THE SCOTTISH HOUSING MARKET

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SPICe briefing

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This briefing note provides information on how the current economic climate is impacting on the housing market in Scotland. It includes information on house prices, house sales transactions and mortgage availability and the impact on the housebuilding industry. It also provides information on government policy responses to stimulate the housing market and assist those with difficulties paying their mortgage.

The Scottish Parliament

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KEY POINTS OF THIS BRIEFING

- The impact of the “credit crunch” on the Scottish housing market has become more pronounced in the last few months. Evidence suggests that the Scottish housing market is experiencing a significant slowdown. This has potentially undesirable economic and social consequences.
- House prices have been falling. Recent data from a number of sources show a consistent pattern of falling house prices over the last year, with falls of between 3.5% and 8.1% recorded. This contrasts to the position earlier in mid 2007 when some surveys showed prices in Scotland rising slightly.
- Falling house prices may mean that home ownership becomes more affordable to households and may allow more first time buyers to access the market. However, such households will still need to have access to a relatively large deposit and suitable mortgage products.
- Falling house prices may have a more serious consequence for those who bought a property, with a mortgage, at the peak of the market and have relatively little equity in the property or whose property is now worth less than they paid. This could discourage house moves further and may increase the likelihood of mortgage repayment difficulties if households were to experience any drop in income.
- The number of households experiencing difficulties paying their mortgage, and the number of repossessions is expected to increase at a UK wide level. There is a lack of specific Scottish data in this area to assess the extent of the problem in Scotland.
- The reduced supply of mortgages, a lack of consumer confidence in the housing market and economic uncertainty has resulted in a slowdown in the housing market in terms of the volume of sales. Registers of Scotland have reported that, in November 2008, recorded house sales were down by 58% compared to November 2007.
- The new housebuilding industry has been affected by the slowdown in the housing market. Developers have been delaying proposed new developments and making staff redundant.
- Both the UK and the Scottish Government have instigated measures to improve the functioning of the financial and mortgage markets and to assist those who may have difficulties in paying their mortgage.
- The main Scottish measures have focussed on reprofiling the Affordable Housing Investment Programme (which funds social rented and low cost home ownership housing) - £120m has been brought forward from 2010-11 to spend in 2008-09 and 2009-10 and increasing resources to debt and housing advice providers.
- The bringing forward of resources from the Affordable Housing Investment Programme has been welcomed by key stakeholder groups. However, there have also been concerns expressed about increasing resources aimed at low cost home ownership, in light of the current economic situation.

INTRODUCTION

SPICe briefing SB08-36 *Impact of the Credit Crunch on the Scottish Economy and the Scottish Housing Market (*Berry and Dewar 2008*)*, published in June 2008, provides an overview of the origin of the credit crunch. This briefing updates some of the statistical information, related to the housing market, provided in that briefing. Information is also provided on UK and Scottish Government's policy measures to improve the functioning of the housing market.

People's housing needs change as their economic and domestic circumstances change. An efficient housing market allows households to move relatively easily, with low transaction costs and without undue delay. Any disruption to the market which leads to lengthy delays has potentially undesirable economic and social consequences for householders. Disruption to the market has wider economic impacts as consumers reduce their spending on goods associated with household moves and house builders reduce their market activity. Evidence is growing that the Scottish housing market experiencing a significant slowdown in terms of activity.

HOUSE PRICES

Table 1 provides recent data on current house prices from various sources.

Table 1: Scottish and UK House Prices

		Scotland		UK	
Survey Source	**Period**	**Av. House Price**	**Annual Change**	**Av. House Price**	**Annual Change**
Nationwide	Q4 2008	£138,941	-8.1%	£156,828	-14.7%
Halifax	Q3 2008	£134,380	-6%	£175,143	-12.4%
Registers of Scotland	November 2008	£151,628	-3.5%		
Dept of Communities & Local Government	November 2008	£156,770	-3.9%	£199,732	-8.6%

