



## Housing in an Economic Context:

A Review of The Last 20 Years of Population Growth in Orkney  
and The Effects This Has Had on Housing Provision and  
Availability

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## Introduction and Background

This report will assess the housing situation in Orkney from an economic context, focusing on the challenges around housing in relation to the wider economy and how these challenges are currently and may potentially impact on Orkney's economy, community and demographic. The report will also assess the potential demand for housing over the next ten years and provide some ideas around potential solutions to the current housing issues and how to address the expected additional demand.

ASPIRE Orkney undertook a housing survey over the beginning of 2022 asking those looking for housing what they were looking for in terms of housing. Estate agents were also asked their opinions on the housing market. The results of the survey are outlined below. Alongside the survey an assessment of additional data on house sales, house completions, household and population estimates and projections, migration and the labour market have been undertaken to provide a wider context on the housing market within Orkney and the challenges that Orkney faces over the coming years around demographics and housing provision.

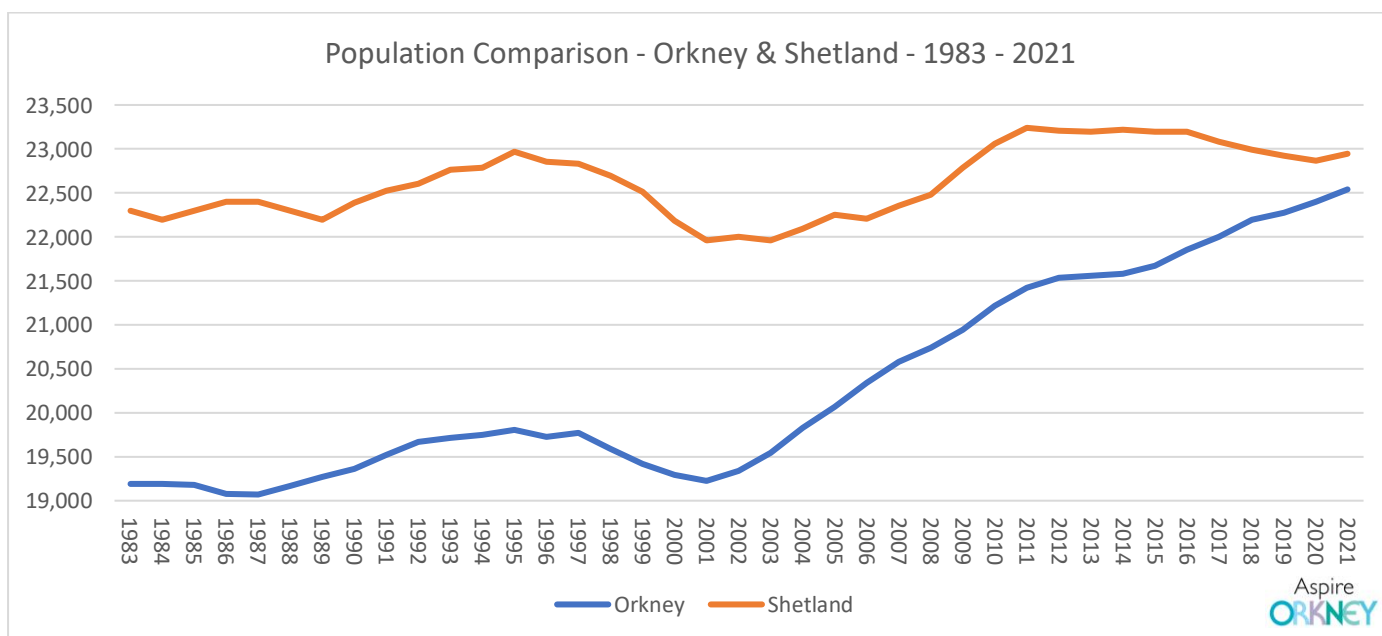
The report has been developed by ASPIRE Orkney, with input from a number of property professionals. The analysis below has been undertaken using data that is publicly available. This means there are areas, like the average private rent figure for Orkney, that it is not possible to accurately estimate as no data is published or data is not available without specific license.

## Demographics and Population Projections

The first area of assessment is population and household numbers. Many island and rural areas of Scotland have seen population decline or stagnation over the last twenty years. Orkney has not and the section below will outline this in more detail.

### Population and Household Numbers

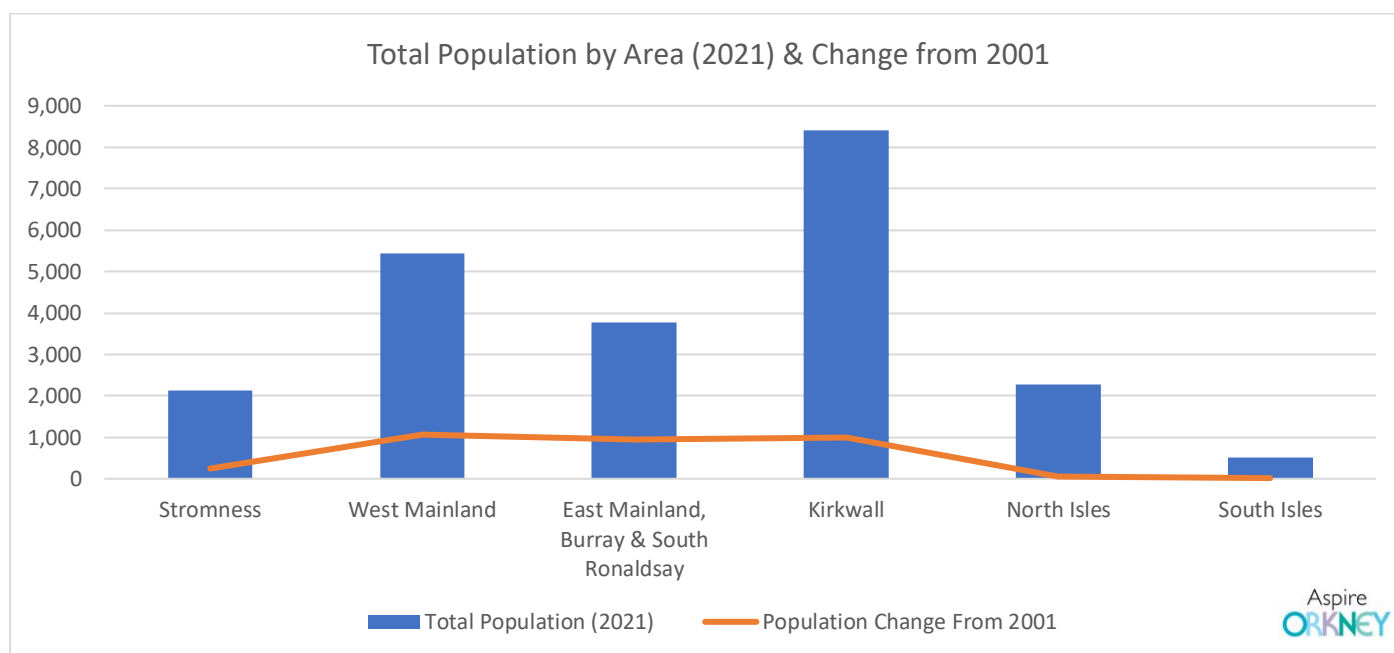
Orkney's population has grown significantly since 2001. The graph below shows the population of Orkney from 1983 – 2021 with Shetland as a comparison.



(Source: National Records of Scotland)

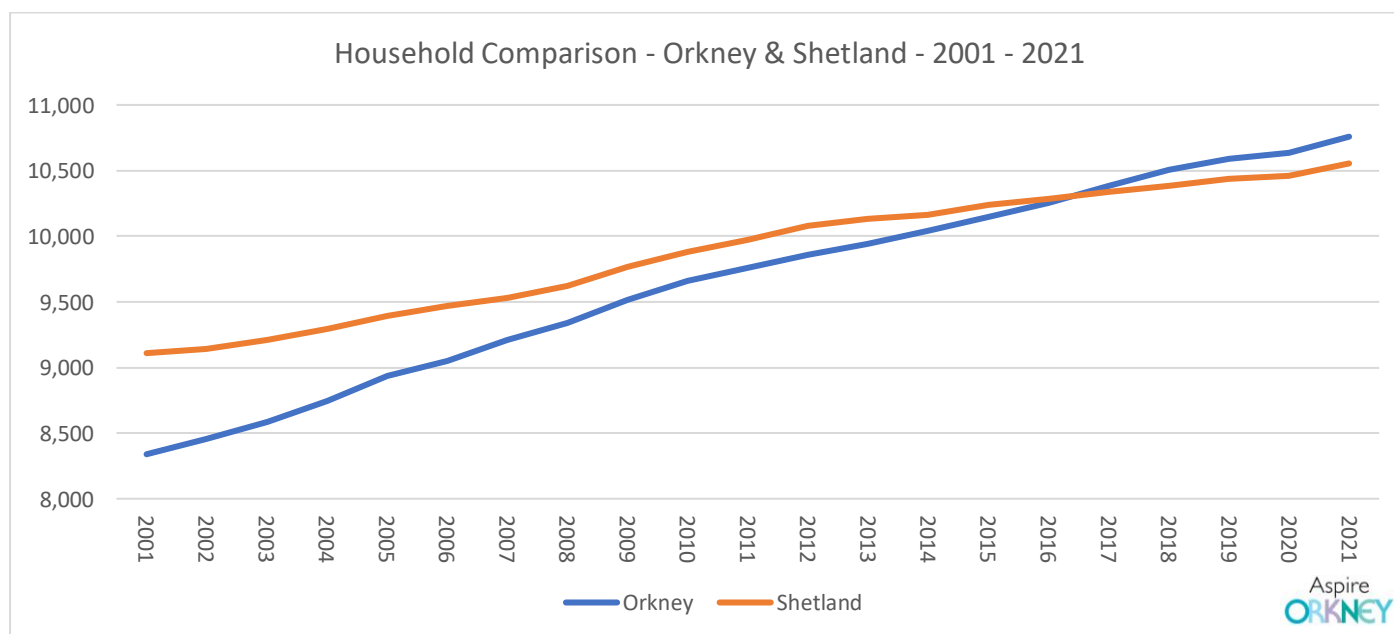
The graphs shows that Orkney has seen a steep estimated increase in population from 19,220 to 22,540 between 2001 and 2021. This is an increase of 3,320 people. Over the same period Shetland saw an increase of 980 people. In fact, Shetland is estimated to have lost 300 between 2011 and 2021, while Orkney's population grew by 1,120.

Breaking down Orkney's population change by area we can see a huge range from Kirkwall, which now has around 8,400 people, to the South Isles, which have around 500. All areas have seen an increase in population over the 20 years between 2001 and 2021, but the East Mainland, West Mainland and Kirkwall are significantly ahead of other areas. The North Isles population peaked at 2,363 in 2007 and the South Isles population peaked at 564 in 2009 before dropping back. All Mainland and linked south isles areas have seen a steady population increase since 2001. The table below utilises National Records of Scotland data, but moves five data zones between these larger super data zone areas (S01011807, S01011816, S01011817, S01011828 and S01011829) and also splits one data zone (S01011815) into two. This gives a better representation of the population by area than the original data presentation by NRS.



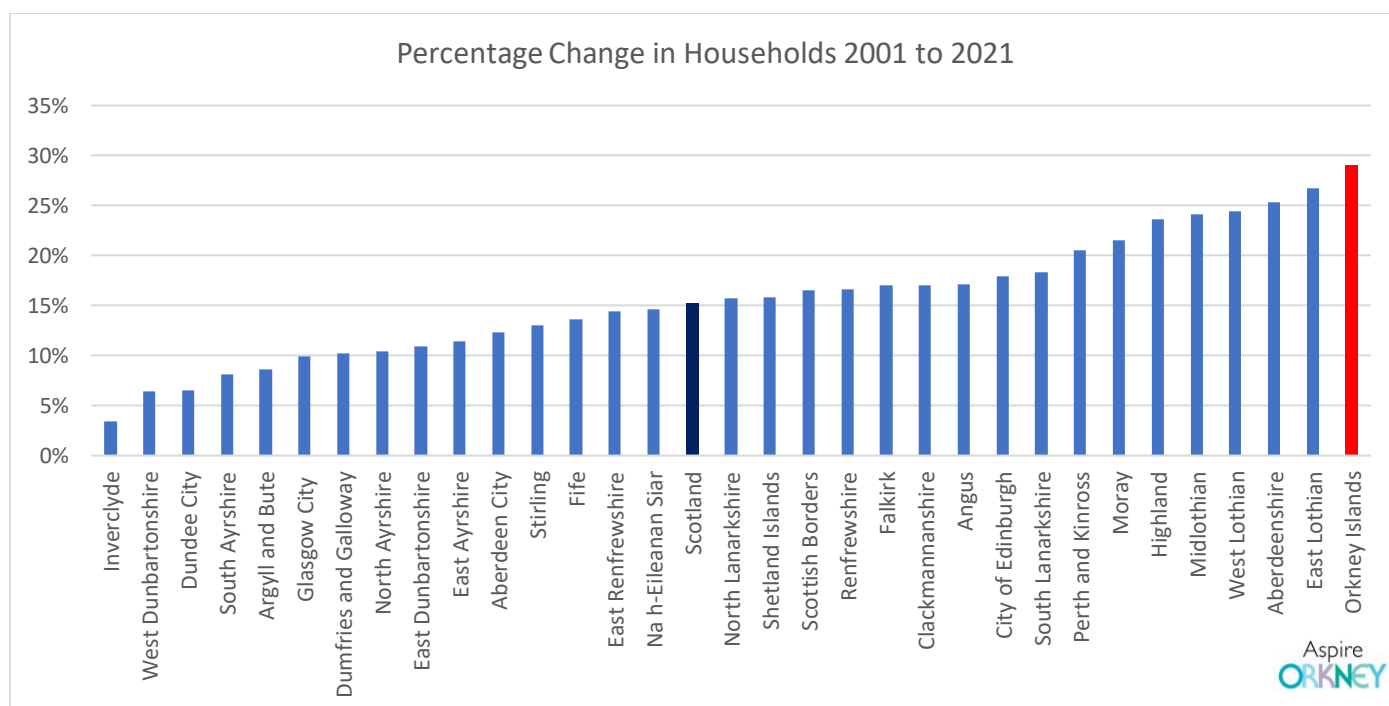
(Source: National Records of Scotland)

Turning to household numbers, the number of households in Orkney has risen from 8,339 in 2001 to 10,758 in 2021. The graph below outlines the increase in households over the period and gives a comparison to Shetland.



(Source: National Records of Scotland)

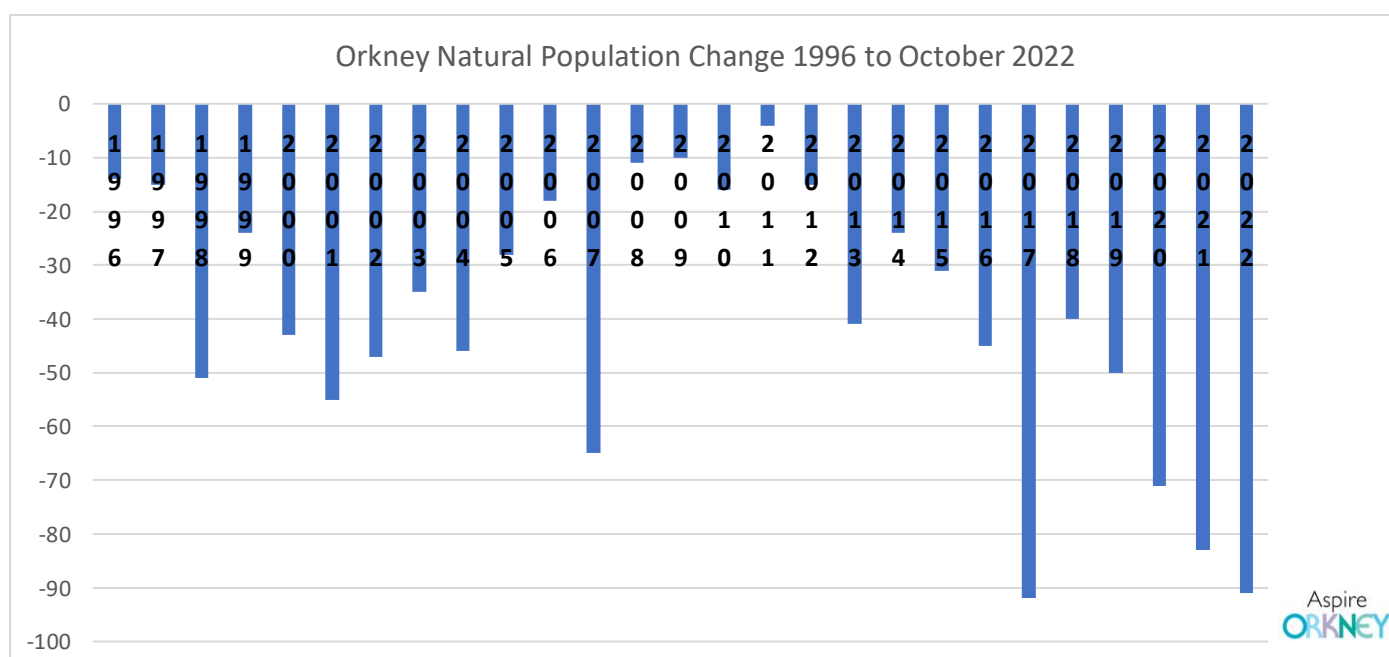
The increase over the last 20 years comes in at 29%, the highest percentage increase of any local authority in Scotland and well above the Scottish average of 15%. The graph below shows the household growth across each Scottish Local authority area with Orkney at the top of the list alongside large council areas like East, West and Mid Lothian and Aberdeenshire.



