

Introduction

COVID-19 has had a significant impact across the entirety of the Homes for Scotland (HFS) membership, ranging from micro-SMEs to large national home builders, as well as our diverse collection of associate members who all perform pivotal roles throughout the wider supply chain.

Home builders (across both public and private sectors), like all businesses, have been confronting challenges that have been emerging and evolving daily. The process of rapid lockdown, together with significant continuing fixed overheads, means that the sector has already incurred major costs, with many commercial and legal issues also needing to be dealt with. While recognising that all businesses interact with suppliers and purchasers, few sectors beyond housing involve such strict regulation at the front end, rationing the supply of raw materials and dictating production timetables. And none then combines this with such a complex set of relationships at the other end involving lenders, surveyors, solicitors etc as well as customers.

Public health has been and must continue to be the primary concern across Scotland and the UK, however, we must also acknowledge that significant interventions are now required to restart the economy.

In this light, the immediate focus and priority of the recovery for the home building industry over the coming months must be to safely ensure customers can move into their completed new homes. This will allow the Scottish housing market to keep moving and bring much needed receipts into the companies operating within this sector. Beyond this, we need to restart construction programmes to allow further homes to be completed and others to move home.

HFS has calculated that over 6,000 completed homes were due to be handed over, from our members alone, between April and June 2020, which could inject over £1.3 billion of transaction income into the Scottish economy. ¹ This is a clear illustration of the benefits home building brings across the wider economy, and unequivocally demonstrates our firm belief that stimulating home building and growth in this sector offers a strong, sustainable and viable solution on the road to Scotland's economic recovery.

¹ Homes for Scotland, 'First Minister asked to signal a timescale for the recommencement of home building in Scotland as housing market divergence increases', 13 May 2020. (Accessible [here](#)).

What are the medium to long term consequences of the lockdown on businesses, including loss of employees, debt overhang, loss of markets, reduced investment and unemployment?

Housing Deficit

The new build industry is in no doubt that that the prospect of production and sales returning to anything like normality in the early summer is nearly impossible and very few new site openings will be occurring over the course of the next six months, without some public sector interventions. Early estimates have suggested that even on best case scenarios, and assuming a return to production by mid summer, we may expect a reduction in completions for the year of around 30 to 40% from where they would otherwise have been.

This 'lost production' during lockdown will add to the already significant deficit in housing supply across Scotland, with an estimated backlog of 85,000 homes amassed over the last decade.² Good progress had been made in recent years of reaching 25,000 new home completions each year, with 2018 marking the first time in a decade that new housing delivery breached the 20,000 mark. As Scotland plans its' longer-term economic recovery, returning home building to pre Covid-19 levels of delivery will be vital.

Covid-19 will undoubtedly have a significant negative impact upon the Scottish Government's Affordable Housing Supply Programme (AHSP) to deliver 50,000 affordable homes by March 2021. Audit Scotland reported that as of December 2019, a total of 31,136 affordable homes had been delivered, leaving a further 18,864 to be delivered by March 2021.³ In this light, it is vital that we get home builders across all tenures increasing delivery as soon as possible.

Small Scale Home Builders

Small scale home builders have historically contributed significantly to housing delivery in Scotland. However, following the 2007/2008 recession, the recovery witnessed by the largest home building companies stands in stark contrast to that of the small scale home builders. As a result of the previous recession and lack of targeted support made available at both national and local levels, SME home building companies operating in Scotland decreased from 782 in 2008 to 465 in 2018, a reduction of nearly 40%.⁴

It is imperative that SMEs are supported through this crisis, otherwise Scotland will face the virtual eradication of small home builders who offer lifelines to rural, local economies through investment, employment and trade and supply chain opportunities.