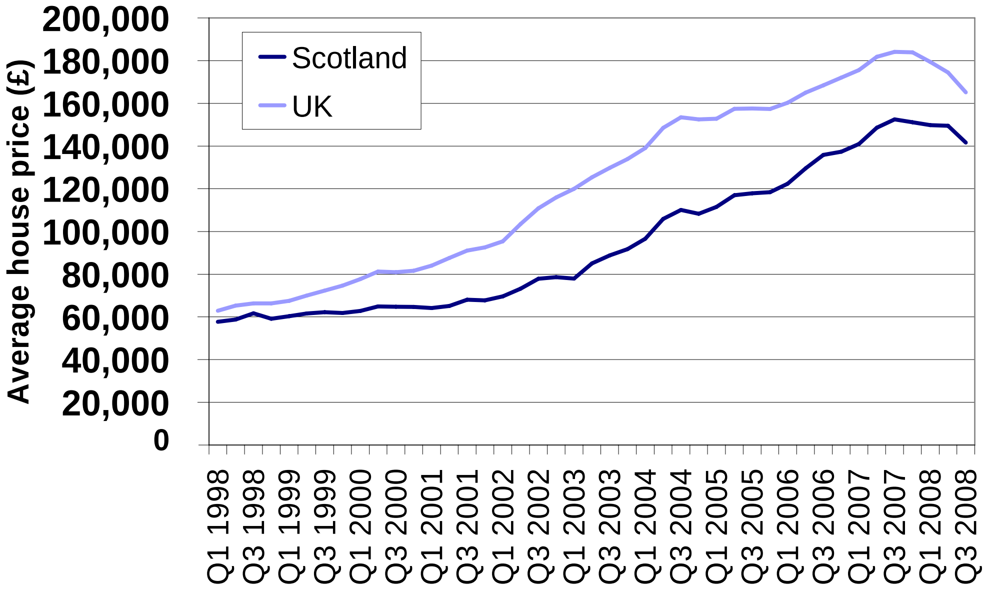
Sources: Nationwide (2009a); Halifax (2008); Registers of Scotland (2008); Department of Communities & Local Gov't (2009). Q3=Jul-Sept

Because of differences in survey methods the data show some variation in prices. However, Table 1 does indicate that all sources show that average prices in Scotland are falling. This contrasts to the position earlier in the year when some surveys were still showing prices in Scotland rising slightly.

The decline in house prices in Scotland has not been as great as in the other UK countries. This perhaps reflects the relative low level of average house prices and affordability in Scotland compared to the rest of the UK. Nationwide (2009a) reports that, **"…**While prices in Scotland are 8.1% lower than last year, Scotland was the only part of the UK to show a seasonally adjusted increase in prices in October-December. While prices increased by only 0.1%, this follows a fall of 5.1% in Q3 – larger than the UK average in Q3 – and suggests that conditions in Scotland are still somewhat uncertain."

Despite these falls, house prices remain at relatively high levels. As Fig 1 illustrates UK house prices have only retreated to levels seen at mid-2006 and Scottish house prices have only retreated to levels seen at the start of 2007.

Fig 1: **Average house prices 1998-2008 (Scotland & UK)**



Source: Nationwide (2008)

Falling house prices may mean that home ownership becomes more affordable to more households and may allow more first time buyers to enter the market. Statistics from the Halifax (2008b) suggest that the house price: earnings ratio (an indicator of affordability) in Scotland at Q3 2008 was 4.24 – the most affordable since Q2 2006. Despite an improvement in affordability, first time buyers hoping to enter the market still need to be able to access relatively large deposits and suitable mortgage products.

On the other hand, falling house prices may have a more serious consequence for those households who bought a property with a mortgage at the peak of the market and have relatively little equity in the property or whose property is now worth less than they paid. This could discourage house moves further and may increase the likelihood of mortgage repayment difficulties if households were to experience any drop in income.

MORTGAGE DIFFICULTIES

It is expected that the number of householders who have difficulties paying their mortgage will increase in the coming year. The Council of Mortgage Lenders (CML) (2008a) claim that, "…the worsening economic backdrop will inevitably lead to a rise in the number of borrowers losing their jobs and facing disruption to their income".

At a UK wide level the CML predicted that, by the end of 2008, 210,000 households to be more than three months in arrears, and this number is expected to increase to 500,000 by the end of 2009. These figures represent 1.45% and 4.41% of all mortgages respectively. The number of repossessions are also expected to increase. The CML estimated that by the end of 2008 there will have been 45,000 reposessions (0.38% of all mortgages) which could rise to around 75,000

(0.66%) of all mortgages in 2009[1]. A "significant number of these are expected to be cases where the property is abandoned or where property fraud has been perpetrated" and a "sizeable share are expected to be buy-to-let mortgages" (CML 2008 a). Tenants living in these properties may lose their accommodation which may create a greater level of insecurity for tenants. Because there is a lack of robust information at the Scotland level it is difficult to make any assesment of the level of reposessions in Scotland.

