

The Scottish Housing Market: A Continuing Call to Action

The credit crunch and resulting collapse in consumer confidence, combined with dramatic changes in mortgage availability, have had a **devastating impact on the supply of new build homes** and the industry which provides them.

Previously the private Scottish home building industry:

- built **20,000** new homes for sale per annum (without public subsidy)
- impacted the employment of **100,000** people¹
- was the **largest source of private investment** in Scotland, contributing £6bn annually to the economy¹, and
- the **largest user** of the planning system

Now, however,:

- new build housing output has plummeted
- half of the industry's directly employed workforce has effectively been lost to the sector

What's the impact?

With much new development across Scotland remaining on hold, **the large-scale loss of skills and capacity** that has occurred is having far-reaching and long-term social and economic consequences.

Latest Scottish Government figures highlight a **31% decrease in the number of private new homes** started throughout the country for the year to 31 March 2009, but more timely information from the National House Building Council shows some quite staggering drops in areas such as Midlothian (**-89%**), East Ayrshire (**-88%**), Fife (**-65%**), Renfrewshire (**-63%**) and Glasgow (**-62%**).

Output has collapsed across all tenures. This includes affordable housing for First Time Buyers (FTBs), those on low incomes and new households, **yet the base level need and demand for new housing of all types and tenures remains strong.**

At its simplest level, the effect of the above means that the timescale for achieving the Scottish Government's ambitious housing targets of 35,000 new homes per annum by 2015 will be **years behind schedule.**

But, much more importantly, **the biggest source of private investment in schools, roads, infrastructure and other community facilities** in Scotland has now effectively vanished and fees generated from planning applications significantly diminished. **New thinking and funding models** for key infrastructure investments are therefore urgently required in response from government at all levels.

Mortgage availability also remains key - the stumbling block to converting the increasing levels of interest we are now seeing from people looking to buy a new home into sales. With significantly tightened lending criteria, the number of mortgage products and loan to value ratios have been slashed. Yet research shows that nine out of ten people still firmly believe that buying their own home is a sensible investment in their future². So this situation presents particular difficulties for credit-worthy **First Time Buyers**, the industry's lifeblood, with every sale in this vital group resulting in an estimated further six transactions up the ladder.

Whilst, as latest Nationwide data suggests, Scotland may still be considered more resilient than the rest of the UK, its housing market is nonetheless in a very deep trough.

Early signs of recovery and recent stability are encouraging, but **consumer confidence** and **wider mortgage availability** are essential to full scale recovery. The industry currently remains a long way from rebuilding mode and, as companies continue to trade out their existing stocks, the **risk of a return to rampant house price inflation brought about by lack of supply** is ever present.

Despite new homes now being six times more energy efficient, **generating over 60% less CO2 emissions than older-style homes** (the equivalent of driving 10,000 miles a year less per household)³, the industry continues to face challenging demands with regard to building regulations and ever-increasing environmental standards. Whilst our members are committed to playing a full role in achieving these stretching targets, the significant financial implications involved for both home builders and their customers must be fully taken into account at a time when such major contributions to the low-carbon agenda are already being made.

What needs to happen now?

In response to our demands over the last 18 months to support the delivery of new housing throughout Scotland and protect the wider economy, the Scottish Government has made a number of announcements relating to housing investment and innovation with the aim of easing the effects of the downturn.

However, further action is urgently required if we are to ensure both current and future generations of Scotland get access to the full range of quality housing options they deserve. We therefore urge not only the Scottish Government but all parties to support the following:

- **Implementation of the four key recommendations identified by the Housing Supply Task Force without delay. These are:**
 - Identifying alternative methods of funding infrastructure to accelerate construction of housing and other major projects

- Ensuring continued speedy implementation of planning system reforms
- Establishing an economic framework to assist the house building industry return to full capacity swiftly once markets improve
- Making better use of public sector land for housing
- **Introduction of a Scottish “Homebuy Direct” financial model to support private new build shared equity-based activity (already proven as an effective mechanism for enabling First Time Buyers into home ownership).**
- **In conjunction with CoSLA, impress upon Local Authorities the need for new thinking and processes to support and promote development in the new economic reality.**
- **Leverage out the maximum benefit from already pre-funded reskilling and retraining programmes to retain and retrain those still employed within the industry.**
- **Expand wider public infrastructure spending but, more importantly, get on with delivering such projects.**
- **Commit very significant sums of new public investment into affordable housing provision.**
- **Massively accelerate the approval timescales for projects within the existing pre-funded “Affordable Housing Investment Programme” to bring forward the early delivery of new homes in 2010/2011.**
- **Consider carefully the cumulative effects of new regulation upon rebuilding housing supply when economic recovery begins.**

What about Westminster?

Homes for Scotland continues to lobby Westminster and the Treasury on reversing the housing market crisis by dealing with the base issues of mortgage availability and consumer confidence. Key points include further measures to assist **First Time Buyers** and a moratorium on **stamp duty** at all thresholds in order to re-energize the market.

We also remain engaged with **other stakeholders** (such as Financial Services Authority, Bank of England, Law Society, Council of Mortgage Lenders, Royal Institution of Chartered Surveyors, Solicitors’ networks and other industry bodies) to ensure alignment with this call to action amongst their members wherever possible.

For further information and up-to-date commentary on the Scottish home building industry, please visit www.homesforScotland.com.

Sources:

1. The Economic Value of the House Building Industry in Scotland (Mackay Consultants – November 2007)
2. YouGov survey for the New Homes Marketing Board.
3. Building Research Establishment research report commissioned by the Scottish Building Standards division.