The full recovery of SME home builders in Scotland post 2008 was prevented by:

- A shortage of development finance options available on fair and equitable terms. Mainstream lenders are generally very cautious about the SME sector. Banks will simply not lend to new entrants or surviving customers. This was witnessed again immediately as we entered lockdown, with the majority of lenders refusing to accept applications for emergency finance packages such as CIBILs from SME home builders.
- A lengthy and complex consents system which makes navigation and cash flow management a challenge. The front-loaded costs and lack of certainty prevents SMEs from investing in new projects and limits their ability to grow sustainably.
- A lack of available and suitable housing sites, coupled with the constant struggle of securing implementable planning consents, through a planning system crippled with delays.

We must ensure that these same obstacles do not return as home builders return to site and Scotland emerges from Covid-19.

UK Housing Market Divergence

The process of lockdown has impacted business across the entirety of the UK, causing significant degrees of uncertainty and negatively affecting business confidence. However, one must seriously consider the fact that businesses in Scotland have been operating to significant degrees of uncertainty caused by both political and subsequent economic events. The acute effects of this on Scotland's economic performance and ability to maintain continued inward investment cannot be dismissed.

² Homes for Scotland, 'The Value of Residential Development: A Research Report by Rettie & Co, September 2019. (Accessible [here](#)).

³ Audit Scotland, 'Affordable Housing: The Scottish Government's Affordable Housing Target', 9 April 2020. (Accessible [here](#)).

⁴ Homes for Scotland, 'Small Scale Home Builders: Increasing Supply', November 2019. (Accessible [here](#)).

This is especially true as other parts of the UK reopen construction and the housing market weeks ahead of Scotland. One cannot ignore the fact that for most developers operating on a UK-wide basis, their development scheme appraisals (which weigh up the relative risk and opportunity cost factors involved in investment decisions) are undertaken at a national level. With Scotland lagging behind the rest of the UK in terms of a return to home building, we must ensure that the Scottish housing market remains active and does not lose its ability to attract outside investment.

What will be the shape and form of the recovery and what will be the implications for the future growth and structure of the economy?

Economic Benefits of Home Building on Scotland's Economy

We fully support the view from the recently published Infrastructure Commission's report that housing is an essential part of Scotland's economic and social infrastructure, and therefore key to inclusive economic growth. Therefore, a well-coordinated, carefully managed, early recommencement of home building activity has the potential to kickstart Scotland's post-coronavirus recovery in both economic and societal terms.

Home building's economic significance is reflected in the direct contribution it makes through the Gross Value Added (GVA) that it produces (estimated at £1.6bn in 2013). This is stimulated further through the industry's extensive supply chains and networks as demand filters through, indirectly generating additional output, employment and spending.

With its strong forward and backwards linkages, applying the Scottish Government's input output multipliers to the home building industry's £1.6 billion direct GVA indicates that it supports a total of £3.2 billion in direct, indirect and induced GVA.

As mentioned earlier in the response, returning to pre Covid-19 levels of housing delivery must be a national economic priority, building the necessary momentum to address the significant housing deficit which exists across the country. It is estimated that the delivery of 25,000 new homes each year:

- Contributes £1.17bn in net capital expenditure and £5.1bn (direct, indirect and induced) economic output
- Supports a total of 101,630 jobs (direct, indirect and induced)
- Generates over £650m in resident expenditure across Scotland
- Could contribute over 1,500 affordable homes and a further £75.2m in Section 75 affordable housing contributions. This will be particularly significant in making up for lost production, towards the Scottish Governments aim to deliver 50,000 affordable homes. ⁵

However, returning to such levels of housing delivery in the face of an impending recession and probable lack of consumer confidence, will require government/political intervention.

Extension of Help to Buy and First Home Fund

- **We believe that the Scottish Government should prioritise the continuation of Help to Buy and the First Home Fund after March 2021. Given their proven success, an immediate extension to these schemes is essential. In addition to this, we call for the threshold of Help to Buy to be raised to £250k as this would particularly assist increased provision of family sized homes and support smaller scale home builders.**
- **We also propose an additional enhanced Help to Buy offer for NHS workers and other identified key workers. This should encompass a larger government equity loan than is normally available as well as a builder-funded discount.**

The affordability of housing was still being constrained by a chronic undersupply of new housing and a reduced mortgage market for new build homes in Scotland prior to the Covid-19 lockdown. This will undoubtedly become

⁵ Nathaniel Lichfield and Partners, 'The Economic and Social Benefits of Home Building in Scotland', January 2016. (Accessible [here](#)).

more apparent as we emerge from lockdown conditions, with the housing shortfall increasing steadily due to the lost production while home builders stay off sites.