HOUSING MARKET ACTIVITY

The housing market in Scotland has slowed down, reflecting the reduced availability of mortgage finance, pressures on householders' incomes and lack of consumer confidence in the housing market.

Data from the Registers of Scotland[2] indicates that the number of sales registered in 2008 is at significantly lower levels than in 2007. As Table 2 shows, compared to 2007 the volume of house sales in each of the selected months fell progressively from -10.1% in January 2008 to -58% in November 2008.

Table 2: Volume of Sales Registered Selected Months 2007-2008

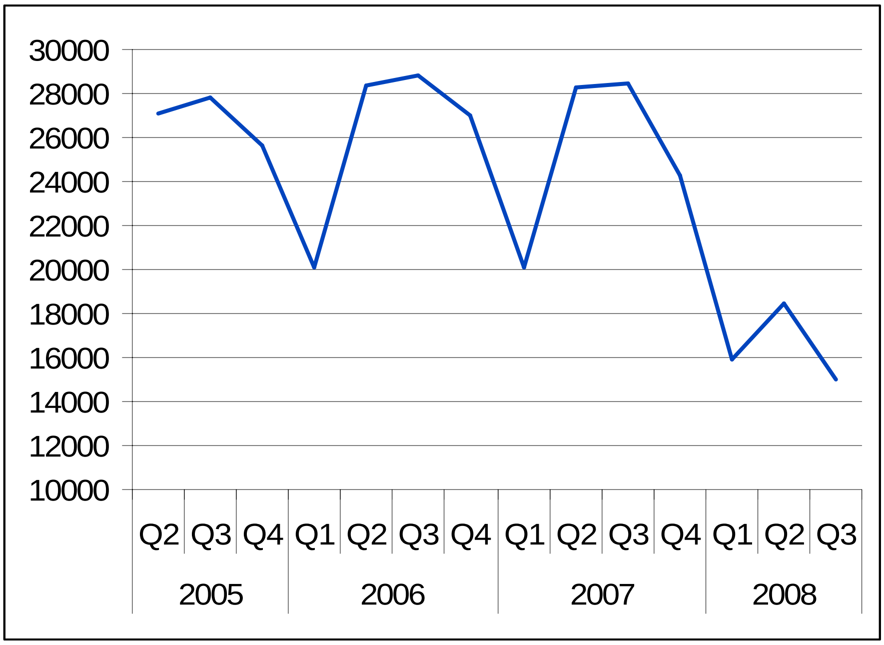
	2007	2008	Change
January	12,171	10,943	-10.1%
March	10,534	8,058	-23.5%
May	13,912	10,074	-27.6%
July	14,561	10,067	-30.9%
September	13,186	7,099	-46.2%
October	14,920	6,986	-53.1%
November	14,108	5,942	-58%

Source: Registers of Scotland House Price Statistics website:
http://www.ros.gov.uk/productsandservices/lpd_stats.html

The CML (2008b) has also reported a decline in the number of loans made for house purchase. As Figure 2 shows there were 15,000 loans for house purchase made in Scotland in the third quarter of 2008. This represents a 47% decline from the same period last year.

[1] These estimates relate relate only to first charge mortgages held by lenders who are members of the CML. They do not include arrears and possessions relating to other secured lending or to firms that are not CML members.
[2] The published ROS data relates to both cash sales and properties bought with a mortgage, and right to buy sales. Figures are for residential sales within the price range of £20,000 to £1,000,000. Not mix adjusted. It can take a couple of months between a property being sold and its sale being registered.

Figure 2: Number of Loans Issued for House Purchase– Scotland



Source: CML Web table SC2: http://www.cml.org.uk/cml/filegrab/2SC2.xls?ref=5996

Figure 2 reflects the fact that mortgage lenders have tightened their lending criteria and have reduced the number of mortgage products. Table 3 illustrates how the number of mortgages available at a 5% deposit or less has significantly declined over the past year.

