

Building Post-Pandemic Prosperity

The economic and fiscal case for constructing 100,000 new council homes each year

Independent report by Pragmatix Advisory for the LGA, ARCH & the NFA

November 2020

Every 100,000 new social homes built would bring £14.5bn into the UK economy

- Creating 263,000 jobs
- Improving public finances by £7.8bn, in today's money, over 25 years
- Reducing the annual deficit by £70m - £7,000 for each new home

Why does the UK economy need this boost?

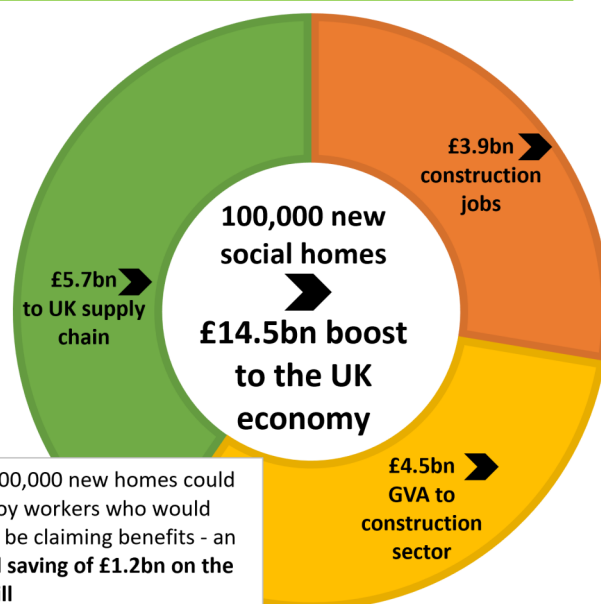
Across the economy:

COVID-19 is expected to wipe £1.3 trillion from the UK's gross domestic product.

Post-pandemic, forecasts suggest an average of around one million full-time jobs will disappear over the next five years; unemployment will rise to around 10%.

Employment is not expected to return to pre-pandemic levels until at least 2025.

The Office for Budget Responsibility predicts that earnings will flatline for the next five years.



Across the construction sector:

COVID-19 has caused a 60% drop in the completion of new homes. If left to recover without help, it will be 2024 before the industry is completing homes at 2019 levels – and that was not fast enough to meet government targets.

The construction sector has one of the highest concentrations of micro-businesses (employing 1-9 people) and small businesses (up to 50 employees). One-third of all construction-related businesses paused trading at the start of lockdown; micro and small businesses were hardest hit.

The most cautious estimate is that the sector will have lost 1.3m worker hours by the time the pandemic is over – a loss that translates into around 500,000 unbuilt homes along with lost jobs, unpaid tax and national insurance contributions and an inflated benefits bill.

	Construction sector	Supply chain	Employee spend	TOTAL
Output / Cost	£12.4 bn	£13.0 bn	£8.9 bn	£34.3 bn
Gross value added	£4.8 bn	£5.7 bn	£3.9 bn	£14.5 bn
Wages, salaries, etc.	£2.2 bn	£3.2 bn	£2.2 bn	£7.6 bn
Tax receipts	£0.8 bn	£1.0 bn	£0.7 bn	£2.5 bn
Unemployment benefits saved (max)	£0.4 bn	£0.5 bn	£0.3 bn	£1.2 bn
Jobs supported, full time equivalent	89,000	103,000	71,000	263,000

Economic and fiscal impact of building 100,000 new homes
United Kingdom

Why should home building be a key focus of economic stimulus, post-pandemic?

Public money will be in short supply. So:

It makes sense to focus government and local authority spending on sectors that support the domestic economy and jobs, not those that rely on imported goods or services. House construction can be supplied largely through home-grown skills, materials and logistics.

Few public investment programmes can be so precisely targeted at the highest need – to relieve concentrated pockets of social deprivation, unemployment or poor health. Few can address all these issues in one programme, leveraging the extra support with health, employability and debt management that social housing services already offer.

Councils are steeling themselves for a post-pandemic ‘avalanche of evictions’.

Personal debt, particularly around housing costs, is spiraling. The number of households with rent arrears has doubled through 2020; half of those who had missed rent payments in June had no arrears in March as the first lockdown began.

Shelter estimates that 230,000 households will be at risk of eviction when current bans on evictions hearings and repossessions are lifted.

More ‘no-fault’ evictions and non-renewals of tenancies will be triggered by private sector landlords also hit hard by the pandemic and needing to raise rents or sell properties.

Even before COVID-19, the UK had a critical housing shortage.

The National Housing Federation estimates that pre-COVID, almost eight million people in the UK had a pressing housing need. The right solution for close to half of them was social housing because other options were beyond their reach.

