managed private rental housing. However, exempting these sectors from rent control risks weakening affordability safeguards, reducing tenant stability, and creating a “two-tier” rental market in which protections differ depending on housing tenure. There is a risk that MMR rents could drift closer to full market levels, eroding the purpose of the tenure, and that BtR investment could prioritise revenue maximisation over affordability outcomes, mirroring patterns seen in parts of England.

This report argues that Scotland does not face a simple choice between protecting tenants and increasing supply. Instead, it proposes a balanced approach in which investment incentives and tenant safeguards can both be encouraged. The Scottish Government is at a cross-roads where its housing policy continues to hold increased importance. Its tenant-friendly framework has delivered important protections and affordability advantages relative to the rest of the UK. However, without careful design, the proposed exemptions for MMR and BtR could undermine those gains. A focused policy approach can ensure that Scotland continues to attract investment and build more homes, while maintaining affordable and secure accommodation for tenants across the country.

## Summary Recommendations

This report proposes the following recommendations:

- **Reforming MMR rent-setting mechanisms:** Move away from tying Mid-Market Rent (MMR) to often-volatile market trends and instead adopt a cost-based model. By linking rent increases to inflation and measurable operational costs, the Local Government and Housing Directorate is responsible for ensuring transparency and reducing uncertainty for tenants while providing sufficient capital for housing associations to maintain and invest in home building and improvement of current stock.
- **Implementing conditional rent flexibility for Build-to-Rent:** Adopt a regulatory approach where developers are only exempt from rent caps if they commit to delivering specific public benefits. This could include providing a set proportion of units at below-market rates or offering longer standard tenancies in exchange for streamlined planning or favourable financing. The housing minister must draft these regulations that stipulate the "public benefit" conditions required to qualify for a rent-cap exemption.
- **Strengthening national affordability monitoring:** Establish a formal national rent data reporting system to bridge current information gaps. This would enable the Scottish Government to track housing quality and affordability across all tenures in real-time, ensuring future policy adjustments are rooted in accurate, statistical evidence. To move toward a coherent national system, the Scottish Government must centralize the data currently held by local authorities and private platforms.
- **Upholding a tenant-centred legal framework:** Ensure that any move toward a supply-side boost in housing is balanced by the preservation of strong rights to secure tenancies and high housing standards. By combining increased housing supply with a protection of tenants' rights, the government can improve long-term outcomes in rented accommodation without repeating the detrimental market distortions caused by temporary rent freezes. The Scottish Parliament must ensure the legal framework remains "tenant-centred" to prevent loopholes in the 2025 Act.

## Introduction

It is no secret that renters across the UK continue to face a multitude of problems. Whether they reside in social, mid-market, or private sector rented properties, they all have to contend with above-inflation rental increases, a degradation in the quality of their home and a lack of choice when relocating. In the 12 months to May 2025, average UK monthly private rents increased by 7.0%, reaching £1,339<sup>1</sup>. For many, the hike in rates has been accompanied by worsening house conditions, and increased threats of evictions.

While conditions have worsened across the UK, there has been a noticeable divide between different countries within the union. Scotland is, in most metrics, seen as better for providing social housing and protecting tenants. In the last UK Parliament, Scotland delivered 10,000 new affordable homes per year on average, of which 7,000 were for social rent—only 1,000 less than the whole of England<sup>2</sup>. Over the same time period, around 13% of new affordable homes were for social rent in England compared to 70% in Scotland<sup>3</sup>. Housing costs for renters, both in the private rented sector and the social rented sector, are lower in Scotland than the UK average. The gap is particularly large for the private rented sector, with tenants spending around a quarter (25%) of their income on rent in Scotland, compared to closer to a third (34%) in the UK on average<sup>4</sup>.

However, in Scotland the picture is far from perfect. On average, 2-bedroom privately rented properties cost £893 a month in 2024, an increase of 6.2% from the previous year and 52% from 2010<sup>5</sup>. Furthermore, in the last 20 years, there has been a shift towards private rented sector (PRS) households with an increase from 155,000 properties in 1999 to over 360,000 in 2019 across Scotland<sup>6</sup>. This has been most notable amongst younger people, where the proportion of those aged 16 to 34 in rented accommodation has increased by 28% since 1999<sup>7</sup>.

