

ESPC

WRITTEN SUBMISSION

ESPC is an established member of the East Central Scotland property scene, having been part of the market for over 40 years. As an organisation comprised of 141 solicitor estate agent members, we market members' clients' homes through digital, online and print services as well as through events, sponsorships and walk-in branches.

ESPC collects an unrivalled amount of housing market data for the East Central Scotland region and, with growing coordination between ourselves and sister SPC organisations, has access to a comprehensive store of information across Scotland and robust insight into the state of the national residential housing market.

Comments on the budget

Scotland is continuing to emerge from a prolonged and damaging economic recession in which the number of residential property sales fell by 50-60% across much of the country. Since the start of 2012, the number of homes selling has started to increase with this rate of growth accelerating in 2013. In Edinburgh, for example, residential sales rose by 5.9% annually in 2012. Through the first nine months of 2013 the rate of annual growth has risen to 17.5%.

At this stage the recovery remains in its infancy and economic headwinds could yet see it knocked off course. It is also important to note that, while the number of homes selling has risen, transactions remain substantially below pre-credit crunch levels as illustrated in Figure 1.

Figure 1: Residential sales in Edinburgh & Lothians

It is hard to overstate the importance of the housing market to the health of the economy as a whole. As Finance Secretary John Swinney said in his 2011 Spending Review document:

“As well as this immediate contribution to economic growth, the availability and affordability of housing is a key factor in the existence of flexible and deep labour markets. In the longer term, a well-functioning housing system is a key component of society’s infrastructure and a large stock of good quality, appropriate housing will help us achieve the country’s full potential through better educational and employment opportunities, healthier lives and a more prosperous and equal society.”¹

Listing his priorities as it related to housing, he said:

“Key pressures within housing include maintaining a forward programme for new housing to continue progress towards our 2012 homelessness target, to support the economy and Scottish jobs, and to provide a range of housing options, *particularly for people unable to access the housing market.*”²

The Scottish Government again recognised the importance of the housing market on the wider economy in this year’s Draft Budget by pointing out:

“every £100 million of housing expenditure, whether from the Scottish Government or other sources, supports a total of £180 million of economic activity and around 1,300 jobs.”³

However, one of the primary difficulties facing the market in recent years has been the raising of deposits by buyers for whom mortgage repayments would otherwise be affordable. For this reason we are pleased to see the Scottish Government commit to providing more direct help to home buyers looking to move on and up the housing ladder, most especially in the form of the Help to Buy (Scotland) scheme. We feel this programme will strengthen the Scottish home building sector – in much the same way it has done south of the border – and further strengthen the nascent recovery in Scotland’s housing market.

While media attention has primarily focussed on constraints on the demand side in the property market, the supply of new build properties to the market

¹ Scottish Government Spending Review 2011 and Draft Budget 2012-13, page 182.

² Ibid., page 189 (emphasis added).

³ Scottish Government Draft Budget 2014-15, page 120.

also fell sharply in the wake of the economic downturn. In the last three years, the number of private new build completions in Scotland stands at an average of 10,099pa – down from almost 21,000pa in the three years prior to the downturn⁴. For the long term health of the market it is vital that this decline is addressed such that there is adequate supply of new build properties to the market. Targeting the Help to Buy (Scotland) at the new build sector should help stimulate demand for new builds which will in turn increase the incentive for developers to build the new homes the market needs.

This programme should strengthen the housing market as a whole. Sales through this scheme will essentially be new sales that otherwise would not have occurred for a significant period of time (while deposits were being saved) if at all rather than being sales that have been transferred from existing homes to new builds. Therefore, this programme should not have a negative impact on the sales of existing dwellings. Further, the market for existing dwellings should benefit from the UK-wide mortgage guarantee scheme that will assist those with low deposits.

The market has been growing strongly in terms of sales volumes over the last 18 months but as yet this has not translated into a substantive rise in house prices in most areas of Scotland. Naturally, continued improvement in demand will exert an upward pressure on prices and we are encouraged to see that Help to Buy will be kept under review to ensure it does not cause an overheating in demand for new builds. That being said, sales are still well below peak levels and helping those who don't have large deposits, but for whom mortgages are otherwise affordable, should be of benefit to both individual buyers and the wider market.

Though there is of course the risk that the Scottish Government may be exposed to losses if prices in the housing market fall, they equally stand to gain from a rise in prices. Though downside risks remain, house prices have stabilised over the last two years and central projections would be for a modest rise in house prices going forward.

Conclusion

As the Committee will be examining this Draft Budget in light of the Scottish Government's stated priorities in the 2011 Spending Review, as it relates to boosting the supply of housing, we have been encouraged to see ministers acting with respect to the private residential market.

⁴ Source: Housing Statistics for Scotland – supply of new housing: *NB2 returns by local authorities to the Scottish Government, Communities Analytical Services*

The desire for home ownership is strong in Scotland but too many people were being locked out of the market by prohibitive deposit requirements. We are encouraged to see that the Scottish Government is taking substantive steps to help release this pent-up demand and believe it will lead to a stronger housing market and stronger Scottish economy.

While the recent improvement in the property market in Scotland has not been reflected in a rise in average house prices, we acknowledge that there is a concern that a further rise in demand could push prices up if not matched by an increase in the supply of properties to the market. It is therefore correct that the initiatives outlined in the Draft Budget be kept under review and ESPC is happy to provide any assistance that may be required with regards statistical analysis of the impact on property prices.

ESPC

14 October 2013