(Source: National Records of Scotland)

### Natural Population Change

While Orkney's population has increased significantly over the last twenty years, Orkney's natural population change has been negative, meaning the population growth seen has relied on a positive net in-migration. The graph below outlines Orkney's natural population change each year from 1996, up to October 2022.



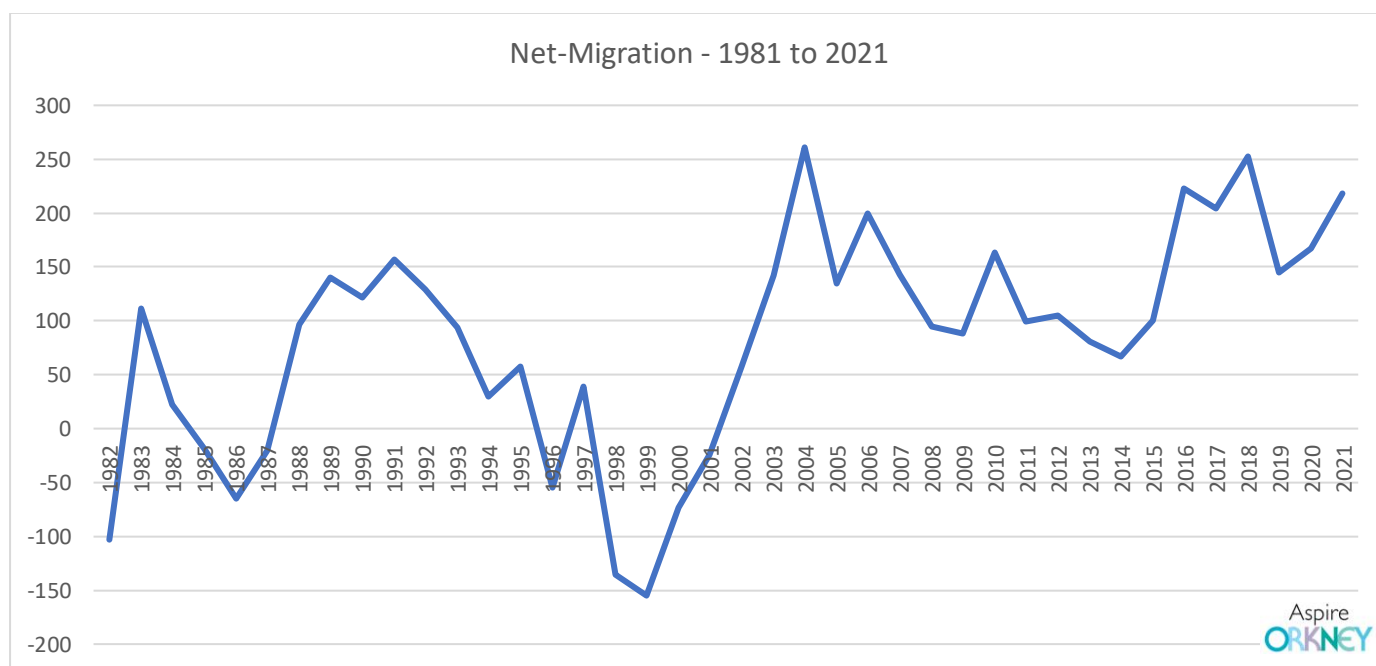
(Source: National Records of Scotland)

The graph shows that every year since 1996 has seen a negative natural population change in Orkney, with four of the five worst figures coming in the last 6 years. Over the period 2002 to 2021 where Orkney's population grew by 2,320, the natural change was -772. This shows the huge impact that migration has had on Orkney's population and the impact there would be on Orkney's population should migration levels fall.

### The Impact of Migration

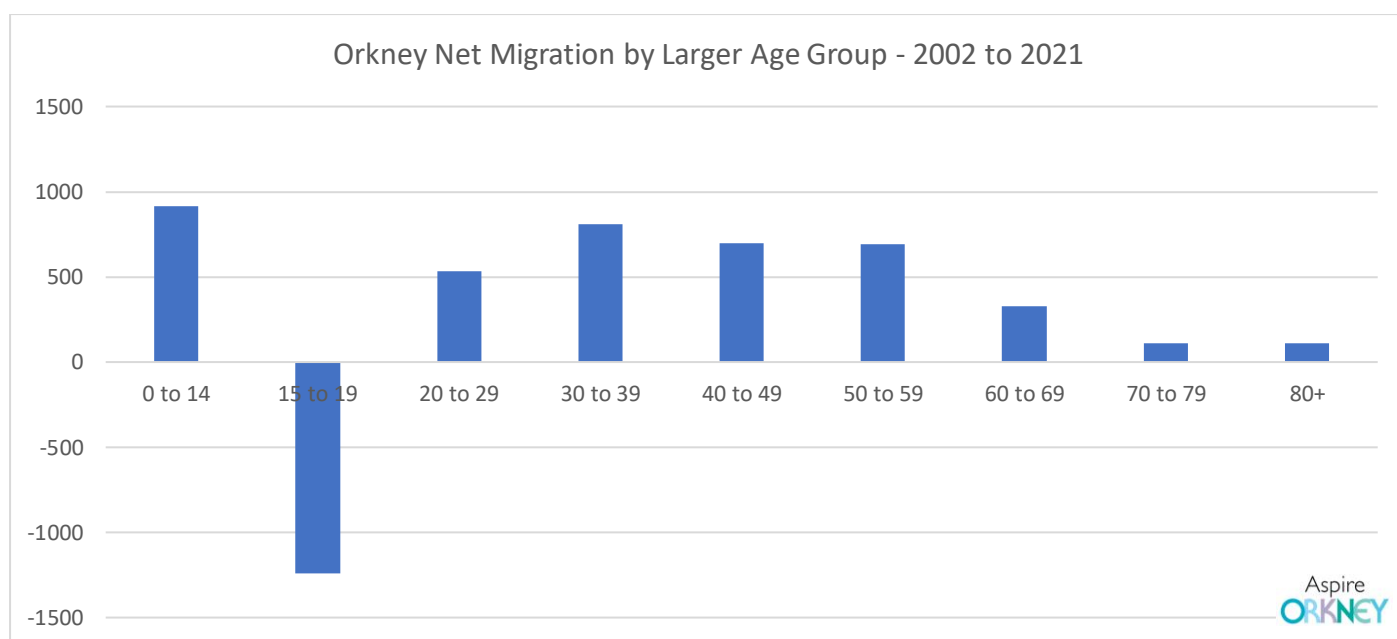
Orkney's increase in households comes from additional households being created by locals through young people looking to set up on their own or relationship breakdown etc and, as outlined above, primarily from a positive net in migration.

The graph below shows the net-migration into Orkney over the period 1981 to 2021. There has been as significant positive net-in-migration into Orkney between 2002 and 2021 averaging 147 people a year. This positive net-in-migration has been the key driver the increase in Orkney's population that is outlined above.



(Source: National Records of Scotland)

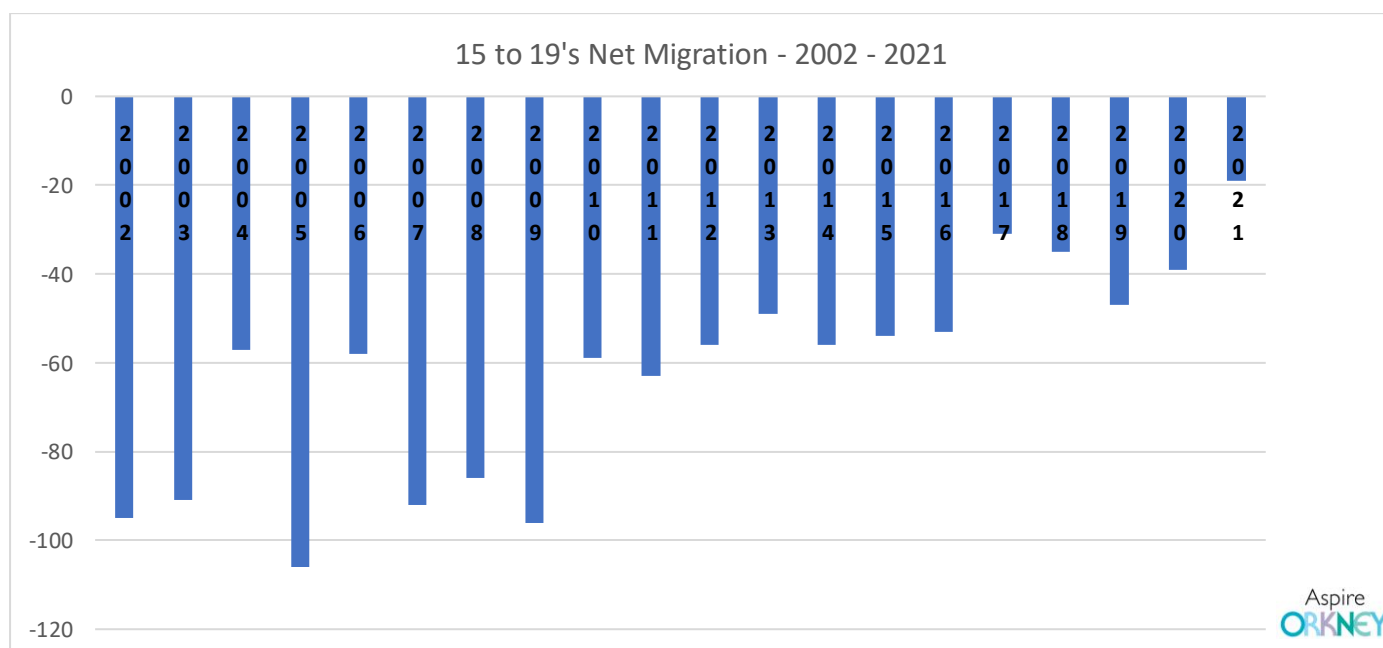
The graph below utilises figures produced by the National Records of Scotland and breaks net-migration down by age group between 2002 and 2021. The figures show that there is a positive net in-migration across all age groups, except for the 15 to 19 age group. These figures also debunk the often-quoted statement that the majority of people moving to Orkney are of the older generation.



(Source: National Records of Scotland)

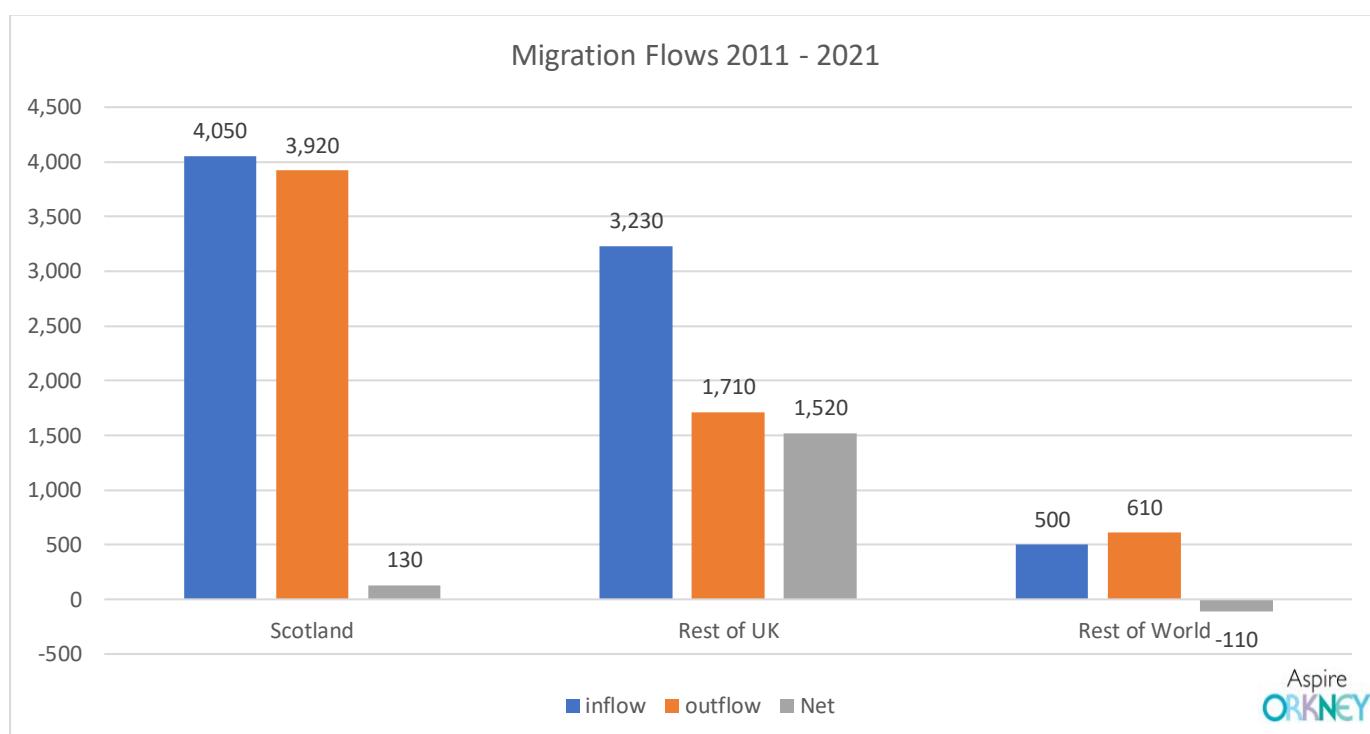
The largest in-migration groups is the working-age group and there are significant numbers of people moving to Orkney in each of the working-age individual brackets. There has also been a significant net-in-migration of children into Orkney over the period. Each of these areas are larger than the in-migration figure for over 60's, which is positive, but at a much smaller level than the other age groups.

The only age group to see a net-out-migration is the 15 to 19 age group. It is well known that a significant proportion of young people head off to higher education outside Orkney at 18 and 19. However, the graph below which breaks down the 15 to 19 net-migration by year shows that the negative figure for 15 to 19 year olds has shrunk significantly over the period and reflects the enhancement of apprenticeship, training and further and higher education options available on Orkney for those one the islands and those looking to move to the islands.



(Source: National Records of Scotland)

Migration to and from Orkney has been estimated by the National Records of Scotland. The graph below outlines the estimated inflow and outflow to Scotland, the rest of the UK and the rest of the World.

