



## **Chapter 1 - Scottish housing need**

### **Should the Government aim to focus its spending on those households in the lowest income groups and those most in need through rental products, or continue to try and meet the ownership aspirations of lower and middle income groups?**

Despite the housing market suffering unprecedented shock with considerable falls in price, massive falls in volumes and a drying up of mortgages, more people would like to be in owner occupation in their next move than was the case in 2007 (Scottish Government; 2010). The research undertaken by Scottish Government 'Housing Aspirations, Needs and Demands in the Light of the Credit Crunch' shows clearly the continued desire from Scottish households to own their own homes.

In the context of this we would argue for a spread of spending across all tenures and income groups. We can assume those in the highest income groups (6+) will continue to be able to afford to buy unassisted. In addition we accept that there continues to be a need for social housing to assist those in the lowest income deciles where access to owner occupation will not be possible (it should also be noted that there are between 10k and 18k households in the top two income deciles currently living in social rented housing). It is increasingly clear that additional support is required for those caught in the middle (in income groups 3, 4 and 5) where restricted access to mortgage finance is excluding households from owner occupation and adding increasing, undesired pressure down the scale onto social rented landlords.

We would argue for an increase in the current proportion of public funds allocated to new alternative housing options for those households in middle income groups. Schemes such as the National Housing Trust offering mid market rent and New Supply Shared Equity products allowing assisted access into owner occupation. The benefits of allocating public spending in this way is four-fold, 1) it offers housing options to a segment of the market currently un-catered for, 2) it eases the increasing pressure on housing waiting lists by removing those who could afford to consider other options, 3) the leveraging of funds reduces the impact on the public purse compared to alternative forms of housing support, 4) it increases the supply of housing in Scotland bringing all the associated benefits to Scotland PLC.

While promoting public spending priorities to meet the ownership aspirations of the middle groups, we do not deny the ongoing need to support the provision of social rented units for those most in need. A balanced approach to spending can offer Scotland a healthier housing market, a preferred offering to what could be provided through a mono-tenure approach.

### **What policy measures, reserved to Westminster or devolved to Holyrood, might prevent volatile fluctuations in future house prices and promote sustainable economic growth?**

It all relates to increasing the supply of new homes in Scotland. If the supply of new homes can be increased to an adequate level to meet the needs and demands of Scotland, house prices will become less volatile and sustainable economic growth will be achieved.

While considering the policy measures for Westminster or Holyrood we must not forget that continuing problems with mortgage lending remains the single biggest threat to the delivery of

new homes. Our country is facing its biggest housing crisis since the Second World War but our banks appear to be failing spectacularly in this area with no apparent strategy in place to increase mortgage lending to credit-worthy buyers to more sensible levels and terms. The situation looks set to intensify once state support for the banking industry starts to be rolled-back during early 2011 as planned by Westminster Government.

If the new UK Government's hopes of a private sector-led recovery are to have any real credence in the housing sector, it must cut through the myriad of reasons that lie behind these lending issues and take urgent action to deliver a sustainable long-term mortgage market.

Focusing back on what the Scottish Government can do, several key unanswered questions come to mind when thinking about the issues of how we drive up housing supply and financial investment in Scotland. We will detail this suggestion later.

Leaving the mortgage issue aside for now and moving on to directly influenced policy areas; stamp duty is a policy area for Westminster that arguably should be transferred to Scotland. Stamp Duty has evidently created barriers for the individual to home ownership and to companies considering investing funds into the private rented sector in Scotland. The Scottish Government should be able to decide how stamp duty should be applied to suit its own housing market.

The Scottish Government's Affordable Housing Investment Programme (AHIP) has a direct influence over fluctuations in future house prices and economic growth through its direct control over the supply of new homes. Under no circumstances should the AHIP be reduced in pending public expenditure cut backs. The investment in homes must be considered 'untouchable' as with education or health. Scotland already suffers a severe undersupply of housing and this undoubtedly led to the unsustainable, now historical fluctuations in house prices. To ensure sustainable economic growth and a sustainable housing market, the Scottish Government must commit to the protection of the AHIP.

Another priority for the Scottish Government must be to monitor the performance of Local Authorities over the commitment set to enable the generous supply of effective land over a five year period as detailed in their development plans. The supply of effective land is essential if the supply of new homes is to be increased and demand has not been diluted during the two years of low activity.

### **What is the appropriate balance between Government support for housebuilding, through subsidies and incentives, and Government support for individuals through housing benefit?**

If the Scottish Government is serious about sustainable economic growth, then one of the most effective ways of achieving this is unquestionably through house building. Housing is a vital part of Scotland's economy. Prior to the downturn, the home building industry was the largest source of private investment in Scotland, contributing around £6 billion annually to the Scottish economy. The industry is a major employer, directly and indirectly responsible for the livelihood of more than 110,000 people in Scotland. With the reduction in out-put last year to 15,000 new homes a year, the number of people relying on the industry for employment is likely to have dropped to around 57,000, demonstrating clearly the link to our economy. It is crucial that we understand the impact that a healthy home building industry can have for the regeneration of towns and cities and the economy of Scotland as a whole.