Local authorities spent more than £1bn on temporary accommodation in 2018-2019 to house 88,330 households who had met all the criteria for urgent social housing need.

Council waiting lists are already overflowing; those waiting for social housing will top two million in 2021.

Neither councils nor developers can boost home-building without government help and support.

Councils are doing their best. Even mid-austerity and hampered by the HRA cap (lifted in late 2019), they have delivered 17,620 social homes in partnership with private developers, housing associations and their own ALMOs since 2010.

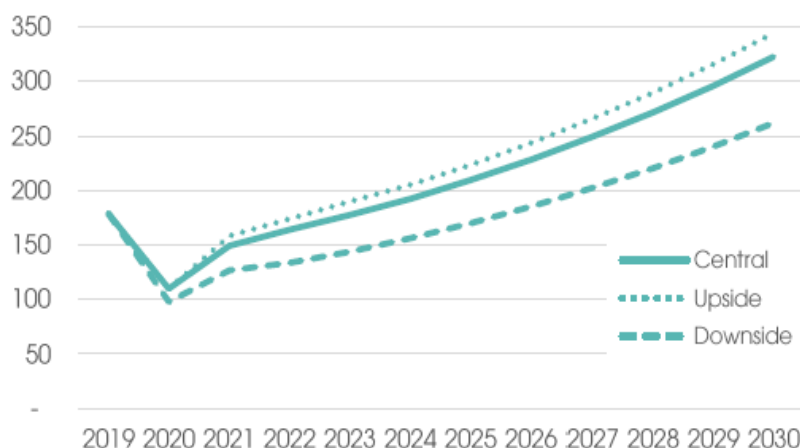
Construction projects have long lead times and rely on investors willing to accept long-term risk. In the post-pandemic recession, both constructors and investors will be understandably cautious.

Current government proposals to relax planning regulations will cut still further the number of homes built for social and affordable rent.

Government measures to ease pressures on the housing market, such as the suspension of Stamp Duty, benefit the resale market rather than development and construction.

The most optimistic estimates say the government’s manifesto promise to build 300,000 new homes a year by 2025 cannot be achieved without intervention.

New build house completions (without further government intervention)
England, thousands



Levelling up

Levelling up is a key plank of current government policy. Yet current and proposed policies do little to level the playing field for those who can't or don't wish to become homeowners.

This group inevitably includes many low-paid workers such as those in logistics, retail and health services, all agreed to be essential occupations during the pandemic.

Even if rental is viewed as no more than a stepping stone to home-ownership, there is not enough truly affordable and decent rental housing to make that first step possible for all.

Current policy interventions—impact summary

Policy intervention	300,000 homes a year target	Address identified needs
Help to Buy ISA	Little to no impact, scheme closed to new applicants, average grant award per home not high enough to have impact on demand for new builds	Helps first-time buyers already registered to scheme, but not others
Equity Loan	51,357 completions in year to March 2020	Enables lending for buyers, does not meet rental need
Shared Ownership	17,021 homes in 2018-19	Supports limited buyers, does not meet rental need
First Homes scheme	Homes coming from existing Section 106 contributions – minimum 25 per cent of Section 106 contributions to be 'First Homes'	Supports first time buyers, does not meet rental need, takes away from affordable housing provision
Temporary Stamp Duty Reduction	Temporary measure, unlikely to increase demand for new builds longer term	Supports purchasers, does not meet rental need
Proposed planning changes	Enables faster and easier delivery for developers, but scale of new build dependent on private demand	Government estimates loss of between 7% and 14% of section 106 affordable housing at threshold of 40 units, and loss of between 10% and 20% with threshold of 50 units

Behind the averages, there are real differences across the UK in the health and economic impact of the pandemic. Some have been hit by the crisis much harder than others, depending on factors such as where they live or what jobs they do, and circumstances such as ethnic background, mental health or disability.

Addressing these differences is essential to the levelling up agenda.

A major new social housing programme can deliver exactly this, targeting areas where the need for affordable housing is greatest; where jobs and training are most needed; where construction skills, equipment and project management capacity and experience are idle or underused.

Sufficient housing to meet all needs should be a cornerstone of a meaningful, integrated levelling-up policy.

Building Post-Pandemic Prosperity: The economic and fiscal case for constructing 100,000 new social homes each year. Pragmatix Advisory, 2020.

An NFA Briefing Paper

Where could the first 100,000 new homes be built?

Pre-COVID existing housing need, the impact of the pandemic and construction sector capacity all vary widely across UK regions.