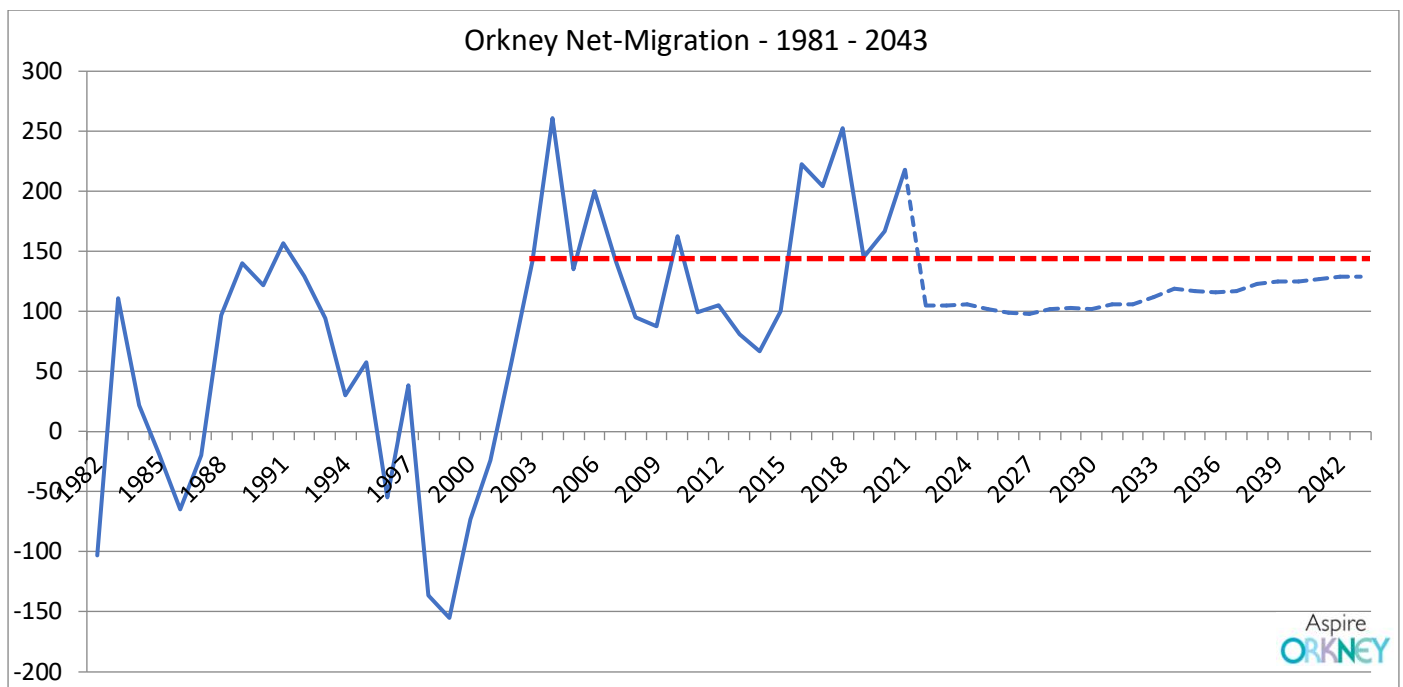


(Source: National Records of Scotland)

The graph highlights that while more people have moved to Orkney from elsewhere in Scotland than the rest of the UK and rest of the World combined, significantly more people have left Orkney for Scotland as well, which makes sense when considering that most young people heading away to university go to universities in Scotland. More people have moved away from Orkney internationally than have moved to Orkney, making the rest of the World area the only area with a negative figure. Brexit may well be a factor in this figure, as well as students coming to study in Orkney at Heriot Watt and UHI who then return to their home country following their studies. This means that the majority of the net-population increase in Orkney has come from the difference between those moving to Orkney from the rest of the UK and those moving to other regions within the UK.

The graph below adds a projection through to 2043 to the net-migration to Orkney between 1981 and 2020 graph outlined above. The graph shows the average yearly increase in households between 2002 and 2021 has been 147 (the red dotted line). National Records of Scotland's projections estimate a lower positive net-in-migration going forward of around 112 households through to 2043.





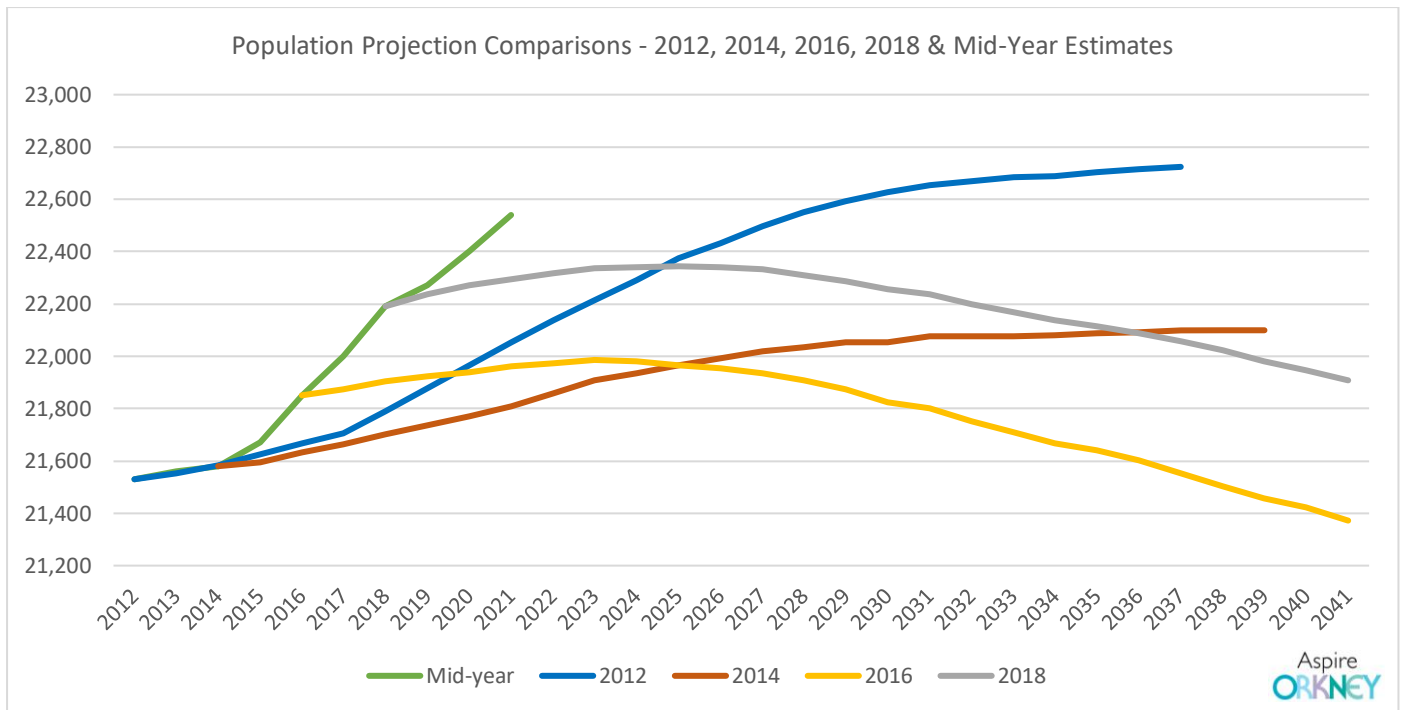
(Source: National Records of Scotland)

One thing to touch on regarding the net-migration projections is that the figures do not take account of available housing stock. While the number of households looking to move to Orkney may well remain strong, unless there is a significant increase in housing supply it is unlikely that the projected levels of positive in-migration will be seen over coming years. There is already evidence of households looking to relocate to Orkney being unable to find housing and that has undoubtedly impacted Orkney’s population growth. The interaction between household growth and house build completions is explored further below.

While strong continued demand from those looking to move to Orkney is a good thing, it does add to the demand for housing, which in turn pushes prices up further. Increasing house prices will impact on who can move to Orkney, as well as who can remain in Orkney. It is expected that older working age households coming to take on highly paid professional roles and over 65’s will be best placed to remain competitive in a rising housing market and that younger working households and families will be less able to compete in a rising housing market. This would have a detrimental effect on Orkney’s demographic and economic sustainability as the younger demographic that is either already in Orkney or looking to move to Orkney is priced out of housing options.

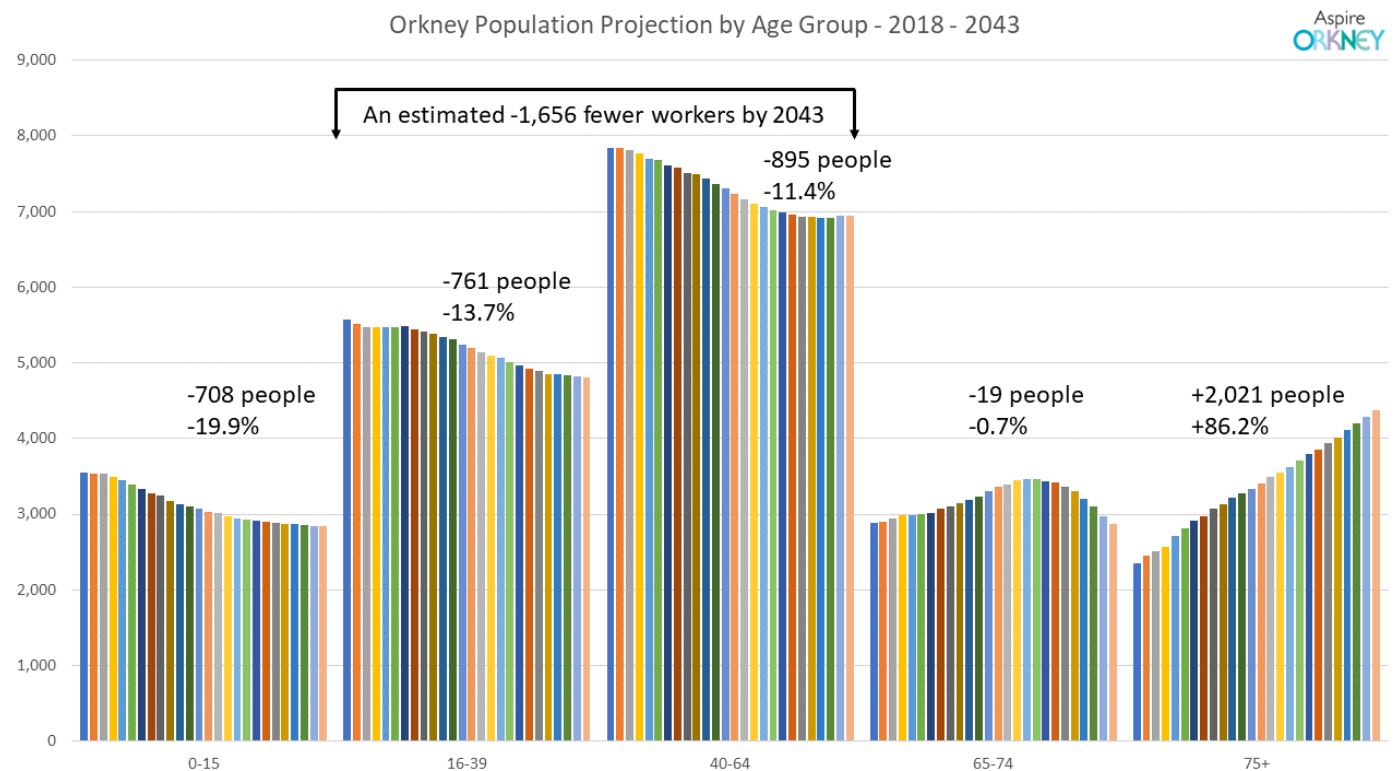
### Population Projections

Looking forward, the National Records of Scotland 2018 based population projections are estimating that Orkney’s population will fall back to around 21,890 by 2043. However, the graph below shows that ever since the population projections started being produced in 2012 Orkney has consistently outperformed them. The graph shows the official projections based on 2012 (blue), 2014 (orange), 2016 (yellow) and 2018 (grey) estimated populations, as well as the mid-year population estimates from 2012 to 2021 (green). As can be seen Orkney population has so far significantly outperformed the most optimistic of the projections which was published in 2012.



(Source: National Records of Scotland)

The structure of Orkney's population is also expected to change over the coming years. The graph below outlines the estimated number of people per age-group for each year between 2018 and 2043. As indicated in the graph the only age group projected to see an increase in its numbers is the 75+ age group which is projected to see an 86% increase from the 2018 figure of 2,345 to an estimated 4,366 by 2043. Over the same period the number of 16 – 64 year-olds is projected to fall by 1,656 people. This will have a huge impact on the ability to staff Orkney's economy, particularly around older person's care where demand looks set to increase and an already stretched labour supply decrease.



(Source: National Records of Scotland)

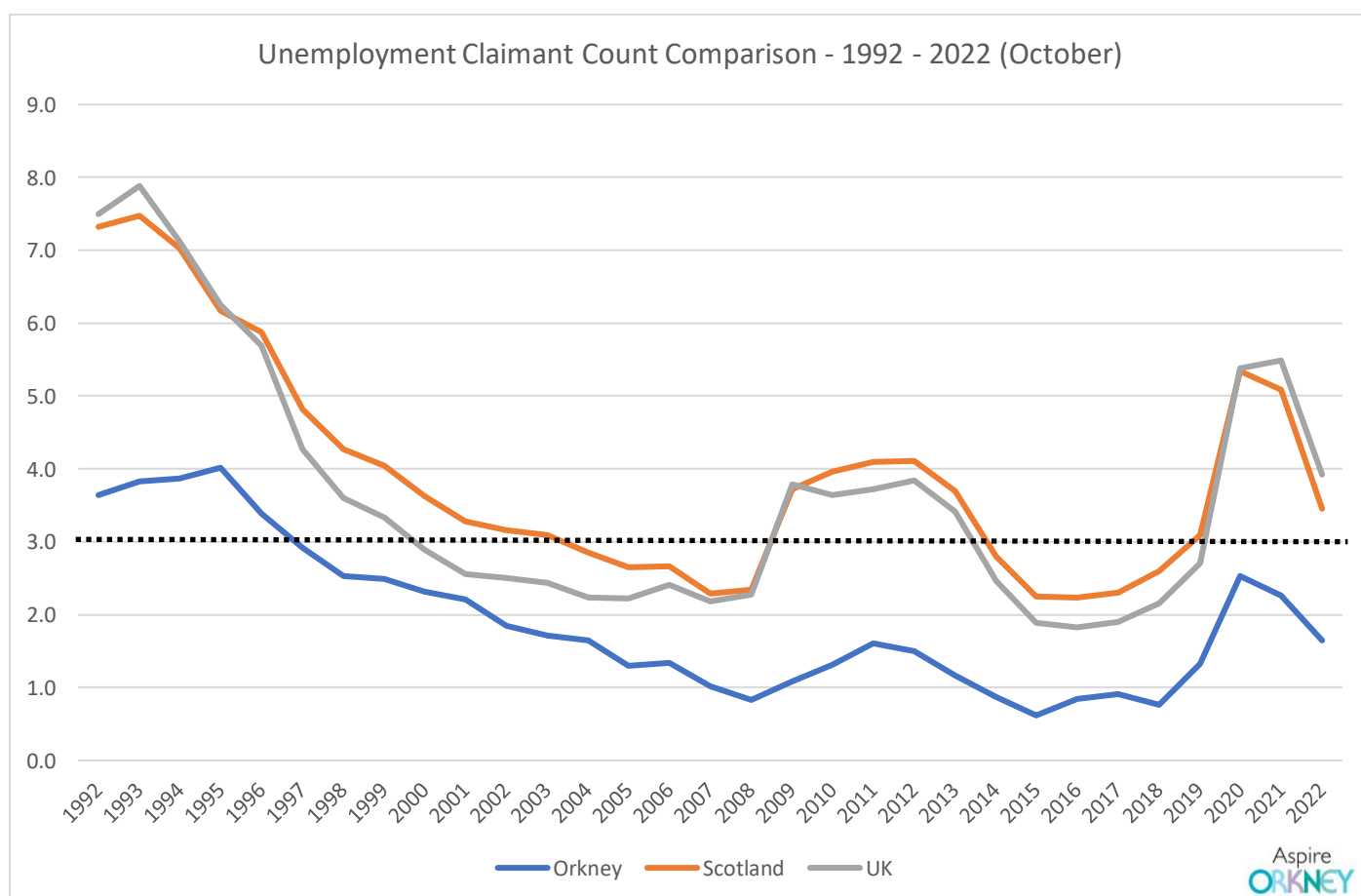
Decisions taken now on housing provision and development will need to take account of the expected shift in Orkney's demographic and can either compound the current and potential issues or help to meet the challenges that the projections raise. Policy decisions should include provision of additional housing for older households, but also additional provision of housing for young people and families in younger demographics to help the long-term sustainability of Orkney's community and economy. Low cost home ownership, mid-market rent and support around self-build and bringing empty properties back into use would be the most targeted option to help households who are currently priced out of the housing market and not highly prioritised for social housing.

## Economic Statistics

### Labour Market and Unemployment

As outlined above Orkney has seen significant population growth over the last 20 years. A high proportion of this growth will be related to the fact Orkney has had a strong economy, very low levels of unemployment and there have been plenty of available jobs.

