

# Housing Investment: Part 2

## The role of housing in building local economic growth

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 people in need of a decent home

This research briefing is the second in a series of Shelter research papers setting out the economic and social case for housing investment. With the proposed powers set out in the Localism Bill, this briefing paper highlights the requirement for local authorities and Local Enterprise Partnerships to consider the strategic role of housing in supporting the local economy when developing their policies on the scale and composition of the local supply of housing.

### Summary

The shortage of affordable housing is already impacting on economic growth in many parts of the country with **5.6 million people reporting that high housing costs are constraining their ability to move for work.**

Similarly, **one in five businesses regards house prices as a constraint to their business growth.** This is a particular problem for small businesses, described by the government as being at the 'heart of economic growth'.

Improving the supply of affordable housing should be considered a priority area for investment at both the national and local level, but especially in the most buoyant and robust parts of the country. These areas have the most dynamic private sector economies and have the potential to propel the national recovery.

Across all areas, the supply of new, particularly affordable housing, can support local economic growth through:

- Increasing the affordability of housing in areas of high demand and improving access to areas of strong employment growth
- Delivering an appropriate mix of tenure that allows people to move to access appropriate employment opportunities

- Improving place competitiveness and diversifying the local population and employment base in areas that need to attract greater levels of investment

This is in addition to the **£3.51 of national economic output generated by £1 of public sector investment in housing.**

With the Localism Bill shifting many powers from central government to local areas, it is increasingly up to Local Authorities and Local Enterprise Partnerships to create the conditions that support the long term health of their local economies.

Funding will remain constrained for the foreseeable future however **it remains necessary for local authorities to prioritise those investment that underpin economic growth, including a supply of housing that meets the needs of the local communities and business base.**

The creation of Local Enterprise Partnerships in many parts of the country provides a structure for considering these issues. However, it is up to Local Authorities to ensure that the linkages between housing supply and the local economy are reflected in their Local Plans and Economic Strategies.

## Introduction

[Housing Investment Part 1](#)<sup>1</sup> set out how £1 of public sector investment in housing generates £3.51 for the national economy, through the levering-in of additional private sector investment and the direct economic multiplier effects associated with the construction sector. However this underestimates the true impact of housing investment as it excludes the impact of housing in supporting the local economy as well as any positive social outcomes in areas including education, crime and healthcare.

This analysis reviews the role of affordable housing in supporting local economic growth. Shelter is also undertaking further work to assess the broader social outcomes associated with housing investment.

With the Localism Bill shifting many powers from central government to local authorities, it is increasingly up to Local Authorities and Local Enterprise Partnerships to create the conditions that support the long term health of their local economy. While funding will continue to remain constrained for the foreseeable future, it is still necessary for local authorities to prioritise investment that supports long term economic growth and development.

An adequate supply of housing is a critical component of those conditions that facilitate economic growth and development by:

- Increasing the affordability of housing in areas of high demand and improving access to areas of strong employment growth
- Delivering an appropriate mix of tenure that allows people to move in order to access employment
- Improving place competitiveness to diversify the local population and employment base in areas that need to attract greater levels of investment.

## Affordability

An inadequate supply of affordable housing will constrain local business growth if the cost of housing and / or commuting either: (i) requires employers to pay an uncompetitive wage premium to employees; or (ii) restricts the size of the labour market pool from which businesses can recruit. Unaffordable housing costs will also place additional pressures on self-employed people and

small business owners who will be less able to retain profits within their business due to the higher costs of living.

With a significant contraction of employment forecast across the public sector and its supplier businesses, it is essential that local economic growth is not held back by declining housing affordability.

Unsurprisingly this issue is most prevalent in the most economically dynamic parts of the country, and it is these areas that face the greatest challenge in ensuring that a sufficient supply of housing is provided to maintain existing levels of growth. This issue is highlighted by Figure 1 (overleaf) which presents the extent to which buoyant, stable, and struggling areas are affordable. The analysis is based on the Centre for Cities classification of 56 English towns and cities and NHPAU's dataset on housing affordability for under 40s households. Clearly, affordability constraints are most pressing for the towns and cities identified as Buoyant, Robust or Stable.

Within each local area, the constraints to accessing affordable housing are most pronounced for younger people, or those in lower paid occupations. Research undertaken by Shelter found that 12% of people (5.6 million) considered that housing cost had affected their ability to move for work. This increases to 18% of 18-34 year olds (2.4 million)<sup>2</sup>.

These findings are consistent with an earlier survey of English businesses undertaken by the Campaign for More and Better Homes<sup>3</sup> prior to the recession. That survey found that 17% of English companies believed the limited availability of housing was negatively impacting on their business. This rose to 26% of companies in the South and 38% of companies in London.

