Research: briefing

Housing Investment: Part 1

The first of a series of research papers assessing the impacts of cutting capital investment in housing

Shelter is a charity that works to alleviate the distress caused by homelessness and bad housing and develop practical solutions to address the housing crisis. However, Shelter recognises that the impact of bad housing extends far beyond the traditional view of the housing sector.

This Research: briefing is the first of a series of Shelter research papers setting out the economic and social case for housing investment. This briefing sets out the impacts of cutting housing investment in the context of the fragile economic recovery, growing unemployment, and a significant drop-off in housing delivery. It sets out the impacts on housing delivery, economic output and construction employment. Future research papers in this series will assess the broader economic and social impacts of housing investment in areas including education and health.

Summary

The construction and house building sector

The construction sector is a major contributor to the national economy, generating £91 billion of economic output and accounting for over 1.5 million jobs in 2008. Of these, 409,000 jobs were within the residential and commercial buildings construction sub-sector.

The average wage of construction sector employees is above national levels and the sector provides a range of formal training opportunities and progression routes to skilled trades and professions.

There is a strong relationship between the construction sector and broader economy, and the sector supports stronger multiplier effects than many other sectors.

However, the sector has considerable capacity at present. Private investment in housing has dropped significantly and unemployment in the construction sector has risen from 39,000 to 91,000 in only 24 months.

Further contraction of the construction sector will have serious implications for youth and long term unemployment. In 2009, the Construction Sector was identified as an opportunity sector for expanding apprenticeship opportunities.

The economic consequences of cutting housing investment

Every £1 of public investment in new housing is currently generating £3.51 of economic output.

Low private sector demand for housing and current levels of capacity within the sector suggest that cuts to public sector housing programmes will directly impact the total number of homes delivered.

Reduced activity within the house building sector will reduce the demand for construction employment and lead to an overall reduction in national economic output.

For every £100 million cut from the capital investment budget, national economic output will fall by £351 million. This would result in result in 2,500 fewer jobs in the construction sector and 1,650 fewer new homes.

£150 million of cuts to the HCA new build capital budgets have recently been announced and a further £610 million is under threat. A total budget cut of £760 million would be considerable, resulting in 12,625 fewer homes, almost 19,000 fewer jobs, and a £2.7 billion reduction in national economic output.
The Construction Sector

The importance of construction to the national economy

The construction sector is a major contributor to the national economy, generating £91 billion of economic output and accounting for over 1.5 million jobs in 2008.

Employees in the construction sector are on average more productive than their counterparts in other sectors and the construction sector provides a source of well paid jobs across the country. The average wage of full-time construction employees is 24% above the national average, with construction section employees receiving gross pay of £553 per week compared to £445 per week for employees across all sectors.

There is also a strong relationship between the performance of the construction sector and the broader economy. Construction sector demand generates significant returns to the national economy. An additional £1 of demand for construction activity generates £2.09 of economic output through the direct and indirect multiplier effects associated with construction firms purchasing goods and services from other sectors, and construction sector wages and profits being spent across the whole economy.

This significant multiplier compares favourably to other traditionally high value sectors such as the advanced manufacturing sector ‘manufacturing of medical and precision instruments’ (which has a multiplier of 1.7), and the business service sectors of ‘owning and dealing in real estate’ (1.6) and ‘banking and finance’ (1.7).

The relative importance of the construction sector varies considerably across the country and some areas would be severely affected by further cuts in construction sector output.

In the North East which has already been highlighted as a region at risk of public sector job loses, one in twelve people work in the construction sector.

At a more local level, there are 55 local authority areas across England where the proportion of the local workforce employed in construction exceeds 10%, placing these areas at particular risk.