To evidence the need for all the in-migration that has been outlined above, the graph below outlines the average unemployment benefit claimant count for Orkney, Scotland and the United Kingdom between 1992 and the first ten months of 2022. The graph shows that since 1997 Orkney has consistently had an unemployment rate below the economic definition of full employment, which is 3% and indicated by the dotted line. This has added huge pressure to the local labour market and has increased the need to import additional people to take up jobs.



(Source: NOMIS)

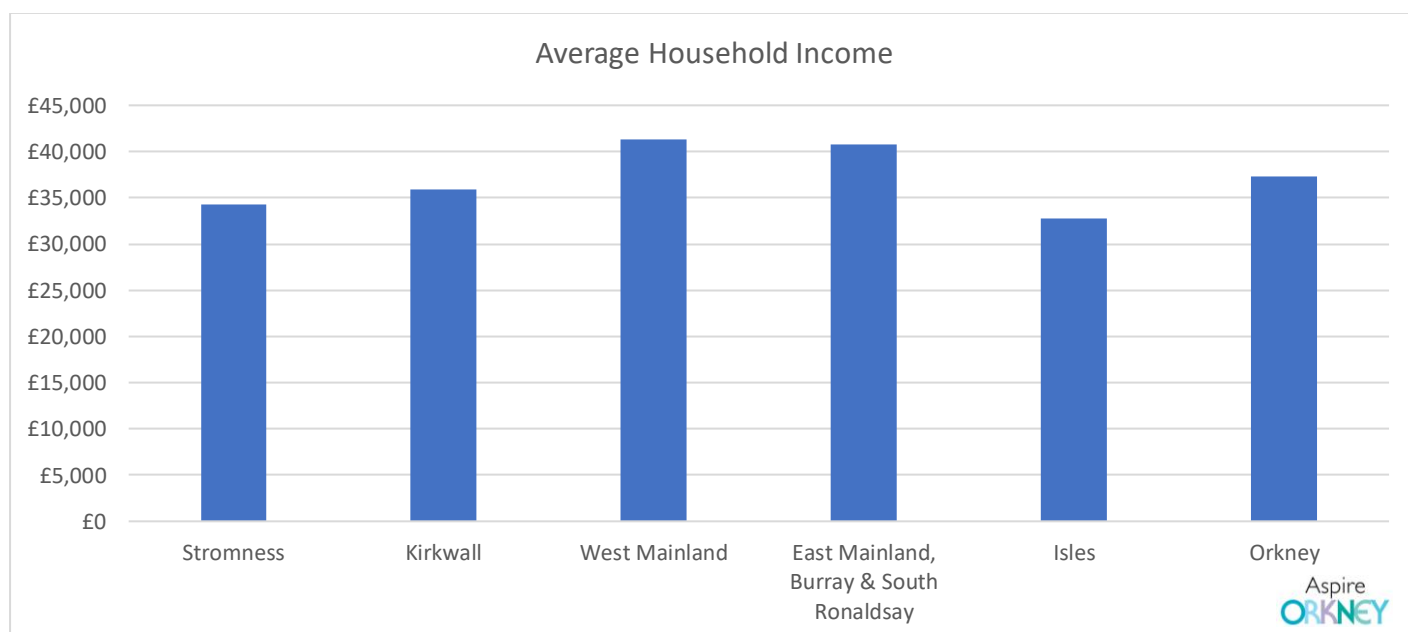
Orkney's island geography obviously makes it almost impossible to attract additional workforce to commute on a daily basis. This leaves the options of drawing people to the islands permanently, through temporary options like

agency staff, locums or two weeks on two weeks off rotas or finally through remote working where people on Mainland Great Britain or further afield undertake work for organisations in Orkney.

All of the above options are currently being utilised with the preferred option of attracting more people to Orkney permanently to aid long term community sustainability. However, this is becoming increasingly difficult due to the shortage of available housing for both long term inhabitants and shorter-term workers. Until the housing supply issues can be dealt with it will be increasingly difficult to fill vacancies or expand capacities in some industries and the economy and public service provision will continue to suffer as a result.

### Household Income

This section explores household income. The graph below outlines the mean gross annual household income by area in Orkney in 2021 using figures from the Scottish Government's Centre for Housing Market Analysis. The graph highlights the difference in income between rural Mainland Orkney areas and the outer islands in particular.



(Source: Centre for Housing Market Analysis. Average between 2014, 2015, 2017 & 2018)

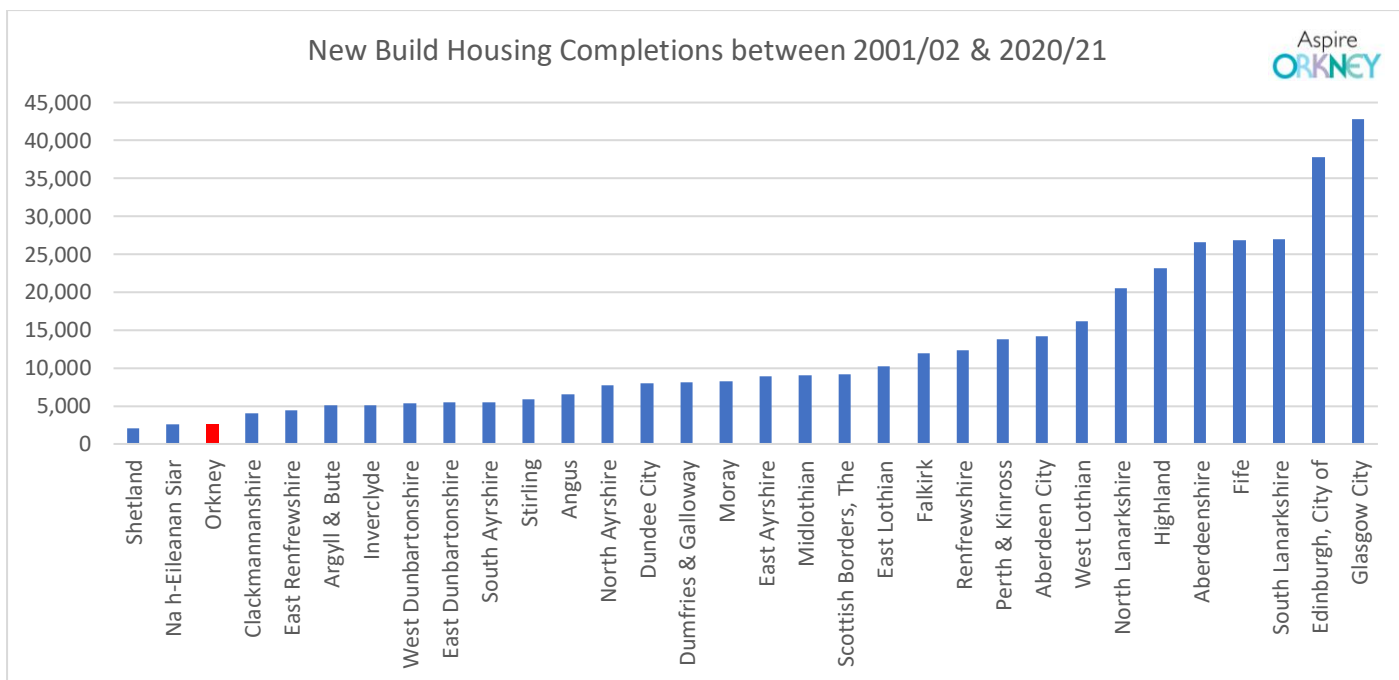
The Orkney average household income figure of around £37,770 matches up quite well with income figures from other data sources. Orkney's average household income is slightly below the Scottish average, but probably not as far below it as is often thought.

### Orkney's Housing Market

The section below gives detail on the housing market in Orkney in terms of new build completions and a comparison to household growth, along with house price increases, sales counts and thoughts on where the housing market may go from here in a time of such upheaval.

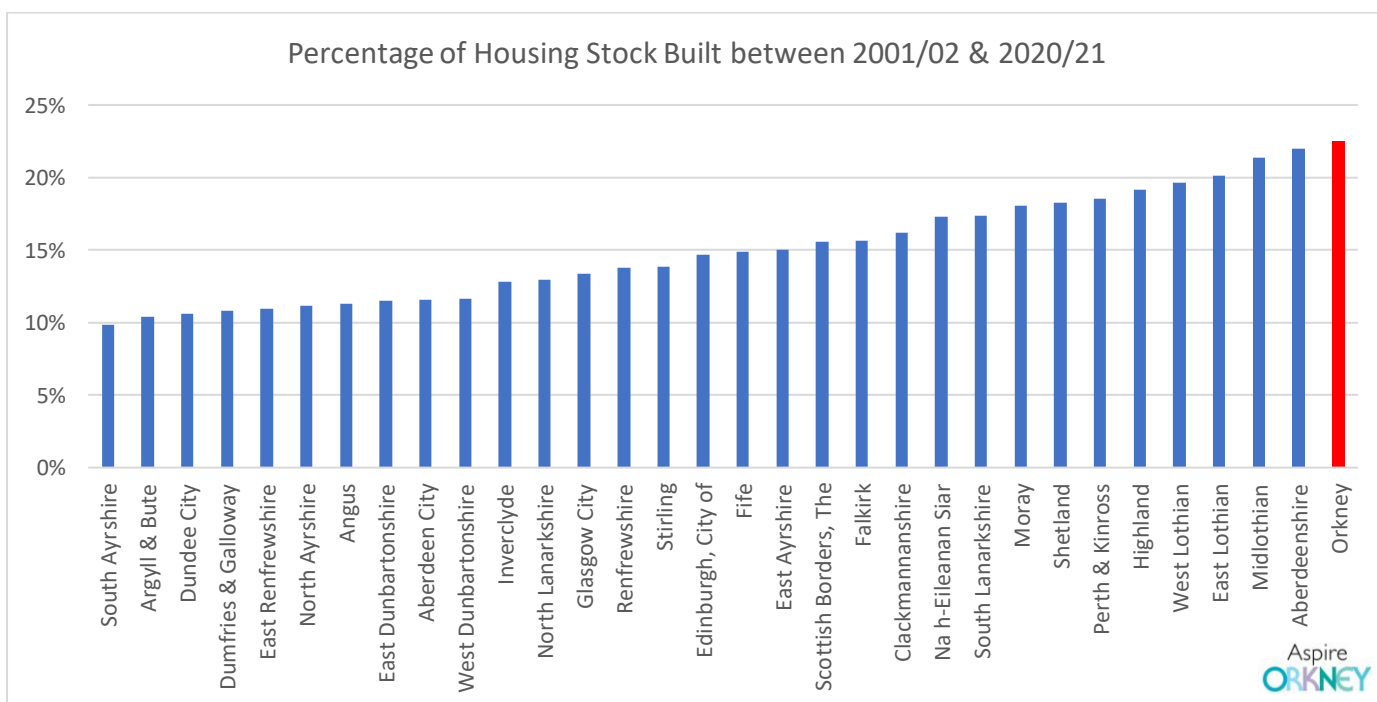
#### Housing Completions

Orkney has seen 2,573 new build housing completions over the last 20 years (2002 to 2021). This is the highest figure for Scotland's three island authorities, but as the graph below shows it is, understandably due to the island authorities scale, significantly below the majority of other Scottish local authorities.



(Source: National Records of Scotland)

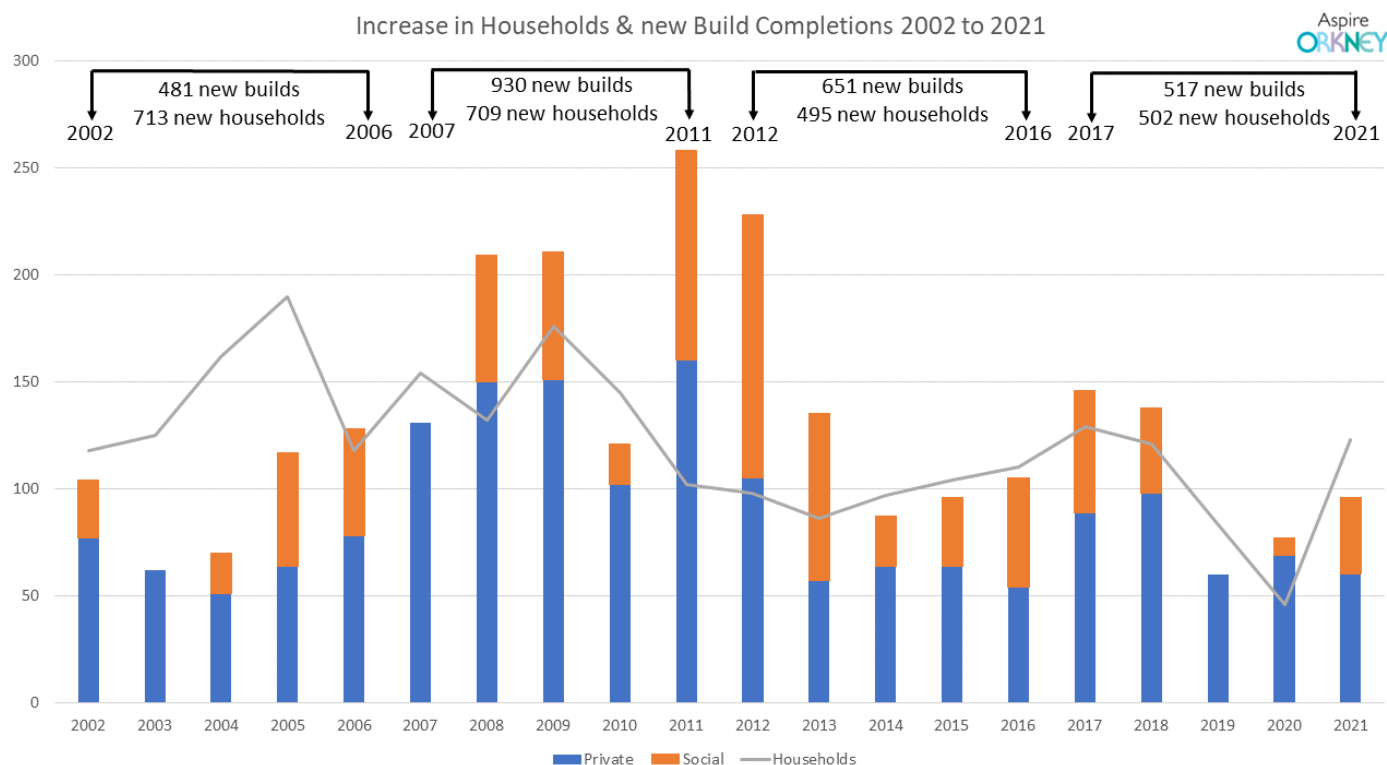
While Orkney cannot compete in sheer numbers, the graph below outlines that in percentage terms Orkney, with a 22.5% housing stock increase over the last 20 years, has the highest percentage increase in housing stock of any Council area in Scotland over the period. The areas that are closest to Orkney's percentage increase are some of the key commuter areas in the central belt, namely East, West and Mid Lothian and around Aberdeen.



(Source: National Records of Scotland)

The graphs above show that for our scale Orkney is developing new build housing at a faster rate than any other area in Scotland, but we still have significant demand from emerging local households and those looking to move to Orkney which is outstripping the available new supply. This is causing increased pressure and contributing to significant house price and rent cost increases.

The graph below highlights the link between new housing supply and increases in household numbers. It covers the period 2002 to 2021, is split into four five-year sections and outlines the yearly number of new build completions, as well as the number of new households formed or moving into Orkney (the grey line).



