



**ARGYLL & BUTE COUNCIL**

**Housing Need & Demand Assessment Technical Supporting Paper 04**

**Core Output 1: The Local Housing Market and Affordability in Argyll & Bute, 2020**

**(Revised January 2021)**

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## 1.0 Introduction

To achieve “robust and credible” status, a Housing Need and Demand Assessment (HNDA) must satisfy all core outputs and processes as set out in the guidance published by the Centre for Housing Market Analysis in 2019. Core Output 1 focuses on the key housing market drivers and should consider household formation, population and migration, housing affordability including income, house prices, rent levels, access to finance and key drivers of the local and national economy. The analysis should reflect the data to be used in the CHMA’s online HNDA Tool and the choice of scenarios that have been agreed by the council and its local housing market partnership to run the Tool. This will ultimately provide the calculation for new build requirements for affordable housing over a 5 and 10 year period.

This paper focuses on the operation of the local housing and rental markets, and provides affordability analysis for Argyll and Bute and the 9 housing market areas identified within this local authority. The demographic and wider economic data and trends required to complete Core Output 1 will be considered separately, in HNDA Technical Support Papers 03 and 04.

The aim of this technical supporting paper is to provide a clear, evidence-based understanding of:

- Key market trends and affordability across all tenures and how these are driving the local housing market(s);
- The data and scenarios that will be used to run the CHMA’s HNDA Tool calculations;
- The key findings that can be used to inform the Local Housing Strategy and the Local Development Plan(s).

This paper collates the most current data available from a range of local and national sources, including Register of Scotland sasines data (which has been accessed directly from RoS; purchased under license from the LVIU/PropVals for certain time periods; and also received via the CHMA’s licensed datapack provided specifically for this purpose).

Information on social rented sector rents has been drawn from annual RSL Statistical Returns submitted to the council by housing associations operating within this area; and also from the Scottish Housing Regulator’s reports on the annual return on the charter (ARC). While local rent levels and turnover within the private rented sector are harder to assess, the Scottish Government provides detailed analysis at the local authority level and this has been supplemented from local professional knowledge; monitoring relevant online websites; and canvassing local letting agents, property solicitors, and estate agents; and commissioning bespoke research into the Private Rented Sector.

In addition, we have useful information from the dedicated HNDA Local Household Surveys carried out in 2018/19 across Argyll and Bute, which included a robust sample of private and social rented tenants. This also provided useful information on household incomes and affordability, which has been enhanced from household income data purchased from CACI Paycheck.

## 1.2 Definitions and Assumptions

There is no single standard definition of affordable housing, rather many different definitions dependent on context<sup>1</sup>. Argyll and Bute Council follows the Scottish Government's general definition of "affordable housing" as set out in previous guidance for local authorities preparing their Strategic Housing Investment Plans (SHIPs) and included in Scottish Planning Policy.

**"Affordable housing"** in this context refers to accommodation made available at a cost below full market value to meet an identified need and includes:

- Social rented housing;
- Subsidised low cost housing for sale (discounted, shared ownership or shared equity);
- Low cost housing without subsidy (entry level housing for sale); and
- Mid-market rental housing provided by social landlords."

[Guidance on the Preparation of Strategic Housing Investment Plans, Scottish Government, July 2016](#)

**AFFORDABILITY** – as a basic rule of thumb, an affordable house price is reckoned to be around 3.5 / 4.0 times the annual income of the household; and in terms of renting a property, the affordable benchmark is often considered to be around 25-30% of the household's income.

A range of price or rental and income points are usually used in affordability calculations; including the average (or mean), the median, and the lower quartile. While the average/mean price and income are readily understood and allow for simple analysis, the median figure is often used as more practical and meaningful indicator of affordability in the market; and the lower quartile figure is often taken as an appropriate proxy for low-income households and entry-level market points for first-time buyers.

"Mid-Market" rents do not necessarily refer specifically to a rental point exactly mid-way between local social and private rents, but are better understood as indicating "below market rents". Usually, MMR rent levels range between 20% above social rents and 80% of the LHA rate, or else 80% of the local median private rent, and they never exceed the LHA.

Affordability in house sales and rental sectors is determined and influenced by various related and interdependent factors, including basic supply and demand. On the supply side this includes: the rate of properties coming to market; turnover in rental stock; new build provision; other changes in supply due to demolition programmes, conversion, reconfiguration, acquisition, management policy and so on. On the demand side, demographic trends and household formation, among other factors, will have a direct impact on market prices. All of these factors are relevant in relation to affordability analysis but these are not considered in this paper. They will inform HNDA Core Output 2, and are therefore dealt with in separate technical papers.

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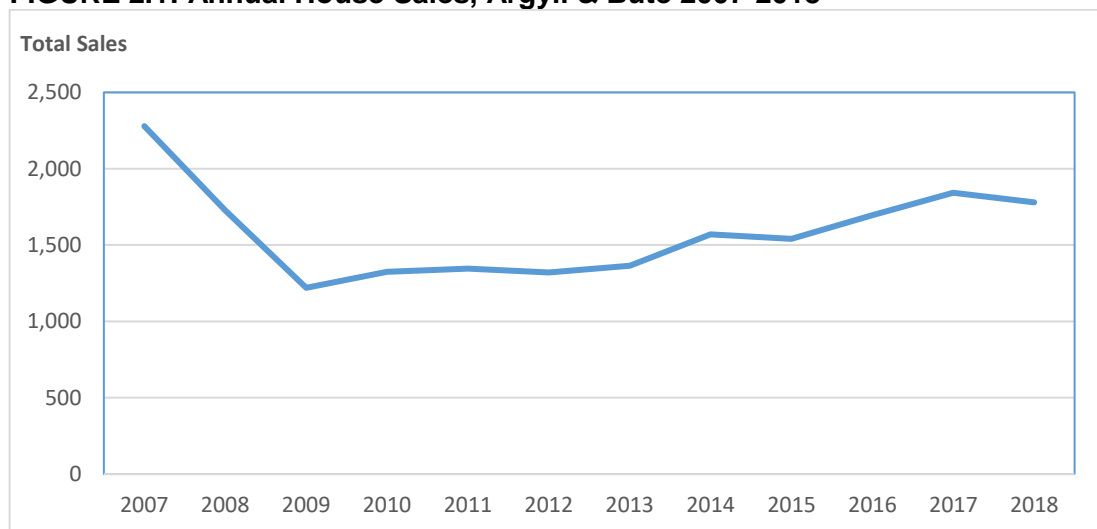
<sup>1</sup> See "Rent affordability in the affordable housing sector. A literature Review." Scottish Govt. June 2019.

## 2.0 The Private Housing Market and Affordability in Argyll and Bute

### 2.1 The volume and value of house sales in Argyll and Bute.

The annual volume of house sales in Argyll and Bute was actually in steep decline even prior to the market crash in 2008, but between 2009 and 2013 there was a period of relative stabilisation, and since then the rate of growth in market activity has continued to increase, albeit 2018 saw a slight dip again (-3.5% on the 2017 volume of sales); and overall, market transactions remained below the pre-crash levels until a dramatic spike in 2019/20 (see Section 4).

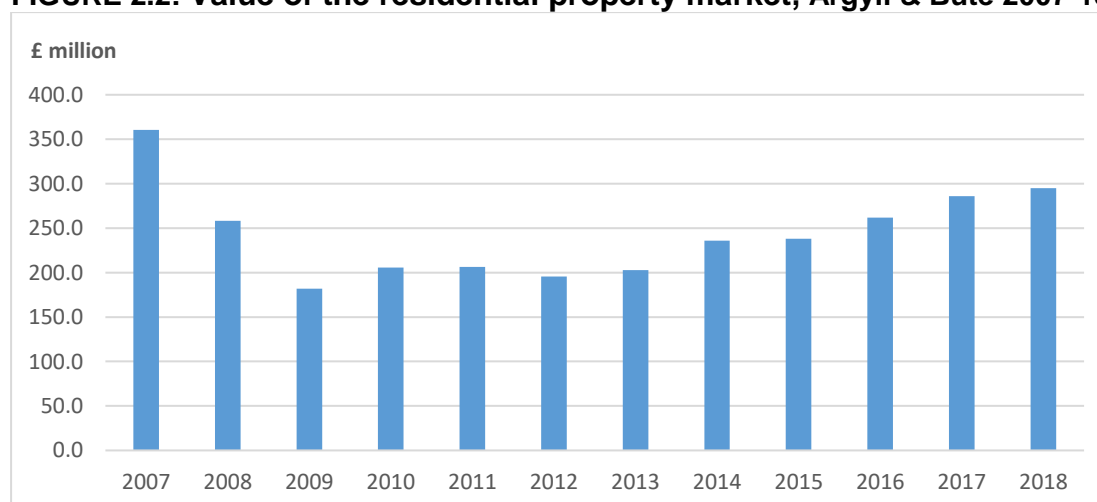
**FIGURE 2.1: Annual House Sales, Argyll & Bute 2007-2018**



Source: Register of Sasines Calendar Year Market Review (published 2019)

The total value of the Argyll and Bute residential property market has seen an even greater rate of growth, rising by over 62% between 2009 and 2018, with an increase of 3.2% between 2017 and 2018. The overall market value is steadily recovering to pre-2008 levels. (See Section 4 for latest update.)

**FIGURE 2.2: Value of the residential property market, Argyll & Bute 2007-18**



Source: Register of Scotland Calendar Year Market Review (published 2019)

## 2.2 House Prices<sup>2</sup> (See Section 4 for further updates.)

The council has produced in-house analysis of cleansed and relevant Sasines data for Argyll and Bute, which indicates that the average house price in the local authority as a whole was £163,947 in 2018. This is an increase of £9,869 (6.4%) from 2013 (the last annual figures recorded in the previous HNDA). It also represents an increase of over 7% between 2017 and 2018.

The median price also appeared to increase between 2017 and 2018, by £15,000 (12%); albeit prior to this it had remained fairly stable at around £123-£125k. Similarly, the lower quartile price (often taken as an indicator of the affordable, entry-level point of the market) was relatively consistent between 2013 and 2017, then saw a notable increase in 2018, of over 6%.

<b>Price</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Average	£154,078	£146,266	£157,765	£150,178	£152,911	£163,947
Lower Quartile	£77,000	£77,000	£80,000	£76,000	£78,500	£83,375
Median	£125,000	£124,997	£124,000	£123,500	£125,000	£140,000

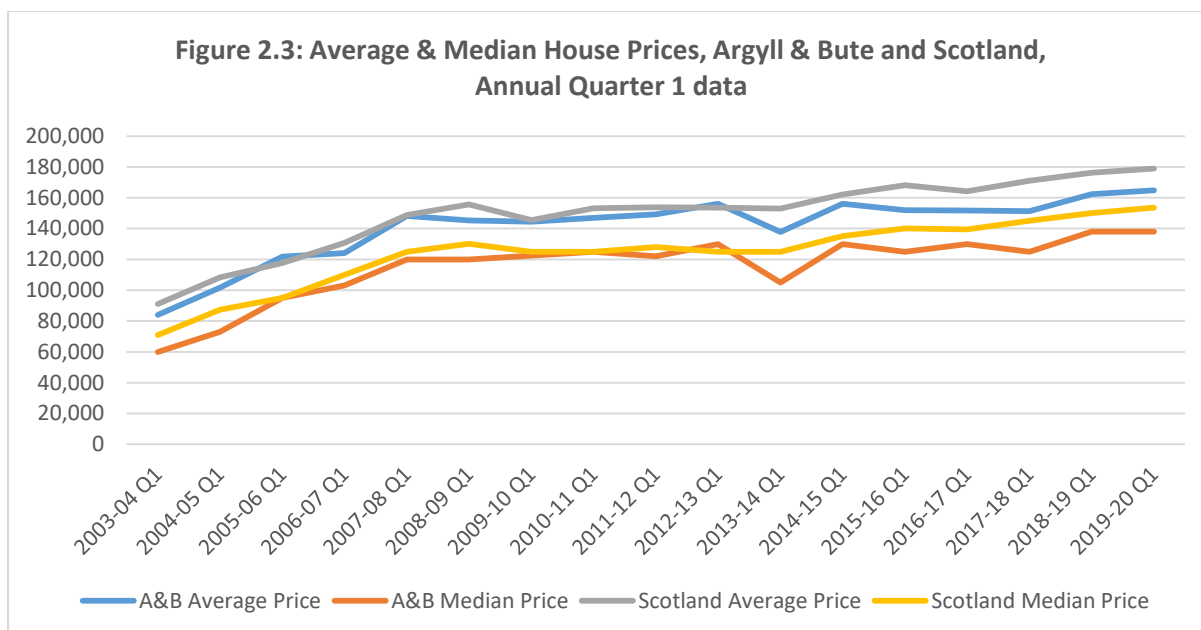
**Source: Register of Scotland (council analysis based on PropVals/LVIU reports)**

Prices in Argyll and Bute have generally followed the national trends. 2001 to 2008 saw substantial price inflation followed by a period of decline then stabilisation and more recently prices do appear to be recovering, and currently are approaching or even exceeding the pre-crash levels.

Most recently, at time of writing, the Registers of Scotland Quarterly House Price Statistical Report recorded further increases for the average residential property prices in both Scotland and Argyll and Bute (1.5% for both areas) between Q1, 2018/9 and Q1, 2019/20. However, based on this evidence, year on year rates of change in quarterly house prices have fluctuated widely in Argyll and Bute and often at greater rates than Scotland as a whole (the previous year for instance saw a 7% increase in Argyll & Bute's average price compared to 3% increase in Scotland). Nevertheless, the average price in Argyll and Bute is still 8% lower than that for Scotland while the median price is more than 10% lower than that for Scotland. According to this source, the average price in Argyll and Bute was £164,743 in April/June 2019 compared to the Scottish average price of £178,832.

