

## STUDENTS BRIEF

### HOUSING IN SCOTLAND

The purpose of this Brief is to describe some of the main features of housing in Scotland as well as the implementation of housing policies. This is important as the state of housing in Scotland has long been recognised as a major determinant of the high levels of net migration, poor job mobility and of urban blight. After describing the Scottish housing stock, the final sections discuss trends in government expenditure, changes in house prices and the current debate over the sale of public authority housing.

#### Scottish Housing Stock

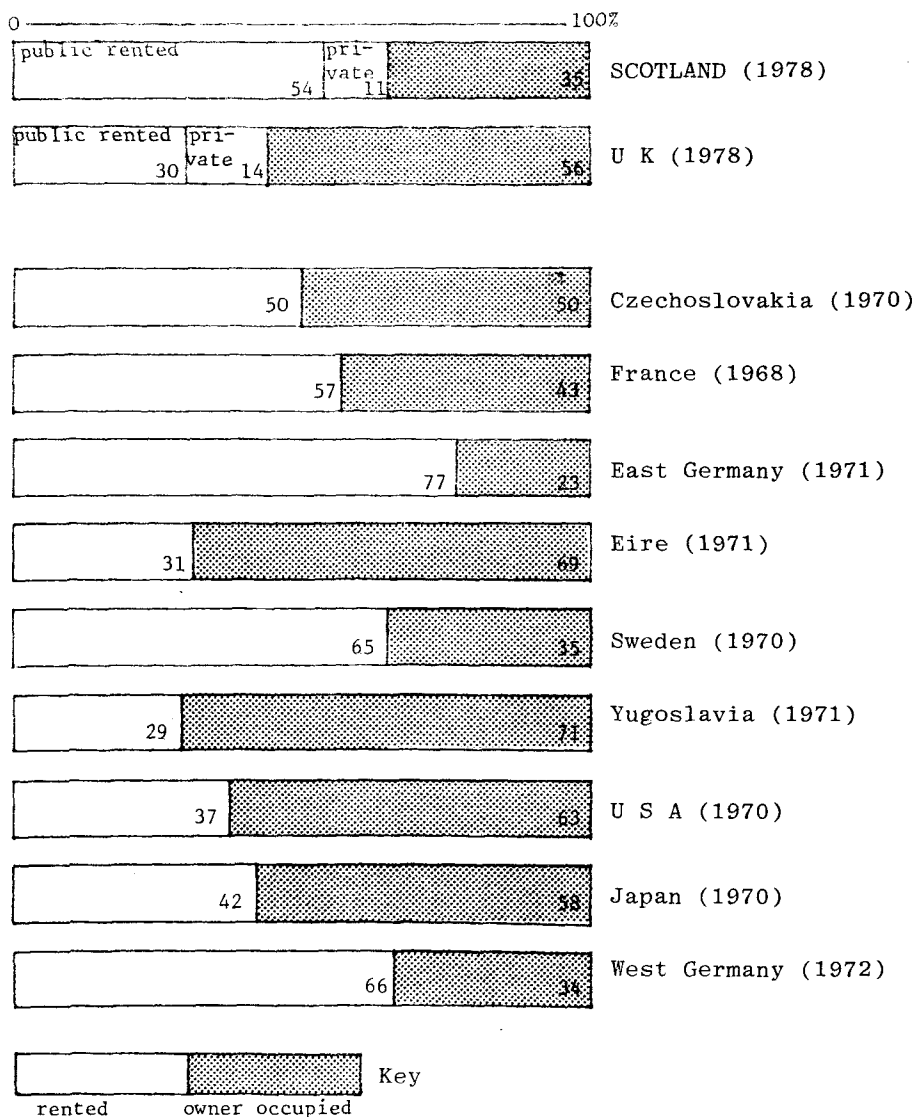
Between 1900 and the present day there have been considerable changes and improvements in the Scottish housing stock. However some problems still remain such as problems of overcrowding, some inadequate older housing and a shortage of suitable housing for the elderly and other special groups. Over the seventy year period 1901-1971 the household population grew by 13%, and the number of household units increased by 74% effectively reducing the size of the average household. The number of dwellings almost doubled and the average dwelling size increased with a particular reduction in the number of one room dwellings.

