
improving living in scotland



**Commission on Housing & Wellbeing
Consultation 2014**

28 November 2014

ABOUT HOMES FOR SCOTLAND

Homes for Scotland is **the** voice of the home building industry, representing some 200 companies and organisations which together deliver 95% of new homes built for sale each year and a significant proportion of affordable housing. We are committed to improving the quality of living in Scotland by providing this and future generations of Scots with warm, energy-efficient, sustainable homes in places people want to live.

Our aim is to foster the conditions necessary to enable the home building industry to prosper and make a significant contribution to Scotland's social, economic and environmental well-being.

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PROCESS

HFS met with the Commissions Project Team during the evidence gathering stage and we welcomed this engagement. HFS now welcomes the opportunity to respond to the Commission's draft findings.

First of all we would like to declare our support for a Commission that highlights the important role that housing has to play in our nation's wellbeing. The link between them often goes ignored by policy makers, potentially because the impact that good housing can have is difficult to quantify. This Commission will provide a useful resource to assist in increasing understanding.

In responding to the draft report we have answered the questions that are relevant to our interests. We have also taken the opportunity to point out some inaccuracies and offer some additional information that we trust is helpful to the Commission.

Response to Commission on Housing & Wellbeing Consultation 2014

Section 1 – assessment of the importance of housing for wellbeing in Scotland (Q1 & Q2)

We agree with the eight types of wellbeing that have been defined by the commission:

- Housing as 'home'
- Neighbourhood quality
- Health
- Education
- Employment
- Income
- Environmental sustainability
- Community safety

Additional comments:

Employment

HFS continues to remind policy makers of the strong connection between new housing construction and the economy.

Prior to the onset of the credit crunch in 2008, the home building industry was the largest source of private investment in the Scottish economy and a major employer, directly and indirectly responsible for the livelihoods of 100,000 people. It also contributed around £6 billion to the Scottish economy - that's 6% of GDP and greater than that of higher profile industries such as agriculture, fishing, electronics and tourism. (source - [THE ECONOMIC VALUE OF THE HOME BUILDING INDUSTRY 2007](#))

With an employment multiplier of 1.9 reflecting home building's strong forward and backward linkages, every new home built supports around 4 jobs. (extrapolated from [THE ECONOMIC VALUE OF THE HOME BUILDING INDUSTRY 2007](#) and [HOUSING STATISTICS FOR SCOTLAND - ALL SECTOR NEW BUILD](#)).

Every 9 homes built also supports one apprenticeship – the cornerstone of skills development for our industry. (extrapolated from [THE ECONOMIC VALUE OF THE HOME BUILDING INDUSTRY 2007](#) , [HOUSING STATISTICS FOR SCOTLAND - ALL SECTOR NEW BUILD](#) and CITB data).

Environmental sustainability

Please see comments under section 5.

Section 2 – Does Scotland invest enough in housing? (Qs 3 to 6)

Our interests in housing investment relate to supporting new supply.

It is important for the Commission to note that HFS is not supportive of all of the statements contained within this section in relation to new housing, which we feel undermine the potential to increase the supply of much needed new homes for Scotland.

Specifically, turning to the Commissions thoughts on what could be done in the medium and long term to improve investment in housing, our comments are as follows.

Medium Term

Commission proposal: to set national and local targets for overall house building requirements based on local housing needs and demands studies currently underway

We are wholly supportive of the Commissions proposal to set targets for home building across all tenures. We would call on the Scottish Government to accept and adopt this responsibility.

Housing production has fallen for the last six consecutive years and is now over 40% lower than in 2007 despite a record population and growing number of households. It is now at its lowest level since 1947 with less than 15,000 new homes built in 2013. With 170,000 people already on housing waiting lists and an estimated 21,500 new homes required each year to meet demand, there has never been a stronger case, or more urgent need, for significantly increasing housing supply.

The National Planning Framework would be a suitable strategic document in which to set out national, regional and local housing targets. The Housing Need and Demand Assessment process is now based on a national toolkit produced by the Government's Centre for Housing Market Analysis, which suggests to HFS that it would be perfectly possible to use this toolkit to produce assessments at national and regional levels. HFS would like to see Government policy documents make much stronger commitments to identifying housing targets in the national interest.