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<sup>2</sup> NB. House prices are derived ultimately from the Registers of Scotland sasines data, but the analysis depends on various factors: e.g. timing (financial or calendar year; monthly, quarterly or annual data); all sales or those excluding sales below £20k and over £1m; second hand, new build sales or both; cleansed /relevant records with complete data fields; etc. Therefore, figures can vary dependent on context, and some tables in this section may not tally. In particular, disaggregated analysis of sasines at HMA level or for lower quartile prices has been calculated in-house using baseline data which may differ slightly from the overall figures for Argyll & Bute, as recorded in the ROS Calendar Year Market Review. Nevertheless, general price trends are relatively consistent across the variant data sources.



**Source: Register of Scotland Quarterly House Price Statistics 2019/20 Q1.**

2.3 Breaking down sales by house type, it appears that prices are significantly lower for all property types in Argyll & Bute compared to national averages (apart from an anomalous blip for terraced properties in the first quarter of 2018); and that average prices for flats in particular are around 40-46% lower in this local authority than in Scotland as a whole. There have been relatively high price increases in the local detached (4%) and terraced (7%) markets, while the average price for flats fell by 2.7% over 2018 and 2019.

**TABLE 2.2: House Prices by House Type, 2018 – 2019 (Quarter 1 data)**

Area	House Type	Q1 Apr-Jun 2018	Q1 Apr-Jun 2019	Annual Change
Argyll & Bute	Detached	£231,643	£240,873	4.0%
Scotland		£262,756	£259,012	-1.4%
Argyll & Bute	Semi-Detached	£173,558	£152,522	-12.1%
Scotland		£163,575	£166,199	1.6%
Argyll & Bute	Terraced	£115,538	£123,739	7.1%
Scotland		£143,420	£142,918	-0.4%
Argyll & Bute	Flat	£97,107	£94,447	-2.7%
Scotland		£137,787	£138,287	0.4%

**Source: Registers of Scotland Quarterly House Price Statistical Report**

Considering the distribution of house prices in Argyll and Bute in 2018, it is estimated that the lower quartile house prices range from £20,000 to £83,000; the 2nd quartile ranges from £83k to £139k; the third quartile ranges from £139k to £215k; and the upper quartile ranges from £215k to £928k.

2.4 As might be expected, house prices vary considerably across housing market areas as well as over time. The following tables summarise lower quartile and average prices by HMA over the five years between 2014 and 2018. These tables indicate that the lower quartile prices were consistently lower in Bute and Kintyre, and generally highest in Mull & Iona; Lorn; and Islay, Jura & Colonsay. The median prices followed a similar pattern although Helensburgh & Lomond also tended to exhibit higher median prices, along with Mull & Iona; Islay, Jura & Colonsay; and Lorn. There are no discernible trends within HMAs on an annual basis, with prices fluctuating widely year on year. It should also be noted that despite the apparent high prices in the Coll & Tiree HMA, the number of annual sales there are insufficient to draw robust conclusions.

**TABLE 2.3: Lower Quartile House Prices by HMA, 2014 – 2018.**

	Bute	Coll & Tiree	Cowal	H&L	I J C	Kintyre	Lorn	Mid Argyll	Mull & Iona
2014	£40,000	£90,000	£69,000	£85,000	£95,000	£48,000	£96,500	£60,000	£105,000
2015	£46,000	£114,000	£72,000	£85,000	£91,000	£55,000	£101,000	£72,000	£100,000
2016	£45,000	£60,000	£72,000	£85,000	£80,000	£48,500	£91,750	£82,500	£100,000
2017	£60,000	£105,000	£65,000	£83,000	£92,720	£58,000	£105,000	£68,200	£110,000
2018	£45,000	£128,750	£65,375	£92,938	£136,500	£56,938	£120,000	£85,000	£129,375

Source: Register of Scotland (Council analysis of LVIU/Propvals reports)

**TABLE 2.4: Median House Prices by HMA, 2014 – 2018.**

Median Price	2014	2015	2016	2017	2018
Bute	£73,250	£85,250	£72,000	£90,000	£76,000
Coll & Tiree	£183,750	£150,000	£116,500	£157,500	£171,250
Cowal	£110,000	£109,000	£120,000	£108,000	£115,000
Helensburgh & Lomond	£145,000	£155,000	£150,000	£138,000	£166,000
Islay, Jura & Colonsay	£163,250	£130,500	£134,000	£156,625	£192,500
Kintyre	£77,500	£95,000	£75,000	£94,900	£85,000
Lorn	£135,000	£147,000	£145,000	£145,000	£161,624
Mid Argyll	£109,000	£115,000	£122,000	£120,000	£141,750
Mull & Iona	£160,000	£135,000	£126,750	£183,000	£192,500

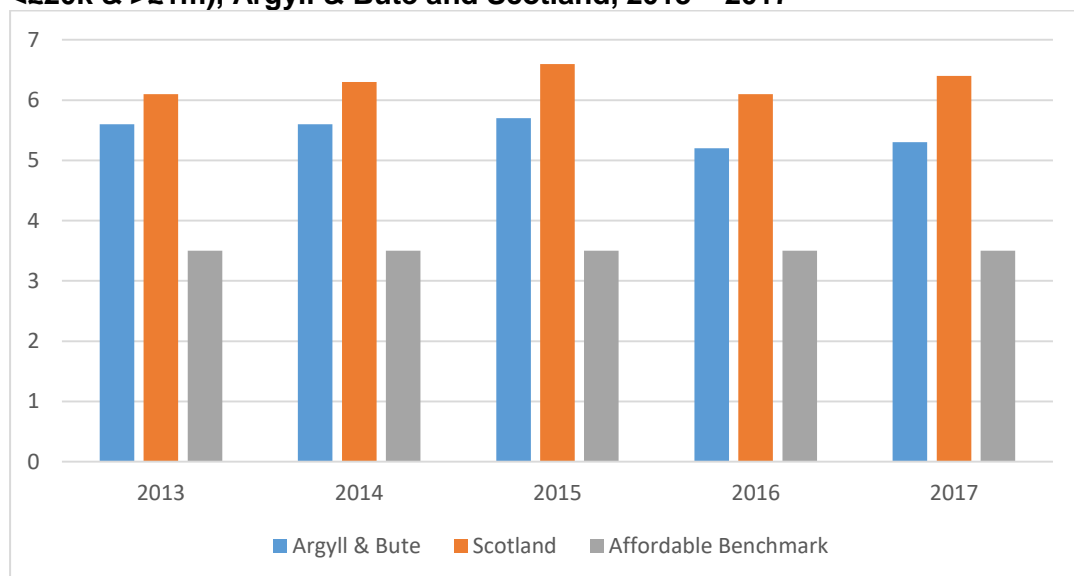
Source: Register of Scotland (Council analysis of LVIU/Propvals reports)

### 3.0 Affordability in the Open Market

3.1 The following section initially utilises the data analysis provided at local authority geography by the CHMA, based on Registers of Scotland sasines data and commercially sourced income data from CACI Paycheck, to understand recent trends in affordability, i.e. house prices relative to incomes. Separate analysis was carried out for prices based on (a) all sales, and (b) prices based on sales above £20k and below £1m (a standard approach to avoid statistical outliers and any skewing of “real” market transactions). To understand the trends at the sub-authority level, additional in-house analysis was carried out using sasines data drawn from online sources such as “Propvals” (up to Q1 2018) or purchased directly from the RoS. In this instance, affordability has been assessed primarily at lower quartile and median prices and incomes.

3.2 Affordability in the open private market is determined by a basic mortgage multiplier ratio. Traditionally the figure of 3.5 times a household’s income has been used to assess an affordable price, however, alternative options also include using a multiplier or ratio of 4.0, which would allow for a reasonable wealth adjustment, and is equivalent to factoring in any assets, savings, existing equity, or access to financial support from family and friends that might be available to a potential purchaser. On this basis a ratio above 3.5 or 4.0 would be deemed unaffordable. The following graphs summarise the recent trends in Argyll and Bute and Scotland between 2013 and 2017, relative to the affordability benchmark and based on lower quartiles and medians. While Argyll and Bute ratios are lower than the Scottish ratios generally, they remain consistently and significantly higher than the affordable benchmark.

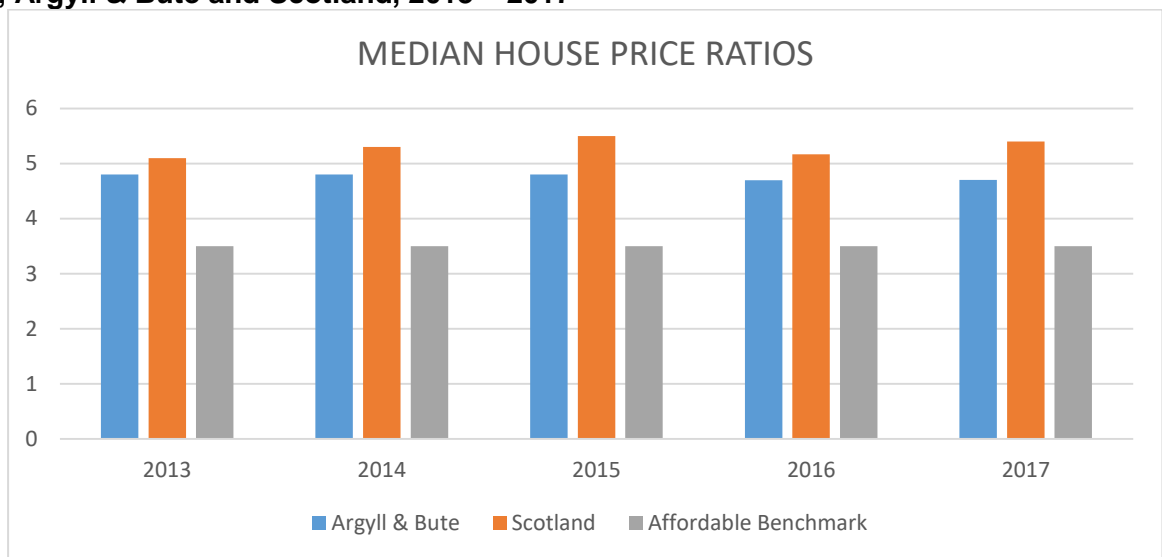
**FIGURE 3.1: Ratio of House Price to Income (Lower Quartiles – sales excluding <£20k & >£1m), Argyll & Bute and Scotland, 2013 – 2017**



Source: CHMA Datapack 2018 & CACI Paycheck Income Data



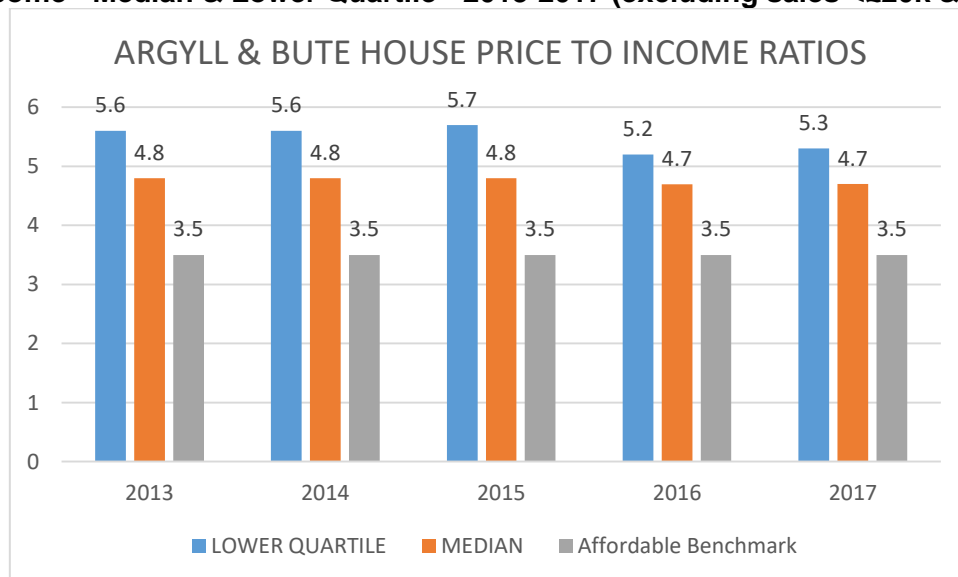
**FIGURE 3.2: Ratio of House Price to Income (Medians – sales excluding <£20k & >£1m), Argyll & Bute and Scotland, 2013 – 2017**



Source: CHMA Datapack 2018 & CACI Paycheck Income Data

3.3 Across the market, prices in Argyll and Bute have remained above an affordable threshold, although the lower quartile (often seen as entry level point for first time buyers) has been the most unaffordable sector of the market. Despite annual fluctuations in house prices, both lower quartile and, particularly, median affordable ratios have remained very consistent in Argyll and Bute in recent years.

**FIGURE 3.3: Argyll and Bute Affordability Trends - House Prices divided by income - Median & Lower Quartile - 2013-2017 (excluding sales <£20k & >£1m.)**



Source: CHMA Datapack 2018 & CACI Paycheck Income Data

3.4 As might be expected, affordability varies considerably across housing market areas. The following tables summarise the ratios for mean and lower quartile prices and incomes by HMA in 2018.