Perhaps the most notable change in the Scottish housing stock over the period is the change in the tenure balance from the private to the public sector. At the turn of the century most households in Scotland lived in dwellings rented from private landlords. There was a certain amount of owner occupation which was significant in some localities. However the massive housebuilding and slum clearance programmes that local authorities have carried out since 1919 has meant that public sector housing now accounts for some 55% of all houses. The amount of privately rented housing has fallen steeply because it has borne the brunt of inner city demolitions or has been sold off for owner occupation.

Figure 1 compares the tenure patterns in Scotland with other countries, illustrating the large amount of public sector housing in Scotland. The divergence between Scotland and the rest of the UK primarily reflects post-war building programmes. The part played by private builders in England and Wales grew in importance in the late 1950's; with more dwellings completed by the private than the public sector. However private building has become more prominent in Scotland in recent years, and the private sector now accounts for around 50% of new dwellings completed.

The distribution of housing tenure in Figure 1 masks significant regional variations. For example within Scotland there are differences between rural and urban areas. In rural areas 38% of housing is rented from the public sector compared with the recorded 54% for Scotland as a whole. Meanwhile Edinburgh has a tenure structure dominated by owner occupiers with 52% compared with only 33% rented from the public sector.

FIGURE 1 COMPARISON OF TENURE PATTERNS WITH OTHER COUNTRIES



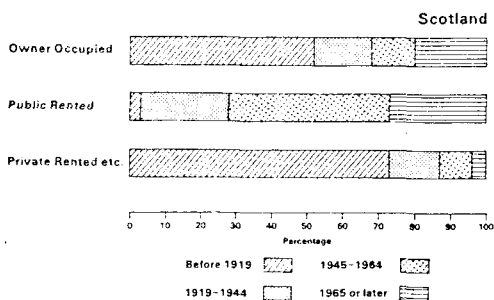
Source: Scottish Housing Statistics, No 6, Second Quarter 1979, p5.

Although the number of owner occupied housing in Scotland has been steadily increasing, it is interesting to note that Scotland has less owner occupied housing than some East European countries.

### Age of Dwellings

As a large proportion of public rented dwellings has been built since the war, half of Scotland's housing is of post war construction. This proportion is higher than the figure for Britain and most other European countries. On the other hand, there remains a large proportion of pre 1919 houses in the owner occupied and private rented sector.

**FIGURE 2 AGE OF HOUSING STOCK BY TENURE**



**Source:** Scottish Housing Statistics, No 5, First Quarter, 1979 p8.

Table 1 compares the percentage of households lacking basic amenities in 1965 and 1976/1977. This lack of amenities is particularly widespread in the privately rented sector which was mostly built before 1919. Although only 2% of Scottish households now lack the use of a water closet inside their dwelling the figure for private rented sector is 12%. However there have been marked improvements in recent years mainly by improvement grants to private owners.

**Table 1 Percentage of Households Lacking Basic Amenities 1965/1976/77**

% of Households	All Tenants		Private Sector	
	1965	1976/77	1965	1976/77
Without wc inside dwelling	13	2	34	12
Without fixed bath (or shower)	21	6	58	27

**Source:** Scottish Housing Statistics

The Scottish experience may be regarded as atypical relative to the UK as a

whole. The following section discusses some of the features of housing in general which constrain the operation of efficient housing markets, and which are likely to be exaggerated by the Scottish situation.

## **Housing Markets**

The ability of households to either buy or rent housing services creates two separate, though not independent, markets within housing (Figure 3).