Commission proposal: To allocate more of the overall Scottish Government capital budget to investment in affordable housing, restoring the real value of the budget that existed before the cuts introduced following the Spending Review in 2012/13

HFS supports the increase in delivery of homes across all tenures. We remain supportive of innovative approaches to leveraging in additional funding from private sources to make the affordable housing budget go further, such as NHT and mid market models. We also support the recent increase in grant levels which we hope will make it easier for RSLs and others to access funding to deliver more social

homes. For HFS, it is about delivering higher volumes of new homes to meet demand, whether social, mid market or private rent or sale. Housing need is complex and a full range of tenure choice should be provided. Prioritising one tenure over another is counter-productive and divisive.

We note that the Scottish Government has allocated an additional £216.2m of capital budget from 2014/15 to 2015/16 within its draft budget 2014/15 and sustained increases at these levels are to be welcomed.

We would suggest that the capital budget, alongside the Scottish Government's new borrowing powers and potentially even guarantees, could be used to invest in infrastructure to unlock sites for housing development. Unlocking large sites for mainstream delivery will also result in the accelerated delivery of additional affordable homes.

Commission proposal: To give greater priority within the allocated Scottish Government's affordable housing programme budget to building new social housing rather than focussing on subsidies for low cost home ownership and 'mid market' rented housing on the basis that the social rented housing programme helps households with greatest needs.

We disagree with this proposal because we support the delivery of homes across all tenures. We feel that there is too often a pre-occupation with the delivery of 'social' units. Mid market and low cost home ownership are legitimate forms of affordable housing which add helpfully to the mix of housing supply. Without mid market or low cost affordable housing options, further pressure will fall on social housing. It is important that flexibility remains in place for the right type of affordable housing to be delivered in the right circumstances. Flexibility will also allow affordable housing providers to assess what is viable on site, as very often mid market or low cost ownership options can make the business case stack up for project funders.

All housing tenures must be supported appropriately to ensure an increased supply of new homes. The market needs to operate at all levels. Indeed, it should be remembered that private developments provide land to enable 'affordable' houses to be constructed. We do not think that giving the delivery of social rented homes any greater priority will result in an increase in housing output. We would be interested to learn if the Commission has undertaken any calculations to estimate what impact a re-prioritisation of resources further towards social housing would have on the number of homes that could be delivered each year in Scotland.

It is also worth noting that we continue to encourage the Scottish Government to support the new build industry to deliver new homes in other ways through its budget allocations. We have been calling for financial transaction funding to be used to support an increase in funding to the Help to Buy (Scotland) scheme, to introduce support specifically for SME home builders who are unable to access development finance and to stimulate the market for institutional investors in the private rented sector.

