

# Scottish Government Return on Help to Buy (Scotland)

## Key Figures:

- From the start of HTB (Scotland) in September 2013 until the end of March 2020, 17,250 new build properties have been purchased with assistance from HTB (Scotland). The value of equity loans extended by the Scottish Government under HTB (Scotland) over this period has amounted to £550m.
- At the end of March 2020, 2,190 (12.7%) HTB (Scotland) properties had either been sold or the buyer had increased their equity share to 100%. The vast majority of these cases involved the sale of properties, with just over 100 cases relating to properties where the buyer increased their equity share to 100%.
- With respect to these 2,190 properties, the Scottish Government has made a nominal net return of £5.2m. Adjusting these nominal values for inflation, the real net return is lower but still positive at £0.3m. Applying discounting to these real values, the discounted net cost to the Scottish Government is £8.8m; this must be set against the benefits of the scheme in terms of helping households who would not otherwise have been able to buy, thus boosting new build output (as set out in the external evaluation of the Scottish Government's shared equity schemes).
- The mean nominal annualised return on these 2,190 properties is 2.0% per annum (0.2% in real terms). Had the value of the properties in this analysis increased in line with trends in the average Scottish house price, the mean nominal annualised return would have been slightly higher, at 2.8%.
- In the vast majority of cases (87%), the mean nominal annualised return was greater than, or equal to, zero.
- By the end of 2019/20, just under one-third (32%) of HTB (Scotland) properties originally purchased in 2013/14 had been sold, or the owner had tranced up to 100%.

## 1. Introduction

1.1 This note contains information on the return made on the Scottish Government's investment through Help to Buy (HTB) (Scotland) from the launch of the scheme in September 2013 to the end of March 2020.

1.2 HTB (Scotland) helps buyers purchase a new build property in Scotland through the provision of an equity loan, which reduces the size of the mortgage amount that a buyer needs to take out. The Scottish Government's interest in the property – a percentage of the value of the property, determined by the size of the equity loan relative to the purchase price – is repaid when the buyer sells the property, or tranches up. The latter is when the buyer increases their equity stake in the property. No interest is charged on HTB (Scotland) equity loans<sup>1</sup>.

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<sup>1</sup> Further scheme information can be found at <https://www.gov.scot/policies/homeowners/help-to-buy/>

## 2. Data

2.1 The data in this report is from Scottish Government financial records, and contains the value of the equity loan at the time the property was purchased and at the time of sale, as well as the timing of these events. This data is supplemented with information on properties where the buyer has 'tranching up' their equity share to 100%.

2.2 The data contained in this report is not Official Statistics or National Statistics and has been collated by the Scottish Government as management information for the purposes of policy monitoring only.

## 3. Scottish Government Return

3.1 From the start of HTB (Scotland) in September 2013 until the end of March 2020, 17,250 new build properties had been purchased with assistance from HTB (Scotland), with the total value of equity loans extended by the Scottish Government under HTB (Scotland) amounting to £550m over this period.

3.2 At the end of March 2020, 2,190 (12.7%) HTB (Scotland) properties had either been sold or the buyer had increased their equity share to 100%. The vast majority of these cases involved the sale of properties, with just over 100 cases relating to properties where the buyer increased their equity share to 100%.

3.3 With respect to these 2,190 properties bought through HTB (Scotland) in which the Scottish Government no longer holds a stake, in nominal terms (i.e. not adjusting for the effects of inflation), the Scottish Government had extended equity loans to the value of £73.4m and received £78.6m in return (when the buyer sold their property or tranching up to 100%). This is a net return of £5.2m. In real terms (i.e. adjusting for the effects of inflation<sup>2</sup>), the net return is lower, but still positive, at £0.3m.

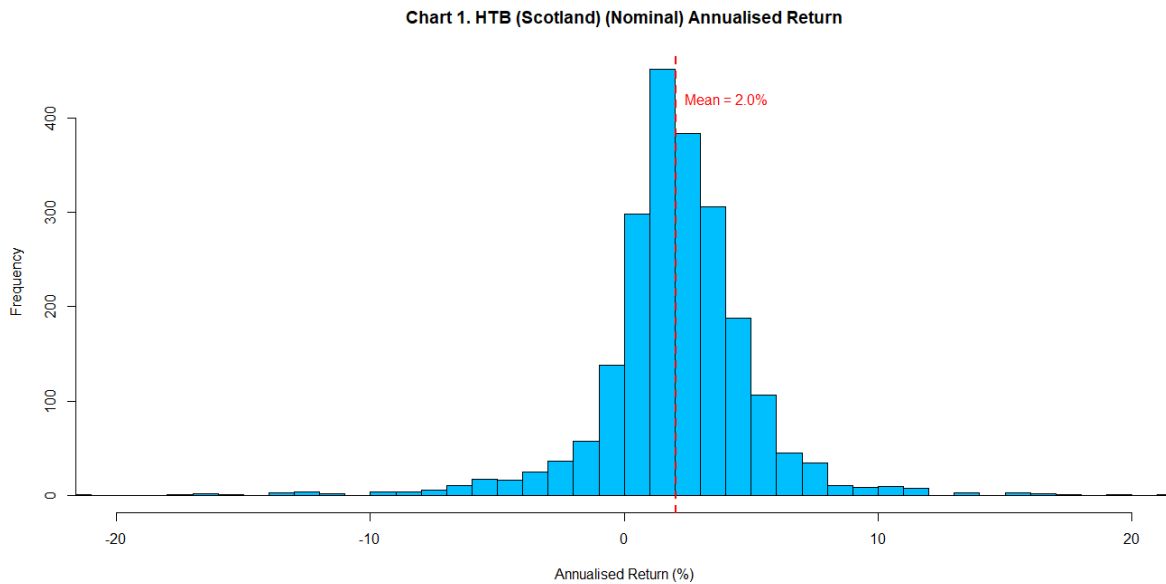
3.4 Table 1, below, summarises the return on the Scottish Government's investment in HTB (Scotland) from September 2013 to March 2020.