**TABLE 3.1: Affordability by HMA (Mean Prices to incomes) 2018**

Housing Market Area	Income	Price	Affordability Ratio
Bute	£25,813	£98,735	3.8
Coll and Tree	£34,065	£164,500	4.8
Cowal	£31,739	£137,373	4.3
Helensburgh and Lomond	£42,772	£196,886	4.6
Islay, Jura and Colonsay	£32,345	£200,485	6.2
Kintyre	£28,015	£109,842	3.9
Lorn and inner Isles	£38,224	£186,411	4.9
Mid Argyll	£35,508	£161,357	4.5
Mull and Iona	£37,488	£192,091	5.1

Source: CACI Paycheck & Register of Sasines 2018

- 3.5 On this basis, only Bute and Kintyre would be considered affordable at mean prices for those on mean incomes; while Islay, Jura & Colonsay would appear to be particularly unaffordable; and Mull & Iona and Lorn also exhibit high price to income ratios. At the lower quartile prices and incomes, none of the HMAs would be deemed affordable, and all the islands (other than Bute) would be particularly unaffordable; with Islay, Jura & Colonsay again exhibiting an extremely high price to income ratio.

**TABLE 3.2: Affordability by HMA (Lower Quartile Prices to incomes) 2018**

Housing Market Area	Lower Quartiles		
	Income	Price	Affordability Ratio
Bute	£11,093	£45,000	4.0
Coll and Tree	£16,644	£128,750	7.7
Cowal	£14,617	£65,375	4.5
Helensburgh and Lomond	£19,508	£92,938	4.8
Islay, Jura and Colonsay	£15,208	£136,500	9.0
Kintyre	£12,449	£56,938	4.6
Lorn and inner Isles	£17,892	£120,000	6.7
Mid Argyll	£16,507	£85,000	5.1
Mull and Iona	£18,189	£129,375	7.1

Source: CACI Paycheck & Register of Sasines 2018

3.6 Another approach to affordability analysis is to derive an indicative affordable income by applying the standard affordability ratio, of 3.5/4.0, to the average and lower quartile prices for the area. In Argyll & Bute in 2018 the average house price was £163,947 and the lower quartile price was around £83,375 (according to council's in-house analysis of RoS data). Based on the affordability ratio of 3.5, a household would therefore require a minimum income of around £46,842 to comfortably afford the average price, or £23,821 to afford the lower quartile price. From the CACI income data, which details the number of households within each income band in an area, it is then possible to calculate the number of households whose income falls above or below the required levels. This gives an indication of the percentage of local households who cannot afford housing at the average or lower quartile prices.

3.7 In the following table, approximately 30,720 households have an income less than the £46,842 required to afford the average price. This is calculated by adding all the totals for each income band below £45-50k (the cells highlighted in orange), plus a proportion within that band (highlighted in yellow - roughly half of this band total). This represents 74.7%, or three quarters, of the total households estimated in the CACI dataset.

**TABLE 3.3: Argyll & Bute Households by Income Bands, 2018**

Argyll & Bute	Total	0-5k	5-10k	10-15k	15-20k	20-25k	25-30k	30-35k	35-40k
Households	41,106	921	3,714	4,703	4,749	4,103	3,492	3,140	2,612
	40-45k	45-50k	50-55k	55-60k	60-65k	65-70k	70-75k	75-80k	80-85k
Households	2,296	1,976	1,602	1,339	1,144	845	734	541	691
	85-90k	90-95k	95-100k	100-120k	120-140k	140-160k	160-180k	180-200k	200k+
Households	558	328	303	693	295	191	85	29	20

Source: CACI Paycheck, 2018

Following a similar calculation for the lower quartile price, approximately 16,820 households (41%) are in income bands lower than the £23,821 required to afford at this level.

3.8 In summary, this analysis suggests that around 75% of local households cannot afford the average house price in Argyll and Bute and 41% cannot afford the lower quartile price. The previous HNDA for Argyll and Bute estimated that around 67% of local households could not afford to purchase on the open market (at 2013 average prices and incomes). On this basis, with prices generally recovering and increasing, while local incomes have not reflected equivalent rates of growth, it can be concluded that affordability in Argyll and Bute has continued to worsen in recent years.

### 3.9 Affordability for First-Time Buyers (see further updates in Section 4.)

In January 2020, The Bank of Scotland published a briefing report on the first-time buyer market in Scotland, based on analysis of Halifax’s own extensive housing statistics database; UK Finance statistics, and ONS data on average earnings.

This analysis found that the number of first-time buyers in Scotland rose by over 90% in the last decade, and by around 3% over the previous year. First-time buyers now account for 50% of all property purchases with a mortgage in Scotland, up from 38% in 2009. The average price paid for a typical first home rose by 38% over the decade, from £111,402 in 2009 to £152,728 in 2019. Over the same period, the average deposit by first-time buyers increased by 13% from £26,427 to £29,950.

Despite this trend, Scotland remains one of the more affordable regions in the UK to buy a first property. There are of course significant variations by local authority. Argyll and Bute was identified as one of the least affordable local authority districts for first-time buyers in Scotland, i.e. appearing in the ten areas with the highest affordability ratios (house price to average earnings).

**Table 3.4: Least Affordable LADs for first-time buyers, Scotland, 2019**

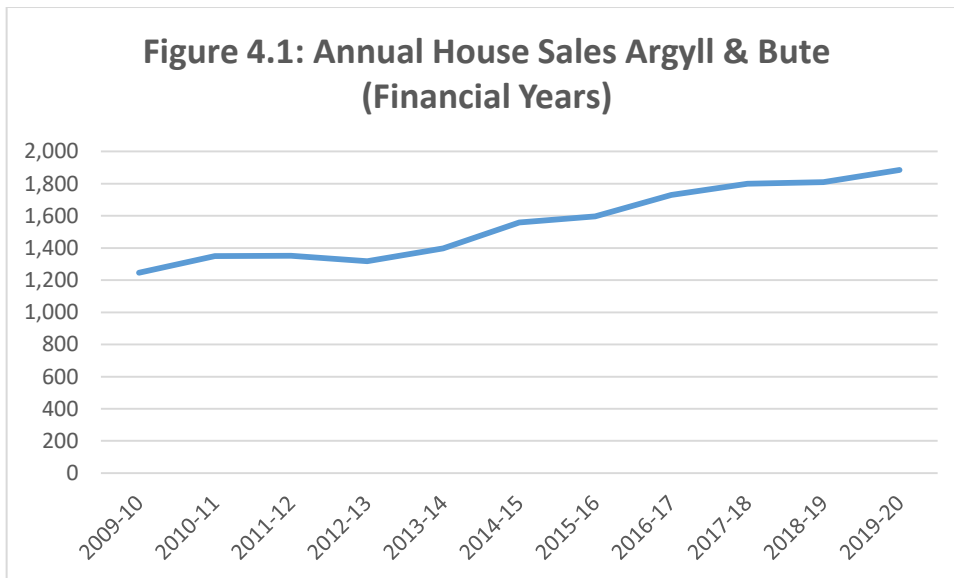
Local Authority District	Average house price (£s)	Average Earnings (£s)	House Price to earnings ratio
Midlothian	£174,033	£33,319	5.2
East Lothian	£182,922	£35,510	5.2
City of Edinburgh	£211,307	£41,369	5.1
Shetland Isles	£161,298	£34,097	4.7
Angus	£148,350	£31,981	4.6
Highland	£150,485	£33,473	4.5
Glasgow city	£153,125	£34,241	4.5
<b>Argyll &amp; Bute</b>	<b>£131,882</b>	<b>£29,696</b>	<b>4.4</b>
Dundee city	£133,943	£30,381	4.4
Moray	£141,150	£32,148	4.4

Source: Halifax housing data, 12 months to November 2019, ONS

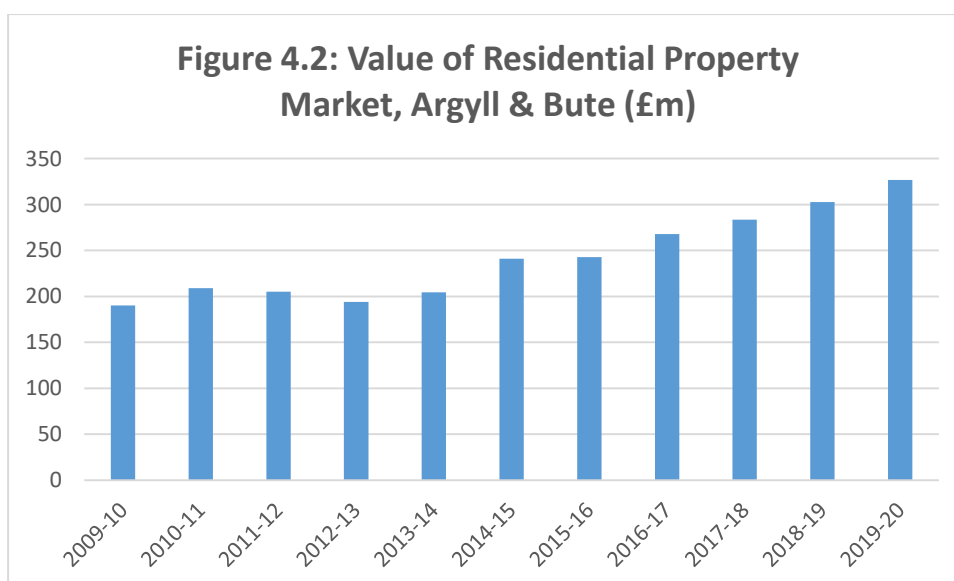
#### 4.0 Property Market Update, 2019/20

4.1 In June 2020, the Registers of Scotland published their Property Market Report 2019/20 which provides updated statistics on the operation of the private housing market by financial year rather than the traditional calendar year approach. As well as analysis of the national housing market this report also provides certain detail at the level of individual local authorities.

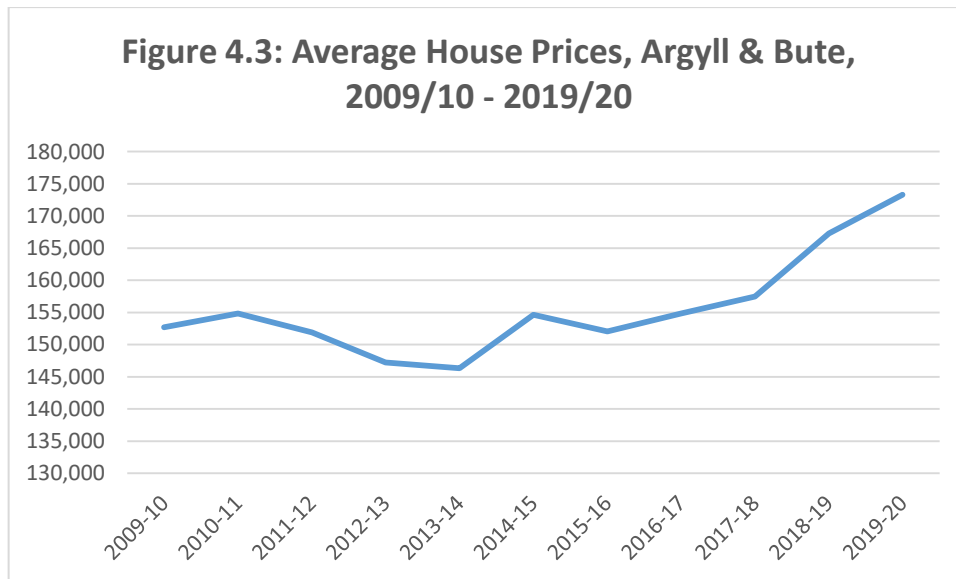
This indicates that over the last decade the volume of sales increased by 51%; from 1,246 in 2009/10 to 1,885 in 2019/20.



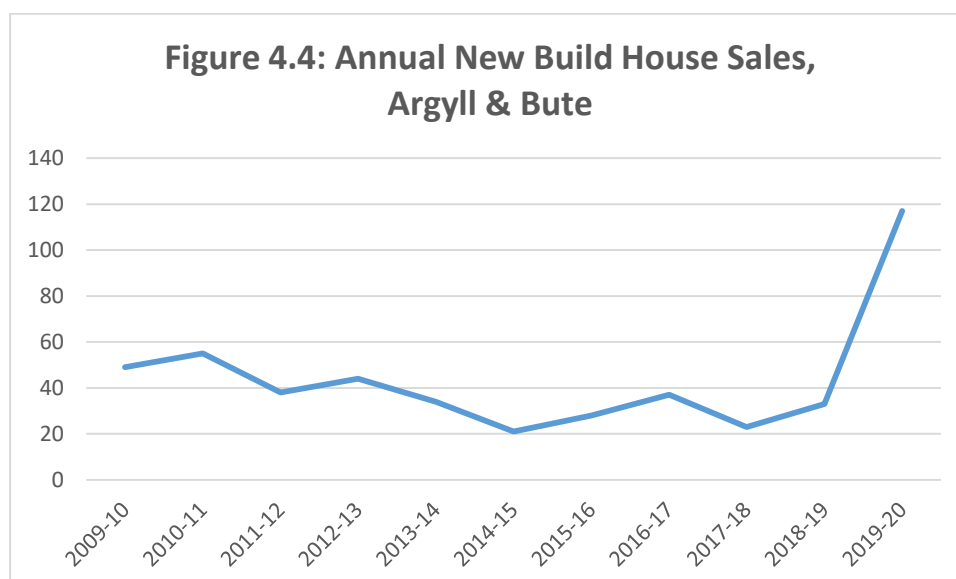
4.2 2019/20 in fact saw the peak of market activity in Argyll and Bute since the 2008 crash; and similarly the annual value of the local property market hit a high of £327m this year which equates to the figure recorded prior to the last financial crash, back in 2006/7.



