HOMES FOR SCOTLAND

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The Strangulation of 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 resulted in a significant slowdown in the Scottish housing market, making economic conditions for all those involved in the sector very severe. Some geographical areas and market sectors are more affected than others, but the overall position is of huge concern.

The credit crunch has had a devastating impact on new build homes, one of Scotland's most important industries. This has already had a negative impact on Scotland's economy as a whole and is continuing to intensify. Further Government mitigation and support is essential if recovery is to occur.

- **A total of 100,000 jobs Scotland-wide** are now directly at risk. Around **26,000** (half of the industry's directly employed workforce) have already been lost. Using a multiplier of 1.8 to take the industry's strong backward and forward linkages into account, this figures then rises to over 46,000 and many more remain under threat.
- **The large-scale loss of skills and capacity** that has occurred will have far-reaching and long-term consequences once a recovery begins.
- **The biggest source of private investment in schools, roads, infrastructure and other community facilities** in Scotland has effectively vanished. New funding models are urgently required in response.
- With January 2009 statistics from NHBC showing an **88% decrease** in the number of new homes being started in Scotland compared with the same period in 2008, output has collapsed across all tenures. This includes affordable housing for First Time Buyers (FTBs), those on low incomes and new households.

Poor trading conditions have been compounded by a fundamental lack of consumer confidence, yet the base level need and demand for new housing of all types remains strong.

The number of mortgage products has reduced by 90% and mortgage lending by value has reduced by almost two thirds. There are no 100% FTB mortgages available. Therefore, **mortgage availability**, as well as the basic terms of mortgages, particularly for FTBs and key workers, is especially problematic.

Whilst Scotland may be considered to be more resilient than the rest of the UK, **its housing market is nonetheless in a very deep crisis.**

What has the Scottish Government done?

Via an intensive programme of lobbying and communications activity throughout 2008, Homes for Scotland called on the Scottish Government to provide strong political leadership, act to support the delivery of new housing throughout Scotland and protect the wider economy.

Our demands included:

- Increasing the availability of "mortgage to rent" funding
- Allowing RSLs to purchase land, part-completed and completed stock directly from the industry (providing a safety net for skills & trades)
- Influencing banks operating in Scotland to take a more balanced view of the risks here
- Increasing the proportion of funds placed into 'LIFT' and encouraging the development and use of private shared equity schemes in the open market
- Increasing funds and investing in other housing types to provide a soft landing for the wider house building economy

In response to our clarion call, the Scottish Government made a number of announcements on Housing, with the aim of easing the effects of the downturn. Click here for full details of Deputy First Minister Nicola Sturgeon's statement of 27 January 2009.

What can the Scottish Government still do?

Detailed analysis of recovery scenarios undertaken by Homes for Scotland shows that, without a concerted UK-wide economic re-inflation programme of public investment during 2009, it could take many years for supply levels to reach the Scottish Government's goal of at least 35,000 units per annum – significantly behind schedule

While the Scottish Government has delivered much of what we have asked for to date, because of the continually deteriorating situation, it must now:

- **implement the four key recommendations identified by the Housing Supply Task Force without delay:**
  - Identify alternative methods of funding infrastructure to accelerate construction of housing and other major projects
  - Ensure speedy implementation of planning system reforms
  - Establish a framework to assist the house building industry return to full capacity swiftly once markets improve
  - Make better use of public sector land for housing
- **consider the creation and use of a Scottish "Homebuy Direct" financial model to support private new build activity**

- **leverage out the maximum benefit from its already pre-funded reskilling and retraining programmes.**

- **expand its wider public infrastructure spending and get on with delivering such projects**

- **commit very significant sums of new public investment into housing provision**

- **massively accelerate the approval timescales for projects within its existing pre-funded "Affordable Housing Investment Programme" to bring forward the early delivery of new homes in 2009/2010**

- **in conjunction with CoSLA, impress upon Local Authorities the need for new thinking and processes to support development in the new economic reality**

What can Westminster and the UK Treasury still do?

Whilst Homes for Scotland welcomed announcements in November's Pre Budget Report and January's financial intervention to support lending in the economy, we believe that this was simply "too little, too late".

Westminster and the Treasury must now reverse the UK-wide housing market crisis by dealing with the base issues of mortgage availability and consumer confidence.

To that end, Homes for Scotland has joined forces with the Home Builders' Federation (HBF) in England & Wales to lobby the Treasury in advance of the Budget on 22 April 2009 as follows:

- exert greater influence on banking system to ease lending policies and mortgage offer criteria

- demand an immediate but temporary moratorium on **stamp duty** at all thresholds in order to re-energize the market. The present 3% levy is out of date and stagnating the demand for middle-range homes. (As the housing market continues to slow, the amount of stamp duty available for collection by the government has already halved, so overall this may be a cost neutral measure.)

- consider what measures can be put in place to assist **First Time Buyers** (who lack equity and are worst affected by tightening mortgage terms) in order to unblock the sector and remove the buying chains that now exist

- re-introduce **Mortgage Interest Tax Relief** to improve mortgage affordability specifically for those on low or below average incomes

HfS is continuing to meet with **Treasury officials** and **Scottish Secretary** Jim Murphy to raise its concerns and reinforce the need for further UK Treasury action on the above points.

HfS has engaged with Scottish representatives on the **Bank of England Monetary Policy Committee** to achieve a long-term reduction in the gap between Base and LIBOR interest rates.

HfS has twice met with **Treasury Select Committee Chair John McFall** on these issues.

HfS is regularly engaging with **other stakeholders** (such as CML, RICS, Solicitors' networks and other industry bodies) to ensure alignment with this call to action amongst their members wherever possible.

For further information on the Scottish home building industry, please visit www.homesforscotland.com.