Figure 1: Value of New Housing Orders, Great Britain

Source: Monthly Digest of Statistics April 2010 (ONS Crown Copyright Reserved)

1 Annual Business Inquiry, 2008
2 Gross Value Added per employee of £60,000 in 2008 compares to an average of £35,000 across all sectors. (Annual Business Enquiry, 2008)
3 Annual Survey of Hours and Earnings, 2009
4 UK Input-Output Tables, Office for National Statistics, 2002 Edition
5 Annual Population Survey, September 2009
The impacts of the recession

The previous section has demonstrated the importance of construction employment to the national economy. However, since 2008 the contraction of construction activity has been far more severe than for the economy overall and there is evidence of considerable capacity. Since 2007 the value of housing orders has declined for both public and private sector housing, however figure 1 opposite illustrates the significance of declining private sector demand. The share of public and housing association housing orders as a proportion of all orders has increased from 18% in 2007 to 32% in 2009.

These patterns of investment are associated with a significant weakening of the construction sector employment base, with unemployment among construction related occupations rising from almost 39,000 in 2008 to over 91,000 in 2010 – an increase of 136% in only 24 months. This compares to a 94% increase in the claimant count for all occupations, see figure 2.

Similarly the proportion of construction sector vacancies left unfilled for more than four weeks at Jobcentre Plus has declined from a peak of 8,500 in October 2007 to under 2,000 in April 2010.

These figures clearly point to economic capacity within the construction and house building sectors and any further cuts in public sector support will have a direct impact on the sector, leading to a reduction in economic output and job loses in the construction sector and related industries.

Evidence from the last recession demonstrated that it took around a decade for employment to recover to pre-recession levels. Sustained unemployment in the construction sector will have serious implications in areas dependent on construction employment as local residents become increasingly isolated from the labour market and find it increasingly difficult to re-enter employment.

A further contraction of the construction sector will also have specific implications for youth unemployment and the quality of employment accessed by today’s school leavers. Prior to the recession, the construction sector provided a broad range of formal training opportunities and routes to well paid skilled trades and professions.

As a route to workplace skills, the role of apprenticeships has increased dramatically over the past decade. The Learning and Skills Council identified the Construction Sector as providing one of the greatest opportunities for expanding apprenticeship opportunities. It noted that the construction sector has a high proportion of craft and skilled workers and the potential to significantly expand apprenticeship take up.

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6 Between 2008 Q1 and 2009 Q4 construction sector output declined by 13% compared to 6% across all sectors. (ONS Monthly Digest of Statistics, April 2010)
7 Monthly Digest of Statistics April 2010, ONS
8 DWP Claimant Count, April 2010
9 Jobcentre Plus Vacancies, DWP, 2010

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10 Total UK employment did not return to 1990 levels until 1999. (Labour Force Survey, ONS, 2010).
11 The total number of apprenticeship starts increased from 65,000 to 180,000 over the ten years prior to 2006/07. (Draft Apprenticeships Bill, DCSF, July 2008).
12 Identifying sectors with prospects for expanding the number of Apprenticeships Final Report, LSC, April 2009
Calculating the costs of cutting housing investment

The methodology

This section assesses the impact on construction employment and national economic output of any cuts to public investment in new housing, focusing specifically on the capital programmes set out in the HCA Corporate Plan 2009/10-2010/11. Further analysis could be undertaken to assess the impact of cuts to housing renewal and refurbishment programmes which improve or replace the existing housing stock.

This assessment reflects the economic climate and the performance of the construction sector set out in the previous section. It is assumed that public investment in new homes is not currently displacing private sector investment. Consequently, any public funding cuts would have a direct impact on the number of housing completions.

Figure 3 opposite sets out the approach for assessing the employment and economic impacts of any cuts to housing investment.

The public sector grant (or investment) ‘unlocks’ the total investment opportunity and the levered private sector investment makes up the difference between the public investment and total investment cost. Returns from the HCA suggest that every £1 of public investment in new housing levered in an additional £0.68 of private sector finance (excluding site acquisition costs).

From this financial data it is possible to estimate the impact of public sector cuts to capital investment for new homes.

The headline budget cut translates to a reduction in grant funding under each programme. Using average grant rates derived from the HCA Corporate Plan it is possible to assess the number of dwellings that will no longer receive public capital investment as a consequence of any cuts. This figure is the expected reduction in housing completions associated with the cuts.