In the rented market, demand arises from households who opt to purchase their housing services by renting houses. As some level of housing consumption is a necessity and houses are expensive relative to income some low income families do not have any option but to rent their accommodation. The supply of housing to the rented market is through public and private bodies. Tenants in the public sector now have a statutory right to become owner occupiers an aspect that will be discussed later.

In the house purchase market, demand arises from those households who wish to purchase their housing services by buying the asset (owner occupation), and landlords both public and private, who wish to buy the asset in order to enter the rented market.

Because housing is an expensive asset, money usually has to be borrowed to purchase it. Hence this creates a finance market for house purchase. For the private sector finance comes through building societies, insurance companies and local authorities, and for the public sector the source of finance is the open market and the Public Works Loan Board.

## **Intervention in Housing Markets**

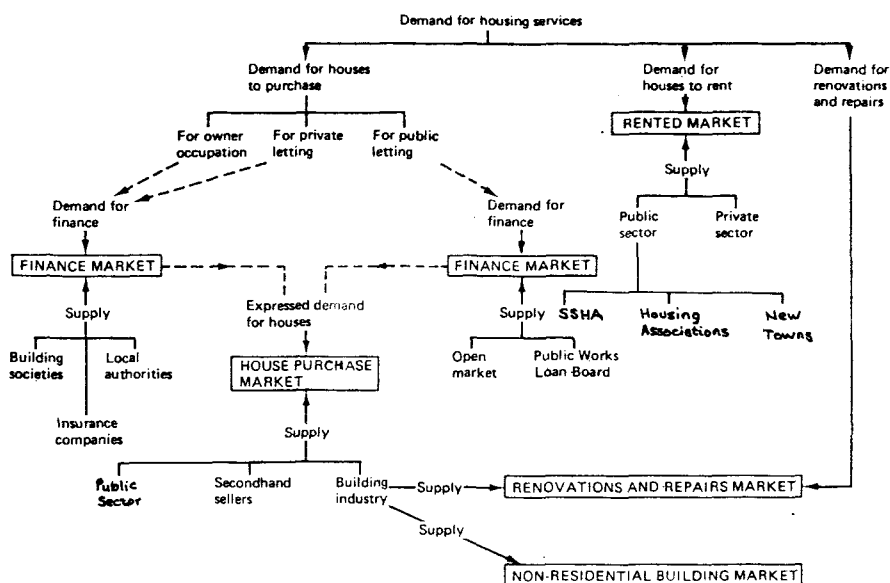
Most official statements on housing have at least been consistent in their belief that "..... all families should be able to obtain a decent home at a price within their means"\* . Unfortunately the characteristics of the housing market are such, that left to its own devices it could not be expected to allocate housing resources in an efficient or socially desirable manner.

Housing policy is directed towards both public and private sector and primarily takes the form of subsidies of various kinds. Public housing for example is subsidised through the Rate Support Grants to local authorities

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\* Housing Policy - A Consultative Document, Cmnd No 6851, July 1977, para 1.1.

**FIGURE 3 THE HOUSING MARKETS**



Source: Scottish Economic Bulletin, No 22, Spring 1981, p62.

whose responsibility it is to administer house building in their areas. In addition tenants may be eligible for allowances or rebates on their rents depending on their personal circumstances. Owner occupiers on the other hand can be eligible for rate rebates and are subsidised by tax relief on mortgage interest as well as from other tax related incentives (eg house sales where families move from one house to another are exempted from capital gains tax liability).

Whilst it is extremely difficult to quantify the impact of government policy on either the demand or the supply of houses, there is a clear and continuing trend towards a preference for owner occupation throughout the UK. (It is not really possible to say whether this trend is the result of or in spite of successive housing policies).

Government expenditure on housing, although primarily determined in relation to national priorities reflecting the prevailing economic conditions, also attempts to respond to the problems in certain regions. Thus Scotland has benefitted from extensive slum clearance and environmental improvement schemes.

The relative decline in public sector house building is charted in Figure 4 based on the annual registrations of new building starts. In 1970 private sector housing orders in Scotland were £91m which represented only 36% of the level of public sector orders. By 1979 private sector orders had increased to £99m which was 108% of public sector levels.