Longer Term

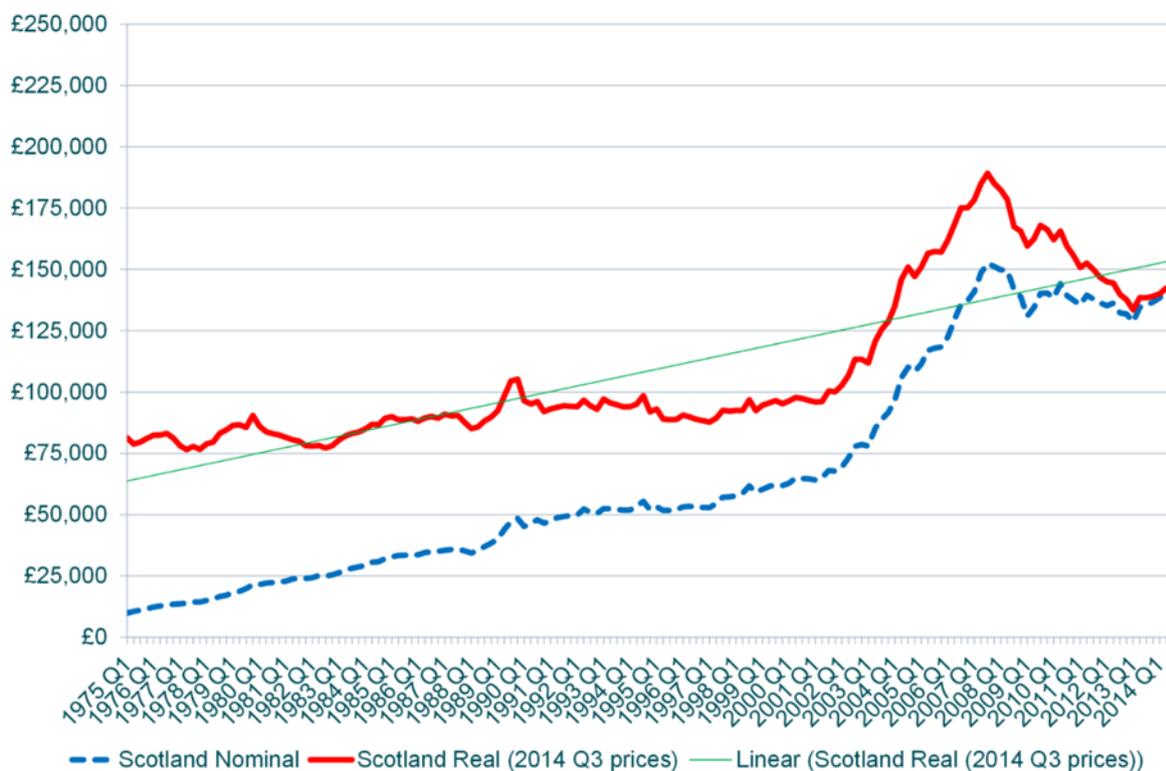
Commission proposal: Support the Scottish house building industry through action on land supply.

We will comment on this further under Section 3.

Section 3: Getting a better fit between housing and the economy (Q7 to 9)

Housing differs from the price of other goods and services that may not fluctuate in value at the same rate because it very much depends on supply and demand. Strong demand has been a major factor behind house prices rises in Scotland, especially since the start of the 2000s where we had a housing system under pressure with unmet demand for home ownership aggravating pressures on other tenures.

Using the Nationwide index work undertaken by Retties & Co (see graph below) has shown that house price growth doubled in 2001-07 and despite a 6 year economic recession, prices have flat-lined in nominal terms since. Going as far back as 1975, the graph shows that there was a nominal 6.68% increase to the present day, but only a 1.38% real increase.



In Scotland, historically, we have struggled to sustain an increase in the supply of new homes at over around 5% per annum. Adequate land supply and skills capacity have been major barriers to this. To ensure we have a housing system that is responsive to demand, where house price inflation and market volatility is managed, we need to ensure increased, sustained supply.

Help to Buy

It is important that the Commission fully understands the Help to Buy schemes.

Help to Buy (Scotland):

Help to Buy (Scotland) is a shared equity scheme introduced and funded by the Scottish Government. It followed the introduction of a very similar scheme launched in England (often referred to as Help to Buy 1) and is funded through consequential financial transactions received from Westminster. £275m has now been allocated by the Scottish Government for 3 financial years (2012-2016).

This scheme is available to buyers of new build homes from registered home builders up to the value of £250k. Up to a 20% equity stake is offered to eligible buyers from the Scottish Government on an interest free basis. The remaining 80% of the purchase is made up of at least a 5% buyer deposit and a mortgage.

Help to Buy (Scotland) allows those who wish to, and can afford to, buy their own home, therefore reducing the pressure on social housing waiting lists. Levels of public subsidy per unit are less than what they are for the provision of a home for social rent, plus the Scottish Government gets their equity stake back.

For full details please see: <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/BuyingSelling/help-to-buy>

Help to Buy Treasury Guarantee Scheme:

The Help to Buy Mortgage Guarantee scheme (often referred to as Help to Buy 2) is available to support buyers of new or existing homes (as well as remortgages) across the UK. The scheme will support purchases of up to £600k. The scheme is not restricted to first time buyers as the report suggests.

A mortgage supported by the scheme works in exactly the same way as any other mortgage except that under the scheme the Government offers lenders the option to purchase a guarantee on mortgage loans. Because of this support, lenders taking part are able to offer home buyers more high-loan-to-value mortgages (80-95%).