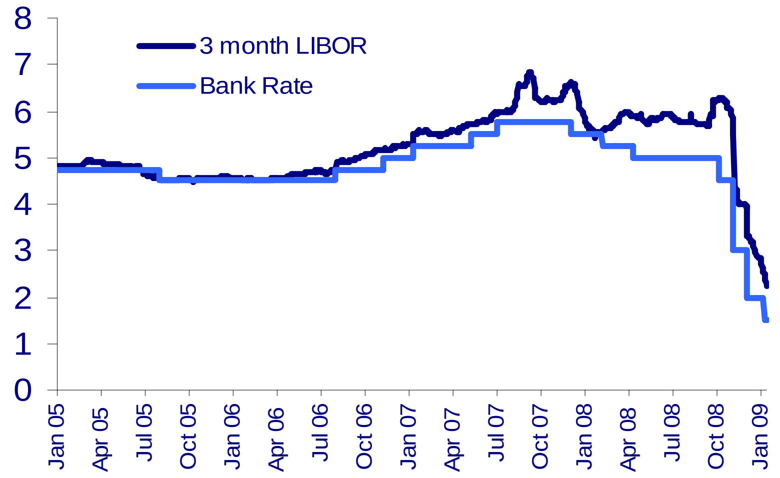
Table 3: Mortgage Deposits Needed, Feb 08 compared to Jan 09 (UK)

0% deposit - down from 182 to 10
5% - down from 1,023 to 11
10% - down from 1,197 to 148
15% - down from 245 to 227
20% - down from 243 to 158
25% - down from 669 to 447
40% - up from 24 to 341

Source: BBC 2009

As Figure 3 shows the Bank of England base rate has been cut successively since the middle of 2008. As a result of the most recent cut, made on 8 January 2009, the base rate, at 1.5%, is the lowest it has ever been.

Figure 3: Bank of England Base Rate compared to LIBOR rate Jan 2005- 15 Jan 2009



Despite these cuts in base rates, mortgage lenders have been criticised for their slowness to reduce mortgage rates, the extent to which mortgage rates have been reduced, and the removal of some tracker mortgages (Moneyfacts 2008). Moneyfacts reported that following the base rate cut in December 2008, "…76% of mortgage providers have announced a cut to their standard variable rate (SVR), with only 19 lenders opting to pass the cut on in full. 72% of those that have announced opted to pass on between 0.15% and 0.99%..." Mortgage rates are strongly influenced by the difference between the base rate and the LIBOR rate (the rate at which banks lend to each other). As Fig 3 shows, this difference fallen in recent weeks, and LIBOR is now closer to the level of the Bank rate. The CML has argued that,

> "…in the post-credit crunch environment, where Government and regulators expect lenders to operate lower-risk and higher-capital lending businesses, the pricing of mortgages relative to benchmark rates is highly unlikely to return to the very narrow margins of the pre-crunch era. And lenders will need to take account of the possibility of higher provisioning and losses in an environment of higher arrears and possessions. A decision not to follow a base rate reduction does not imply that the lender is "profiteering". (CML 2008c)

A number of commentators, including the CML and the Royal Institution of Chartered Surveyors (RICS) argue that housing market activity will remain subdued in 2009. RICS (2008a) point to a consensus amongst commentators that house prices will fall further over 2009 and that "…transaction activity, which has been particularly badly hit, may now have reached a trough and that, "…some pick-up in transaction activity is likely over the next twelve months". Nationwide (2009b) cite uncertainty in making any predictions about the housing market in 2009. On the one hand they suggest that there may be weaker demand from borrowers, in light of falling house prices, and uncertainties over the economy and labour market. On the other hand there will also be the, "…likely build-up in pent-up demand since 2003," which is expected to play a part in the recovery of the market.

HOUSEBUILDING INDUSTRY

As a result of the slowdown of the housing market developers have been delaying proposed new developments and have increased the range of incentives to purchase existing new builds, such as rent then buy schemes and underwriting the house value until a future date.

The slowdown has also led to redundancies in the housebuilding industry and its associated services and professions. Homes for Scotland (2008a) claimed, in October 2008 that, "…100,000 jobs Scotland-wide are directly affected by the health of the industry which is now at risk – around 26,000 (half of the industry's directly employed workforce) have already been lost and many more are under threat".

The most recent detailed labour market statistics show that in June 2008 there were 131,000 employees in the construction industry as a whole, a decline of 14,300 since a peak in December 2006 (Scottish Government 2008 a).

The slowdown will affect the number of new build houses available in the medium to long term. National House Building Council (NHBC)(2008) figures show that, UK wide, NHBC received 19,548 applications to start new homes, in the private and public sectors, during the three-month period from August to October, 62% lower than the same three-month period in 2007. The number of applications to start new private sector houses declined by 73% in the year.