**FIGURE 4 CONSTRUCTION ORDERS (SEASONALLY ADJUSTED SERIES)**



**Source:** Scottish Economic Bulletin, No 22, Spring 1981 p62

In making public expenditure cuts in relation to local authorities it is relatively easier for the government to control capital expenditures as opposed to revenue expenditures. This is achieved by a series of sanctions on projects or loans to local authorities. Housing stocks represent approximately 46% of the total fixed assets of central and local government in the UK. Thus when expenditure cuts are being implemented, the combination of the scale of the housing sector and the capital nature of housing investment, effectively means that housing is likely to absorb the lion's share of current or proposed expenditure cuts. New house building in the public sector will probably remain at fairly low levels for the next few years. Table 2 shows the level of public expenditure on housing over much of the previous decade.

**Table 2 Capital Expenditure: Scotland and UK (1979 Prices)**

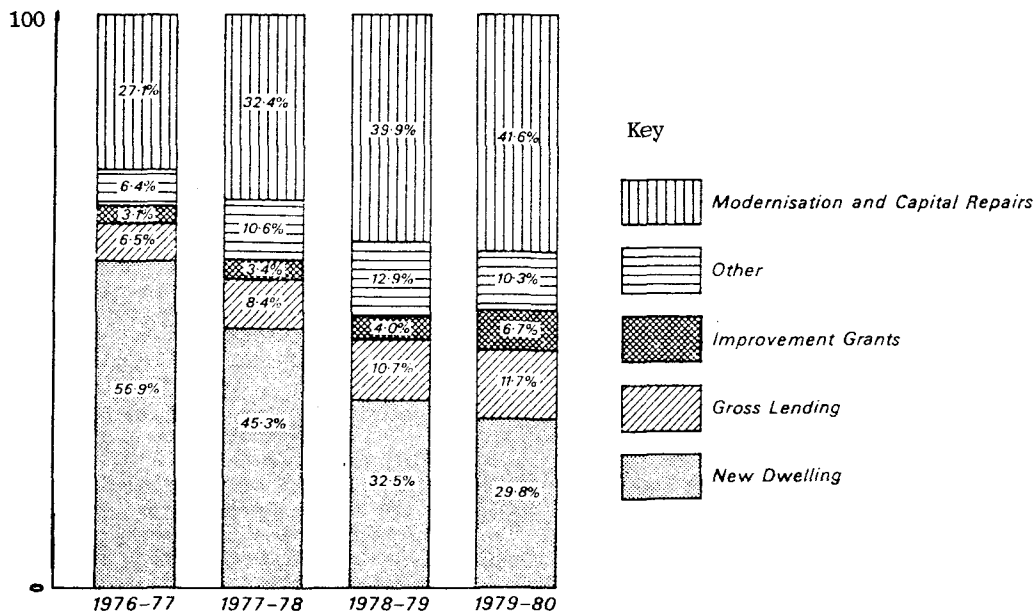
	UK £ mill	Scotland £ mill
1974/75	3,627	461.5
1975/76	3,476	459.7
1976/77	2,804	427.6
1977/78	2,002	401.7
1978/79	1,819	383.1
1979/80	1,824	378.0
1980/81	1,321	N/A

**Source:** 1. Hepworth (1980) Table 4

The trends illustrated in Table 2 have an adverse impact on the economy. Firstly the reductions in capital expenditure on housing are part of the more widespread cuts which influence Scotland's infrastructural assets. Secondly, by effectively bringing housing policy into the group of more familiar short term economic regulators, the construction sector itself is threatened. By its very nature this industry requires long investment lead times but the current situation means that forward planning becomes increasingly difficult.