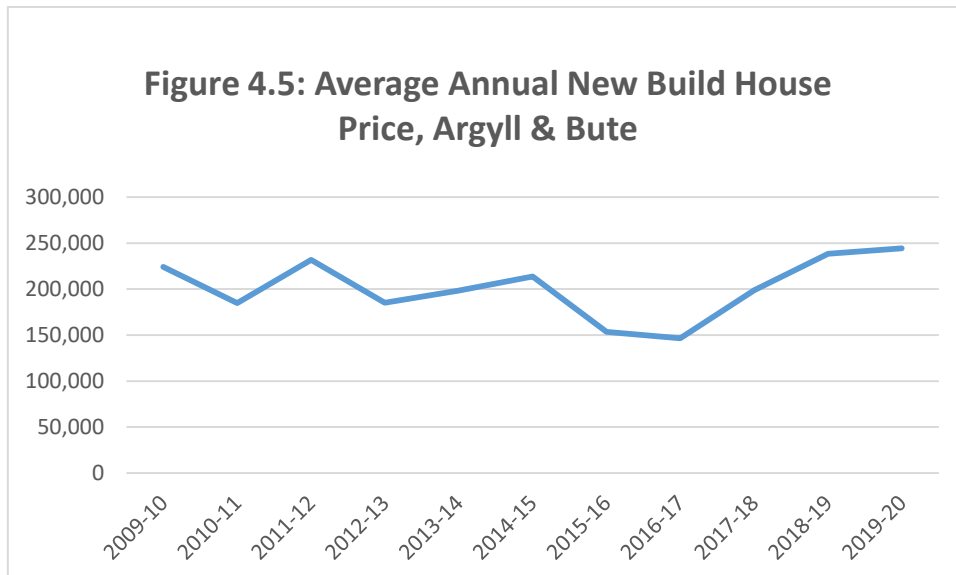
4.3 Considering average house price trends by financial rather than calendar year, shows an overall increase from £152,712 in 2009/10 to a record high of £173,280 in 2019/20, with a markedly steeper rate of increase over the last five years.



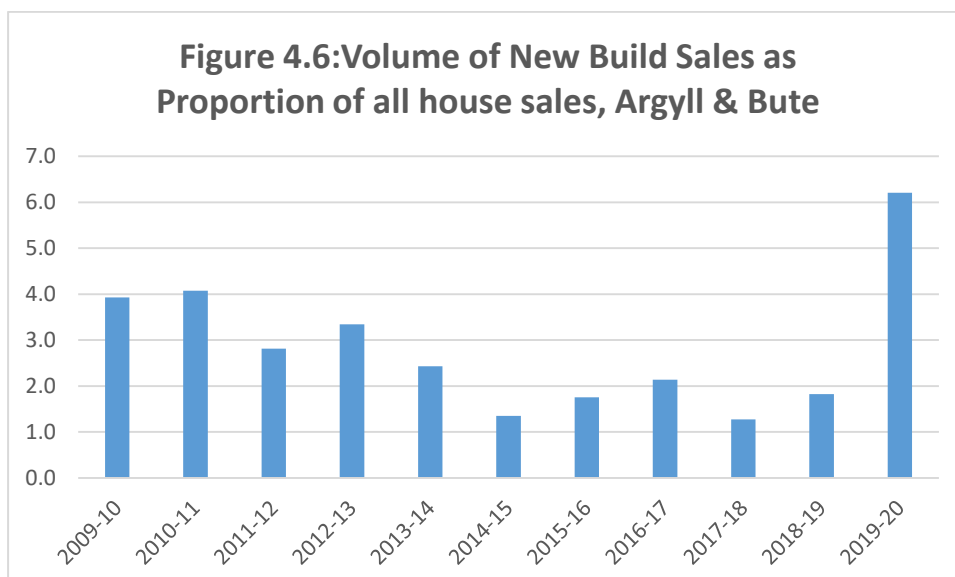
4.4 The RoS Property Market Report for 2019/20 also provides data on the New Build Housing Market. Historically this constitutes a numerically small proportion of the overall private market, with second-hand transactions constituting the vast majority of sales. Nevertheless, this is an important component of the general housing system and an indicative bellwether of the health of the market. This market has been relatively suppressed, with a generally declining trajectory in recent years, however 2019/20 saw a sudden, sharp and surprising spike in the number and value of sales. This volume of new build activity is unprecedented, almost 140% above the 2009/10 figure, albeit new build numbers in Argyll & Bute are still relatively low in relation to wider housing markets.



4.5 The following graph illustrates the trend in average new build house prices over the last decade in Argyll and Bute. While the 2019/20 figure of £244,314 is a peak value, this is a relatively small increase on the average price in 2009/10, of £224,185: Prior to 2017/18, the trend was for a fairly stable or indeed overall decline in average prices for new build properties.



4.6 In terms of the volume of new build sales as a proportion of all house sales in Argyll, 2019/20 again proved an exceptional year, as the following graph clearly illustrates.



4.7 The value of the new build housing market also saw a record increase in 2019/20, more than doubling in value over the previous decade and also seeing a significant rise on the previous year, more than trebling from £7.9m in 2018/19 to £28.6m in 2019/20.

- 4.8 The RoS Property Market Report also reveals that almost half of all house sales in Argyll and Bute in 2019/20 were cash transactions (922, 49%) with 51% (963 in total) reliant on mortgages. This reflects the variation in household wealth and the distinction in local sectors of the housing markets across Argyll and Bute.
- 4.9 Considering the geographic breakdown of the current housing market in Argyll and Bute, while the most recent figures cannot be disaggregated to individual HMAS, the RoS report does provide a split based on the Scottish Government's 2-fold urban/rural classification. Analysing sales activity over the last two years, 2018-20, suggests a fairly even split, with 49.7% located in rural areas of the authority.

**Table 4.1: Volume of house sales by 2-fold Scottish Government urban rural classification, (2 years financial year data, 2018-20)**

Local Authority	Urban areas	Rural areas	Unclassified to a urban rural classification	Total volume of residential property sales
Argyll and Bute	1,828	1,836	31	3,695

- 4.10 For reference, Argyll and Bute comprises a total land area of 690,947 hectares of which 688,635 (99.7%) are defined as rural areas and only 2,312 as urban areas. Therefore, the urban areas of the authority account for a disproportionate amount of actual house sales. In terms of house prices, over the last two years the average price was £186,137 in rural Argyll and Bute compared to £153,603 in the urban areas i.e. 21% higher on average in rural areas.



## 5.0 House Price Forecasts

Rettie & Co's current average house price forecasts for Scotland and Argyll & Bute are provided below. They are anticipating price growth of around 19% in Scotland over the period 2017-22, with growth in Argyll & Bute projected to be around 16% in this timeframe. After a reasonably strong level of growth of 4% in 2017, they were forecasting a slight cooling in the market in Scotland as Brexit details emerge, potentially leading to some weakening in consumer confidence. This is followed by a return to more substantial growth by 2021 as conditions of excess demand are likely to continue. Average price growth has been more anaemic in Argyll & Bute recently, at just 0.4% in 2017, but the market here is expected to return to its long-term established relationship with the country generally in time.

**Table 5.1: Rettie & Co. house price forecasts for Scotland and Argyll & Bute**  
**Annual House Price Growth**

Year	SCOTLAND			ARGYLL & BUTE		
	Central	Downside	Upside	Central	Downside	Upside
2008	1.60%	1.60%	1.60%	-5.80%	-5.80%	-5.80%
2009	-3.00%	-3.00%	-3.00%	0.10%	0.10%	0.10%
2010	4.00%	4.00%	4.00%	4.50%	4.50%	4.50%
2011	-0.10%	-0.10%	-0.10%	-1.40%	-1.40%	-1.40%
2012	-1.00%	-1.00%	-1.00%	-3.20%	-3.20%	-3.20%
2013	1.40%	1.40%	1.40%	-0.50%	-0.50%	-0.50%
2014	4.30%	4.30%	4.30%	1.70%	1.70%	1.70%
2015	3.50%	3.50%	3.50%	2.60%	2.60%	2.60%
2016	-1.90%	-1.90%	-1.90%	0.00%	0.00%	0.00%
2017	4.00%	4.00%	4.00%	0.40%	0.40%	0.40%
2018	2.50%	1.50%	5.00%	1.50%	2.50%	0.50%
2019	2.50%	1.50%	3.50%	2.20%	1.30%	3.10%
2020	2.50%	1.50%	3.50%	2.20%	1.30%	3.10%
2021	5.00%	3.00%	6.50%	4.40%	2.60%	5.80%
2022	5.00%	3.50%	6.50%	4.40%	3.10%	5.80%

### Compound Annual Growth Rate

08-'22	2.00%	1.60%	2.60%	08-'22	1.30%	1.10%
17-'22	3.50%	2.20%	5.00%	17-'22	2.90%	2.20%

### Total Growth

08-'22	32.40%	24.30%	42.30%	08-'22	20.40%	16.00%
17-'22	18.70%	11.50%	27.60%	17-'22	15.60%	11.30%

Source: Rettie & Co. Research based on data from Registers of Scotland 2018

Note. This analysis was produced pre-Covid-19 and the significant impact of the pandemic and consequent lockdown measures on the housing market. More recent analysis of the national outlook has subsequently been published online, including "The Market after Covid: Scottish Housing Forecasts, Spring/Summer 2020" by Rettie & Co. See the appended note to this paper.

## 6.0 HNDA Household Survey 2019 – Affordability Findings

6.1 As part of the primary research and consultation carried out for the HNDA, the council commissioned consultants Research Resource Ltd. to complete an extensive survey of local resident households in 2018 and 2019. This included questions on household incomes, housing costs and affordability across areas and tenures. While every assurance is made that all data remains anonymous and cannot be attributed to individuals, it is a common experience that surveys seeking information on incomes and earnings are met with a degree of reluctance and resistance. Nevertheless, our research provided some useful additional evidence which helps to enhance the statistical analysis outlined in the rest of this paper. Some key findings from the study are presented in the following pages and the full report is available at:

[https://www.argyll-bute.gov.uk/sites/default/files/argyll\\_and\\_bute\\_hnda\\_household\\_survey\\_2019.pdf](https://www.argyll-bute.gov.uk/sites/default/files/argyll_and_bute_hnda_household_survey_2019.pdf)

## 6.2 Household income

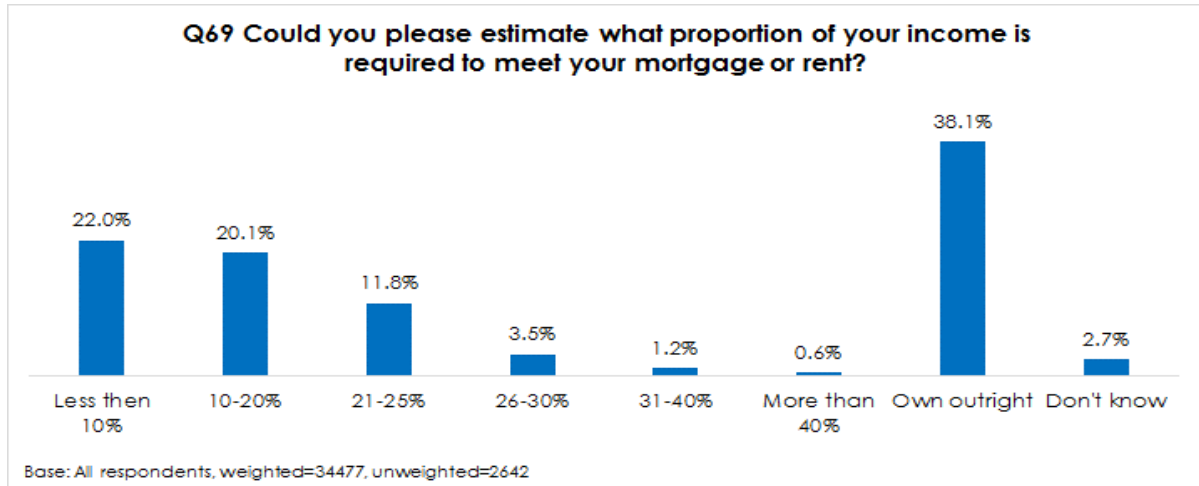
Just over half of survey respondents (53%) refused to provide an answer when asked for a combined total gross income for themselves and their partner. Where an answer was provided, 19% said their total gross income was under £25,000 while 28% said it was over £25,000.

When asked to provide an estimate of the total gross income of all other adults aged 16 and over in the household, 85% refused to provide an answer. Where an answer was provided, 13% said the total gross income for other adults in the household was under £25,000 while only 1% said it was over £25,000.