Homes for Scotland observed that, in relation to Scotland, "NHBC figures would suggest that overall new home completions in 2008 may be in the region of 12,000-15,000, or up to 50% lower than 2007. Site starts in the second half of 2008 look likely to be very low leading to consequential lower completions in 2009." Homes for Scotland has modelled various scenarios for "recovery" of the housing market and conclude that:

> "It is starkly clear, therefore, that under any scenario the recovery in housing production will be a long-term process. This has major implications for pent-up demand for housing which all the population and household forecasts for Scotland and the UK show are needed. The Scottish Government's aspirations now seem very difficult to deliver within the originally-intended timescales without substantial intervention to resolve the fundamental underlying issues of mortgage finance availability and without large-scale investments in housing supply.
>
> Best estimates are that a recovery in the financial markets may begin in late 2009 or, more likely, 2010. What are the implications for housing completions and the Government's housing policy aspirations? The problem is that by 2010 industry capacity in terms of staffing and construction capacity will be dramatically reduced." (Homes for Scotland 2008a)

Another impact of the decline in new housebuilding is the potential reduction in private sector contributions to affordable housing. Where developers are proposing new housing in areas of housing pressure local authorities can, through "section 75" planning agreements, seek a contribution to affordable housing from developers. This contribution most commonly takes the form of land, but it could also be completed units or commuted sum payments. However, at this stage there is insufficient information to shed light on the extent of this impact.

THE PRIVATE RENTED SECTOR

While there has been a downturn in the number of transactions in the private sector the supply of, and demand for, private rented sector housing has been increasing. Citylets have reported that demand for rental property remains strong, in the face of reduced mortgage availability, and that the supply of rental properties has been increasing, above average trends:

"… The pattern usually seen is that stock levels increase throughout the first half of the year, decline sharply in the third quarter and stay fairly low through the last quarter. This year started in a similar fashion but in the third quarter stocks have increased.

Looking forward into 2009 the risk is that the economy and financial sector in Scotland contract, supply outpaces demand at a faster rate and stocks rise further putting downward pressure on rents. Although the effect may not be as dramatic as seen in the Irish rental market, by this time next year we could envisage average Scottish rental price growth slowing towards zero." (Citylets 2008)

POLICY MEASURES

Both the UK and Scottish Governments have instigated measures to improve the functioning of the mortgage markets and to assist those who may have difficulties in paying their mortgage. Table 4 indicates the main measures instigated by the Bank of England and the UK Government. A number of other measures have been instigated that are relevant to households in England and Wales - these have not been covered here. Table 5 covers the policy measures instigated by the Scottish Government.

UK POLICY MEASURES

Table 4: UK Policy Measures

Date	Measure
9 April 2008	The Government announced that Sir James Crosby would provide advice to the Government on options for improving the function of mortgage finance markets, working closely with mortgage industry experts.
21 April 2008	The Bank of England introduced the Special Liquidity Scheme. The scheme allows lenders to temporarily swap assets for government bonds for up to three years. The scheme was to run for 6 months until 21 October 2008. Mervyn King, Governor of the Bank of England, said that the scheme *"…* is designed to improve the liquidity position of the banking system and raise confidence in financial markets while ensuring that the risk of losses on the loans they have made remains with the banks" (Bank of England 2008a).
29 July 2008	Sir James Crosby published his interim analysis on the functioning of the mortgage market. (HM Treasury 2008a)
2 Sept 2008	The Government announced temporary changes to the Support for Mortgage Interest (SMI) scheme which helps people on Income Support, Pension Credit and income-based Jobseeker's Allowance if they are experiencing problems with the interest payments on their mortgage. From April 2009 the waiting period before SMI is paid will change from 39 weeks to 13 (for new working age claims). From April 2009 the capital limit for new working age claims will also be increased from £100,000 to £175,000 (Department of Work and Pensions 2008). Later, further changes increased the capital limit to £200,000 and brought forward the changes to operate from January 2009.
2 September 2008	The Government announced a temporary one year rise in stamp duty exemption from £125,000 to £175,000 from 3 September 2008 (HM Revenue and Customs 2008).