Well-functioning housing markets are part and parcel of well-functioning labour markets, attracting investment for Scotland PLC. Very few areas of public investment can claim that scale of leverage and this must be taken into account when considering the importance of continued support for house building. It remains necessary to support those in fundamental housing need

through housing benefit but this mechanism does not promote the economic growth that is also desired.

## **Chapter 2 - Increasing the supply of affordable housing**

### **Which funding and delivery models have the most potential to meet housing need cost-effectively?**

Recovery in private sector development would be the most cost effective way of meeting housing need in Scotland. The increased delivery of new homes by the private home building industry is however severely restrained at the moment. As stated earlier, the continuing problems with mortgage lending remains the single biggest threat to the survival of Scotland's home building industry. This, coupled with insufficient debt finance being lent to corporate clients on realistic terms, is the major obstacle to recovery in the housing market.

Until this situation is resolved we cannot rely on the private sector to lead the recovery alone. With this in mind we must agree on new ways to accelerate the delivery of much needed new homes with minimal impact on tight public resources.

The table presented on page 25 in 'Housing - Fresh Thinking; New Ideas' demonstrates clearly the level of public funding required to provide different types of housing options. The rates of expenditure varies from a new social rented unit costing £70k in Housing Association Grant to a National Housing Trust guarantee to provide a mid market rented unit costing from £2k per unit.

As touched on earlier, we agree that there will be a continued role for social housing units to meet those in society with the highest needs and lowest income and as such we would not suggest the removal of the £70k per unit HAG from public sector spending. We would however advocate this as the best time to change the balance of spending allocations to cater not only for those most in need but for those in the 'middle' who may only require a small amount of public money to meet their housing needs. For this reason we would urge the Scottish Government to give further priority to Shared Equity products including the expansion of New Supply Shared Equity with Developers Pilot Scheme and to the National Housing Trust initiative to expand the number of homes available within mid market rent tenure.

### **How can we best use tightly constrained public funding to bring in additional resources for housing?**

The best way to use tightly constrained public funds to attract additional resources for housing in Scotland will be through the use of leveraging. This could be done in three ways.

As we know, insufficient debt is currently being lent to corporate clients on realistic terms. Lending institutions are overprotecting themselves from risk and are therefore reducing their exposure in the housing market. The Scottish Government could guarantee or underwrite private sector investment and therefore remove the risk out of the process and increase investment capacity in housing.

The Scottish Government should explore the creation of insurance backed premiums or captive products that underwrite the perceived risks of higher LTV's to lenders. Mortgage Indemnity Premiums are an insurance product that underwrites a banks risk in lending to an individual at higher than normal loan to value ratios; these were common place in the eighties and nineties. They allowed home purchasers, particularly first time buyers (FTB's), to proceed with buying a home even when they actually only had access to a relatively modest personal deposit.

Developers themselves would more than likely fund these premiums at the minute, if they existed, provided it meant that FTB's were able to get on a routinely purchase a new home. This is certainly a much better way to incentivise a purchase as it does not undermine the value of the home involved in the same way that rampant discounting might.

The Scottish Government could use its influence to encourage Pension Funds that are privately managed or under public sector control to invest in housing. This would offer an injection of institutional investment into a professionally managed private rented sector. A number of issues have recently been raised by H M Treasury's consultation on Investment in the UK Private Rented Sector and it is our understanding that the UK Government does not plan to change the limiting Stamp Duty Land Tax to make this investment more attractive which is hugely disappointing. The Scottish Government should ensure it participates actively in the forthcoming review of Real Estate Investment Trusts (REITs), which emerged from this consultation, to ensure changes to the entry requirements of the REITs regime maximizes encouragement of the emergence of new investment in housing for Scotland.

### **Should Government spend less on building and improving social houses and more on providing the underlying and supporting infrastructure?**

An argument could be made that by focusing on providing the underlying and supporting infrastructure then private and social housing could be brought forward simultaneously, therefore the overall effect on housing supply is marked and much more substantial than funding the building of social housing alone. However there does of course need to be a balance to ensure available funds to allow the building of the affordable housing units themselves.

### **What other barriers to new funding and delivery models need to be removed?**

As discussed above, the Scottish Government must play its part in ensuring any barriers to the encouragement of the emergence of residential investment based REITs and do its best to lobby the UK Government for reconsideration of Stamp Duty Land Tax rules which discourage institutional investment in the residential sector. In large part new funding models emerging are focused on a vibrant private rented sector and any barriers to the success of a professionally managed, quality private rented sector to increase the overall supply of housing in Scotland should be removed.

