2. To what extent will the proposals in the Bill result in higher levels of new house building? If not, what changes could be made to help further increase house building?

The business model of private sector housebuilding is speculative in nature due to the way in which the land market in Scotland functions. Housebuilding output largely follows the business cycle with falling output closely correlated to economic downturns, and output only rising once the economy comes out of a recession.

Although it is feasible that a lack of planning consents in very specific locations might be a constraint, in general planning permissions across the UK are well over double housing completions.

Evidence provided to the House of Commons Communities and Local Government Committee on capacity in the homebuilding industry suggests that it is indeed the nature of the business model of building houses that acts as the major constraint. The business model of the volume housebuilders was described by a number of the chief executives of housebuilders as speculative, which by definition carries a lot of risk. Given that the supply of residential land in high demand areas is limited by location, speculative developers are forced to bid for land prices upfront.¹

Once a site is acquired and has been granted planning permission, developers will aim to build out units to meet demand above certain price thresholds in order to meet their profit hurdles and fulfil their obligations to their shareholders. In periods of faster economic growth, rising incomes will increase the number of people who can afford to buy houses in the income group the builder has targeted with the respective housing offering. During such periods, net private reservations will tend to rise, indicating growing profits for firms - which in turn will drive up completions.

Conversely, during a period of stagnating wages there is more likely to be lower demand at these prices and hence lower housing output levels. In such a scenario a builder providing units into the market at significantly lower prices would result in a substantial fall in its return on capital and its share price which is why supply remains at levels that maintain profitability.

If the Scottish government wishes to increase the level of housebuilding then it will have to reform the land market to remove the speculative element of bidding for land at very high costs upfront. In our view this will require the 1963 Land Compensation Act (Scotland) to be amended to remove prospective planning permission from the compensation arrangements. It is this clause that generates the incentives to speculative in land given the potentially very high profits. Residential land in

¹ House of Commons Communities and Local Government Committee Capacity in the homebuilding industry
Edinburgh is estimated to be valued at around £3.2m per hectare versus £800k for industrial land and £18k for agricultural land. Acquiring residential land at such high prices and which requires firms to manage the risk of these assets through the business cycle remains at the core of the issue.²

5. Would Simplified Development Zones balance the need to enable development with enough safeguards for community and environmental interests?

The proposals suggest that the zoning of land has the potential to unlock significant areas for housing development, including by alternative delivery models such as custom and self-build. While providing clearer specified types of development upfront might help make development priorities clearer, it does not fundamentally change the speculative nature of the current housebuilding model. Smaller firms are less able to manage the risk of acquiring expensive land parcels upfront. The firms that are able to acquire land plots need to be careful to build out at rates that the market can absorb without leading to a significant fall in profits. Hence, unless the land market is effectively reformed, it is unlikely that simplified development zones will have much impact on unlocking significant areas for housing development.

8. Is the proposed Infrastructure Levy the best way to secure investment in new infrastructure from developers, how might it impact on levels of development? Are there any other ways (to the proposed Levy) that could raise funds for infrastructure provision in order to provide services and amenities to support land development? Are there lessons that can be learned from the Infrastructure Levy as it operates in England?

While the intention behind the infrastructure levy to raise funds for infrastructure provision is to be commended, the challenge with such levies is that they have not proven to have been particularly successful in raising the level of funding corresponding to infrastructure provision.

For example, the Infrastructure levy provided only 4% of the funding for Crossrail in London. The Peace review of the levy in England cited that authorities are receiving as little as 50% of what they were expecting to collect. This places greater pressure on the risk of funding large scale infrastructure projects.

The Scottish government would be able to fund large scale projects if it decided to use the uplift in land values to fund the necessary infrastructure and affordable housing. This approach is typical across continental Europe. This can be achieved by reforming the 1963 Act as described above, which would enable a local development corporation to use the rise in land values to borrow directly from the capital market. Once the infrastructure costs have been paid for, the public and private landowners, who work together as risk sharing partners, generate income streams or profits.

² See http://progressive-capitalism.net/2017/05/edinburgh-benefit-8-6-bn-additional-funds-capturing-land-value/
Analysis on the Edinburgh City Region suggest such an approach would unlock an additional £8.6bn over 20 years for investment.  

A more detailed worked example of how this would work in practice has been set out by the Centre on the Oxford to Cambridge Corridor.

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3 See [http://progressive-capitalism.net/2017/05/edinburgh-benefit-8-6-bn-additional-funds-capturing-land-value/](http://progressive-capitalism.net/2017/05/edinburgh-benefit-8-6-bn-additional-funds-capturing-land-value/)