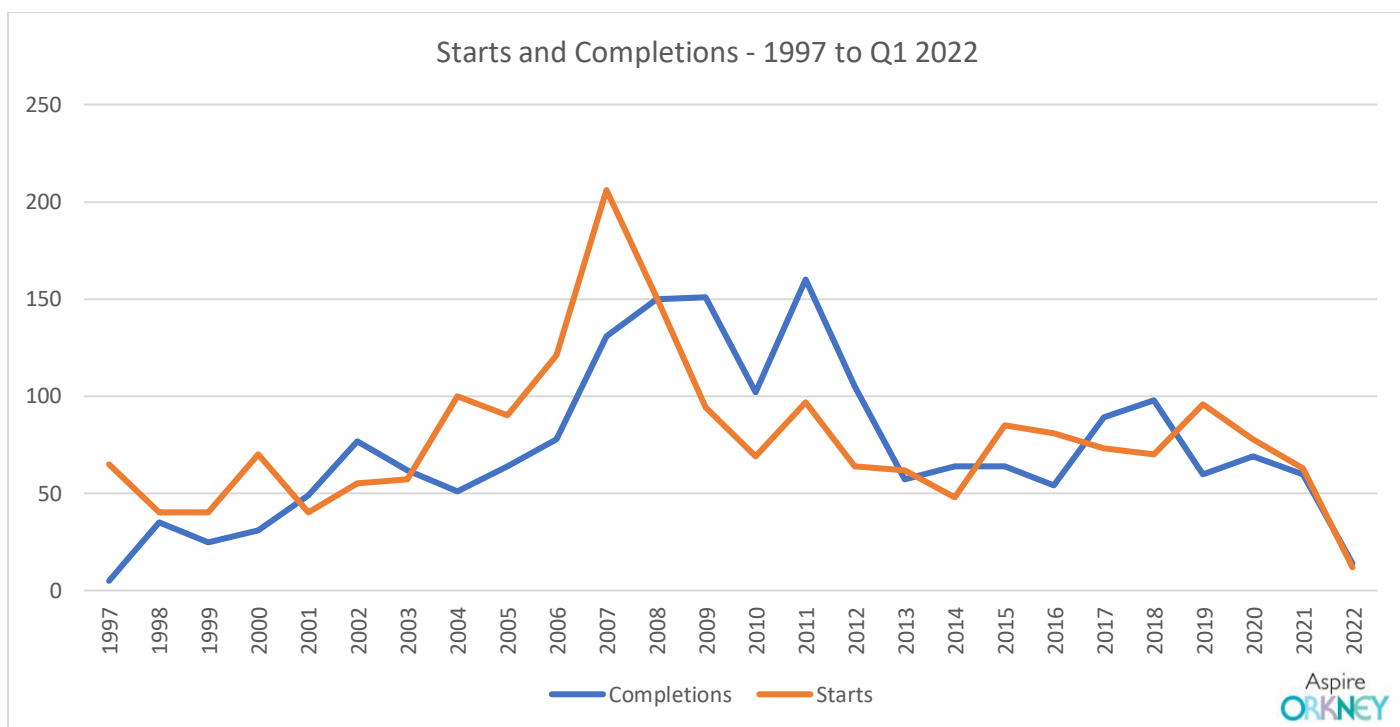
(Source: National Records of Scotland)

The two key spikes in new build development over the two middle periods in 2009, 2008, 2011 and 2012 came from the significant additional housing developments undertaken by Orkney Housing Association and Orkney Islands Council, as well as the highest completion levels for private sector housing provision.

However, the graph also shows that the majority of the new build completions in the 2012 to 2016 period occurred in 2012 and 2013. Between 2014 and 2021 the story has been very different, with new build completions of both private properties and social housing (805) falling below the number of new households (813). This has increased the pressure on the existing housing stock as new demand has outstripped new supply.

It is useful to note that the top line completion figure does not necessarily mean that many properties were added to the total number of properties available for long-term occupation. Some properties will replace old properties that have fallen out of use, while others will be used for short-term lets or second homes. So while in total there were 2,419 new households and 2,534 new properties developed over the period between 2002 and 2021. It is much more likely that in reality the number of new households has outstripped the available additional long-term occupancy housing supply. This is particularly true over the 2014 to 2021 timeframe.

The final graph in this section outlines a comparison between the new supply starts and completions between 1997 and quarter one of 2022.

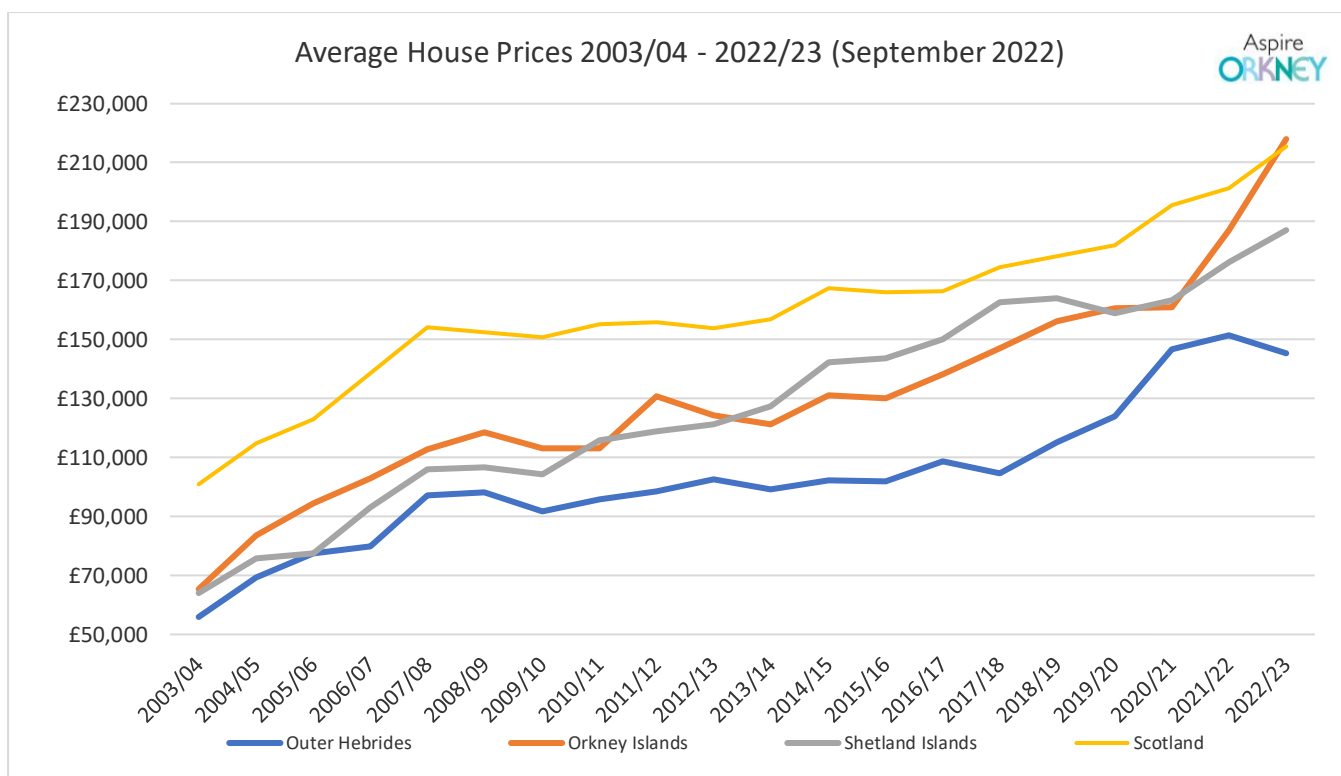


(Source: National Records of Scotland)

The graph shows that where there is a peak in the number of houses started on site it is generally two years before an associated peak is seen in the completion statistics. There were around 100 new build starts in 2019, however, by quarter one of 2022 no associated peak in completions has yet occurred. This is not really surprising and shows the effects of both Covid and materials price increases have meant that those projects on site when the pandemic hit have been seriously disrupted. The majority of these properties should appear in the statistics from Q2 of 2022 through into the first half of 2023. It is expected that a tightening of lending criteria, higher mortgage rates and continued high materials and build costs will have an impact upon the number of new starts both in the private and social housing sectors for the rest of 2022, into 2023 and potentially beyond. A further reduction in housing completions will have a significant impact on Orkney’s community going forward and innovative options that maximise Scottish Government and other funding will need to be explored to keep build levels up.

### Housing Market

The housing market in Orkney is still strong, with average prices increasing year on year. The graph below outlines the average house price in Orkney between 2003/04 and the first six months of 2022/23, with comparisons to Shetland, the Outer Hebrides and the Scottish average.



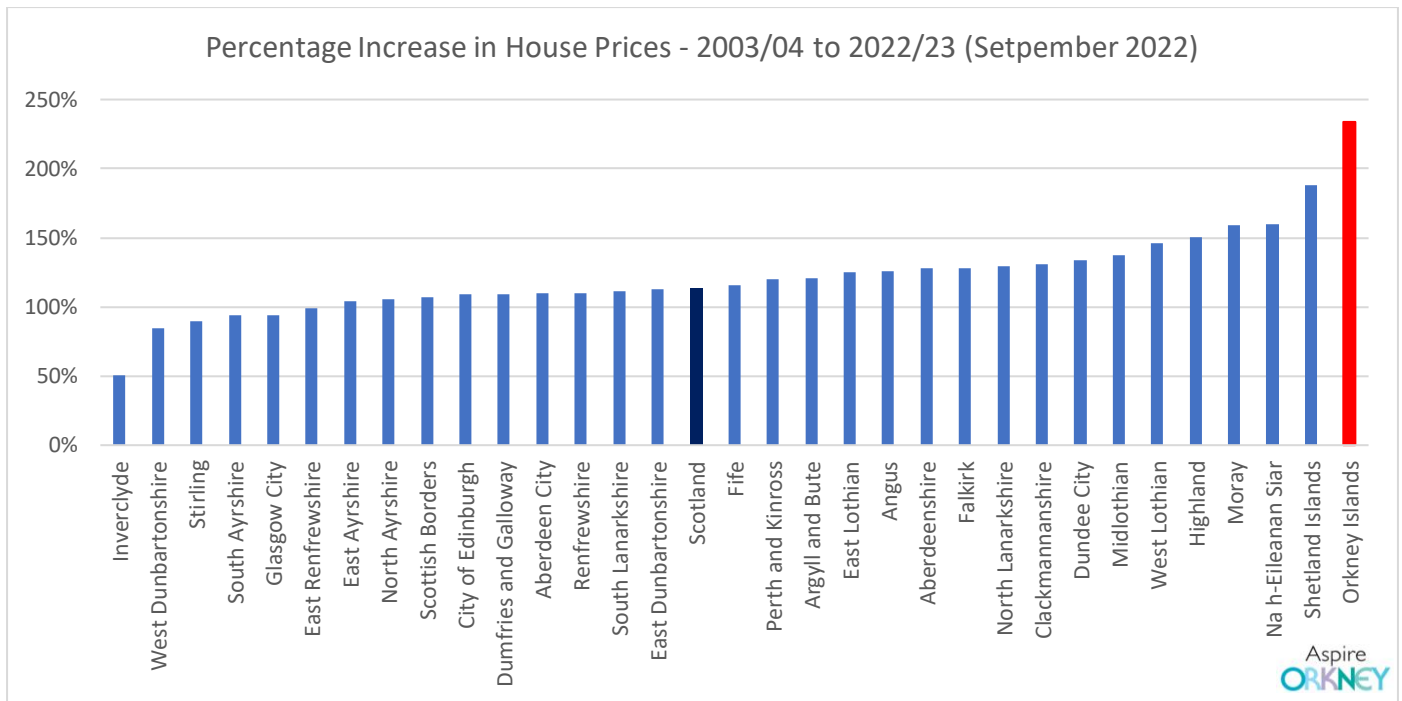
(Source: Registers of Scotland)

The graph shows that the average house price in Orkney has grown from £65,368 in 2003/04 to £186,983 in 2021/22. The average for the first six months of 2022/23 is £218,005, meaning an average increase of £52,170 in the last 18 months and Orkney reaching and exceeding the Scottish average for the first time ever. Orkney saw a 16% increase in prices between 2020/21 and 2021/22 and there has been a further 17% increase over the first six months of 2022/23. This level of increase shows the pressure that is on Orkney's housing market in terms of continued strong demand.

However, with issues around the cost of living and increasing interest and mortgage rates it is very possible that this figure will drop back towards the 2021/22 average through the rest of 2022/23. While there is likely to be some impact on the average price, it is likely that there will be a larger impact in the number of property sales completed and for the first time since the 2008 crash a potential surge in property repossessions. The potential drop in sales will be covered in more detail below.

Between 2003/04 and 2022/23 (September) figures Orkney has seen a 234% increase in house prices over the period. This is the highest percentage increase of any local authority in Scotland and is more than twice the Scottish average of 113%. The graph below compares Orkney's position to the other 31 council areas in Scotland.

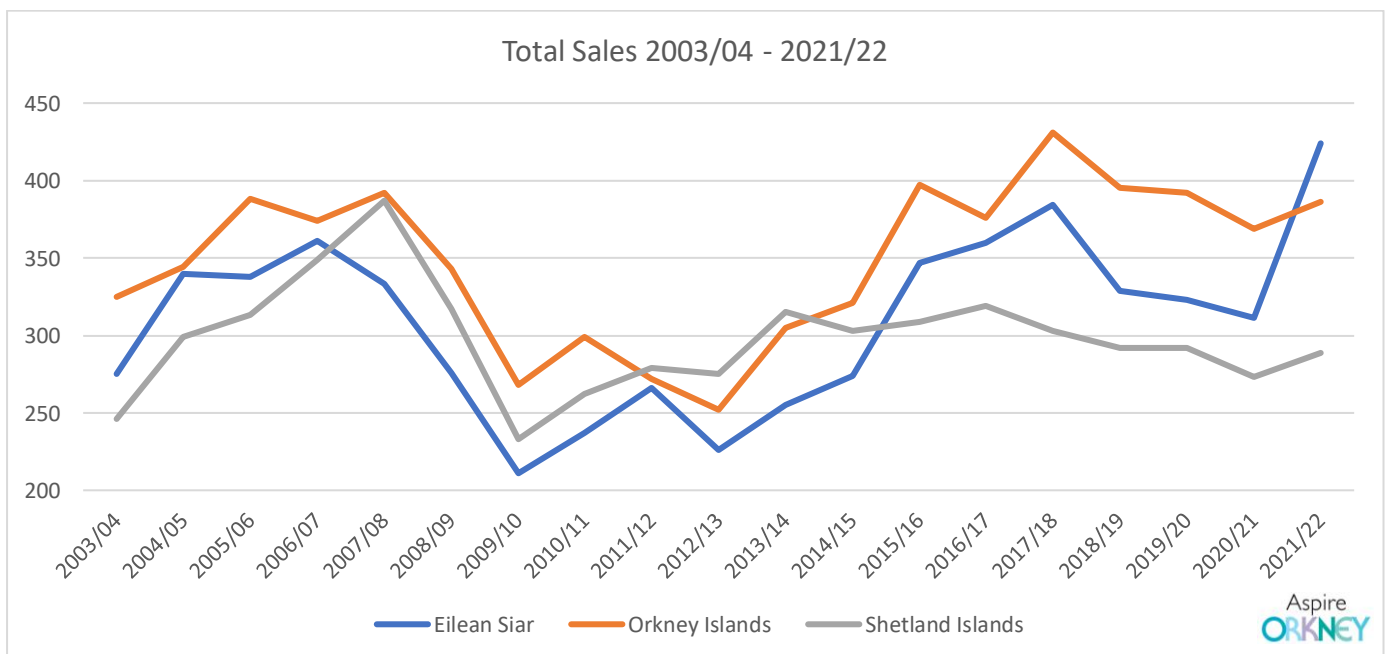




(Source: Registers of Scotland)

While some areas (5) have seen greater increase in terms of actual cash prices, the graph above shows how strong the demand is for housing in Orkney, as well as the other island council areas. This has seen Orkney push right up to and just beyond the average house price in Scotland.