**Table 1.** Scottish Government net return on properties bought through HTB (Scotland) in which it no longer holds a stake: To March 2020

Basis	Net return
Nominal	£5.2m
Real	£0.3m
Mean (Nominal) Annualised Return	2.0%
Mean (Real) Annualised Return	0.2%

<sup>2</sup> Data adjusted using HM Treasury GDP deflator and expressed in 2019/20 prices.

3.5 Chart 1 is a histogram of the nominal annualised return<sup>3</sup> for each of the 2,190 HTB (Scotland) properties included in this analysis (the x-axis is limited to -20% to 20% for ease of interpretation, which excludes 5 cases). The mean nominal annualised return was 2.0%. In the vast majority of cases (87%), the mean nominal annualised return was greater than, or equal to, zero.



#### 4. Performance Relative to Wider Scottish Housing Market

4.1 To compare the change in price of HTB (Scotland) properties sold, or where the owner tranchised up to 100%, with the performance of the wider Scottish housing market, the purchase price for each of the 2,190 cases in this analysis has been uplifted in line with the change in the average Scottish house price. Specifically, the percentage change in the average Scottish house price (taken from the UK HPI) between the financial year the property was purchased in and sold in is calculated, then applied to the purchase price of the HTB (Scotland) property. This returns the expected sale price, had a property's value increased in line with the average Scottish house price.

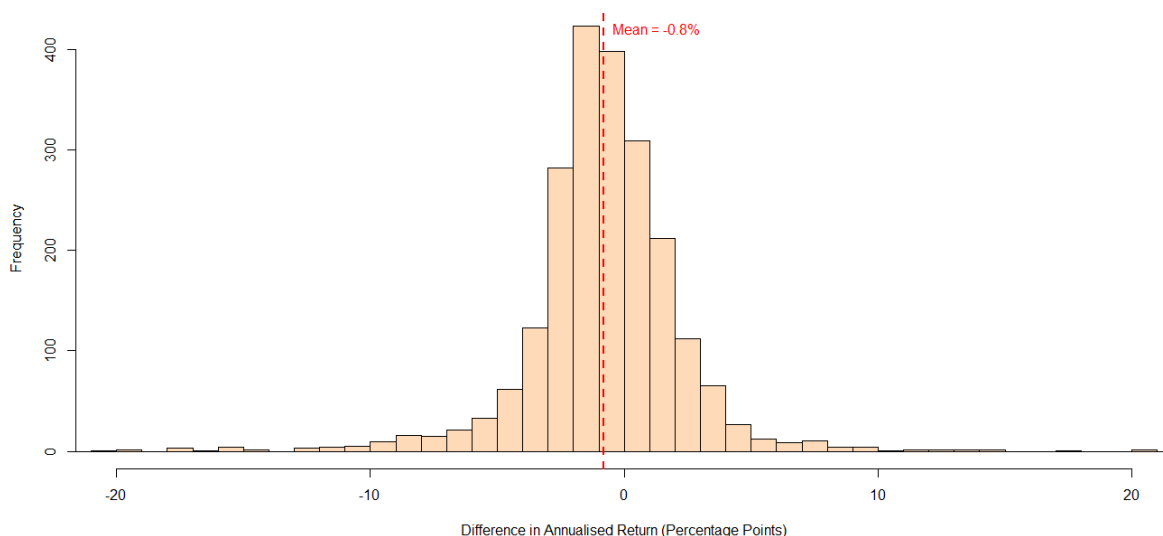
4.2 The profile of properties purchased through HTB (Scotland), and subsequently sold, may not necessarily be the same as the profile of the Scottish housing market as a whole. For instance, HTB (Scotland) properties were all built recently, and purchased for an amount less than or equal to the relevant HTB (Scotland) price cap (which has been progressively lowered to £200K). However, for the purpose of gauging the extent to which the value of HTB (Scotland) properties have tracked trends in the Scottish housing market, the average Scottish house price is a reasonable benchmark.