For full details please see: <http://www.helptobuy.org.uk/mortgage-guarantee/how-does-it-work>

The UK Government has produced a number of reports on the Help to Buy Guarantee Scheme and we would suggest that these are considered by the Commission. We would suggest that it is misleading for a sentence on house price inflation to follow immediately after Help to Buy given the findings of these reports.

Specifically, turning to the Commission's thoughts on what could be done in the medium and long term to improve the role of housing investment in the economy of Scotland, our comments are as follows.

Medium Term

Commission proposal – the development of controls to help stabilise the mortgage market, for example, by restricting high value mortgage lending, limiting loans to a maximum percentage of the value of the house and limiting loans according to household income.

Access to mortgages, to customers who are assessed to be in a position to sustain a mortgage, is key to the housing sector recovery to ensure confidence in new housing supply. Given steps that have been taken in recent years to ensure lending is sustainable, further regulation into the mortgage market is not necessary.

It would be very helpful if the Commission had an understanding of the Financial Conduct Authority's (FCA) recent Mortgage Market Review, much of which covered affordability assessments to ensure lender was sustainable. Furthermore, the Financial Policy Committee (FPC) of the Bank of England recently intervened in the mortgage market by asking lenders to stress test affordability at 3% over current base interest rate level and asked them not to lend more than 15% of mortgages at more than 4.5 times income. It will be interesting to see how the Council of Mortgage Lenders responds to the Commission.

It has to be acknowledged that the mortgage market is a UK wide market. Adding any additional controls in Scotland will result in lenders withdrawing from the Scottish market. Reduced competition will result in less choice for home buyers and potentially more expensive products. The impact of that risk on affordability must be noted.

It must not be underestimated how disastrous this recommendation would be on housing supply in Scotland. We suggest that this proposal is removed, and instead substituted with encouragement for a sustainable mortgage market and efforts made to get other mortgage lenders active in Scotland.

Commission proposal – progressing the 3 recommendations from the recent RICS Scottish Housing Commission Report designed to improve the supply of land for housing i.e. developing mast planning; new communities; requiring local authorities to meet higher land supply targets; and establishing a new Scottish Land Delivery Agency to source additional land for housing and support the delivery of serviced sites

HFS participated in the RICS Commission and therefore supports this proposal.

Commission proposal – developing a high quality private rental market

We will comment on this further under section 8.

Section 5: Getting a better fit between housing and the environment (Qs 14 to 17)

Energy efficiency of homes:

New build homes in Scotland are built to some of the highest technical standards in Europe and have already reduced their carbon emissions by 70% since 1990 levels. The building standards relating to energy are due to be increased even higher from October 2015. The Commission recognises that energy efficiency standards for new housing have already been the subject of review and recommendations but it could do more to celebrate what has been achieved in new build housing.

Whilst having the potential to increase the wellbeing of residents, it must be recognised that higher standards mean higher build costs for developers, which will result in higher house prices and/or reduced housing output. HFS is supportive of the Scottish Government's aspiration for there to be a market premium for energy efficient homes. If energy efficiency increased in priority for households looking to buy a new home and that resulted in a market premium, then there would exist a clear driver for builders and existing home owners to maximise efficiency and use that as a selling point. We have encouraged the Scottish Government to structure the new Land and Buildings Transaction Tax (which will replace Stamp Duty Land Tax from April 2014) around EPC levels to provide a financial incentive to help stimulate such demand.

Aside from that, with building standards already having achieved so much and new build homes only accounting for only 0.63% of Scotland's total annual housing stock, the policy focus to assist with this element of wellbeing clearly needs to be on improvements to existing homes.

Brownfield land:

We do not support the statement included on brownfield land which we feel is misleading. It does not take enough cognisance of the wider planning environment in which new build housing development takes place.

In many situations, building on greenfield land releases will help sustain communities, ensuring for example that there is enough of a local population to make public transport links viable.

It should also be noted that building on brownfield land already accounts for c70% of all new development in Scotland.

Specifically, turning to the Commissions thoughts on what could be done in the medium and long term to improve the fit between housing and the environment through Scotland, our comments are as follows.

Commission proposal – to review the design standards and planning requirements for new housing to ensure they result in housing which will continue to be attractive to future generations and built with materials that can be maintained in good condition in a cost effective way. Energy Efficiency standards for new housing have been the subject of review and recommendations and this proposal is targeted at other standards.