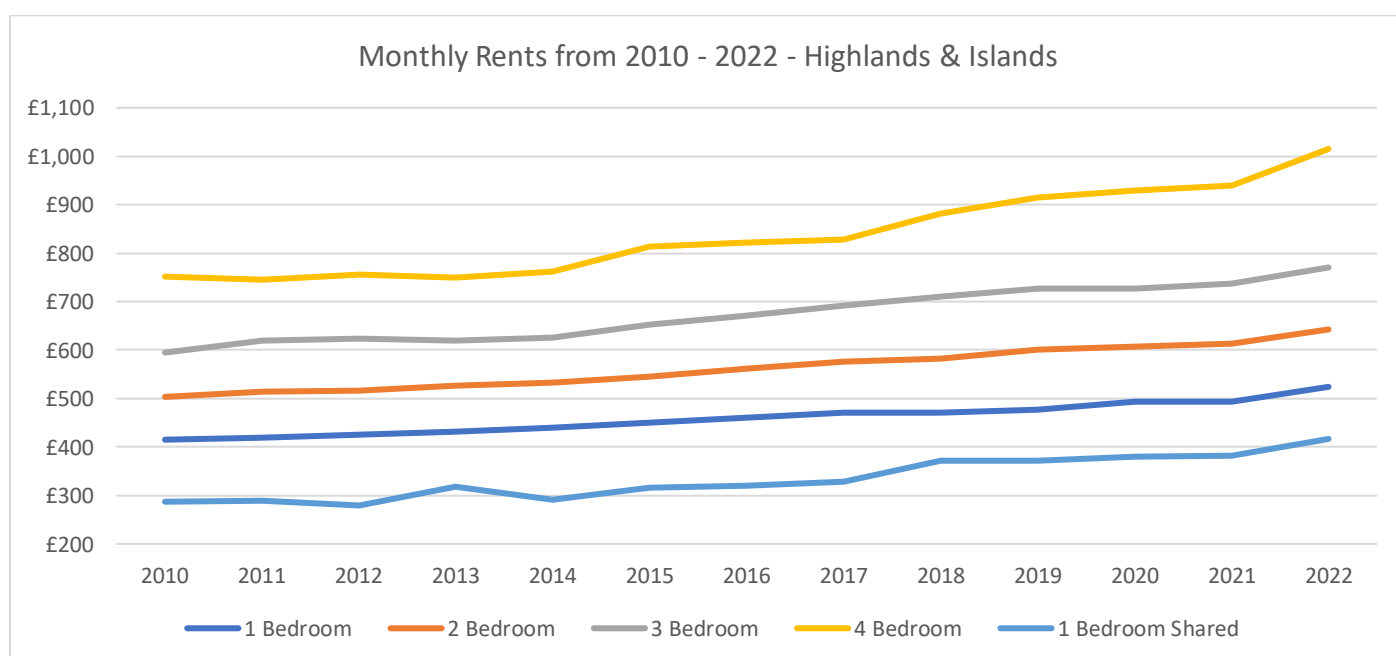
While the average price of housing is increasing significantly, the number of property sales is not. The graph below shows the annual house sales in Orkney, Shetland and the Outer Hebrides between 2003/04 and 2021/22. The effect the financial crashes of 2008/09 and 2011/12 are plain to see in the sales volume data. While these years also saw a slight decline in average house price, the number of sales were impacted more, particularly following the 2008 crash. As the economy started to recover the number of sales rebounded, along with a return to growth in the average price.



(Source: Registers of Scotland)

Orkney's sales volume has not reached the heights of the 2017/18 peak, and were further reduced over Covid as sales were affected by the pandemic. There was a slight rebound in 2021, however, the data that is available for the first six months of 2022/23 shows that sales have once again gone into decline when compared to the first six months of 2019/20 and 2021/22. Between April and September there have been 156 sale completions. This is 54 behind the same timescale in 2021 and 44 behind the 2019 figures. Covid impacted upon the 2020 figures, hence the reason they are not quoted. It is expected that by the end of the financial year the total number of sales 2022/23 will be lower than 2021/22, but will probably not drop to the levels seen in 2009/10 or 2012/13. However, the decline in sales may well last into 2023/24 as well. This may well increase the price pressure on the housing that is available to purchase.

Average rental figures are much more difficult to quantify as there is no robust data available on private rent levels at an Orkney level. Regional data is available, but it includes all of the Highlands and Islands. The graph below outlines the change in rental prices in the Highlands and islands between 2010 and 2022, which while not specifically focused on Orkney does show that rents have been rising across the region for the last 12 years and reflects what has been seen in Orkney over the period. The data suggest that rent levels have risen by similar levels across the board, but with larger 4-bedroom properties (35%) and smaller house share properties (45%) increasing at a higher level than the 28% average of 1, 2 and 3 bedroom properties.



(Source: Scottish Government)

What is clear locally is that rent levels have been rising over the last decade, sometimes in response to a spike in demand, like when the new Balfour Hospital was being developed and the contractor needed to house workers that were in Orkney building the hospital. However, rent levels have also risen as potentially more profitable short-term let alternatives to renting property in the long-term private rental sector have become more widespread, leading to a reduction in the number of available properties.

An estimate for what might well happen over the coming years with the housing market, including rent levels, is laid out in the Projected Housing Demand section below.

## Planning Legislation

The Scottish Government's original Minimum All-Tenure Housing Land Requirement (MATHLR) that formed part of the development of National Planning Framework 4 concluded that the minimum requirement for housing land in Orkney over the next 10 years is 450 properties. This figure did not take account of potential net-in-migration at all

and when the Council was consulted on the draft figure in early 2020 it took very little time for a minimum figure of 1,600 properties for Orkney to be evidenced. This new figure was fed back to the Scottish Government by the Council's Development and Marine Planning team and to their credit the Scottish Government have utilised the 1,600 figure we developed within the updated version of National Planning Framework 4, which was consulted on in early 2022. The updated figure provides a much more realistic and flexible position for the development of a new Local Development Plan.

### Private Rented Sector Legislation

The Scottish Government successfully passed the Coronavirus (Recovery & Renewal) Bill in late June. This Bill included measures aimed at the private rented sector, with proposals to permanently remove mandatory grounds for eviction for grounds like the landlord wanting to sell the property or move into it themselves and make all grounds for eviction discretionary and subject to ruling by the First-Tier Tribunal for Scotland.

Tenant's groups have welcomed the move, but those representing landlords fear that these changes will increase the perceived risks and costs of renting property privately and that this will persuade more landlords to exit the sector. The requirements for all properties that are privately rented to have an Energy Performance Certificate (EPC) score of E or higher and for any properties let on a new tenancy from 1 April 2022 to have an EPC of D, is also expected to have a significant impact as a large number of Orkney's private rented housing stock is in the lower EPC bandings.

According to the EPC database there are 606 private rented properties that have an EPC, which means over 400 properties that should have an EPC either don't have one or are categorised wrongly on the EPC database. Of the 606 properties identified as private rents, 399 have an EPC score of D or higher. This leaves 207 which fall below the required energy efficiency level for starting a new tenancy, with 77 of them in the worst performing categories of F and G and falling below the legal requirement for energy efficiency to operate as a private let. All 207 of the EPC E, F and G properties will require potentially significant energy efficiency upgrades to be able to continue as private rentals beyond 2025 when all private rented properties need to be at an EPC of D or above.

While energy efficiency requirements are needed and understandable, they have the potential to have a significant impact on Orkney's private rental market as some landlords will either not be able or willing to upgrade their properties and may either look to sell or move into short-term lets.

The recent changes to interest rates and expectations that rates will increase further may also encourage some landlords with increasing mortgage costs, but limited opportunity to increase rents to help cover the costs to look to leave the market.

The increase in legislative requirements for the private rented sector is expected to continue through the life of the current Parliament through the New Deal for Tenants (<https://www.gov.scot/publications/new-deal-tenants-draft-strategy-consultation-paper/>). While improving rights for tenants is important, it has been argued by some that the New Deal for Tenants is not giving enough attention to the rights of landlords and there is a feeling, both locally and nationally, that a further reduction in the rights of landlords around properties that they own will mean that more landlords look to leave the sector. This is already becoming evident both locally and nationally where some landlords are already looking to leave the sector and either sell up or move to short-term letting, which is perceived as less risky and bureaucratic, even with the new short term lets legislation that has recently been passed by the Scottish Government.

The private rented sector in Orkney is hugely important and contains about 10% of Orkney's housing stock. The majority of landlords own a single rented property, so a huge increase in legislative requirements and potential risk and costs will mean that fewer landlords are willing to continue letting their properties. We expect the changes above to lead to a further reduction in the number of properties available to rent in Orkney either through failing the energy efficiency requirements and landlords being unwilling or unable to undertake the required works or from

landlords leaving the sector due to the increase in legislative requirements and the expected additional costs and risks. However, on a positive note private rentals are still being advertised regularly, so while some landlords may be looking to exit the sector, others are, for the time being at least, continuing to rent out long term. The potential solutions section of this report below outlines a potential option to try and minimise the potential loss of some landlords and private rented stock.

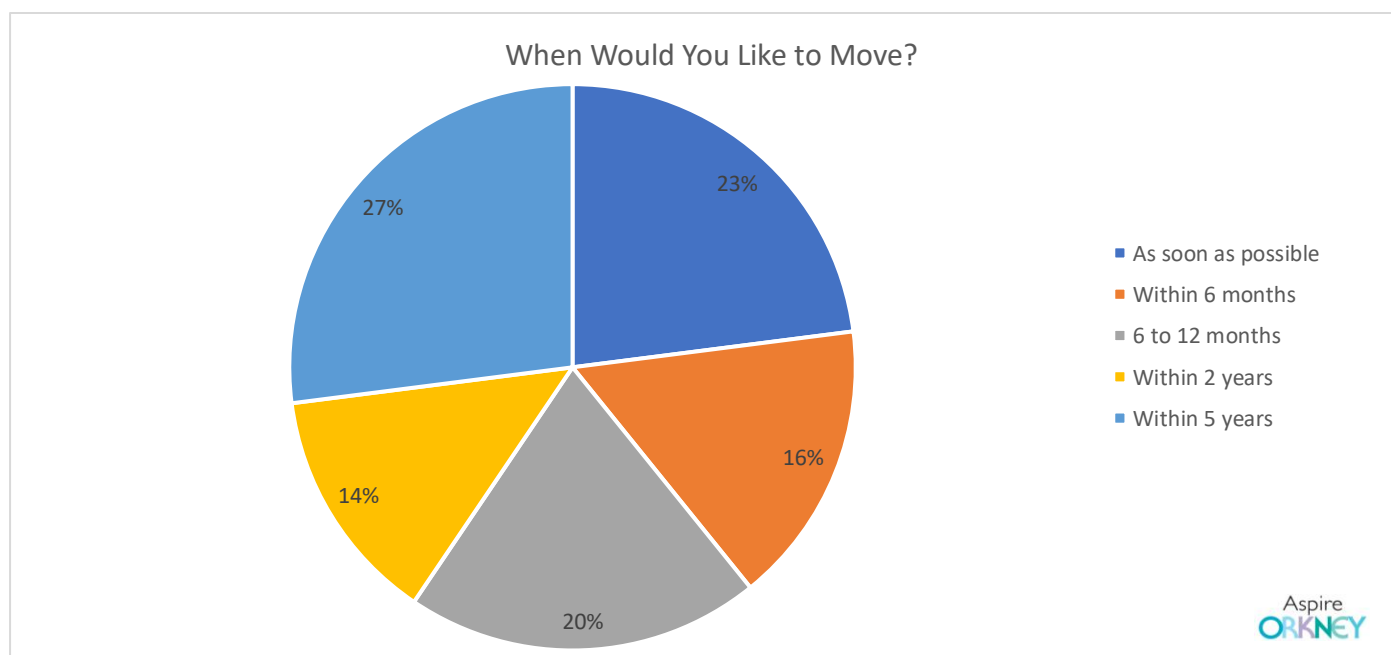
### Short-Term Lets Legislation

Orkney potentially has around 600 properties utilised for short-term holiday lets. Some of these have been holiday lets for a significant time, while others will have been more recent additions to the short-term let market due to the increased ease of letting through the likes of Airbnb and also the potential for a higher return in the short-term market, particularly over the summer months. Short-term let properties are located throughout Orkney, but the majority are on Mainland. The Scottish Government's Short Term Lets Licensing Scheme requires providers of short-term lets to apply for a short-term lets license. Orkney Islands Council has proposed a quite light-touch version of the scheme, although there are a few concerns about some of the details. It is likely that some providers will leave the short-term lets market, even though the Council scheme is relatively light touch. However, it is unlikely that many of those who chose to remove their properties from the short-term let market will utilise them for longer-term lets. Some B&B providers will just remove the room(s) in their property from the holiday market, but will obviously continue living in the property, while those renting out entire properties may well just sell up, particularly if they have an outstanding mortgage on the property, or another property, which may be becoming more expensive. It is expected that with new legislation coming to both short and long term lettings short-term letting will be seen as the less risky of the options due to lighter touch legislation, more control over the property, higher potential income opportunities and lower perceived risk. However, each property owner will make their own assessment and it will be very interesting to see what happens over the next 12 months.

### Housing Survey Results

ASPIRE Orkney undertook a housing survey in early 2022 asking the public and those looking for housing in Orkney to engage in an online consultation. This section outlines some of the results of the survey.

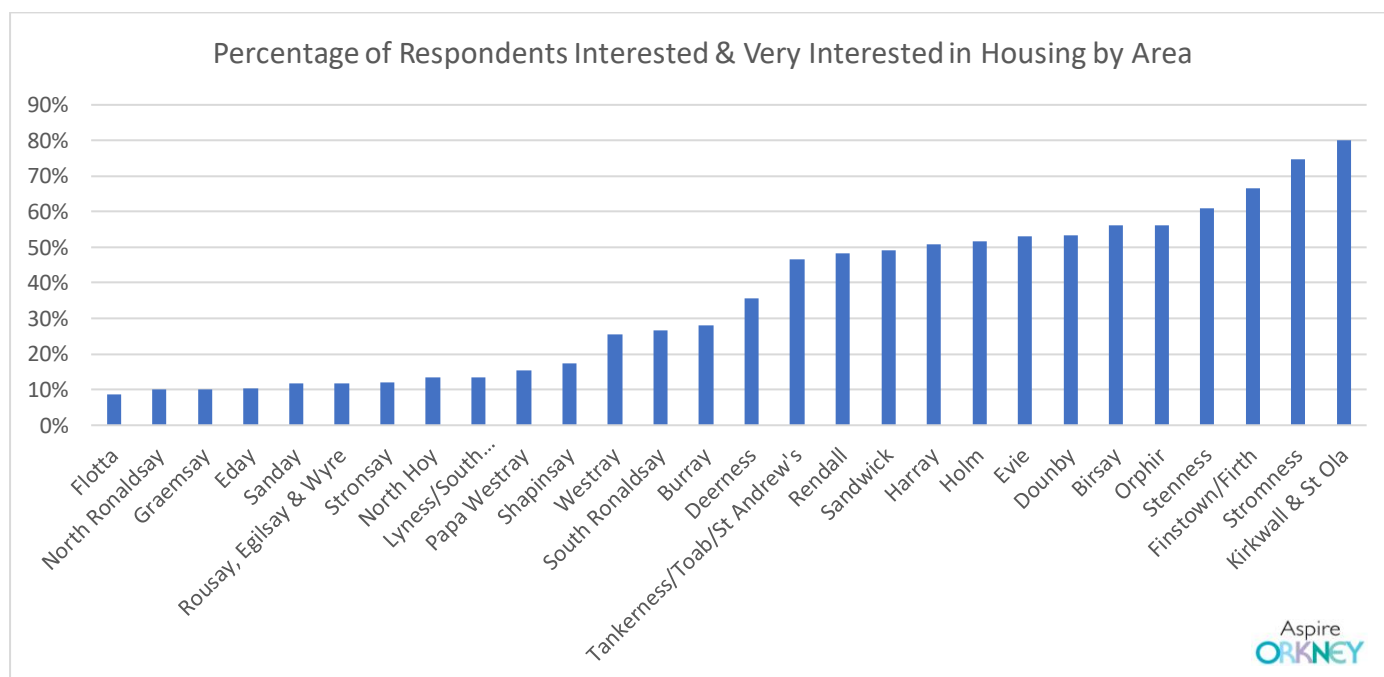
Respondents were asked when they were looking to move to a new property. The chart below shows that there was a wide spread of households engaging in the survey, with 73% of respondents looking to move within the next 2 years.



(Source: ASPIRE Housing Survey)

The fact that some households are planning two or more years in advance gives a very good opportunity to inform the development plans of the private sector and those looking to deliver non-social rented affordable housing.