<b>Q68 What is the total gross income for:</b>		
	<b>Respondent &amp; Partner</b>	<b>Other HH Adult/s</b>
<i>Unweighted</i>	2642	829
<i>Weighted</i>	34477	11871
Under £4,500	0.2%	0.5%
£4,500-£6,499	0.5%	1.5%
£6,500-£7,499	0.9%	0.1%
£7,500-£9,499	1.3%	0.8%
£9,500-£11,499	1.6%	0.8%
£11,500-£13,499	2.1%	1.2%
£13,500-£15,499	2.2%	0.3%
£15,500-£17,499	3.2%	1.2%
£17,500-£24,999	6.5%	1.0%
£25,000-£29,999	5.9%	0.8%
£30,000-£39,999	9.4%	0.0%
£40,000-£49,999	5.9%	0.0%
£50,000-£74,999	5.2%	0.2%
£75,000-£99,999	0.5%	-
£100,000 or over	0.7%	0.1%
Don't know/not stated/ Refused	53.4%	85.3%
Nothing	0.5%	6.0%

### 6.3 Housing payments

More than one third of survey respondents (38%) own their property outright and therefore do not pay a portion of their income towards rent or mortgage payments. 24% pay less than 10% of their income towards their mortgage and rent payments, 20% pay between 10-20% and 17% pay more than 20%.



Analysis by age reveals younger respondents aged 18-24 (40%), 25-34 (44%) and 35-54 (27%) were significantly more likely to pay more than 20% of their income towards rent or mortgage payments than older respondents aged 55-64 (15%), 65-74 (4%) and 75 and over (5%).

Analysis by tenure reveals PRS tenants (39%) were significantly more likely to pay more than 20% of their income towards rent or mortgage payments than RSL tenants (23%) and owner-occupiers (13%).

Respondents were then asked if there was any reason why they might experience difficulties in keeping up with their housing payments. The majority of respondents (87%) said they are not having any difficulties in meeting their housing payments. The most commonly cited reason for having difficulties was unexpected high bills (4%).

**Q70 The following lists various reasons why some people experience difficulties in keeping up with housing payments. Do any of them apply to this household?**

<b>All respondents</b>	
<i>Unweighted</i>	2642
<i>Weighted</i>	34477
No, not having any difficulties meeting housing payments	87.2%
Don't know/not stated/refused	3.9%
Unexpected high bills	3.6%
Increase in rent/mortgage payments	2.3%
Cost of heating home too expensive	2.3%
Illness/disability of self/partner	1.7%
Other (Please State)	1.6%
Loss of job	1.3%
Death of partner or someone else in household	1.0%
Divorce/separation or some other reason for household splitting	0.8%
Loss of partner's job	0.7%
Reduced benefits	0.4%
Supporting unemployed 16-17 year-olds	0.4%
Failure of business	0.3%
Baby born or someone else joining household	0.3%
Interest rate rises	0.1%
Supporting full-time students	0.1%
Delay in Housing Benefit/Income Support payments	0.0%
Administrative error at bank/building society	0.0%

## 6.4 Household Survey Results by HMA.

Kintyre (27%), Islay, Jura and Colonsay (26%) and Mull & Iona (26%) residents were the most likely to say the total gross income for themselves and their partner is less than £25,000 while Lorn residents (45%) were the most likely to say their total gross income is over £25,000.

<b>Q68a Could you please tell me in which category you would place your (and your spouse/ partner's) current TOTAL GROSS INCOME</b>									
<b>All respondents</b>		<b>Bute</b>	<b>Coll &amp; Tiree</b>	<b>Cowal</b>	<b>Islay, Jura and Colonsay</b>	<b>Kintyre</b>	<b>Mid Argyll</b>	<b>Mull &amp; Iona</b>	<b>Lorn</b>
<i>Unweighted</i>	2642	348	192	365	363	344	353	305	372
<i>Weighted</i>	34477	4352	685	8102	1930	4096	5278	1837	8197
Under £4,500	0.2%	-	0.3%	-	0.7%	0.6%	0.3%	0.3%	-
£4,500-£6,499	0.5%	0.3%	-	0.9%	1.5%	-	-	2.6%	-
£6,500-£7,499	0.9%	0.9%	1.1%	0.6%	2.1%	0.3%	0.6%	1.9%	1.2%
£7,500-£9,499	1.3%	1.4%	1.9%	1.9%	4.4%	1.2%	-	2.2%	0.3%
£9,500-£11,499	1.6%	1.4%	3.4%	0.9%	3.0%	4.5%	0.9%	2.8%	0.6%
£11,500-£13,499	2.1%	1.5%	1.4%	2.8%	3.6%	2.6%	2.6%	4.6%	0.3%
£13,500-£15,499	2.2%	0.9%	1.4%	0.8%	1.7%	5.0%	3.1%	2.8%	2.5%
£15,500-£17,499	3.2%	0.9%	3.4%	3.0%	3.4%	6.7%	3.7%	3.1%	2.7%
£17,500-£24,999	6.5%	2.4%	6.4%	6.4%	6.0%	6.2%	8.2%	5.5%	8.3%
£25,000-£29,999	5.9%	4.0%	4.4%	4.3%	3.5%	9.5%	6.9%	6.9%	6.6%
£30,000-£39,999	9.4%	7.5%	4.4%	4.0%	4.9%	13.0%	11.9%	3.0%	15.3%
£40,000-£49,999	5.9%	3.2%	3.6%	4.5%	3.3%	7.4%	7.9%	2.7%	8.2%
£50,000-£74,999	5.2%	-	1.7%	2.8%	2.7%	1.2%	6.7%	3.6%	12.8%
£75,000-£99,999	0.5%	0.3%	0.6%	-	0.7%	0.3%	0.8%	0.9%	0.8%
£100,000 or over	0.7%	0.6%	-	-	-	2.0%	0.3%	0.3%	1.3%
Don't know/not stated/ Refused	53.4%	74.5%	64.9%	67.1%	58.2%	38.3%	45.5%	56.0%	38.5%
Nothing	0.5%	0.3%	1.1%	-	0.2%	1.2%	0.6%	0.6%	0.5%

6.5 With regards to respondents' expenditure for rent or mortgage payments, Kintyre (54%), Mid Argyll (53%) and Lorn (52%) residents were the most likely to pay 20% or less of their income to cover these costs. Kintyre residents (24%) were also the most likely to spend more than 20% of their income towards rent and mortgage costs. Three quarters of Coll & Tiree (76%) residents own their home outright and therefore do not have mortgage or rent payments.

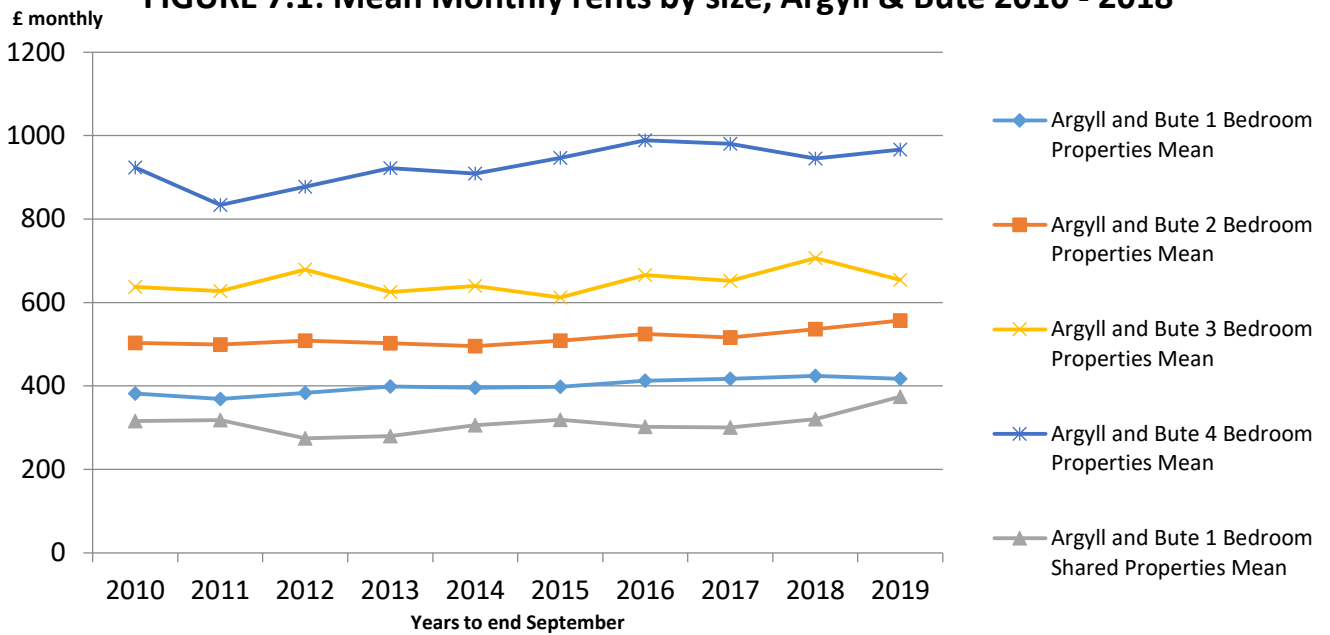
<b>Q69 Could you please estimate what proportion of your income is required to meet your mortgage or rent?</b>									
<b>All respondents</b>		<b>Bute</b>	<b>Coll &amp; Tiree</b>	<b>Cowal</b>	<b>Islay, Jura and Colonsay</b>	<b>Kintyre</b>	<b>Mid Argyll</b>	<b>Mull &amp; Iona</b>	<b>Lorn</b>
<i>Unweighted</i>	2642	348	192	365	363	344	353	305	372
<i>Weighted</i>	34477	4352	685	8102	1930	4096	5278	1837	8197
Less than 10%	22.0%	28.4%	7.3%	9.4%	17.2%	29.9%	26.3%	9.5%	29.3%
10-20%	20.1%	17.6%	9.5%	17.0%	12.3%	24.5%	26.7%	10.2%	23.0%
21-25%	11.8%	7.5%	2.5%	11.0%	6.3%	13.4%	14.5%	5.1%	16.0%
26-30%	3.5%	0.3%	0.6%	3.3%	1.4%	9.2%	4.1%	1.5%	3.5%
31-40%	1.2%	-	0.6%	3.0%	1.4%	1.2%	0.6%	2.2%	0.3%
More than 40%	0.6%	0.3%	1.7%	1.6%	0.7%	-	0.3%	1.8%	-
Own outright	38.1%	44.1%	75.6%	49.6%	54.7%	19.9%	26.2%	66.1%	27.2%
Don't know	2.7%	1.7%	2.3%	5.1%	6.1%	2.0%	1.4%	3.6%	0.9%

When asked if they had experienced difficulty in keeping up with their housing payments, Bute residents (94%) were the most likely to say they had no difficulties in meeting their housing payments, while Coll & Tiree (74%) and Islay, Jura and Colonsay (74%) residents were the least likely.

## 7.0 Private Rental Sector

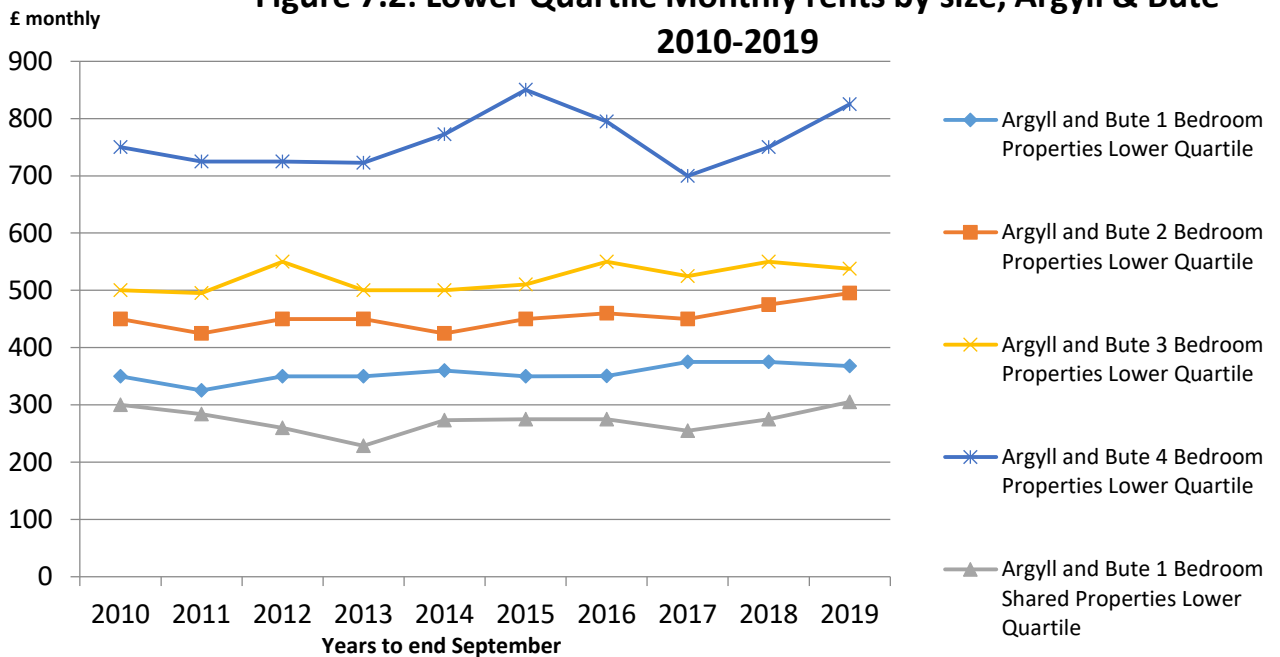
- 7.1 The private rental market has been keenly shaped by the sales market as homeowners and aspiring home owners have become increasingly involved in this tenure. Constraints on mortgage lending following the 2008 market crash, and issues within the residential sales market, had a significant impact on the rental market both in terms of supply and demand, and to some degree these trends have continued. Many potential sellers, including private developers, retained their property and opted to secure an on-going rent until the market improved. As the sales market has recovered, however, this rise levelled off. In Scotland as a whole, the sector has enjoyed strong demand in recent years, but weaker supply has led to rising rents and declining time-to-let (TTL) figures. Generally, the market is weaker in the west of Scotland, including Argyll and Bute, than it is in the east. With a relatively steady but limited supply of properties coming to the rental market in recent years, Argyll and Bute has also seen rising rents and falling time to let, though this authority has not seen the excess demand evident in the cities therefore TTL remains relatively high and local rents are only around three-quarters of average national levels.
- 7.2 According to the Index of Private Housing Rental Prices, in the 12 months up to December 2019 rental prices in the UK as a whole rose by 1.4%, however Scotland increased by only 0.6%. Scottish Government analysis of local private rent levels by size indicates similar trends in Argyll & Bute over recent years.
- 7.3 Average (mean) rents in Argyll and Bute have increased between 2018 and 2019 for 2 bedroom (3.9%), 4 bedroom (2.2%), and 1 bedroom shared properties (16.8%), but have fallen for 1 bedroom properties (-1.8%) and 3 bedroom (-7.4%) properties, which compares to CPI inflation of 1.7% across this time period. Between 2010 and 2019, average rents have increased for all property sizes, ranging from 2.6% for 3 bedroom properties to 18.5% for 1 bedroom shared properties, which compares to CPI inflation of 20.8% across this time period. 3, 4 and 1 bedroom shared properties have each seen some variation each year since 2010 in the gap between the higher end (upper quartile) and lower end (lower quartile) of the market, although all of these sizes of properties have seen the gap narrow slightly in the latest year. Average 2 bedroom rents have been lower than the Scotland average in each year since 2010. Although the gap has grown over the years, this has decreased slightly in the latest year with the average rent in 2019 being £557 per month, compared to the Scotland average of £668.