One approach to allocating new-build support, **scaling up**, would set targets based on how many new social and affordable homes have been created in each region in recent years, drawing on both capacity and experience.

A **levelling up** approach would produce slightly different targets, focusing on each region's specific housing need, pandemic impact, building costs and existing construction capacity.

Source: MHCLG, authors' calculations

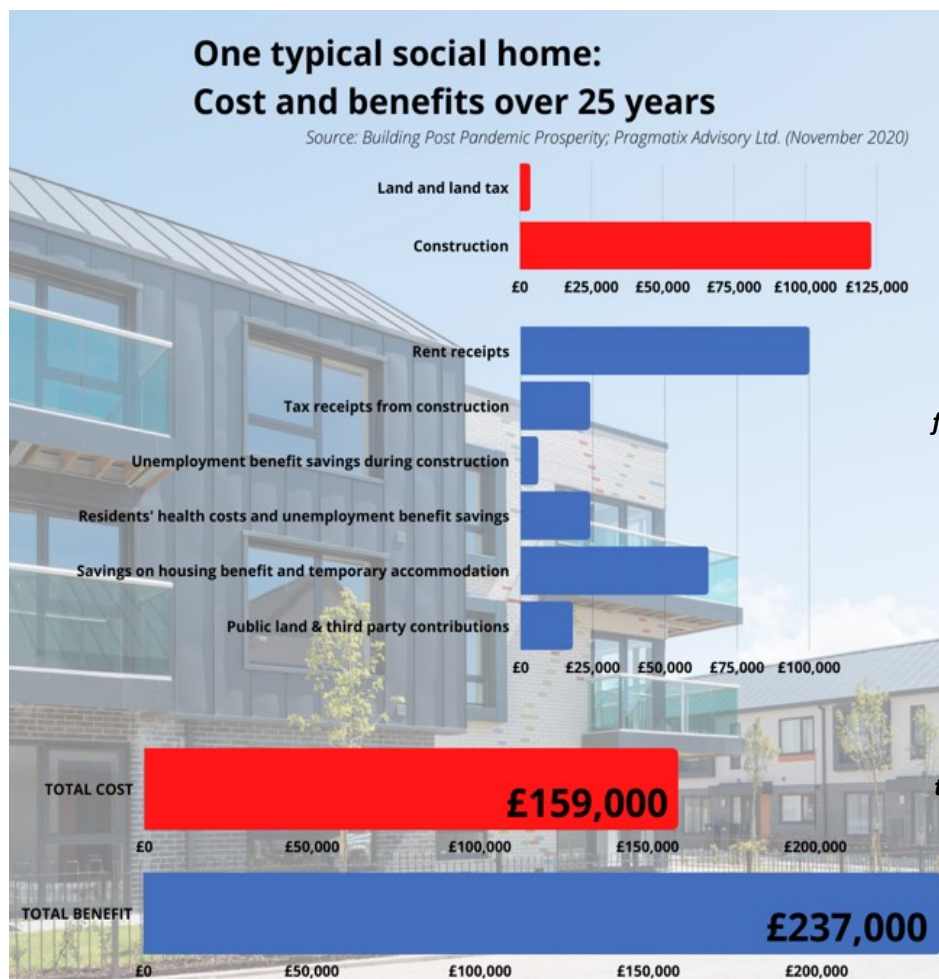
New social rent homes per annum	Scaling up	Levelling up
North East	5,700	8,000
North West	11,200	14,000
Yorks & Humber	8,200	10,000
East Midlands	8,900	10,000
West Midlands	13,000	15,000
East of England	12,100	12,000
London	14,000	8,000
South East	15,800	8,000
South West	11,100	15,000

Possible initial covid-response home building options (indicative only)

What do we gain?

This report pins down solid cost-benefit numbers. They show that building social housing to quality standards is an investment in publicly-owned infrastructure that retains its value and returns income over many years.

Built and managed well, social housing generates a surplus. Some, of course, funds routine maintenance and normal wear and tear reparation. The remainder can be used to seed future construction; to fill gaps in wraparound support that has vanished in recent years under pressure from budget cuts—and which many social housing providers have endeavoured to replace; and to underpin wider initiatives that support local and regional economies.



The hidden benefits

This report does not attempt to quantify the wider economic and fiscal good that a fully-supplied, mixed-tenure housing market would deliver.

Other research clearly shows, however, that good housing leads to good health.

It shows that, without good housing, finding and keeping a job is very difficult.

Education, training and future employability suffers.

Once built, every new council home will save the government and the taxpayer money.

The welfare bill reduced; the huge drain on public finances demanded by temporary accommodation plugged; less pressure on health services; the most vulnerable protected.