In addition to the decline in capital expenditure in real terms the composition of capital payments within housing expenditure is also changing. This is shown in Figure 5 where the share of expenditure going to new buildings has fallen from 56.9% of the payments in 1976/77 to only 29.8% of payments in 1979/80. This is compensated by an increased share for modernisation and capital repairs from 27.1% in 1976/77 to 41.6% in 1979/80. This trend probably reflects an increasing awareness that it may be cheaper to convert older properties rather than knock them down and start again. Secondly there is an increasing awareness of the architectural and aesthetic values of some of Scotland's older buildings which is worth retaining.

**FIGURE 5 CAPITAL PAYMENTS BY TYPES OF PROJECT**



Source: Scottish Housing Statistics, No 9, 1980, p33.

Reductions in new housebuilding are not entirely due to an apparent surplus of dwellings over the number of households in Scotland. Neither does this situation take into consideration the quality and types of housing units. Shelter, the housing pressure group, has estimated that there are over 100,000 houses in Scotland below the official "tolerable standard". Secondly there is a serious mismatch between the types of house available relative to the demand. For example 13% of households in Scotland are units of 5 or more people yet only 4% of public sector houses contain 5 or more apartments. As a consequence there are approximately 160,000 households living in overcrowded conditions, which is estimated to be three times the rate of overcrowding in other parts of the country.

### House Prices and House Costs

Housing not only provides an accommodation service but has also been a sound investment due to the continual rise in prices over time, generally at a rate above the rate of inflation. Since 1971 the average dwelling price has increased steadily from £5,407 to £19,371 in 1979.

**Table 3 Average House Prices in Scotland**

	£ New Dwellings	£ Other Dwellings	£ All Dwellings
1971	5,673	5,297	5,407
1972	6,597	6,071	6,233
1973	8,387	8,692	8,595
1974	10,539	9,498	9,775
1975	11,871	10,933	11,139
1976	13,929	12,692	12,974
1977	15,326	13,941	14,236
1978	16,982	15,889	16,147
1979	20,186	19,082	19,371

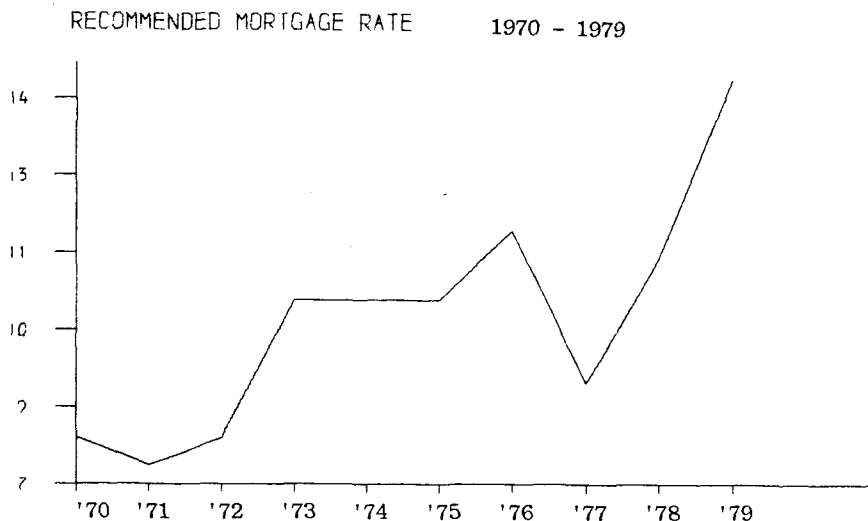
**Source:** Scottish Housing Statistics, No 9, 1980

**NB:** The prices quoted here are not adjusted for inflation.

Most private houses are financed by means of mortgages arranged through Building Societies or local authorities. Despite the increases in house prices the average advance to house purchasers has actually fallen as a proportion of average house prices over the period. For example in 1971 the average advance was 78.6% of the average new dwelling price, in 1975 it was 67.6% and in 1979 it was 66.9%. The cost of the mortgage to the borrower is determined by the length of the loan and the rate of interest. Over the period 1970 to 1979 the mortgage rate has followed the trend of other interest rates and risen steadily.



