



Scottish Council for
Development and Industry

POLICY SUBMISSION

Housing: Fresh Thinking, New Ideas

Consultation Response

December 2010

POLICY SUBMISSION

SCDI is an independent and inclusive economic development network which seeks to influence and inspire government and key stakeholders with our ambitious vision to create shared sustainable economic prosperity for Scotland.

For more information on this response please contact the SCDI Policy Team at

Campsie House
17 Park Circus Place
Glasgow
G3 6AH

e james.alexander@scdi.org.uk

t 0141 352 8553

Housing: Fresh thinking, new ideas

SCDI welcomes the opportunity to comment on the future of housing in Scotland.

Scotland has a serious housing shortage. This impacts on the economy in many ways, including constraining Scotland's potential for population growth. Resolving Scotland's housing shortage should be a major political priority. House building has been particularly hard hit by the global financial crisis, leading to numbers of new builds in 2010 falling 10,000 short of Scotland's average of 25,000 new houses and a long way short of the Government's target – supported by SCDI – of 35,000 new houses each year.

Prior to the global economic downturn, housebuilding contributed £6 billion annually to the Scottish economy and provided 110,000 jobs. This year, the number of jobs has almost halved due to a reduction in output. The primary cause of this reduction has been problems in the mortgage markets.

There are various reasons why a housing problem has arisen. These are: cultural preference for home ownership; right to buy; past generous tax treatment for ownership; increased ease of access to finance for housing and; housing used as an investment given increasing price trends.

Such increases in demand and their resulting price rises should lead to increases in supply. However, one of the main factors that the highlights as driving price levels up is in regard to the supply side. In particular, the constrained supply of housing. The Barker Review reported that, "Wider affordability can only be sustainable over the longer term by increasing the supply of housing".

Since incomes have not been rising at the same rate as house prices, particularly in rural areas, certain sections of the population, such as first time buyers, are finding it increasingly difficult to afford to buy a house. Since the global financial crisis, housebuilding has reduced dramatically, mainly due to problems for both developers and potential homeowners in obtaining loans to build or purchase property.

In some areas of Scotland, even those on relatively high salaries find it difficult to obtain adequate housing. This is true for both the local population looking to enter the housing market and those migrating to the area from outside to take up employment. This is particularly worrying as skilled workers in the private sector or key public sector workers may be discouraged or barred from coming to Scotland at a time when the continuing attraction of a skilled workforce is necessary. In areas such as the Highlands and Islands, labour markets are extremely tight and incomers are vital for the continued efficient functioning of the economy.

A lack of affordable housing causes problems within the labour market, constraining labour supply and mobility. Not only are people unable to move into an area of high cost to take up employment opportunities, it can lead to increased commuting times and

travel to work problems. It affects competitiveness and the sustainability of communities is compromised. There is increased exclusion of those outwith the housing market and other exclusion issues, such as a lack of access to services within the community, if people are forced to live further away from service centres within towns and cities. The housing problem is an economic one which requires action within the context of the Scottish Government's Economic Strategy and across Government Secretariats.

Funding

Difficulty in sourcing appropriately priced housing causes problems in recruitment and retention of key workers in both the private and public sectors. This places a strain on many companies and can also undermine the ability of a community to maintain high quality public services.

Housing policy in Scotland is split between spending where there is the greatest need, and spending where it can be most effective. SCDI believes a balance needs to be struck to ensure private sector builders are supported as far as possible, whilst the government should intervene in the parts of the market, especially socially rented accommodation, where the market is unable to reach alone.

SCDI supports the Affordable Housing Investment Programme (AHIP) as a key delivery vehicle for new affordable housing. 8,000 properties were made available through the AHIP in 2009-10, a 30% increase on the previous year. We welcome proposals in the Scottish Government's draft budget for £55m of new Government funding to deliver a £600m investment in new affordable housing.

SCDI is particularly interested in the development of new and innovative funding models such as the National Housing Trust and are pleased to see recent announcements of the success of this model in attracting developers. Work to encourage pension funds to invest in Scottish house building should be continued and enhanced. The Scottish Government should ensure it participates actively in the forthcoming review of Real Estate Investment Trusts (REITs), to ensure changes to the entry requirements of the REITs regime maximises the opportunity for new investment in housing for Scotland.