**FIGURE 7.1: Mean Monthly rents by size, Argyll & Bute 2010 - 2018**



Source: Scottish Government Analysis 2019

**Figure 7.2: Lower Quartile Monthly rents by size, Argyll & Bute 2010-2019**

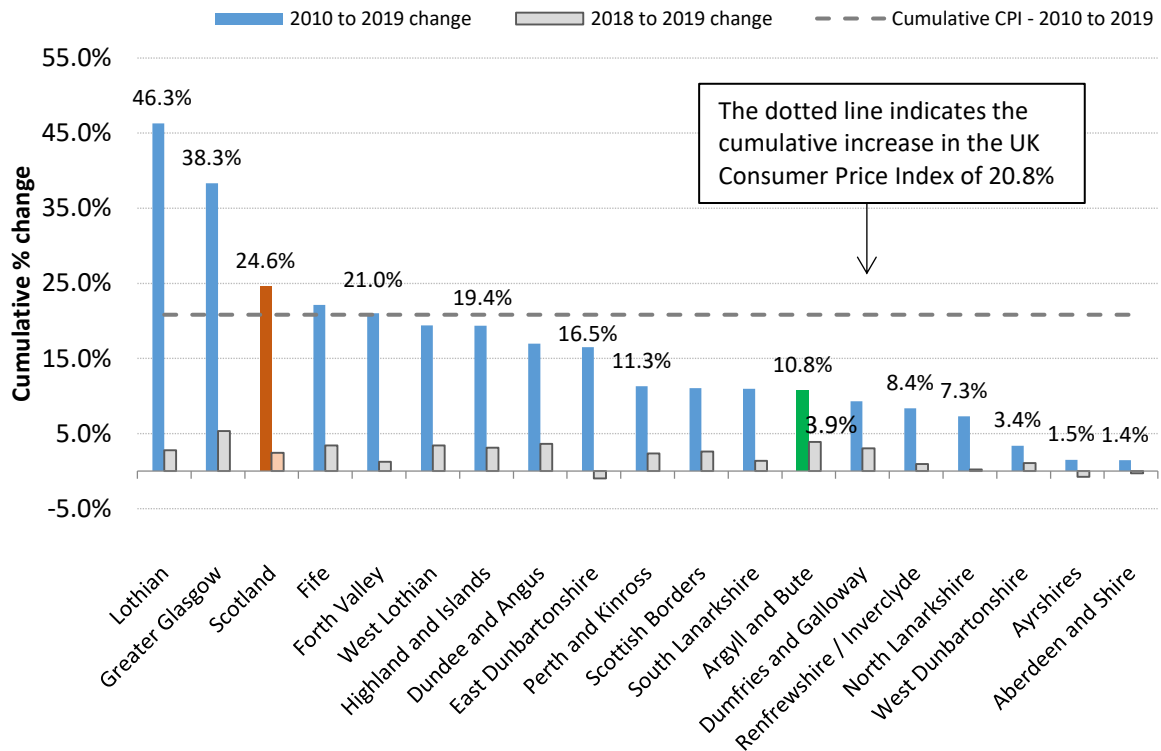


Source: Scottish Government Analysis 2019

7.4 While Argyll and Bute has seen average private rents increase at a rate below the national average and well below the CPI over the last decade, the percentage change between 2018 and 2019 (using 2 bedroom properties, as an exemplar) was actually the highest of any local authority in the country apart from Glasgow.



**FIGURE 7.3: Cumulative % Change in Average Rents from 2010 to 2019 (years to end-Sept), by Broad Rental Market Area - 2-Bedroom Properties**



**Source: Scottish Government Analysis 2020**

- 7.5 Research carried out by the council for the previous HNDA found that the income profile of private rented tenants in this local authority is significantly lower than that of the general population; and that 35% of the PRS tenant population at that time devoted more than 40% of their income to rental costs. The study estimated that, at a sustainable rent to income threshold range, between 35% and 42% of Argyll and Bute households could afford the costs of private renting; while between 40-47% of existing PRS tenants could not afford to sustain this tenure.
- 7.6 In 2020, the council commissioned an updated study into the Private Rented Sector in Argyll and Bute, and a report by the consultants Arneil Johnston was published in January 2021. This provides further extensive analysis of the sector; of its affordability in comparison to other tenures; the viability and potential interest in intermediate tenures, such as mid-market rent or shared equity; as well as a provisional assessment of the impact of the short-term lettings sector (such as Airbnb) in Argyll and Bute. This report is available on the council's website, or on request from Council Housing Services, and should be read in conjunction with the current paper for a fuller understanding of the operation of the local housing market.

## 7.6 Local Housing Allowance

Tenants in the private rented sector can receive help to cover their housing costs through local housing allowance (LHA) (or the housing element of universal credit for those that have migrated to the new system) up to a maximum amount depending on the size of home that they need. LHA rates are based on local rents and previously the benchmark was to provide access to 50% of privately rented homes in each local housing market. However, this was reduced to 30% by the Coalition Government in 2015 and the uprating of LHA rates has been frozen since April 2016. Private renters face significant hardship as a result of changes in benefits, particularly in relation to housing affordability. It is estimated that in Scotland around 27% of tenants renting privately receive support with their rents through the benefit system.

Local Housing Allowance rates are set in relation to market rents across eighteen Broad Rental Market Area's (BRMA) in Scotland, and across five bandings reflecting accommodation size, ranging from the cost of sharing accommodation or leasing a single room to the cost of rent on a home with four or more bedrooms. These rates are used to set the maximum payable under housing benefit. The rate payable is set in relation to household size, not the property itself. The lowest rate is the Shared Accommodation Rate (SAR) available to single adults under the age of 35 without dependents.

The levels are set for a financial year, and the 2019/20 rates are the fourth set of rates to be frozen. While the benefit freeze was set to end in April 2020, there was no commitment to reverse the real terms cuts to LHA rates and years of losses. Coupled with the unpredictability of rents, it is impossible to accurately forecast the future impact of LHA policy. However, within the proposed final year of the benefits freeze, LHA rates in the majority of areas across Scotland are significantly lower than what is needed to cover rent on at least 30% of homes. This means it is increasingly hard for private renters to access homes where the rent is within the LHA rate, increasing the risk of homelessness and destitution.

In Argyll and Bute there is a single BRMA, contiguous with the local authority boundaries. The current LHA rates in Argyll and Bute as of 2019/20 (and frozen since 2016/7) are outlined below.

**TABLE 7.3: LHA Rates for Argyll & Bute, 2019/20**

1 Bedroom Shared	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms
£61.36	£84.23	£103.85	£120.29	£180.00

Source: Scottish Government, Local Housing Allowance figures

7.7 In January 2020 the Scottish Government published an annual report on the impact of UK Government social security policy and welfare reform on housing, “Housing and Social Security: second follow up paper”. This provides up to date analysis of affordability issues for private rented tenants and low income households on benefits seeking to access this tenure. The report identifies significant shortfalls between LHA support and the 30<sup>th</sup> percentile private sector rents across all but one of the 18 BRMAs in Scotland. While Argyll and Bute is not as badly affected as other areas, nevertheless the figures indicate that across all property sizes a proportion of local renters will experience affordability difficulties and will be excluded from an important sector of the local housing system. For example, a family with children entitled to a three-bedroom property in the Argyll & Bute BRMA requires an additional £6.29 per week to access a home at the 30<sup>th</sup> percentile of the rental market.

**Table 7.4: Illustrative weekly cash shortfall between the LHA rate and the actual 30<sup>th</sup> percentile by Broader Market Area**

BRMA	Shared Room	1 Bed	2 Bed	3 Bed	4 Bed
Aberdeen and Shire	£0.84	£14.96	£15.23	£5.69	£2.07
Argyll and Bute	-£1.93	-£6.67	-£5.47	-£6.29	-£2.96
Ayrshires	-£12.10	£0.00	£0.00	£0.00	-£13.70
Dumfries and Galloway	-£2.55	-£4.23	-£3.45	-£3.36	-£7.46
Dundee and Angus	-£10.20	-£1.31	-£7.77	-£19.10	-£18.05
East Dunbartonshire	-£5.24	-£11.51	-£20.40	-£23.73	-£54.74
Fife	-£12.79	-£4.72	-£3.30	-£6.29	-£15.05
Forth Valley	-£13.57	-£4.69	-£11.51	-£22.43	-£31.08
Greater Glasgow	-£6.51	-£21.86	-£27.31	-£23.79	-£92.00
Highland and Islands	-£13.70	-£6.00	-£10.10	-£22.67	-£22.58
Lothian	-£18.03	-£27.63	-£36.33	-£89.69	-£114.31
North Lanarkshire	-£9.60	-£5.75	-£4.50	-£6.76	-£5.29
Perth and Kinross	-£6.75	-£8.50	-£7.98	-£12.28	-£22.51
Renfrewshire/ Inverclyde	-£5.59	£0.00	-£2.02	-£1.16	-£16.32
Scottish Borders	-£5.78	-£2.79	-£8.06	-£5.45	-£45.65
South Lanarkshire	-£3.88	-£5.75	-£5.76	-£10.01	-£38.63
West Dunbartonshire	-£1.15	£0.00	£0.00	-£6.90	-£37.43
West Lothian	-£14.76	-£11.24	-£14.64	-£15.74	-£25.52

Source: Scottish Government analysis based on rents data from the Rent Service Scotland (covering October 2018 and September 2018) and 2017/18 and 2018/19 LHA rates.

7.8 The same Scottish Government report and data analysis looked at the proportion of the private rented sector in each BRMA could be covered by the LHA rate. The report suggests that only 11 out of 90 LHA rates (i.e. per individual property size in each BRMA) in Scotland are set at a level allowing families to rent a home in the 30<sup>th</sup> percentile of the rental market. While Argyll & Bute is relatively better than most other areas, nevertheless none of the local rates by property size actually achieve the 30%; and in particular, only 10 to 15% of the 3 bedroom market is accessible to local families, as the following table summarises.

**Table 7.5: Proportion of the private rented sector that families could access in Scotland within the LHA rates**

BRMA	Room	1 Bed	2 Bed	3 Bed	4 Bed
Aberdeen and Shire	30%	30%	30%	30%	30%
Argyll and Bute	20 to 25%	20 to 25%	20 to 25%	10 to 15%	25 to 30%
Ayrshires	5 to 10%	30%	30%	30%	20 to 25%
Dumfries and Galloway	15 to 20%	20 to 25%	25 to 30%	15 to 20%	25 to 30%
Dundee and Angus	15 to 20%	15 to 20%	20 to 25%	15 to 20%	10 to 15%
East Dunbartonshire	25 to 30%	10 to 15%	5 to 10%	10 to 15%	10 to 15%
Fife	5 to 10%	15 to 20%	15 to 20%	15 to 20%	20 to 25%
Forth Valley	0 to 5%	15 to 20%	10 to 15%	10 to 15%	15 to 20%
Greater Glasgow	10 to 15%	5 to 10%	5 to 10%	15 to 20%	5 to 10%
Highland and Islands	5 to 10%	15 to 20%	10 to 15%	15 to 20%	20 to 25%
Lothian	5 to 10%	0 to 5%	0 to 5%	5 to 10%	10 to 15%
North Lanarkshire	5 to 10%	25 to 30%	20 to 25%	20 to 25%	25 to 30%
Perth and Kinross	10 to 15%	10 to 15%	10 to 15%	15 to 20%	10 to 15%
Renfrewshire/ Inverclyde	10 to 15%	30%	25 to 30%	25 to 30%	20 to 25%
Scottish Borders	15 to 20%	15 to 20%	20 to 25%	20 to 25%	5 to 10%
South Lanarkshire	20 to 25%	20 to 25%	25 to 30%	15 to 20%	0 to 5%
West Dunbartonshire	25 to 30%	30%	30%	15 to 20%	25 to 30%
West Lothian	10 to 15%	10 to 15%	5 to 10%	5 to 10%	15 to 20%

7.9 As noted earlier in this paper, further detailed analysis of the PRS and affordability in Argyll and Bute is available in the supplementary report produced for the council by consultants Arneil Johnston in 2020/21. This study supports the findings of the current paper in terms of identifying affordability issues in the PRS and issues of access to affordable accommodation in general. The full report can be found on the council website at:-

<https://www.argyll-bute.gov.uk/housing/housing-strategies-consultations-and-research-0>

## 8.0 Affordability in the Social Rented Sector.

8.1 The Scottish Social Housing Charter describes the results that tenants and other customers expect social landlords to achieve, including getting good value from rents and service charges. The Scottish Government More Homes Division publishes guidance notes for social rented landlords delivering new build properties via the Affordable Housing Supply Programme, and the latest guidance was issued in April 2019. This states that while it is up to individual social landlords to strike the best balance between rent levels and meeting the housing needs of local communities, their rents should not be set without regard to the importance of affordability for tenants.