17 September 2008	The Bank of England extended access to the Special Liquidity Scheme from 21 October to 30 January 2009 (Bank of England 2008b).
8 October 2008 and 13 October 2008	The Government announced a range of measures designed to support the banking system. In particular the measures were designed to: • Provide sufficient liquidity in the short term • Make available new capital to UK banks and building societies to strengthen their resources permitting them to restructure their finances, while maintaining their support for the economy • Ensure that the banking system has the funds necessary to maintain lending in the medium term. The measures included up to £50bn being made available to eligible institutions through the Bank Re-capitalsitation scheme. When raising capital through the scheme, the participating banks receive an investment from the Government in return for shares. The volume of short term loans available from the Bank of England was doubled to £200bn, and the Credit Guarantee Scheme was established. The Credit Guarantee Scheme made up to £250bn available to eligible institutions in loan guarantees at commercial rates to encourage interbank lending. (HM Treasury 2008 b and c)
24 November 2008	The Crosby Report was published (HM Treasury 2008d). It concluded that new net lending is very likely to fall below zero in 2009 (compared to around £40bn 2008 and £108bn in 2007) with only a modest recovery likely in 2010. The main recommendation was that, for a temporary period, the government provide guarantees for securities backed by mortgage finance.
24 November 2008	In the pre-budget report the Chancellor announced that major mortgage providers have agreed to wait three months after falling into arrears before initiating repossession proceedings (HM Treasury 2008e). The Chancellor aslo outlined his commitment to pursue the main recommendation of the Crosby review (see above). The proposals will need State Aid approval from the European Commission. A Lending Panel was established consisting of lenders (including banks, building societies and specialist lenders), trade bodies, consumer groups, and the Government, regulators and the Bank of England. The Panel will monitor lending to both businesses and households. £3bn in capital spending was brought forward from 2010-11 Budget plans to the current (2008-09) and next (2009-10) financial years, to help support the construction industry.
4 December 2008	Following previous cuts in interest rates (see Fig 3) the Bank of England cut interest rates by one percentage point, from 3% to 2%.
3 December 2008	The Government announced its proposed Homeowner Mortgage Support Scheme. Under the scheme households who fall into arrears as a result of sickness, redundancy or a loss of income can defer part of their interest payments for up to two years. In turn, the deferred

	payments would be rolled up into the mortgage to be repaid once the borrower is back on their feet. The Government will guarantee the deferred interests payments in return for banks' participation in the scheme. The scheme will be available to those that have taken out a mortgage of up to £400k and have savings below £16,000 The eight largest banks; HBOS, Nationwide, Abbey, Lloyds TSB, Northern Rock, Barclays, RBS, HSBC – have agreed in principle to support the new scheme. It is expected that the scheme will be available to customers early in 2009. (Department of Communities and Local Government (2008b) and HM Treasury 2008f).
15 December 2008	The Government announced changes the Credit Guarantee Scheme, including its extension, from 3 to 5 years, and reducing the fee banks have to pay to use the scheme (HM Treasury 2008g).
8 January 2009	The Bank of England cut interest rates to 1.5% - an all time low.
19 January 2008	The government announced further measures to reinforce the stability of the financial system and to increase confidence and capacity to lend (HM Treasury 2009) The measures include: • extending the drawdown window of the Credit Guarantee Scheme from 9 April 2009 to 31 December 2009. • a new guarantee scheme for asset backed securities to improve banks' access to wholesale funding markets • offering capital and asset protection on those assets most affected by the current economic conditions, with the aim of reducing banks' uncertainty about the value of past investments, so providing them with greater confidence to lend in the future

SCOTTISH GOVERNMENT POLICY MEASURES

Table 5: Scottish Government Policy Measures

Date	Measure
25 June 2008	The government announced the launch of a Homeowners' Support Fund to help those who cannot obtain help from elsewhere remain in their homes. The new fund will include, and build on, the existing Mortgage to Rent Scheme (Scottish Government 2008b). The Mortgage to Rent Scheme funds social landlords to buy a person's house and let it to them as an affordable home, if the lender is seeking possession through the courts and there are good reasons for keeping the family in the same home. £25m will be available over 2 years: £10m in 2008-09 and £15m available in 2010-2011.
August 2008	The Government announced further measures (Scottish Government 2008c) including: • Funding an awareness raising campaign to encourage more Scots to seek money advice from the National Debtline if they are in financial difficulties.

