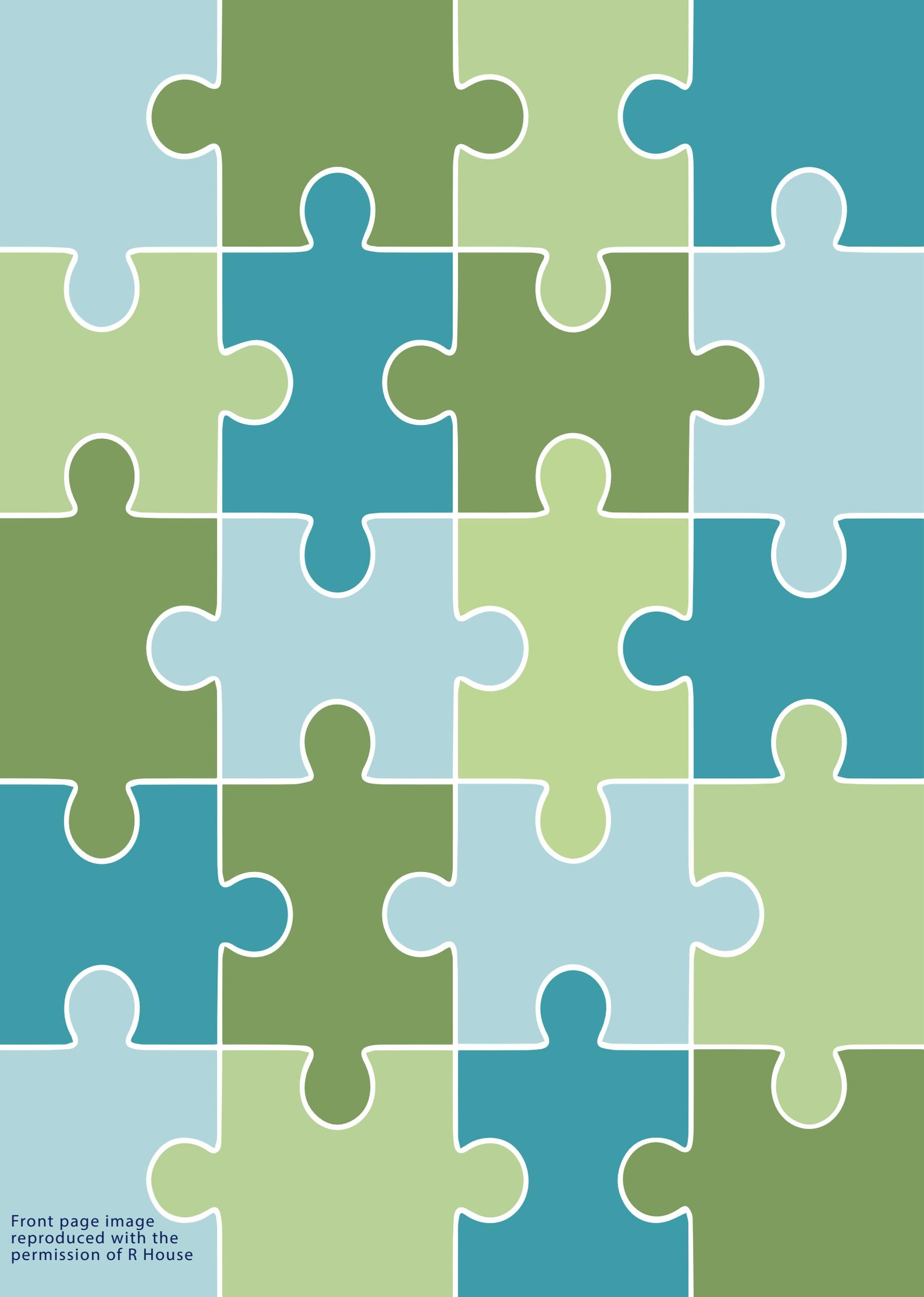


# The Role of Land in Enabling New Housing Supply in Rural Scotland





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# Contents

EXECUTIVE SUMMARY	4
1.0 INTRODUCTION	10
2.0 METHODOLOGY	12
3.0 LITERATURE REVIEW	16
4.0 DEFINITION OF RURAL	21
5.0 KEY THEMES	23
6.0 THE PRICE OF LAND	36
7.0 ADDRESSING THE KEY LAND CHALLENGES	43
8.0 CONCLUSIONS	53

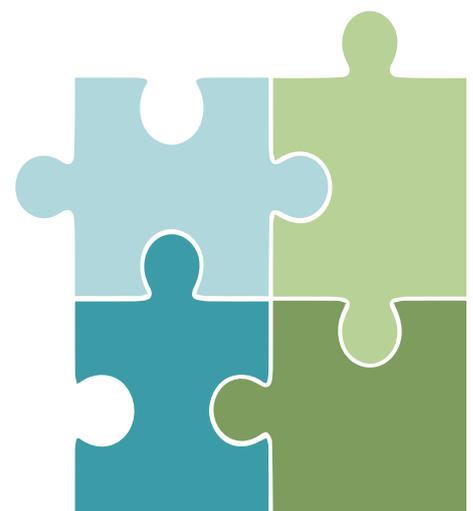
APPENDIX 1 RECOMMENDATIONS
APPENDIX 2 ORGANISATIONS INTERVIEWED
APPENDIX 3 WORKSHOP ATTENDEES
APPENDIX 4 DEAL STRUCTURES
APPENDIX 5 HOUSEBUILDER APPROACH
APPENDIX 6 TOOLKIT
APPENDIX 7 CASE STUDIES

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# EXECUTIVE SUMMARY

To what extent is land, specifically the cost of land and access to land, a barrier to new housing delivery in rural and remote rural Scotland?

Land is a crucial ingredient in the development process. It must be available and it must be cost effective to developers, in order to facilitate new housing development. The economics and viability of development and the profile and key drivers of landowners varies from project to project. In reality there is no 'one size fits all' approach to rural housing development and there are a wide range of factors that may prevent land from being developed that, if overcome, can unlock housing delivery. Land is just one piece of a relatively complicated jigsaw puzzle, and this is particularly the case in rural Scotland where market failure exists in many areas. The findings of this study show that greater facilitation and support, better approaches to rural planning and community engagement, improved private and public sector engagement together with support for new models and approaches would help support the delivery of more homes and better places across rural Scotland.

## CONTEXT

There is a widely accepted view that not enough new homes are being built in rural and remote rural Scotland to satisfy need. Without the provision of high quality new homes our rural communities will become increasingly fragile. In particular our discussions with key stakeholders, coupled with our own professional experience, highlights that in many rural areas there is a clear gap in the provision of new build "mid market" housing options (both for sale and for rent) for locals.

The Scottish Land Commission (SLC) are examining issues around the role that land plays in inhibiting the supply of new homes in places where people want to live and at prices that they can afford. Previous work carried out by the SLC indicated that land ownership and the price of land can cause difficulties for communities looking to access land at an affordable price to meet community needs.

## PURPOSE

The purpose of this particular study is to firstly investigate and consider the role of land in enabling or preventing the supply of new housing and thereafter to put forward a number of potential solutions and recommendations that our research suggests will help to boost housing delivery across rural Scotland.

## METHOD

Our qualitative data based study has taken place between October 2019 and February 2020 and has involved an extensive review of existing literature, interviews with a wide range of stakeholders from across Scotland, case study analysis and two focused stakeholder workshops. Our research has also been complemented by our own practical day-to-day experience as development and planning professionals active in the rural housing market across Scotland.

## FINDINGS

Our review of the literature, coupled with our interviews with stakeholders and our own team's experience, quickly revealed that there are a wide range of variables, or pieces of the jigsaw, that can act to frustrate or enable new housing delivery in rural Scotland. To understand the role of land and whether or not further land reform is required in this particular area it is therefore necessary to understand all the pieces of the jigsaw and how they interact.

### Landowners and Land Price:

Interestingly, the suggested barrier that landowners prevent the supply of new homes by not providing access to their land featured more heavily in our literature review than in our stakeholder interactions. In addition land price, whilst relevant, was more of an issue either in 'hot spot' markets, where land supply was constrained through planning, or where land price was simply very low as a result of all of the costs of development in the first place making it uneconomic for the land to be developed.

As there is generally a lack of activity by mainstream builders in rural Scotland there is a lack of published land transaction data available thus making it harder for landowners to establish whether or not a price they may have been offered represents best value. In some cases this can lead to landowners or their advisors having unrealistic expectations on what a piece of land is actually worth thus frustrating negotiations.

#### The Speculative Housebuilder Model

**– Market Failure in Rural Areas:** One of the most interesting themes of our research has been the confirmation that the model of speculative housebuilding that delivers the vast majority of new homes in our larger towns and cities simply does not work across much of rural Scotland. Even if there was a plentiful supply of low cost land in our rural towns and villages the majority of speculative volume housebuilders would still not engage in this market. There is often not sufficient depth of demand nor value to allow developers to generate adequate levels of profit to sustain their business models. With this crucial segment of the housebuilding market missing from our rural areas it is not surprising that there is a distinct lack of ‘mid-market’ new build supply across many of our rural communities.

However, whilst the volume housebuilder market is unlikely to feature in the rural housing market going forward, our research and own experience suggests that there can still be a role for smaller custom build

contractors to service this market if they work in partnership with landowners and the not-for-profit sectors to manage risk. For example, we explore various models that can be implemented to reduce risk including joint ventures, deferred land payment or land for infrastructure/profit type contracts. The ability of a small contractor to perhaps deliver homes for an affordable housing provider or an aspirational self-builder with no sales risk may give them sufficient confidence, depending on the market context, to expand their business model and begin to invest in marketing collateral in an attempt to help secure ‘off plan’ sales, for example.

#### Cost of Development in Rural Scotland:

Across much of rural Scotland, other than in a number of market ‘hot spots’, the stark reality is that the cost of building a new home, even disregarding the cost of land, can be greater than the value of the home once it has been built and more than what many people living and working in rural communities can afford. All things being equal, the more remote a market is, the more expensive it is to build a house and the more extreme the viability gap becomes. Many commentators are reporting that build costs are steadily growing and are predicted to increase further as building standards become more onerous and as legislators seek to impose ever growing sustainability standards.



Indeed, in many cases the cost of land can be relatively insignificant when considered in the context of all of the other costs of development. In higher value and more densely populated urban markets land may account for c.30% of the cost of a new home, whereas in rural Scotland, land often represents a very small proportion of the overall cost, or has no value at all if the traditional, speculative and profit-based approach to valuing land is adopted.

#### The Role of Not-for-profit Organisations:

Not-for-profit groups, supported by public sector grant subsidies, are active in the delivery of new homes and therefore the land market in rural Scotland. Not-for-profit developers tend to comprise community development companies, housing associations and local authorities. As these groups are targeting housing need (rather than market demand) they tend to develop smaller homes for rent or for low cost home ownership. The price of land for affordable housing projects is heavily influenced by the level of grant funding made available and the business plan of the not-for-profit provider. However, based on experience, land can be a small element of the overall cost of a project, sometimes less than 10% of the total cost.



**Site Effectiveness/ Deliverability:** As a result of the relatively low prices that not-for-profit organisations can pay for land, especially where land is expensive to service or unlock, then it can be very difficult without further subsidy (whether in the form of further government subsidy or cross subsidy through enabling planning policies) to get the economics of a project to stack up (i.e. to balance out cost and revenue). This is compounded by the fact that many sites are zoned for development in Local Development Plans without first understanding if that land is deliverable or developing robust exit strategies for the land. Our research suggests that understanding the effectiveness or deliverability of a piece of land is far more important than simply having a willing seller or buyer of land.

**The Role of the Community Sector:** One of the unique and in many ways exciting characteristics of the rural development market is that community development companies are seeking to build new homes themselves to satisfy housing need within their communities. Unfortunately many community groups and development companies lack the time, resource (financial and human) and skill set to progress what are often very challenging projects to unlock. This can lead to fatigue and strained relationships developing between stakeholders, including between landowners and communities.

The reality is that the process of appraising and thereafter acquiring land is actually very complicated and requires technical savvy, problem solving and strong negotiation and influencing skills across multiple stakeholders. Without first ensuring that the ‘basics’ of a project are robust (for example ensuring that the road layout and earthworks strategy is not wasteful or the house types are efficient in terms of design and cost) there is a real risk that the viability of a project is not being optimised and therefore that the land price that is being offered does not represent

best value. Indeed, in stark contrast to community groups, volume housebuilders invest heavily in their land procurement teams, processes and consultants, often investing hundreds of thousands of pounds speculatively on land during the very early stages of a project.

Our research very strongly highlights that more facilitation, support and resource is required to help steer frustrated but willing parties through this challenging process. Whilst there are some great examples of innovative thinking and structures being adopted, at a granular level these are not widely known or understood by the broader market. Indeed there is wide endorsement from our research for a more participative and enabling role by government which would help to facilitate more house building – including through the creation of master-planned, serviced and platformed opportunity sites that are easier and less costly to develop, perhaps utilising the public sector land bank more effectively.

**The Role of Grant Regimes:** However, even with a generous supply of effective and deliverable land, many new projects may still rely on grant funding to address market failure. Indeed, grant subsidies are an essential feature in the majority of new not-for-profit projects and the Rural Housing Funds and the Scottish Land Fund were highlighted as being ‘game changers’ by those stakeholders most active in this sector. The current grant funding regimes backed by Scottish Government are set to expire in March 2021 with no successor funds apparent as yet and this is creating a great deal of uncertainty in the rural housing market. This lack of long-term clarity and stability is debilitating for the housing sector across Scotland, particularly so in rural and remote communities where market failure is more pronounced. A long-term, stable funding regime would be significant in enabling more homes to be delivered.

**The Role of the Planning System:** In many cases, even where there is a willing landowner and a robust and viable business plan, projects can often be held back by an inability to secure planning permission and/or other technical consents. Many of our stakeholder interviews revealed frustrations around the planning and technical approval process with some local authorities being regarded as too urban-focused in their approach. It is our observation that preventing the creep of the ‘industrial’ city into the ‘beautiful’ countryside was part of the founding *raison d’être* of the planning profession and has continued to be a touchstone for many professional planners. ‘Country’ or ‘rural’ planning therefore, from its earliest forms, was driven by a desire to protect precious green areas from industrialisation and urbanisation. It could be argued that this has created an overly protective and relatively static approach to planning for rural areas across much of rural Scotland.

However, once again there are some great examples of innovative policy and practice happening in some planning authorities and so a more consistent and pragmatic approach across the country coupled with more rural focused training to planners is needed. In other cases, a general lack of sufficiently generous or effective land being made available through the planning system restricts the availability of deliverable land, and in areas of high demand or ‘hot spots’ this can place upward pressures on house prices and thus land prices. A more flexible and supportive planning system across the country has the potential to substantially increase housing supply. However, this needs to ensure that there is a focus on place and community driven planning whilst increasing the attractiveness of new housing to communities.

**The Role of the Landowner Revisited:** Turning back to the issue of land specifically, our research suggests that the general perception that landowners frustrate the supply of new housing by not engaging with

buyers or by demanding unrealistic prices tends to be overstated. Indeed we have been made aware through our research of many examples of landowners wishing to actively engage with communities and developers in respect of their surplus land or opportunity housing sites. Furthermore, our research suggests that landowners do not necessarily need to sell their land in order for new homes to be delivered. For example, the prospect of becoming landlords and generating a long-term income from their land, or developing it themselves in collaboration with communities and small builders, and with the support of the Rural Housing Fund, is likely to appeal to many landowners.

In the rare cases we have uncovered where the position of a landowner has been unhelpful initially or where land price has been an issue, our analysis suggests that improved communication and a collaborative, transparent and facilitative approach has been able to break down barriers and greatly improve the prospects of a transaction being concluded. In extreme cases where this will not be possible, in our view there are already legislative tools in place that communities and local authorities could utilise where necessary and so it is our view there is no requirement for additional legislative mechanisms to address this issue.

**The Many Tools Available:** One of the most interesting things to have emerged from our research is that whilst there are a number of barriers to new development there are also a multitude of existing tools available (we have identified in excess of 60) and many examples of good practice from across the country. A greater awareness of these tools and how they can be applied in practice could be instrumental in unlocking new land opportunities or breaking down existing barriers at a project level.

#### IN SUMMARY

Having considered the evidence gathered through this process and our own experience in this sector, this study shows that greater facilitation, better approaches to rural planning and community, landowner and private sector engagement and support for new models of development, such as leasing of land for housing, would help support the delivery of more homes and better places across Scotland.

In addition, a platform to promote positive case studies and share knowledge could generate significant new levels of activity in this sector. If all of the good work that is being done at a granular level by many of the stakeholders we have engaged with can be scaled up and made available to the whole market, then

this, coupled with a supportive and longer term funding package, would be transformational for the supply of new housing in our rural communities.

#### OUR FINDINGS

The SLC intends to use the outputs of this report to support future interventions in relation to land and rural and remote housing. It is part of a wider Review of Land allocation and Placemaking which will examine how our housing land allocation system influences the amount of housing built, its affordability and the quality of place. The report's key findings will contribute to Advice to Scottish Ministers on Housing Land Allocation and Placemaking which will explore the potential benefits of reforming housing land allocation so that it is more led by public interest than by market forces than at present.



## Our Six Recommendations Summarised

We therefore suggest:

### 1. Increase the resource and capacity available to facilitate more rural housing development across all sectors

We identified throughout our research that the community support organisations (e.g. Rural Housing Scotland, The Highlands Small Communities Housing Trust and Dumfries And Galloway Small Communities Housing Trust) have been key to facilitating new homes particularly within the community and affordable housing sectors. We believe that the work of these organisations is crucial to the ongoing success of the rural housing sector. Accordingly we consider that this valuable resource should continue to be supported and scaled up across the country.

We believe that additional resource and facilitation should be made more widely available beyond communities and into the landowner and small builder sectors. This would allow cross sector collaboration between all key groups whilst helping to co-ordinate development management, identify new land opportunities and unlock stalled sites.

## 2. The provision of a long-term, flexible and stable funding regime for rural housing

Our research has revealed that the Rural Housing Funds and the Scottish Land Fund have been game changers for the rural housing sector. The vast majority of projects across Scotland, that are not in 'hotspots', require government subsidies and funding due to the differential between development cost and value.

Enhancing and extending these funds in the long-term would help to provide a stable platform for those active in the rural housing market to plan, share knowledge and find new opportunities and build cross-sector capacity.

## 3. The creation of a Scotland-wide database of comparable evidence to help landowners and their advisors to establish best value in rural areas

The majority of landowners will be willing to sell (or lease) their land if they are satisfied that they are achieving best value.

An easy to access database of rural land transactions would help landowners and their advisors to address the issue of land price quickly. The Scottish Government already supports a considerable number of land transactions in the affordable housing and community sectors through their various funding and support structures and so this information may be readily available.

## 4. Local authorities implement more suitable rural development policies and adopt a more proactive attitude to development

The economics of development in rural areas of Scotland can often be challenging. In some (but not all) market areas there is not sufficient value in the completed homes to accommodate some of the costs that are driven by planning and technical conditions imposed by local authorities (and other public sector stakeholders such as SEPA and Scottish Water). These requirements can act as a barrier to development, even when there is a willing landowner and a willing developer.

Recognising this at a local level would act to transform viability in a number of projects and thereby remove some of the key barriers to development that are in the public sector's control whilst smoothing the whole land acquisition process.

## 5. The provision of a suite of rural focused planning policies in NPF4 and in Local Development Plans

If the recommendations within the recently published evidence base Rural Planning Policy to 2050 were implemented in full within Scotland's National Planning Framework NPF4 then this would help to increase the supply of effective and deliverable land across rural Scotland.

This recommendation is based on the recognition that Rural Scotland requires a different approach and that more housing in our rural communities should be encouraged and actively supported through a range of both proven and innovative policies.

## 6. The development and roll-out of a rural training package to local planning authorities

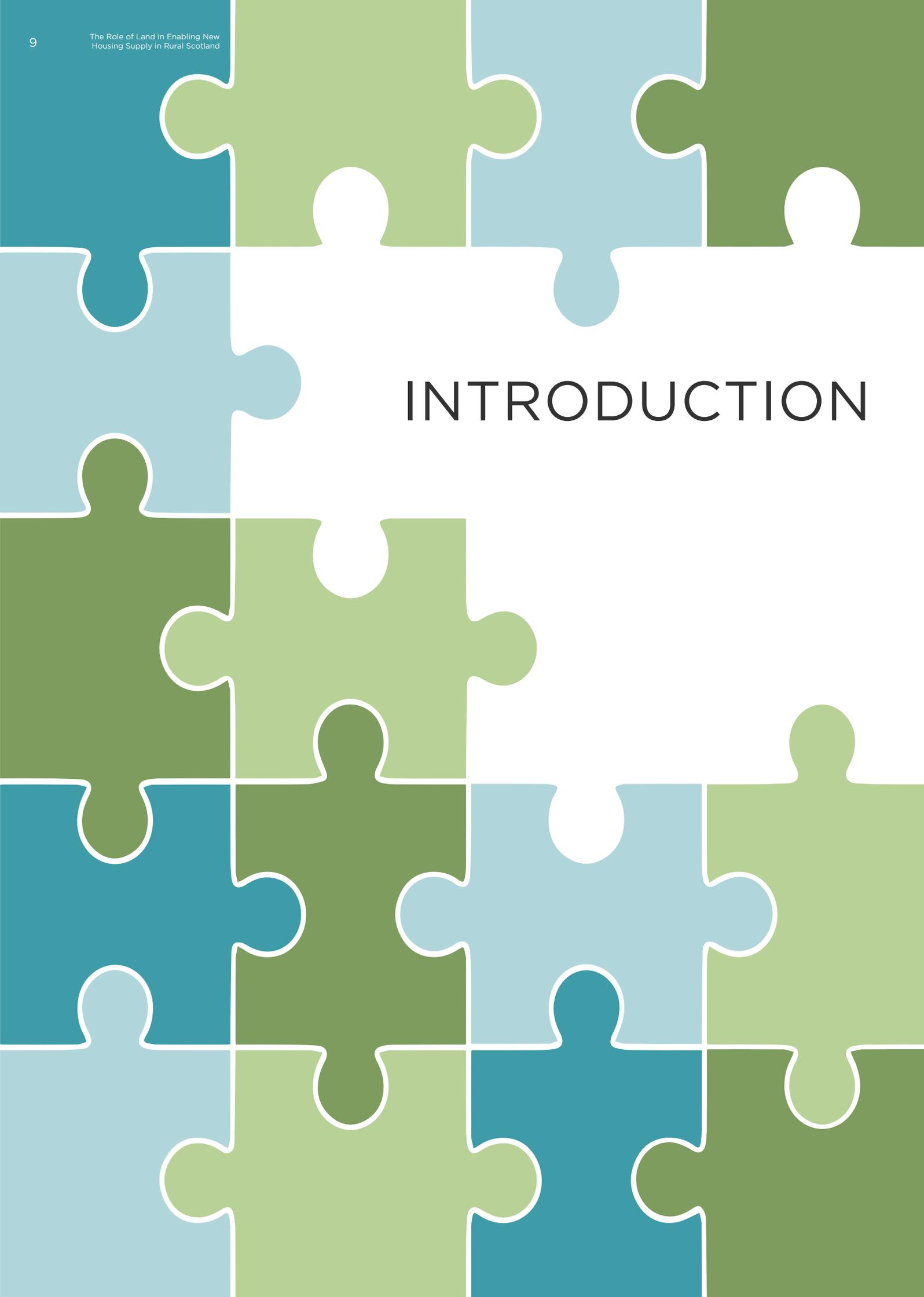
The challenges of rural housing development are significant but not always fully understood by key participants in the process. A simpler and more accommodating planning regime and technical approval process could act to substantially increase the level of new housing activity in our rural communities. We consider that this begins with an increase in the understanding and knowledge base of Planning Departments and Council Members in relation to rural matters through the roll-out of a rural training package.

The training package should include rural sustainability, place-making, area capacity evaluations, rural economics and viability, and the roll-out of the planner as an 'enabler'.

A more detailed description of each recommendation is presented within Appendix 1.

Please note that these recommendations are suggestions that have emerged from our research and represent ideas that the SLC may wish to consider rather than specific policies that will be implemented.





# INTRODUCTION

# 1.0 INTRODUCTION

Savills were appointed by the Scottish Land Commission (SLC) in 2019/20 to consider the role of land (specifically the cost of land and its availability) in enabling the supply of new housing of all tenures in rural Scotland, particularly in small, remote communities.

1.1 Specifically, the objectives of our research were to:

- Identify examples of good practice where the local approach to identifying and allocating housing land enables the delivery of housing;
- Explore common challenges around land supply and cost that prevent the delivery of housing, using a few examples to illustrate the challenges;
- Using examples of good practice and stalled projects, and information from stakeholders, suggest solutions and;
- Make good practice recommendations, plus policy and legislative changes.

1.2 Without land, new housing cannot be constructed and we cannot increase the supply of new housing to help small rural communities prosper.

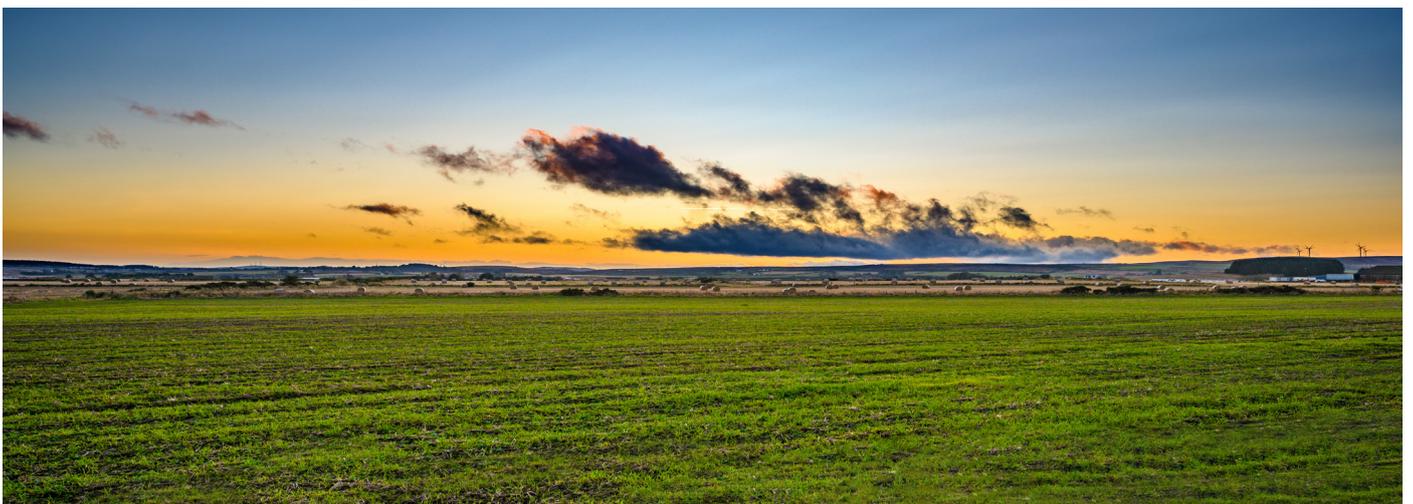
1.3 It is therefore crucial that developers and investors, as well as communities and individuals, are able to access land or develop on their existing land holdings.

1.4 In this report we outline the:

- Approach we have taken and the methodology we have followed;
- Literature that is relevant to this subject matter;
- Key players that are active in rural development;
- Key themes that have emerged through our stakeholder engagement;

- Current market practice for establishing land price across the various sectors that are active in rural Scotland;
- Potential solutions and examples of good practice to overcome the key land related challenges;
- Key findings of our research, and finally;
- Six recommendations that we feel will most address the key challenges.

**1.5 On behalf of the Savills project team and the SLC, we would like to thank all of the stakeholders who have engaged with us so openly over the last six months and who have helped us to better understand the many issues that are unique to rural Scotland.**





# METHODOLOGY

## 2.0 METHODOLOGY

In order to address the research objectives we adopted four key methods of qualitative research including a literature review, stakeholder interviews, stakeholder workshops and case study analysis. We sought to engage with a wide range of stakeholders who are active across the rural housing market, including developers, housebuilders, communities, housing associations, local authorities, representative bodies, trusts, charities, academics, public bodies, landowners and others.

### LITERATURE REVIEW

2.1 The purpose of the literature review was to identify the relevant research that has already been carried out and to help inform our specific research objectives.

2.2 An initial review of literature was undertaken to explore common challenges around land supply and cost that prevent the delivery of housing.

2.3 The scope of the overall literature review included reports by a series of organisations and professionals with an interest in the subject. Specifically, we reviewed:

- Stimulating Housing Development in the Highlands and Islands (Highlands and Islands Enterprise);
- Investigation into the Issues Associated with Large Scale Concentrated Land Ownership in Scotland (Scottish Land Commission);
- The Range, Nature and Applicability of Funding Models to Support Community Land Ownership (Scottish Land Commission);
- Local Authority Land Acquisition in Germany and the Netherlands: are there lessons for Scotland (Scottish Land Commission);
- Vacant and Derelict Land (Ryden);
- Funding new Social and Affordable Housing (UK Collaborative Centre for Housing Evidence);
- Small Housing Developers in Scotland (Scottish Government);
- What Lies Beneath (New Economics Foundation);
- The Invisible Land – the hidden force driving the UK’s unequal economy and broken housing market (IPPR Commission);
- More Homes – Rural Housing Policy – Information Paper (The Scottish Government);
- Housing to 2040: Stakeholder Engagement Report 2018 (The Scottish Government);
- Houses on Crofting Land: a study into meeting housing needs in the crofting areas (Rural Housing Service/Scottish Crofting Foundation);
- An Economy for All of Scotland: Harnessing Our Potential for Everyone, Everywhere (Scottish Council for Development and Industry and The Rural Commission);
- Written Submission from Scotland’s Rural College (SCUC);
- Housing Land Requirement (Dumfries and Galloway Council);
- Demographic Change in the Sparsely Populated Areas of Scotland (The James Hutton Institute);
- Wagging the Dog; Assessing Housing Need (The Chartered Institute of Housing);
- Social Housing in Scotland (UK Collaborative Centre For Housing Evidence);
- Rural Planning Policy 2050: Research to Inform Preparation of National Planning Framework 4 (Savills and Inherit).

2.4 The results of the Literature Review are presented in Chapter 3.



## WORKSHOPS

2.13 We subsequently ran two workshops in order to test the findings from our literature review, telephone interviews and concept recommendations. The workshops were held at a central venue in Edinburgh (14th January 2020) and a central venue in Inverness (15th January 2020). Those involved at the telephone interview stage were invited to attend, as were others who were unable to be interviewed, or were recommended to us during the telephone interview stage.

2.14 We had 12 attendees at our Edinburgh workshop drawn from a range of rural community bodies, public sector bodies and solicitors.

2.15 We had 20 attendees at our Inverness workshop including solicitors, surveyors, community bodies, housing associations, housebuilders, landowners, advisors and public sector representatives.

2.16 A full list of the organisations which attended is attached in Appendix 3.

2.17 The format of the workshops allowed open discussions in a small number of groups. The first session allowed the attendees to categorise, and rank by significance, the key themes derived from our research under three categories: Access, Cost and Other. These headings were drawn from the study brief.

2.18 The range of themes were drawn from the literature review and telephone interviews. We also added an additional heading 'Other' as a number of the key themes were not a straightforward fit within the access or cost heading or were general statements.

2.19 Some attendees put the key themes under more than one category. Each group was then asked to rank the top five themes

under each category.

2.20 The second session gave the attendees an opportunity to review and comment on our emerging recommendations in three categories; 'Cost', 'Access' and 'Strategic/Big Picture'. They were also able to suggest new recommendations.

2.21 Throughout the workshops, attendees participated in a separate exercise relating to the Toolkit. A series of tables with the headings below, and lists of available tools were provided for attendees to annotate. This exercise was designed to ensure that we captured the level of awareness of the various tools currently available to address the challenges being explored in this study and more broadly.

2.22 The Toolkit was categorised under the following headings:

- Funding Tools
- Planning Policy
- Good Practice
- Government Initiative
- Legal

- Organisation
- Land Agreement
- Tax

2.23 The attendees marked on the toolkit whether they had 'heard of' or 'used' the tool and whether they thought it 'needed to be improved'. Suggested improvements to tools were separately captured on a flip chart.

2.24 All outputs from the workshop were analysed to help answer the research questions and assist with the formulation of recommendations.

## CASE STUDIES

2.25 As the Study Brief requires investigation of examples of good practice and stalled projects, the telephone interviews were used to find potential case studies across Scotland. The case studies selected included three very different project based studies (Tarland, Rothiemurchus and Applecross) and two area based studies (Orkney and East Lothian).

2.26 The case studies are included within Appendix 7.





# LITERATURE REVIEW

## 3.0 LITERATURE REVIEW

Scotland is experiencing a housing shortage and the accessibility, availability and cost of land are often cited as barriers that restrict the supply of new homes. Housing has become unaffordable for many and as a nation we are not developing enough homes to meet need. The crisis affects all parts of the housing system in both the private and in the affordable sectors and across all tenures.

3.1 This literature review focuses on challenges in land and housing supply in rural and remote parts of Scotland. The review will demonstrate how the national housing challenges are heightened in rural and remote regions due to different market conditions and the different needs of communities. The challenges in the availability and the cost of rural land are broken down into further issues.

3.2 These include constraints relating to Land Ownership, the Planning System, Lack of Affordability, Viability, Infrastructure Requirements and many more. A number of models and mechanisms have been implemented to attempt to overcome the challenges, however the issue in the supply of new housing provision is still a large problem in many rural areas.

3.3 The literature referred to as part of this study is outlined in Chapter Two.

3.4 The purpose of the Literature Review is to concisely articulate some of the relevant research that has been carried out in this area and to help inform our own research objectives.

