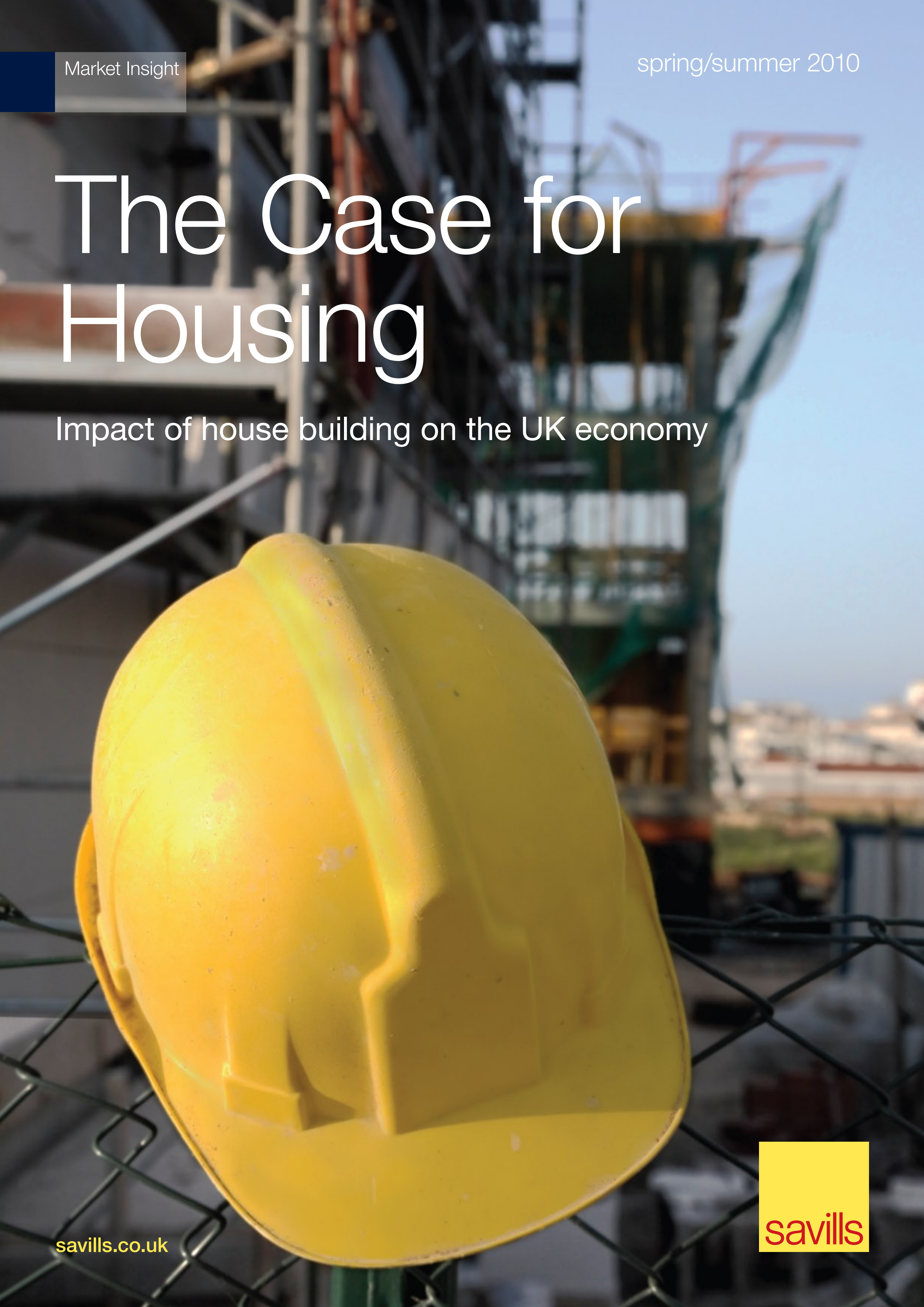
Market Insight

spring/summer 2010

The Case for Housing

Impact of house building on the UK economy



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The case for housing

A substantial increase in house building of 100,000 homes per annum would not only deliver much needed housing, it would create jobs, boost tax revenues and cut government borrowing by £23 billion over the life of a new parliament.