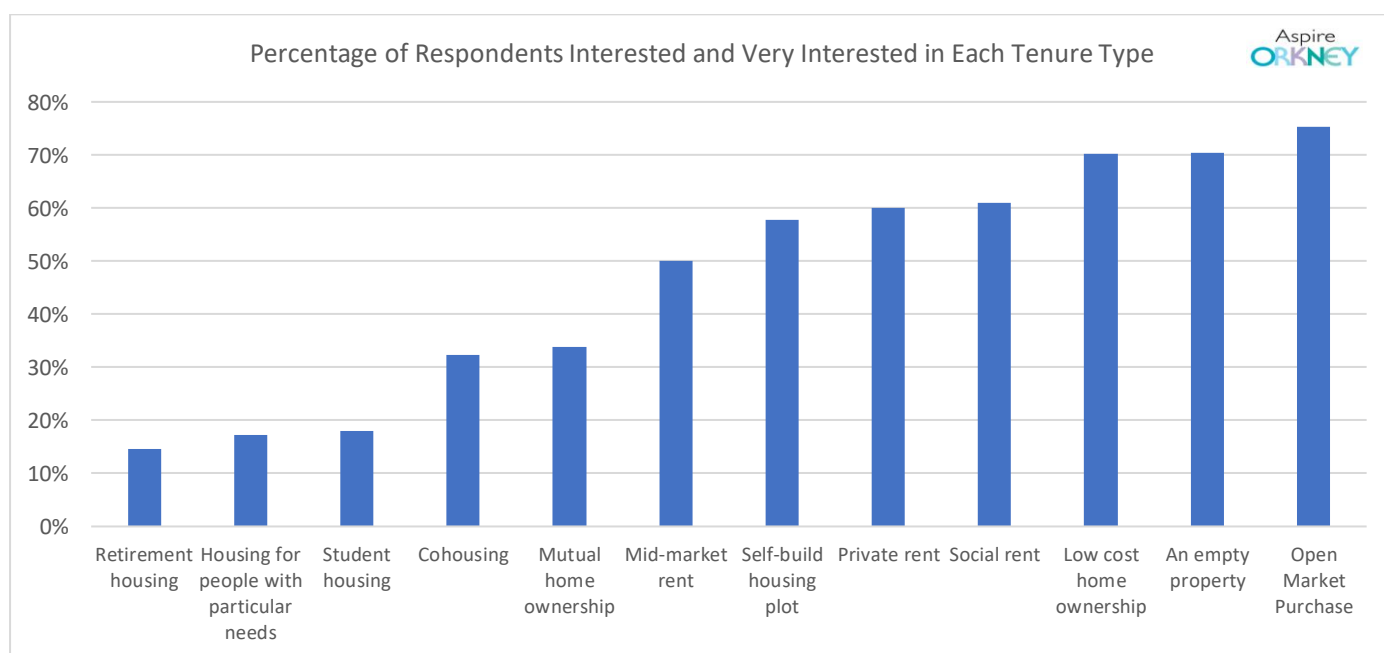
The graph below outlines the percentage of respondents that said they would be interested or very interested in living in each of the areas of Orkney.



(Source: ASPIRE Housing Survey)

As expected, Kirkwall and St Ola, followed by other Mainland Orkney areas where the highest areas of demand. It is worth noting that demand was not just for Kirkwall and the main settlements, there was demand for more rural Mainland areas too.

The next element to explore is what type of housing respondents were looking for. A range of different options were presented, along with very brief explanations on what some of the options entailed.

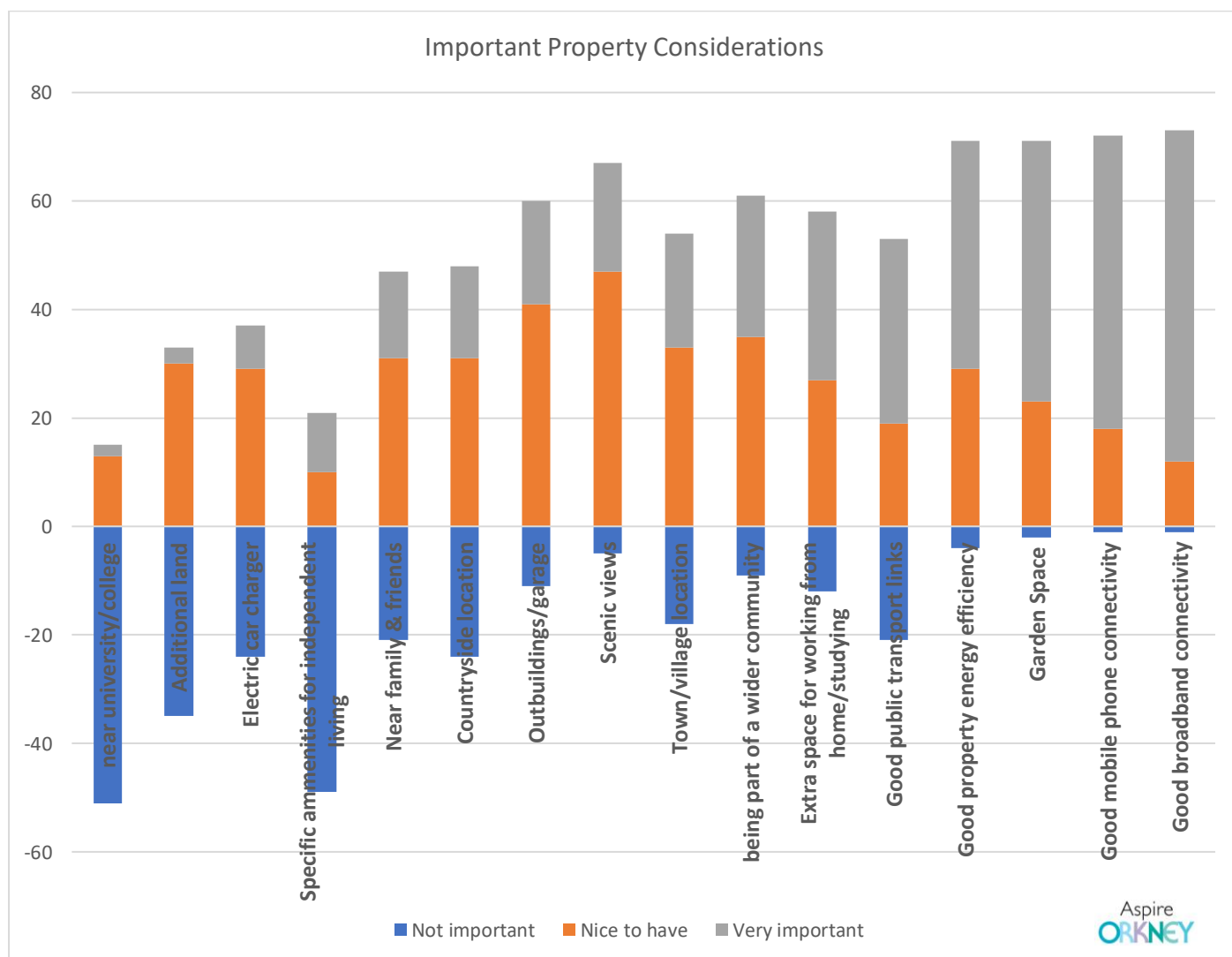


(Source: ASPIRE Housing Survey)

It isn't surprising that the most specialist housing types are the least popular and appeal to the smallest amount of people. The level of the very strong response for low-cost home ownership and renovating empty properties is quite surprising and shows that there are openings for projects that try and promote these specific options. Empty homes in particular are potentially a low hanging fruit as Orkney has over 600 of them spread across the islands. Interest in self-build housing plots is also quite strong and the development of more self-build sites either on their own or as part of larger housing projects would provide opportunities for households to meet their housing needs through that route. It is very possible that finance for both self-build and empty property renovation may become harder to access due to the tightening of lending rules and risk appetite of mortgage lenders. If this is the case the Council should look to what it can do in terms of offering finance to households to try and increase the supply of new build and renovations of existing empty properties.

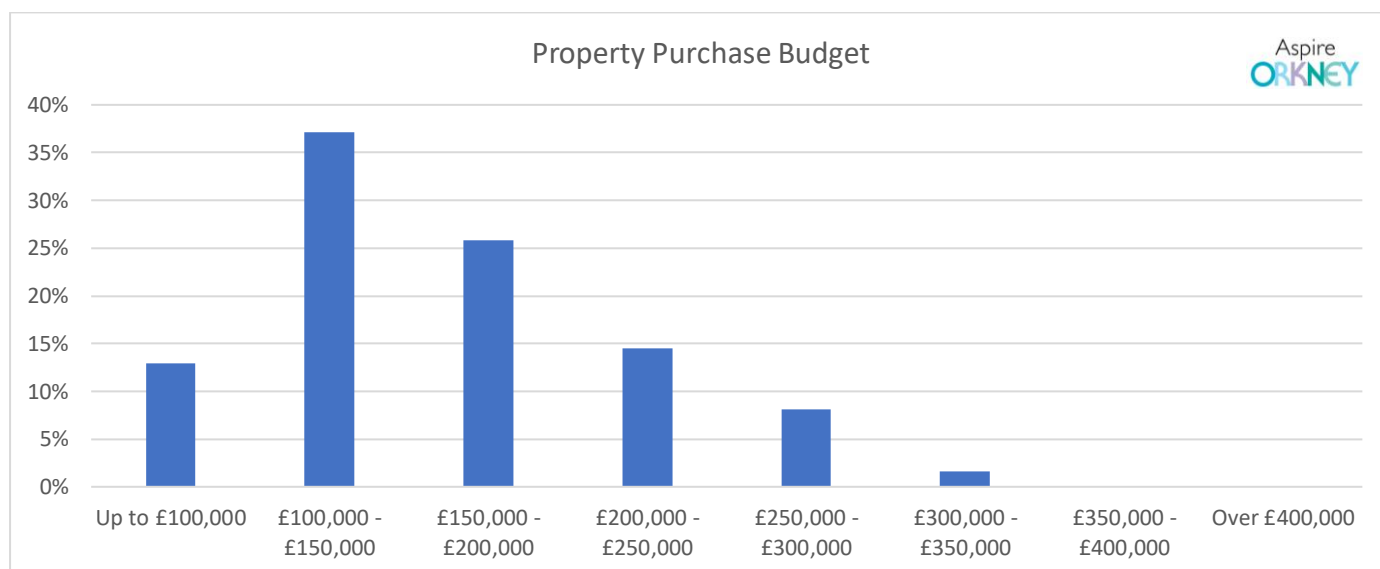
The relatively poor performance of mid-market rent, particularly against normal private renting is unusual. However, it can potentially be put down to the fact that mid-market rent isn't very well known as a housing type at the moment.

The following graph shows what households value in terms of considerations when looking for a property. The most important elements for households are good internet and mobile phone connectivity, garden space, scenic views and energy efficiency. As this survey was conducted earlier in 2022 it is probably a good assumption that energy efficiency would be even higher up the list of priorities following the cost of living crisis.

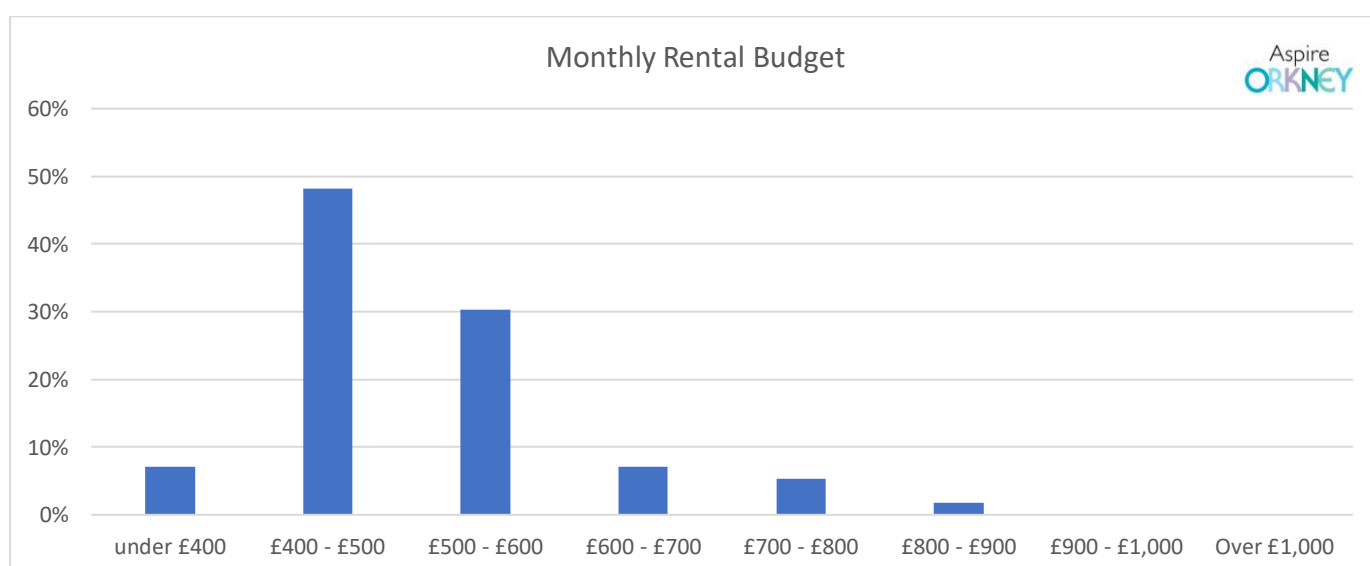


(Source: ASPIRE Housing Survey)

Linked to aspirations is the actual ability of households to afford what they are looking for. The two graphs below outline the estimated budgets households have in terms of purchase price and monthly rent levels. Again, these figures are from early/mid-2022 prior to the cost of living crisis, it is possible budgets are now lower.



(Source: ASPIRE Housing Survey)



(Source: ASPIRE Housing Survey)

What is immediately apparent is that 76% of households have a purchase budget that is below £200,000, which is currently below the average house price.

Things are slightly better on the rental front, but as outlined above with the expected changes in the private rented sector and some landlords having mortgage costs that look set to rise it is possible once the Scottish Government rent freeze is lifted that rent levels may rise out of the reach of more households.

### Housing Demand Going Forward

The above analysis shows that Orkney's strong economy, low levels of unemployment and position as a desirable place to live have led to strong levels of in-migration and a significant increase in population over the last 20+ years, enhancing demand for housing. While significant housing has been developed to help meet this demand, supply has

not been able to keep pace with demand and this has led to higher house price increases than any other area of Scotland.

While holding some similar challenges to the last 20 years, the next 20 years will hold some significantly different challenges as well. Climate change and the move to net zero, energy security, a changing demographic and the economic impacts of huge public spending around the Covid-19 pandemic will all impact on housing delivery and demand. This section tries to provide an assessment of potential demand through three scenarios. The baseline Principal scenario. A higher demand and migration scenario linked to offshore wind and other potential opportunities and a lower demand and migration scenario in case migration into Orkney reduces.

### Market Context

Looking forward the supply of and demand for housing in Orkney will be impacted by a number of factors, these include:

- Surging inflation
- The availability of mortgage finance and increasing interest and mortgage rates
- The cost of living crisis
- Political instability in both the wider United Kingdom and Scotland
- Construction materials costs
- Labour supply to the construction sector
- Other large scale infrastructure projects
- Land price and availability
- Local and national policy on population and demographic balance
- Planning policy and decisions
- Housing policy and priorities
- Demand to move to Orkney from elsewhere
- Job opportunities
- Opportunities like offshore wind (coming later in the decade and beyond)
- House price changes
- Potential increases in mortgage defaults
- The impact of private rented sector legislation on the availability of rented properties
- Funding from the Scottish Government for the social housing build programme and the Rural and Islands Housing Fund
- The capacity of Orkney Islands Council and Orkney Housing Association to develop additional housing while also tackling other spending pressures around energy efficiency requirements and rental affordability.

With such uncertainty around the UK and world economies, as well as upheaval in both the UK and Scottish political landscapes (with the potential of another independence referendum) convention would say that it would be difficult to see anything but a cooling in the Orkney housing market along the lines of what is expected throughout the United Kingdom. However, demand for housing in Orkney is still strong, particularly from those in Orkney with significant equity in existing properties and many of those looking to move to Orkney from outside coming from areas with higher prices. There is also still significant pressure on the supply side, and limited chance that the new build supply of housing will increase significantly over the short term, so it is possible that prices will continue to increase or at least remain at a high level, with the real change potentially being a reduction in the number of sales and housing completions, much like what happened after the 2008 and 2012 financial crashes. However, should repossessions start to rise it is possible that more properties will hit the market and if mortgages are hard to come by the market may move from a sellers' market to a buyers' market.



## Estimated Demand and Need for Housing

As outlined above work was undertaken by myself and colleagues from the Council's Development and Marine Planning Service in spring 2021 to review the Scottish Government's Minimum All-Tenure Housing Land Requirement (MATHLR) workings for Orkney. Following that work and feedback to the Scottish Government the MATHLR figure was subsequently changed from a minimum requirement of 450 properties over the next ten years to a minimum of 1,600 properties. The table below outlines the original and updated MATHLR figures for Orkney.