### CHALLENGES IN THE AVAILABILITY OF LAND

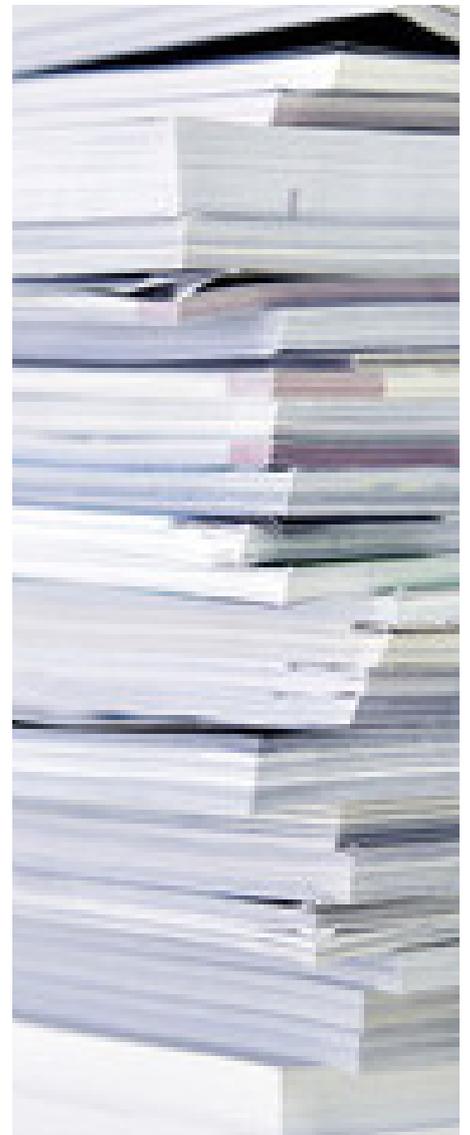
3.5 Through the literature, a number of factors were identified which contribute to the barrier of accessing available land for development in rural and remote areas. These are highlighted below.

#### Local geography/ land conditions

3.6 Some of the literature states that local geography and land conditions play a significant part in influencing new housing developments in remote and rural locations. Land may be constrained by a variety of designations<sup>1</sup> i.e. conservation/ heritage areas, European Natural designations, in addition to challenges with the natural environment including ground conditions (rock and peat) and access to remote sites.<sup>2</sup>

#### Landownership

3.7 Some of the literature suggests that there is a clear perception in some rural communities that landownership is a barrier to rural development. There is a view within some rural areas that a dominant landowner may be controlling the supply of



housing although the research does stress that the causal link between landownership, rural development and housing land supply is more complex than is often presented.<sup>3</sup>

3.8 Some of the literature suggests that landowners have an extreme form of control where they can swallow up large amounts of financial benefits from public, private and community investment. Some literature also suggests that landowners are setting the price of land at levels which make increasing the supply of affordable homes extremely challenging.<sup>4</sup>

3.9 Furthermore, engagement is cited as often being poor between landowners and communities and as a result, landowners are deciding what gets built where.<sup>5</sup>

### Crofting

3.10 A specific report on crofting land mentioned the following: the release of croft land for housing is not unusual in the crofting counties and can be considered as an untapped source of land for housing. However, many crofters are becoming wary of their generosity being taken advantage of through their sites being sold on the open market for significantly more than the crofter originally sold their land for. Furthermore, a number of crofters have been known to show resistance to giving up common

grazing land for housing particularly social housing. Others have never considered the idea or have not received reassurance on matters such as right to buy, local lettings or continued affordability of houses for sale.<sup>6</sup>

### Infrastructure

3.11 There are ongoing infrastructure challenges where developers are experiencing costly and frustrating difficulties and delays with agreements and consents.<sup>7</sup>

### Planning

3.12 Participants within the Small Housing Developers Survey indicated that the inability to secure planning consent for development was one of their biggest obstacles during the past three years and was the most common obstacle that they expected to face during the next five years.<sup>8</sup>

3.13 Land-use planning policies that determine the type of housing that can be built in remote rural communities are ambiguous. 'Land-banking' is a perceived problem where land in rural communities is designated for housing development but isn't developable. As a result, the next Local Development Plan will not allow any further land to come forward as the community is considered to have sufficient housing allocation.<sup>9</sup>

3.14 Section 75s result in inconsistency and ambiguity.<sup>10</sup> One respondent in the Small Housing Developer Survey stated "our latest development (currently at planning) has been quoted as £7,800 per plot for S75 fees. The planned sale values for these homes varied between £150k-£185k. To try and lose 4.2% - 5.5% on these is impossible, so the sales prices will have to rise. This means potentially taking longer to sell and buyers having to raise higher mortgages".<sup>11</sup>

3.15 There is concern over the perceived 'urban' mindset of the planning profession. There is a need for greater understanding in policy of the diverse needs and character of rural areas. Research carried out for the preparation of National Planning Framework 4 found that stakeholders think that there is a tendency to seek to protect rural areas from development rather than support sustainable development.<sup>12</sup>

### 3.16 Building Regulations

3.17 There is a perceived lack of flexibility regarding urban building control and roads standards and these should be more adapted to rural/remote rural areas. Developments in a rural and remote context become unaffordable.<sup>13</sup>

1 Evans & Littlewood, 2017, p1

2 Evans & Littlewood, 2017, p14

3 Glenn et al, 2018,p1

4 New economics foundation, 2018, p2

5 New economics foundation, 2018, p9

6 Logie, 2007, p24

7 Guy, 2016, p25

8 Scottish Government, 2020, p21

9 Glenn et al, 2018, p43

10 Guy, 2016, p26

11 Scottish Government, 2020, p22

12 The Scottish Government Planning and Architecture Division, 2019, p3

13 Evans & Littlewood, 2017, p48

14 Evans & Littlewood, 2017, p52

## Organisational Disconnection

3.18 Effective collaboration between organisations involved in the release of land for housing is identified as a key requirement.<sup>14</sup>

## Lack of Skills

3.19 Rural areas struggle to attract the people required to support businesses or deliver necessary services. Furthermore, there are fewer local employment opportunities and people can find it more challenging to sustain or set up a life in remote areas if they have children due to a lack of access to childcare.<sup>15</sup>

## Fragile Communities

3.20 In a project undertaken by the James Hutton Institute, the sparsely populated areas of Scotland have a demographic legacy where decades of population decline and shrinkage of our working age population implies serious challenges for economic development.<sup>16</sup>

## Housing Need and Demand Assessments not fit for purpose

3.21 There is a mix of views as to whether the emerging suite of housing need and demand assessments provide a 'fit for purpose' basis upon which to develop plans and housing strategies. There are mixed opinions on whether the housing need and demand analysis has made progress in terms of improving the understanding of housing system dynamics.

## CHALLENGES IN THE COST OF LAND

3.22 As competitive market arrangements dominate the economy in Britain, rural areas in Scotland are

continuing to experience finance and funding issues restricting viable housing developments coming forward. Land is an expensive and volatile element of housing costs and is widely viewed as problematic<sup>17</sup>. In some local areas, as job prospects and the local area improves, land values increase and push out those on low to middle incomes.<sup>18</sup>

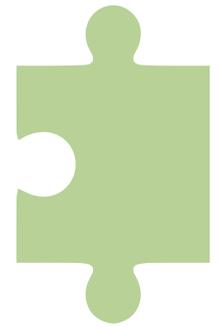
## Market Value

3.23 Within rural and remote areas, market values on land for new development are not significantly above the value of the land in its existing use, such as greenfield land. Therefore the development values on land for new housing are not adequate to pay the infrastructure/affordable housing planning obligations.<sup>19</sup>

## Demand

3.24 It is recognised that, due to the diverse nature of rural Scotland, areas experience different demands for services and housing. Therefore, a more flexible approach is taken in remote areas where demand is dwindling<sup>20</sup>. An example of this lack of demand is a project in Upper Nithsdale in Dumfries and Galloway, where gradual depopulation over a number of years has resulted in properties sitting empty for long periods<sup>21</sup>.

3.25 On the other hand, in a number of rural areas, there is a high demand for housing exacerbated by the continued conflict between house usage as permanent or seasonal contrasted with holiday and second homes. Without accommodation that is available and affordable for local people, rural communities struggle to thrive.<sup>22</sup>



## Viability and Developer Obligations

3.26 In the literature, the view is expressed that there is a lack of clarity on what is classed as fully effective land but the difference is usually defined around economic viability associated with infrastructure requirements.<sup>23</sup>

3.27 One source also states that the viability loophole is enabling developers to evade affordable housing contributions resulting in new schemes providing a lack of housing to suit particular affordable needs<sup>24</sup>. Crook T (2019) states that developers are becoming more willing to accept that they should make provision, however aren't doing so due to viability<sup>25</sup>.

3.28 Conversely, the use of onerous Planning Obligations can be challenging in some markets where development values are often not sufficient to support contributions. Section 75's and planning conditions place a burden on the viability of development as unrealistic financial requirements mean developments either do not happen or are delayed therefore impacting on the opportunity to provide affordable homes.<sup>26</sup>

15 SCDI, 2019, p8

16 Copus, Hopkins n/d, p1

17 Gibb, 2018, p18

18 New Economics Foundation

19 Crook, 2018, p5

20 Skerrat, n.d., p4

21 Community Land Scotland (online)

22 SCDI & The Rural Commission, 2019, p13

23 Evans & Littlewood, 2019, p39

24 New Economics foundation, 2018, p3

25 Crook, 2018, p4

## Community Ownership

3.29 The Literature Review has suggested that Scotland needs to go further in empowering local communities to meet their own housing needs as communities know their own requirements best<sup>27</sup>. Funding is a continuing barrier to community ownership as there is limited private finance available and there is a need to consider alternative options<sup>28</sup>.

## Economies of Scale

3.30 Concerns have been expressed over the availability of labour and contractors in rural areas which is preventing savings through economies of scale. It is felt that there are currently too many barriers and risks for new market entrants and that increased market competition would be needed to help drive down house prices.<sup>29</sup>

## Decrease in funding

3.31 Councils have historically been restricted from borrowing to help develop affordable housing and government grant funding has decreased<sup>30</sup>. However, there has since been an increase to the Affordable Housing Supply Programme which saw the introduction of grant-funded council housing on a scale similar to that offered to housing associations. Accordingly there has been a significant increase in the provision of affordable housing since the 1980s.

## Increased Capital due to Trends

3.32 Land and house prices are rising in some areas which increases speculation and investment into housing growth as capital floods in from individuals and investors, resulting in prices increasing even further. This market driven by speculation highlights that instead of community need dictating what gets built on the ground, land prices dictate what the community will get from development.<sup>31</sup>

## Affordability of Units

3.33 The affordability of private sector new-build is a potential concern and, as a result, private sector completions are largely clustered in more accessible areas closer to urban centres. It has been identified that the affordability of private sector housing is a considerable issue for many local people with modest earnings.<sup>32</sup>

## Lack of Builders and Capacity of Builders

3.34 The Scottish Government is encouraging small housing developers to contribute to an increase in new housing supply. The Small Housing Developers in Scotland Report displays the results of a survey taken by sixty-six Small and Medium Sized Enterprises (SME's) which showed what barriers SME's

experience. The publication ranks the obstacles in order from what they most perceive as a barrier, to barriers they don't experience frequently or don't expect to experience in the future. For all groups (small and medium), financial barriers were experienced by all in addition to Planning and Infrastructure obstacles. Interestingly, land availability was positioned down the rankings with neither small nor medium groups seeing it as an issue currently or an expected issue in the future.<sup>33</sup>

## SUMMARY

3.35 In summary the literature highlights a range of, sometimes conflicting, factors that can contribute to the availability and supply of new housing.

3.36 It is worth noting that this represents a very concise summary of the issues and that this is a complex area with many interlinking variables and factors to consider.

<sup>26</sup>Guy, 2016, p26

<sup>27</sup> Scottish Government, 2019

<sup>28</sup> MacPherson et al, 2019, 2

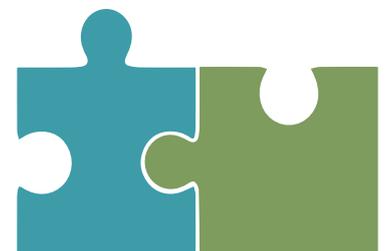
<sup>29</sup> Scottish Government, 2019,p58

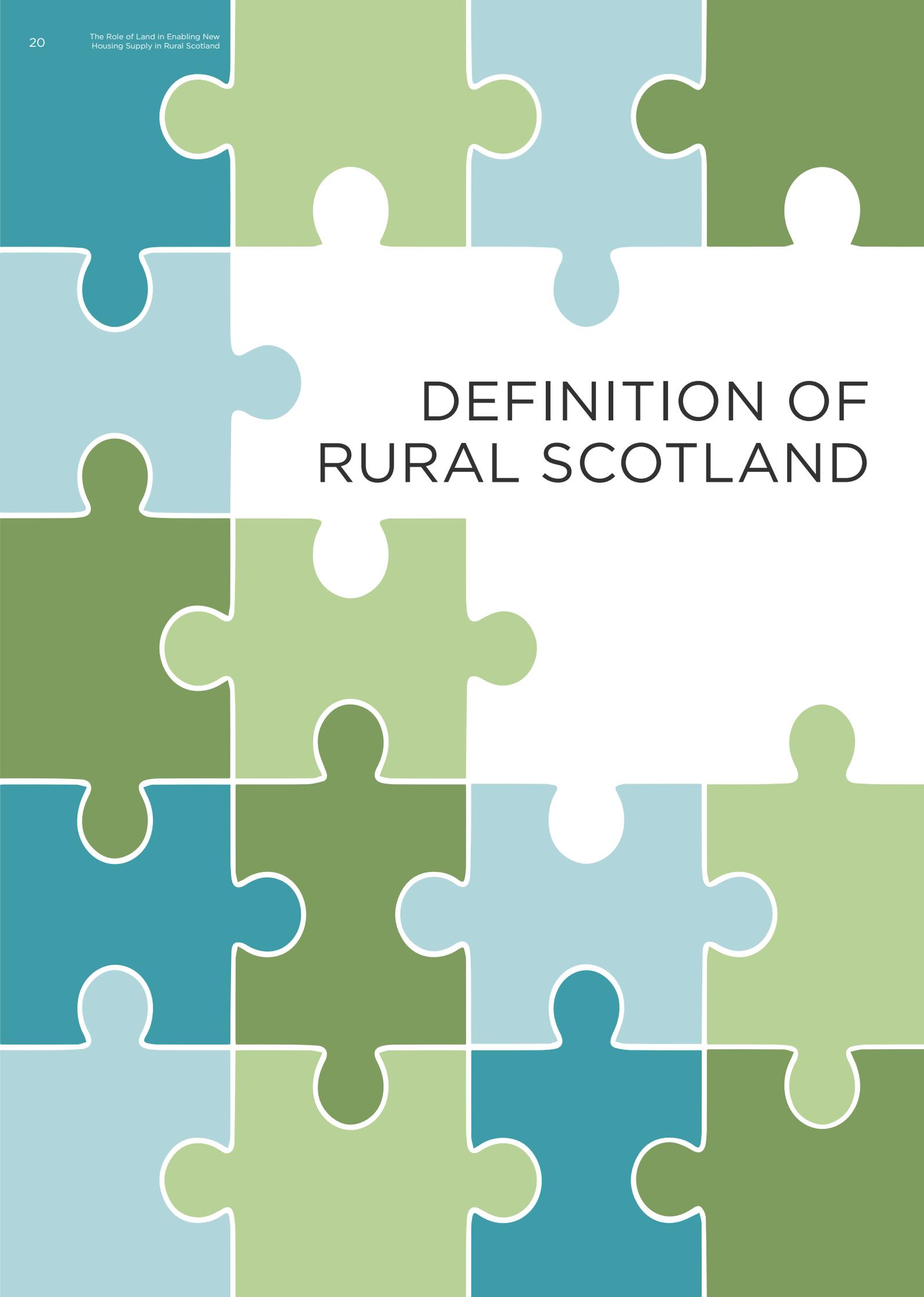
<sup>30</sup> New Economics Foundation, 2019,p4

<sup>31</sup> New Economics Foundation, 2018, p4

<sup>32</sup> Evans & Littlewood, 2017, p21

<sup>33</sup> Scottish Government, 2016 and 2020





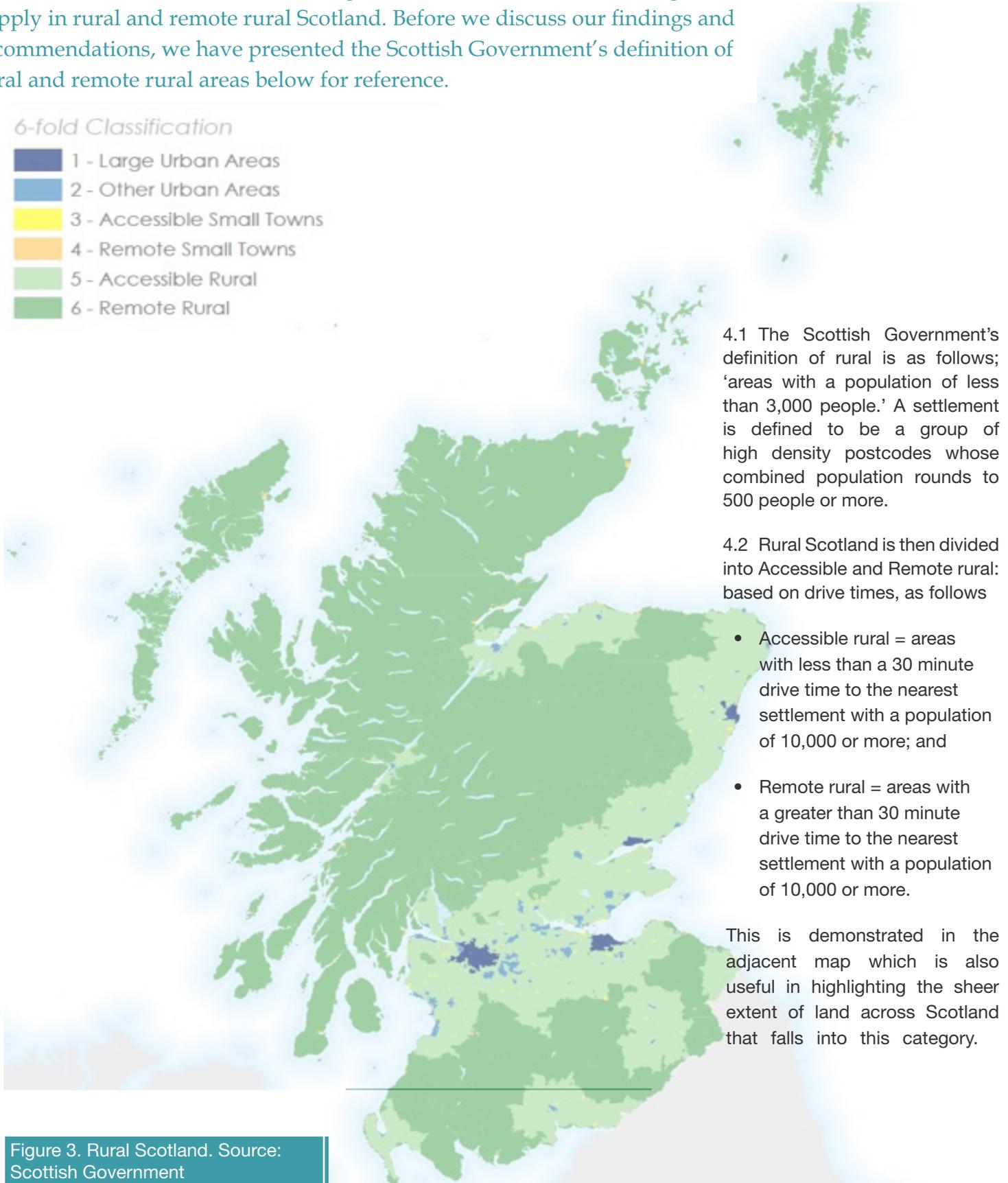
# DEFINITION OF RURAL SCOTLAND

## 4.0 DEFINITION OF RURAL

This research is focused on the investigation into land and rural housing supply in rural and remote rural Scotland. Before we discuss our findings and recommendations, we have presented the Scottish Government's definition of rural and remote rural areas below for reference.

### 6-fold Classification

- 1 - Large Urban Areas
- 2 - Other Urban Areas
- 3 - Accessible Small Towns
- 4 - Remote Small Towns
- 5 - Accessible Rural
- 6 - Remote Rural

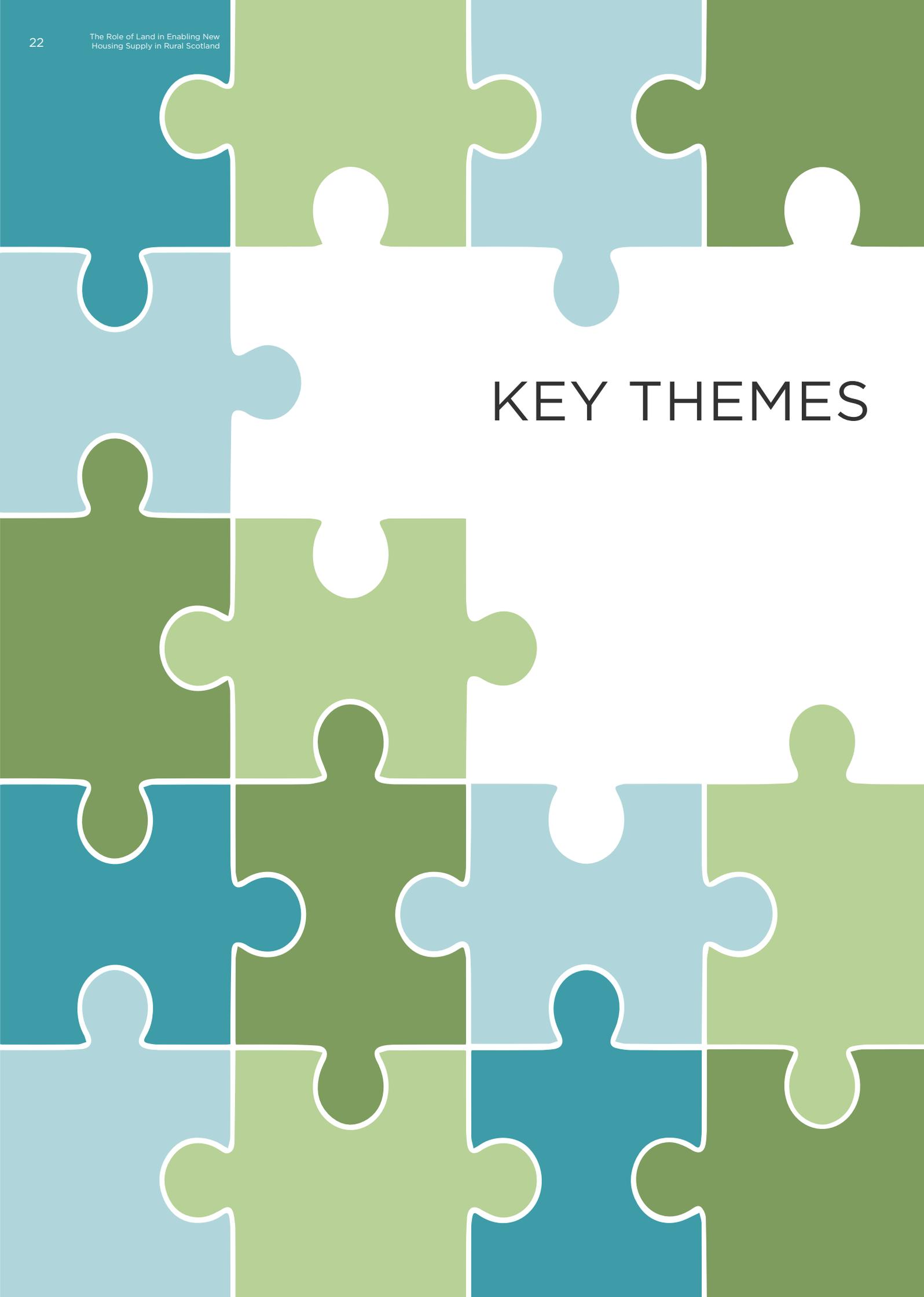


4.1 The Scottish Government's definition of rural is as follows; 'areas with a population of less than 3,000 people.' A settlement is defined to be a group of high density postcodes whose combined population rounds to 500 people or more.

4.2 Rural Scotland is then divided into Accessible and Remote rural: based on drive times, as follows

- Accessible rural = areas with less than a 30 minute drive time to the nearest settlement with a population of 10,000 or more; and
- Remote rural = areas with a greater than 30 minute drive time to the nearest settlement with a population of 10,000 or more.

This is demonstrated in the adjacent map which is also useful in highlighting the sheer extent of land across Scotland that falls into this category.



# KEY THEMES

## 5.0 KEY THEMES

Over the course of our research period we have identified a number of observations and common themes relating to new housing delivery barriers in rural Scotland. This Chapter seeks to explore the broad range of themes and then condense these in order to identify the key land related challenges.

5.1 In total, we identified 37 themes /key statements or observations that we feel are relevant to our study.

5.2 It became very apparent early on in our research that to understand the role of land and whether or not further land reform is required, it is necessary to first understand all the pieces of the jigsaw and how they interact. Equally, it is beyond the scope of our research to consider every single aspect of rural housing delivery in detail.

5.3 Accordingly, thanks to the assistance of the stakeholders who attended our workshops in Edinburgh and Inverness we were able to categorise and rank the various themes so far as they related to either access and/ or cost.

5.4 Around 90% of the 37 themes identified were characterised by one or more group as being access related while 75% were considered to be cost related. There was also a substantial cross over, with 70% of themes considered to be both access and cost related.

5.5 This highlights how interdependent many of the themes are and is reflective of the very interesting and stimulating conversations that occurred over the course of the workshops.

5.6 In terms of the ranking of the themes, 20 were identified as being

a top 5 issue by one or more of the workshop groups and 80% of these were both access and cost related.

5.7 We briefly highlight the top 5 key themes below

1. The Rural Housing Funds Have been Game Changers.

2. Land Price and Best Value.

3. The Scottish Land Fund has been Key for Communities.

5.8 The 37 themes are identified as a text cloud overleaf and the remainder of this Chapter is dedicated to summarising the Top 20 Key Themes before drawing out the key land challenges.

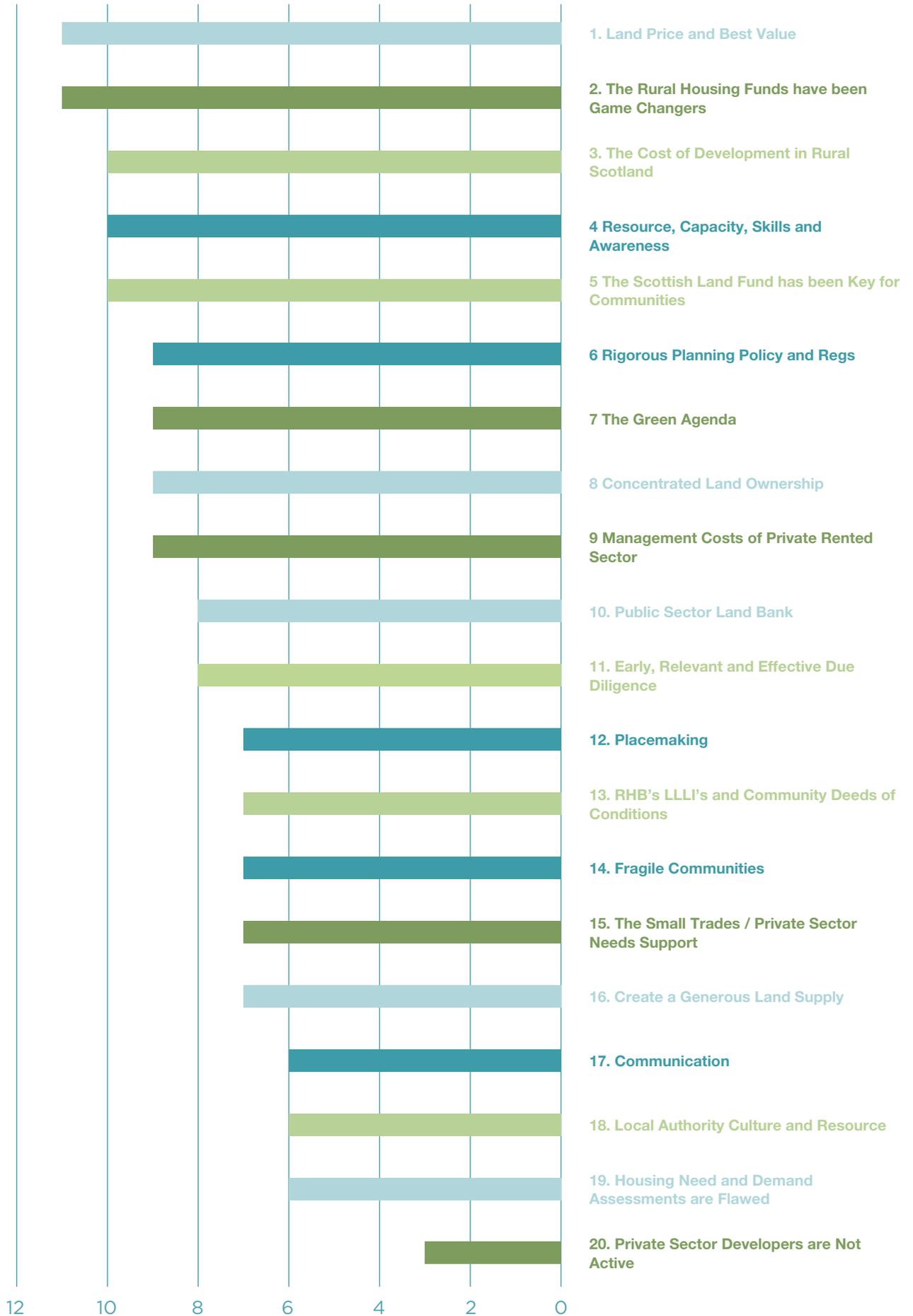
4. Resource, Capacity, Skills and Awareness.

5. The Cost of Development in Rural and Remote Scotland.

Figure 4. Word cloud of the various themes that have emerged

Every Situation is Different Many Rural Communities Are Fragile Rural Housing Development Takes Time Housing Need and Demand Assessments Are Flawed **The Rural Housing Funds Have Been Game Changers** Big National Housing Targets Distort Activity Away From Rural Scotland The Small Trades, Private Sector Contractors And Small Builders Need Support Good Things Are Happening/ Momentum is Growing The Green Agenda Is Important But Adds Further Cost to New Development Why Are We Just Focusing On Land? **Rural Housing Delivery Suffers From A Lack Of Resource, Capacity, Skills and Awareness** An Effective And Generous Land Supply Would Help To Unlock Opportunities Ineffective Housing Sites Should Be Made Effective Or Deallocated Relevant and Effective Due Diligence Should Be Carried Out Earlier The Profile and Drivers of Developers and Landowners can Vary Massively Local Authority Culture And Resource Can In Some Cases Frustrate Rural Development **Land Price And Best Value** Public Sector Land Bank Could Be An Asset Housing Associations Can Help But Are Not Always Active In Remote Rural Communities Rural Housing Burdens, Local Lettings Initiatives And Community Deed Of Conditions Can All Help To Preserve Housing For Community Use Communities Can Be Good But Can Also Be Complicated Private Sector Developers Are Not Generally Active In Some Markets There Has Been An Emergence Of Custom Build/ Design And Build Developers (Non Speculative) **The Cost Of Development** In Hot Spot Markets Second Homes And Self Catering Homes Can Restrict Housing Options For Locals And Inflate House/ Land Prices Placemaking Is Important In Terms Of Creating Desirable And Sustainable Developments Taxation Can Be Utilised To Help Influence The Market Poor Communication Can Often Be A Barrier To Development Crofting Legislation Can Restrict Effective Land Supply Overly Rigorous Planning Policy & Regulations From Stakeholders Can Frustrate Projects Brownfield Development Can Be Better Utilised To Increase Land Supply **The Scottish Land Fund Has Been Key For Communities** The Negative Perception Of Housing Can Make It Harder To Get Community Support The Cost of Managing Private Rental Stock Can Be Higher In Rural Scotland Developers Contributions/ S75 Payments Can Put Further Pressure On Viability Concentrated Land Ownership Can Restrict Land Supply Land is Just One Piece of the Jigsaw Puzzle

TOP 20 KEY THEMES



## LAND PRICE AND BEST VALUE

5.9 Land is an essential ingredient in the supply of new homes. As we explore in Chapter six of this report, land price is very much a function of the wide range of variables that sit above it in a financial appraisal (revenue, cost, risk and time) and a detailed understanding of how land price can be influenced by adjusting these variables is helpful for all stakeholders involved in the development process.

5.10 From our research and own experience, the reality in many rural and remote rural areas (other than in certain ‘hot spots’) is that land prices are often comparatively low. Where the ‘for-profit’ housebuilder is not active, any aspiration for landowners to achieve large capital receipts for unserviced land is often unrealistic.

5.11 Not-for-profit developers are not able to pay high land prices and are typically reliant on grant funding. Self-builders can often pay more for land but want to buy serviced plots. For a landowner to service land speculatively can be costly and risky.

5.12 One of the related themes that emerged through our research was that there are a wide range of landowners that exist across rural Scotland (across the public, private and third sectors). Different landowners are motivated by various objectives, including those listed below. These are by no means mutually exclusive – i.e. there may be a combination of factors influencing any decision at a particular point in time:

- Operating or farming land;
- Selling land to generate capital receipts;
- Leasing land to generate income;
- Developing land to sell

properties (for capital) or let them (for income);

- Realising Best Value;
- Creating sustainable communities;
- Environmental objectives;
- Leaving a “place-legacy” by, for example, delivering a new settlement with a particular focus on creating a high quality environment and a strong sense of place that will create value and thrive in the long-term.