	• Increasing the choice of homes available to buy through the Open Market Shared Equity Pilot scheme to help more first time buyers to get a foot on the property ladder. • Bringing forward £100 million of the Affordable Housing Investment Programme to accelerate building of affordable housing and provide support to the construction industry. Of the £100m brought forward, £30m is available in 2008-09 and an extra £70m is available in 2009-10. The Government has also allowed RSLs to use resources to purchase land or purchase unsold stock from private developers. • Proposals will be developed to allow owners in serious difficulties the option of retaining ownership of their home on a shared equity basis. These proposals are likely to be in place in early 2009.
7 October 2008	Details of how the first £9m of the re-profiled Affordable Housing Investment Programme were announced by the government (Scottish Government 2008d). £4m was made available for the acceleration of projects while £5m was made available for Registered Social Landlords to purchase land.
19 October 2008	The Government announced the extension of the open market shared equity pilot scheme to the whole of Scotland from 2009 (Scottish Government 2008e). The scheme allows low income households to purchase a home on the open market by only paying for part of it with the government funding the remainder of the home with an interest free equity stake. Previously it only operated in 10 local authority areas. In 2008-09 the budget was £24m and this will be increased to £60m in 2009-2010.
21 November 2008	The Government announced that it was extending the range of legal advice and support available across Scotland to families facing home repossession. An additional £3m over the next two years will be made available to provide more legal advice and representation for people facing repossession and other problems, such as debt (Scottish Government 2008f)
23 November 2008	The Government outlined the areas in which it was lobbying the UK for change. These measures being pressed for included: • Boosting Scotland's construction industry by applying a permanent reduced VAT rate of five per cent for Registered Social Landlords repairing and maintaining their housing stock. • Applying a temporary reduced VAT rate of five per cent for homeowners repairing and renewing houses. (Scottish Government 2008g)
27 November 2008	The Government announced how a further £9m of the accelerated Affordable Housing Investment Programme was being used (Scottish Government 2008h)

3 December 2008	The Government announced that, as a result of the UK pre-budget report, an additional £10m in 2009-10 would be available to spend on the affordable housing investment programme. Spending on capital projects in other areas was also brought forward to support the construction industry (Scottish Government 2008i)

Local Initiatives

In addition to the measures outlined above action has been taken at a local authority level. For example, Glasgow City Council has agreed to defer some requests for the payments companies have to make to develop sites and more flexibility in the way the council allocates grants for social housing (Glasgow City Council 2008). Highland Council (2008) has also agreed an action plan which sets out actions for consideration in the short, medium and long term including enabling developers to build low cost housing first by providing flexibility in planning conditions and increasing funding for welfare rights and money advice services.

POLICY DEBATE

It will take some time for the full impact of the measures to improve the housing market, as described above, to become apparent. Furthermore, what will happen to the housing market in the next year will also be dependent on consumer confidence and the wider economic situation.

There has been debate in the media and amongst relevant organisations about the effectiveness of the policy measures that have been instigated to date and what other measures could potentially be introduced. The following provides a brief overview of some of this debate.

UK MEASURES

While support has been expressed for the range of measures that have been instigated so far but there is also a view that more could be done by the Government (House of Commons Communities and Local Government Committee 2008).

Support has been expressed for implementing the main recommendation of the Crosby review – that the Government guarantees mortgage backed securities for new lending-and some organisations wish to see this implemented as soon as possible (eg RICS 2008b). However, some potential pitfalls relating to the proposals have been highlighted. Dr Williams of the Intermediary Mortgage Lenders' Association has commented that the Crosby recommendations do not go far enough as they are only related to new lending and the way they will be structured will probably be exclusive in some ways (House of Commons Communities and Local Government Select Committee 2008)." RICs (2008b) welcomed the Crosby proposals but has argued that the scheme on its own may have limited impact as, "…in a falling market lenders will be acutely aware of the risk of negative equity even if they have funds available for lending, especially if they have to pay for the cost of government guarantees". Furthermore, there is a risk that mortgage demand could fall further in light of falling house prices, and that "…the market could still be hampered by a limited number of buyers with adequate savings who are prepared to buy when prices are falling and unemployment is rising."

In relation to lending at a more general level the CML has urged the UK Government to clarify its objectives:

> "To different degrees lenders are facing conflicting pressures to recapitalise against possible future losses, service government's preference shareholdings at 12%, pay a premium to access the Bank of England Special Liquidity Scheme, show forbearance to borrowers in arrears, follow base rate moves down to help their existing borrowers, keep savings rates high to support existing savers, and provide competitive rates to new borrowers and savers to maintain economic activity in a recession. And they are supposed to ensure their long term financial stability to help the UK economy rebuild itself when we are out of the recession. Current policy objectives are conflicting and incoherent. The government needs to decide on its key priority. The tug of war with lenders being pulled in every direction at once needs to end….Ultimately, the response of each lender – whether on commitments to follow base rate moves or to finance new business in the future - will depend on its access to, and the price of, its funding." (CML 2008d)

Stamp Duty

There has been some comment to suggest that the temporary stamp duty exemption for properties priced at £175,000 or below will do little to stimulate the housing market, given the restricted availability of mortgage funding, particularly at 95% or above. It has been argued that second and third-time buyers may benefit more from a stamp duty exemption as they are more likely to have access to cheaper finance than first time buyers (The Scotsman 2008).

