

DECEMBER 2023

RURAL HOUSING

Evidence Paper



prosper

About us

Prosper is a unique membership organisation, with a proud history of bringing people together from government, business and civil society to effect change. Our purpose is to create a prosperous Scotland which benefits all its people and places.

With members from across Scottish society - from charities to local authorities and micro businesses to multi-nationals - Prosper always considers the big picture and longer term when it comes to Scotland's future.

Our shared ambition is to support economic growth and prosperity for all of Scotland, but our thinking extends beyond economic success to deliver better social and environmental outcomes. Prosper makes a positive impact on the big challenges facing the country by bringing our members and partners from across the economy together.

For more information on this report, please contact the Prosper Policy Team:

Clare Reid
Director of Policy & Public Affairs
clare.reid@prosper.scot
07799049455

Gareth Williams
Head of Policy
gareth.williams@prosper.scot
07944590770

Nairne Hopkinson Policy Analyst
nairne.hopkinson@prosper.scot
07917 190 935

Prosper
Brunswick House
51 Wilson Street
Glasgow
G1 1UZ
0141 243 2667

1. Context

This short evidence paper has been prepared following a meeting in July 2023 between some of our Highlands & Islands members and the Minister for Housing, Paul McLennan, to share their views on current rural housing challenges. Following this meeting the Minister asked Prosper to produce a short briefing paper setting out our members' key feedback/findings.

Some of the issues presented here are also a challenge for the wider Scottish housing market. This is an early evidence paper in Prosper's planned work on housing, and in particular rural housing, and we look forward to further opportunities to engage with Scottish Government on the issues raised.

2. Evidence

We have drawn together our members' feedback and the available evidence on the issue to inform this paper. This includes:

- Member feedback at the meeting with the Minister in July 2023 attended by representatives of the Highlands & Islands housing sector including housebuilders, Openreach and Highland Council.
- A round table event with members in Stornoway attended by over 50 organisations including major local employers, public sector leaders, infrastructure providers and housing experts.
- A roundtable event with members in Lochaber in 2023 attended by 26 senior leaders representing public, private and the third sector as well as academia and national government.
- An event with the Scottish Government's Chief Planner Dr Fiona Simpson in Inverness in June attended by 49 representatives from the private, public and third sectors.
- A question on housing posed via the Fraser of Allander quarterly Scottish Business Monitor in August 2023.
- Evidence shared with us by SOSE, COSS and HIE.
- Prosper's 2023 update to our Rural Commission 2023 Priorities.

2.1 Housing as a constraint on business

Prosper worked with the Fraser of Allander Institute in Q2 2023 to ask 400 employers across Scotland about the extent to which the availability of housing for current or potential employees is an issue for them.

- The results show that a significant minority of rural businesses are constrained by a lack of affordable housing.
- The majority of companies (55%) across Scotland reported no effect from a shortage of affordable housing. Just short of 1 in 5 (18%) reported some negative or significantly negative impact on their growth. A negative impact was higher among construction (23%) and manufacturing (26%) firms. A very small proportion (3%) indicated the availability was having a positive impact.¹
- However, rural businesses were more likely to report a significant negative effect (16%) compared with urban businesses. Overall, the proportion of businesses in rural areas reporting a significant negative effect or some negative effect was almost double (28%) that of urban areas (15%). It is worth noting that some businesses in rural areas also reported a slightly higher positive effect (6%) and that in urban areas there were some with much higher negative effects than the average.

This finding was broadly consistent with the results of an HIE survey of 400 businesses across the Highlands & Islands published in September 2022.² This found that:

- 57% of businesses were facing recruitment issues and 46% reported a lack of accommodation or housing was a contributory factor. This was also true for 1 in 4 businesses in retaining staff.
- Of the 1 in 3 staff not taking up offers, accommodation issues were mentioned 51% of the time and, looking ahead, 59% of businesses expected the situation to worsen in the future.
- Hospitality and tourism roles, middle income band roles and roles typically undertaken by young people were most affected.

In the South of Scotland, anecdotal evidence includes investments not going ahead due to a lack of housing and key senior healthcare roles being difficult to fill.