5.13 It is therefore the case that different landowners have different aspirations for their land or attitudes towards risk, return and timing.

5.14 When a landowner is considering selling their land they will often (but not always) appoint an agent to advise them on the process of agreeing commercial terms whilst exploring the various land deal structures that are available (see Appendix 4).

5.15 The majority of owners of any asset, including land, are duty bound to achieve Best Value for their stakeholders, shareholders or trustees. This does not always constitute the highest price and the methodology for assessing Best Value is very much down to the values, principles and strategy of the owner of the asset. The length of time it may take to receive funds coupled, with the risk associated with receiving those funds and any indirect or direct benefits of the project to adjacent land interests, are also very important considerations.

5.16 Where landowners are selling land at a relatively low level for an affordable housing development they are often concerned about the risk of the land then being sold on in the future at a higher price for private housing.

5.17 Alternatively they may not be satisfied that the price that they are being offered is fair because there is a lack of available comparable evidence to support the offer.

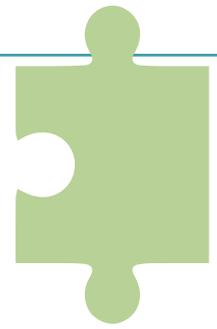
## THE RURAL HOUSING FUNDS HAVE BEEN GAME CHANGERS

5.18 The Rural Housing Fund and the Islands Housing Fund were introduced in 2016-2017 and sit within the More Homes Division of Scottish Government. The overwhelming response from our research has been that the funds have been a hugely positive step forward in facilitating new housing development in rural Scotland, particularly for communities. As at December 2019, the Rural and Islands Housing Funds had approved/ supported 147 new homes on 39 projects across Scotland (average of 3.77 plots per project).

5.19 However, a number of stakeholders, particularly in the private sector (such as small builders and landowners), are not fully aware of the benefits and assistance that the funds can offer the for-profit sector.

5.20 There is also considerable concern (and uncertainty) about the void that will be left when the funds close at the end of March 2021. This is making it difficult for stakeholders to plan confidently for the future and we are aware of a number of developers and communities who are actively looking at new projects where the Rural Housing Funds will be critical to delivery.

5.21 Many stakeholders feel that the funds should remain in the long-term and that a number of relatively small adjustments could be made to further enhance them and to raise their profile.



## THE SCOTTISH LAND FUND HAS BEEN KEY FOR COMMUNITIES

5.22 The Scottish Land Fund (SLF) was formed in 2016, with an annual budget of £10m, to support rural and urban communities to become more resilient and sustainable through the ownership and management of land and land assets.

5.23 Funded by the Scottish Government and delivered in partnership by The National Lottery Community Fund and Highlands and Islands Enterprise, it offers grants of up to £1 million to help communities take ownership of the land and buildings that matter to them, as well as practical support to develop their aspirations into viable projects.

5.24 Our research suggests that without grant support from the Scottish Land Fund many community initiatives would not have been possible. However, our research also reveals that a number of new housing-led applications are not being supported by the SLF, either because the land is not being retained by the Community Development Company (i.e. a serviced plot is being sold to a local family) or because the underlying purpose of the request revolves around housing rather than other community initiatives (for which there has been considerable demand and success).

5.25 As with the Rural Housing Funds, the fund closes at the end of March 2021 which is also creating uncertainty in some cases. The Scottish Land Fund is useful in plugging the viability gap on housing projects by offering a further layer of grant funding to community groups.

### RESOURCE, CAPACITY, SKILLS AND AWARENESS

5.26 Securing a planning permission and all of the other technical consents necessary for any new housing development is expensive and time-



Figure 5. Scottish Land Fund Leaflet (source: SLF)

consuming. Housebuilders, even with substantial levels of in-house expertise to draw on, spend hundreds of thousands of pounds promoting sites through the planning process (please refer to Appendix 5 which summarises housebuilder 'good practice'). And this is when they know exactly what product they will build in a specific market and have a clear understanding of demand and pricing.

5.27 Buying land and developing new homes in rural and remote rural Scotland is, in many ways, much more challenging than it is in Scotland's largest towns and cities.

5.28 Ironically, in many respects it

is more challenging to deliver (and subsequently manage) say four new homes in a remote rural community than it would be to deliver hundreds of homes in an urban context where there are no market or logistical constraints.

5.29 Our research highlights that only a relatively small number of people active in the rural housing market really understand all of the issues (and tools) around new housing delivery. The majority of them are constrained by resource (both time and financial) and therefore are not able to contribute as effectively to new housing delivery as they otherwise could. This can lead to fatigue and frustration developing between stakeholders.

5.30 The three not-for-profit Housing Trusts that act to support communities across Scotland have been hugely beneficial in assisting these groups (including in brokering land deals, establishing need and demand for new housing in rural areas and developing innovative financial models to enable communities to actually purchase new homes). The work they do is incredibly sophisticated and they are hugely valued by the communities we have engaged with. However, they are also constrained by time and resource.

5.31 In addition there is little by way of equivalent support for the private sector, including small builders and landowners/ landlords.

### 5.32 THE COST OF DEVELOPMENT IN RURAL AND REMOTE RURAL SCOTLAND

5.33 This issue has featured heavily throughout our research from our stakeholder calls through to our case studies and workshops. It is also very much an issue which we are aware of through our day to day work.

5.34 It is well established that there is a cost premium in many rural and remote rural markets (often 20% - 30% in comparison to the rest of Scotland). Indeed, according to the Scottish Social Housing Tender Price Index, Quarterly Briefing December 2019, the Index Value for the 'Islands' is 131 suggesting a 31% cost differential compared with Scotland as a whole. In addition the briefing states that "tender prices for social housing rose 1.0% in 2Q2019/20 and 4.2% compared with 2Q2018/19. They have been rising steadily over the past year."

5.35 The cost premium in rural Scotland is driven by a range of factors including, but not limited to:

- Scarcity of labour and a lack of contractor availability;



- Logistical challenges in terms of distance to travel and accommodating labour/ staff welfare resulting in additional costs;
- The impact of weather on material specification and delaying projects;
- Lack of economies of scale – particularly for small scale development of two or three homes where site establishment costs are relatively higher. However we have been advised that even developments of 50 plus homes in larger towns in Rural Scotland are not achieving any economies of scale despite an expectation or hope that they would prior to tender;
- Site specific constraints such as topography (Oban, for example) or peat (Fort William);
- Lack of nearby services resulting in substantial costs relating to service reinforcements;
- Excessive design and engineering requirements or as a one stakeholder put it: "over engineering and over sizing infrastructure" (Roads Construction Consents, Scottish Water approvals, etc);
- The use of Developer Obligations (through the planning process) to mitigate the impact of new development can place a further pressure on viability. Increasingly, local planning authorities require applicants to either undertake certain physical improvement works or provide payments towards local infrastructure and services including roads, education, and community facilities. This can make it difficult for new developments to either a) realise a land price b) generate a neutral cost/ revenue position (in the case of not-for-profit developers) or c) significantly restrict the profitability of a project (for the private sector). For example,

a small builder based in the Highlands, experienced a 300% increase in Developer Obligations within six months of having a previous phase consented therefore putting the project in jeopardy;

- Lack of land options – in some case developers are only able to access parcels of land that are onerous or costly to deliver and this results in higher abnormal costs. This can often be unavoidable due to local topography and ground conditions.

5.36 Additional project costs can also emerge due to a lack of awareness around design and site layout efficiencies, abortive due diligence costs and inefficient procurement methods. If not managed, recognised or understood then these factors can act as a barrier to viability and/or lead to residual development appraisals driving out an artificially low land price thus acting as a barrier to a land purchase being agreed.

### RIGOROUS PLANNING POLICY

5.37 Our research suggests that the significant contribution to rural sustainability that housing makes is variably understood and in some cases undervalued in planning policy. Therefore both the principle of allowing housing to be built in the countryside and the detailed policy requirements that are then applied to the planning consent in terms of conditions, compounded by urban-orientated requirements for roads and other infrastructure, all combine to both reduce rural housing land supply and make rural housing development unnecessarily costly.

5.38 One stakeholder suggested that the process of securing planning and technical consents is “extremely bad” and this view was shared by many we consulted with.



### CONCENTRATED LAND/ UNWILLING SELLERS

5.39 In some cases a rural community's ability to deliver new housing is frustrated by an inability to acquire land from a landowner who is unable or unwilling to sell their land or who is unresponsive. Where there are no other landowners to acquire land from in a settlement, this can prevent any form of new development from taking place.

5.40 Some communities have been frustrated by an apparent lack of engagement from landowners or from feeling that they are being offered only the very poorest land to develop.

### PUBLIC SECTOR LAND BANK

5.41 The public sector land bank (including Highland and Island's Enterprise land) could be a key source of land supply for new housing developments going forward.

5.42 When the public sector sells land there is an obligation on them to achieve Best Value. Best Value is perceived by some to be the highest price. However, Audit Scotland define Best Value as follows: “Best Value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver

the best possible outcomes for the public.” According to the Scottish Government's Public Finance Manual:

*“to achieve value for money for surplus assets organisations should either: obtain the best possible price on the open market, or dispose of an asset at less than Market Value to deliver wider public benefit, consistent with Best Value principles, or transfer under the Guidelines for the Transfer of Property within the Scottish Public Sector. When evaluating options for the treatment of surplus assets, consideration of the acquisition of assets by community bodies should be included, where appropriate. This consideration should be consistent with the principles of Best Value, where wider public benefits may be achieved.”*

*Any work to make the property more attractive to purchasers e.g. repairs, master-planning or seeking an improved planning consent, should be undertaken to enable the disposal to proceed within this time-scale. If no sale is in progress within these time scales, the disposal strategy should be reviewed and alternative methods of disposal considered.”*

5.43 Often there is a perceived obligation to achieve the highest price when this may not truly represent Best Value in the wider sense.

5.44 The longer-term social, economic and environmental impact of new projects are becoming important factors for many stakeholders to try and measure.

### THE GREEN AGENDA

5.45 The development industry can't ignore the challenges posed by environmental change. Meeting carbon emission goals will require radical change in how we plan and deliver housing. Increased regulation is likely to focus on energy efficiency and a push for more sustainable construction techniques.

5.46 The majority of stakeholders accepted the need to meet carbon emission goals but expressed concern around how the green agenda relates to the cost burden that increased standards place on viability (at the initial development stage if not across the life-cycle of a development). Some renewable energy solutions such as air source heat pumps and solar panels are putting pressure on the capacity of infrastructure resulting in further abnormal costs to upgrade, for example, sub stations. Given the economics of delivering new housing in rural Scotland outlined in Chapter Six, it is understandable why many stakeholders are concerned about the threat additional increases in cost pose on viability.

5.47 From a planning perspective, the increasing emphasis on measures to tackle climate change and the responsibilities on public authorities to address these issues in their areas, and through their Development Plans, will no doubt have a significant impact on how planning policies evolve generally. There is a real opportunity for new policy directions to help rural communities play their part in tackling the climate change agenda in very positive ways. Indeed, the accessibility of renewable energy opportunities in rural areas could be a distinct advantage to rural communities.

5.48 As more restrictive rural planning policies have rested on the presumption that rural development, particularly housing in the countryside is inherently unsustainable, there is a danger that planning policies could proceed in an even more restrictive direction because of the climate change agenda. Planning authorities frequently only allow development in the countryside if the location proposed is accessible by public transport. However, significant trends in travel and working styles (electric cars and home working) are already creating new opportunities to increase the sustainability of rural living.

### THE MANAGEMENT COSTS OF PRIVATE RENTAL STOCK (PRS)

5.49 Housing that is let out requires to be maintained and managed. Many stakeholders we have engaged with have expressed challenges around the logistics of managing rural housing stock. In addition, in some remote rural areas there is a notable lack of skilled tradespeople (plumbers, electricians, etc) to service and maintain properties.

5.50 In addition, one mid-market rental provider we spoke with indicated that development in many rural areas was unviable due to the risk of voids and the impact on net cash flow/ debt servicing.

5.51 A number of housing associations are also not able to service extremely rural or remote projects. In contrast some rural landowners are well equipped to lease and manage residential property through the resource they have built up to manage their existing portfolios.

5.52 A large proportion of the existing housing stock in rural Scotland will require to be upgraded and modernised in order to comply with more stringent EPC regulations and, for many rural landlords, this will be challenging to finance relative to the rents that they collect. Some stakeholders indicate that this may



result in a net reduction in housing in rural Scotland as existing PRS properties are sold off by landlords or changed to holiday lets whereby the income collected can better support the standards required.

5.53 Many stakeholders we have engaged with have highlighted a distinct lack of high quality new build rental options across rural Scotland. This is in contrast to the movement towards institutional grade Build to Rent (BTR) developments in our larger cities or high quality and 'tenure blind' Mid Market Rent (MMR) developments.

### EARLY, RELEVANT AND EFFECTIVE DUE DILIGENCE

5.54 A number of stakeholders have highlighted that too often sites are allocated that are ineffective due to physical, legal or other constraints.

5.55 In addition, often inexperienced developers, landowners or community groups will spend money on producing attractive house designs and assessing demand without first of all establishing if the land that they are looking to develop is constrained or likely to be viable. This can result in expensive abortive costs and frustration developing within communities.

5.56 With land opportunities, there is always a balance to be struck between spending money early (speculatively) and being sufficiently satisfied that a project is likely to be viable and deliver on its business plan.

Figure 6. Findhorn Eco Village had to address the pressures of high demand for second homes which some fragile communities face



### PLACEMAKING

5.57 The concept of Placemaking is very broad. Many stakeholders observed that the bad reputation new housing projects often gain (one of the wider themes identified through our research) is often because they can lack any sense of identify or place or are situated in compromised locations without sufficient thought to their impact on the wider community.

5.58 This in itself can limit demand for new housing or frustrate the community engagement and therefore planning process.

5.59 The attraction of a new development is not governed solely by the quality of the homes but by the quality of the place around it.

### FRAGILE COMMUNITIES

5.60 Some communities are particularly fragile and may need higher levels of intervention/ support than others. This could be because land values or known demand levels are low relative to cost (i.e. Tarland case study) or because they are in 'hot spots' where a scarcity of supply coupled with high demand pressures make homes unaffordable for many locals (i.e. Rothiemurchus case study or Findhorn).

5.61 Equally, many larger rural towns have been completely neglected and if development can be unlocked in these areas then we could see a material increase in the number of new build completions in rural Scotland.



## THE SMALL TRADES/ PRIVATE SECTOR NEEDS SUPPORT

5.62 There are not enough local trades in rural areas (both for development and for maintenance).

5.63 More needs to be done to create economies of scale and a pipeline of work for small builders and contractors so that they have the confidence to scale up.

## 5.64 CREATE A GENEROUS LAND SUPPLY

5.65 Land is a relatively scarce resource. The more land that is available for development, or the more choices that developers have, the greater the probability of development taking place - particularly in 'hot spots'. However, this does need to be balanced with placemaking principles and robust infrastructure planning. An overly generous land supply can also create uncertainty about where homes will be built in a community.

## COMMUNICATION

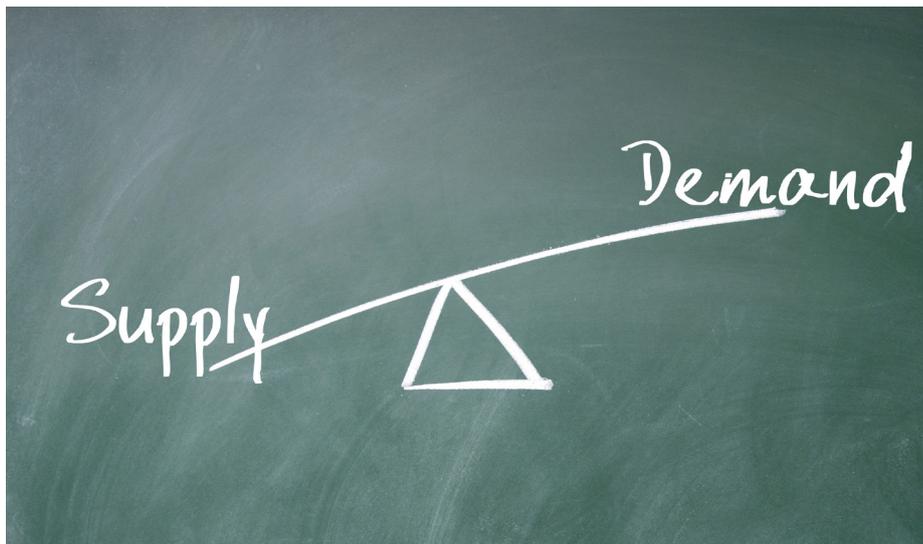
5.66 Strong communication and dialogue is key to building trust and sadly is lacking in many situations today. One stakeholder reported that "trust and relationships between landowners, developers and planners is not as strong as it should be".

5.67 The sheer extent of stakeholders, competing priorities and range of themes, creates potential for conflict to develop at many stages of the land procurement, planning and development process.

5.68 Distrust can develop very quickly between parties.

5.69 Often a lack of resource/ time can prevent effective communication from taking place as well as a lack of appreciation of other stakeholders' perspectives and drivers.

5.70 One landowner/ developer highlighted in our stakeholder



interviews that "you need to be a very skilled facilitator in order to create space for the various interest groups in a project, including listening to those that are less vocal and recognising those parties that may have a personal agenda". It was also highlighted that this process can be "expensive and time consuming to do properly".

## LOCAL AUTHORITY CULTURE AND RESOURCE

5.71 Many stakeholders commented that there is often a presumption against rather than in favour of development by some local planning authorities. In some instances the culture is not considered to be supportive or place enough weight/ emphasis on the need for more housing.

5.72 Whilst, in some cases, challenges can emerge at a officer level where a personal interpretation of a project can be highly subjective, but also more broadly the issue of lack of resource within local authorities was considered to be the key barrier to preventing the planning system from embracing a more positive and facilitative role in the development process. One stakeholder highlighted "a lack of site visits and a lack of engagement" leading to frustrations and challenges.

## HOUSING NEED AND DEMAND ASSESSMENTS ARE FLAWED

5.73 The process each local planning authority undergoes in order to decide how much new land it needs to allocate for housing in its Local Development Plan involves a standard 'Housing Need and Demand Assessment' known as a HNDA. Essentially many stakeholders consider that the current approach does not accurately establish need and demand at a localised level.

5.74 In order to prove housing need and demand in rural areas, much more specific Local Housing Surveys are required but tend only to be undertaken when commissioned by housing associations, local housing departments or applicants seeking to source the Rural and Islands Housing Fund (or other funds). According to Rural Housing Scotland (RHS):

*"the extent of housing need in rural communities can go unrecognised by the local authority – who have the statutory responsibility for housing and make decisions about the locations where public investment in affordable housing is made. This is sometimes due to the use of social housing waiting lists to measure demand for affordable housing. These can underestimate rural housing need because people with housing needs may believe there is no point joining the waiting list if*

*there is little social housing in their community. Council wide surveys of housing need also underestimate rural need as they do not analyse data at a small enough scale to identify pockets within otherwise affluent areas. There is often substantial anecdotal evidence locally of housing needs."*

5.75 In addition, predicting housing need in small rural communities can be challenging as demand can be very fluid (peoples circumstances change) whilst rural development often takes many years to come to fruition. Again, according to Rural Housing Scotland:

*"A housing need survey provides an assessment of what kind of housing need is required in the community; whether it is rented or low cost ownership housing, whether this is needed by families, older people, single people or disabled people and what size of housing is required. A survey can also measure what rent or mortgages are affordable to local people, the condition of housing in the area and whether there are people who have left the community who might wish to return."*

5.76 A survey normally takes two to three months to complete and typically requires to be funded by the local community and to be tendered to demonstrate best value. Both of these steps require a speculative financial and time commitment by communities or the private sector.

## PRIVATE SECTOR DEVELOPERS ARE NOT ACTIVE

5.77 The volume housebuilders who are most active in our towns and cities do not typically have business models that are compatible with rural Scotland. They typically only acquire sites of more than 50 homes where they are confident they can achieve a sales volume of more than two

Figure 7. Private sector housebuilder developments such as this one by Scotia Homes are missing from much of rural Scotland



or three homes per month and at prices that are higher than many rural housing markets can support.

5.78 Sadly we are also aware of a number of small and medium sized builders who are in the process of reviewing their business models and are likely to move yet closer to larger towns in order to manage their business risk going forward.

5.79 In the case of our Tarland case study, a SME builder secured planning consent for the MacRobert Trust in 2012 but, following the credit crunch, adapted their business model to focus on areas of proven need and demand and this is typical across many rural markets. It is also important to note that the number of developers active generally becomes 'thinner' the more rural a settlement is.

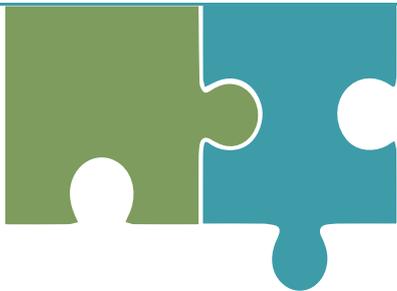
5.80 This trend is resulting in very few mid or core market new build houses being delivered in our rural communities and creating a clear void in the market that is in stark contrast to our larger towns and cities where this type of product dominates the new build market. This pattern is consistent with the rental market where this also a clear divide and widening gap in housing options in rural Scotland compared to the rest the country.

## 5.81 SUMMARY AND KEY LAND CONSIDERATIONS

5.82 In summary there are a range of factors that can act individually or collectively to frustrate the supply of new housing.

5.83 Whilst it is difficult to isolate land specific considerations, the factors that we feel if addressed and resolved more widely would have the greatest impact on enabling a more effective use of rural housing land include:

- A general understanding of the drivers of land value and the factors (and also tools) that can influence both buyers and sellers of land is often lacking by those active across the market. What constitutes Best Value can vary substantially from one landowner to another and not all landowners are motivated by the same things.
- A recognition that across some areas of rural Scotland the price that the local market can afford to pay for a new home can be comparatively low. This coupled with substantially higher build costs can drive low (or in some cases theoretically negative) land values. Accordingly in some cases land cost is not always a significant part of the overall cost of building a new home. In addition demand is often untested, weak, or hidden (and therefore presumed to be weak) thus making it harder to justify investing in new projects.
- Equally in some rural 'hot spots' demand for lifestyle housing is high leading to higher house



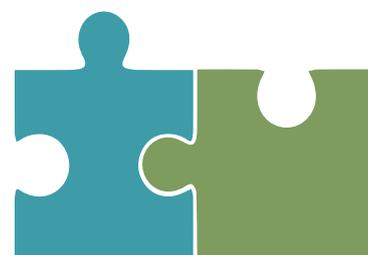
prices and higher land values from the aspirational and, in particular, the self-build market. In contrast not-for-profit developers are unable to pay equivalent land prices as the value of the end home which drives their residual appraisal is more limited. This can restrict the supply of a diverse range of new housing options and tenures for communities to access in certain areas.

- Where landowners are willing to sell their land at a significantly lower use value, many are concerned about the threat of the buyer then changing the use in the future and profiteering from this at the landowner's expense.
- In some cases, even when the principal of a lower value use is accepted by a landowner, they may not be satisfied that the price they are being offered is a fair price for that use.
- In other cases a landowner may be unable or unwilling to sell their land for development regardless of price. Where there are no alternative areas to be developed this can restrict the supply of new housing options for communities.
- The public sector land bank may represent an exciting source of land for new housing developments. The Scottish Government's Public Finance Manual references 'public benefits' when defining Best Value. In addition, steps such as masterplanning or seeking an improved planning consent are encouraged.
- The cost of development in rural Scotland is often considerably higher than in the rest of Scotland and this can act to further drive down land prices and can lead to projects being undeliverable. In some markets or sites the cost of building a home, excluding the cost of land, can be higher than those living in communities can afford or what the home is worth when it is complete. There is, in essence, market failure.
- The higher cost of development can be driven by site specific constraints or general market constraints and changing legislation which are difficult to influence and to a large degree unavoidable. However, of more interest for the purposes of this research, higher costs (contributing to artificially low land prices) can also emerge due to a lack of awareness around site design and layout efficiencies or by policies enforced by local or central Government (such as Developers Obligations or onerous urban-orientated, planning and technical requirements). If not recognised, managed or understood these factors can unnecessarily act as a barrier to a land deal being agreed.
- In many respects it is more challenging to deliver and manage small rural development projects than it is to deliver large scale urban projects where there is clear market demand and costs are lower. However, only a relatively small number of people active in the rural housing market really understand all of the issues, tools and models that can unlock new opportunities. Whilst good things are happening and momentum is growing, there is a clear lack of resource, capacity, skills and awareness across the rural housing market across different sectors and stakeholder groups. This can lead to fatigue, frustration and poor communication between stakeholders which acts as a barrier to land deals and/or development occurring.
- In some areas allocated development land is not being brought forward for development because it is ineffective or unviable to develop. In addition, in some cases, community development groups are pursuing land opportunities without having first carried out effective due diligence or assessed site specific or development constraints.
- There is a distinct lack of new build mainstream private and mid-market housing options (for sale and for rent) across rural Scotland. This is driven in part by a lack of speculative 'build to sell' development by the private sector and a lack

of 'build to rent' development by private sector landlords. If these markets were more active across rural Scotland then there would be more development activity and therefore a greater probability of land being brought forward for development.

- A generous and effective land supply has the potential to increase the probability of projects being brought forward, subject to suitable placemaking principles being applied.
- The attraction of a new development is not governed solely by the quality of the homes but by the quality of the place around it. A lack of consideration to placemaking can limit demand for new housing or frustrate the community engagement and therefore planning process whilst also reducing the value of the end homes and thus land price/ viability.
- The Scottish Government's More Homes funding tools and the Scottish Land Fund have been key to unlocking land deals and addressing market failure within the affordable housing and social housing sectors. However, the funds are due to expire in 2021 and this is creating uncertainty. In addition, the merits of the fund are not widely recognised by the private sector and the Scottish Land Fund is increasingly difficult to access for housing projects.

5.84 The next Chapter goes on to provide further discussion on the methodology for valuing land before potential solutions to the above issues are explored in Chapter Seven.





# THE PRICE OF LAND

## 6.0 THE PRICE OF LAND

We have dedicated this Chapter to summarising how the price or value of a piece of land is calculated. The purpose of this is to highlight the range of variables that can influence any single land deal/ project, the sensitivities of which are magnified in rural Scotland.

### PRIVATE SECTOR DEVELOPMENTS

6.1 In considering the price of land, the professional guidance to be adopted by the industry is the Royal Institution of Chartered Surveyors Valuation Information Paper 12 (Valuation of Development Land). The document states that there are two approaches to the valuation of land:

1. Comparison with the sale price of land for comparable development or;
2. Assessment of the value of the scheme as completed and deduction of the costs of development (including developer's profit) to arrive at the underlying value. This is known as the 'residual method' and is outlined in Figure 9 opposite.

6.2 In practice the market uses both approaches. The paper states that:

*'Valuation by comparison is essentially objective, in that it is based on an analysis of price achieved for sites with broadly similar development characteristics. The residual method, in contrast, relies on an approach that is a combination of comparison and cost and it requires the valuer to make a number of assumptions – any of which can affect the outcome to varying degrees'.*

6.3 A general lack of available information on comparable land sales in rural Scotland, in addition to the unique characteristics of each site (such as topography, ground conditions, availability of servicing etc.) and the reliance of the sector on a non-market based grant funding regime, means that the residual method is often considered to be most appropriate. In reality this is the method that housebuilders and developers adopt when considering viability.

6.4 Regardless of what valuation approach is adopted, the residual approach should always be an essential feature of any development project. It is, in essence, the business plan for a particular asset or project and will determine what level of funding or subsidy is required and whether a development is viable. In theory, it would also be possible to add in additional notional revenue attributed to, for example, wider community benefits or social impact,



Figure 8. The Residual Method of Calculating Land Price

if that value could be assessed in monetary terms.

6.5 Dissecting the definition of the 'residual method', we have provided a brief description of the various elements as follows:

#### ASSESSMENT OF VALUE OF THE SCHEME AS COMPLETE

6.6 This is referred in the industry as the Gross Development Value (GDV). It is an estimate of the sales revenue that can be anticipated through onward sale of the completed homes/development.

6.7 Importantly this input is not a function of cost but is rather a function of what someone in the market is likely or able to pay for the completed home. It is very much influenced by housing demand and supply dynamics in a local market.

6.8 A small change in GDV can have a significant impact on land price. For example, in the case of Figure 8, if the GDV in this scenario dropped by 5% to £190k then, all other things being equal, the land price would reduce to £12,000 (a 40% reduction).

#### COSTS OF DEVELOPMENT

6.9 The cost of development goes beyond the simple bricks and mortar, it will also include professional fees for design and delivery, the cost of marketing the completed product, the cost of borrowing money (finance and interest costs and therefore how land payments are phased) and acquisition fees (professional and tax). Through our various telephone interviews and workshops, together with our own practical experience, we understand that build costs in some rural remote areas can be in the region of 30% higher than in urban areas.

6.10 In addition, mainstream projects are likely to take longer (the sales rate

*“A small change in GDV can have a significant impact on land price”*

will be slower) to deliver in rural areas compared with towns and cities and therefore the cost of borrowing money will be higher as well as site establishment and welfare costs.

6.11 Developers must also consider abnormal costs when assessing land viability. These are defined by RICS as “those (costs) which might be considered as project specific (i.e. are not a ‘typical’ construction cost) and are classified as such because they tend to have notable cost consequence”. Examples include abnormal ground conditions, diverting or extending service connections and additional roads. As we explored in the Key Themes abnormal costs are often more prevalent in rural Scotland.

6.12 As with GDV, cost (including abnormal costs) can have a significant impact on land price. Again, using Figure 9 as an example, if abnormal costs increased by say £10k (increasing project costs by 7%) then the land price would reduce to £10k or by 50%.

#### DEVELOPER'S PROFIT

6.13 The necessity to achieve a certain level of profit is driven by market practice, lender requirements and/ or shareholder requirements. The level of profit required is assessed relative to the risk involved in a project. The lower the risk the lower the target return and vice versa.

6.14 Target margins for mainstream speculative housing developments typically range from between 17.5% of GDV (in a very strong urban fringe market) to 30% of GDV (in a riskier market or when building large blocks

of apartments). This will depend on the type of housing being delivered, market conditions, the target market and the scale of development/ project risk.

6.15 The following table highlights the impact that perceived project risk can have on land price, using Figure 9 as the benchmark:

Level of Risk	Target Margin	Land Price
Medium (Fig 9)	20%	£20k
High	30%	£0k
Low	10%	£40k

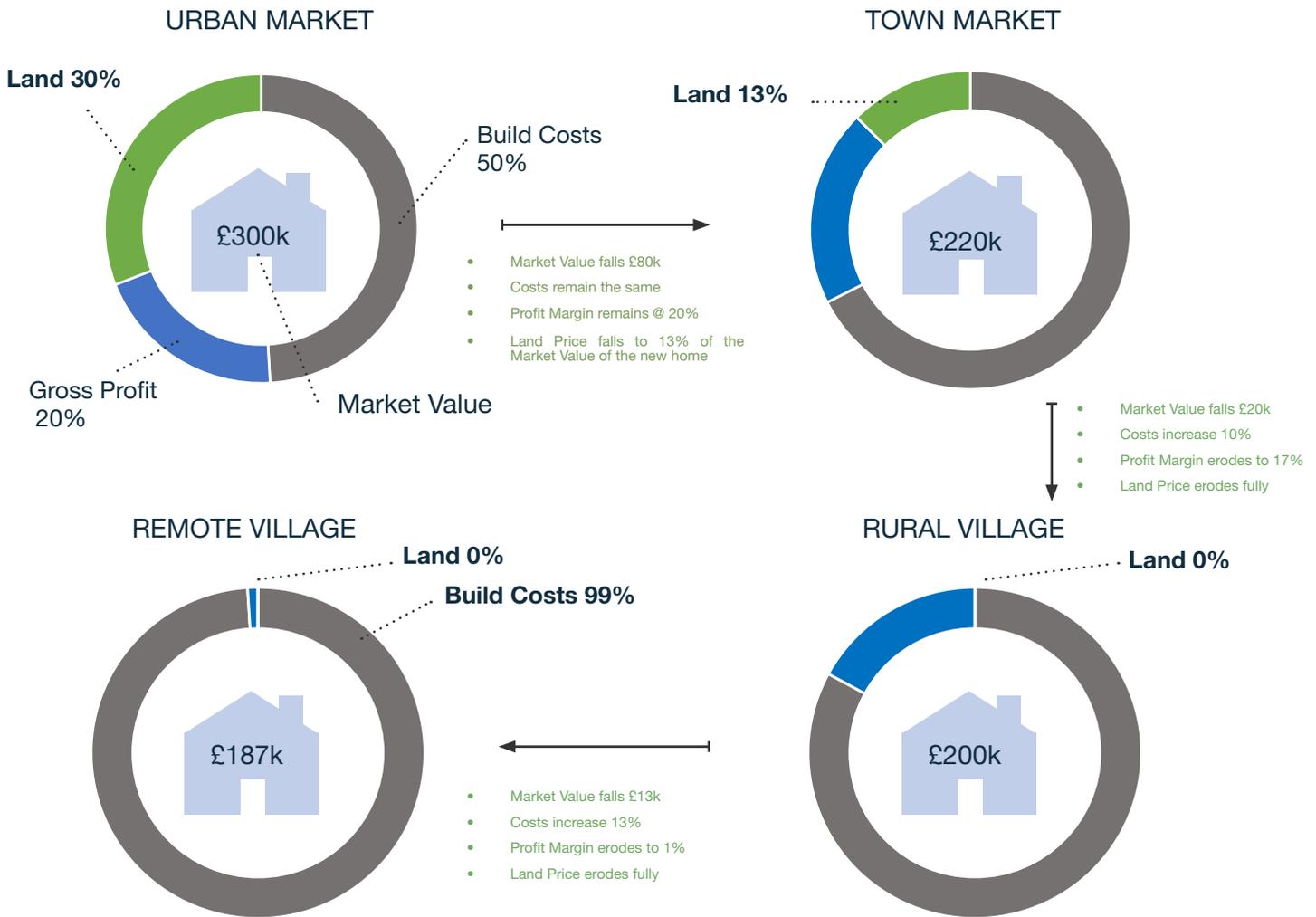
6.17 The level of perceived market risk is therefore significant when establishing land price.