These impacts are most acutely felt by smaller companies (19% of business with a turnover of between £1 million and £2 million) and those operating in the service sector (28%). Furthermore, one in five businesses regarded house prices as a constraint to business expansion in their region, rising to 44% of London firms.

The survey also found that the most common solutions to overcoming the issues associated with housing availability represented additional costs to doing business, and were most commonly related to transport or remuneration.

---

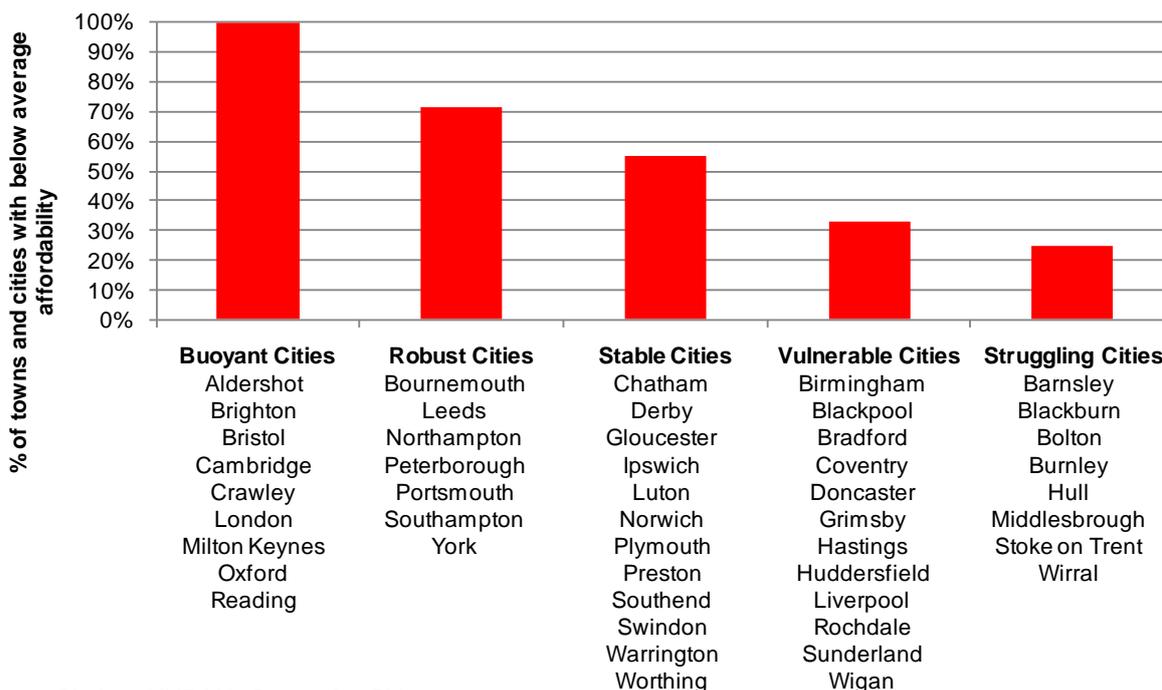
<sup>1</sup> [england.shelter.org.uk/professional\\_resources/policy\\_library](http://england.shelter.org.uk/professional_resources/policy_library)

---

<sup>2</sup> The Human Cost, Shelter, 2010

<sup>3</sup> The Impact on Business of Constraints in the Housing Market, Communicate Research, 2007

**Figure 1: Relationship between local employment prospects and affordability in the private rented sector**



Source: Shelter, NHPAU, Centre for Cities

In the current economic climate, it is precisely those areas classified as Buoyant and Robust that provide the greatest opportunities for delivering a private sector led recovery. Given the scale of the challenge it is essential that their development is not constrained by a shortage of affordable accommodation.

Moving to access employment will not be a viable option for many households, for example due to personal or family ties and responsibilities, however the survey data presented above suggests a latent willingness among many people to do so.

The proposed changes to the planning system set out in the Localism Bill place the responsibility for determining the level and mix of new housing on Local Authorities. This presents local areas with considerable freedom in determining their own long term vision. However, if local authorities incorporate a narrow analysis of housing need which focuses only on the needs of existing residents, they will overlook the linkages between housing supply and potential economic growth.

### Conclusions: Affordability

To truly facilitate local economic growth, Local Authorities must also consider the requirements of local businesses and the wider economy. The creation of Local Enterprise Partnerships across many parts of the country will provide structures for considering these issues. However, it is up to Local Authorities to ensure that the linkages between housing supply and the local economy are reflected in their Local Plans and Economic Strategies.