## **Chapter 4 - Sustainable quality houses and places**

### **How can we improve the design and sustainability of the places we build to improve our health, wellbeing and environmental impact?**

It has been well documented that neighbourhood and housing characteristics can impact on an occupant's social wellbeing, whether that be the educational attainment of a child or the relationship between housing conditions and poor health. Changes made to Building Standards in Scotland over the years have vastly increased the quality of new homes delivered and have addressed many of the associated lifestyle concerns through for example space standards, adaptability, noise reduction, structural performance and energy efficiency. The quality of the buildings produced, therefore, is already arguably high enough to meet challenges associated with a changing population, an increase in fuel costs and uncontrollable carbon emissions. This is clearly apparent when the quality of the product delivered today is benchmarked against homes delivered in 1990. When balancing the increased supply of new 'affordable' homes with the

increased capital costs involved in increasing standards further, the quality of the product already delivered must be fully appreciated.

It is accepted that further work could however be done on the use of masterplanning and the context of delivery, connectivity, landscaping etc etc – improving the quality of the ‘place’. Homes for Scotland welcomed the Scottish Sustainable Communities Initiative (SSCI) and the work undertaken by the Scottish Government in Polnoon but the lessons of this work seem to have become diluted during such a slow period of home building growth. Will each of the eleven exemplars identified through the SSCI for example actually be delivered?

It is important that policy appreciates the impact of the current market on the scale and style of development coming forward. Smaller sites on the edge of existing settlements with spare infrastructure are likely to be the most attractive to home builders to develop in the coming years. For now, gone are the days where massive land releases could be led and front-funded by developers because they will simply no longer receive the financial backing required from banks. To ensure the delivery of new homes in the short term, the policy framework, land supply and guidance on ‘place-making’ must support this, without forgetting the long term goal for the future when delivery becomes easier.

#### **What can we do to help partners to find, prepare and develop land and provide infrastructure? How can it be funded with reduced resources?**

The creation of a rolling infrastructure investment fund using European funds to pump prime sites will assist greatly with this. Home Builders could then repay the fund by contributing in line with their cash flow when new homes are sold.

The planning of infrastructure is also crucial and must be integrated with the planning of land supply with the responsible departments and agencies brought in at the beginning of the process and funds earmarked well in advance to ensure the investment plans are truly aligned. Identifying problems at this stage would result in a much more streamlined, efficient process of planning for infrastructure provision in Scotland.

#### **What does the challenge of climate change mean for the balance of investment between new homes and improving existing stock?**

In an ideal world a supply of new build homes would quickly replace the aging, inefficient existing stock of homes in Scotland. In reality, there are 2.33 million households in Scotland and because we are only currently building 15,000 new homes per annum, we are only replacing 0.65% of the stock each year. If all new build homes were built zero net carbon from tomorrow, based on current build rates we would only make an annual impact on emissions of a 0.18% reduction. Even if we were able to triple current production the replacement rate achieved would still be less than 2% per year, with an impact on emissions of just over 0.5% each year.

Building Standards introduced this year give Scotland the highest technical standards of anywhere in Europe. To put the performance of new build homes into perspective, in 2009 it is estimated that the average home in Scotland will use over 23,750 kWh per year and emit around 5.8 tCO<sub>2</sub> per year (Scottish Government Energy Efficiency Action Plan). New homes typically use between 7,200 and 10,400 kWh per year and only emit around 1.6 – 2.2 tCO<sub>2</sub> per year.

Furthermore to put the financial impact of proposals to make all new homes net zero carbon into perspective, using the historical delivery rate of around 25,000 units each year, the impact of delivering 4,000 new public funded homes would be £100m per year, with the impact on the

private sector delivering 21,000 new homes per year at £525m per year. It must be remembered that the impact on the public purse will just be as harsh as it will be to the private sector.

Homes for Scotland continue to argue that the balance between investment in improving new build standards and improving the existing stock in Scotland is wrong. We accept that the home building industry is easier to regulate but the spending of the investment is completely inefficient. If for example home builders were asked to contribute for consequential improvements to neighbouring homes as a community gain from their development, at say £1,500 to £3,000 per unit built, there would be the potential to invest up to £75m in existing stock improvements based on the same production rate as above of 25,000. To illustrate the scale of this investment, that could fund free loft insulation in 262,500 homes - or 11% of the existing stock each year. This would result in far greater carbon reductions per pound spent.

We cannot ignore the facts when Scotland is challenged with increasing the supply of much needed new homes against a background of sustained and substantial reduction in the capital resources available, with the additional complex challenge of meeting Climate Change commitments.

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