## 8.2 RSL social rent benchmark assumptions

The Scottish Government guidance sets out relevant social rent benchmarks and if this is exceeded by more than 5%, the RSL must justify to the local authority and to the Scottish Government why the proposed rent is considered affordable. Approval of rents exceeding benchmark by more than 10% will be given only in exceptional circumstances. Justification for variations in excess of these levels may, for example, include reference to market conditions in the local area, or the energy efficiency of the homes.

## 8.3 ANNUAL RSL SOCIAL RENT BENCHMARK ASSUMPTIONS

Social rent benchmark assumptions are calculated using the three-person equivalent as the base (100%) and applying a conversion factor relevant to the property size. (NB. **The current base three-person benchmark assumption is £4,306.** This represents a 2.3% (November 2018, CPI) increase to the previous benchmark figure of £4,209.)

BEDSPACES	CONVERSION FACTOR
2	89.3
3	100.0
4	109.0
5	115.5
6	120.0
7	130.0

For example, for a four-person property completing in 2019-20 the annual rent is calculated as follows – three-person equivalent = £4,306 x 109.0% (four-person conversion factor) = £4,693.

## 8.4 Projected social rent benchmark assumptions

The table below shows the relevant social rent benchmark assumptions over the years 2019-20 to 2022-23 inclusive – annual year-on-year increases of 2% have been applied.

BEDSPACES	2019-20	2020-21	2021-22	2022-23
2	£3,845	£3,922	£4,000	£4,080
3	£4,306	£4,392	£4,480	£4,569
4	£4,693	£4,787	£4,883	£4,981
5	£4,973	£5,073	£5,174	£5,278
6	£5,167	£5,270	£5,376	£5,483
7	£5,598	£5,710	£5,824	£5,940

8.5 These benchmarks obviously relate to new build properties, but affordability within existing stock is also crucial.

Affordability in the social rented sector is usually measured by looking at rent to income ratios or considering how much residual income is left to a household after rent has been paid. It is generally assumed that housing costs should be less than 25% of income. Updated information on average RSL rent levels in Scotland for 2018/19 was published by the Scottish Housing Regulator in 2019 and the following table summarises data for the main RSLs in Argyll and Bute.

**TABLE 8.1: Average Weekly RSL Rents, HOMEArgyll Landlords, 2018/19**

Landlord	Total Lettable Units	AVERAGE WEEKLY RENT 2018/19 (£)					
		1 Apt	2 Apt	3 Apt	4 Apt	5+ Apt	Total
ACHA	5022	68.17	78.22	81.76	90.94	99.64	83.6
Dunbritton*	812	-	75	80.64	86.69	93.19	82.1
Fyne Homes	1547	64.25	76.46	88.68	100.89	114.13	86.27
West Highland H.A.	785	49.22	79.26	91.92	100.63	118.84	90.15

(\*Includes West Dumbarton & Argyll & Bute stock)

Source: SHR ARC Report, 2019

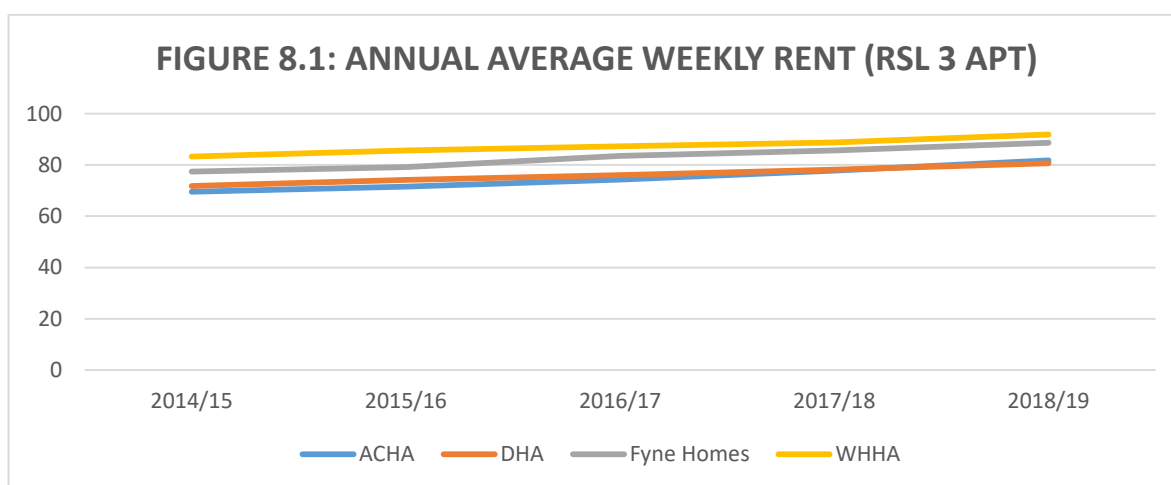
8.6 Over the 5 year period from 2014/15 to 2018/19, average weekly RSL rents for 3 apartment (2 bedroom) homes have increased in Argyll & Bute by 10.5%, to 17.6% dependent on individual landlord. While ACHA for instance has seen the most significant increase (17.6%), this actually brings their average more in line with the other HOMEArgyll partners and is still 11% lower than West Highland Housing Association's average.

**TABLE 8.2: Annual Average weekly rents by HOMEArgyll Landlords (3 apt/2 bed properties)**

Landlord	2014/15	2015/16	2016/17	2017/18	2018/19	% Change (17/18-18/19)	% Change (5 year)
ACHA	69.54	71.51	74.25	77.75	81.76	5.1%	17.6%
DHA	71.85	74.17	76.06	78.15	80.64	3.2%	12.2%
Fyne Homes	77.43	79.19	83.49	85.67	88.68	3.5%	14.5%
WHHA	83.22	85.67	87.23	88.74	91.92	3.6%	10.5%

Source: SHR ARC Report, 2019

8.7 The following graph illustrates these trends, and shows that ACHA and Dunbritton (DHA) rents are converging, while Fyne Homes is closing the small gap with WHHA rent levels.



Source: SHR ARC Report, 2019

8.8 The Regulator’s report records the average weekly rent for Scottish social landlords was £79 in 2018/19, up 3.7% on the previous year. Average local authority rents were just over £73, 14% lower than average RSL rents of £85. Average tenant satisfaction with rent being good value for money is unchanged this year at 83%. While satisfaction amongst RSL tenants reduced from 84% to 83%, satisfaction amongst local authority tenants increased from 79% in 2017/18 to 82% in 2018/19.

8.9 Considering new build rents, the average for ACHA’s properties in 2018/19 (50 new units - mainstream 1, 2, 3 and 4 bedroom units in Helensburgh and Islay) was around £93.76 per week or £4,875.52 per annum. Dunbritton’s average new build rent (based on a total of 26 properties in Arrochar, comprising a mix of one, three, four and five bedrooms) was £79.38 per week or around £4,127.76 per annum. The average for Fyne Homes new build properties (36 new units – all mainstream and primarily 2 bedroom in Dunoon, Lochgilphead and Minard) was significantly higher than the general average at around £102.86 per week or £5,348.72 per annum. Link also delivered 8 new build 1 bedroom mainstream homes in Oban at £81.13 per week and £4,811 per annum. This gives an approximate new build average for Argyll and Bute overall of £77 per week and £4,004 per annum.

**TABLE 8.3: Average New Build RSL Rents, 2018/19**

Size	Average Weekly Rent	Average Annual Rent
ACHA 1 bed	£75.43	£3,922.23
ACHA 2 bed	£93.22	£4,847.60
ACHA 3 bed	£100.91	£5,247.49
ACHA 4 bed	£112.47	£5,848.18
ACHA total	£93.76	£4,875.52
Fyne homes 1 bed	£90.42	£4,701.60
Fyne homes 2 bed	£103.81	£5,397.93
Fyne Homes 3 bed	£111.91	£5,819.29
Fyne Homes total	£102.86	£5,348.72
Dunbritton 1 bed	£74.60	£3,879.44
Dunbritton 3 bed	£81.13	£4,218.95
Dunbritton 4 bed	£87.66	£4,558.56
Dunbritton 5 bed	£87.66	£4,558.56
Dunbritton total	£79.38	£4,127.76
Link 1 bed	£81.13	£4,218.76
A&B Average	£92.53	£4,811.56

**Source: Annual RSL Returns, 2018/19 & Council SHIP data 2019**

(Annual rents are calculated on the basis of 52 times the weekly rent, rather than on monthly rents.)

- 8.10 The SHR recorded data does not allow rent figures to be disaggregated to HMA level, however, using the average figures for ACHA in 2019 (as the lower benchmark RSL with the majority of properties in each area, as well as the only RSL with properties in all of the 9 HMAs) as a conservative proxy indicator for Argyll & Bute generally, the following table compares average rents to incomes. On this basis, affordability in Argyll and Bute would appear to be relatively better than in Scotland as a whole – with the proportion of income spent on housing rent being well below the 25% benchmark. Bute and Kintyre have the lowest rent to income ratios (6.2 and 6.4) and would require the highest proportion of income to be used to meet the average local rent (16.2% and 15.7%) while Helensburgh & Lomond appears to be most affordable (incomes are 10 times the average rent, and only 10.1% of the average income is required to meet the average rent in this HMA).



**TABLE 8.4: RSL Rent to Income (mean) by HMA (est. based on ACHA's rents 2019)**

HMA	Average Rent	Average Income	Rent: Income	Rent as % of Income
COWAL	£4,603.04	£31,739	6.9	14.5%
BUTE	£4,181.84	£25,813	6.2	16.2%
COLL & TIREE	£4,644.12	£34,064	7.3	13.6%
HELENSBURGH & LOMOND	£4,336.28	£42,772	9.9	10.1%
ISLAY, JURA & COLONSAY	£4,643.08	£32,344	7.0	14.4%
KINTYRE	£4,404.92	£28,015	6.4	15.7%
LORN	£4,475.12	£38,224	8.5	11.7%
MID ARGYLL	£4,468.36	£35,508	7.9	12.6%
MULL & IONA	£4,691.44	£37,488	8.0	12.5%
ARGYLL & BUTE	£4,500.62	£35,762	7.9	12.6%

Source: ACHA Annual Stock Return, 2019 & CACI Paycheck 2019

8.11 A note of caution is required however, as the average income refers to the population as a whole, whereas it is reasonable to assume that social rented tenants are likely to have below average income levels and will be widely dependent on benefit assistance. Therefore, in reality, affordability in the sector will be considerably worse than the above analysis suggests. Alternative analysis was carried out based on lower quartile incomes for each HMA, in order to provide a more realistic assessment of affordability for social rented tenants.

**TABLE 8.5: RSL Rent to Income (LQ) by HMA (est. based on ACHA's rents 2019)**

HMA	Average Rent	Lower Quartile Income	Rent: Income	Rent as % of Income
COWAL	£4,603.04	£14,617	3.2	31.5%
BUTE	£4,181.84	£11,093	2.7	37.7%
COLL & TIREE	£4,644.12	£16,644	3.6	27.9%
HELENSBURGH & LOMOND	£4,336.28	£19,508	4.5	22.2%
ISLAY, JURA & COLONSAY	£4,643.08	£15,208	3.3	30.5%
KINTYRE	£4,404.92	£12,449	2.8	35.4%
LORN	£4,475.12	£17,892	4.0	25.0%
MID ARGYLL	£4,468.36	£16,507	3.7	27.1%
MULL & IONA	£4,691.44	£18,189	3.9	25.8%
ARGYLL & BUTE	£4,500.62	£15,987	3.6	28.2%

Therefore, while the social rented sector is markedly more affordable than the private rented sector, and is substantially more affordable for the general population, it does nevertheless present issues for the section of the population who are most reliant on this tenure and are most economically vulnerable. In summary, the following table illustrates the relative affordability of social and private rented sectors in Argyll and Bute. The higher ratio indicates greater affordability, i.e. less income required to meet rental costs.