Homes for Scotland (2008b) has called for an immediate temporary moratorium on stamp duty at all thresholds in order to re-energize the market and argues that, "…the present 3% levy is out of date and is stagnating the demand for middle-range homes". The Scottish Government has also asked the UK Government to consider temporarily suspending stamp duty on all residential property sales below £250,000 in value as, "…this would particularly assist first time buyers as 97% of their purchases in Scotland are below that level". Furthermore, in the longer term, the Scottish Government believes that the current system, "…where large increases in duty are required at arbitrary thresholds, needs to be improved to avoid the distortional effect it has on the housing market around the threshold levels" and has called on the Chancellor to redesign the current stamp duty (Scottish Government 2008b).

Homes for Scotland(2008b) has also called for the re-introduction of mortgage interest tax relief (MIRAS) which enabled borrowers to get tax relief on mortgage interest at the time the interest was paid. Homes for Scotland argue that its re-introduction would improve mortgage affordability for those on average incomes. MIRAS was abolished in April 2000 to make the tax system fairer. It has been suggested that the reintroduction of MIRAS would only be suitable in the long term if coupled to measures to reduce the volatility in the housing market, such as the introduction of capital gains taxation on house price appreciation (University of Glasgow and Newhaven Research 2008).

SCOTTISH MEASURES

The Affordable Housing Investment Programme

The government's *Response to the Changing Economic Climate* (Scottish Government 2008b) included an announcement of £100m accelerated funding for affordable housing which, following the pre-budget report has increased to £120m over this and the coming year.

The Government has prioritised bringing forward new construction as well as spend on "Off the Shelf units" (completed new build private sector stock that remains unsold) and land acquisitions where this is strategically sensible and offers good value for money. The quality standards of homes purchased "Off the Shelf" from the private sector have been agreed with SFHA.

A range of criteria is being used by the Government to allocate these monies. Allocations have been made to projects rather than to specific local authority areas and have been prioritised to areas with housing market shortfalls, homelessness pressures, local pressured areas or specific regeneration projects. Areas which experienced the greatest reductions in core programme levels from 2007/08 to 2008/09 have also been taken into consideration in the decision making process. The Government and CoSLA have an agreement covering affordable housing investment and the final £17m tranche to be allocated this year will be based on local authority identified projects.

The bringing forward resources in the Affordable Housing Investment Programme has been welcomed by groups such as Homes for Scotland, the SFHA and Shelter. However, there have been concerns expressed about the strategic nature of the spending and the quality of stock that may be purchased from the private sector (Scottish Parliament Local Government and Communities Committee 2008).

Increased government spending on low cost home-ownership, at this time, has also been criticised. The SFHA chair, Brian Geegan, has argued that the current economic climate is not suited to the promotion of homeownership products and that the Government should be focussing on the various forms of rented tenure (Inside Housing 2008).

This is a view shared by the authors of a report by the University of Glasgow and Newhaven Research (2008) for the Chartered Institute of Housing in Scotland. The authors are critical of the further promotion of the owner-occupation sector to marginal groups in order to support the construction industry. The report also argues that, in the longer term, "…both the UK and Scottish Governments should critically rethink the policy emphasis given to promoting owner occupation to groups in society that are vulnerable and poorly equipped to cope with economic and housing market volatility." They argue that there is currently an opportunity for the government to support the purchase of unsold private sector property for renting in the open market. An idea of how this may work in practice is given:

> "This could be undertaken through RSL subsidiaries, (where RSLs might be expected to make a contribution through free reserves) or by Government providing loans at commercial rates direct to existing registered private landlords, with a contractual arrangement in place for private lenders to assume those loans once markets normalise. This policy could be time limited (say for the next 18 months) to help encourage builders to continue producing new housing."

Shelter Scotland (2008) has also questioned what assessment has been carried out on the effectiveness of shared equity schemes given that shared equity was designed for a rising housing market.

It has also been argued that, in the short term, the Scottish Government should look for ways to support the use of property the housebuilding industry cannot sell for private renting and to temporarily lift the affordable housing contributions based on section 75 agreements and in the longer term the UK and Scottish Governments should look for ways to reduce future housing market volatility (University of Glasgow and Newhaven Research 2008).

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