4.3 Had the value of the properties in this analysis increased in line with trends in the average Scottish house price, the mean nominal annualised return would have been slightly higher, at 2.8%. Chart 2 is a histogram of the difference between the

<sup>3</sup> This is the percentage difference between the sale price and purchase price, expressed on an annual basis.

achieved annualised return, in nominal terms, and the HPI adjusted annualised return (the x-axis is limited to -20% to 20% for ease of interpretation, which excludes 6 cases). The mean difference was -0.8 percentage points.

Chart 2. Difference in (Nominal) Annualised Return Between HPI Benchmark and Outturn Data



## 5. Discounted Cost of Scottish Government Investment in HTB (Scotland)

5.1 Discounting allows for costs and benefits with different time spans to be compared on a common “present value” basis. The public sector discount rate adjusts for social time preference, defined as the value society attaches to present, as opposed to future, consumption. The HM Treasury Green Book discount rate is set at 3.5% per annum in real terms<sup>4</sup>.

5.2 Discounting requires that costs and benefits are first expressed in real terms. In 2019/20 prices<sup>5</sup>, the Scottish Government had extended equity loans in these 2,190 properties totalling £79.8m, and received £80.0m in return. The discounted return was £70.9m in 2019-20 prices. This implies a discounted net cost to the Scottish Government from investment in HTB (Scotland) of £8.8m<sup>6</sup>.

5.3 This calculation only considers the cost of extending equity loans. HTB (Scotland) has had, and continues to have, an important role in supporting activity and employment within the Scottish house building sector. An independent evaluation<sup>7</sup> of the Scottish Government’s shared equity schemes noted that HTB (Scotland) had helped developers reach buyers who would otherwise have been unable to buy, increasing sales volumes, and increasing demand for new build properties.

<sup>4</sup> More information can be found at <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

<sup>5</sup> Data adjusted using HM Treasury GDP deflator

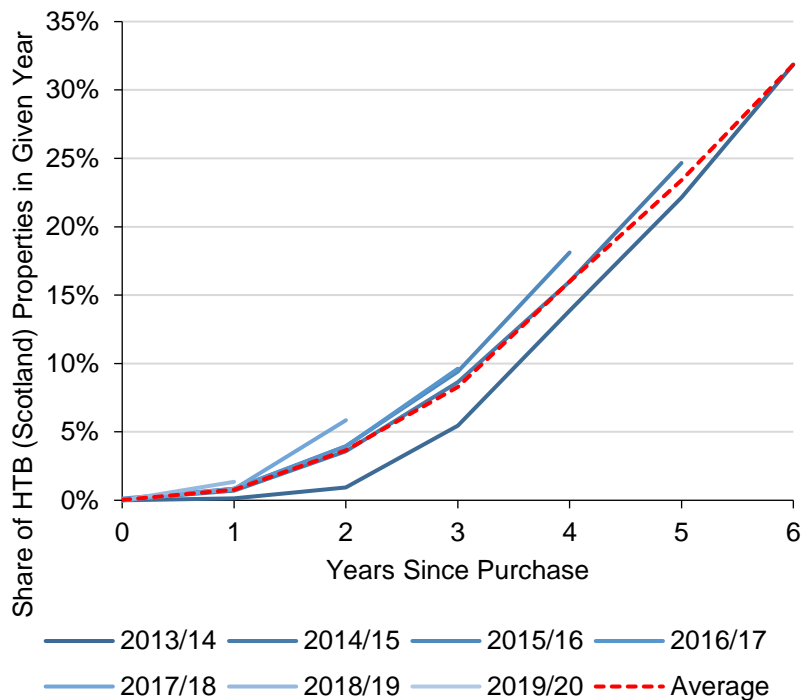
<sup>6</sup> Figures rounded to nearest £100,000 so may not sum.

<sup>7</sup> Available at <https://www.gov.scot/publications/evaluation-scottish-government-shared-equity-schemes/>

## 6. Rate of Sales of Properties Purchased with HTB (Scotland)

6.1 Chart 3 plots the share of HTB (Scotland) properties that have since been sold, or the owner has tranced up to 100%, by year of original purchase. The x-axis refers to the number of years since the property was originally purchased using HTB (Scotland).

**Chart 3.** Share of HTB (Scotland) properties that have been sold/owner tranced up to 100% (by year of original purchase)



6.2 By the end of 2019/20, just under one-third (32%) of HTB (Scotland) properties originally purchased in 2013/14 had been sold, or the owner had tranced up to 100%. Meanwhile, one-quarter of HTB (Scotland) properties originally purchased in 2014/15 had been sold, or the owner had tranced up to 100%, by the end of 2019/20. Chart 3 also shows that properties purchased through HTB (Scotland) in recent years have been resold at a relatively faster rate than properties purchased when HTB (Scotland) started.