**FIGURE 6 RECOMMENDED MORTGAGE RATE %**



**Source:** Scottish Housing Statistics, No 10, 1980.

Changes in the mortgage rate directly affect household expenditures for families paying off a loan on their house. Despite the sharp rise in these costs households in the UK allocated 13.6% of their weekly expenditure to housing, but Scottish households allocated only 11%. The equivalent figures for 1979 are 12.8% and 8.9% respectively.

### **Public Sector House Sales**

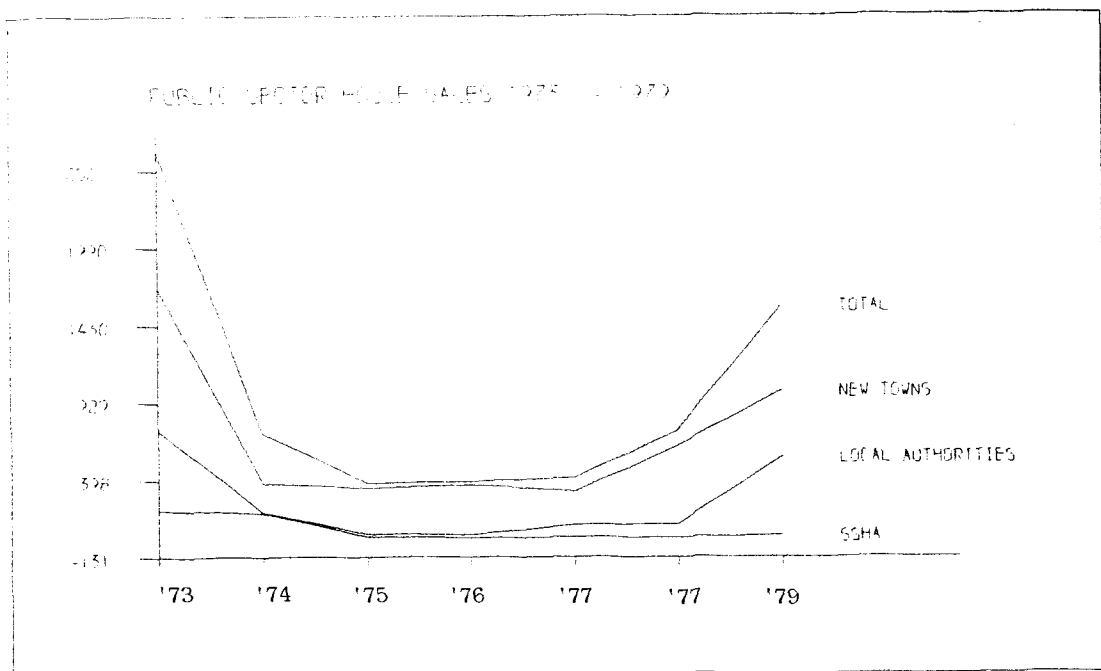
The issue of council house sales has long been a subject of political controversy and has recently come to the fore in the Tenants' Rights Etc (Scotland) Act 1980, which gives every council house tenant the statutory right to buy the house in which he or she lives, with an entitlement to discounts of up to 50% of market value.

It can be seen from Figure 7 that a large number of council house sales occurred in the period 1972-1974 when there was a general consent enabling local authorities to sell houses to all sitting tenants without reference to the Scottish Office. In 1974, the Government revoked the general consent and required local authorities to seek consent for each proposed sale, making it clear that sales would only be allowed to go ahead when there is no significant unjustified demand for houses to rent. Therefore until recently the number of council houses sold in Scotland has been comparatively small.

In 1980, however, the situation changed; more houses were sold in the first six months than in the previous years. Of the 1,673 council houses sold in

the second quarter of 1980, 1,531 were sold to sitting tenants. Although all type of dwellings were sold, 1,435 were cottage type houses and only 118 were low rise flats or maisonettes.