6.18 While some might consider a margin of 20% to be high, it should be noted that development carries significant risk including the risk of unforeseen cost overruns and reduced selling prices between the date of land purchase and the date of completion/ sale. In addition, the gross margins are typically before the deduction of any overheads costs (head office costs/ salaries, etc).

#### THE COMPOUNDING IMPACT ON RURAL DEVELOPMENT

6.19 Having reflected on the impact that each of these key variables have on land price, it is clear to see why the price that land can attract in some areas of rural Scotland can be relatively low.

Figure 9. The relationship between market value, land cost, build cost and gross profit margin in four sub market areas across Scotland



6.20 The illustration above highlights what proportion of the completed value of a typical new build, four bedroom home (Figure 11) is related to a) the cost of land (highlighted green) b) the developer's gross profit margin, before overhead (highlighted blue), and c) the cost of development (highlighted grey), across four distinct housing market areas in Scotland.

6.21 The above analysis is based on four projects we have appraised in the last six months.

6.22 When a housebuilder is acquiring land they will always seek to preserve their profit margin and thus, on the basis that the price of a home is established by the wider market and is not a function of cost, any increase in development costs or reduction in house prices acts to reduce land price before profitability is impacted.

6.23 Accordingly, where there is a combination of lower pricing and higher build costs there is a compounding negative impact on land price.

6.24 In some remote rural markets this compounding impact moves beyond just land price and begins

to erode profitability leading to loss making ventures and market failure.

6.25 Indeed, in some rural sites we have analysed, the market value or price of a new build home can be less than the cost of simply constructing the home (excluding land). For obvious reasons this is not an attractive or sustainable business model for the private sector, or for those stakeholders who support the private sector such as banks.

6.26 Instead, in line with one of the Key Themes discussed in Chapter Five, it is of no surprise that the private sector housebuilder market has gradually migrated towards larger towns and cities where the economics of land development are more attractive and where projects carry less risk.



Figure 10. An example of a four bedroom speculative house type

6.27 In some prime housing markets good quality land that is free from abnormal development costs can represent a substantial proportion of the cost of a home (c. 30%) whilst in many towns this falls substantially (to nearer 13%) and in smaller rural settlements there simply is no land value when the residual 'for-profit' method of appraising land is adopted.

6.28 If the for-profit sector is unable to make development in some areas (there will always be exception sites or 'hot spots' where higher house prices offset higher costs, for example) in rural Scotland viable then who is buying land and building new homes in our rural communities?

*"Indeed, in some rural sites we have analysed, the market value or price of a new build home can be less than the cost of simply constructing the home (excluding land)."*

#### NOT-FOR-PROFIT DEVELOPERS

6.29 Not-for-profit developers are often active in rural Scotland. Not-for-profit developers include housing associations, local government and community bodies.

6.30 These groups typically aim to 'break even' on the completion of a project with any surplus cash being reinvested into the housing stock or rolled into new projects.

6.31 A number of not-for-profit organisations have been supported by the Scottish Government's aim of delivering 50,000 affordable homes across Scotland by 2021. Organisations can apply for grant funding in order to support any capital expenditure. The not-for-

profit sector is not without risk and their operational models and business plans remain very sensitive to cost and revenue assumptions. For example, with long-term social or mid-market rental housing stock, the projected occupancy levels, voids and the lifecycle costs of management all carry risk.

6.32 In terms of development risk, many organisations seek to acquire land (or build on their existing land assets) and then work with a main contractor, in some cases a custom build contractor, to deliver the completed project. Often small builders (and larger builders/ housebuilders/ partnership contractors in towns and cities) will seek to deliver a simple package to the organisation whereby they facilitate a back-to-back land deal and then get paid on a 'cost to complete' basis throughout the course of the project.

6.33 The price that a not-for-profit developer can pay for land is heavily influenced by:

- Their business plan model and tenure options (i.e. social rent, mid-market rent, low-cost home ownership, shared equity, rent to buy, affordable plots for sale, etc);
- The projected Gross Development Value (the methodology will vary depending on the business plan but for social rented and affordable stock is typically assessed on a Discounted Cash Flow (DCF) basis and is therefore heavily influenced by the gross rents collected and the lifecycle costs of management and maintenance. The lower the rents and the greater the voids the lower the GDV and visa versa);

- The cost of development. The drivers of cost are exactly the same as the housebuilder market in terms of efficiency of layout, abnormalities, etc. The costs are however typically higher when a contractors margin is taken into account;
- The cost of their private finance;
- And crucially the availability of grant funding to offset any deficit between GDV and cost.

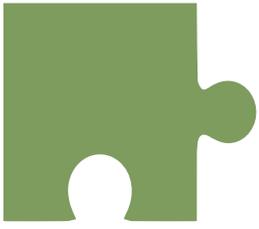
6.34 According to the Scottish Government the average cost of building a new housing association owned home in 2018-2019 was £150,293 with the average grant equating to £83,660.

6.35 The methodology for valuing affordable housing land is broadly similar to that of the mainstream market whereby the comparable method or the residual method (excluding a target profit) can apply.

6.36 In practice, the valuation of land for affordable housing in Scotland will typically rely on the latter approach and reflect public subsidy levels.

6.37 The usefulness of the comparison method of valuation of land for affordable housing is currently limited in rural Scotland as a consequence of the lack of comparable information available to many valuers and agents.

6.38 However it is very useful to be able to refer to comparable evidence when negotiating to buy or sell land. For example, if a landowner is offered £10k per plot for a specific project based on the residual approach (their business plan) and the comparable evidence suggests that £10k per plot is reasonable then, as an agent, it is much easier to advise a client that the price offered is in line with Best Value for that use.



## PRIVATE SECTOR LANDLORDS

6.39 The methodology for assessing the price of land for investors is similar to that of the for-profit sector and the not-for-profit sector and the GDV is very much influenced by the projected net income stream that the completed development can generate in the future and the risk profile around that income stream. The higher the risk (i.e. the greater the risk of voids or uncertainty over depth of demand) the lower the value and vice versa.

6.40 If a landlord is able to secure a long-term operational lease from a tenant (be it a business or for example the local authority or a housing association) then this significantly reduces the risk profile of that investment and, depending on the level of rent that is agreed, can act to substantially increase the underlying value of a completed development.

6.41 For example, if a completed house that has a market value of £100,000 was let out to a local family on an Assured Tenancy basis at £8,000 per annum then it is unlikely that the value of the home would be any more than £100,000. However, if that same house was let out to Local Government at £6,400 (20% less) per annum on a 30 year lease then the investment value may be nearer £128,000 (28% more). In addition, because under this model the income stream is more secure (it is not speculative) and the risk profile is lower it is highly likely that a developer would accept a substantially lower target profit margin thus improving viability.

6.42 The above concept is also true in the case of long ground leases. For example, should a housing association secure a long lease on a piece of undeveloped ground then this will create investment value for the landowner. For example, if an affordable housing plot was worth £10,000 and instead of buying the land the housing association agreed to pay £750 per annum on a long lease basis then the market value of the ground may increase to £15,000.

6.43 Furthermore, if a landlord is able to develop their own land (and not have to fund the cost of buying or securing land, including legal fees, etc) then the overall cost of development will be lower for them than it would be for a purchaser/developer. There would also be less complexity and risk associated with delivering the business plan.

6.44 Where a landlord has utilised grant funding to offer an affordable tenure to the market the valuation of this asset will also be heavily influenced by any restrictions imposed by the funder.

## SELF-BUILDERS

6.45 The self-build market can cater for all segments of the market from affordable self-builds through to aspirational high value homes and idyllic second homes.

6.46 The price that a serviced house plot can achieve varies considerably from area to area. For example in Shetland alone, plots can sell for £80k-£100k in larger towns to £40k-£50k in peripheral areas to £15k-£20k in more remote areas. In other more extreme cases such as Rothiemurchus, the price of a fully serviced plot may exceed £200,000. We would however caution that the cost of servicing a plot (and securing technical consents) can also vary dramatically depending on the physical characteristics of a site and the cost of bringing in services and infrastructure. In the Rothiemurchus example, the cost of site servicing was in the region of £50,000 per plot.

6.47 The significant appeal of the self-build market is the fact that the vast majority of self-builders

Figure 11. A serviced self-build plot in Rothiemurchus



are motivated by the desire to build their dream home, often their 'final destination' home and are not motivated by financial return. In some cases self-builders will spend more on building their home than it is worth on completion: something which the for-profit sector cannot do.

6.48 Some self-builders will seek to minimise build costs and construct the homes themselves whilst others will appoint local contractors thus bringing in employment opportunities for this sector.

6.49 Because self-builders are not-for-profit they can generally afford to pay substantially more for land than speculative housebuilders and also tend to build larger houses. There are also tax incentives for self-builders as Land and Buildings Transaction Tax (LBTT) is calculated on the price of the land and not the value of the completed home.

6.50 The chart to the right demonstrates how the value of a hypothetical 3,000 sq. ft home on a 0.4 acre plot can vary between a self-builder model and a speculative housebuilder model.

## SUMMARY

6.51 Land price is very much a function of the wide range of variables that sit above it in a financial appraisal (revenue, cost, risk and time) and a detailed understanding of how land price can be influenced by adjusting these variables is helpful for all stakeholders involved in the development process.

6.52 Generally speaking, the more risk a landowner is willing to absorb (or pro-actively take, i.e. up to the stage of actively participating in development) and the more patient they are willing to be then the more likely it is that the land price they receive/ their return will be higher (and visa versa). On the other hand, some landowners may be less influenced by price and

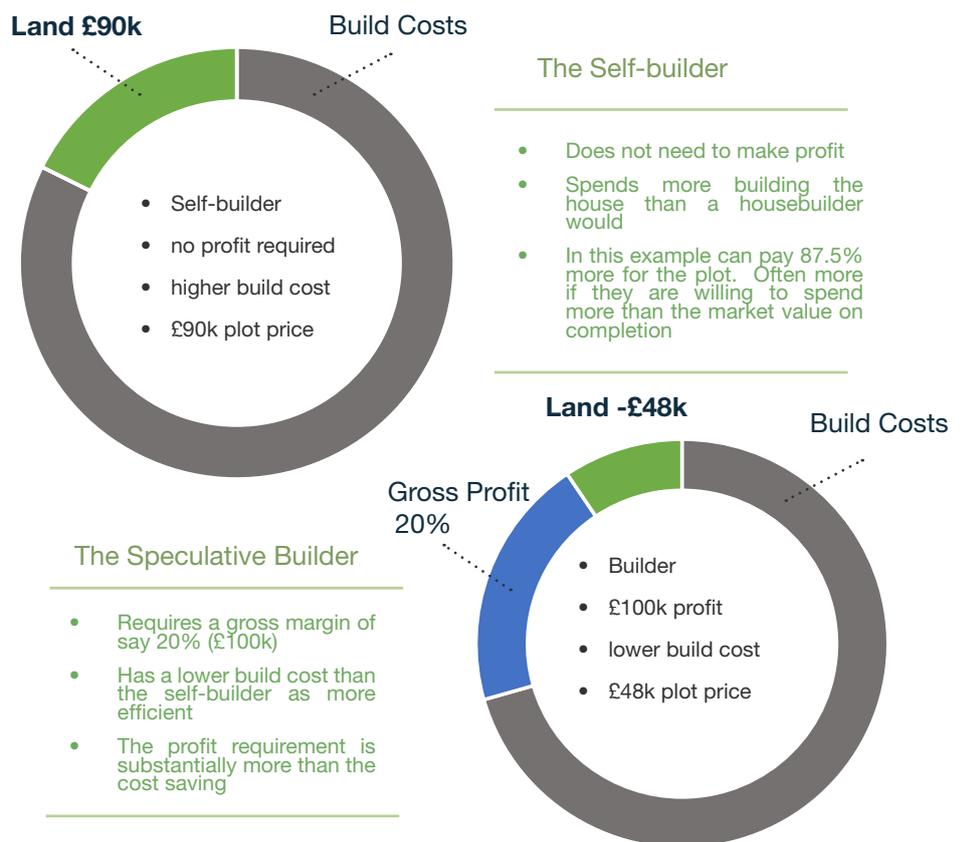


Figure 12. Self-builders (left) can often pay more for the same plot of land than builders (right) - this is based on a 3,000 sq. ft house worth over £500k once built

motivated by other measures of value which are less tangible and therefore much harder to quantify.

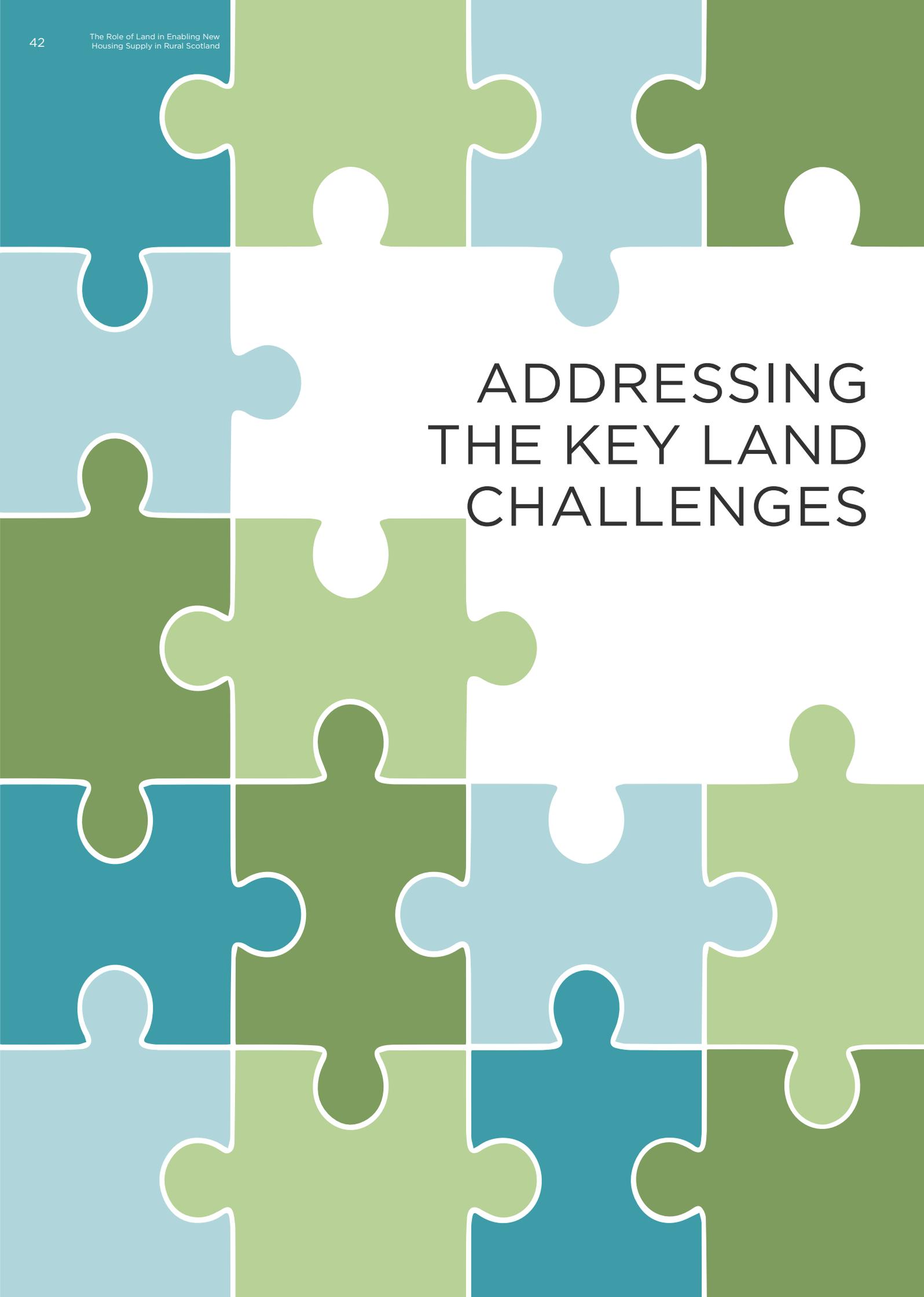
6.53 The volume speculative developer model does not work across much of rural Scotland largely because there is not enough known demand and/or value created to support the profit requirements of builders relative to the level of risk that is being taken. Where not-for-profit developers are taking projects forward the price they are able to pay for land is heavily dependent on the business plan and the level of subsidy that is available to help balance cost and revenue.

6.54 Self-builders can however often afford to pay more for land than any other stakeholder because they do not need to generate a profit and in some cases do not even need

to balance cost with revenue (they are willing to spend more on buying land and building a house than its completed market value).

6.55 Another way to create additional value is through the creation of long-term, inevitable income. Long lease structures (either operational leases on completed homes or ground leases on undeveloped land) can create additional value for landlords to help offset cost.

6.56 Finally, whilst the residual method should always be adopted in assessing viability and what a piece of land is 'worth' to one particular developer, the comparable method is extremely helpful when assessing whether or not a price that is being offered for land (across all sectors of the market) is reasonable.



# ADDRESSING THE KEY LAND CHALLENGES

## 7.0 ADDRESSING THE KEY LAND CHALLENGES

Throughout the course of our research, combined with our own practical day-to-day experience, we have identified a wide range of tools and examples of good practice that can help facilitate and enable access to land or unlock development. The extent to which any single tool, or a combination of tools, can help unlock a particular land transaction will vary from project to project and there is no 'one size fits all' approach to rural development.

### INTRODUCTION

7.1 At the end of Chapter Five we summarised the key themes or issues that our research highlights can act as barriers to new housing delivery and in particular have the greatest impact on whether land is ever developed.

7.2 In Chapter Six we then considered the various levers that can impact viability and therefore the price of land.

7.3 In the following table we take each item in turn and highlight how some of the existing tools (please refer to the Toolkit in Appendix 6) and evidence of good practice that we have identified coupled with our own practical experience, can help to overcome these specific challenges.

7.4 We have sought to isolate these where possible to specific challenges albeit in reality many of these issues are inter-related and lead back to influence the price of land and how accessible it is.

CHALLENGE	POTENTIAL SOLUTIONS
<p>A general <b>understanding of the drivers of land value</b> and the factors (and also tools) that can influence both buyers and sellers of land is often lacking by those active across the market. What constitutes Best Value can vary substantially from one landowner to another and not all landowners are motivated by the same things.</p>	<ul style="list-style-type: none"> <li>• When entering into any land discussions or negotiations it is helpful to first understand what factors and considerations are important to each party. The land deal structure should be adapted and tailored to suit individual circumstances.</li> <li>• Presenting opportunities in a manner that clearly articulates the benefits of a development to help influence a landowner's decision-making process can also be helpful. For example, a small scale affordable housing development on part of a field may increase the probability of a further phase of development securing planning consent in the future (with the added benefit of having 'plug and play' services nearby).</li> <li>• Knowledgeable and experienced development consultants can play a significant role in the process of advising their clients, finding solutions and brokering deals.</li> <li>• Further investment by the Government into the Housing Trusts would allow them to broker and facilitate more land deals on behalf of the community sector.</li> <li>• The SLC's emphasis on community engagement good practice to build better and more regular community engagement would help to provide a platform for stakeholders to understand potential land opportunities.</li> </ul>

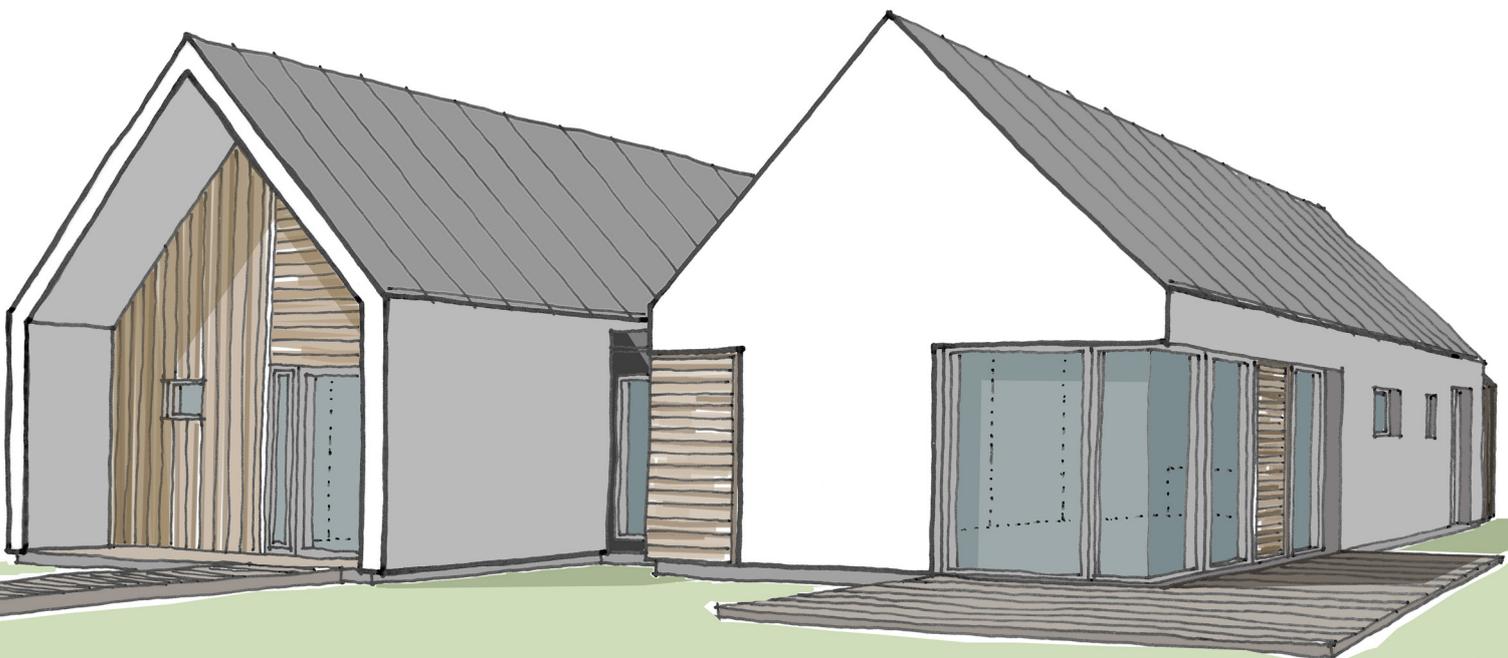
Across some areas of rural Scotland **the price that the local market can afford to pay for a new home can be comparatively low**. This coupled with substantially higher build costs can drive low (or in some cases theoretically negative) land values.

Accordingly in some cases land cost is not always a significant part of the overall cost of building a new home.

In some cases the cost of building a home, excluding land, can be more than people living and working in small communities can afford.

In addition demand is often untested, weak, or hidden (and therefore presumed to be weak) thus making it harder to justify investing in new projects.

- Government subsidies and grant funding are critical in allowing developers to overcome viability challenges/ address market failure. These are outlined in Appendix 6 (the Toolkit).
- Whilst an offer for a piece of land may at first seem low, if landowners and/ or their advisors were equipped with more evidence of actual land transactions/ comparable land sales from the not-for-profit sector then they may be able to better understand what Best Value looks like and therefore reach agreement on commercial terms more quickly.
- It is useful to understand the extent to which reducing risk, minimising cost or adapting deal structures can have on land price. The lower the risk in a project and the lower the cost of development, the higher the land price and vice versa. This knowledge can help parties to adapt or refine their business plans.
- In addition, if a wider use of the existing land deal structures (Appendix 4) and Toolkit were applied by those parties active in rural Scotland then it is probable that many viability challenges could be overcome and/or that more land value could be created, thus demonstrating to the landowner that they are achieving Best Value and encouraging them to sell and/or develop their land.
- In areas of weak demand, a granular and cautious approach to development by delivering a range of tenure options (self-build/ rent to buy/ social rent/ mid-market rent/ low cost home ownership, etc) can help to spread risk and improve viability. This approach has been implemented successfully in a number of projects across Scotland within the community sector. Such an approach could also be implemented by the private sector.
- One way of generating additional value is through the creation of long-term, inevitable income. Long lease structures (either operational leases on completed homes or ground leases on undeveloped land) can create help offset higher costs and improve viability/ land price.
- In terms of housing need, more guidance on the best methodology for communities, landowners and private builders to establish housing need (and secure as much engagement as possible across all hidden markets) would be helpful. This should also be able to capture space, tenure and affordability requirements both now and in the medium to long-term. If need can be demonstrated then this can significantly reduce the markets' (across sectors) perception of risk making it more likely that investment will be secured.
- At a more general level, trends such as a move towards more people wishing to work from home (according to the Scottish Government Rural Scotland Key Facts 2018, 22% of people already work from home in remote rural areas, 17% of people work from home in accessible rural areas and 10% work from home in the rest of Scotland) and the Scottish Government's plans to prioritise hard-to-reach rural areas for roll-out of full fibre connectivity and 4G Coverage, could help to increase demand for rural housing.



**Equally in some rural 'hot spots' demand for lifestyle housing is high leading to significantly higher land values** from the aspirational and, in particular, the self-build market.

In contrast not-for-profit developers who dominate the rural market are unable to pay equivalent land prices as the value of the end home which drives their residual appraisal is more limited.

This can restrict the supply of a diverse range of new housing options and tenures for communities to access.

- In Chapter Six we highlighted that in some market areas self-builders can pay a substantial premium for serviced plots. In our opinion, and that of many stakeholders we have engaged with, the self-build market segment is one that has the potential to deliver significantly more new homes across rural Scotland. Indeed, the Planning (Scotland) Act 2019 requires local authorities to prepare and maintain and publish a list of persons who have registered interest in acquiring land in the authority's area for self-build housing. In addition, the existing self-build loan fund (see Toolkit) can also play a key enabling role in facilitating this market by bridging the financing requirements during the construction phase of a project.
- A generous provision of well marketed self-build plots (albeit they should be in attractive settings, well designed and generously proportioned in order to appeal to the target market) could help to unlock and cross-fund development opportunities across many sites in rural Scotland whilst also creating profitable work for small contractors. This model was used effectively at Rothiemurchus.
- The use of new technology such as computer-generated imagery with drone footage integration coupled with the implementation of social media marketing campaigns, could significantly broaden the market reach of this market therefore helping to uncover hidden demand and reduce market risk. However this can be a costly addition to a project and therefore may need to be subsidised.
- The use of Rural Exception Sites could be a very useful tool to provide access to land for new affordable housing. Some local authorities, including East Lothian and Highland Council, do have exception site policies for affordable housing. Exception Sites are more likely to be regarded as 'windfall sites' and therefore landowners are more likely to accept land pricing based on affordable use values. However, consideration does need to be given to placemaking to ensure that there is no adverse impact on a community. We are of the opinion that a carefully planned approach, potentially on a 'Local Place Plan' area level, could select different sites for various housing opportunities with the overall aim of a varied and balanced housing stock and population. The Rural Exception Site policy was used in helping a community to access land for development in Colonsay.
- In terms of preserving new housing for the benefit of fragile communities, Local Lettings Initiatives (as used by Orkney Housing Association on their North Ronaldsay project), Rural Housing Burdens (as used at Rothiemurchus) and Deed of Community Conditions (as used at Findhorn Eco Village) can all be effective in ensuring that the homes benefit the community in the long-term.

In some cases, even when the principal of a lower affordable housing use value is accepted by a landowner, they may not be satisfied that the price they are being offered is a fair price for that use because there is a **lack of available comparable evidence to support the price that is being offered.**

- If landowners and their advisors were better able to access comparable evidence then they would be able to make more informed decisions on whether a land price that has been offered for that use is reasonable.



<p>Where landowners are willing to sell their land at a price that is lower than (or perceived to be lower than) mainstream housing value, many are concerned about <b>the risk or threat of the buyer changing the use in the future</b> (and profiteering from this at the landowners expense).</p>	<ul style="list-style-type: none"> <li>• It is relatively common for “anti-embarrassment” clauses to be inserted into land contracts to protect landowners from this scenario emerging. Such clauses typically require an increased ‘clawback’ payment to the landowner should this situation arise.</li> <li>• In addition, the Rural Housing Burden (RHB) is a Title Condition which can be applied to retain a home in an affordable category in perpetuity or for a specified period of time. On completion, the property owner will have 100% ownership and full legal title. The RHB comprises two main elements, an agreed discount to open market value, and a right of pre-emption. This ensures that homes are affordable and retained by priority groups, typically people who have an existing local connection and have been unable to afford to build a house in the community. There are useful examples of this on the HSCHT website together with a helpful research report that was carried out by Carnegie UK Trust in 2011. However, RHB’s can result in valuation challenges and, when combined with self-build projects, result in a very narrow range of, and therefore potentially more costly, mortgage options.</li> <li>• Finally, Deed of Community Conditions can be useful in protecting the status of a community-based development and ensuring that it is not sold to those seeking second homes or holiday homes. For example, the Findhorn Eco-village project has used Deed of Community Conditions very effectively to create a permanent community in an area that was impacted by demand from the second homes market.</li> </ul>
<p>In some cases a <b>landowner may be unable or unwilling to sell their land for development regardless of price</b>. Where there are no alternative areas to be developed this can restrict the supply of new housing options for communities.</p>	<ul style="list-style-type: none"> <li>• We have found that effective communication can help to develop mutual understanding between communities and landowners. As we have identified in our research, if issues are worked through or mediated/ facilitated by an independent third party they can often be readily addressed. The Applecross case study is useful in highlighting the role that effective engagement and communication can play in overcoming direct access to actual or perceived land barriers.</li> <li>• In addition, within the existing Toolkit there are resources available to community groups to help them through the process of buying land.</li> <li>• It is also important to recognise that landowners do not necessarily need to sell land in order to satisfy local housing need and demand. For example, landowners may be attracted to a long ground lease structure or wish to develop new homes on their own land and then retain the housing as landlords.</li> </ul>
<p>The <b>public sector land bank</b> may represent an exciting source of land for new housing developments. The Scottish Government’s Public Finance Manual references ‘public benefits’ when defining Best Value. In addition, steps such as masterplanning or seeking an improved planning consent are encouraged.</p>	<ul style="list-style-type: none"> <li>• A register of public sector land would be helpful at a local level in order to identify potential opportunity sites and improve access to land.</li> <li>• In addition, it may be possible to secure planning consent on public sector assets and create serviced development parcels for sale which would therefore reduce risk and speculative cost for both small builders and resource limited community development companies. This is happening in Shetland, for example.</li> <li>• The benefits of a new housing development to a local community can be much more significant than the short-term financial impact in isolation and further guidance and training to officers and agencies on how Best Value can be measured may be beneficial.</li> </ul>



**The cost of development in rural Scotland** is often considerably higher than in the rest of Scotland and this acts to further drive down land prices and can lead to projects being undeliverable. In some markets or sites the cost of building a home, excluding the cost of land, can be higher than those living in communities can afford or what the home is worth when it is complete. There is, in essence, market failure.

The higher cost of development can be driven by site-specific constraints or general market constraints/ changing legislation which are difficult to influence and to a large degree unavoidable. However, of more interest for the purposes of this research, higher costs (contributing to artificially low land prices) can also emerge due to a lack of awareness around site design and layout efficiencies, procurement options, or by policies enforced by local or central Government (such as Developers Obligations or onerous urban-orientated, planning and technical requirements). If not recognised, managed or understood these factors can unnecessarily act as a barrier to a land deal being agreed.

- Grant funding and public sector subsidies, including the Housing Infrastructure Fund are already acting to help address market failure albeit these could be promoted more widely and be streamlined.
- A more flexible and pragmatic, rural-focused, planning and technical approval process would help to reduce costs and therefore improve viability.
- When land prices are being agreed, an open book approach to determining 'abnormal' development costs is often helpful (with appropriate dispute mechanisms). This approach can help developers demonstrate to landowners that they are taking all reasonable steps possible to reduce costs/ protect land price.
- If the public sector was to adopt more of an enabling role in site delivery by adopting an 'infrastructure first' approach then this could help to transform the economics of development and simplify/ speed up the development process. It is not possible to build above the ground until what is below the ground is sorted (i.e. ground conditions are remedied or services are installed) and this is in many ways the riskiest phase of a project. In the Rothiemurchus case study, the HSCHT assisted the community group by project managing and funding the delivery of infrastructure.
- There is significant scope to explore greater flexibility in planning policy around rural housing which embraces its potential transformative impact on communities and on rural sustainability in its widest sense.
- Greater guidance and training on how good and efficient design can reduce development costs would be helpful to avoid self-imposed viability challenges from emerging.
- Volume housebuilders have a standardised range of house types in order to allow them to simplify layout development, standardise procurement, build more efficiently and understand their 'standard build costs', before taking into account any site specific abnormal development costs. These houses can then be 'dressed' to suit a particular market or site. An option for community groups to access a range of house types which they can then adapt to suit their specific project may be helpful. Guidance could also be provided on target 'standard build costs' to help inform early stage business planning and financial modelling.
- Project costs can also be heavily influenced by how efficient the procurement process is. For example, there can be advantages in developer clients working with contractors through a design and build process which can also reduce early stage design costs. In many cases 'custom build' contractors and builders are able to use their practical experience and wherewithal to de-risk and value engineer projects for their clients. For example, the Highland Small Community Housing Trust often provide basic sketch or layout plans to contractors who are then "free to provide an alternative layout provided always that there is no reduction in the overall number of plots or additional constraints placed on the remainder of the development site". The Trust prefer to appoint a design and build contractor who "in turn will be required to employ architects/ structural/ civil engineers as appropriate". When tendering work the trust will however provide contractors with a comprehensive amount of technical information including flood risk assessments, drainage impact analysis, site investigation reports, topographical drawings and utility drawings.
- A pragmatic and sensitive approach by local planning authorities in imposing Developers Obligations and other layers of cost within areas of market failure or stress would help to bring certainty to viability earlier on in the business planning and viability assessment process (whilst reducing the risk of unknown costs emerging that can undermine the delivery of a business plan). An example of this is the maximum cap in Developers Obligations of £6,500 per unit that Moray Council introduced in 2017 which helped to bring certainty. The benefits of a collaborative approach are evident to see. For example, one Housing Officer we interviewed, who had been attending evening meetings to help a community project, highlighted that "there had previously been an anti-council view but that by collaborating that perception had shifted".
- Finally, standardised or fixed connection charges (regardless of the extent of upgrade works required) from Scottish Water and other service companies would also add more certainty to the viability process.