Estimate Element	Original	Updated
New household projections	300	1,000
Existing housing need	50	250
Rural & Island flexibility (30%)	100	350
Total	450	1,600

(Source: Scottish Government)

The existing housing need and new household projections figures from the MATHLR form the basis of the Principal scenario estimates. The estimation of 250 existing households in need and 1,000 newly forming households gives a figure of 1,250 over 10 years for the Principal Scenario. The High Demand scenario utilises the same 250 existing households and 1,500 new households, giving a total of 1,750 properties being required over the same period, while the Low Demand scenario uses the same 250 existing households and 500 new households, giving a total of 750 properties being required over the period. The analysis also tries to quantify a tenure split that will help meet the aspirations of a long-term sustainable community in Orkney by providing more opportunities for younger households in Orkney and those looking to move to Orkney. There are no specific targets for older persons housing or co-housing as it is expected that these properties would come under the affordable rent, low cost home ownership, mid-market rent and open-market completions figures.

The table below outlines the results from the three scenarios.

	Total Requirement			Yearly Requirement		
	Principal	High Demand	Low Demand	Principal	High Demand	Low Demand
Social/Affordable Rent	325	375	250	33	38	25
Private Rent	75	100	25	8	10	3
Mid-Market Rent	175	250	100	18	25	10
Low-Cost Home Ownership	125	225	100	13	23	10
Open-Market Completions	400	550	200	40	55	20
Student Housing	50	100	25	5	10	3
Self-build plots	100	150	50	10	15	5
Total	1,250	1,750	750	125	175	75

(Source: ASPIRE Orkney)

The tenure split figures outlined in the table above have been developed utilising the analysis undertaken in the report above, as well as the potential impact of the factors expected to impact the housing market which are also outlined above. This includes the expected limitations of both Orkney Islands Council and Orkney Housing Association in terms of new build development capacity, as well as the potential for funding to help support community bodies and developers deliver affordable housing through mid-market rent and low cost home ownership. Other factors considered include the potential restricted availability of finance for self-build housing development, as well as potential implications of legislative change on the desire of landlords to provide additional private rented property. These figures are projections based on the data and insight available at the time of

production. As the context and circumstances change it is possible the tenure breakdown totals will change with them.

One of the key factors influencing the figures outlined above is the desire to redress Orkney's demographic imbalance, which includes providing more accommodation focused primarily on younger households looking to remain in or move to Orkney (mid-market rent, low cost home ownership and specific student housing), older households looking to potentially downsize to more suitable accommodation and free up larger family properties (low-cost home ownership and open market purchase) and key workers looking to move into Orkney to take up work (mid-market rent, low-cost home ownership and open market completions).

It is well within the power of the Council to provide policy support to projects and private developers looking to develop mid-market rent, low-cost home ownership and housing in rural and island areas to help them access funding that is available from the Rural and Islands Housing Fund and the Scottish Land Fund. The Council is already doing some of this through a fund to assist island development trusts meet the funding gap faced by increased prices. If this fund could be further enhanced and extended to cover Mainland Orkney too it would be hugely beneficial.

While the analysis above doesn't propose specific targets for individual areas within Orkney, it is expected that the majority of the housing developed will be on Mainland Orkney and the linked isles of Burray and South Ronaldsay. Supporting development in rural Mainland and outer island areas is hugely important to ensure that these areas remain sustainable communities. While it is expected that the majority of properties in tenures like social rented housing and student housing are developed in Kirkwall and Stromness, it is very important that sufficient housing is developed in outlying settlement and countryside areas and that the practice of continuing to primarily develop housing in Kirkwall does not continue. Significant further expansion of Kirkwall would require upgrades to infrastructure including the potential need for a new primary school, as well as upgrades to sewage, water and roads infrastructure.

The yearly estimate for housing required for each scenario ranges from 75 in the Low Demand, through 125 in the Principal and up to 175 in the High Demand scenario. Over the last ten years the average number of completions has been 116, but the ten years before averaged 141. So it is within Orkney's ability to conceivably meet both the Low Demand and Principal scenario construction totals utilising local capacity. However, the ability to meet the targets outlined above will be hugely dependent upon the availability of finance, interest rates, materials and the impact on construction capacity from other strategic development projects and availability of labour.

If Orkney's population increases in-line with the above analysis and at a minimum retains the current average household size of those moving into Orkney of 2.10, it is estimated that by 2032 Orkney's population could reach 24,110 under the Principal scenario, 24,740 under the High Demand scenario or 23,060 under the Low Demand scenario. The hope is that more families are attracted to Orkney, so the average household size will increase. These figures are based on an estimated mid-year 2022 population of 22,640, 100 above the current NRS Mid-year population estimate for 2021 of 24,540. This figure was used as the 100 increase is the average increase over the ten years between 2012 and 2021 and with high demand still existing for housing in Orkney it is likely that the population on the islands has grown in line with the ongoing trend over the last 12 months. The figures also only utilise the incoming newly forming household elements of the new properties requirements with the MATHLR. This decision was based on the fact that households within the existing demand element, as well as newly forming households coming from within Orkney are already living in Orkney and the 30% flexibility criteria is there to provide additional capacity above the minimum levels identified.

Orkney's population increase of the last twenty years has been driven by a positive net in-migration. Should the recession, political and economic uncertainty be longer lasting or more severe than expected, or Orkney's housing crisis worsen further, it is very possible that Orkney's net-migration may fall to zero or even become negative. As outlined above Orkney has a negative natural population change, so should net migration fall significantly it is

possible that Orkney's population would fall. This would be particularly damaging if the demographics most affected were the under 40's. This would significantly impact working age population, as well as the birth rate going forward, which would further impact population growth.

## Potential Solutions

The above analysis shows that the population increase Orkney has seen over the last 20 years has been a huge positive for Orkney, but it has led to some additional challenges that have been felt over the time and some that are becoming more of an issue now. In order to meet the current challenges and those there are some

This section outlines a few of the potential solutions that may well help meet the challenges which could come from either continued population growth or population stagnation and worsening demographic imbalance. The end goal is for Orkney to have a population that is stable, balanced and sustainable, where all of those who would like to live in Orkney, both existing locals and those looking to move in, are able to do so within their budget.

### Mainland Orkney Development Trust

Orkney's outer islands have benefitted from access to significant funding over the years due to the presence of community development trusts. There is only one development trust on Mainland Orkney in Stromness. The formation of a large development trust that covers all of Mainland Orkney, as well as the linked islands of Burray and South Ronaldsay would provide an organisation that could take on capital projects, apply for significant funding support, be the recipient of Community Asset Transfer properties and help sustain Mainland communities.

This approach would be more effective than trying to develop a number of smaller parish-based development trusts which would each need a volunteer board as well as a staffing resource. Mainland Orkney is different from the outer islands and a single larger organisation that could serve Mainland, Burray and South Ronaldsay, with significant input on projects from community councils and other community based groups, could have a number of staff based within it and would provide the opportunity to build a level of experience and expertise that would be difficult with a number of smaller organisations each with only one employee. This approach would also be cheaper to facilitate and may also be able to provide additional support and capacity to the islands-based development trusts when needed.

### Private Rentals

The changes to the private rented sector around energy efficiency, rent controls and evictions may make some landlords want to leave the sector, particularly in areas like Orkney where the housing market is particularly strong and short-term lets are also a growth area. Under the new legislation any landlord looking to take-back their property and then market it for sale would need to apply to the First-Tier Tribunal for Scotland to grant an eviction before they could evict the tenant and then market the property for sale. Both the eviction via tribunal and marketing of the property may be costly and the eviction process could take a number of months. The process would also result in a tenant potentially becoming homeless and needing to approach the Council for housing. No one wins in this situation.

An alternative approach would be for the landlord to offer the tenant the potential to purchase the property at market value in the first instance. This would remove the need for the eviction and marketing processes, allow the tenant to remain in the property and not have to compete for the property in an offers over bidding scenario, as well as removing a potential homeless applicant from the Council's caseload. This model could be enhanced by the potential of a shared equity offering much like Open Market Shared Equity where the Scottish Government could take a share in the property, which would enhance the affordability of a potential purchase for the tenant. The Council could also potentially lend the tenant the money required for the mortgage, at commercial rates, if the tenant was unable to find a suitable lender. The risk to the Council would be minimal as should the tenant default the property would come into Council ownership and could be utilised as part of the wider social rented stock, potentially with the same tenant in the property.

Some council areas are looking at a similar model where the Council purchases properties from landlords and then rents to the tenant. This model might work well in areas where the Council has significant Housing Revenue Account (HRA) headroom, but in Orkney there is such limited funding available within the HRA and Orkney Housing Association it would seem to make sense to utilise the limited funds to expand the housing stock through new build rather than purchase an existing property. This is not a universal solution and some tenants will not be in the position to look at purchase, particularly with the rise in interest rates and cost of living crisis, but as rents continue to rise it is very possible that purchasing, particularly if a shared equity option can be offered, may well be cheaper than renting, if the tenant could find another property to rent. The landlord also wins by saving the time and effort to evict the tenant and then market the property. They may not make as much as they could on the property, but they do save money, effort, stress and time.

### A Focus on First Time Buyer and Key Worker Options

A focus on housing tenure types that could help address Orkney's projected worsening demographic balance would make a huge difference and would hopefully help retain the younger households that would like to remain in Orkney, as well as draw in other younger households to Orkney. The analysis above shows that the housing market in Orkney is not one where many young first-time buyer households are able to effectively compete in the open market. There are also limited opportunities around mid-market rent or low-cost home ownership, particularly now Help to Buy has ended. If there can be a significant increase in the development of low-cost home ownership and mid-market rent properties, through both the NSSE programme and the Rural and Islands Housing Fund, this would go a long way to addressing some of the issues younger households face. Mid-market rent is a particularly useful tenancy as it can be utilised by a number of different groups including younger households struggling to afford purchase or private rents, students and key workers.

### Empty Homes

Orkney has around 600 empty homes across the islands. There is a huge potential to bring some of these properties back into use, particularly as new build housing becomes more expensive and in an attempt to reduce carbon emissions from development. If young households could access energy efficiency funding via the EES: ABS scheme, interest free loans and cashback via the Energy Saving Trust, as well as potential for interest free or reduced interest loans for renovations, there may well be the potential to get more empty properties into the hands of households looking to remain or set up in Orkney for the long term. While resurrecting the Rural Home Ownership Grant is probably not possible, a shared equity low-cost home ownership project that could support empty home renovations might be a very useful tool. It would probably not be an easy tool to develop though.

The Council's desire to enforce additional Council Tax charges on empty properties and bring more back into use is to be applauded and much needed and if a fuller matchmaking service between owners and prospective purchasers/renovators can be developed, with funding support available particularly around energy efficiency empty homes may well make a strong contribution to Orkney's housing requirements.

The ability of island development trusts to access Scottish Land Fund and Rural and Islands Housing Fund funding to renovate properties also offers an opportunity for development trusts to potentially access some of the empty properties in their communities and utilise available funding to develop them and then rent them out. There have already been a number of properties brought back into use via this route and continued close working with the Council's Empty Homes Development Officer to help identify and engage with empty home owners who may be more amenable to properties being purchased and developed for wider community good may well lead to a number of properties being brought back into use.

### New Settlement

Orkney has grown significantly over the past 20 years. The analysis above estimates that similar levels of growth will be required over the next 20 years to help address the demographic imbalance, meet the high level of demand to live in Orkney and to make the most of the offshore wind opportunities on Orkney's doorstep. This could mean an

increase of between 2,000 and 3,000 properties over the next 20 years. This seems like a lot, but is actually not that different from the increase of the last 20 years, which despite a significant increase in housing stock has still left a significant supply shortage.

The traditional approach to undertake the majority of development around Kirkwall is not sustainable in the longer term due to the sprawl of the town and the requirement for significant investment in additional supporting infrastructure, which would potentially include a new primary school, road upgrades and sewage and water upgrades amongst other things. Orkney's other main settlements could all be expanded, however, accommodating a significant amount of the required 2,000 to 3,000 properties in existing settlements would probably not be easy or desirable for the population of those settlements.

An alternative option is to develop a new settlement which would have a significant amount of low-cost home ownership, mid-market rent, market housing, social rent and self-build housing sites, as well as supporting infrastructure like a shop, post office, remote working hub and good public transport links. Orkney's West Mainland has significant capacity within its primary schools and an additional settlement would allow for an enhanced public transport system to be developed which would benefit existing communities.

Orkney prides itself on its renewables credentials and being a living laboratory for renewable energy ideas and projects. The development of a truly net zero settlement which could be designed as a net or zero carbon settlement from the outset and be renewably powered, with the potential of heating coming from a waste incinerator which could utilise the waste Orkney currently sends to Shetland to be burnt or from geothermal energy. There would also be the potential for additional research and planning around electric and autonomous vehicles and other renewable and net zero innovations. A development of the scale of 250 – 500 houses in the countryside would provide access to cheaper land and remove some of the pressure in and around Kirkwall, as well as providing the opportunity to plan and develop housing at scale and in phases.

The Council is to start work on a new Local Development Plan over the coming months and the new settlement idea will be mooted as a potential option for helping deliver some of Orkney's much needed housing.

### Housing for Transitory Labour and Then Longer-Term Use

For Orkney to take full advantage of the opportunity of offshore wind there will need to be a significant increase in the housing stock to both accommodate workers who will need to come to Orkney to develop the infrastructure required, as well as those who will come to Orkney to help develop and then maintain the windfarms themselves.

The opportunity is there to ensure that the accommodation developed for travelling workers coming to Orkney to upgrade the electricity grid, as well as develop the required infrastructure like the Deep Water Quay, has a life beyond the initial infrastructure upgrade and construction phase and can be utilised as affordable or key worker housing into the future. If the funding developers and contractors have for providing the accommodation their workforce will require can be combined with some of the funding the Council, housing association and Scottish Government have for affordable housing development, it is very possible that instead of a transitory camp that will only be utilised over the construction/upgrade period and then removed, more substantial longer-term housing could be developed. This housing could be developed as part of the new settlement proposal above. It could be initially used by the contractors and once construction/upgrades were completed rented out as mid-market or social rent or sold as low-cost home ownership. This would provide best use of the available finance, give a lasting local benefit, while also reducing the carbon footprint of the accommodation requirements of the contractors since the properties would not need to be removed at the end of the works.

### Modular Housing

Modular housing may well be a potential solution for smaller island communities that don't have their own builders or struggle to get builders from the Orkney Mainland to quote for works. Some of the key costs for developing in smaller island areas are overnight accommodation and labour and if the majority of the development of a property

could be undertaken off-island it would help reduce costs and the time needed to finalise the build on-site. Obviously, anything developed would need to be designed in a way that it would stand up to the challenging island climate, but that should be achievable. Modular housing could also be utilised to increase the supply of housing beyond the level the local construction industry can deliver should there need to be a rapid increase in housing. This may well be the case for the renewable industry when workers who are brought to Orkney to develop things like the potential Deep Water Quay need housing and the local market is unable to meet that need within what will no doubt be tight timescales.

### Student Housing

Another group that is struggling to find accommodation is students. Both UHI (Kirkwall & Stromness) and Heriot Watt (Stromness) have campuses on Orkney and other universities including Robert Gordon and Edinburgh bring students to Orkney on field trips. A project that provided dedicated student housing provision in both Kirkwall and Stromness would help free up much needed private rented sector stock in both towns, but would also help UHI and Heriot Watt attract additional students to courses in Orkney. The model utilised in Perth where the Hostelling Scotland manage a student housing development on behalf of UHI and use a number of the rooms over summer as a youth hostel would work well in Orkney as Hostelling Scotland are interested in replacing their current building. All 3 organisations have been in discussions around the potential of a project along these lines and it is hoped that the opportunity can be developed.

The major issue with a student housing project in Orkney is one of scale. While Orkney has quite a few students and both major universities have plans to expand numbers, the scale of the student market in Orkney is very small when compared to larger areas, so it is unlikely that a student housing developer would be interested in the scale of project(s) in Orkney. This is why a project that can operate as student housing and youth hostel has the best chance of success. It meets more than one partners needs and has a chance of at least some economies of scale.

### Conclusions

It would be easy to assume that Orkney's housing issues are caused by simply not building enough houses. This assumption is incorrect. While just building more houses would certainly help, to properly address the demographics, affordability and employment issues outlined above there needs to be a more planned approach to the type of housing developed, as well as where it is developed. Full market value housing helps those who can afford it and social housing helps those who are prioritised for it. Neither tenure really helps the majority of young households looking for housing and increasingly the families and workers looking to move to Orkney to take up work.

This analysis gives options for developing additional housing in a way that tries to help address Orkney's demographic imbalance, retain and attract younger people who want to live on the islands and provide the accommodation required to capitalise on opportunities like offshore wind.