This paper details the positive benefits that housing supply can have on the UK economy and demonstrates the "loss" to the UK economy that flows from the reduction in house building from 200,000 properties in 2007 to the 100,000 properties that are likely to be provided in 2010.

It argues for concerted action to stimulate supply, why government should take action, and explores a number of steps that it could take to create a positive environment for investment in housing.

Housing supply post war

The graph below details the level of housing production from 1946 onwards, giving a breakdown between sources of production. (See Graph 1)

Private sector production has averaged around 140,000 properties per year since 1955, exceeding this with short lived peaks in the early 1960s and then the mid 1980s.

Local authorities represented the bulk of the production in the 1950s, with an average of 150,000 properties, dropping down to 100,000 in the1970s. Housing associations have largely replaced local authorities, albeit at much lower levels.

The case for a rapid expansion in the provision of new homes

Housing starts have fallen rapidly as the country has sunk deeper into recession. In 2007 around 200,000 additional homes were delivered.

This represented the peak of activity for the decade, but even this falls short of the government target of 240,000 and the levels of up to 290,000 that both the National Housing and Planning Advice Unit and the Barker Review have suggested are needed to solve affordability problems.

In 2009 we saw less than 120,000 new homes delivered and less than 90,000 started. It is likely that, overall, around 100,000 new homes will be delivered in 2010.

Government action in the form of housing stimulus packages has been instrumental in enabling this housing supply and maintaining capacity within the construction sector. Analysis suggests that more than half of this output has benefitted from government support of some kind.

The potential spending reductions trailed by all parties suggest that this support could be withdrawn. This is likely to further reduce supply and have an adverse economic impact.

Economic boost

Based on an impact analysis that Savills has undertaken with Oxford Economics, we know that housing development has a positive impact on the economy.

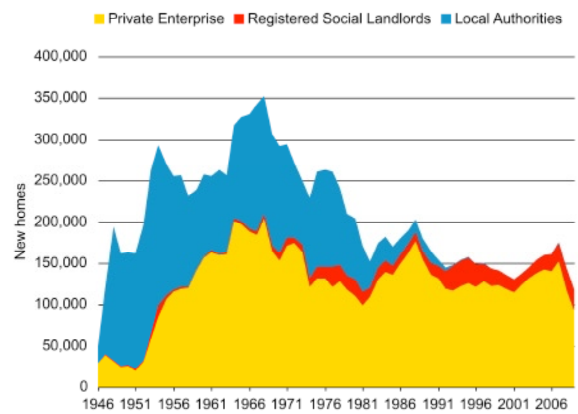
- The lag between investment and impact is short – less than a year
- It creates jobs in the UK
- It creates significant tax revenues

We would argue that the size of the impact is such that, whatever the result of the next election, any incoming government should adopt a commitment to boost supply by 100,000 properties and to maintain this through the life of the next parliament.

Without intervention the market will recover but at a much slower pace. If action was taken to reverse the current trend and to boost supply by 100,000 new homes a year, the impact on the economy would be substantial.

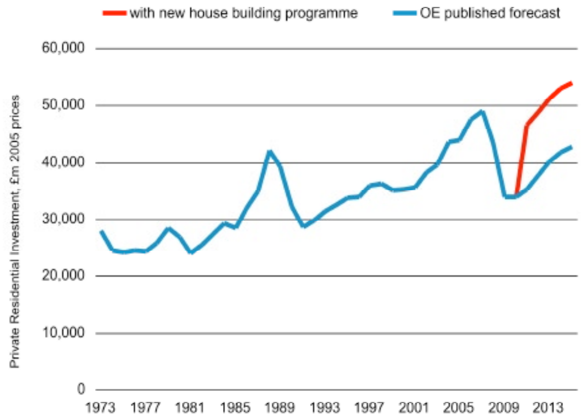
It would create a surge in residential investment and provide a significant and early boost to the economy. (See Graph 2)