Planning

An increase in the number of houses being built is only part of Scotland's housing solution. It is important that housing is built in the right locations. This can best be done at a sub-national level and a combination of a local and regional approach is recommended by SCDI. Local authorities are most effective in identifying the numbers of houses that should be built in its area through setting locally relevant targets and supporting the achievement of those targets. Local authorities should be seeking to supply the housing that meets the demands in its own area. Having agreed each local target, SCDI sees merit in regional co-operation, which SCDI understands already happens, if "market areas" cross local authority boundaries. However, this co-operation should not be allowed to dilute local targets and commuting distances and travel-to-

work areas must be considered in defining “market areas”. To support this it will be necessary for the Strategic Development Plans and Local Development Plans of the planning authorities to complement and align with associated Local Housing Strategies. This should ensure that where the demand for housing is recognised, the necessary permission is granted to allow these houses to be constructed.

As well as the quantity and location of new housing, the mix of that housing will also be important to ensure supply of affordable housing. A range of homes will be required and should be reflected in the targets, plans and strategies of local authorities.

New analytical tools are required to assist planning authorities to match their plans to market forces. There is a need for new methods of analysis to be applied in gauging the level of housing provision required for Development Plans. Furthermore, housing plans should make specific representations on the following areas:

- Housing need
- Housing demand
- Availability of land
- Finance
- Expertise

The planning system also has an important role to play in reducing CO2 emissions. Planning authorities should be incentivised and empowered to approve low carbon developments. SCDI has also taken the view that future small thermal generating plants near population centres should have specific arrangements for the use of waste heat.

Demographics

There are currently several changes in Scotland-wide demographics and the demography of home ownership that need to be taken into account when developing housing policy.

The Scottish population is getting older. This requires thinking about the housing requirements of a population that is living longer. More housing may need to be adapted to meet the needs of elderly people. Pensioners of the future are likely to have less money than current pensioners, so affordable housing for an older population will be essential.

More people are living alone. This requires a change in the types of housing being constructed and its location.

The age profile of house purchasing has changed. The average age of a first-time buyer has risen to almost 40. This is a challenge for developers trying to finance house builds and could put strain on the property rental market, potentially squeezing the supply of rented property and increasing rents. Substantial rental increases have been seen in London over the last 12 months – this could also become a problem for Scotland.

Home ownership amongst young people has reduced. The group that would have been first-time buyers prior to the credit crunch are now having difficulty finding finances to make home purchases. This causes strain on property rental markets, but also leaves a young Scottish population with no physical ties to Scotland. Without the constraints of property ownership – concern and caution over sales tied people down over the recent recession – young, talented Scots will be free to leave Scotland for alternative employment elsewhere during a future economic downturn. This could be catastrophic for Scotland's age and skills profile which is already under considerable pressure.

Climate Change

Across Scotland, more individuals are concerned about climate change. At the same time, the Scottish Parliament has voted for considerable reductions in Scotland's carbon footprint. Reducing the CO2 emissions related directly and indirectly to housing will be a great challenge for Scotland.

The investment required to upgrade Scotland's housing stock to 2010 emissions standards will be significant and will take many years. At the current rate of construction, even if all new houses were built with zero CO2 emissions, Homes for Scotland estimates only achieving a net CO2 reduction from housing of 0.18% per annum. Even achieving the Government's housebuilding target, would have only a minimal impact on total household CO2 emissions over the medium term.

This is not to suggest that building green houses shouldn't be done – simply to advise that many other factors need to be taken into consideration to achieve the Government's CO2 reduction targets. An alternative strategy that needs to be followed is to encourage and allow people to live closer to their place of work or to public transport hubs. This means ensuring more housing is built in Scotland's cities, where historic housing policies have discouraged city housing developments.

Efforts to reduce emissions from the existing housing stock should also be taken forward. Loft insulation, for example, has the potential to make a far bigger impact per Pound spent than putting the same money into smaller, but more complex adjustments to new housing.

Heating is a significant part of the CO2 emissions from Scotland's housing stock. District heating projects are often the best solutions for new and existing housing because they do not require costly infrastructure networks. There has invariably been a funding gap between costs and what it is fair for consumers to pay, and SCDI welcomes the proposed Renewable Heat Incentive, which will need to bridge this funding gap. The successful feed-in tariff in Germany was also accompanied by a system of low-cost loans to consumers for installations.

James Alexander
Policy and Communications Manager
December 2010