In many respects it is more challenging to deliver and manage small rural development projects than it is to deliver large-scale urban projects where there is clear market demand and costs are lower. However, only a relatively small number of people active in the rural housing market really understand all of the issues, tools and models that can unlock new opportunities. Whilst good things are happening and momentum is growing, there is a clear **lack of resource, capacity, skills and awareness in the rural housing market across different sectors/ stakeholder groups**. This can lead to fatigue, frustration and poor communication between stakeholders which acts as a barrier to land deals and/or development occurring.

- Resilience, an in-depth understanding of development, problem solving and creativity are all required to unlock the majority of opportunities (or avoid lengthy unproductive delays and wasted expenditure).
- A more supportive role by local authorities during the planning and technical approval stage would be helpful to simplify and speed up the process for all parties involved in the development process.
- A more facilitative role by the public sector in masterplanning and enabling land (taking out the hard work for communities) would simplify the process.
- Early and frequent dialogue and open communication across all stakeholders will help to reduce the risk of communication breaking down and frustration developing between stakeholders.
- In towns and cities many of the larger developer/ contractors (such as Robertson Partnership Homes ) are delivering 'ready made' land deals with agreed design and build contracts to housing associations and local authorities. They are using their commercial land procurement skills and development expertise to offer 'simple' solutions to their public and third sector clients. By adding value in this way they are able to generate additional value for the clients and therefore justify a higher profit margin than a standard build contract would permit without having to spend time and money on marketing costs, development finance, actually buying land, etc. This model could be replicated (with support in terms of skills and expertise) at a more rural level with local contractors delivering combined land and building solutions on behalf of, for example, community groups. It is however likely that many small contractors operating in rural areas would need to be supported through this process and they would also need to be satisfied that the community groups/ their clients had the necessary funding in place to deliver a project.
- For those communities that do not have the skill set, capacity or appetite to take housing projects forward themselves, greater collaboration with landowners, housing associations and private sector developers could still help to facilitate new housing projects that meet their requirements.
- More guidance and promotion on the existing tools and approaches that are available would be helpful.



<p>In some areas allocated development land is not being brought forward for development because it is ineffective or not viable to develop. In addition, in a number of cases, community development groups are pursuing land opportunities without having first carried out <b>effective due diligence</b> or assessed site specific or development constraints.</p>	<ul style="list-style-type: none"> <li>• In the case of allocated land that is not being developed, a greater understanding of what factors are acting as a barrier or constraint to development on a case by case basis would be helpful. Strategies could then be put in place by a facilitator to help overcome these barriers where possible. In some cases it may be appropriate for a facilitator to help implement any strategies to turn ineffective land into effective land.</li> <li>• More due diligence and constraints analysis should be done at an earlier stage in the development planning process or when development strategies for short-term opportunity sites are being explored. In Appendix 5 we summarise the typical housebuilders approach to buying land which recognises the importance of carrying out appropriate due diligence (albeit cost effectively) early.</li> <li>• GIS mapping and software could be useful when allowing communities, landowners and developers to understand site constraints to carry out better informed desktop studies. These may also include information on land ownership including publicly owned assets. This would allow a low cost initial assessment to be carried out before any significant investment is made in pursuing a potential development that, in reality, is ineffective.</li> <li>• There are many existing sources of information that prospective buyers of land and landowners can use to get a sense of the effectiveness of a site relatively early on in the process. Existing published resources include: local authority Planning Portals and other resources (such as historical monuments, tree protection orders, school roll forecasts and developers obligations policies); SEPA flood risk map; Scottish Natural Heritage protected area search; Biodiversity Scotland Priority Habitats; Historic Scotland Heritage portal, and; the Scottish Water Asset Capacity Search.</li> <li>• More robust support and guidance to help communities, landowners and small developers during the early stages of a project would help to streamline this process and avoid unnecessary expenditure.</li> <li>• The SLF and the RHF's could enhance their guidance to advise communities what order is best to undertake their due diligence, perhaps leaving architectural and house design further into the process, after site deliverability has been tested.</li> <li>• The Planning (Scotland) Act 2019 introduces the requirement for LPAs to issue an invitation to local communities in their district to prepare Local Place Plans. A community body may prepare a Local Place Plan (LPP) which is described as 'a proposal as to the development or use of land'. These plans are designed to enable greater community involvement and engagement in planning the use of land and buildings in their areas. This requirement also provides an excellent opportunity for communities to engage with landowners (and vice versa) to establish the existing levels of effective land supply whilst also exploring any potential future areas of land that are capable of being developed in the future.</li> </ul>
<p>There is a distinct <b>lack of new build mainstream private and mid-market housing options (for sale and for rent) across rural Scotland</b>. This is driven by a lack of speculative 'build to sell' development by the private sector and a lack of 'build to rent' development by private sector landlords. If these markets were more active across rural Scotland then there would be more development activity and therefore a greater probability of land being brought forward for development.</p>	<p><u>Housing for Rent</u></p> <ul style="list-style-type: none"> <li>• The Rural Housing Fund already allows private sector landowners and housebuilders to access grant funding to help deliver mid-market housing options. Our research has identified that the benefits of this tool (which has been a game changer for many community companies) are not widely recognised within the private sector. We consider that, assuming viability can be suitably addressed at a project level, there is significant scope to generate much more engagement from this sector going forward. A number of rural landowners (depending on their risk/ return appetite) will be able to take a long-term, income-based approach, to any financial modelling to assess viability and will be attracted by the prospect of turning a low or non-income producing asset (land) into an income producing asset. Based on the conversations we have had with a wide range of small builders and landowners across different geographies, the switch from landowner to landlord is something which appeals to many. This is particularly the case for landowners who may already have a portfolio of existing residential properties and therefore already have the capability to manage new (often more efficient and cost effective to maintain) stock.</li> </ul>

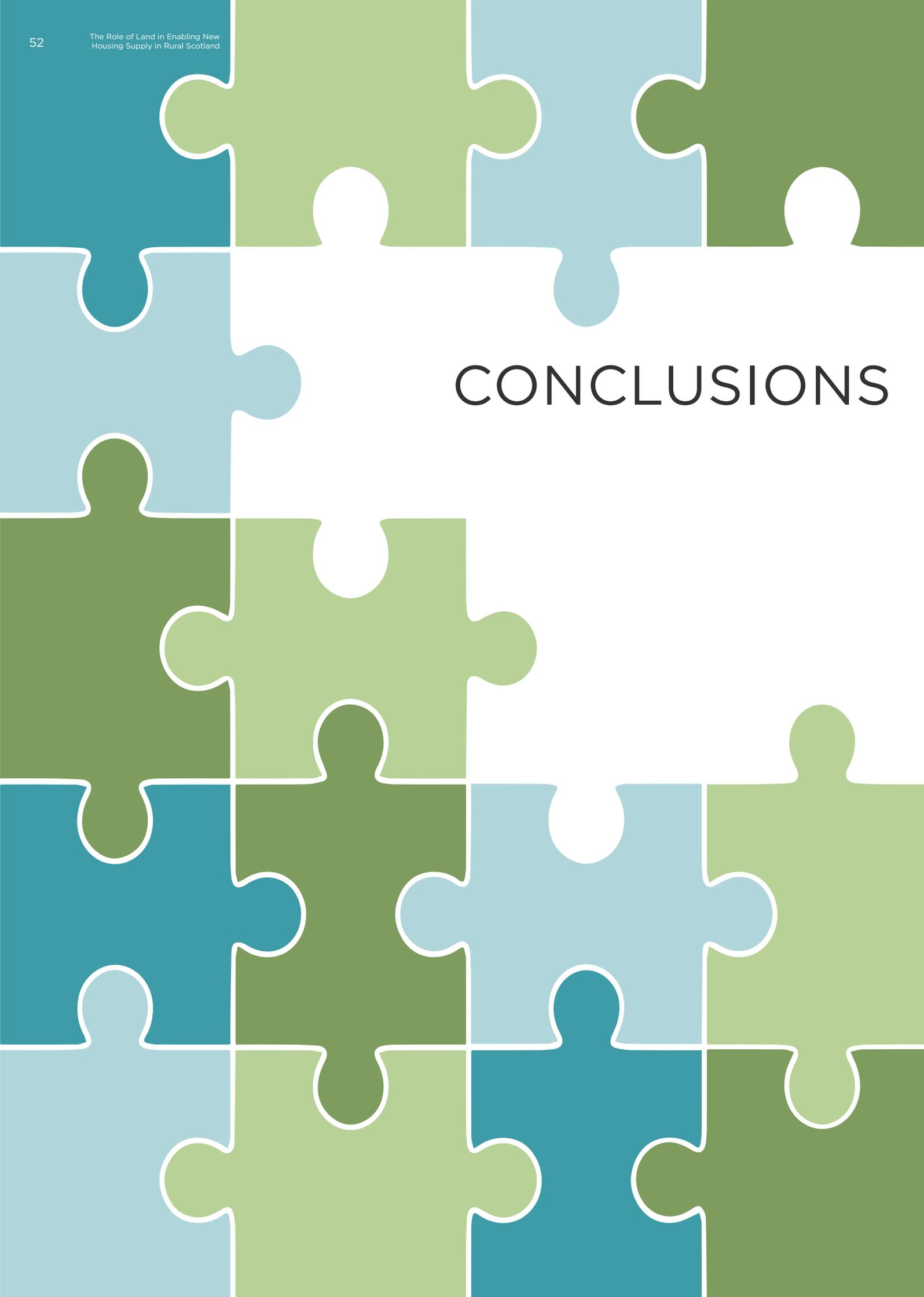
- For those community or private sector landowners or developers who do not have the experience or resource to manage a new portfolio of residential properties, the ability to secure long-term rental income from, for example, local businesses with key worker requirements (an approach being taken in a project in Colonsay), housing associations (as being explored in Tarland) or even local authorities may be very attractive. As we identified in Chapter Six, such an approach can have the added benefit of enhancing value and therefore viability whilst allowing tenants to sublet the new homes at realistic levels that those living and working in rural communities can afford.
- The migration of landowners to landlords is a potentially exciting transition providing that grant funding continues to be made available to cover short-term capital deficits and long-term net rental projections justify capital investment and long-term management resource/ commitment.

#### Housing For Sale

- If supported, small builders and custom build contractors have the ability to service this market. Indeed, in some pockets of Scotland we are seeing commercially astute contractors begin to transcend into the more speculative development market.
- The profits and certainty that can be created by self-build contracts or design and build solutions on behalf of housing associations, local authorities, communities or private landlords, may encourage these contractors to engage in the more speculative or 'mainstream' market.
- The above 'de-risking' strategy at a business level can be supported by further measures to de-risk development (or in some cases redistribute risk) and minimise a small developers cash exposure/commitment, including: deferred land payments (perhaps paying a landowner on a plot by plot basis as has been done by Drumrossie Homes in Aberdeenshire or by Snowdrop Developments in Kincardine O'Neil, for example); adopting infrastructure for land deals (whereby a developer may fund construction works and is paid in land as we are currently exploring in a number of projects and in line with the approach taken in the Rothiemurchus case study); joint venture agreements whereby the parties share risk, expertise and ultimately profits, or; utilising the infrastructure that has been delivered by a less risky use on part of a site to create serviced plots on the balance of the land that can then be built and financed more cost effectively for the mainstream sector.
- Sales risk can also be mitigated by better understanding potential demand. If the speculative nature of development could be removed by securing pre-sales (forward commitments from home purchasers) then this would dramatically reduce risk and therefore the level of profit that a builder needs/ can justify. This can be achieved through effective Housing Need and Demand Surveys coupled with the implementation of a strong and effective approach to sales and marketing.
- In addition, steps can be taken by local authorities to inform and encourage participation from this sector. For example, in Shetland the local authority has held a number of workshops, along with key stakeholders, to look at "skills and workforce planning for the construction sector" and "to share information on Shetland's future housing demand, across social and private sectors, with local construction industry representatives and discuss how this demand can be met". In addition, in 2019 Shetlands Development Committee awarded a £300,000 loan to local building firm BA Builders (Shetland) Ltd to allow them to construct more homes. The loan helped them to build up to 13 modern and energy-efficient homes in rural areas, which supports the Council's strategic objectives to encourage people to live and work in Shetland. This was considered a pilot project since the Council had not provided loans to local businesses for house building before. BA Builders, were then able to adapt their business model to prioritise new builds, rather than concentrating mostly on smaller scale projects, such as extensions and renovations.



<p>A <b>generous and effective land supply</b> has the potential to increase the probability of projects being brought forward, subject to suitable placemaking principles being applied.</p>	<ul style="list-style-type: none"> <li>• The price of land is also a function of the dynamics between demand for land and the supply of land. In the case of higher pressure ‘hot spot’ market areas where demand for land is high it is important to have a sufficiently generous effective land supply to avoid land price inflation. All things being equal, the more options a buyer of land has in terms of suitable development sites, the better their commercial negotiating position will be (and visa versa). Conversely where there is an oversupply of land it can put further downward pressure on land prices and therefore stigmatise allocated land or reduce land prices to below existing use values. In addition the principles of placemaking (see below) are also important.</li> </ul>
<p>The attraction of a new development is not governed solely by the quality of the homes but by the quality of the place around it. A lack of consideration to <b>placemaking</b> can limit demand for new housing or frustrate the community engagement and therefore planning process whilst also reducing the value of the end homes and thus land price/ viability.</p>	<ul style="list-style-type: none"> <li>• Investing earlier in key features that give the development a sense of place and community, as seen in every desirable village and town, can pay off. An attractive place/ development is more likely to result in a viable development. That said, this needs to be balanced with implications on cost and therefore viability, particularly in lower value market areas where demographics and affordability will ultimately limit how much someone can pay to rent or buy a house regardless of how much they may value the sense of place.</li> <li>• A well designed development (and wider communities through Local Place Planning) can create more community benefits by improving public health, green infrastructure, community safety and a strong sense of identity. The net zero agenda could also disrupt current thinking around where to locate future residential development and encourage home working or local hubs where home workers can socialise and interact at a local level. For example, the West Harris Trust embraced the concept of creating a strong sense of place by combining affordable and private housing opportunities with energy generation, business, and community facilities, whilst safeguarding the natural and cultural environment of the area.</li> <li>• The principle of placemaking and how it is paid for or funded links back to how Best Value can be calculated, particularly when considering the value of publicly owned assets. If a financial/ cash premium could be attributed to placemaking (or less tangible but socially important benefits) then this could help to overcome affordability pressures and thus viability.</li> <li>• Strong placemaking could help speed up the planning process if communities and local government believe a project is making a valuable contribution to the public good.</li> <li>• Placemaking is already a key consideration for both the Rural Housing Funds and the Scottish Land Fund. Perhaps a “Placemaking Fund” would allow the benefits of placemaking to be better recognised, valued and financed.</li> </ul>
<p><b>The Scottish Government’s More Homes funding tools and the Scottish Land Fund</b> have been key to unlocking land deals and addressing market failure within the affordable housing and social housing sectors. However, the funds are due to expire in 2021 and this is creating uncertainty. In addition, the merits of the fund are not widely recognised by the private sector and the Scottish Land Fund is increasingly difficult to access for housing projects.</p>	<ul style="list-style-type: none"> <li>• The grant funding offered by Scottish Government addresses the market failure that our research has identified and therefore it is of little surprise how well it has been received by the rural housing sector, particularly in the community sector where the benefits of the fund are more widely understood (but where delivery is often hampered by a lack of resource, skills and capacity).</li> <li>• An extension of the funding would allow the good work and momentum that has been building to be expanded. In addition, our research highlights that some elements of the fund could be refined and enhanced.</li> <li>• Greater awareness of the funds and the benefits that they can bring to the private sector would, our research and experience suggests, increase the level of take up within the fund. In this low interest rate and relatively volatile global environment many investors (including estates, developers and private individuals) are seeking steady and long-term income streams. Residential property represents an attractive asset, particularly if it can provide long-term, index-linked income, such as long leases to affordable housing providers or local government. The Rural Housing Funds have the potential to help facilitate the private sector.</li> <li>• The ability for the private sector to access and secure grant funding and then lease back completed homes to housing associations or local authorities would ease financial pressures on housing associations (and their own grant funding requirements from Scottish Government).</li> <li>• Finally, the relationship between the Scottish Land Fund and the Rural Housing Funds could be further refined to make sure applicants and projects achieve seamless and easily accessible funding packages.</li> </ul>



# CONCLUSIONS

## 8.0 CONCLUSIONS

Land is a crucial ingredient in the development process. It must be available and it must be cost effective to developers, in order to facilitate new housing development. The economics and viability of development and the profile and key drivers of landowners varies from project to project. In reality there is no 'one size fits all' approach to rural housing development and there are a wide range of factors that may prevent land from being developed that, if overcome, can unlock housing delivery. Land is just one piece of a relatively complicated jigsaw puzzle and this is particularly the case in rural Scotland where market failure exists in some areas. The findings of this study show that greater facilitation and support, better approaches to rural planning and community engagement, improved private and public sector engagement together with support for new models and approaches would help support the delivery of more homes and better places across Scotland.

8.1 What is clear from our research is that the ability to access land and the price of land are very much influenced by a wide range of variables and stakeholders. Land is only one piece of a rather complicated jigsaw puzzle.

8.2 The challenge of buying land and building houses in rural Scotland is compounded by market failure in some areas and a lack of investment by volume housebuilders who dominate the market in our towns and cities.

8.3 The economics of rural development can often be extremely challenging. The impact of low house prices (which are driven by affordability within a community), higher costs and greater risk (there is often less evidence of demand) all have a compounding negative impact on viability and therefore land price in some areas. Indeed the more remote a community is the more likely it is that house values will be lower, costs will be higher and risk will be greater and therefore the ability of a project to realise a land price will be even more challenging.

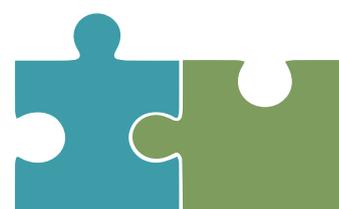
8.4 Although we identified 37 relevant themes in our research we were able to isolate a smaller number of key land related themes. Encouragingly we have also been able to identify a wide range of tools and solutions that can be applied, or could be applied, to help overcome these challenges (see Chapter Seven and Appendix Six).

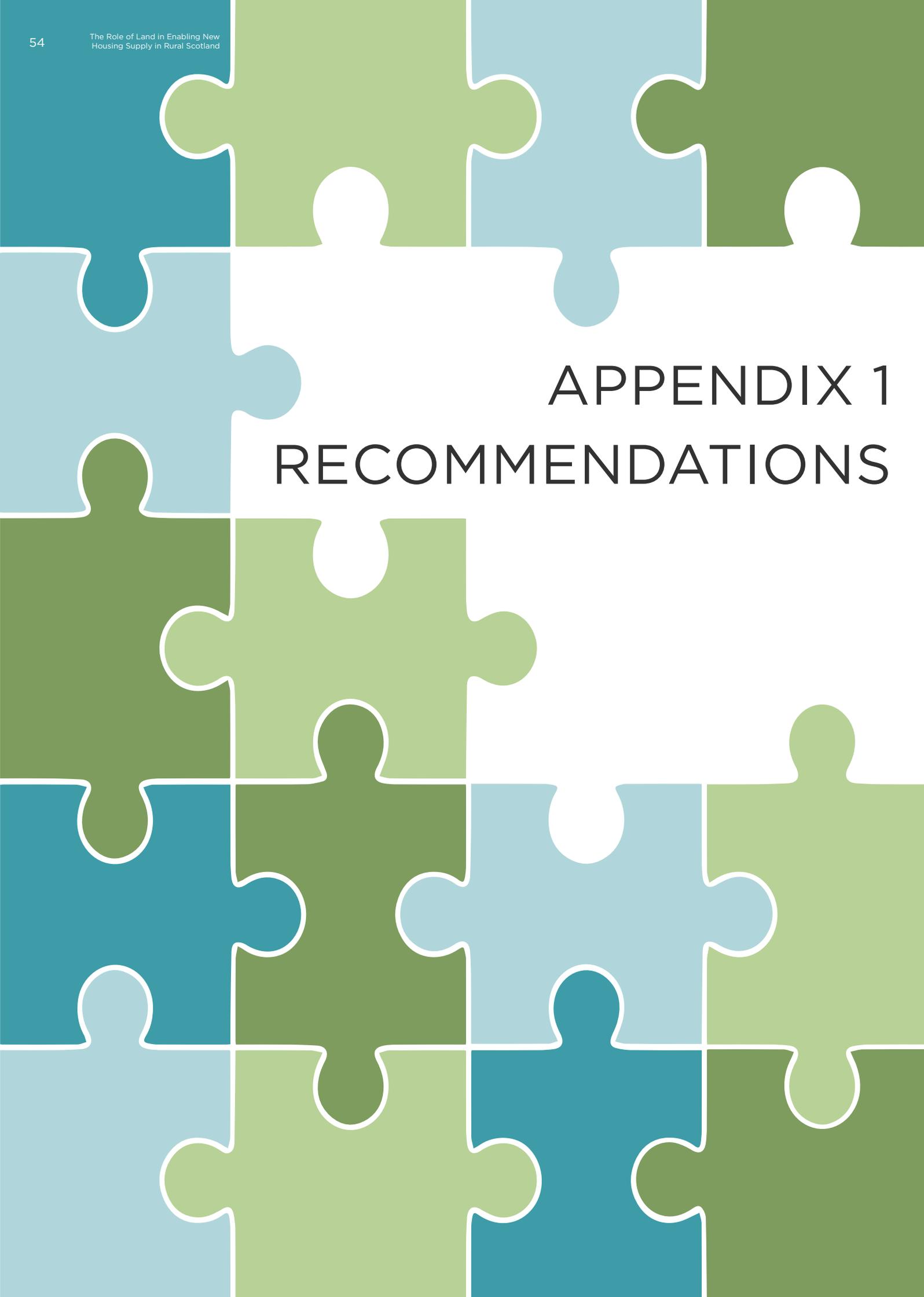
8.5 In reality there is no 'one size fits all' approach to rural housing development and there are a wide range of factors that may prevent land from being developed.

8.6 A platform to promote positive case studies and share knowledge could generate significant new levels of activity in this sector. If all of the good work that is being done at a granular level by many of the stakeholders we have engaged with (particularly the housing trusts) can be scaled up and made available to the whole market then this, coupled with a supportive and longer-term funding package, would be transformational for the supply of new housing in our rural communities.

Having considered the evidence gathered through this process and our own experience in this sector, this study shows that greater facilitation and support, better approaches to rural planning and community, improved private and public sector engagement together with support for new models of development such as leasing of land for housing would help support the delivery of more homes and better places across Scotland.

8.7 Taking all of this into account and with sincere thanks to the valuable contributions from the various stakeholders across the public, private and third sectors that we have engaged with, we have developed a series of recommendations that we feel will address the most pertinent issues facing this valuable sector. These are outlined in Appendix 1.





# APPENDIX 1 RECOMMENDATIONS

# RECOMMENDATION 1 -Increase the resource and capacity available to facilitate more rural housing development across all sectors

## WE RECOMMEND THAT:

More capacity and resource is provided to the rural housing sector across all stakeholder groups.

We identified throughout our research that the community support organisations (e.g. Rural Housing Scotland, The Highlands Small Communities Housing Trust and Dumfries And Galloway Small Communities Housing Trust) have been key to facilitating new homes particularly within the community and affordable housing sectors. We believe that the work of these organisations is crucial to the ongoing success of the rural housing sector. Accordingly we consider that this valuable resource should continue to be supported and scaled up across the country.

While community organisations such as the housing trusts have also helped to enable private houses, especially in mixed developments, we believe that additional resource and facilitation should be made more widely available beyond communities and into the landowner and small builder sectors. This would allow cross sector collaboration between all key groups whilst helping to co-ordinate development management, identify new land opportunities and unlock stalled sites.

Such an approach would help to achieve a step change in the speed and quantum of new housing by harnessing market wide participation.

Support needs to be made available across all sectors in rural Scotland where there is a housing need and to be open to communities, landowners

and SMEs in order to develop capacity and to increase the supply of housing.

The manner in which this is achieved could involve the creation of a new body which would work alongside the existing organisations or extend their scope beyond communities. Such a body could be responsible for promoting best practice, trust-building, negotiation and mediation whilst influencing and understanding all stakeholders.

This organisation would focus on unlocking new housing opportunities, breaking down project specific barriers and ensuring that sites are delivered. At all times, weight would be placed on the need to deliver more housing over other, less material, considerations.

We envisage a team of individuals operating across rural Scotland each with an intimate knowledge of the specific challenges unique to that micro market. This recognises one of the 37 themes that emerged through our research: “every place is different”.

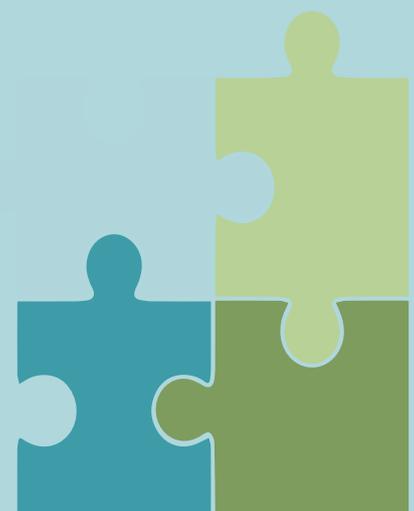
The team will be able to appoint, at their discretion, a panel of independent consultants and advisors to assist with due diligence or guidance relating to project specific challenges or devising development strategies.

## THE NEW TEAM WOULD BE RESPONSIBLE FOR:

- Increasing the number of new homes that are built in rural Scotland, including affordable homes, housing plots, and

homes for market sale or rent.

- Facilitating and accelerating development of new housing across all tenures and developer/ investor profiles.
- Identifying and mapping out public sector land opportunities in rural areas. Creating development strategies and enabling/ facilitating delivery of key opportunity sites.
- Facilitation/Mediation of land acquisition/assembly.
- Promoting the existing Toolkit and adding to it. Sharing best practice at a regional and local level.
- Relationship and trust-building across the private, public and third sectors.
- Liaising with planning officials to encourage a proactive approach to enabling development including, if appropriate, discussions on developer contributions.



- Problem-solving/ influencing/ finding ways to make things happen.
- Signposting.
- Participating in enabling works/ 'stepping in' if appropriate – i.e. being a Joint Venture partner in order to stimulate private sector participation.
- Create a pipeline of opportunities for small contractors and builders.
- The coordination of regular 'Hub' style meetings (see Toolkit) to also include private sector participants and public sector stakeholders to encourage a diverse cross section of stakeholders.
- Such a body should be well resourced and have a clear corporate plan. It would need to set ambitious, but realistic, targets.
- The Cost of Development
- The Small Trades/ Private Sector Needs Support

One of our research themes is that "rural housing delivery takes time". The creation of this team would have the ability to significantly speed up the process from inception through to completion.

## SMART ANALYSIS

**Specific** - a clear mandate of unlocking housing opportunities in Rural Scotland.

**Measurable** - success can be measured based on new housing completions and in particular the ability to unlock otherwise stalled projects. Success should be measured across all cross sectors on an annual basis.

**Attainable** - the fact that good work is already being done by persistent community groups and that a number of projects are gaining traction suggests that a dedicated group should be able to assist this process and achieve results.

**Relevant** - facilitation was a key word used by many stakeholders at workshop events and in telephone interviews.

**Time-Bound** - as we have highlighted, the complexities of developing in rural and, in particular, remote rural Scotland should not be underestimated. We would advise that a 10 year corporate plan be devised with realistic targets set in the initial three year period. Experience from the RHF suggests that a long lead-in time is likely to be required. That said, this team has the potential to build on the momentum that is already growing thanks to the good work of many organisations including the Community Housing Trusts and More Homes.

## WHAT KEY THEMES IS THIS SEEKING TO ADDRESS?

This recommendation has the potential to address all of the key themes identified within our research, and in particular:

- Resource, Capacity, Skills and Awareness
- Early, Relevant and Effective Due Diligence
- Communication
- Local Authority Culture and Resource
- Rigorous Planning Policy and Regulations
- Land Price and Best Value

## RECOMMENDATION 2 - Provide a long-term and stable funding regime

### WE RECOMMEND THAT:

- The existing funding streams are extended to beyond March 2021 to March 2031 subject to regular review mechanisms.
- Minor enhancements are made to the Funds to make them more accessible. Whilst we have identified some suggested changes from our research we would advise that a dedicated review is carried out.
- Assuming longer-term funding is secured, carry out extensive promotion targeting all sectors of the market.

### WE WOULD ADVISE ON THE FOLLOWING ENHANCEMENTS:

- A template should be provided for financial modelling (with clarity on the persons multiplier) and sample applications should be provided.
- Awareness-raising of the tools that are available to support applicants (to minimise grant subsidy requests) should be carried out (linked to Recommendation 1).
- The initial feasibility fund should provide more direction on how the funds should be utilised/prioritised in order to, first of all, assess headline viability with a clear step-by-step guide.
- Clarity should be given on the required housing need methodology and applicants should be able to commission their preferred researcher from an agreed panel/ with agreed pricing matrix.

- The affordable housing burden should be capable of being lifted after a period of 30 years (consider sliding scale/ amortising profile for grant buy back). This would assist the financial modelling for landlords and developers.
- Scope for a further tier of top-up funding through for example a Scottish Placemaking Fund (equivalent of Scottish Land Fund for housing) or additional grant funding for the delivery of more expensive house types which are in need, such as bungalows or to address site specific abnormal costs in fragile markets (essentially aggregating the RHF, SLF and HIF into one fund with one point of contact). Sufficient safeguards to be put in place to ensure that all other options have been exhausted in the Toolkit before top-up funding is made available.
- Explore whether the fund/s can be made available to private individuals. Some private individuals own estates or land and to change the entity to a corporate structure may have tax implications or not be practical. However, should this not be possible then landowners could be offered assistance on alternative structures.

### WHAT KEY THEMES IS THIS SEEKING TO ADDRESS?

This recommendation has the potential to address a number of the key themes identified within our research, and in particular:

- The Rural Housing Funds have been Game Changers

- The Scottish Land Fund has been Key for Communities
- Resource, Capacity, Skills and Awareness
- The Cost of Development in Rural Scotland
- Land Price and Best Value

One of our key themes is that “rural housing delivery takes time” and another is that “good things are happening, momentum is growing”. The extension of the fund would allow the momentum to continue to grow and further innovation to take place and best practice to be shared. The long-term nature of the fund would create confidence and introduce stability at many levels. It would also avoid any need to keep having to “reinvent the wheel”.

### SMART ANALYSIS

**Specific** - a clear mandate of tweaking and enhancing the existing funds.

**Measurable** - success can be measured based on annual draw downs and projects being supported.

**Attainable** - the fact that good work is already being done and we are aware of many projects that are in the process of making submissions or planning to make submissions (or waiting to see what happens beyond 2021) suggests that this is attainable.

**Relevant** - this is a top two theme.

**Time-Bound** - as we highlight in our report the complexities of developing in rural and, in particular, remote rural Scotland should not be underestimated. We would advise that a 10 year plan be created with year on year growth in take-up as momentum continues to grow.

# RECOMMENDATION 3 - Create a database of comparables to help demonstrate best value

## WE RECOMMEND THAT:

- A database of land transactions is formed that captures all of the land transactions that have been supported under the various More Homes funding streams;
- This database is made available to agents/ valuers (and their clients) local authorities and district valuers.

The purpose of this is to share information and provide an open platform to assess land price and inform/ speed up negotiations.

## WE WOULD ADVISE ON THE FOLLOWING SPECIFIC DATA COLLECTION/ANALYSIS:

- Data is captured from the various projects that have been supported by More Homes since 2016;
- This data is analysed and published based on land price payable per gross acre, per unit and per persons with any specific project abnormal costs identified (if possible depending on the quality of any data);

- Analyse data on total cost and establish the significance of land relative to the total cost;
- This data is published and made available to interested parties;
- This data be utilised to establish benchmark land pricing and to identify any pricing patterns on a regional basis.

## WHAT KEY THEMES IS THIS SEEKING TO ADDRESS?

This recommendation has the potential to address a number of the key themes identified within our research, and in particular:

- Land Price and Best Value
- Communication
- The Cost of Development in Rural Scotland
- Resource, Capacity, Skills and Awareness

By sharing information openly, all parties will have a better context of Best Value in a monetary sense.