Once the reduction in housing completions is identified, it is possible to assess the corresponding reduction in construction employment, total housing investment, and national economic output in the following way:

- Each new dwelling is assumed to support 1.5 Full-Time Equivalent (FTE) jobs.
- The average total investment per new dwelling (including social rented, intermediate, and some market housing) is estimated to be in the order of £101,000, including labour, and build costs, but excluding site acquisition costs.
- Every £1 of demand in the construction sector is assumed to generate £2.09 of economic output in the national economy due to multiplier effects.

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13 This paper forms part of a larger research programme which will assess the economic and social impacts of investment in housing construction and renovation.
14 This is calculated on a per dwelling basis and the true reduction of levered investment may be greater if entire housing developments are placed at risk due to reduced public funding for the affordable component.
15 Site acquisition costs have been excluded from the investment multiplier calculation as they reflect a transfer of wealth from the developer to landowner. In 2009 £1 of public sector investment levered in an additional £1.29 of private sector investment, including site acquisition costs.
16 The Labour Needs of Extra Housing, NHF / CITB 2005
17 Affordable housing build costs are taken from the HCA Regional Quarterly Investment Statements for 2009/10. Market housing build costs are based on the figures provided in the BCIS Estimate of Private Sector Housing Costs (2007), adjusted to reflect growth of construction costs and discounted to account for likely acquisition costs.
18 ONS Input-Output Analysis, 2002 Edition
The economic consequences of cutting housing investment

Using the approach described above, every £1 cut to capital investment in new housing is expected to reduce national output by £3.51. This comprises £0.68 of leveraged private sector capital investment and indirect multiplier effects of £1.83 felt across the national economy.

For each £100 million cut to investment in new homes, the total housing investment in the economy will decline by £168 million and reduce national economic output by £351 million.

Investment cuts of this scale would reduce the number of housing completions by 1,650 and reduce construction sector employment by a further 2,500.

Cuts to housing investment may be significant and in the current context of a construction sector that is operating far below capacity, the economic and employment impacts will be considerable, particularly in some areas of the country. Cuts in the order of £760 million would lead to employment decline of almost 19,000 and a reduction of economic output of £2.7bn compared to a scenario where current levels of investment were sustained19. These impacts are summarised in the table below.

<table>
<thead>
<tr>
<th>Cut to public capital investment</th>
<th>£100m</th>
<th>£760m</th>
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<tbody>
<tr>
<td><strong>Leading to a reduction in:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Leverage private sector investment</td>
<td>£68m</td>
<td>£518m</td>
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<tr>
<td>Total housing investment</td>
<td>£168m</td>
<td>£1,278m</td>
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<tr>
<td>New homes*</td>
<td>1,650</td>
<td>12,625</td>
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<tr>
<td>Construction employment*</td>
<td>2,500</td>
<td>18,950</td>
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<tr>
<td>National economic output</td>
<td>£351m</td>
<td>£2,667m</td>
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</tbody>
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* Homes and employment rounded to nearest 25

19 Based on confirmed cuts to capital investment in new housing of £150 million and a further £610 million of HCA funding which is currently at risk.
Conclusions

The house building sector plays a vital role in the national economy, providing employment and training opportunities and generating national economic growth.

Within the context of a fragile economic recovery and considerable uncertainty over growth forecasts, public housing investment remains critical to supporting housing delivery.

Cuts to public investment in new homes would cause one of our key industries to continue to flounder, bringing house building to a standstill at a time when the need for more homes has never been greater.

In deciding which budgets to cut, government must consider the severe impact that cutting housing investment will have on employment and securing stable economic growth.

However, the impacts of housing investment extend far beyond the implications for housing delivery, economic output and employment.

A growing body of evidence is demonstrating how poor housing conditions and limited housing supply are contributing to a range of social problems, such as health and well being, educational performance, and crime. Poor housing supply may also be constraining local economic growth across many parts of the country.

Over the coming months, Shelter will be investigating the broader economic and social impacts of housing investment in order to assess the true cost of insufficient investment in housing. This will include an assessment of the Social Return of Investment in new housing and the refurbishment of the existing housing stock.