HFS strongly supports the principle of ensuring all new homes are of a high quality, are desirable and enhance the wellbeing and quality of living of their occupants. The use of clear design standards and planning guidance on both generic and locally specific design principles can be very beneficial when used in the right way and when applied in a way that is sensible and proportionate.

HFS would though urge that any new standards, policy or guidance meet the following criteria.

- Their role and status in the wider framework of planning and other controls must be clear. If national or local government state that raising design standards is a high priority then significant positive weight should be given to schemes which meet or exceed them.
- Any new standards etc. should be developed in collaboration with representative of the Scottish home building industry. This will allow for best fit between wellbeing aspirations and the ability of home builders, particularly volume builders, to adapt their methods and products to meet them. It will also allow for industry input on the viability implications of specific proposals, ensuring the new standards to not have unintended negative consequences on the ability of the industry to provide the new homes that the people of Scotland need.
- Reasonable lead-in times are provided when standards are newly introduced or amended. Home builders cannot react overnight to new standards, regardless of how willing and supportive they are of initiatives to improve the quality and marketability of their product.

- Careful consideration must be given to the best vehicle for introducing new design standards. As HFS has outlined in the past, the rise of energy efficiency as a planning consideration has resulted in a degree of double-regulation with both building standards and development management having a role in achieving national policy objectives. This creates problems where the standards required under the two regimes are not aligned, and can add unnecessary delays and costs to the development process as amendments have to be made to planning and / or building warrant applications and / or consents to ensure the separate demands of each system are met. This is not helped where pre-application advice and guidance provided by these two separate council services are not co-ordinated.
- Finally, any discussion on design standards must be accompanied by a debate on whether national and local planning policy in Scotland is adequately supporting the principal of development on land which is viable to develop and which help support the growth of the home building industry and, in consequence, its ability to increase the rate of home building across Scotland. This requires a greater willingness to allocate and grant planning consents on non-brownfield sites, and in areas with high housing demand. There is currently too high a degree of policy restriction on development of such sites in some parts of Scotland. This is strangling the ability of the home building industry to deliver the number of new homes local authorities purport to support, and is inhibiting the ability of people living in (or wanting to live in) those areas to improve their wellbeing and quality of life by having access to a range and choice of high quality homes in well functioning communities in desirable locations.

Commission proposal – take forward ideas for urban land reform designed to encourage more development on ‘brownfield’ land by circumventing problems created by multiple land ownership and other constraints without recourse to compulsory purchase. These proposals have been developed by Professor David Adams and which have recently been endorsed by the report of the Land Reform Review Group.

HFS recognises that there are a large number of brownfield sites across Scotland which have not been developed despite the fact that in many cases supportive planning policies and allocations, and even extant planning consents, are in place. There are though a range of reasons why these sites remain in abeyance. These include: unrealistic development briefs which tie prospective developer to densities or house types which cannot be marketed in that location in the current market, and which would not provide a reasonable return; unrealistic reliance on home builders to resolve, up-front, any infrastructure constraints on a site – rather than purposefully exploring alternative funding and delivery models; inflexible policy restrictions on housing developments in greenbelt and other greenfield sites, and on sites (of any nature) in some of the most marketable locations in Scotland.

Greater flexibility on the latter would boost the recovery of the home building industry resulting in greater rates of home building as well and increasing the longer-term prospects of the industry being able to shoulder the higher financial burdens of delivering some of the brownfield sites that are currently in abeyance.

HFS members are, unsurprisingly, concerned by the debate on increasing the use of Compulsory Purchase Powers, and on the overly-simplistic nature of some discussions on the practice of 'land banking'. A number of independent research studies undertaken over recent years have shown that landbanking is rare with a very low percentage of implementable planning consents not being taken forward ("implementable" meaning consents with no conditions or planning agreements which cannot actually be met by the developer).

Changes to planning legislation in relation to compulsory purchase must recognise the knock on impacts of how the home building industry operates financially – and changes must not be made unless accompanied by a clear understanding of how to counter-balance any undesirable impact on the strength and flexibility of the home building industry. The unintended negative consequences on the ability of the industry to sustain or increase the current rates of house building could outweigh any benefits of increasing the use of compulsory purchase powers. A more enlightened and accepting reaction by some local authorities to industry information on anticipated programming of sites that are viable but not deliverable (for business and marketability reasons) would help here.