**Table 8.6: Comparative Affordability in the RSL & PR Sectors, 2019**

Argyll & Bute	Average Rent	Average Income	Rent: Income Ratio	Rent as % of Income
RSL	£4,501	£35,762	7.9	12.6%
PRS*	£6,684	£35,762	5.4	18.7%

Source: CACI Paycheck 2019; Scottish Govt. PRS Rental Analysis 2019; & SHR Landlord Report 2019

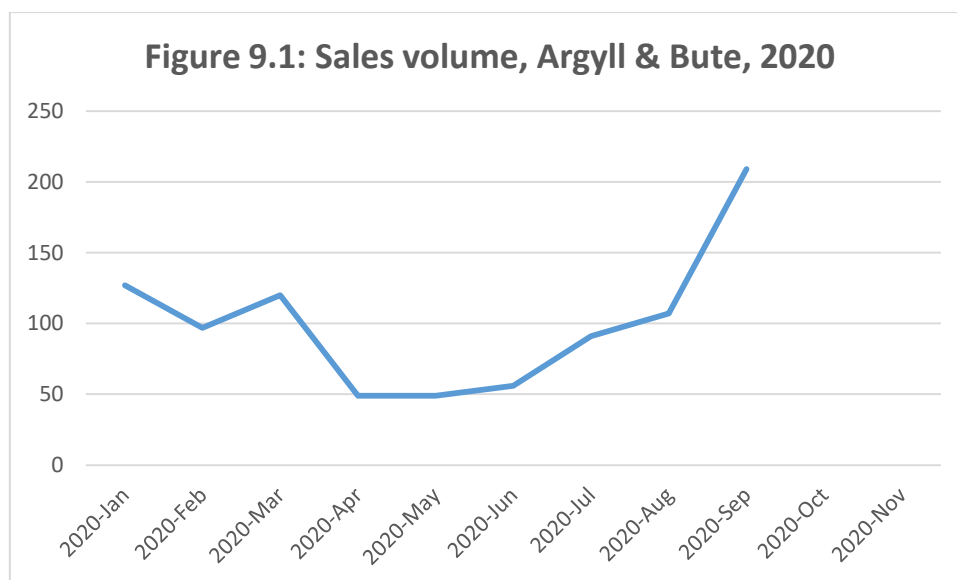
\*This is calculated from data published by the Scottish Government in the BRMA Rent Profile for Argyll & Bute, 2019; using a sample of 499 PRS properties ranging from “one bedroom shared” to “4 bedrooms”.

**NOTE:** This analysis is supplemented by the findings of the Arneil Johnston Research Report into the Argyll and Bute Private Rented Sector (2021), which also provides further detailed information and comparisons of affordability by tenure, location, and property size and type.

## 9.0 Note on the impact of Coronavirus on the local Housing Market.

9.1 At the time of writing, a great deal of uncertainty still remains regarding the long term impact of the pandemic on the operation of the local housing market. Projecting future trends on the basis of the unprecedented experience of 2020 would be difficult at best, and could not be deemed robust and credible at this stage. Data for this turbulent year is limited and incomplete, and the immediate implications of the pandemic look set to continue well into 2021.

9.2 The Registers of Scotland have released some high level statistics on house sales at local authority and national level, on a monthly basis for most of 2020, although data is incomplete for the final quarter. As might be expected, market activity declined sharply after March (when essentially sales were frozen and movement was curtailed) and remained suppressed in the following months, but thereafter there was a sharp and significant increase particularly in August and September, as restrictions eased and a backlog of sales were completed.

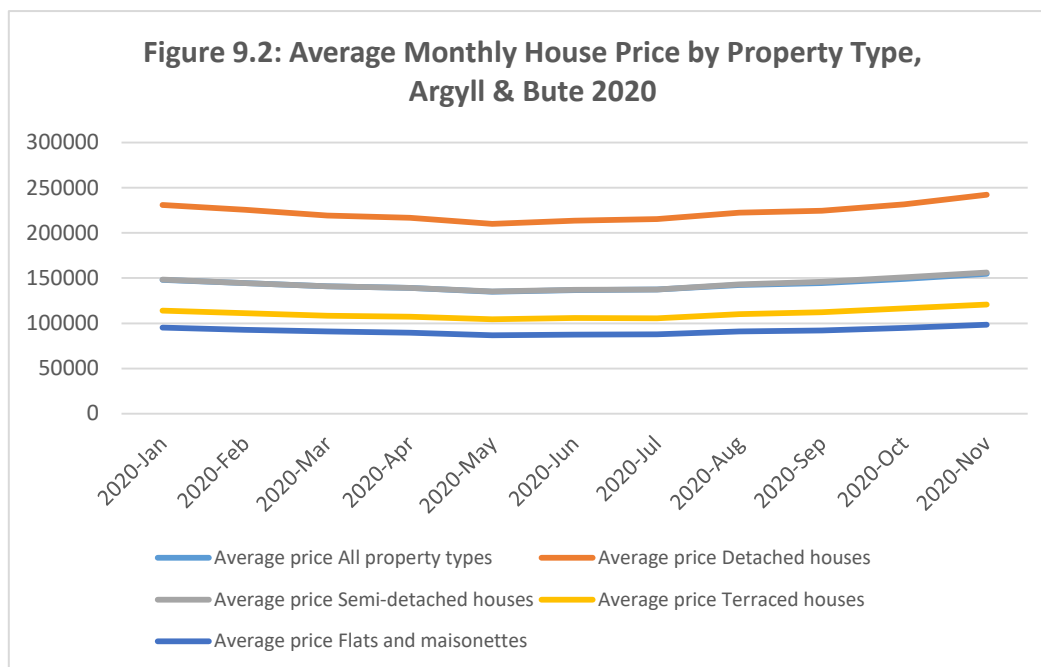


**Source: Registers of Scotland, 2021**

9.3 These official statistics confirm anecdotal evidence and perceptions of local housing professionals, that a number of areas across Argyll and Bute have experienced a sharp increase in interest and activity, including rural or island areas such as Bute where previously the market had tended to be depressed or stagnating. It is unclear whether this flurry of property sales relate to genuine home buyers relocating to a new permanent home, or speculative purchasers taking the opportunity to acquire second or holiday homes, or properties to rent out in the short-term letting sector (i.e. Airbnb style).

9.4 In terms of house type, all properties followed a similar price trend in 2020. The average price for semi-detached properties was more or less contiguous with the average price of all property types combined, which is why that line is

not visible in the following graph. Despite the market decline during the first wave of the pandemic and the initial lockdown period, by November average prices for all property types had risen above the average at the start of the year, pre-Covid.



Source: Registers of Scotland, 2021

9.5 The following table summarises the average monthly house prices by type of purchaser and nature of transaction.

Table 9.1: Average House Price by Nature of Purchase, Argyll & Bute, 2020

2020 Month	First-time buyers	Former owner-occupiers	Cash purchases	Mortgage purchases	New build	Existing properties
Jan	£114870	£172608	£147114	£149146	£155817	£148048
Feb	£111823	£168488	£143412	£145425	£154164	£144341
Mar	£109184	£164299	£139975	£141838	£153038	£140811
Apr	£107840	£162109	£138136	£140044	£151473	£138980
May	£104873	£157224	£134130	£135986	£147925	£134916
Jun	£105969	£159478	£135852	£137679	£147945	£136700
Jul	£106138	£160569	£136585	£138192	£147876	£137351
Aug	£110208	£166153	£141480	£143277	£153880	£142314
Sep	£112084	£168101	£143300	£145446	£157969	£144229
Oct	£115896	£173154	£147803	£150122		
Nov	£120205	£180381	£153786	£155984		

Source: Registers of Scotland, 2021

9.6 In summary, following the initial re-opening of the housing market at the end of June 2020, the sector reported record levels of property movement. Much of this may be attributed to pent-up demand. However, the pandemic may also have influenced a potential behavioral shift for many people who were led

to re-evaluate their lifestyles, aspirations and priorities in the longer term. Households therefore may want to move home for many different reasons.

- Home working and commuting

Having experienced lockdown, more employers and employees acknowledge that working from home will be a positive and realistic option beyond the pandemic. Consequently, more people are likely to seek accommodation which includes or facilitates extra space for a working environment within their home. Purchasers are also likely to appreciate that commuting to a place of work on a daily basis may no longer be a priority, and therefore will find rural and remoter locations more attractive and viable as permanent options. These locations can often offer better value for money and larger living space than traditional urban properties; and may also include an annex, garage or similar extension suitable for conversion into appropriate work space.

- Gardens and wider environmental living spaces

During lockdown people became aware of the importance of having their own outdoor space and the benefits of more flexible, habitable environments. As a consequence, it is likely that there will continue to be a significant increase in the number of households seeking, or aspiring to, properties with gardens or some form of natural space, particularly those with young families, but also for older individuals requiring accessible exercise areas.

- Social/family networks and support

Throughout the pandemic, many people appreciated the increased importance of being near to family, friends, supportive communities and networks, both in practical terms and in respect of general health and mental well-being. Isolation and loneliness became increasingly significant concerns for a lot of people and countering this therefore became a greater priority. This is likely to influence many people to relocate in order to be closer to family and friends and to look for properties nearby their support networks.

9.7 In general, Argyll and Bute provides a housing and locational offer which will amply address these issues and priorities; and the attraction of a rural idyll within a natural, healthy environment, removed from the increased potential risks of viral infection and transmission in the urban setting, is likely to stimulate increased in-migration and movement within the housing market. Nevertheless, alternative scenarios must be considered, and the longer term impact of the pandemic could equally result in a degree of out-migration if households have either experienced or fear isolation or inadequate access to amenities, health and support services, or general supply chains at times of crisis. Ongoing monitoring and further data collation and analysis will be required to establish robust forecasts for future market assessment across Argyll and Bute's HMAs.

## **10.0 CONCLUSION**

### **10.1 Argyll and Bute Market Review**

Transaction levels in Argyll & Bute have largely followed the wider national trends, until very recently. Levels in the local authority area reached a peak figure of 681 in Q4 2006 before falling sharply, due to the impact of the previous financial crisis, to a trough of 206 sales in the first quarter of 2009. Since then there was steady market recovery, matching the Scottish levels of growth, until the coronavirus pandemic struck in early 2020.

Average prices in Argyll & Bute have historically tended to sit around national levels. However, the price growth recorded in Scotland prior to covid was not matched by Argyll & Bute. This led to a gap in average prices between the two areas, with the Q1 2019/20 Argyll & Bute average of £164,743 being around £14,089 below the corresponding Scottish figure. Market turnover has followed a similar pattern to transactions in both Argyll & Bute and Scotland, with growth following the recession.

Prior to the pandemic, Rettie & Co anticipated that average house prices would rise in Scotland by around 19% over the next five years, despite economic downside risks, as the market was expected to remain in a condition of excess demand. The Argyll & Bute market was expected to see average price increase too, but probably in a more limited fashion, as has been the case in recent years.

The after-shock of the pandemic and resultant economic recession, along with the subsequent policy responses, could continue to restrict the availability of mortgage finance for a considerable period. First-time buyers who do not have family assistance are faced with barriers from higher deposit requirements and increasing property prices as purchaser priorities and aspirations evolve.

The private rented sector has always had a significant role within Argyll & Bute, especially for younger households and it has been estimated that the sector now houses the majority of young households across Scotland. Many households on below-average incomes in this sector experience significant affordability issues, with poorer households paying on average about half of their income in rent. Although aspirations for home ownership remain, without assistance from parents or others, these households will struggle to accumulate sufficient savings for the level of deposit now required to become home owners, and they are also now faced with the prospect of significant cuts to housing benefit by the UK government.

At the local level, affordability remains a critical issue across the housing system and across the HMAs. Owner occupation is likely to remain an unachievable aspiration for many local households and there will be a need to ensure that the rented sectors have sufficient capacity to meet levels of demand. Impacts such as mortgage restrictions continue to affect the housing market.

If the social rented sector is seen primarily as a safety net for those in extreme housing need; and private market renting or ownership is beyond the means of a significant proportion of households, then there is a strong case for expanding the role of intermediate or alternative tenures, such as shared equity, low cost home ownership, or, in certain circumstance, mid-market rents.

Further detailed analysis of these issues, and of affordability in the PRS in particular, along with a review of the potential impact of the short-term letting sector on the Argyll and Bute system is contained in the research report which the council commissioned from independent consultants Arneil Johnston in 2019/20. This report is available with other HNDA Technical Supporting Papers and research from the Council Housing Services and online at:-

<https://www.argyll-bute.gov.uk/housing/housing-strategies-consultations-and-research-0>

## **11.0 IMPLICATIONS FOR THE LHS**

Options for directly influencing the open private housing market are relatively limited; however the council and its partners do aim to promote a balanced and accessible housing system, and should therefore promote effective strategic interventions and measures to reduce inequalities based on affordability and constrained supply, as far as possible.

Given the trend of increasing divergence between local household incomes and local house prices or rent levels, effective interventions are likely to fall into two broad categories: reducing costs of accessing accommodation, and maximising household income where possible. Potential options for consideration in the LHS would include the following.

Basic market forces indicate that increasing supply should effect prices/rents within a local housing system. It would be necessary however to ensure that a significant proportion of any new build supply or consequential stock remains affordable for long term/permanent occupation and is not disproportionately acquired as either second/holiday homes or for the short-term letting sector. A key need and demand has been identified from primary research and stakeholder consultation, in terms of intermediate households, often in secure employment and with reasonable incomes, who nevertheless lack the wherewithal to access open market properties or to rent privately, but who also would not be deemed to meet the criteria for housing need required to access the safety net of the social rented sector. In these instances, increasing the supply of affordable, intermediate tenures such as subsidised, low-cost home ownership; shared equity; mid-market rents; and self or custom-build models; would have a positive impact and address an identified gap.