## SMART ANALYSIS

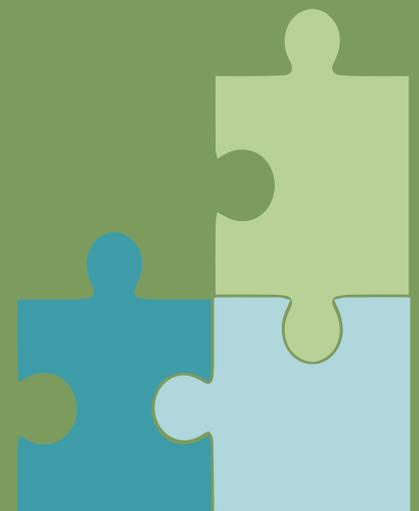
**Specific** - data driven analysis of land cost.

**Measurable** - success can be measured by publishing the data.

**Attainable** - this will depend on how the data is stored centrally and how accessible it is.

**Relevant** - Land Price and Best Value was the joint highest issue in our research.

**Time-Bound** - Once this has been set up (say six months) it should be updated and published annually.



# RECOMMENDATION 4 - Local authorities implement more suitable rural development policies and adopt a more proactive attitude to development

## WE RECOMMEND THAT:

- Local authorities are encouraged to implement more suitable rural development policies and adopt a more positive attitude to development.

This is to recognise that the economics of development in the majority of rural Scotland are challenging. In many (but not all) market areas there is not sufficient value in the completed homes to accommodate some of the costs that are driven by planning and technical conditions imposed by local authorities (and other public sector stakeholders such as SEPA and Scottish Water) act as a barrier to development even when there is a willing landowner and a willing developer.

In towns where there may be a need and demand for private and affordable homes, housebuilders and developers are not delivering due to viability concerns and uncertainty surrounding, for example, Developer Contributions thus prohibiting the supply of new homes. Local authorities should be encouraged to consider the viability of a project and the wider economic and social benefits that delivery of housing can bring.

A bold approach will demonstrate to the market that the Government is focused on the delivery of new housing.

## WHAT KEY THEMES IS THIS SEEKING TO ADDRESS?

This recommendation has the potential to address a number of the key themes identified within our research, and in particular:

- Land Price and Best Value
- The Cost of Development in Rural Scotland
- Rigorous Planning Policy and Regulations
- Early, Relevant and Effective Due Diligence
- Fragile Communities
- Communication
- Private Sector Developers are Not Active

## SMART ANALYSIS

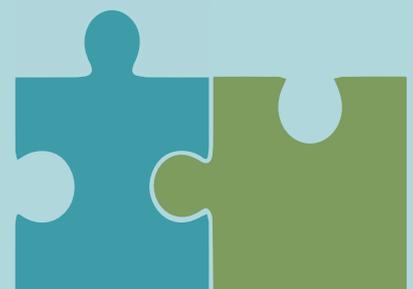
**Specific** - very targeted to a cost that is in the hands of/ can be influenced by the public sector.

**Measurable** - immediate and by activity.

**Attainable** - within the public sectors control.

**Relevant** - this is very relevant across a number of the Key Themes.

**Time-Bound** - we would advise that this be implemented and reviewed on an annual basis to assess impact.



# RECOMMENDATION 5 - Provide a suite of rural focused planning policies

## WE RECOMMEND THAT:

NPF4 embraces the recommendations in its NPF4 Rural Planning to 2050 Evidence Base in full and provides a suite of rural-focused planning policies which requires local planning authorities to specifically address :

- Place-Based Approaches specific to rural areas
- Local Place Planning and use of Masterplan Consent Areas to select housing sites which work best for the community, landowner and place. These will tend to focus on settlements and clustered communities but could also be used at a wider scale. For example, the Gigha settlement plan where the planning officers, the community trust and prospective residents of the new houses selected a number of single house sites across the island. A design guide and portfolio of house designs considered acceptable by the Planning Authority were developed and prospective residents chose their preferred design. Undertaking a series of house-builds across the island economies of scale in design and build were sought.
- Area Capacity Evaluations to assess applications for housing in the countryside (single houses and clusters) based on balancing a range of factors including landscape capacity, settlement pattern, social and economic need and a presumption in favour of sustaining populations in rural areas.
- Rural Enabling Policies which

include remote-enabling

- Exception Sites for Affordable housing
- Succession housing for rural businesses
- Policies which facilitate steading development e.g. no developer obligations or affordable housing contributions, scope for phased development.
- The full suite of housing development types set out in SPP15.

## WHAT KEY THEMES IS THIS SEEKING TO ADDRESS?

This recommendation has the potential to address a number of the key themes identified within our research, and in particular

- The Cost of Development in Rural Scotland (by increasing availability of plots for houses)
- Rigorous Planning Policy and Regulations (by providing national policy back-up/ requirement for more rural-focussed policies)
- The Green Agenda (by increasing the sustainability of rural areas)
- Concentrated Land Ownership (by increasing collaboration and visibility)
- Early, Relevant and Effective Due Diligence (as part of the LPP and MCA process)
- Placemaking (as part of the LPP

and MCA process)

- Fragile Communities (stemming de-population)
- The Small Trades/ Private Sector Needs Support (increase the amount of rural house sites)
- Create a Generous Land Supply (provide national policy support for increased allocation of rural housing)
- Communication (a clear Government statement of intent in the new NPF with its increased weight under the Planning Scotland Act 2019)
- Local Authority Culture and Resource (of the policy is clearly required at a national level resources can be justified and prioritised)

## SMART ANALYSIS

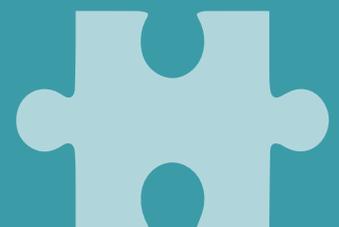
**Specific** - List of key policies to be contained in NPF4 and then reflected in Local Development Plan

**Measurable** - As part of wider planning monitoring

**Attainable** - Already largely in legislation. Evidence base exists in research study

**Relevant** - Planning is a top ten key theme and this addresses a wide number of other key themes

**Time-Bound** - NPF4 has a specific time-scale and consultation is programmed.



# RECOMMENDATION 6 - Develop and roll out a rural training package to local planning authorities

## WE RECOMMEND THAT:

The Scottish Government Planning Improvement Service develops a Rural Planning Training Package and provides this to all local planning authorities requiring those LPAs with significant rural areas to ensure that 70% of their Planning Officers across all levels and all Councillors on Planning Committees have undertaken the training. To incentivise create a certificate / recognition for those who complete the training.

- The Rural Planning Training Package must as a minimum cover:
- Rural Sustainability – What constitutes “sustainability” in a rural area?
- Rural-Focused Place-Based Approaches
- Area Capacity Evaluations to assess applications for housing in the countryside (single houses and clusters) based on balancing a range of factors including landscape capacity, settlement pattern, social and economic need and a presumption in favour of sustaining populations in rural areas.
- Facilitation and Mediation Training for Planning Officers
- The Planner as an “Enabler”
- Rural Site Viability - to understand the impact their decisions have on the potential delivery of a project, including planning conditions, developer contributions and the costs of development.

## WHAT KEY THEMES IS THIS SEEKING TO ADDRESS?

This recommendation has the potential to address a number of the key themes identified within our research, and in particular:

- The Cost of Development in Rural Scotland (by increasing Planning Officer understanding of the development process and associated costs)
- Resource, Capacity, Skills and Awareness (by creating a rural skills and knowledge base across the planning profession)
- Rigorous Planning Policy and Regulations (make planning officers more aware of the rural context and wider objectives)
- The Green Agenda (along with further research into rural sustainability, aims to avoid penalising rural areas unfairly under new climate change measures. This is needed as a counter-balance and to avoid unintended effects)
- Early, Relevant and Effective Due Diligence (by increasing Planning Officer understanding of the development process and associated costs)
- Placemaking (by increasing Planning Officer understanding of rural settlement context and use of Area Capacity Evaluations)
- Fragile Communities (by ensuring Planning Officers are aware of and act on the wider needs of vulnerable communities)

- The Small Trades/ Private Sector Needs Support (by Helping Planning Officers to allocate more generously in rural areas and apply rural-appropriate standards).
- Create a Generous Land Supply (by encouraging Planning Officers to be more encouraging of rural housing).
- Communication (by increasing understanding in LPAs.)
- Local Authority Culture and Resource (by providing skills and awareness in LPAs)

## SMART ANALYSIS

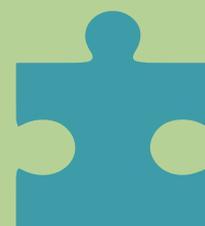
**Specific** - A clear package of training and a qualification/ certification to be achieved

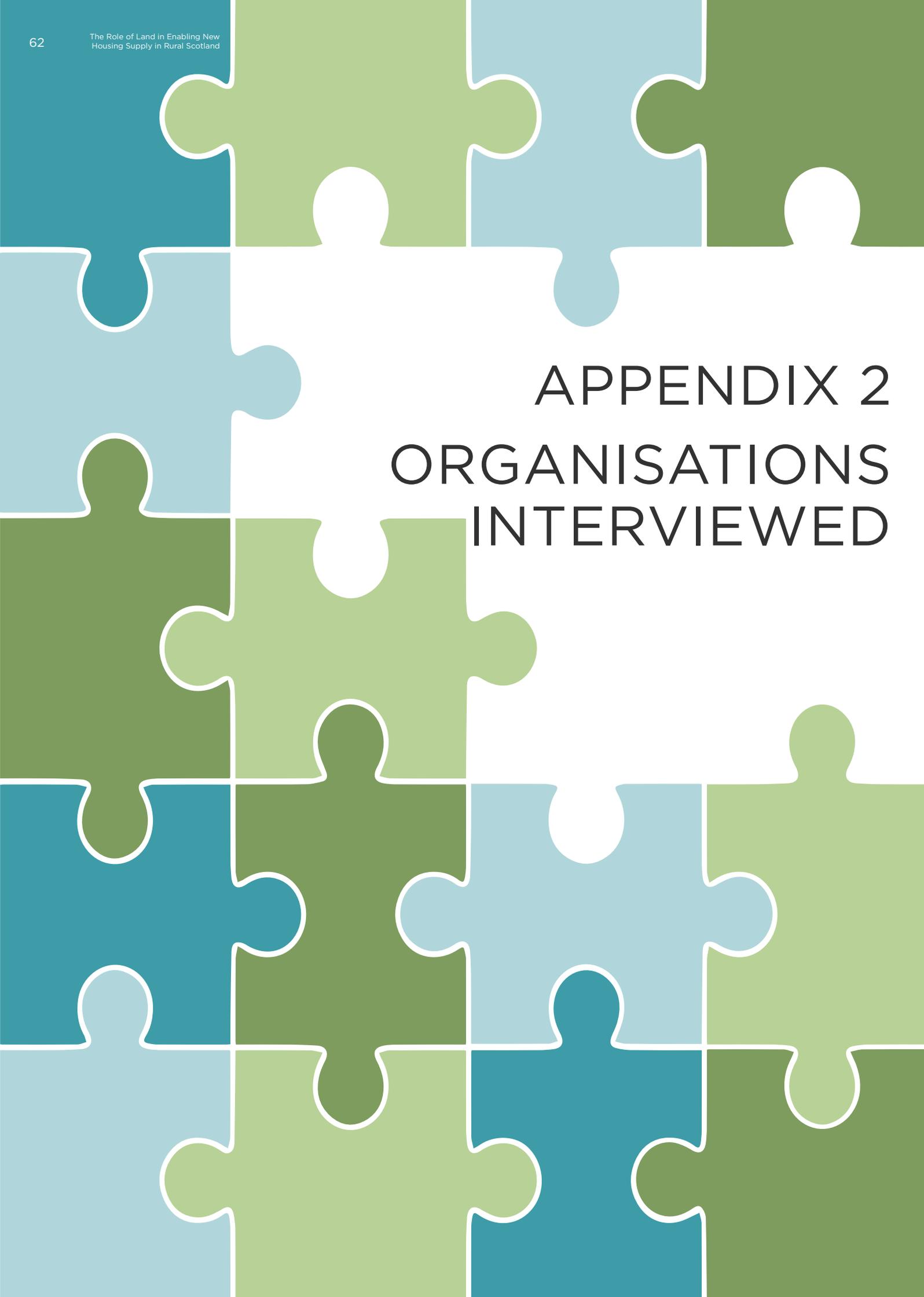
**Measurable** – As part of Government returns by The Improvement Service

**Attainable** – The Improvement Service exists and is a recognised method of delivery of training to LPAs.

**Relevant** – Responds to NPF4 rural re population aims and the Climate Change Agenda.

**Time-Bound** – Should be implemented and reviewed on an annual basis to assess impact on local authorities.





# APPENDIX 2

## ORGANISATIONS INTERVIEWED

## ORGANISATIONS INTERVIEWED

HOMES FOR SCOTLAND

SCOTTISH FUTURES TRUST

SCOTTISH LAND & ESTATES

BALNAGOWAN ESTATE

PLANNING AID SCOTLAND (PAS)

COMMUNITY LAND SCOTLAND

DEVELOPMENT TRUSTS ASSOCIATION SCOTLAND

THE SCOTTISH ISLANDS FEDERATION

SCOTTISH RURAL ACTION

RURAL HOUSING SCOTLAND

THE HIGHLANDS SMALL COMMUNITIES AND HOUSING TRUST

LOCH LOMOND AND THE TROSSACHS NATIONAL PARK

CAIRNGORMS NATIONAL PARK

HIGHLANDS AND ISLANDS ENTERPRISE

PTARMIGAN HOMES

BRODIES

ENABLING DEVELOPMENT GROUP

MORE HOMES HIGHLANDS

ORKNEY COUNCIL

GLASGOW UNIVERSITY

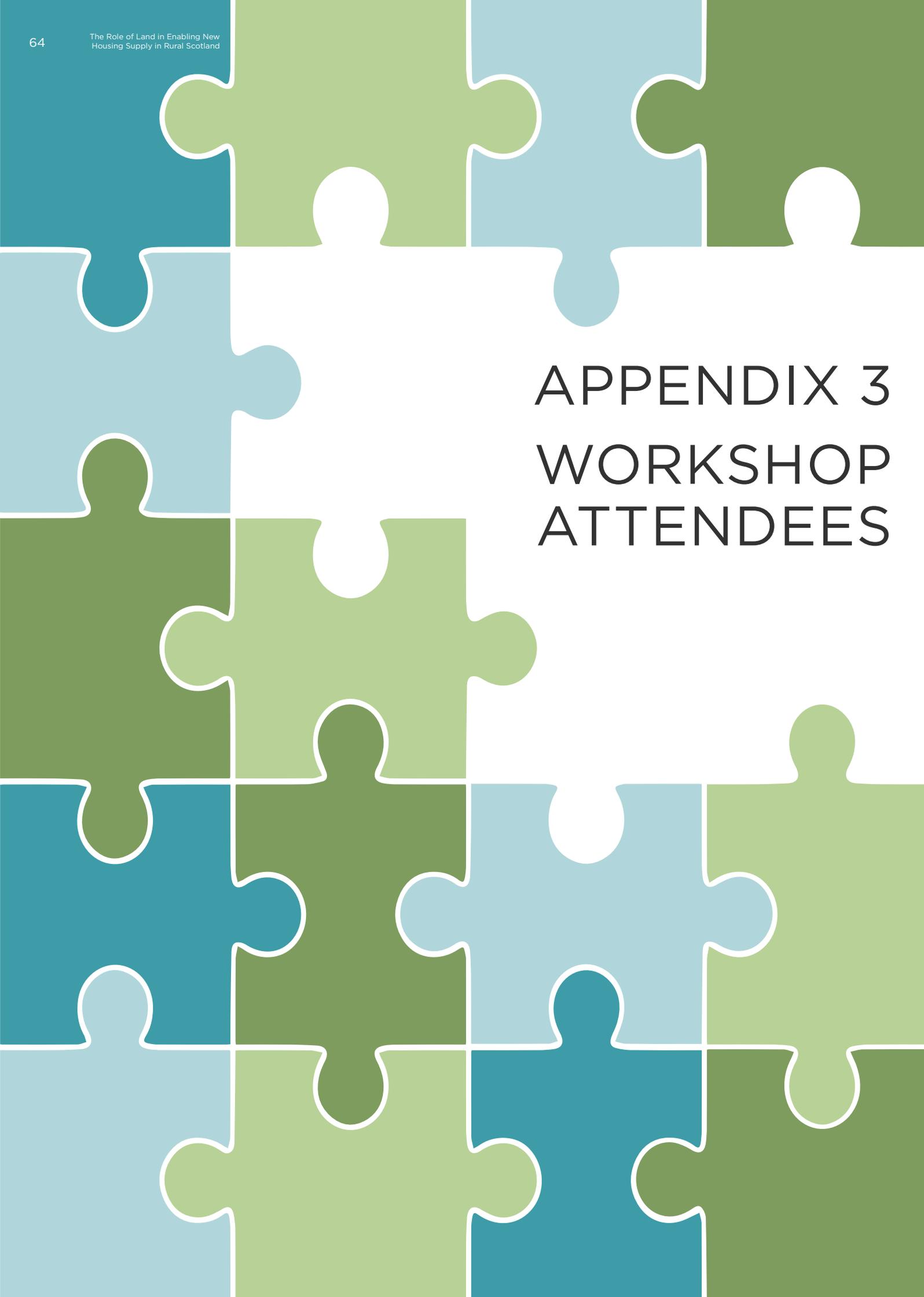
SHETLAND COUNCIL

R HOUSE (SMALL BUILDER)

MARR ESTATE

TARLAND DEVELOPMENT TRUST

MACROBERT TRUST



# APPENDIX 3 WORKSHOP ATTENDEES

## WORKSHOP ATTENDEES

HOMES FOR SCOTLAND

RENNIE & MACKAY CONSULTANTS

MORAY ESTATES

SCOTTISH RURAL ACTION

CROWN ESTATE SCOTLAND

DEVELOPMENT TRUSTS ASSOCIATION  
SCOTLAND

HIGHLANDS AND ISLANDS ENTERPRISE

THE CAIRNGORM NATIONAL PARK  
AUTHORITY

THE HIGHLAND COUNCIL

SCOTTISH RURAL ACTION

KINCARDINE ESTATE

PAT MUNRO

ROBERTSON HOMES

SAVILLS

MORE HOMES DIVISION

CAIRNGORMS NATIONAL PARK  
AUTHORITY

THE HIGHLANDS SMALL COMMUNITIES  
HOUSING TRUST

THE HIGHLAND COUNCIL

PLANNING AID SCOTLAND

THE NATIONAL TRUST FOR SCOTLAND

ORKNEY ISLANDS COUNCIL

RURAL HOUSING SCOTLAND

SCOTTISH LAND AND ESTATES

DUMFRIES AND GALLOWAY SMALL  
COMMUNITIES HOUSING TRUST

TURCAN CONNELL

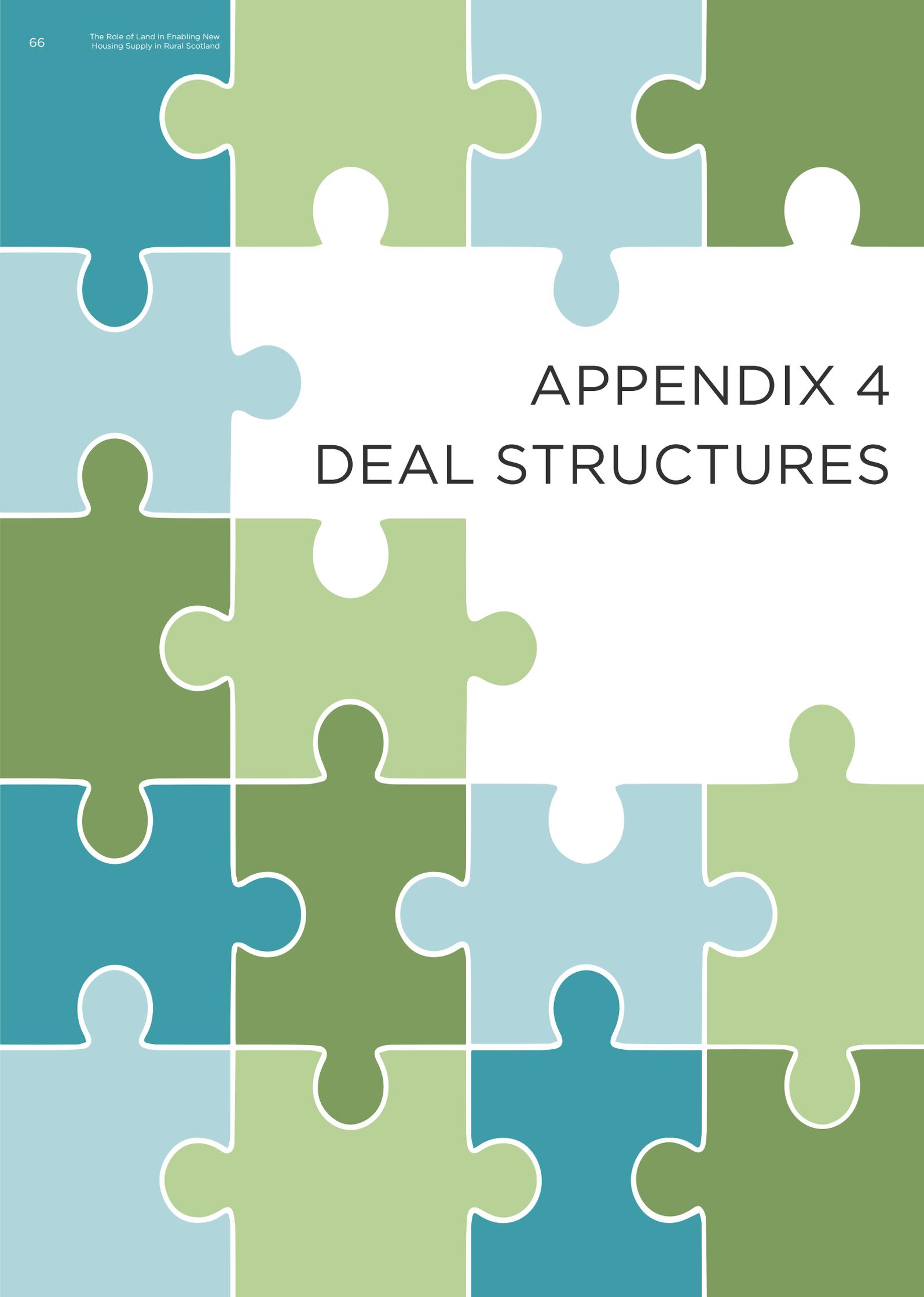
SCOTTISH ISLANDS FEDERATION

MORE HOMES DIVISION

COMMUNITY LAND SCOTLAND

CROFTING COMMISSION

CHURCH OF SCOTLAND

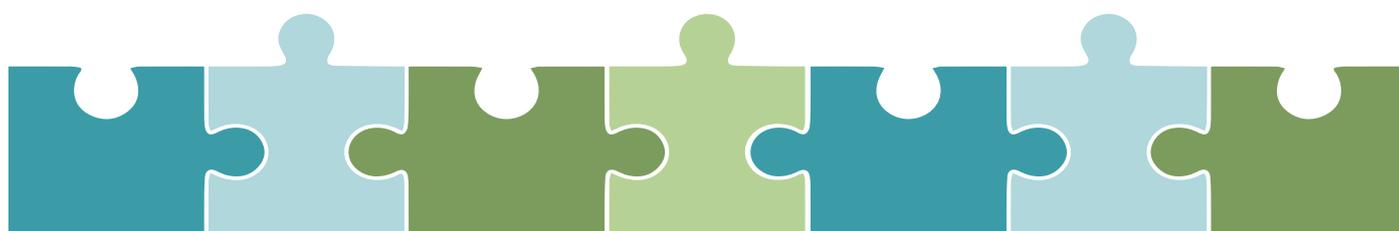


# APPENDIX 4 DEAL STRUCTURES

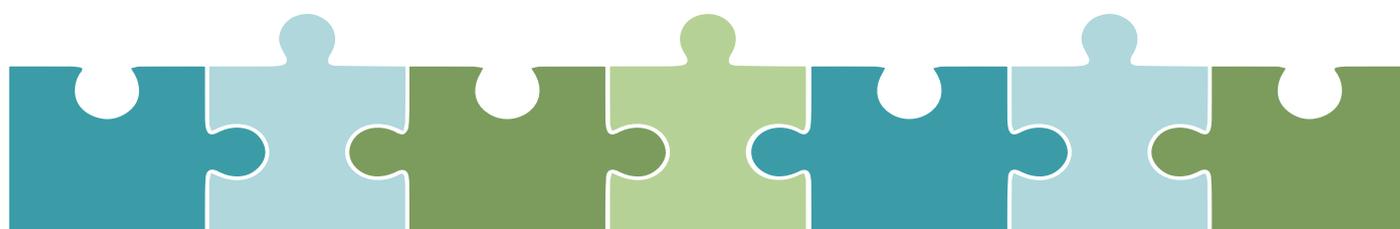
## LAND DISPOSAL STRUCTURES

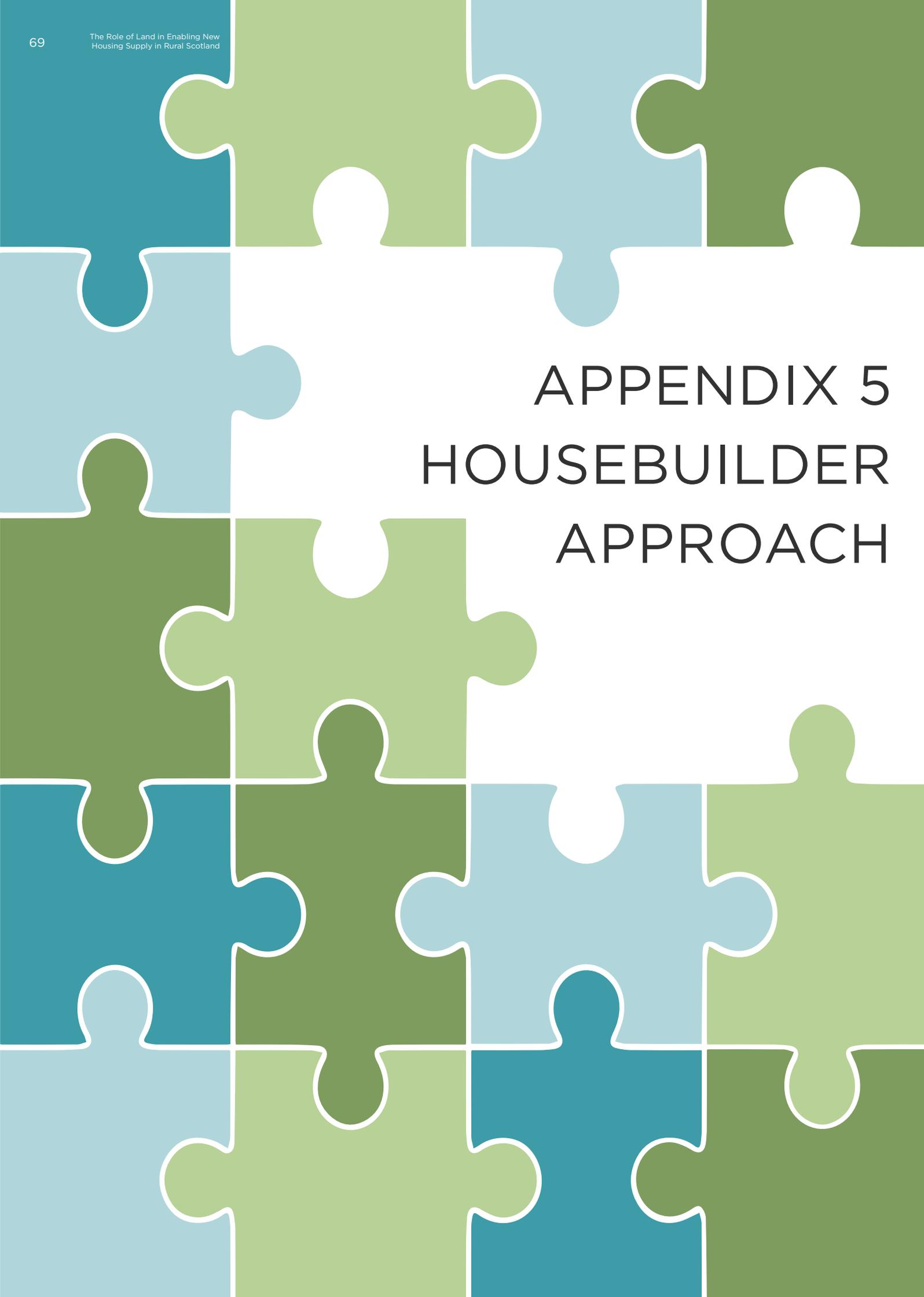
When a landowner is selling land there are typically a number of disposal options that can be considered depending on the risk profile and circumstances of both the seller and the buyer. The following table summarises some of the typical options that are available for parties to explore:

STRUCTURE	COMMENTS
<b>Unconditional Missive</b>	Typically the net land price and the date of entry are fixed at the time the contract is concluded. This implies that both parties are satisfied that the price and date of entry reflect the risk profile of the transaction. Unconditional contracts are more common in areas of extremely high market demand or where the majority of key project risks have already been identified and mitigated.
<b>Conditional Missive</b>	The majority of land contracts are agreed on a conditional basis with long stop dates for any suspensive conditions being purified/ date of entry occurring or the contract terminating. Conditional contracts provide a platform for buyers to satisfy themselves on the risks of a project and the ability to actually commence and deliver a development before committing to acquire land. Common suspensive conditions include receipt of a satisfactory planning approval, roads construction consent, site investigations and other statutory consents. The price can either be fixed or subject to a price mechanism/ formula at a future date.
<b>Option Contract</b>	Option contracts tend to favour strategic land opportunity sites that are considered to have a reasonable prospect of securing an allocation in a Local Development Plan (LDP) in the medium to long-term. Typically a housebuilder will undertake to use all reasonable endeavours to promote a site through the LDP and planning process in return for having the option to buy the land in the future at a discount to Market Value at that time. Housebuilders can spend hundreds of thousands of pounds promoting land through this process and so the model tends to only be successful in high value/ high demand markets.
<b>Promotion Contract</b>	Similar to option contracts, promotion contracts tend to favour strategic sites that are in relatively high value/ high demand locations. A promoter/ strategic land company will work in partnership with the landowner to secure planning (at their sole expense) and then share in the proceeds of any future land sales to housebuilders.
<b>Land Trader Model</b>	This model suits landowners who wish to participate in an element of development risk in order to maximise their return or to maintain an element of control over the placemaking of a development. In such scenarios landowners may invest hundreds of thousands of pounds, in some cases millions of pounds, promoting their land through the planning process and installing services and core infrastructure. Typically this model only works where a landowner has the ability to raise sufficient capital to invest in the project and where they (and any investors/ lenders) have enough comfort that they will be able to sell the land to housebuilders for more money than they have spent on the project. Often it can take many years before the initial costs are repaid through land receipts. Landowner's are very exposed to the vagaries of the market and to cost increases, and require to be fully aware of any tax implications.
<b>Plot Trader Model</b>	This model is more suited to areas where demand from mainstream builders is very subdued or land prices under the traditional residual model are not viable given site constraints or abnormal costs. This model may involve a landowner securing planning and technical consents, creating self-build plots, and then selling those plots to the self-build market and/ or the custom build market. This requires an element of speculative risk taking on the part of the landowner and an ability to invest capital, or raise finance, to carry out the early due diligence, secure the necessary consents, carry out the enabling works and then market the plots effectively.



<p><b>Land Transaction with Design and Build Contract/ Custom Build</b></p>	<p>Where a developer is looking to mitigate market / exit and cash flow risk a land sale followed by a design and build contract is becoming an increasingly attractive structure.</p> <p>This model has been used extensively by the development industry when delivering affordable homes on behalf of housing associations and local authorities over recent years. The main advantages of this approach are:</p> <ul style="list-style-type: none"> <li>• The developer is carrying less risk and therefore does not need to generate a full development margin. The price of the end product is therefore lower than it would be if the developer was building speculatively and/or the price the landowner receives can be higher improving the prospects of agreeing a land deal;</li> <li>• The end operator/ owner is able to input extensively into the design of the product and does not have to incur extensive design or development fees in the process;</li> <li>• The developer/ contractor does not need to raise private finance which reduces their risk/ costs.</li> </ul> <p>This approach is also being adopted by the self-build market.</p>
<p><b>Long Ground Lease</b></p>	<p>Where the capital costs of land are a barrier to development or where a landowner would rather receive long-term income over short-term capital receipts, we see a long leasehold model as being attractive option. Whilst by no means common place, this is a model that is increasingly being explored by those active in the market and may suit specific transactions. It is relatively common place in the commercial property market, particularly around harbours and airports.</p>
<p><b>Phased/ Deferred Payments</b></p>	<p>Phased land payments are relatively common in the course of large multi phase developments. Typically a developer will take title to land one phase at a time or will take title to the whole site in return for granting a security back to the landowner until such time as they have fulfilled their obligations.</p> <p>In more rural markets, where small builders are unable to access finance or where there is substantial market/ exit risk, we are seeing deferred land payments (sometimes on a plot by plot basis) whereby the landowner is paid when a house is sold by the builder or when the contractor commences construction.</p> <p>This is often a pragmatic structure to unlock sites however can result in lengthy negotiations and relatively complex/ costly legal agreements.</p>
<p><b>Joint Ventures</b></p>	<p>Joint Ventures (JV's) work well when a developer and landowner are willing to share risk and return. JV's can be tailored to suit the particular circumstances of a development or the risk and return appetite of the parties involved. However, careful consideration needs to be given to the creation of a robust business plan together with counter party risk, events of default and potential tax implications.</p>
<p><b>Infrastructure for Land Deals</b></p>	<p>Whilst relatively rare, in some circumstances it is possible for a infrastructure provider or developer to agree to install infrastructure and carry out enabling works on behalf of a landowner in return for taking title to a number of plots that is proportionate to the investment that has been made. Careful consideration needs to be given to the scope of purchasers works and the timing and specification of those works.</p>
<p><b>Excambions or Land Swaps</b></p>	<p>Land swaps (excambions) whilst relatively rare, can be useful tools to unlock a piece of land in return for re-locating another parties business or providing, for example, a completed home in lieu of a land payment.</p>





# APPENDIX 5 HOUSEBUILDER APPROACH

## THE HOUSEBUILDER APPROACH TO BUYING LAND

Most builders have established protocols and robust guidance and procedures when it comes to acquiring land in order to mitigate risk. This includes but is not limited to, on the assumption that the location has already been selected based on known market demand, the following:

**Landownership** - establishing land ownership and title boundary. Is the land likely to be developable without third party land?