These issues directly contradict the more tenant-friendly approach taken by the Scottish Government. While Scottish social housing is still seen as a better alternative to its English counterpart, the problems are noticeable in the private housing sector which has been underperforming in quality and stock for the past two decades, leaving a shortage of housing supply and forcing up private-sector rental prices. The latest rental market index shows the average rent increase for new lets or new

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<sup>1</sup> Office For National Statistics, Price Index Of Private Rents, UK: May 2025, ONS, 2025.

<sup>2</sup> Scottish Government, Housing Statistics: New House Building In Scotland 2023, Scottish Government, 2024b.

<sup>3</sup> Resolution Foundation, Through The Roof: Comparing Housing Costs And Tenure Across The UK, Resolution Foundation, 2024.

<sup>4</sup> Office For National Statistics, Housing Purchase And Costs, UK: June 2024, ONS, 2024.

<sup>5</sup> Scottish Government, Private Sector Rent Statistics, Scotland, 2010 To 2024, Scottish Government, 2024a.

<sup>6</sup> Scottish Government, Housing To 2040, Scottish Government, 2021.

<sup>7</sup> Scottish Government, Scottish Household Survey 2019: Annual Report, Scottish Government, 2020.

tenancies in Scotland is on par with London; Edinburgh topped the list with recent peaks of 13.7% and Glasgow followed in the UK rankings at 12.3%, despite rent regulations being in place<sup>8</sup>.

In response to this issue, the Scottish Government launched, in the spring of 2024, a Housing Investment Taskforce<sup>9</sup>. This was set against a backdrop of significant market and public funding challenges to the delivery of all elements of the Affordable Housing Supply Programme, the flagship element of ‘Housing to 2040’, the Government’s long-term strategy to transform the housing system. The HITF has explicitly supported exemptions for Build-to-Rent (BtR) and Mid-Market Rent (MMR) from rent control<sup>10</sup>. Reports released by the HITF have argued that this is needed to maintain investor confidence and ensure the housing pipeline can deliver new homes.

MMR is an affordable housing tenure, primarily based in Scotland, which is designed for tenants who earn too much to qualify for social housing and too little to afford full private market rent or home ownership. Rents are typically set around 70–90% of local market levels and are often built with government-backed loans. This varies from BtR which has gained in popularity across the UK and charges rents generally higher than the market rate. These housing developments are built specifically for renting and are financed by institutional investors. While different, both aim to provide good quality, long-term accommodation for tenants. The schemes are integral to increasing private rental housing stock and provide a good measure of rental market health.

This report analyses the proposed changes to lifting rent caps from MMR and BtR and the trade-offs between tenant’s rights and building more property. The report sets out how the government can effectively increase private sector house-building while maintaining the tenant-friendly framework it looks to follow. By looking at comparative examples in England, this report proposes solutions to burgeoning private sector rent costs and an under-performing house-building market, so that everyone can have a well-built, affordable home.

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<sup>8</sup> Citylets, Quarterly Report: Rental Index Scotland Q1 2024, Citylets, 2024.

<sup>9</sup> Scottish Government, Housing To 2040, Scottish Government, 2021.

<sup>10</sup> Housing Investment Taskforce, Final Report To The Cabinet Secretary For Social Justice: Recommendations For Stimulating Housing Investment, Scottish Government, 2025.

## Problem Definition

As laid out above, Scotland has faced a supply-side slump in rental property which decreased the availability and increased the rents of MMR and BtR properties. This section outlines the issue faced by the rental housing market and consequently the tenants who are burdened with higher rental costs.

A primary reason for this sharp increase in price and fall in quality can be attributed to a drop in supply in housebuilding in Scotland. The number of new home completions and starts in Scotland during 2023 fell by 11% and 24% respectively compared to the previous year<sup>11</sup>. This contrasts with the English model where 130,000 homes have been delivered and 160,000 are in the pipeline<sup>12</sup>. The realisation of Build-to-Rent (BTR) in Scotland has been slow, with the number of new BTR homes significantly below that of comparable cities such as Manchester. Glasgow should have 28 BTR units per 1000 households and Edinburgh should have 30. Currently, Glasgow has only 1.9 units per 1000 households and Edinburgh has 2.2. These figures differ considerably to an English city like Manchester where there are 68.4 BTR units per 1000 households<sup>13</sup>. In England, this has now led to a diversification of rental options in the sector, with houses for rent as well as apartments and discounted rental options growing in quantity while leaving Scotland lagging behind in investor confidence and developments being undertaken.

