

## 1. Introduction

- 1.1. The Scottish home building industry plays a central role in our country's social wellbeing and economic success, delivering 20,255 new homes in 2018. It makes a significant contribution to Scotland's GVA (£3.2bn in 2014) and public finances through job creation, increased resident expenditure and significant contributions through taxation. Homes for Scotland (HFS) speaks on behalf of c.200 member organisations which together deliver the majority of these new homes.
- 1.2. 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 across the larger supply chain. Home builders (across both public and private sectors), like all businesses have been confronting challenges that have been emerging and evolving daily.
- 1.3. 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.
- 1.4. 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 will be required to restart the economy as soon as it considered safe to do so.

## 2. Immediate Financial Impact

- 2.1. 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 has but ceased. <sup>1</sup>
- 2.2. 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. <sup>2</sup>
- 2.3. From a further survey of our members, over 6,000 homes with an estimated value in excess of £1bn are 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 consequences.
- 2.4. **These 6,000 homes, worth £1bn to the wider Scottish economy would also currently be providing:**
  - **Approximately £6m in council tax to Local Authorities<sup>3</sup>**
  - **Approximately £7.5m in LBTT to the Scottish Government<sup>4</sup>**

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

<sup>2</sup> Ibid

<sup>3</sup> The average Scottish Council Tax Bill is £1,069.00.

<sup>4</sup> The average price of a new build home in Scotland is £208,000. This approximation does not take into account FTB reliefs, Additional Dwelling Supplement, nor does it consider LBTT receipts from Land Transactions.

- 2.5. 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 more acutely exposed than other organisations to the financial risk and economic contraction posed by COVID-19.
- 2.6. As we move towards 3 months of shutdown, these survey results are increasingly concerning as permanent closure of these businesses with the associated job losses and economic impact becomes more likely.

### 3. Longer Term Financial Impact

- 3.1. The industry is in no doubt 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. Early estimates have suggested that even on best case scenarios, and assuming a return to production by the summer, we may expect a reduction in completions for the year of around 30 to 40% from where they would otherwise have been.
- 3.2. 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. Indeed, in their Spring / Summer 2020 Housing Forecast, Rettie & Co have said, *'the optimistic scenario assumes a bounce back in 2021, with the market returning to 2019 levels again by 2022. The more pessimistic scenario would see activity taking another year or so to recover.'*<sup>5</sup>
- 3.3. This 'lost production' during lockdown will add to the significant deficit in housing supply across Scotland, with an estimated backlog of 85,000 homes amassed over the last decade. Good progress had been made in recent years of reaching a delivery of 25,000 new homes each year, with 2018 marking the first time in a decade that new housing delivery breached 20,000 completions. As Scotland plans for its longer term economic recovery, returning home building to pre Covid-19 levels of delivery will be vital. It is estimated that, the delivery of 25,000 new homes each year<sup>6</sup>:
  - **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)**
  - **Over £650m in resident expenditure across Scotland**
- 3.4. 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.<sup>7</sup> In this light, it is vital that we get home builders, across all tenures, returning to site as soon as possible.
- 3.5. Private housing delivery often acts as a catalyst for the physical delivery of new affordable homes as well as providing significant investment to affordable housing through Section 75 Agreements. Analysis from Nathaniel Lichfield & Partners has found that the delivery 15,562 homes in 2014 supported the delivery of 970 affordable homes and a further £46.8m in S75 affordable housing contributions.
- 3.6. The delivery of 25,000 homes could contribute over 1,500 affordable homes and a further £75.2m in S75 affordable housing contributions.<sup>8</sup>
- 3.7. 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

<sup>5</sup> The Market After Covid: Scottish Housing Forecasts Spring/Summer 2020, Rettie & Co, May 2020. (Accessible [here](#)).

<sup>6</sup> The Economic and Social Benefits of Home Building in Scotland, Nathaniel Lichfield & Partners, January 2016. (Accessible [here](#)).

<sup>7</sup> Affordable Housing: The Scottish Government's affordable housing supply target, April 2020 (Accessible [here](#)).

<sup>8</sup> Nathaniel Lichfield & Partners, January 2016.

being delivered by these companies dropped from 4,846 in 2007 to just over 2,700 units a year in 2017/18.<sup>9</sup>

- 3.8. The impact of COVID-19 on these SME companies cannot be overestimated and we could, ultimately, see the virtual disappearance of the small Scottish home builder with associated job losses and economic impacts. If this part of the market is lost, it will significantly negatively impact the overall health and functionality of both the Scottish housing market and wider economy. Particularly the rural communities they support through employment, and local area investment and limit their ability to contribute towards a stronger more inclusive Scotland.

HFS is continuously monitoring data provided from our wider membership as it becomes available to gather insight and analysis on the immediate and likely longer term impacts of the pandemic on business and the wider Scottish economy. Should the Committee require further or updated data, we would be happy submit this.

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<sup>9</sup> Small Scale Home Builders Report: Increasing Supply, Homes for Scotland, November 2019. (Accessible [here](#)).