In this light, it is vital that the Scottish Government ensures that its successful home ownership schemes such as Help to Buy (HTB) Scotland and First Home Fund (FHF) are maintained for the foreseeable future, until we can accurately determine the true impact Covid-19 has had across the housing market.

The success of HTB Scotland since 2013 has been considerable in increasing the access to home ownership for thousands of Scotland and providing the home building industry the certainty and confidence it needs to continue to invest in a variety of affordable tenure choices across the country. Since 2013 HTB has supported: ⁶⁷

- Over 15,000 people into home ownership, with well over 10,000 of these first time buyers, accounting for approximately 72% of all transactions.
- Supported over 4,000 people out of the private rented sector (PRS) and approximately 900 people out of social housing.
- Supported over 2,000 SME home builder sales through the Small Developers Scheme.

If HTB is not maintained, especially as we enter a likely global recession, there will be serious disruption within the marketplace, with a reduction in supply, particularly in smaller starter homes. There would be associated negative impacts for customers, continued pressure on house prices and continued upward pressure for rent levels in the PRS. Indeed, in secondary markets and regeneration areas in particular, the removal of HTB will undoubtedly undermine the development viability of new projects with a subsequent knock-on impact on the ability of developers to deliver mixed tenure communities.

Further, whilst the First Home Fund was in its' first pilot year of operation, we believe it should be maintained post March 2021. Initial feedback from our members has suggested that the scheme is proving popular and customers show similar levels of interest in it as HTB.

Land and Building Transaction Tax (LBTT) holiday and rate reduction

- **Market confidence will undoubtedly take time to rebound and as such we propose an immediate LBTT holiday on new build homes to bring the market back with some pace.**
- **In the medium-term, a reduction and re-evaluation in LBTT rates across all bands would help to stimulate transactions across the entirety of the market.**
- **In the longer-term, we believe specific LBTT rates or reliefs should be introduced and offered on the purchase of highly energy efficient properties, which are low or near zero carbon, to incentivise consumer behaviour towards the shared goals of a net zero Scotland.**

Whilst we acknowledge and welcome the First Time Buyer relief available on LBTT, we have consistently expressed concern over the impact of the devolved tax on the middle to upper part of the Scottish housing market. The divergence of LBTT from equivalent tax regimes such as SDLT in England is having a disproportionate effect on regional housing markets, especially those in Aberdeen and Edinburgh where the average family home commonly exceeds £325k and as such incurs a higher tax rate of 10% as opposed to 5% in England. Feedback from our members has highlighted the impact this is having on residential transactions for purchasers looking to move up the housing ladder to a larger sized family home, but who are deterred due to the higher tax they will be liable for. As a consequence, this narrows the availability of housing stock in the middle of the market.

Not only does LBTT have an implication on the supply and demand of new housing, in its current format, extreme caution should be taken when calculating future LBTT forecasts. At present, LBTT forecasts assume a continuation of current market conditions. Whilst demand for Scottish properties remains strong, the Scottish Government should be mindful of the impact of more uncertainty on prices and supply, especially in core market areas such as Edinburgh, which contributes one third of all basic LBTT receipts alone. It should also be noted

⁶ Scottish Government, 'Help to Buy (Scotland) monitoring: characteristics of households report: September 2013 to March 2016, June 2017. (Accessible [here](#)).

⁷ Scottish Government, 'Help to Buy (Scotland) monitoring: characteristics of households report: 2017-18 to 2018-19, June 2019. (Accessible [here](#)).

that many home builders across Scotland are having to subsidise LBTT payments during the sales process for those purchasers who simply cannot afford the additional costs incurred through higher LBTT rates. This is unsustainable in the longer term and will impact on future Scottish Government tax receipts.