The absence of house building can be linked to recent Scottish housing policy. The Cost of Living (Tenant Protection) (Scotland) Act, introduced by the Scottish Parliament in 2022, was designed to protect tenants against rising costs in their daily life. The measures included a rent cap/freeze on in-tenancy rent increases in both the private and social rented sectors alongside higher penalties for unlawful evictions. For the private sector, from 6 September, the cap was effectively 0% for many tenancies, and from 1 April 2023, the cap increased to 3% for most tenancies but landlords could apply for up to 6% increase if they could show “prescribed property costs”<sup>14</sup>. The measures were only temporary and ended on 31 March 2024.

While it was only temporary, there was no clear causal quantitative link between the Act’s rent cap and a measurable drop in new properties being built. However, it was widely believed in the industry that the Act led to a drop in projected return on investment for rental developments, leading to fewer homes being built. It was estimated that in September 2022, £700m worth of BTR schemes were put on hold at

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<sup>11</sup> Scottish Government, Housing Statistics: New House Building In Scotland 2023, Scottish Government, 2024b.

<sup>12</sup> British Property Federation, Build To Rent Q1 2024 Statistics, BPF, 2024.

<sup>13</sup> Rettie & Co, The Build To Rent Sector In Scotland: Market Review 2023, Rettie & Co, 2023.

<sup>14</sup> Scottish Parliament, Cost Of Living (Tenant Protection) (Scotland) Act 2022, 2022.

the onset of the decision, which deepened the housing shortage previous to the policy<sup>15</sup>.

This may have led to the fact that in Q2 of 2023 the average price for new lets increased by 12% across Scotland, 12.3% in Glasgow and 13.7% in Edinburgh<sup>16</sup>. Although both cities have experienced year-on-year increases of around 5-6%, there has been a marked growth in new rental prices, even following the Cost of Living (Tenant Protection) (Scotland) Act 2022.

## Policy Analysis

There are significant barriers to building new homes in Scotland which have caused a slump in supply and a consequent squeeze in rental costs across the affordability spectrum. This section will evaluate the proposed government policies which aim to increase private rented stock.

To rectify the supply-side issues that are damaging the private rental sector, the Scottish Government is introducing legislation to counteract these effects. The Housing (Scotland) Act 2025, which received Royal Assent in November 2025, moves beyond the temporary "rent freezes" seen over the past few years. Instead, it recommends the designation of specific Rent Control Areas (RCAs) which establishes a "permitted rate" for rent increases. Annual hikes are capped at the Consumer Price Index (CPI) plus 1%, with a maximum ceiling of 6%. Crucially, the 2025 Act closes a long-debated loophole by applying this cap "in-between tenancies."

This Act introduces long-term rent control powers, but it proposes exemptions for Mid-Market Rent (MMR) and Build-to-Rent (BtR) schemes through secondary legislation. Consequently, these tenures won't face the same rent caps as the rest of the private rented sector. The rationale behind this policy shift is to keep the pipeline of new affordable housing attractive to investors and housing associations. This policy reflects a shift in the overall approach to the housing crisis to increasingly rely on private funding to achieve house-building goals.

A public consultation on exemptions (including MMR) ran from 23 April 2025 to 18 July 2025. Some provisions under the Act are expected to come into effect by 2026–2028 under the proposed reforms. For example, MMR properties are set to be exempted from rent controls. This has not yet been made law but government proposals, ministerial statements, and the HITF's recommendations align around this direction of the policy. It is important to note that the draft proposals do include

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<sup>15</sup> Scottish Property Federation, Impact Of The Rent Cap On The Scottish Build-To-Rent Sector, SPF, 2023.

<sup>16</sup> Citylets, Quarterly Report: Rental Index Scotland Q2 2023, Citylets, 2023.

powers for exemptions, including MMR/BtR, but the exact definitions and conditions are still under consultation.

The Act seeks a dual aim: protect tenants (via rent caps) and maintain housing investment (via exemptions). If MMR and BtR are exempt, landlords can raise rents more flexibly than in the wider private rented sector. This can create a multitude of issues for tenants in these schemes.

Without caps, tenants have less certainty about year-on-year rent levels meaning exempt units may drift closer to market rent levels, reducing affordability for those on moderate incomes that MMR is meant to serve. Exemptions will weaken affordability protections and reduce tenant stability, especially for those who rely on MMR as a long-term affordable option. Without any monitoring, it may mean that in years to come, tenants will find themselves paying the market rate under a development which is marketed for 70% of the cost. This undermines the very notion of having a more affordable tier of housing. This ultimately will price out a band of renters which do not qualify for social housing and cannot afford full market rate, leading to a lack of options and poor outcomes for these individuals and families while also worsening the pressure on already-oversubscribed social housing lists.

