

**AYRSHIRE JOINT PLANNING STEERING GROUP**  
**13 May 2010**

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**Private Sector House Building in Ayrshire**

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**PURPOSE OF REPORT**

1. To provide a synopsis of the state of private sector house building activity and to present relevant economic data on factors influencing private sector housing development.

**BACKGROUND**

2. Members will recall considering a report on prospects for future private sector house building at the December 2009 meeting of the Steering Group. The Steering Group asked the AJPU Manager to add the monitoring of factors affecting the private housing property and financial markets to the work programme for 2010.

**SUPPLY SIDE**

3. New house building activity remains in a depressed state compared to 2007 when the property market peaked. The number of houses completed in 2009 in Ayrshire was just over half the number of completions in 2007, according to NHBC registrations data. It is worth noting, however, that the number of completions in 2008/09 recorded by the Councils' housing land audits was close to the historical average of the last 18 years. It remains to be seen whether the number completions in 2009/10 will fall below this level or remain at it.
4. Research for the Department for Communities and Local Government (CLG) in England published in April 2010<sup>1</sup>, suggests that the recovery will be slow and that the level of new homes built each year will not return to its pre 2007 level until 2016/17. This is partly because lenders and developers have adopted very cautious attitudes towards the risks involved in development and partly because the capacity of the industry has been greatly reduced. In addition, whilst the availability of mortgage finance for house purchasers has eased (see below), the volume of mortgage approvals is still very low and thus potential demand for new houses cannot be translated into effective demand. In relation to Ayrshire, Homes for Scotland have also expressed their view that recovery will be slow and that completions will not return to their 2007 level until 2016 at the earliest.
5. Interviews with two local Ayrshire house building companies suggest that the issues identified in the CLG research are relevant to Ayrshire. Their view is that there has

been a contraction in the number of small building companies and that finance from banks for even modest development proposals is hard to secure. Weak consumer demand has reduced the amount of speculative development significantly and larger sites are being developed in small phases. Companies have survived where they have previously offered quality service and where they have diversified into other activities. Construction of individual bespoke houses on plots in the countryside has been virtually unaffected by the recession. Whilst this remains as a steady source of business, competition for contracts is now fierce. As in the research in England referred to above, the view of the local companies is that the most significant factor holding back development in addition to finance is lack of access to suitable development land.

## **DEMAND SIDE FACTORS**

### Mortgage Lending Volumes

7. Mortgage advances in Scotland increased by 22% during 2009<sup>2</sup>. However, this large increase was from a very low base and at the UK level, mortgage approvals in the first quarter of 2010 were the lowest on record, apart from the first quarter of 2009<sup>3</sup>. Seasonally adjusted figures for the UK show that mortgage approvals fell in the first quarter of 2010 suggesting that the recovery in lending is fragile<sup>2</sup>. Mortgage “rationing” is still a feature and will continue to restrict the ability of households to get on and move within the property ladder. Data on volume of mortgages approved is not available at Council level.

### Loan to Value Ratios and Interest Rates

8. First time buyers typically required a 25% deposit in 2009, which is clearly a significant financial impediment to home ownership for those on modest incomes. Interest rates for all buyers, including first time buyers have lowered over 2009. In the last quarter of 2009 first time buyers typically spent 10% of their income on mortgage interest, compared to 14.7% a year before<sup>2</sup>.

### Unemployment Rate

9. The Scottish unemployment rate has increased sharply since 2008. The last quarter of 2009 however saw the level stabilize at 7.8%<sup>2</sup>.

### Arrears & Repossessions

10. The number of UK mortgages in arrears has increased steadily since 2006 but the rate of increase slackened during 2009<sup>2</sup>. UK repossessions have also been increasing but are well below the levels experienced in the early 1990s. Low interest rates, government intervention and lender forbearance are the reasons why repossessions have not increased by a greater extent<sup>2</sup>.

## Volume of Transactions

11. The volume of property transactions in Scotland fell from the end of 2007 and continued to fall throughout 2008. 2009 saw a reversal of this trend, with the number of sale transactions increasing slowly throughout the year. Data for January and February 2010 show a return to a decline in volume of sales to around a quarter of what they were in 2007. The situation in each of the three Ayrshire council areas mirrors the national picture with very subdued market activity and a downward trend in the number of property transactions.

## Average House Prices

12. Falling house prices whilst beneficial in terms of improving affordability are a deterrent to investment in owner occupation. Average Scottish house prices peaked in June 2008 and fell continuously until March 2009<sup>2</sup>. Average house prices peaked in South Ayrshire in 2007 and in 2008 in East and North. Average prices continued to fall throughout the first three quarters of 2009 before stabilizing in the last quarter. Caution must be exercised in drawing conclusions from changes in average house prices at the local level as they only reflect those properties that have been sold and are not adjusted to account for the full mix of property types. Nationally, most sources say that Scotland's house prices returned to year on year growth over the course of 2009. The exception is Halifax Bank of Scotland which recorded a decline of 7%<sup>2</sup>. Having regard to the national sources and the data available locally, the balance of probability is that locally prices have at best stabilized.

Indicator	Comparison Period	Level Data Available At	Change
New Private Sector House Completions	2008 and 2009	Council	
Mortgage Lending Volumes	2008 and 2009	Scotland	
Loan To Value Ratios First Time Buyers	2008 and 2009	UK	
Mortgage Interest Rates	2008 and 2009	UK	
Unemployment Rate	2008 and 2009	Scotland	
Arrears & Repossessions	2008 and 2009	UK	
Volume of Property Transactions	2008 and 2009/Q1 2010	Council	
Average House Prices	2008 and 2009/Q1 2010	Scotland/Council	
Key To Symbols  worsening  static  improving			

## CONCLUSIONS

13. The easing in the availability of mortgage finance, increase in loan to value ratios (for existing mortgagees) and apparent stabilization in house prices are reasons for optimism that the private sector housing market may be recovering. However the improvements in credit conditions are not of a magnitude that will make an immediate difference as evidenced by the continued decline in the number of new house completions and volume of sales transactions within the second hand market.

14. Fears about the extent to which public spending will be cut following the General Election and about future increases in taxation and interest rates appear to be subduing demand for housing. Rises in unemployment, mortgage arrears and repossessions are factors which may choke off any imminent recovery in demand for new homes within Ayrshire, as in the rest of the UK. New house building is still taking place within the three Ayrshire council areas but it is likely to remain at its current level or lower until 2016/17. The next set of housing land audit completion figures for the period April 2009 to March 2010 are currently being collected and these will tell much about the likely level of private sector house building in the near future.

## **RECOMMENDATION**

15. Ayrshire Joint Planning Steering Group is asked to note the contents and to remit this report to the TMT to monitor further developments and to explore the likely implications for housing policy.

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### References:

<sup>1</sup>”The Housebuilding Industry, Promoting Recovery In Housing Supply”Dept for Communities & Local Government 2010

<sup>2</sup>Scottish Housing Market Review April 2010, Scottish Government Centre For Housing Market Analysis

<sup>3</sup>”BBC News Website article “Mortgage Approvals Still Sluggish” published 4<sup>th</sup> May 2010