2.2 Economic impact

- Respondents to an HIE survey confirmed earlier in the year that a lack of accommodation is the main but not the only factor affecting recruitment in rural areas (with other factors including a lack of qualified staff, Brexit, and a lack of appeal of certain sectors to some workers due to wages or working patterns).³
- However, when asked if housing related-recruitment difficulties are impacting on intentions towards future investment, 43% of businesses in Skye and

¹ Note: % don't sum to 100 due to the % of DNA to this question. Source: Fraser of Allander Scottish Business Monitor, Q2 2023

² Business Housing Needs in the Highlands, HIE, September 2022 (survey undertaken over the March 2021-March 2022 period)

³ HIE/Brodies Housing Round Table, May 2023 – referencing HIE employer survey of Badenoch & Strathspey, Lochaber and Skye & Lochalsh

Lochalsh and 58% in Lochaber indicated a possible or definite impact on future investment plans.⁴

- Other reported impacts include a poorer visitor experience, negative impacts on the quality of life for locals and slower progress on construction or development projects. The delivery of some public services including health and social care as well as public infrastructure projects are also being constrained by a lack of staff (in part due to a lack of accommodation).⁵
- There are considerable economic opportunities spread across the geography of rural Scotland. Many of these have a national significance. Feedback from our regional events highlighted that planned investment by some businesses has not happened and that significant emerging economic opportunities in renewables, aquaculture, food & drink manufacturing, pumped storage hydroelectricity, ports, space launch, nuclear decommissioning, smelting and tourism are at risk as a result of a lack of housing.
- Enabling economic opportunities in emerging areas also unlocks sustainable income diversification for many different types of businesses in rural areas including tourism, leisure and food & drink. It also enables diversification for crofting businesses and helps to address the constraints caused by a lack of staff in key sectors (e.g., childcare, healthcare or social care) which then are a deterrent to people moving to an area.
- Remote working for organisations right across the UK has created an opportunity for more remote workers to move to rural areas, which can help to address the repopulation challenge. However, a lack of suitable housing makes this less attractive or achievable.

2.3 Challenges in the operation of the housing market

- **Rural dimension to the availability of housing**
 - **Highlands and Islands** - There is a particular lack of private sector investment in housing in the Highlands outside of Inverness and no speculative investment in the West Highlands hampering efforts to attract people to work there. However, housing in the Inner Moray Firth cannot be built fast enough due to a lack of funding and contractor capacity. Repopulation is needed in Na h-Eileanan Siar to maintain thriving communities but also to unlock the rural economic opportunities that exist or are emerging.
 - **South of Scotland** – Issues identified include a lack of suitable homes in the right locations. Larger developers are mainly interested in the largest sites and there has been a drop in capacity in SMEs in the last decade. Peebles has tended to see the highest demand (but also better volumes). However, undersupply is tending to affect more of the region with fewer regional hotspots than in the Highlands.
- **Shortages of all tenures and affordability** - The last 5-6 years have seen a change with working people no longer able to access the standard of housing they need. Many of the jobs in rural areas are lower paid, wages generally have not kept pace with inflation in recent years and the cost of housing (both for owner-occupiers and renters) has risen. This is a barrier to drawing people to work in the region and retaining existing workers.

⁴ Business Housing Needs in the Highlands, HIE, September 2022 (survey undertaken over the March 2021-March 2022 period)

⁵ Brodies (ibid) and round table feedback

However, members tell us that shortages of houses for sale of all sizes and at all prices are an issue. Equally important therefore is that rural areas have a good supply of medium and higher priced homes developed for sale to enable them to also attract higher skilled occupations e.g. NHS consultants, business leaders and managers also needed in rural areas.

- **Competition for housing** – The growth in second homes and short-term/holiday lets was referenced as an issue affecting the supply of accommodation.
- **Short-term and permanent housing is needed** - There are a variety of needs for short-term accommodation including temporary accommodation for major infrastructure project workers to seasonal accommodation for tourism or agricultural staff. Over and above this, there is also need for more long-term housing for permanent staff in these organisations.
- **Supply side factors** – cost and capacity.
- **Inflation** – Rising construction materials and labour costs mean prices per unit in some areas are as high as £400,000 per unit (quoted in a council tender).
- **Contractor capacity** – There is limited capacity in the sector to bid for work.
- **Collaboration constraints** - Councils and Registered Social Landlords are working together but delivery capacity is constrained and is also needed to manage stock refurbishment.
- **Policy and political barriers to investment** - Private Rented Sector investment is being hampered by rent controls and uncertainty around the direction of travel on these (versus other investment locations in the UK).
- **Planning system constraints** - The key barrier to delivering all types of housing in rural areas would be securing a workable residential planning consent. This is particularly acute in the Cairngorm National Park Authority (CNPA) where there is a real shortage of housing. The elapsed time and cost of securing a consent in the CNPA is seen as prohibitive and one major highland developer would not consider developing there again given the difficulties. In rural areas north of Inverness the same difficulties apply, although these are less acute. The time to get through the planning system continues to be a challenge reported amongst members. Local Development Plans can help but there is a perception these too often get caught up in local politics when it comes to site allocation.
- **Limited housing stock** - For local people living and working in Na h-Eileanan Siar with further pressure from second home owners and holiday lets.
- **Demand from infrastructure providers** - Offshore energy developers want to see local solutions developed to address the short, medium and long-term timelines for delivery of their projects and ensure local wealth can be retained in both talent and spend. Openreach are investing in housing themselves but would be happy to partner locally. They highlight that the lack of a mandate for Full Fibre Broadband is holding back the roll out of greater digital connectivity where new houses are being built.
- **Investor perceptions** - Some members observed Scotland is increasingly seen as a difficult place to invest compared to other northern European countries and that the weak track record of developing key infrastructure in critical places quickly enough to unlock rural opportunities is a barrier to growth.

