

*improving living in scotland*



**Andrew Mickel Presentation  
Holyrood Housing Conference  
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Good afternoon

2008 has been a profound year of change, testing our resolve within the industry and more generally within the global financial markets. It has also brought highly volatile market conditions and very mixed emotions.

***SLIDE – frozen homes***

A welcome acceptance both from within the Scottish Government, and across the political spectrum, that there is a proven need for an ambitious home building target has been overtaken by the cataclysmic global financial storm which has frozen liquidity. People have been left unable to reach the first rung of the property ladder, stagnating the market and leading to a sharp downturn in output. The UK housing market was the first to feel the effect of the credit crisis in the “real economy.”

The human cost has been quite staggering. As a direct result of these trends we estimate that up to 26,000 jobs within the Scottish new build industry have been lost since spring this year. As a consequence, a further 20,000 job losses have been triggered by contractors and suppliers. For all the wrong reasons, the real impact of home building on the overall sustainable economic growth of Scotland has now been fully understood.

### ***SLIDE – realities of market conditions***

The statistics we see on a daily basis are pretty grim. Land value meltdowns, few transactions and increased repossessions. Growth has given way to retrenchment. New housing starts are down 75% compared to this time last year.

With normal business conditions changing on a daily basis, the industry has had to react very quickly to the uncertain environment. Survival means a need to secure cash: Section 75s and infrastructure projects now lie dormant, and no new land is currently being bought by builders. Some housebuilding companies are diversifying into contracting and design and build for RSLs.

At a time of crisis there needs to be collective actions by stakeholders offering solutions – not just blame, and from our point of view a frank communication of the realities we face: thus we have undertaken a number of roadshows to Local Authorities across Scotland. One of these stark messages includes the following slide: a hugely revealing graph for scenarios of units completed in Scotland.

### ***SLIDE – graph***

Turning then to ideas and policies for stimulating the market to get us onto a more optimistic track and improve sentiment.

### ***SLIDE Scottish government***

In direct response to sustained lobbying on the importance of housing investment, the Scottish Government brought forward £100m worth of funding within its three year “Affordable Housing Investment Programme” at the end of the summer. In addition, and as a further shot in the arm for home building, it made significant announcements about additional funding for a range of shared equity products across Scotland.

However, the Scottish Government must ensure its affordable housing policy works in the new development environment. Recognition that low cost home ownership, starter homes for first time buyers and private sector shared equity schemes legitimately count towards “affordable housing” provision has to be much more prevalent for the health and mix of housing sites. At present, many local authorities are still reluctant to recognise the value of these options in achieving their housing quotas and meeting local demand.

### ***SLIDE –impacts on Council***

- Falling land and house prices caused by the credit crunch has raised fundamental questions of many of the well-meaning policies dreamt up in the boom years.
- Funding models of the past have failed. And the health and funding of the Housebuilders – the largest user of the planning system in Scotland, has direct impacts on Council revenues.

### ***SLIDE Direct Costs***

- Housebuilders in the good times have been too willing to act as a cash cow (providing schools, road improvements, affordable housing etc.). Now with the cow well and truly barbequed, consents will either lapse or sites will be re-mixed and planning gain deals will have to be renegotiated – if they are to happen at all. Authorities must be brave and suspend over-prescriptive policies which restrict development. Indeed at present, any construction work at all is becoming increasingly rare. Planning gain and building warrant fees are already down by up to £1 million per Local Authority.
- Consequences and cost impacts to Councils has turned a feast of plenty into Scrooge’s bare cupboard.

So what practical steps can be taken?

***SLIDE: practical actions***

***SLIDE: UK Government***

Until now the panto villain of choice was either an estate agent or a lawyer – now it is the evil banker! Fred's reputation may have been shredded, but banks and lenders are key to the future health of our sector and therefore, the wider Scottish economy. Against a backdrop of recapitalisation and lower interest rates, we are now starting to see a few more realistic mortgages and lending rates on offer, but there is still work to be done and the “real” rate of confidence, LIBOR is stubbornly refusing to fall in line with base rates. Loan to value ratios, arrangement fees and debt servicing costs are now of a different magnitude than those our customers have become used to over the past decade. It will take time for these dramatic changes to be factored into the buying behaviour of first time buyers and those on lower incomes. Nonetheless, these groups are tremendously important in re-invigorating the market. The ability for real people to find real homes remains a top priority.

The UK Government has been too slow to react to growing economic ills that were plain for all to see. Despite the welcome and bold steps eventually taken by the Treasury in an attempt to deal with the base issue of liquidity, it remains too early to say whether these measures alone will create the desired effect. Much more action than that announced by the Chancellor in his Pre-Budget Report is needed. Their walk needs to turn into a run.

As well as pressing the Government to urgently address the recommendations of the Crosby Review, Homes for Scotland will continue to lobby for a further fiscal stimulus in the form of the reintroduction of mortgage interest tax relief, especially for first time buyers. In addition, even more decisive action on Stamp Duty is

needed in order to improve overall levels of consumer confidence and encourage pension funds to enter the market – at present when purchasing properties, bulk purchases below the starting threshold of this duty still have to pay 4% stamp duty...

***Slide: UK Govt (ii)***

Whilst Scotland is not immune to the current problems, we have never experienced the extremes of house price inflation seen in other areas of the UK such as the south-east of England. Therefore, Scottish resilience will continue to be acknowledged but we are greatly concerned as to how 2009 will pan out with Lloyds TSB on the levers of HBOS and a government-controlled RBS. Their actions over the coming weeks will be critical for setting the future path for many in the property industry in Scotland.

So given that it's all about funding what potential solutions are out there? Well many and various, but no one silver bullet.

***Slide: Infrastructure***

***Slide: future***

When written in Chinese the word crisis is composed of 2 characters – one represents danger and the other – opportunity.

- As house prices fall, the cost of mortgages will re-align with rents. This will entice investors back and help the market recover.
- Underlying housing shortage: completions are quickly falling behind household formation; as demand slowly returns, supply pressures mount and prices increase. So boom to bust and who knows in 18 months - boom again?!?

It will take both urgent government intervention and forward-thinking and fast-moving companies to navigate us towards the brighter times we all believe are ahead, I am confident about the long term future landscape, we even managed to deliver new homes during the war after all, but as the tectonic plates continue to move underneath, it has become a very bumpy ride.

***SLIDE – blue skies ahead...***

***Thank you.***