Affordable Housing Supply Programme

- **The affordable housing sector needs immediate commitment that the current 2020/2021 funding programme remains available to deliver what has been already programmed.**
- **The Scottish Government must provide these assurances immediately to get the wider supply chain back in operation.**
- **Furthermore, a clear commitment to the funding available post March 2021 is essential to continue to meet existing housing need in Scotland as well as tackling any further housing shortages brought about as a result of the Covid-19 shutdown.**

The Scottish Government pledge to deliver 50,000 affordable homes during the course of the current parliament has seen a steady increase in supply, aided by substantial financial support to achieve this target. It is vital that momentum continues past March 2021, bolstered by further future targets (within an all-tenure housing target) and continued funding streams.

Private housing developments are required to provide an element of affordable housing and the financial support from the Scottish Government for its Affordable Housing Supply Programme (AHSP) has enabled both private and public sector home builders to work together and strategically unlock more challenging sites. The grant funding for affordable homes has proved crucial over the past years, allowing developers to open up sites that had significant upfront infrastructure costs. If we are to ensure that everyone in Scotland has the freedom of choice to find a home that is warm, affordable, secure and meets their needs, it is crucial that the Scottish Government continues to support funding for affordable housing.

As reported by Audit Scotland, as of December 2019, there were still over 18,000 affordable homes to be delivered by March 2021 if the Scottish Government is to meet its 50,000 affordable homes target. Whilst Covid-19 will now make this delivery by the end of the current parliament incredibly difficult, the Scottish Government should intervene to purchase completed homes, those close to completion or sites suitable for development, either directly or via housing associations. These could include Mid-Market Rent or Market Rent as well as specific support for First Time Buyers or Key Workers. A variant of this could be to provide a partial guarantee over some housing stock held by builders that is either completed or close to completion. The volume available depends on how quickly builders can return to production, and the speed with which the market returns to something resembling normality.

Council Tax and Business Rates Exemptions / Reliefs

- **A moratorium on council tax requests on unsold new build properties.**
- **Homebuilders to be included in the 100% rates holiday for the year 2020/21.**

While sites are closed and with little prospect of sales in the coming months, we would encourage a moratorium on council tax requests on unsold properties which require no level of servicing from local authorities.

The suspension of business rates does not currently include home building, despite the fact that companies are not currently advised to be operational. The Small Business Bonus scheme may assist some of the very smallest SMEs, however, for the majority of home builders the problem is that business rates are aggregated so, for example, where a builder is operating on multiple sites, any claim for relief is viewed with reference to the total value of rates paid by the company across Scotland, thus making them ineligible.

We ask for home builders to be included in the sectors covered by the 100% rates holiday for the year 2020/21 in line with other sectors so significantly impacted by closure.

Long Term Economic Support Through National Investment Bank / Building Scotland Fund

The scale of the challenge ahead of Scotland in bringing back pre-Covid-19 levels of housing delivery must not be underestimated. With the most optimistic economic reports suggesting that it will be 2022/23 before we see a return to anything resembling normality in the housing market, it is vital that we make use of all financial levers and mechanisms at our disposal to produce a truly coordinated effort in stimulating economic growth.

The Building Scotland Fund, as the precursor to the Scottish National Investment Bank (SNIB), has primarily been designed to unlock housing development and test the market ahead of the SNIB becoming operational. The Building Scotland Fund has clearly demonstrated the success and viability of the home building industry as a reliable and sustainable investment choice, with well over £100m agreed for a variety of projects.⁸ As we look ahead to the future recovery, the SNIB has the clear opportunity to provide innovative finance solutions to the Scottish development community to continue to stimulate growth in this sector and explore other areas such as 'green finance' as we transition ahead to net zero Scotland.