**Planning and technical context** - establishing if development of the site would comply with planning policy and consulting with engineers and utility companies to establish capacity. This would include studying the planning portal for any nearby or adjacent planning applications.

**Desktop 'constraints' plan** - title/ownership report, topographical survey, assessments of flood risk, assessment of historical site uses, ground conditions, Pre-Development Enquiry (PDE) to Scottish Water for indication on capacity or whether a Drainage Impact Assessment (DIA) or Water Impact Assessment (WIA) is required, investigation of road access/drainage/ service connection points to identify possible third party land issues or offsite works that may be required and to get a sense of potential threats to development viability.

**High level assessment of abnormal costs** - based on the initial desktop analysis the technical and commercial teams will then carry out a high level abnormal cost assessment to ascertain if development is likely to be viable.

**Consideration of potential development layout and housing mix** - through either an in-house architect or a consultant architect (typically on a speculative basis), a very high level feasibility layout will be developed to ascertain target density based on a specified target mix/ design brief. This layout will be reviewed to ensure that it is efficient (in terms of net developable ratio, ratio of roads to houses and density, for example) and generates optimum value/ developers profit.

**High Level Development Appraisal** - the housebuilder will calculate the anticipated sales revenue/ Gross Development Value (GDV) based on the target housing mix, assuming it secures planning consent, and then deduct their Standard Build Costs (SBC's) and Target Gross Profit Margin (before overhead) to determine the Headline Land Price.

This Headline Land Price does not allow for any abnormal development costs as these will remain largely unknown until all of the technical consents are secured (planning consent and known conditions,

developer obligations, Roads Construction Consent, Scottish Water approvals, SEPA approvals, etc.).

The builder will typically at this stage (having invested relatively little capital and only management time) make a more informed decision on whether or not to pursue an opportunity. Any 'abortive costs' are likely to be relatively small at this stage.

**Agree Head of Terms/ Enter Into a Legal Contract** - assuming the opportunity is considered to be worth pursuing, the goal of the builder will typically be to agree commercial Heads of Terms with a landowner and thereafter enter into a legally binding contract (this may include an option or a missive to purchase). Such a contract will be designed to provide the builder with sufficient legal comfort that if they pursue a planning application (and often invest in excess of £100,000 in expenditure) they are more likely than not to be able to acquire the land. The builder may offer to cover the landowners legal and professional fees. This process can be time consuming to negotiate.

Landowners will understandably, often want price certainty and to know when they will be paid. In contrast, builders, again understandably, are very wary of unforeseen abnormal risks emerging as the project progresses through the



statutory approval process or delays are experienced in the statutory approval process. Many potential transactions falter at this stage as the gap in risk or pricing expectations is too wide. This is particularly the case in lower value markets where the headline land price is simply not able to withstand high abnormal development costs. The smoother and quicker the statutory approval process is and the fewer unknown cost variables there are to agree, the more likely it is that a deal will be concluded between the parties.

#### **Purifying Conditions and Buying the Land (or Not)**

– again, assuming that a legal contract/ missive is exchanged, the builder will then work towards submitting and securing their technical consents and carrying out more extensive site specific due diligence on abnormal development costs (i.e. carrying out intrusive site investigations) with a view towards acquiring the land as quickly as possible and securing a return on their investment/ meeting the business plan objectives.

It is only once this process has been completed, assuming the consents have been secured (often 12 months plus after the initial contract has been signed), that the builder is able to carry out a 'stage two' development appraisal.

At this stage the builder will know the housing mix and layout that has been consented, whether there are any onerous planning conditions or developer obligations or not, whether the ground requires re-remediation or not, whether utility upgrades are required, and what the cost of these are, etc. At this stage in the process the market context may also have changed dramatically (i.e. the period between 2007 and 2008 following the credit crunch or the period between 2013 and 2014 in Aberdeen following the oil price slide) or unforeseen abnormal development costs may have emerged.

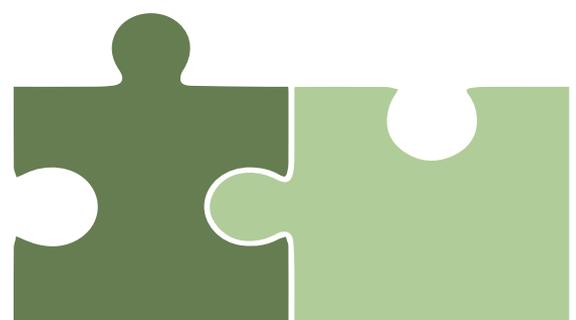
In some circumstances the stage two appraisal will be generally consistent with the stage one appraisal and the builder will pay the landowner the agreed price.

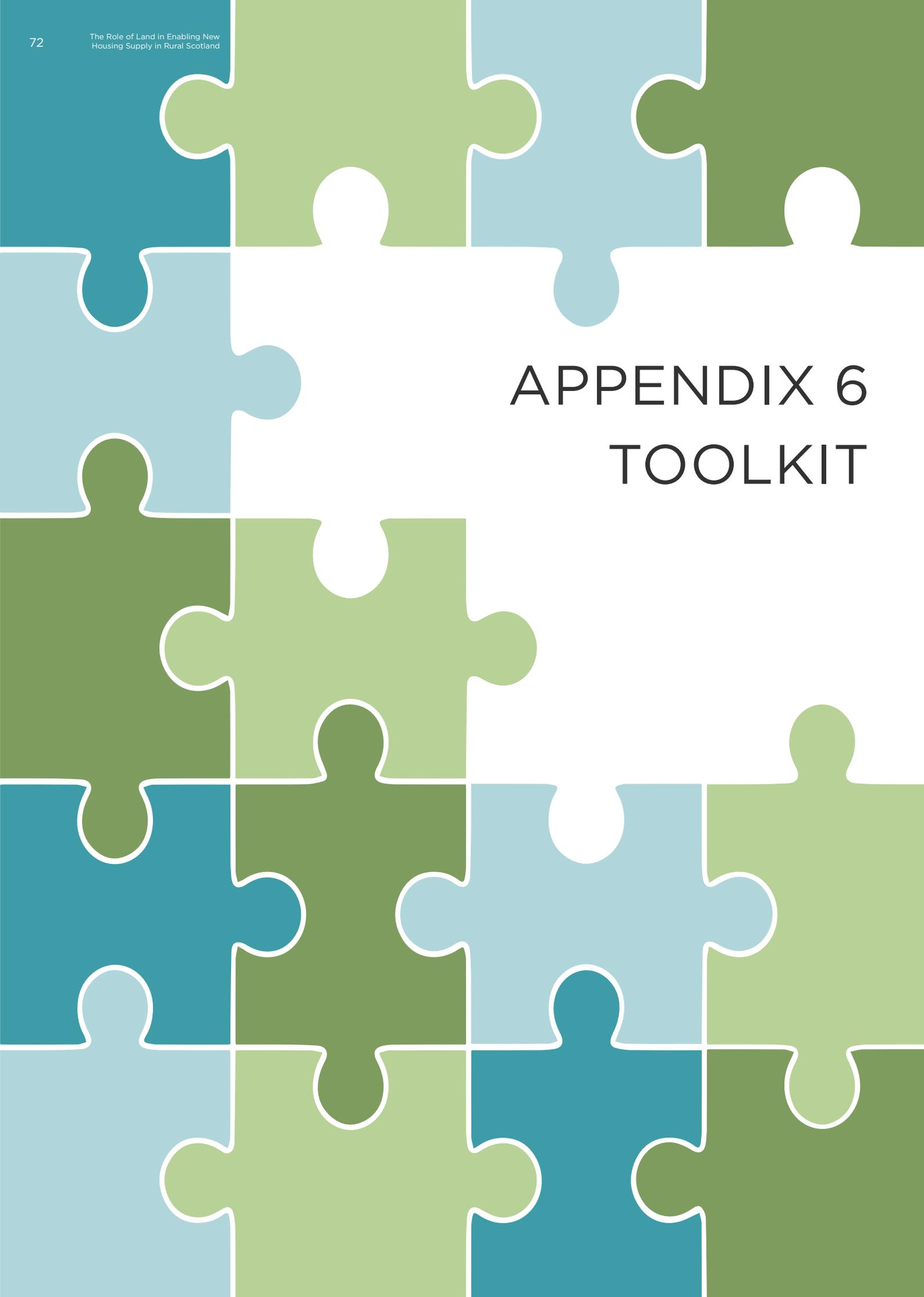
However in a number of cases the developer will seek to reduce the price and this process often results in distrust emerging between the parties which may or may not result in the builder securing the land.

Strong communication and an open book approach at this stage, and ideally over the course of the whole project, is key to increasing the probability of a deal being completed successfully. The smoother and quicker the statutory approval process is and the fewer unknown cost variables there are to agree, the

more likely it is that a deal will be concluded.

It is therefore apparent how complicated the process of buying land is, even for well funded and well resourced housebuilders in functioning markets where there is clear demand and established pricing for new housing.





# APPENDIX 6 TOOLKIT

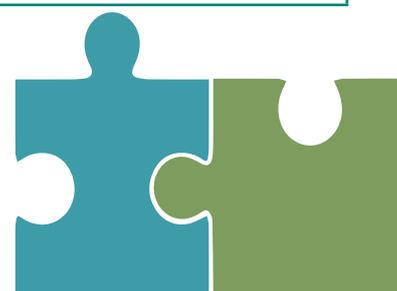
# Toolkit

Tool	Purpose	Description
<b>Scottish Land Fund</b>	Funding	Funded by the SG and delivered in partnership with National Lottery Community Fund and HIE. It offers grants of up to £1million to help communities take ownership of the land and buildings that matter to them as well as practical support to develop projects.
<b>Design Charrettes and Activating Ideas Fund</b>	Funding	SG considers that community involvement is of central importance to the creation of good places. Charrettes bring together the public, stakeholders and designers over a number of days to draw up proposals to make their towns and villages better places to live. The fund supports participation and empowerment initiatives in disadvantaged areas.
<b>Rural Housing Fund / Rural and Islands Housing Funds</b>	Funding	Both funds are aimed to increase the supply of affordable housing of all tenures in rural Scotland and contribute to SG target of 50,000 affordable homes target. The main fund offers capital support (grants and loans) for direct provision of new affordable housing and refurbishment of existing empty properties. The second is a small fund that contributes to feasibility studies.
<b>Community and Renewable Energy Scheme</b>	Funding	Provides financial support to local energy projects. CARES Development Loan will provide up to £150,000 for renewable energy projects with a reasonable chance of success. The loans can include a write off facility that allows development risk to be mitigated.
<b>Housing Infrastructure fund</b>	Funding	A 5 year fund supporting the delivery of housing through financial assistance. All house types and tenure of housing are eligible for support, however priority will be given to those projects delivering affordable and private rented housing. The fund provides infrastructure loans available to non-public sector organisations and infrastructure grants available to LA's and HA's to support affordable housing delivery. It expires in March 2021.
<b>Building Scotland Fund</b>	Funding	The BSF intends to invest £150 million over financial years 2019 to 2021 by making loans and acquiring equity. Investments are made at commercial rates. The fund is delivered by SG, Scottish Enterprise, HIE, the Scottish Funding Council and the Scottish Futures Trust. They typically require 30% funding and focus should be on housing delivery. The fund does not support affordable housing.
<b>Housing Growth Partnership</b>	Funding	A social impact investor operated by Lloyds Banking Group and Homes England. They are actively looking for opportunities in Scotland and are keen to support small housebuilders and developers. This is an alternative to traditional debt and offers a partnership / JV approach.
<b>Self-Build Loan Fund</b>	Funding	SG have provided a time limited fund to assist self or custom builders finance the construction of their new home. The fund will run up to 31 August 2021 and is open to individuals who have been unable to obtain mainstream self-build mortgage finance, but will be able to repay the loan upon completion of their project. The maximum loan available stands at £175,000.
<b>Dr and Mrs J. Steven Faulds Memorial Fund</b>	Funding	The fund was created by family and friends of Dr & Mrs Faulds, in their memory, to help individuals and families access affordable self-build housing plots across rural Scotland. The fund will help those who are eligible to purchase a plot of land so they can building their own home. The fund is administered by Highlands Small Communities Trust who will work with communities to identify suitable land to purchase, provide necessary infrastructure and divide it into self-build plots for onward sale to an individual or family for self-build purposes. If successful, the applicant will be able to purchase a discounted plot of land with full title on a shared equity basis with a Rural Housing Burden (see below) and right of pre-emption.
<b>Scottish National Investment Bank</b>	Funding	SG funding programme intended to help Businesses in Scotland borrow money over a longer term (10 to 15 years). The bank will support important infrastructure projects and will be operational in 2020, investing in businesses and communities. They intend to invest £2billion over 10 years.
<b>Help to Buy</b>	Funding	Help to Buy (Scotland) scheme means people can purchase a new build home without the need for a large deposit. The scheme currently provides up to 15% equity towards the purchase of new build homes up to a value of £200,000. The tool has a annual budge of £60m of which £18m is ring fenced for smaller builders.

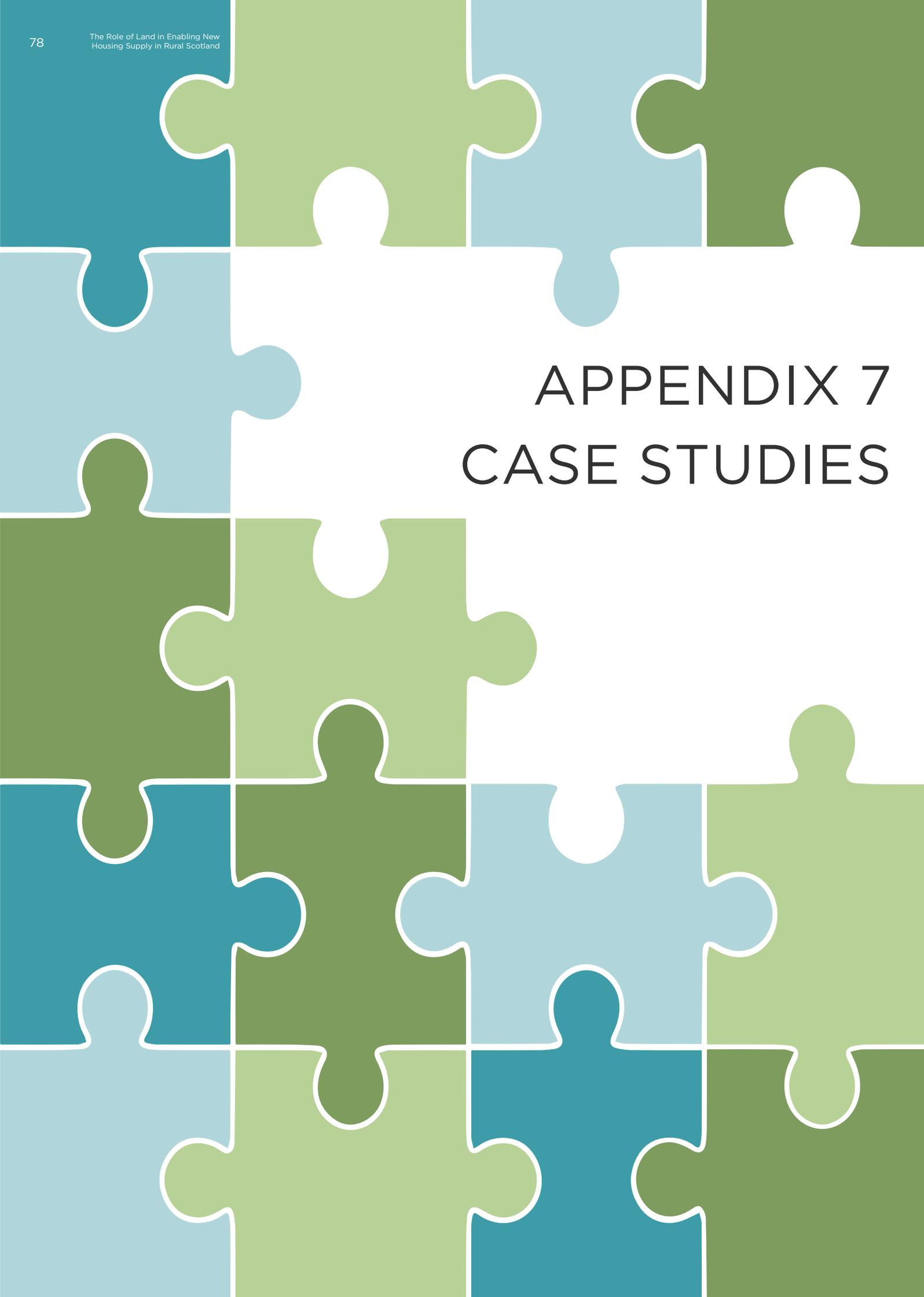
<b>The Low-cost Initiative for First Time Buyers (LIFT)</b>	Funding	There are 2 LIFT schemes - 1. Open Market Shared Equity. Scottish Government support to individuals to help buy a home without having to fund its entire cost. The individual pays the biggest share (60 - 90%) and SG will hold the remaining share under a shared equity agreement. 2. New Supply Shared Equity - helps individuals to buy a new build home from a council or housing association.
<b>Rent to Buy (RTB)</b>	Funding	Developed by The Highlands Small Communities Housing Trust, the RTB scheme helps people on modest incomes to become home owners by allowing them to rent a home for five years whilst saving up for a deposit. The homes are priced at 20% below market price and the monthly rent is set at local housing allowance levels. The price is set at the outset and the affordable status of the houses are protected by Rural Housing Burdens.
<b>Rental Income Guarantee Scheme</b>	Funding	Designed to facilitate growth of the Build to Rent sector in Scotland. The scheme supports large BTR schemes which are more prominent in cities and central belt areas. However, the principles of the scheme could also help to reduce risk in Rural Scotland.
<b>National Housing Trust (NHT)</b>	Funding	Administered by Scottish Futures Trust - the aim is to achieve a sustained increase in the number of homes being built in Scotland through collaboration with the public and private sectors. Developers are appointed to build a specified number of affordable homes on land they already own. Once built, a local partnership company made up of the developer, the participating LA and Scottish Futures Trust buy the homes and let them to tenants at affordable, mid-market rent.
<b>Affordable Housing Supply Programme</b>	Funding	Administered by More Homes Scotland, the programme aims to deliver 50,000 affordable homes by 2021 backed by over £3.3billion.
<b>The Islands Growth Deal</b>	Funding	SG fund to help unlock investment and drive inclusive growth across Orkney, Shetland & the Western Isles. We understand that the local authorities are working with stakeholders in order to submit a proposal for discussions and scrutiny by the Scottish and UK Government
<b>Scottish Planning Policy (SPP)</b>	Planning	Policy statement on how nationally important land use planning matters should be addressed across the country.
<b>Local Place Plans (LPP)</b>	Planning	Local authorities are required to invite local communities to prepare a LPP to enable greater community involvement and engagement in planning the use of land and buildings in their area.
<b>Masterplan Consent Areas</b>	Planning	The Planning (Scotland) Act 2019 allows planning authorities the power to give up-front consent for development which has already been specified in a masterplan.
<b>Succession Housing (Farms / Rural Businesses)</b>	Planning	When development of a new unit on a farm is justified by there being an operational requirement to enable the succession of the farming business e.g. housing for a farmworker or retired farmer
<b>Affordable Housing Exemption Policy</b>	Planning	Some local authorities have Exception Site policies for affordable housing e.g. East Lothian and Highland Council and the use of this policy should be useful in providing access to land for new affordable housing.
<b>Housing Need &amp; Demand Assessment</b>	Planning	The process each local planning authority undergoes in order to decide how much new land is needed to allocate for housing .
<b>Area Capacity Evaluations</b>	Planning	A policy tool used in Argyll & Bute to assess landscape impact and assist in the determination of planning applications for specific types and scales of development proposals out with settlement areas.
<b>Brownfield Development</b>	Planning	Brownfield development provides opportunities for re-development of land which has been previously built on. Local authorities will usually favour these areas over development of greenfield land.
<b>Cross funding through Enabling Development</b>	Planning	The formation of some new businesses or projects can depend on having new build or conversion housing, for sale or rent, providing early funding. There is no dedicated national policy guidance relating to enabling development although Scottish Planning Policy is supportive of it. The Rothiemurchus case study highlights how effective this tool can be in certain cases.
<b>Developer Contributions / S75 Agreements</b>	Planning	Local authorities requires an applicant to either undertake certain physical improvement works or provide payments towards local infrastructure and services including roads, education, and community facilities.. Where viability permits, this can help to minimise the impact of new housing on communities.
<b>Housing Association Collaboration</b>	Good Practice	HA's have access to grant funding which can help unlock land value and encourage delivery of an otherwise stalled site. In addition to this, communities benefit from HA's knowledge and expertise in the process.

<b>Community Engagement Plans</b>	Good Practice	Landowners are being encouraged to do more community engagement and Scottish Land Commission recommends that they produce Community Engagement Plans for their estates/farms.
<b>Aberdeenshire Council Site Prospectus</b>	Good Practice	In March 2019 Aberdeenshire Council created a 'site prospectus'. The principal focus of the Prospectus is to aid the delivery of the allocated sites within the LDP. In order to assist with the delivery, each site has a Delivery Team member to be the first point of contact for interested developers. At this point the Delivery Team will take the appropriate steps in contacting the landowner and facilitating any required meetings.
<b>Highland Council HUB</b>	Good Practice	Established in 2016, the Highland Housing HUB meets weekly and includes members from More Homes Scotland, Highland Council, active housing associations and the private sector. The objectives of the group are to: deliver the Highland 5 year new build affordable housing programme; collectively agree a revised Highland SHIP based on the priorities set out in the local strategy; maximise investment levels for the delivery of affordable housing in areas of greatest need; work collaboratively and cement partnerships to deliver agreed outcomes; streamline communication between different agencies that have a role within the delivery of housing; demonstrating a model of working which can be rolled out to other areas of Scotland.
<b>Standardised House Types / Footprints</b>	Good Practice	Standardised House Types are widely used by housebuilders in order to help standardise procurement and speed up the house building process. It also means that there is more cost certainty when a stage 1 viability appraisal is being carried out and land price is being determined whilst also reducing delivery risk.
<b>Competitive Design &amp; Build Procurement</b>	Good Practice	If managed correctly, the use of a competitive design and build procurement, can allow experienced builders to add value to a project by utilising their practical experience on delivery and 'buildability'. whilst reducing delivery risk and supporting small builders and contractors..
<b>The New Build Residential Construction Framework - Scotland Excel</b>	Good Practice	The New Build Residential Construction framework, which went live in August 2019 was developed to significantly reduce the time taken by local government and housing associations to procure the building of a range of social housing properties from contractors. The framework covers a wide range of property types including affordable houses, flats, residential homes, student accommodation and social rented or mixed tenure and allows contracting authorities or housing associations to easily select house designs to accommodate a range of access needs.
<b>Mediation</b>	Good Practice	The Planning Bill requires that a study be carried out into the mediation of planning. This relates to early engagement and encourages communication between all parties.
<b>Scotland's Self and Custom Build Portal</b>	Good Practice	A portal advertising self-build plots across Scotland and providing further information on funding, successful case studies, and latest news on the self-build market.
<b>Rural Housing Burdens</b>	Good Practice	The Rural Housing Burden is a Title Condition which applies to all the homes and self-build plots sold by Highlands Small Communities Housing Trust (HSCHT). On completion, the property owner will have 100% ownership and full legal title. The RHB comprises two main elements, an agreed discount to open market value, and a right of pre-emption. This ensures that homes are affordable and retained by priority groups, typically people who have an existing local connection and have been unable to afford or build a house in the community.
<b>Deed of Community Conditions</b>	Good Practice	Deed of Community Conditions can be useful when setting a series of rules that govern how a development is to be managed in the long-term. This can be useful in protecting the status of a community based development and ensuring that the development is not sold to those seeking second homes or holiday homes.
<b>Development Companies (i.e. Highland Housing Alliance)</b>	Good Practice	Development Companies set up to encourage partnerships with LA's, HA's and the private sector. Highland Housing Alliance is a partnership between 5 HA's, a Housing Trust and Highland Council.
<b>Offsite Construction</b>	Good Practice	More Homes Scotland have commissioned research to gain an understanding of whether greater use of offsite manufacturing could help address challenges relating to labour and skills shortages; the need to speed up delivery; control costs; and achieve high standards of sustainability.
<b>Achieving Excellence in Housing Development Programme</b>	Good Practice	We understand that this programme is currently under review as More Homes consider ways that the programme can be main-streamed. The programme provided procurement support to housing Associations.

<b>Long Leases</b>	Good Practice	The Highlands Small Communities Housing Trust piloted a development in 2013 whereby the Trust let two houses at £1,000 per property per annum from the Ardtornish Estate on a 21 year lease and then let the properties out to a local families working locally at affordable rental levels. At the end of the 21 year lease the estate can then repay HSCHT's initial investment of £70,000 and take ownership of the properties.
<b>Joint Venture Agreements</b>	Good Practice	Where a housebuilder or developer works in partnership with a landowner to deliver housing on site. Typically, the landowner will supply the land while the developer covers the cost of the infrastructure, servicing and construction works. Albeit, JV's have now covered a variety of different partnerships including communities and housing associations.
<b>Deferred Land Payments</b>	Good Practice	A landowner permits a builder to deliver housing on his land, with payment deferred until either an exit strategy is secured or the project is complete.
<b>Pump Priming Land</b>	Good Practice	Stimulating development of a site through government funding (or perhaps use of affordable housing with a guaranteed exit strategy) to open up the site and provide infrastructure / servicing or the first phase of development. The ability for less experienced community development companies or cash strapped builders to acquire 'simple' plug and play sites could dramatically speed up the development process and make land more accessible.
<b>Land for Infrastructure Deals</b>	Good Practice	Where the developer completes the infrastructure works for a project and is given a parcel of land to develop or sell in return.
<b>Self-Build Plots</b>	Good Practice	Plots delivered for all tenures which typically have planning consent, are fully serviced and with road access to the edge of the plot. Self-builders can often pay more for land thus helping with viability.
<b>Lease Wrap</b>	Good Practice	The local authority (or HA) agrees to lease the completed units if they are unable to sell / lease to the private market, offering guaranteed income to the developer. This reduced risk and therefore enhances viability and can address market failure.
<b>Forestry Commission Land</b>	Access to Land	Surplus land is offered for sale as part of the overall management of Scotland's national forests and land. However, in some cases the land can be expensive to develop due to its remoteness/ abnormals and therefore viability can be challenging.
<b>Community Asset Transfer</b>	Access to Land	A right for community bodies to make requests to local authorities, Scottish Ministers and a range of public bodies for any land or buildings they feel they could make better use of. They can request ownership, lease or other rights as they wish. Guidance is available to communities.
<b>The Land Reform (Scotland) Act 2003</b>	Access to Land	Provided communities with the right to buy land and buildings in certain circumstances and represented a fundamental change in the legal and policy context surrounding ownership and land management, giving the potential for greater powers to be transferred to communities. The powers to transfer assets at less than market value were established in The Local Government in Scotland Act 2003, which set out that the Scottish Ministers may, by regulation, provide the circumstances in which LA's can dispose of land at less than Best Value. In 2010, Scottish Ministers issued the Disposal of Land by Local Authorities (Scotland) Regulations which gives discretionary powers to LA's to dispose of land (and assets) to community organisations at less than Best Value, without reference to the Minister.
<b>The Right to Buy Land to Further Sustainable Development (Applications, Written Requests, Ballots and Compensation) (Scotland) Regulations 2020</b>	Access to Land	The Regulations will, subject to a successful application being made and the various tests being satisfied) provide community groups with an absolute right to buy land where they can show its purchase will further the goal of sustainable development.
<b>Community Empowerment (Scotland) Act</b>	Access to Land	The Community Empowerment Act helps to empower community bodies through the ownership of land and buildings, and by strengthening their voices in the decisions about public services. In 2010 the West Harris Trust, a community company with open membership to all residents, became the first community to purchase its crofting estate from the Scottish Government through the Community Empowerment Act.



<b>Crofters</b>	Access to Land	Crofting can have an influential impact in developing the local economy in bringing new investment within the community. Land being registered as a croft could help to address individuals' housing needs in areas where housing development is limited and complex. Growth in crofting has the potential to assist the housing services wider objectives of addressing the housing need and demands of rural areas.
<b>Compulsory Purchase Orders</b>	Access to Land	A government body has the ability to acquire land in order to carry out work for the benefit of the general public. They can apply to the Scottish Ministers for a compulsory purchase order (CPO) to get the authority and the legal power to purchase any land or building throughout the UK. In some cases the threat of CPO can act as a catalyst to achieving landowner engagement.
<b>Enabling Development Group</b>	Facilitation (Private Sector)	A team of professionals within the house building industry taking an innovative approach to combine our collective experience to enable landowners, property developers and housebuilders get their project off the ground and deliver more homes to the Scottish market.
<b>Community Ownership Support Service</b>	Facilitation (Communities)	The Community Ownership Support Service (COSS) is a Scottish government funded programme, set up to help community-based groups in Scotland to take on land or building assets for their community.'
<b>Scottish Land Commission</b>	Facilitation	The Scottish Land Commission is driving a programme of land reform spanning both urban and rural land, to improve the productivity, diversity and accountability of the way Scotland's land is owned and used.
<b>Scottish Futures Trust</b>	Facilitation	Infrastructure centre of expertise funded by the Scottish Government.
<b>Community Housing Trusts (Dumfries &amp; Galloway Small Communities Housing Trust, The Highlands Small Communities Housing Trust (more recently trading as Community Housing Scotland) and Rural Housing Scotland)</b>	Facilitation (Communities)	Registered charities set up to help rural communities secure long-term solutions to their local housing needs. Providing crucial resource and understanding to rural communities who want to deliver housing in their area.
<b>Development Trusts Association Scotland</b>	Facilitation (Communities)	DTAS uses its expertise to inform, support and represent their network of development trusts, facilitating the sharing of knowledge and expertise and encouraging mutual-ism and co-operation.
<b>The Community Learning Exchange</b>	Facilitation (Communities)	The Community Learning Exchange provides an opportunity for communities to learn through the exchange of ideas and the sharing of common solutions. The exchange is managed by the Scottish Community Alliance.
<b>Second Homes Council Tax</b>	Government Initiative	For properties that are considered 'holiday homes or second homes' (not any ones main residence) but are occupied for at least 25 days a year, each local authority has discretion to apply a discount of between 10% and 50% or to apply no discount.
<b>Additional Dwelling Supplement</b>	Government Initiative	Scottish Government legislation places an additional tax on the purchase of second homes. From 25 January 2019, ADS increased to 4% of the purchase price.
<b>Housing to 2040</b>	Government Initiative	Commitment to plan, together with stakeholders, for how our homes and communities should look and feel in 2040 and the options/ choices to get there.
<b>Empty Homes</b>	Government Initiative	Although not related to new housing/ development, since 2010, More Homes have funded Shelter Scotland to develop and deliver the Scottish Empty Homes Partnership, which gives advice to home owners and works with councils to develop empty homes services to help bring private sector empty homes back into use. Following the success of this scheme, they have provided funding and support for a number of empty homes officers, who work strategically across specific council areas to tackle problematic empty homes. Finally, they have empowered LA's to remove Council Tax discounts if they wish.



# APPENDIX 7 CASE STUDIES

# Village Farm Site, Tarland

A partnership based, granular approach, adopting a long term income model



Undeveloped since it's allocation in the 2002 Aberdeenshire Local Development Plan, the landowner and the Tarland Community Housing (TCH) project team have been working in partnership to try and unlock this stalled site.

Surveys of Tarland residents and businesses carried out in 2008, 2017 and 2018 revealed that a lack of good quality, affordable and secure accommodation is limiting the ability of the village to thrive. Indeed, the local community development company currently estimates that there is an 'affordability gap' of £100,000 between the average mortgage allowance of those on local wages and the price of houses that are available on the market.

At the same time, the "Village Farm" site has, despite benefiting from a willing landowner, an investment to date of over £250k, and planning permission for 36 homes since 2015, remained undeveloped.

In 2017, after the landowner, the MacRobert Trust, attended a community event in the MacRobert Hall to ask for any "bright ideas" to take the site forward, the Tarland Community Housing project (an off-shoot of The Tarland Development Group) was formed. The project team, supported by Community Housing Scotland (CHS) and Rural Housing Scotland (RHS) has since been developing an innovative partnership-based business plan to unlock the site and ultimately help satisfy local housing need.