Graph 1
Housing completions in England by source



Source: CLG

Graph 2
Impact of an extra 100K new homes pa on private residential investment



Source: Oxford Economics

The measurable economic impacts of building 100,000 new homes

- Boost jobs
- Reduce benefit expenditure
- Boost tax revenues
- Reduce borrowing
- Impact positively on the growth of GDP
- Positively impact on economic confidence and potentially the cost of borrowing

100,000 new homes would

Boost jobs

This action would create around **228,000** direct construction jobs and a further **228,000** jobs on the supply side. These would be real jobs and many of them would be provided by the small businesses most affected by the recession.
This action would also have wider benefits, boosting activity and creating an environment where enterprise could flourish. It would encourage businesses to take on apprentices and boost the future capacity of the construction industry.

Housing is a local product and any stimulus to the housing market is likely to have a positive impact in all regions.

Reduce benefit expenditure

Given the scale of the downturn within the construction industry, there is significant unused capacity. The jobs created would lift many of the unemployed construction workforce off the unemployment list and, again, the year on year commitment would boost the opportunities for apprenticeships.

The reduction in unemployment would significantly reduce the benefit take. It should result in annual savings that would increase to **£1.1bn** per year by the end of the new parliament.

Boost tax revenues

The direct benefit from the production of 100,000 new homes per annum would be to increase tax revenues by at least £2.3 billion a year, rising to **£3.1 billion** a year by the end of the new parliament.

Table 1: Tax revenues in 2015

Tax	£m
Stamp duty	180
Council tax	573
Corporation tax	431
Income tax	823
Employees NICs	757
Employers NICs	352
Total	3117

Additional tax revenues would flow from linked activity and the boost to the economy from this output, producing a total revenue gain of **£5.8 billion** annually, as shown in Graph 3.

Reduce borrowing

Over the life of a parliament these new homes would reduce government borrowing by around **£23 billion**, through increased tax revenues and the reduced benefit bill.

Impact positively on the growth of GDP

At a time when the wider economy is restrained and growth limited, a boost to the construction industry would feed through to the headline rate of growth and do much to lift further expectations of growth.

This level of increased housing output could add **1% of growth** to the economy (by the end of the second year). (See Graph 4)

Positively impact on confidence and the cost of borrowing

The UK economy is likely to hover around low levels of growth for some time. The extent of debate within the financial markets as to whether we achieved 0.1% or 0.3% growth in the last quarter of 2009, illustrates how the potential boost from housing could positively impact the wider economy and a new government's ability to manage it.

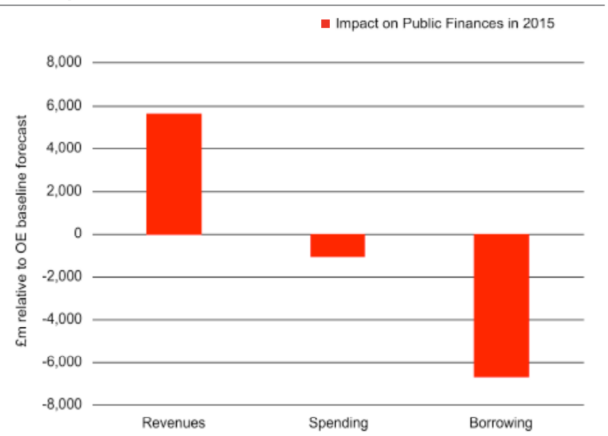
This could flow through to the cost of borrowing. Given the scale of debt, action that boosts confidence could have a substantial impact, assuming that the increased activity uses up spare capacity in the economy, therefore not leading to inflationary pressures. If government debt is £850 billion then an increase of 10 basis points to an interest rate of say 4.0% would add £850 million to the cost of serving debt. Therefore, any positive action that reduces pressure for this must be beneficial.