Whilst it operates primarily as a housing delivery agency, rather than a national investment bank, we would highlight the work that Homes England carries out as potential areas of the Scottish National Investment Bank to consider in advance of setting its objectives and missions.

Homes England is funded via a central grant from the UK Government, private finance investments and the income generated from its own investment receipts. This has resulted in several core funding mechanisms all of which are worthy of consideration to support the home building industry and consequentially stimulate economic growth:

- £5.5bn Housing Infrastructure Fund will provide grant funding to local authorities to bring forward land they could otherwise not develop themselves.
- £4.5bn Home Building Fund to provide short term development finance for the SME sector
- £1.03bn Land Assembly Fund which allows Homes England to act as a master developer and bring forward challenging sites that the private sector would not be able to progress without public sector intervention.
- £1bn Housing Delivery Fund to improve the availability of credit to SMEs.

Digitisation of Public Services

The Covid-19 experience has demonstrated that many elements of the Scottish housing market were previously lagging in their ability to deliver a digital service, for example the land registry or the delivery of some aspects of building control and verification. Recent weeks have demonstrated that increased digital services are possible and continued investment in this direction must be an essential part of long-term economic recovery.

What can be done now to ensure the transition to a wellbeing-oriented, inclusive economy on a transition to net zero?

Green Finance Packages for Low Carbon

HFS and its members fully recognise the challenges posed by the climate emergency and the subsequent need for the home building industry in Scotland to play its part in mitigating any future impacts.

The industry already plays a significant role in reducing Scotland's carbon footprint, with new homes being built today representing a 75% reduction in carbon emissions when compared to 1990 baseline levels. New homes already offer significant energy savings, with estimated energy costs around one third of the national average energy bill.

However, as Scotland moves forward from the impacts of Covid-19 on its economy, we must ensure that home builders are not impeded with unduly onerous legislation or regulation which limits their ability to deliver homes for the people of Scotland to live in, but instead that businesses and individuals are supported and clearly informed of what is expected of them, on Scotland's journey to net zero. We believe the following measures offer clear opportunities to ensure Scotland's housing sector can make significant progress in reaching net zero carbon:

- The SNIB must play a leading role in strategic investment not just in housing, but the required infrastructure and green finance needed to assist the sector in meeting Scotland's ambitious zero carbon

⁸ Scottish Government, 'Growing the Economy, Building Scotland Fund'. (Accessible [here](#)).

objectives. There are already a variety of financial funding packages available through the Scottish Government such as the Low Carbon Infrastructure Transition Programme, which has been implemented to draw investment into the development of new innovative low carbon solutions. However, many of these existing programmes are not currently applicable to the new build residential sector and therefore the scope should be extended to address this gap and accelerate transition.

- The Building Scotland Fund, which has primarily been designed to unlock housing development and test the market and develop processes as a precursor to the SNIB has been hugely successful since its launch with £100m already agreed for a variety of projects. We note that one of the additional objectives of the Fund is to act as a catalyst for wider business practice change such as reducing carbon. As such, this provides an already established pathway for funding to be evolved into providing financial mechanisms for the development of low carbon housing at a much larger scale.
- Financial incentives to reward behaviour that supports the transition to low carbon will be essential in changing the behaviour of individuals. For example, some banks are introducing 'Green Mortgage' products, a discounted mortgage rate for properties with high energy efficiency ratings. This lower mortgage rate, combined with reduced running costs could begin to encourage individuals to choose new, low carbon homes. The Scottish Government should actively encourage lenders and valuation surveyors to take a positive view of energy efficiency and operational costs when making lending decisions.

Conclusion

Housing is a key component of Scotland's economic and social infrastructure and as a result the home building sector in Scotland is well placed to play a strong role in leading the Scottish economic recovery. However, the likely economic fragility and low levels of consumer confidence we expect to see for a while to come means that increasing the scale of delivery across all tenures will require some degree of government assistance in the short / medium term. Such support will ensure that the home building industry can continue, and indeed accelerate, delivery to assist in the transition to a net zero economy.