- **Enabling and integrated infrastructure** – Members highlight that investment is needed - notably transport and energy –as part of an integrated approach. In some rural locations on or offshore renewables would be the most cost-effective solution to heating new homes but are not yet available or integrated into the energy system.

3. Potential Solutions

- **Leverage employer investment** – Some employers reported buying or renting houses or other holiday accommodation to house their staff on a permanent, temporary or seasonal basis. For example, Auchrannie Resort estimated their capital investment made to date is over £3m with annual running costs of over £300k whilst Salmon Scotland report their producers own or rent over 60 properties to their staff.⁶ There may be ways to leverage or incentivise further investment by individual employers or support collaboration.
- **An integrated approach to economic development** – A longer term approach which matches housing to economic opportunity rather than simply land availability is needed to ensure housing is being built to match and unlock this opportunity. One developer in their feedback proposed that the Scottish Government should set targets for the delivery of housing for each local authority and resource the local authority in planning terms to support this target. In planning, roads and building departments there are simply not enough people to deal with applications and other technical consents. As an example, in the Highlands at present there is a perception among some attendees at our events of a need to better align the Local Development Plan (and associated processes) to the housing and infrastructure that will be required to support the Inverness and Cromarty Firth Green Freeport. One Prosper member cites this as their biggest concern about unlocking economic benefits for the region from the Green Freeport.
- **Ensuring sufficient private and affordable housing in the mix** - Housing markets for different types of residents – particularly mid-market and affordable housing stock – are restrictive for many people that would consider either staying in or moving to rural locations. Prosper’s Rural Commission considers this to be one of three critical barriers to the growth of Scotland’s rural economy with serious concerns about where the people will come from to realise the potential of the economic opportunities of national importance in rural areas.
- **Review procurement frameworks** - National Frameworks need to be fit for purpose when addressing the delivery costs of affordable homes in island communities. Decentralised and correctly funded grants that permit local decision making and allow full draw down of budgetary spend across multiple organisations would be preferable.
- **Scottish and local government to work with local supply chains to deliver community wealth building** – Feedback from industry was that they felt there are too few contractors capable of delivering large scale contracts on the islands. One view expressed was a perception that the number of procurement parameters, and on some occasions requests, for a Tier 1 contractor (or contractor of that scale), was onerous potentially putting off some local contractors off tendering. A local supply chain that can win this work is essential to community wealth building. One suggestion by some developers was that they would like to see the publication of a long-term forward plan for major projects (including those outside of housing),

⁶ HIE/Brodies Housing Round Table, May 2023

engagement around sequencing of major projects with local contractors and consideration of how tendering could encourage more local consortia.

- **Housing types** - On the islands, new homes with space for business use should continue to be part of the housing mix. This allows creative industries and businesses to thrive locally on a small scale and enables co-operative working. Some members at one round table expressed a view that a reluctance, in their opinion, by older individuals to relinquish larger family homes into the market is also limiting housing stock in some areas.
- **Support Modern Methods of Construction** - Innovation in building techniques and local skills development can be a part of the solution. Modular or closed panel prefabricated designs which can be manufactured locally using sustainable materials can offer value for money and ensure a more circular economy where wealth and talent stays in the region. This also provides opportunities for growth in the construction labour force which in the Islands has been ageing and facing skills shortages. Barriers to the development of this option include the scale of capital investment required and an insufficient or robust enough pipeline of demand. Scottish Government may wish to consider if adapting the BE-ST Edinburgh House Model of combined demand to scale up the pipeline and consortia supply of closed panel elements for the Highlands and Islands could form part of the solution.⁷
- **Mixed market housing for rent or purchase needs to be part of an integrated strategy for economic growth** – The housing mix needs to take account of the needs of key workers as well as businesses looking to expand. The Scottish Government’s affordable housing initiative for key workers in rural communities is welcome. In recognising the importance of retaining key professions in rural areas, it is necessary that the Government also consider the wider housing supply issues and their implications for the rural economy in general. Businesses, particularly SMEs, are at the heart of Scotland’s rural economy and businesses’ needs should be at the core of any housing strategy. The Scottish Government should bring forward legislation to mandate that Full Fibre is installed to speed up the roll out of faster connectivity to ensure rural areas are put on a level digital level playing field.
- **Funding** – The Scottish Government should consider if the forward funding model used by East Lothian Council in Dunbar, which used an SPV and external investor to forward fund affordable housing, could support the acceleration of supply in high demand areas such as the Inner Moray Firth. The Scottish Government should also consider if rent guarantees such as that given to a PRS scheme in the Cairngorms could be offered elsewhere.
- **Temporary worker accommodation** is needed over the summer months but this is also when demand is at its highest and tourism traffic is competing for road space. For seasonal or temporary work it can be a lack of available temporary accommodation rather than skills or people that is the issue. Longer term contracts from employers could also help some workers in these sectors access longer-term accommodation.
- **Improving existing stock** - Retrofitting of the regional housing stock may be hampered by owners’ capacity to meet the required standards. An example