## CORE STRATEGY:

- 36 plots with up to 7, very granular, tenure options
- Partnership approach between the community, the landowner and a housing association

## The following Business Model has been proposed for the 36 Plots:

- The landowner would take on the role of lead land developer and, following an investment of £1.4m, create 36 serviced plots. They would then sell two serviced plots and build and sell six homes on the open market, four homes using the Rent to Buy model, and four homes to a housing association using the New Supply Shared Equity Scheme (NSSE). The remaining 20 serviced plots will be sold to a newly constituted community development company (N.B. the best governance structure for the community group has yet to be established).
- In turn, the community will take on the role of both housing developer and landlord. They will utilise 10 of their 20 plots for community led housing, two live/work units for discounted sale, six social rented homes for key workers and two affordable serviced plots for self builders and lease the remaining 10 serviced plots on a 75 year ground lease to a housing association. At the end of the lease the houses built and financed by the housing association would then revert into the ownership of the community company. The housing association will then develop and let out 10 units for social rent.
- The c. £6.4m project hopes to be funded through a combination of government grants (the Scottish Land Fund, the Rural Housing Fund and the Housing Infrastructure Fund) and private finance. In addition, Scottish Government's Community and Renewable Energy Scheme (CARES) feasibility funding has been awarded and this will be pursued further in due course once the community group has been constituted and there is more clarity on time-scales and overall funding.
- Once a preferred housing association has been identified, a formal partnership will be set up between the HA, the community company and the landowner to develop the site. The intention is to carry out the development by way of a single design and build contract in order to drive economies of scale and simplify on-site delivery.

## Tarland Continued

### What have been the key challenges?

- **Lack of Private Sector Engagement**—after the 2008 downturn private sector interest in the land disappeared and this has remained the case for the last 12 or so years.
- **High Development Costs**— the land is relatively expensive to unlock (c.£53k per plot) including service diversions, a waste water pumping station, and offsite reinforcement to the grid network, but excluding c. £100k (allowing for indexation) of Developers Obligations. However, a feasibility report carried out by a consultant in 2018 highlighted how an alternative site layout could reduce infrastructure costs by £290k thus helping viability. The substantial early infrastructure costs to open up the site mean that a phased approach to delivery is very difficult to achieve.
- **Cost Uncertainty** – the project Business Plan is based on budget costs. In particular it is unclear from Scottish Water’s response whether or not there will be capacity in the foul network for development. The group needs to pay for a Drainage Impact Assessment (DIA) to be carried out before they will know if there is capacity and whether or not there will be any financial implications. This adds to delivery risk.
- **Affordable Housing Providers Required Rate of Return** – developing in rural areas can be uneconomic for some housing associations who need to justify their investment into a project based on a suitable rate of target return.
- **Grant Funding**— the project is reliant on three different streams of Government grant funding which are currently set to expire in March 2021 with no successor funds apparent as yet. This has created real time pressures for TCH. Unfortunately, a £800k grant application made to the SLF was rejected in late 2019 for three main reasons: (i) the grant requested was considered too high ii) there was significant competition for the funding from other community groups, and; (iii) the SLF were uncertain of the community governance structure. This has caused further delays for the project and TCH are now re-evaluating their options. Regarding the community governance structure, TCH are undergoing a process of reviewing options for a new community group, including expertise and
  - assistance from DTAS, and they are seeking to recruit a new dedicated employee to progress establishing the new community group (i.e. company limited by guarantee), and recruiting future Trustees/Directors. This process is time-consuming and is driven largely by the fact that the project is dependent on a new community group being formed (and not been driven by an existing community development trust).
- **Community Capacity and Time**— The TCH project steering group comprises local residents, a representative of the landowner, an officer from Aberdeenshire Council, and a development officer from Aberdeenshire Voluntary Action. The community group are very enthusiastic about the project, but it is extremely time consuming and the Business Plan is complicated relative to the relatively simple primary objective of satisfying housing need. The requirement to form a newly constituted group in order to access grant funding is a further layer of complexity and time commitment for the steering group, many of whom are providing volunteer time to the project.
- **Landowner Risk and Profile**— the investment required by the landowner is substantial and speculative in part, and so they are understandably cautious. Particularly given that the Trust’s 2008 application for funding from the Scottish Government Rural Homes for Rent Grant initiative was rejected in 2009 and the extent of the investment made to date. As a charitable Trust the landowner needs to evidence Best Value and carefully consider the risk and return dynamic of their investment options. In addition, as the Trust is made up of a range of Trustees who are remote from the village, the strategic decision making process and time-scale for decision-making (around a programme of Trustee meetings) can be less reactive to community engagement and create further pressure for TCH when managing already tight deadlines around grant applications, etc.
- **The Scottish Government’s Community and Renewable Energy Scheme (CARE) Funding** – In November 2019 the community successfully secured c. £50k of feasibility funding to review options to help mitigate the high infrastructure costs associated with upgrading the grid (c. £300k). However, the short term nature of the funding and the risk around the conditionality within the fund (coupled with the rejection of funding from the Scottish Land Fund) meant that the community felt that the risk of progressing was too high.

## Tarland Continued

### What have been the key positives?

- **Partnership Approach** – a cooperative and open minded approach between the community and the landowner has led to a form of marriage value and has helped to spread delivery risk for all stakeholders.
- **Facilitation & Engagement** – Community Housing Scotland (CHS) and Rural Housing Scotland (RHS) have been key contributors to the process. CHS helped to write the Business Plan and are working to “knit the deal together”. DTAS have also contributed to the process.
- **Long Lease Model** – by creating a leasehold structure on 10 plots the community group is able to secure a regular long term income stream from a housing association whilst also benefiting from the management resource that the housing association will bring to the development. The housing association benefits from not having to purchase land or fund any upfront site servicing costs.
- **Resource** – TCH have secured Government funding to recruit a new Housing Development Officer to help increase resource and drive the project forward and exploring other options that perhaps require less investment.
- **A Diverse Range Of Tenures** – by breaking up the 36 plots into seven different tenures the exit risk has been reduced considerably. The mix has also been influenced by actual need and the hybrid Rent to Buy model generated good levels of interest in the local community.
- **Local Housing Need Surveys**– carried out in July 2017 and May 2018 by volunteers and with the support of Rural Housing Scotland (RHS), the Housing Need Surveys helped to inform the development strategy and housing/ tenure mix. The surveys included interactive displays at local markets and drop in consultations within an empty shop. In addition the group has an active Facebook page which helps to inform the wider community and gather feedback.

### Summary

Whilst still untested, this granular approach involving seven different tenures and a collaborative approach between a community group and a landowner has the potential to be replicated across rural Scotland. The use of a long term ground lease model to reduce the upfront capital cost to a housing association whilst creating long term income for the community is exciting. The case study also highlights that accurate Housing Need Surveys and strong support by an experienced facilitator can be key factors for success and help to overcome potential barriers. However, this case study also highlights how complicated, challenging and time consuming the process can be to unlock rural housing opportunities.

# Applecross Community Land Use Plan

A Collaborative, Local Place Plan Approach to Identifying Sites



One of the most remote areas in Scotland, with dispersed township communities living beside and within a large single landownership and in significant need of housing creates a collaborative process engaging the community, landowner, local planning authority, and public agencies to identify housing sites through a Community Land Use Plan.

The Applecross community is spread across over twenty crofting townships and comprises several hundred people. The name Applecross applies to the whole peninsula.

Applecross, faces a number of challenges including a high number of elderly residents (35% are over 60 years of age) too few working age (and younger) permanent residents, fuel poverty, tourism pressures, inadequate infrastructure, a disproportionate number of holiday homes and a lack of affordable housing, transport, services and employment opportunities combined with historic issues over accessing land for development. As a result Applecross has seen a declining population, threatening its overall sustainability.

The Applecross Trust owns 26,000 hectares of land across the Applecross peninsula from Loch Torridon in the north to Loch Kishorn in the south.

The Trust is a registered Scottish charity with the declared aim of preserving *“the special character of the Applecross peninsula in a responsible and progressive manner whilst acknowledging its wilderness heritage and its importance as an area of outstanding natural beauty”*.

The relatively recent establishment of the Applecross Community Forum (involving the community company and the Trust) is credited with creating an opportunity to improve dialogue between all the parties involved in the peninsula, and with being a catalyst for the development of the Applecross Community Land Use Plan (Applecross CLUP).

The CLUP brought together key stakeholders: *“to improve both local responsiveness and collaborative problem solving”*. The CLUP involves the Applecross Community Company, major landowners The Applecross Trust, the local authority The Highland Council, developers The Highland Small Communities Housing Trust, and various statutory bodies: Scottish Natural Heritage, Scottish Environmental Protection Agency and Historic Environment Scotland.

The aim of the Applecross CLUP is to:

*“promote affordable development land for housing, employment and community uses for local residents and those wishing to make a long term contribution to the Applecross community.”*

The Community Land Use Plan was led by PAS [www.pas.org.uk](http://www.pas.org.uk) and was:

*“developed through a process of research, community discussion, idea development, land use site identification, and finally, proposal testing. This process has enabled the identification of an overarching strategy to identify potential growth areas across the Applecross Peninsula”*.

Significantly Highland Council endorsed the Plan in order to confirm its status as a “material planning consideration” for development management purposes. A participant observed that Highland Council were:

*“proactive and in listening mode, willing to be guided by the community and other stakeholders. They put up no barriers but presented gentle guidance.”*

The development of this plan has enabled the Applecross Community Company to take forward feasibility studies on three key sites. This has enabled discussions with landowners funders and stakeholders. Agreement on the sale of the site(s) is still to be reached at time of drafting.

## Applecross Continued



### What have been the key challenges?

**Communication and Trust Challenges:** In the past the Community and the Applecross Trust lacked a specific communication body within which everyone's views could be heard. Without this they lacked valid processes for discussion, and for reaching agreement. This gave rise to misconceptions and misunderstandings of the views of key players.

**Lack of Suitable Land for Development:** Given the ground conditions and terrain of this region, land suitable for development is scarce and is not always in the most ideal location in relation to other facilities. The difficulties in getting services to sites was and is a significant obstacle.

**Planning Policy Challenges:** Given the vast scale of the Local Development Plan area, Highland Council's Planning Department does not have the resources to do detailed settlement plans for every township. They have to rely on broad-based planning policies and "Place Statements" instead. Applecross therefore lacked a democratic process for selecting sites in a collaborative way.

**Land Tenure:** Significant amounts of the Trust's land ownership is in crofting tenure and therefore release of this tenure of land for wider community development objectives is very challenging. On the positive side it does allow for the development of some local housing under crofting policies.

## Applecross Continued

### What have been the key positives?

**Re-Organisation of Key Bodies:** The Applecross Trust had a significant change to its board in 2017/18 which allowed a different style and approach to emerge. This facilitated better engagement with the community and other stakeholders and allowed greater flexibility in approach. The Trust also considers that a change in leadership within ACC assisted communication between the parties.

**Applecross Community Forum (ACF) :** The formation of the ACF with its independent 3rd party chairperson has provided the central discussion group needed to bring the key parties together in a neutral space.

**Neutral Facilitation of the Land Use Plan:** The use of an independent 3rd party (PAS) to lead, and facilitate (using a mediative approach) the process of site selection in the Applecross CLUP helped all parties to move towards agreement over settlement patterns and sites. The process gave a community mandate for some sites to be deemed suitable for development.

**Land Use Plan Process highlighting Housing's critical role:** The CLUP Process drew out the significance of the role of housing across all sectors when considering the interlinking aspects of the local economy, transport and infrastructure.

**Highland Council Planning Department:** Highland Council supported the community through the preparation of the CLUP which was considered a proactive approach. This pro-activity must be sustained at the development management stages of the process for the project to be successful.

**Landowner Profile:** The Trust is a conservation charity however Trustees live remotely from the village. They are unremunerated and take no benefits from the Estate which they consider demonstrates their independence. The Trust has addressed past critiques of its decision making process for lack of local representation. It now holds its principal meetings at Applecross with two members of the Forum in attendance as observers which has assisted in building a degree of confidence and mutual understanding.

**Combined Funding Package:** The involvement of a range of bodies enabled a resource-intensive process to be funded in partnership.

### Summary

The Applecross case study provides the following lessons for housing delivery which could be applied elsewhere in rural Scotland. It should be noted that these lessons reflect a point in time in an ongoing process. The ultimate success of the process will be based on the delivery of the required housing. The lessons to date are:

- A fine grained local housing survey by Housing Trust to establish and evidence need and demand.
- The formation of a neutral forum to ease communication by all parties .
- The production of a Community Land Use Plan and its adoption as a Material Planning Consideration by the Council is a strong example of a "Local Place Plan" (LPP) approach.
- Use of neutral facilitation to develop the Land Use Plan.
- A high level of supportive enabling involvement from the Planning and other Council Departments.
- The ability to attract funding and other in-kind assistance to support a resource intensive process.

# Rothiemurchus

## A cross subsidy model



### ROTHIEMURCHUS

- 6 Self Build Plots
- Plots 1-4 as Affordable Homes
- Plots 5-6 as Mainstream Homes

This former sawmill site lies within the within the Cairngorms National Park and in a beautiful and highly desirable rural location.

Rothiemurchus is extremely popular with visitors seeking holiday or short term accommodation and for buyers seeking second homes or to relocate from more valuable market areas as a lifestyle choice.

This means that properties are highly sought after and many local families, including middle income families, are unable to access the property market.

In an innovative and ambitious attempt to tackle this challenge, four local families worked with a landowner, the Rothiemurchus Estate, and The Highland and Islands Small Communities Housing Trust (HSCHT), to develop a no subsidy housing model on a brownfield site.

A commercial deal was structured in 2011 whereby:

- The landowner sold four plots to the community for £2,500 per plot (4% of the market value at the time) and an undertaking from the purchasers to secure planning permission and to service two plots that could then be sold on the open market to the highest bidders;
- In the end the HSCHT acted as facilitator and helped to value engineer the layout, before going on to acquire the land from the estate in November 2018 for £2,500 per plot, project managing and financing the installation of infrastructure and selling the plots in October 2019 for £61,500 per plot to the four local families. The enabling site works were financed by the Dr & Mrs Steven Faulds Memorial Fund;
- The four houses are now at various stages of construction and Plot 5 is currently on the open market at offers over £200k. A closing date has been set (February 2020) and multiple offers are expected (note: this pricing is not typical across rural Scotland and reflects the unique location and setting of the site).

## Rothiemuchus Continued

### What have been the key challenges?

**Planning approval process** – The community group found the planning process to be frustrating and challenging. This led them to withdraw their initial application before submitting a new application 20 months later. However, this was a very complicated and sensitive site given its environmental status (see below) and this, coupled with the group’s lack of planning experience and resource, contributed to a complicated dynamic emerging between the community and the planning authority.

**Environmental impact**– The site sits within a National Scenic Area and shares a boundary with the North Rothiemurchus Pinewoods Site of Special Scientific Interest and so the complex interplay between environmental sustainability and housing need was a key challenge for this project.

**Purifying planning conditions** – The community group felt that the 12 planning conditions they had to purify as part of the planning consent were relatively onerous, costly and time consuming to resolve given their other work and family commitments. On the other hand, the planning authority felt that the conditions were required because some of their concerns hadn’t been adequately addressed earlier on in the planning process. The planning authority were keen to draw the application to a conclusion and so felt that the conditions were necessary.

**Complicated legal process and high fees** – We understand that the legal process of structuring the deal was complicated and resulted in delays and high fees for the landowner. If some of the complex issues around Deed of Conditions, the Schedule of Purchasers Works and Maintenance Obligations post completion had been agreed earlier on in the negotiating process, perhaps at the Heads of Terms stage, this would have helped to simplify the legal process.

**Site servicing costs** – We note that the original projected site servicing costs were £10,000 per plot but the actual costs were nearer £50,000 per plot. This is a substantial cost increase and more than many affordable developments could withstand, particularly in lower value market areas. In addition the process of managing and financing infrastructure works was complicated and required project management expertise.

**House build costs** – We understand that build cost inflation has resulted in costs exceeding budgeted levels for the self-builders. This has led to compromises in specification and a more hands on approach by some of the self-builders in order to reduce cost. There was a need to “downscale ambitions”.

**Mortgages** – The Rural Housing Burdens restricted the number of lenders that the self-builders were able to access. One family we interviewed was only able to access a single lender despite engaging with the whole market. There was a real risk that they would have been unable, after several years of time, effort and financial commitment, to progress. This risk was however mitigated by the ability to apply for the self-build loan fund should that have been necessary.

**Self-build demand** – The demand being shown for the open market plots highlights how in some market areas or ‘hot spots’ the price that some people are willing to pay for plots far exceeds what many people living in rural areas can afford.

**Time** – It has taken almost a decade to get from when the landowner and the community group first agreed the principle of a land deal, to the current stage (image below as at February 2020).



## Rothiemurchus Continued

### What have been the key positives?

**Partnership approach** – A cooperative and open minded approach between the community and the landowner has led to a form of marriage value and has helped to deliver this project.

**Cross subsidy**– By leveraging the value and demand in private sector self-build plots within this ‘hot spot’ area the stakeholders were able to unlock this site in a manner that did not require any form of public sector subsidy. This was helped by the planning authorities Exceptions Policy which actively encourages this type of approach (including across different sites within the same land holding).

**Facilitation & engagement** – The HSCHT played a key role in facilitating and brokering this project. They were able to add significant value through their role in design development (by making the layout more efficient to reduce cost) and developing the pragmatic and innovative cross subsidy structure whilst also helping to positively influence the planning process by setting out and clearly articulating the rationale/ justification for the approach being taken.

**Rural Housing Burdens** – The use of Rural Housing Burdens was key in satisfying stakeholders (particularly the community group and the landowner) that the completed homes would remain accessible for those living and working in the local area in the long term.

**Self-build plots**– This case study highlights how self build plots can play a key role in unlocking projects both at a community level to help satisfy housing need and by drawing in new investment and satisfying growing market demand for those attracted to the lifestyle and scenic beauty that rural Scotland can offer. By increasing the supply of serviced and well presented plots, demand is more likely to be satisfied thus helping to relieve plot price inflation and make plots more affordable across the market.

**Self-build Loan Fund (SBLD)**– The SBLF provided a safety net for the self builders should they have been unable to access self-build mortgages.

**Public sector support**– Towards the end of the process the relationship between the community group and the local authority improved and the latter helped to draw the application to a close by making a recommendation for approval.

**Community drive** - If it were not for the tenacity of this particular community group the project may not have got off the ground. The process may have been considered to be too overwhelming by many. On a positive note the self builders are “still really excited” about the project.

### Summary

This no subsidy model has been proven to work and should be capable of being replicated in other situations, particularly in areas where private plots can achieve strong market interest. This project helps to highlight how a collaborative partnership approach with facilitation can achieve marriage value and help to unlock projects that may otherwise stall therefore helping to increase supply and satisfy demand in ‘hot spot’ areas.

However, the fact that it has taken almost a decade (from when the land owner and community first agreed the commercial basis of a deal) to get to the current stage highlights just how complicated and slow rural housing delivery can be. The process is likely to have been smoother and quicker had this development taken place in a less sensitive area and/ or had the community group had more support and resource at an earlier stage.

# Orkney & Islands

An area based study of a diverse rural area



At a time when the Scottish Government is reporting that a falling population in many of Scotland's Islands is posing a real threat to communities, the population of Orkney is growing at a slow, but steady, pace.

An inward flow of workforce has been attracted by a high employment rate of 89% (Source: Highlands & Islands Enterprise Orkney Islands Key Statistics November 2019) while retirees look to Orkney to enjoy the rural lifestyle.

The delivery of housing in Orkney is primarily focused in Kirkwall and the surrounding areas on the "mainland" where a higher proportion of employment is provided. Indeed, 1,600 homes are currently allocated in the Local Development Plan, with 1,000 in Kirkwall. Rural settlements, particularly the smaller islands, are affected by challenging topography and limited transportation.

Nevertheless, there is demand for housing in these areas in order to retain existing community facilities, provide employment to businesses in rural areas and attract families to live in the areas.

The key challenges to delivery of housing in Orkney are not necessarily unique compared to other rural areas of Scotland, however can be magnified in certain locations.

## What are the key challenges?

- Build costs are naturally higher in rural areas of Scotland, but even more so for island communities. Materials (and in some cases contractors) have to travel from mainland Scotland to Orkney and then onwards to the Orkney Islands. Where local contractors are appointed to work on Island communities this often involves over night accommodation as there is limited transportation to the mainland.
- Communities in remote areas of Orkney are eager to take advantage of the Rural Housing & Islands Fund, indeed the Local Authority (LA) are very supportive of the fund and how it can assist. However, communities are small and there is limited resource to assist them through the process. The LA assists where possible, however it is a significant challenge to deliver possible developments.
- Self Build Plots have been key to delivering housing in the countryside throughout Orkney. However, Planning policy on 'Housing in the Countryside' can, in some cases, restrict development in locations where housing is needed, for example, to further develop a farming business or to provide housing for family.
- Viability is a significant challenge to developments outside of Kirkwall (and the immediate surrounding areas). Planning policy, in some cases, can add cost to the process and an inability to take a flexible approach to policy can lead to frustration and the view that LA's are not facilitating development.

## Orkney & Islands: key challenges in practice



### SHAPINSAY

A small island lying north east of Kirkwall and accessed via a 30 minute ferry ride. The main settlement is Balfour village which was originally built for workers of the Balfour Estate.

While housing is not demonstrably in high demand in Shapinsay there is a desire from the community to provide homes for existing families and to retain their existing school for the local children.

The local community in Shapinsay approached Orkney Council regarding the development of two homes on the island. The site was allocated in the Local Development Plan for eight units, however there was only sufficient housing demand for two units.

However before a planning application was submitted, the community were advised by the Roads Department that a 1.5m footpath and 5.5m road and verges would be required in order to meet the necessary standard in the future (when 8 units could be delivered).

The cost of this additional works increased the total cost to £350,000 which rendered the project unviable and, unfortunately, the housing has not been delivered.

This example identifies the following key issues:

**Build Costs** – Build costs in rural and remote areas of Scotland are very high in comparison to rural areas, any additional costs will challenge the viability of the projects further. The Roads department perhaps didn't realise the impact their decision would have on the project.

**Resource** – The local community were assisted by the in-house estates team at Orkney Council but challenges arose when they needed more attention and assistance to help get over this hurdle.

**Viability** – The key issue from this case study is viability and, in particular, the impact that relatively minor changes to a scheme can have on the deliver-ability of a project. Where there is a housing need, a willing seller, and a site that is capable of delivering new homes, can a more pragmatic approach not be taken on policy?

## Orkney & Islands Continued - Self Build

Orkney Council will support development in the Countryside where it involves one of the following:

- *The reinstatement or redevelopment of a former dwelling house*
- *The conversion of a redundant building or structure.*
- *The replacement of an existing building or structure.*
- *The re-use of brownfield land, where the previous use is evident on site.*
- *The subdivision of a dwelling house or its residential curtilage.*
- *Single house infill development within existing housing groups.*
- *The provision of a single dwelling house for a rural business where 24 hour supervision is an operational requirement (including agricultural workers or crofters).*
- *The provision of a single dwelling house to allow for the retirement succession of a viable holding.*

In reality, Orkney's planning policy for Housing in the Countryside is relatively flexible and facilitates development where it will not harm the landscape of Orkney, its main tourist attraction. Their inclusion of a policy on succession housing is more flexible than many LA's.

However, for some local residents, the planning policy is still too restrictive. For example, the existing policy only permits development on operational farms where there is provision of single dwelling where 24 hour supervision is an operational requirement (including agricultural workers or crofters). Beyond this, and succession housing, there is no provision to allow for families to remain on the farm and build they own home and contribute to the work of the farm or rural business.

A fine balance is required between facilitating the development of housing where it is needed (or desired) and where it can be built at minimal additional cost; and ensuring the landscape and views around Orkney are protected for both local residents and tourists.

# East Lothian

An area based study of a higher value and less affordable market



EAST Lothian WAS SELECTED AS A CASE STUDY BECAUSE OF ITS:

- Constrained access to land in rural and small communities.
- Particular planning context around proximity to the Edinburgh Housing Market.
- High existing and alternative use values.
- A collaborative approach which has struggled to make traction across the board but has achieved a new affordable policy.
- An emerging opportunity to use the Affordable Housing Exception Site policy in an innovative way to release land.

## East Lothain Housing Market

The market for housing in East Lothian is a challenge in comparison to other more rural areas as house prices are naturally higher and less affordable. Demographic analysis data suggests that there is a higher than average percentage of the population that are considered to be “Affluent Achievers” (the wealthiest households in the UK) at 27% of the population in comparison to a Scottish average of 22%. However, on the other hand, there is also a higher proportion of “Financially Stretched”, at 34% of the population in comparison to the Scottish average of 31%.

The average house price in East Lothian in the year to September 2019 was £218,280 across 17,719 transactions. The average price is 21% above the Scottish average of £180,547 (in the year to September 2019) and significantly ahead of rural areas in the Highlands (£166,303 in the year to September 2019) and Hebrides (£140,316 in the same period).

As such, housing in East Lothian is less affordable for the “Financially Stretched” portion of the community. Affordable housing is generally required to help meet their needs.

## Planning Analysis

East Lothian’s Local Development Plan Spatial strategy supports sustainable growth in settlements with infrastructure capacity and sustainable transport links. As a result. East Lothian is seeing significant growth in its main settlements of Musselburgh, Haddington, North Berwick, Dunbar and its second tier settlements through large scale allocations as required by SESplan.

At the other end of the scale, some small villages (e.g. Gladsmuir, Innerwick, Spott) have market housing allocations (and some allocations were rejected at Examination). But for the main rural area East Lothian Council has planning policies that restrict new build market housing in the countryside and in the very smallest settlements except under very specific circumstances. This is based on ELC’s interpretation of Scottish Planning Policy (SPP) which designates East Lothian as an “Accessible Rural Area”.

*“In accessible or pressured rural areas, where there is a danger of unsustainable growth in long-distance car-based commuting or suburbanisation of the countryside, a more restrictive approach to new housing development is appropriate, and plans and decision-making should generally:*

- *guide most new development to locations within or adjacent to settlements; and*
- *set out the circumstances in which new housing outwith settlements may be appropriate, avoiding use of occupancy restrictions”.*

ELC rural housing planning policy allows for rural housing in the following circumstances:

- Conversion of suitable rural buildings
- Operational Need Housing for rural businesses primarily farms and some other activities

## East Lothian Continued

- Enabling Development for Leisure Facilities and Listed Buildings
- Rural Affordable Exception Site Policy

A key planning policy approach to the regeneration of East Lothian's countryside has been the use of the Steading Conversion policy which over the last 20 years has produced something in the order of 500 housing unit consents. The steading conversion market has slowed considerably since the 2008 recession so may not be able to contribute the same number of housing units in the future.

East Lothian does not have some of the categories of rural housing policies which some other Local Authorities use and which appear in Scottish Planning Policy such as:

- Small Building Groups Policy
- Single Houses in the Countryside
- Low Density Rural Housing

### East Lothian Rural Voice – A Collaborative Approach

East Lothian Rural Voice was set up in 2012 to seek a partnership way forward with East Lothian Council for a range of rural stakeholders to achieve more investment in the countryside. The provision of more flexible planning policies was seen as key to this by the rural landowning and managing constituency. There was a perception from land owners and other rural businesses that the level of restrictions on rural developments was impacting negatively on the rural economy and society of East Lothian. This body led a series of collaborative workshops and produced a report. This work has however resulted in very few changes in planning policies. At Planning Officer level, there was a perception that this desire for more flexibility in rural planning policies was not necessarily shared by other members

of the community. However, one new rural housing policy introduced in the last LDP arose from this process, and allows for Affordable Housing Exception Sites.

### Affordable Housing Exception Sites

East Lothian Council reviewed policies at LDP preparation stage and asked through the Main Issues Report stage whether new build affordable housing should be allowed in smaller settlements. They considered that this was an appropriate response to the Rural Voice discussion. Following this process, the East Lothian Local Development Plan 2018 introduced a new rural policy which allows small scale affordable housing adjacent to small settlements in what is sometimes referred to as an "exception site policy".

There are a number of perceived barriers to the use of this policy and East Lothian Council officers have confirmed it has not been successfully implemented in East Lothian yet.

Some of the obstacles to the use of this planning policy include:

- The cost of infrastructure.
- The low level of returns from affordable housing site sales which may not justify the loss of farmland.
- The untried nature of the policy meaning that no case history exists to assess the likelihood of success.
- The high risks inherent in the planning process when applying for unallocated sites, using an untried planning policy (i.e. speculative spend).
- The low level of financial reward to balance the risks. (Clearly there are other non-financial rewards).
- The lack of planning support for non-allocated market housing sites in small rural villages and in the countryside generally to cross-subsidise the affordable housing.
- The potential negative perception of affordable housing (or any new housing) by communities.

## East Lothian Continued

### Potential Ways Forward

In discussions between East Lothian Housing Association's (ELHA) Chief Executive, Scottish Land and Estates (SLE) Chief Executive, and Savills, the potential to bring forward a project across East Lothian to utilise this policy for the benefit of local people who cannot currently access affordable housing in smaller settlements has emerged.

ELHA has expressed an interest in bringing forward a programme of affordable rural housing sites in smaller settlements in East Lothian, working in partnership with Savills to explore the local and national planning context and ongoing work on tackling barriers to rural affordable housing. This work will also look to identify potential sites.

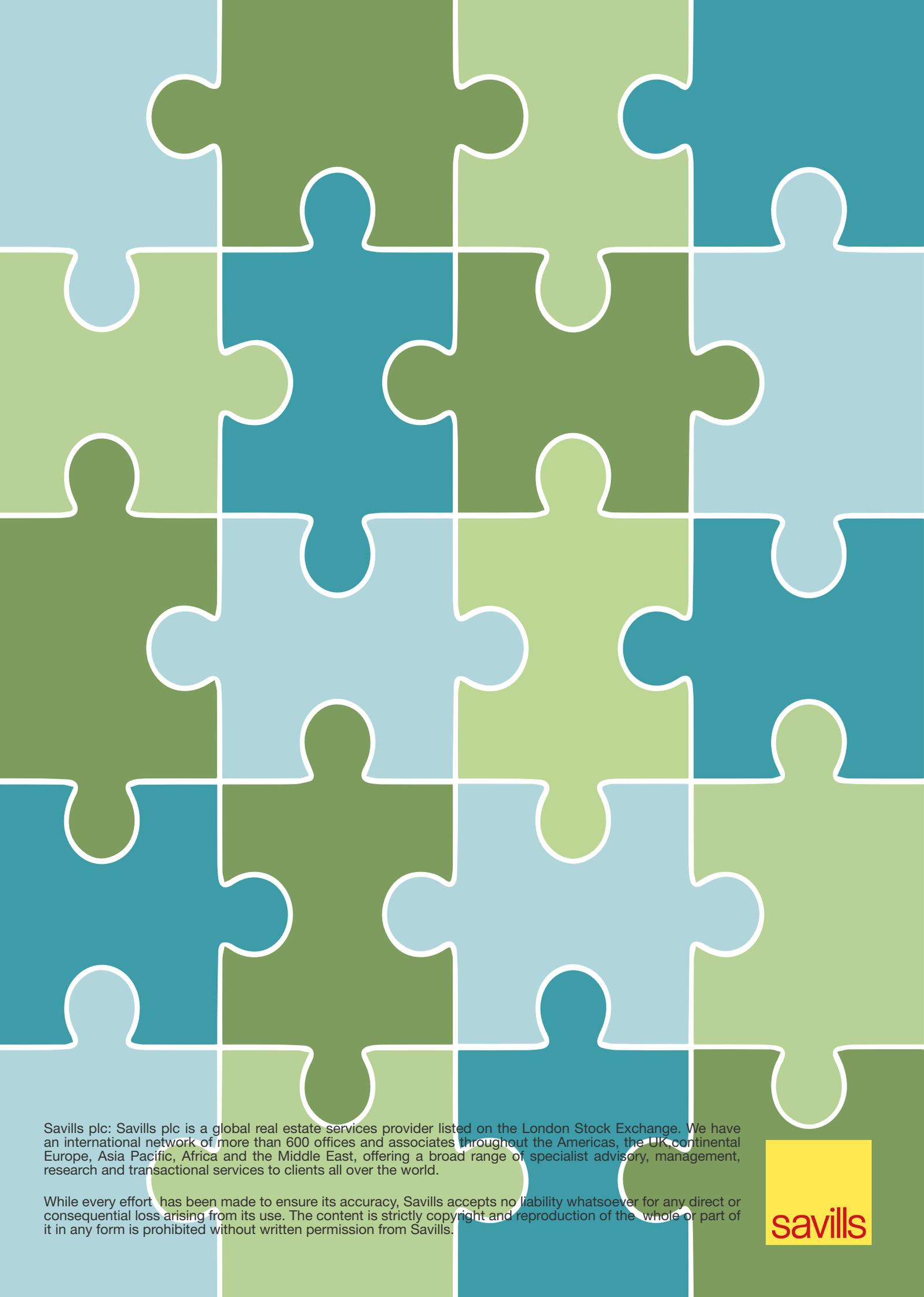
The partnership has been exploring potential future delivery models for affordable housing, which could involve long leases for land rather than outright purchases. There could be significant advantages to this approach for both ELHA, the landowner, and the residents of the new housing, whilst initial capital grant could also reduce.

East Lothian Council officers have stated that are happy to work with ELHA, SLE and Savills to discuss Policy DC4 and provide pre-application advice on any proposals that emerge.

### Summary

The Rural Voice approach was a promising project which has partly given rise to the new Affordable Housing Exception site policy. Otherwise it has struggled to gain traction with ELC after the process ended. The document and process could be seen as a "subject-specific" Local Place Plan style of approach. If Local Place Plans are to realise their potential in East Lothian, lessons clearly need to be learned around the Rural Voice process.

The Affordable Housing exception site project is yet to be fully tested but holds significant potential if successful and could be replicated in other parts of Scotland.



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