

Introduction

COVID-19 has had a significant immediate impact across the entirety of the Homes for Scotland (HFS) membership, ranging from micro-SME 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.

Business Impact

Following the Prime Minister's announcement on 23 March confirming shutdown of non-essential shops and services, and the First Minister's subsequent announcement that all non-essential construction activity should stop, our members closed down their sites and sales centres and moved their office-based staff to home working where possible.

- A recent HFS survey carried out at the start of April revealed that from just 34 home builder companies, a total 4,083 employees had already been put on furlough, an illustration of the immediate steps our members had to take in reducing overhead costs when all cashflow had all but ceased. ¹

Following the rapid shutdown, home builders were given guidance from the Scottish Government that customers could still move into their homes and were supported by Building Standards Division and Local Authority Building Standards Scotland to do so. However, the subsequent closure of the Registers of Scotland and Law Society of Scotland advice to conveyancing solicitors rendered this virtually impossible for all but a few hardship cases. The Scottish Government's advice on Moving Home, and the legal exception made within the emergency legislation that moving home in reasonable circumstances was an exempt activity, was too late for most purchasers who were caught in an unenviable position. While some subsequent home moves were completed in the subsequent weeks, the numbers are a tiny proportion of those expected before the lockdown commenced.

- For the period 23 March 2020 – 10 April, the average percentage of forecasted settlements achieved by 28 home builder members was 43%. However, 13 achieved 20% or less of their forecasted settlements for this period. ²

¹ Homes for Scotland – COVID-19 Business Impact on Members (April 2020)

² Homes for Scotland – COVID-19 Business Impact on Members (April 2020)

- From a further survey of our members, over 6,000 homes with an estimated value in excess of £1bn were due for completion between March and June. For those customers who have contracted to complete the purchase of their new home, this will have implications for multiple other transactions in their chains with possible legal and financial consequences.
- Data provided from a representative sample of our home builder members on weekly reservations, site visitors and active sites has revealed that in the **4 weeks since lockdown began Net Reservations has decreased by 77%. HFS continues to closely monitor market activity across our membership and can provide more up to date data once received.**

Whilst all sites across Scotland are currently closed due to lockdown, our members incurred significant costs due to the rapid nature in which the shutdown occurred, with numerous factors and expenses involved when closing sites so quickly. Further, whilst all private business are experiencing continued and/or increased costs during lockdown, home building is unique in that whilst our members are similarly experiencing vastly increased overheads from a range of factors such as site security, material costs, insurance costs, plant hire, legal fees etc, due to the nature of the homebuilding cashflow model, the majority of all their outgoing expenditure is required upfront, months before any receipts begin to come in.

Taking all of the costs home builders are accumulating at present into account, with no real source of income or steady cashflow, our member survey carried out at the start of April 2020 showed that from a representative sample of 34 home builders:

- 76% believed they could only sustain their business for a maximum of three months.
- This is predominately weighted from responses from our SME homebuilder members who are acutely exposed more than other organisations to the financial risk and economic contraction posed by COVID-19.

The industry is in no doubt that the prospect of production and sales returning to anything like normality in the early summer is now impossible and very few new site openings will be occurring over the course of 2020. Early estimates have suggested that even on best case scenarios, and assuming a return to some level of production by Q3, we may expect a reduction in completions for the year of around 30 to 40% from where they would otherwise have been. This is not something that can be recovered even in the space of 12 months and it could be 2/3 years at least before we return to anything near recent activity levels and economic contribution.

As was the case with the recession of 2008, we expect that the worst hit home builder companies will be the Scottish-based SMEs. The number of active SME home building companies decreased from 782 in 2007/2008 to 465 in 2017/18, representing a drop of nearly 40%. In turn, the number of homes for sale being delivered by these companies dropped from 4,846 in 2007 to just over 2,700 homes a year in 2017/18. The impact of COVID-19 on these companies cannot be overestimated and we could, in fact, see the virtual disappearance of the small Scottish home builder with associated job losses and economic impacts.

Access to Finance

Coronavirus Business Interruption Loan Scheme

Early attempts by many home builders to access Coronavirus Business Interruption Loan Scheme (CBILS), particularly many smaller SMEs, have proven to be unsuccessful. Large, mainstream accredited lenders have confirmed that they are not willing to consider applications from some home builders regardless of the circumstances or sustainability of the business. This appears to be due to the guidance from Treasury / British Business Bank seeking evidence of an ongoing / smooth cash flow rather than the more sporadic nature of cash flow experienced by home builders. In addition, many home builders, especially SMEs, have debt financing provided by non-high street lenders who were not listed as approved lenders for the CBILS scheme.

Emergency Loan Fund for SME Home Builders

In light of the above constraints, HFS has called for Scottish industry-specific support measures for SMES who, until COVID-19, had viable businesses. The necessary health requirement to stop and the subsequent closure of Registers of Scotland, immediately cut off income to home builders. The nature of home building is that costs are incurred on a regular basis as build progresses, however, revenue is not received until properties are sold. As a result, viable businesses faced immediate short-term liquidity issues overnight.

There has been no imperative for Westminster to find a solution, as home builders elsewhere in the UK have been encouraged to continue building.

We therefore welcome the announcement from the Scottish Government regarding the launch of a new emergency loan fund for SME home builders, available on 18 May. With the scheme only being open to home building companies with an annual turnover of under £45m, this will provide a crucial lifeline to much of Scotland's SME sector, providing applicants with short term loans of between £50k - £1m, with 2% interest, repayable within 2 years.

HFS has worked closely with Scottish Government to shape the scheme and ensure the application process and details are clear and concise for business at this time of great uncertainty. The fund should help with immediate short term liquidity issues for SMEs during and immediately post lockdown.

Business Rates Relief

The suspension of business rates does not currently include home building despite the fact that companies are currently advised to not 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.

Medium and Longer Term Recovery

The homebuilding sector in Scotland currently supports an estimated 63,000 jobs and generates in excess of £3bn GDP per annum.

Prospects for long term recovery of the housing market are very uncertain and forecasts suggest it could be 2-3 years before the number of homes being built returns to anything like pre-covid levels. As the country enters recession and unemployment levels look set to rise, consumer confidence in purchasing a new home is likely to be significantly reduced. In addition, any reduction in government funding commitments to the affordable housing programme will have a significant impact on the delivery of new homes for rent.

This reduction in output will have associated substantial knock on impacts on GDP and employment. It should therefore be expected that our members will be looking to Scottish Government to help with longer term market stimulation measures as we have seen in previous recessions where they developed schemes such as MI New Home and Help to Buy, as well as incentives such as LBTT relief, currently being called for by others.

Should you require any further data or information on anything referenced throughout our response, please contact Homes for Scotland Policy Officer David Petrie (d.petrie@homesforscotland.com).

All data provided is relevant as of 14 May 2020.