**FIGURE 7 PUBLIC SECTOR HOUSE SALES**



Source: Scottish Housing Statistics, No 9, 1980

The proponents of council house sales argue that it will save money and with a discount of up to 50% will be an attractive investment to the individual tenant. However one must balance the gains in selling a house against the losses over time. The local authority must therefore compare the rents it would have received with the mortgage repayments it does receive. Rents normally rise roughly in line with inflation, mortgage repayments are likely to remain at the same amount and so decline in real value. So local authorities face a pattern of short term gains and long term losses. Also a growing number of council house tenants are obtaining their mortgages from building societies and other sources rather than the local authority. This will result in a further loss in revenue in the long-term. Each time a council house is sold the government is saving the subsidy it would have paid on the council house but losing the tax relief to the new home owner. Whereas the government subsidy to council houses declines in real terms, mortgage interest tax relief tend to increase each time a house is sold. This suggests that the government will lose out in the long run.

It is claimed that the sale of council houses will help achieve a better

social mix and improve the balance of tenure. The logic behind this argument being that some of the larger council estates in Scotland could be "broken down" and council property interspersed with private property thereby leading to a more balanced community. However, such notions are not borne out by experience. The statistics show that the vast majority of houses sold are the most desirable properties on the most popular estates. In Edinburgh, for example, no sales took place in the Craigmillar or Niddrie areas, whereas 65% of the 620 sold between 1971 and 1974 took place in high status areas such as Cramond, Clermiston, Corstorphine etc. The idea that problem estates can be split into owner occupiers and council tenants falls flat as it becomes obvious that no-one will want to buy the poorer quality stock. In fact the sale of council houses may worsen the problems of 'ghetto' estates and leave public housing as the residual of the housing stock.

The sales advocates also claim that there will be no effect on existing or prospective tenants. It is true that there will be no immediate impact because those who buy would (by and large) have continued to live in the house anyway and because if any ex-council house is resold within five years the local authority has the right to buy it back for the price at which they sold it. But, inevitably, the number of council houses becoming vacant for waiting or transfer list applicants will decrease in the long run. The pattern of sales described above, whereby the better houses are sold will reduce the average standard of a local authority's stock. Thus the sale of council houses will result in a reduction in both the quality and quantity of public sector housing.

#### REFERENCES

1. Statistics on housing are available from a number of official publications. These include:
  - a) **Scottish Housing Statistics** Published quarterly by the Scottish Development Department. This publication concentrates on Scotland and generally includes an article discussing in some detail a topic relevant to housing.
  - b) **Scottish Abstract of Statistics** Published annually by the Scottish Office. Summarises some of the information from Scottish Housing Statistics.
  - c) **Scottish Economic Bulletin** Published quarterly by the Scottish Office.
  - d) **Family Expenditure Survey** Published annually by the Department of Employment. Primarily concerned with UK but includes a regional breakdown.
  - e) **The Government Expenditure Plans** Published annually by HMSO to set out in detail the impact of the budget strategy in relation to the Government expenditure: Estimates of future expenditure are also given.
  - f) **Rating Review** Published annually by the Scottish Branch of the Chartered Institute of Public Finance and Accountancy. A detailed

summary of local authority expenditures and incomes.

2. Discussion of various housing issues are widely reported in the national newspapers and in many readily available articles and books, some examples include:
  - a) A B Atkinson and M A King - Housing policy, taxation and reform. Midland Bank Review, Spring, 1980.
  - b) S Charles - Do we need a housing policy? National Westminster Bank Quarterly Review. August, 1978.
  - c) N P Hepworth - Local Authority Expenditure. Three Banks Review, No 127, September 1980.
  - d) Shelter (Scotland) - Housing in Scotland, January 1981.
  - e) Shelter (Scotland) - Council House Sale: Who Pays? (n.d.)
  - f) S Charles - Housing Economics, MacMillan Studies in Economics 1977.
  - g) Housing Policy - A Consultative Document, Scottish Housing (Cmd 6852) HMSO. 1977.