Potential methods of delivery

Providing housing to rent

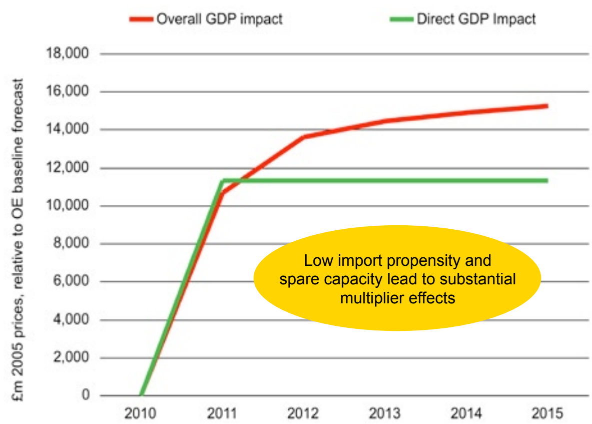
In 1951 the UK economy faced an equally demanding set of financial circumstances and a high unmet demand for housing.

Graph 3
Impact on public finances in 2015



Source: Oxford Economics

Graph 4
Impact on GDP (direct and indirect)



Source: Oxford Economics

The solution was for government to support the delivery of new housing. Much of their effort focused on the delivery of rented housing.

We suggest that similar action is required in 2010 and that any government should support a significant increase in the number of new homes provided for rent. There is substantial unmet demand for housing within the UK. The Barker report and others have highlighted the need for 3 million additional homes to meet the demands of a growing, ageing and increasingly single population. The impact of university fees and the changing nature of employment point to an increased demand for the housing flexibility that renting can deliver.

The global economy demands that the UK has a flexible, mobile workforce that is able to respond to job opportunities and has the flexibility to match its housing expenditure to its income.

It is not by chance that the most active part of the UK economy is London and that it has one of the highest levels of rented housing.

There is strong evidence of the continuing demand for market rented housing. Over the last decade over 1 million more people have taken up renting in the private sector. The buy-to-let market has gone from virtually nothing to more than 3% of our total housing stock.

Demand for owner-occupation remains strong and it is likely that the UK market will continue to be dominated by housing for sale. Unless measures are taken to boost the supply of private rented housing, access to affordably priced accommodation will be restricted. Many of the current purchasers will have rented in advance of purchase.

An increase in market rented homes, via the proposed boost to supply, would act as stimulus to the wider housing market, bringing forward many sites where the sales risk is preventing house builders from opening up new sites. It would enable the mortgage market to recover, with some of the demand for house purchase deferred through renting in advance of purchase.

Delivery and cost

These additional market rented homes could be delivered by the private sector using private sector funding. The cost of delivery would be driven by construction costs and the value of land. An extra 100,000 new homes would cost somewhere around £12 billion to deliver each year.

To put that figure into perspective, around £17 billion was lent to fund buy-to-let mortgages for house purchases during 2007-2008. The cost of construction and a land value would be financed through the rents generated by the properties.
Over time, as rents rise in line with earnings, the returns for investors would grow and the debt would be repaid.

Creating the environment

Government could assist by creating an environment where these market rented houses could be delivered. It could:

- provide tax incentives by reducing the Capital Gains Tax when properties were sold into owner occupation, on the understanding that they had been available for rent for say 5 - 10 years
- place rented housing on the same VAT base as housing for sale
- invest public land for a revenue return and a share of future proceeds

All of these would be helpful additions.

Above all, what is required is the political will to make it happen, working with the private sector to deliver new housing to create jobs, reduce borrowing and boost the economy.

Housing Investment Consultancy - Our services and track record

Savills Housing Investment and Consultancy team provides practical solutions for the utilisation of property assets and delivery of residential led development. Working across the UK, we create strong partnerships with the public and private sector, delivering housing, healthcare and education facilities. We also open opportunities for investment and source funding for development.

Our skill lies in working as part of your team helping you to deliver your business objectives. We have:

- Surveyed 1 million homes for stock condition in the last 5 years
- Delivered £7 billion of major works during the last 5 years
- Advised on the creation of the UK's largest Local Asset Backed Vehicle
- Initiated the development of 3,500 properties
- Arranged the sale of 5,500 tenanted homes for a total of £250 million
- Sold or acquired over 25,000 student properties
- Valued around £1 billion worth of care homes
- Advised on the transfer of over 600,000 local authority homes

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