⁷ [Edinburgh Home Demonstrator - BE-ST](#) Modern Methods of Construction can include a range of approaches to pre-fabrication. Modular construction is very common in other countries (Sweden, Germany) but has had mixed results in the UK so far although it is very common in the hotel sector and big players such as Ikea are building homes this way in England. However, timber closed panels or advanced closed panels are more common in Scotland, though modular builders exist, and are the more likely evolution of the sector in Scotland.

of unintended consequences is that new energy standards which adopt a whole house approach have led to more onerous demands on homeowners. 1-day incremental improvements such as loft insulation have been replaced with more expensive technical improvements which take 4-5 days. Our feedback is that many homeowners are not prepared to have this disruption and in one organisation nine fitters were made redundant due to lack of demand.

- **Collaborate locally/regionally to find solutions** - The sense from some members' feedback is that local politics often slow down or prevent housing developments in ways that prohibit opportunity. Scottish Government and Local authorities should build on existing positive collaborative initiatives (e.g. Highland Hub) rather than creating new partnerships. They encourage both to focus on what is deliverable rather than what is ideal.
- **Understanding where to go for funding** - The range of specific government funding streams that are available to developers to unlock housing can be confusing and overly complicated. Scottish Government should work with Local Authorities to compile, publish and keep up to date a list of specific funds available to unlock housing.
- Members of Prosper's Rural Commission updated their priorities in 2023. One of their three key priorities is housing. They proposed that the Scottish Government's Rural and Islands Housing Action Plan should set out actions which will significantly accelerate the supply of **affordable, mid-market and other required housing types (including homes with space for business use) in rural communities**. This should mandate a more integrated regional and local approach to matching economic opportunities and demand for workers and skills with the appropriate housing supply, rather basing housing developments only on the availability of land. Commission members called for measures in the Plan to:
 - **Profile and aggregate the demand for housing** that will be created by major infrastructure developments and local industries and services, and bring together government, employers and housebuilders to identify opportunities and a specific pipeline of locations to build new affordable housing that will meet industries' needs and provide a long-term legacy for rural areas, and, where this is not viable, work with Scotland's offsite housing sector to supply temporary accommodation for workers. Acknowledge that planning capacity for new housing will have to be added at pace to a system already struggling to cope with the influx of development applications from all parts of the economy including renewables, hospitality and defence.
 - **Develop a plan of action, working in partnership with BE-ST**, to increase the capacity of small housebuilders based in rural areas by addressing the lack of affordable finance. Support from the enterprise agencies and local authorities should be used to help them to scale-up, make appropriate capital investments in pre-manufactured capability, employ, and train skilled workers and adopt modern methods of construction, and by doing so reduce their costs.
 - **Reform national and local procurement policies** for housing. National procurement frameworks should correctly fund and permit local decisioning making to allow for the full draw down of budgets

across multiple organisations. Local construction consortia should be supported to bid for larger contracts with forward plans published for major projects and sequencing designed to maximise opportunities for local input.

- **Avoid further regulation of the residential letting sector** and review and publish an evaluation of recent regulations and their impact on the availability of properties in the residential letting sector before any new legislation is introduced.

Next steps

We welcome the opportunity to engage with officials around this paper and outlined in the accompanying letter to the Minister for Housing.

We will also engage over the coming months more widely with members on the recommendations of the recently published Rural & Islands Action Plan.

We welcome the commitment of the plan to delivery of more affordable housing in remote, rural and island communities but would like to see more of the points above included to ensure that private housebuilding and contractor supply-side issues and planning constraints are also addressed and that a long-term data-driven approach to demand and need informs the plan's delivery.