As it stands, with the current trajectory of the housing act, and the recommendations of the Housing Investment Taskforce, the caps remain on standard private sector rental properties which make up a large majority of the market. With this legislation in place, there risks the creation of a ‘two-tier’ rental market in which there may be uneven legislative protections for certain types of renting. This undermines the idea of equity and fairness over different markets. The cap may also distort the market, leading to further consequences for the sector as a whole. While it is not the aim of this report to carry out this analysis, this report notes that a two-tier market could have widespread consequences on the demand and cost of rental sectors in which the rent is capped. Empirical research on rent controls more broadly shows that when one part of the market is regulated and another is not, rent control may lead to higher rents in the uncontrolled sector.

Conversely, the Scottish Government are incentivised to make these changes to boost the private sector supply of housing. Investors need predictable revenue to secure financing and flexible rents help meet financing risk thresholds which can enable large-scale construction that smaller PRS landlords cannot deliver. The ability to raise rents alongside market trends and above the consumer price index during certain periods acts as an economic incentive to ensure the investors get a return on the rental homes they are inputting their capital, and this could help reduce Scotland’s documented housing supply shortfall.

Furthermore, with a newer stock of housing, this could improve the overall quality of the rental sector ensuring that tenants have better quality housing. This can be seen in England, where an increase of BtR in recent years means this has enabled more high-quality, more energy efficient, and, in certain cases, more affordable properties to become available on the rental market.

Scotland is trying to balance both investment and tenant protection, but the proposal of exemptions tilts the system towards supply-side goals by prioritising investment certainty. The risk in this policy is that it reduces the likelihood of new homes being built, weakening Scotland's tenant-friendly approach.

While these measures exist in Scotland, generally the market in England has less protections on offer for tenants. In England, there exists an "Affordable Rent" tenure where rents can be up to 80% of the market price. This has implications for affordability in that the rent level is tied to market fluctuations rather than household income, meaning that in high-demand areas these homes can still be unaffordable for low- and modest-income households. As a result, "affordable" housing in England can often sit much closer to private rent levels than to genuine social rents, increasing the housing cost burden.

Research on England notes that supply has increased in BtR markets, but evidence suggests supply alone does not guarantee affordability. For example, BtR concentration in Manchester led to 68% rent increase over a decade despite more supply than in Glasgow and Edinburgh. Because of the power of the market to control rent, tenants are not protected from market volatility and rents can increase substantially despite a strong house-building climate.

Outcomes from England suggest that regulation of supply alone is insufficient and that price controls or strong affordability standards are needed if tenant outcomes are to be protected. Therefore, the outcome of Scotland's new housing policy depends heavily on how exemptions are designed, communicated and monitored. If Scotland exempts MMR/BtR from caps without pairing with affordability requirements, it risks replicating the pattern seen in parts of England where control is weak and rents grow rapidly.

## Conclusion

The analysis conducted has outlined how the Scottish Government faces the challenge of balancing their policy objectives of increasing housing supply with the need to maintain its distinctive tenant-friendly policy framework. The proposed exemptions for MMR and BtR developments risk undermining affordability unless they are accompanied by careful safeguards.

While this report focuses on the upcoming policy changes, it is important to note that in the longer term, Scotland will need to expand housing supply beyond private providers. This means increasing the capacity of councils, housing associations, and community-led housing organisations to deliver genuinely affordable homes. Greater public investment, long-term borrowing to support council housebuilding, and strategic use of publicly owned land could enable Scotland to grow a larger, not-for-profit housing sector to tackle the long waiting-times for social housing.

The recommendations listed in the summary offer a balanced path forward which recognises the need to stimulate supply and attract investment, while ensuring that affordability and stability remain key parts of the Scottish housing system. Scotland stands at a critical moment in shaping the future of its rental housing system. The challenge is not just to build more homes, but to ensure that what is built meets the needs of those facing the sharpest housing pressures. Maintaining this affordability safeguards within MMR and ensuring BtR investment aligns with social outcomes and is essential if Scotland is to avoid repeating England's experience, where market-led "affordable" housing has often failed to live up to its name. Therefore, this report urges that the success of Scotland's tenant-friendly framework will depend on the government's ability to balance market incentives with a clear commitment to the rights of tenants.

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