If new or strengthened compulsory powers are to be developed, it will be essential that they come from a genuinely inclusive, strategic and ardent discussion on what an effective but fair regime would look like. It would not be reasonable to enable a public body to compulsorily purchase land from a private interest unless a fair set of ground rules had been established very early on that enabled an owner or prospective purchaser of land to make their financial commitments in the context of a clear understanding of the circumstances in which compulsory purchase would likely happen. For example, expected timescales for development would need to be written into site allocation policies and planning consents – and these would need to be based on a strong understanding of constraints and reasonable lead in times of individual sites. More note would need to be taken of information provided by landowners and developers than is currently the case in many parts of Scotland. The purchasing authority would need to be subject to strict requirements in order to avoid ill-thought through purchase of land which it is in no better a position to develop than the private sector. Safeguards such as these would encourage greater collaboration between public bodies and private interests over how a particular site can best be delivered – a debate that would range beyond planning to finance models, infrastructure programming and packaging of projects across and area or region to more comprehensively implement local, regional and national strategies. It should not of course be necessary to such collaboration to be dependent on the threat of compulsory purchase. There is a potential role here for the Scottish Government to play in commissioning and supporting frontrunner large-scale delivery projects

including home builders, local authorities and other public bodies, and potential funders.

Until there has been a wider debate on the principle and consequences of extending compulsory purchase powers, and on making sure any changes are fair, proportionate and very likely to increase development (either as a deterrent to holding land, or as a mechanism of delivery), HFS's position must be that an extension of compulsory purchase powers cannot be supported.

Section 8: Do we need a more robust private rented sector? (Qs 26 to 29)

Expansion of PRS:

It is hugely disappointing that, despite being consulted at the fact finding stage, the Commission has not recognised the work on building up the private rented sector which has been led by HFS.

Supported by the Scottish Government, world-renowned experts in housing finance from Cambridge Centre for Housing & Planning Research and LSE London were appointed in 2013 to undertake research with the aim of better understanding how institutional and other investors can be encouraged to invest in the provision of new rental housing at scale in Scotland. This analysis led to a set of recommendations to different stakeholders which, if followed through, could help encourage sustained increases in investment in rental property.

This work identified the current barriers to institutional investment in the private rented sector in Scotland and outlined 20 recommendations to be addressed to facilitate the strategic growth of the sector. A key research recommendation was the appointment of a Private Rented Sector "Champion". Gerry More was appointed to this strategic role in October 2014.

We suggest that the Commission considers this work and redrafts this section of the report.

Tenancy Reform:

The Commission's thoughts on what might be done to improve the rented sector throughout Scotland also seem to have been overtaken by the Scottish Government's consultation on Tenancy Reform for Assured Tenancies.

The final recommendation within the Building the Rented Sector report provides a word of warning and addresses the issue of maintaining continued confidence and competitiveness in the development of a professional private rented sector at scale.

Recommendation 20

One of the most important messages from this research has been the need for stability in the policy, taxation and regulatory environments. Although there is enthusiasm and considerable activity, there is also fragility. We therefore recommend that the Scottish Government should ensure that all parties are fully aware of the very positive approaches taken in legislation with respect to the twenty-year rules and the introduction of Land and Buildings Transaction Tax in April 2015 (the successor to Stamp Duty Land Tax). There also needs to be a clear commitment to ensure that the tax and regulatory environment does not negatively differentiate Scotland from the rest of the UK. The value of continued commitment to maintaining a predictable transparent regulatory environment cannot be overstated.

We would ask the Commission to bear this recommendation in mind when considering proposals to the Tenancy Regime. Any changes that dis-incentivise Scotland's ability to compete for investment would not be welcome and need to be balanced carefully with desired objectives. Regulatory and Tax changes will add uncertainty for investors and pose a risk to the expansion of this sector. Controls over rent increases, as suggested by the Commission as a longer term action to improve the private rented sector, should be seriously reconsidered.

For full details please see here: <http://www.homesforscotland.com/Our-work/Projects/Building-the-Rented-Sector>

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