### Tenure

The supply of labour is not only affected by housing affordability, as there are also constraints to labour mobility that reflect housing tenure.

Overall 10% of moving households move in order to start a new job or to move closer to their existing job. This ranged from 17% of private renters, 5% of home owners, and 3% of social renters<sup>4</sup>. However, with 5.6 million people reporting that high housing costs have constrained their ability to move for work, it is clear that this proportion could increase.

The role of housing supply in improving labour mobility across each of these tenures is explored in greater detail in this section.

### Home Ownership

Homeowners are clearly the least mobile household group. The average duration of residence is 12 years and in a given year a typical household has an 8% likelihood of moving. Only 5% of homeowners which have moved did so because of their job.

These results are unsurprising given the costs of moving and the general characteristics of home-owning households.

<sup>4</sup> Survey of English Housing, 2007/08

**Table 1: Residence Duration and Moves by Tenure, 2007/08**

	Home Owners	Social Renters	Private Renters
Median length of residence (years)	12	8	2
Movers per year (per 1,000 households)	76	123	525

Source: Housing Statistics, 2008, CLG

In a review of housing and economic development, DTZ concluded that both the transaction cost of moving and the regional variations in house prices and expectations of future price rises may act to limit mobility<sup>5</sup>. This regional variation is described as a 'mobility trap' characterised by:

- Homeowners from comparatively low priced regions that cannot afford to move to higher priced regions.
- Homeowners in regions with high house prices that are reluctant to move out in the expectation that they will not be able to move back in the future
- Once house prices do start to fall, people becoming reluctant to move into areas with falling prices, because investment in property seems unwise
- A downturn in property prices making it difficult to sell and discouraging further people from moving to the area<sup>6</sup>.

Given the prevalence of home ownership, the authors went on to conclude that 'owner occupied housing may be emerging as the major barrier to labour mobility in the UK'. They also highlight that this is a particular issue for people employed in lower paid occupations as housing will account for a higher proportion of their income.

To some extent an increase in commuting (either the level of commuting or average distance travelled) may alleviate some of the pressures associated with high house prices and constraints to new development. Recent research utilising the British Household Panel Survey suggests that home owners are 71% more likely to access non-local employment relative to private renters, and they are correspondingly 56% less likely to leave their job for one that requires a residential move<sup>7</sup>.

<sup>5</sup> Housing, Economic Development and Productivity: Literature Review, DTZ, January 2006

<sup>6</sup> Champion et al (1998) The Determinants of Migration Flows in England, University of Newcastle for DETR

<sup>7</sup> Battu, H. (2007). Home Ownership, Commuting and Labour Mobility: Full Research Report.

However, the additional costs associated with commuting once again point to potential challenges to recruiting and retaining competitively paid employees in economically buoyant areas that have limited housing affordability.

This also highlights the potential role of Local Enterprise Partnerships in taking a more strategic view of the housing and transport requirements within a functional economic area.

## Social Rented Sector

Mobility is also less prevalent in the Social Rented Sector (SRS), with 12.3% of social renting households moving each year.

The SRS provides an alternative route for overcoming the affordability issues identified in the previous section, however there is clearly insufficient demand supply to meet the demand for this sector.

Table 2 sets out the number of years it would take to clear the current waiting list across each Centre for Cities classification based on the current rate of lettings<sup>8</sup>. In only one of the 55 areas<sup>9</sup> is the rate of letting sufficient to house all of those on the waiting list within one year and the minimum duration in a Buoyant area is three years. This will act as a significant barrier to households wishing to transfer into these areas to access employment.

This issue is compounded by the fact that such households moving to access employment are unlikely to be designated as in 'priority need' for social housing and in many cases will be unable to

**Table 2: Years Necessary to Clear Social Housing Waiting Lists, at Current Rates of Lettings**

	Min	Max	Average
<b>Buoyant</b>			
Cities	3.0	10.1	9.1
<b>Robust</b>			
Cities	1.7	10.7	5.1
<b>Stable</b>			
Cities	2.2	21.2	7.5
<b>Vulnerable</b>			
Cities	1.2	18.2	5.4
<b>Struggling</b>			
Cities	0.5	10.4	5.2

Source: Shelter 2009

<sup>8</sup> Waiting list figures should be treated with some caution as they cannot be relied upon to provide an up-to-date indication of need and demand for social housing.

<sup>9</sup> Milton Keynes has been excluded from this table as it does not operate a waiting list.

demonstrate sufficient local connection to be considered for social housing.

The government is in the process of introducing a new Affordable Rents Tenure and consulting on the introduction of flexible tenancies to improve the supply of accommodation in the SRS. These proposals raise a number of questions concerning the role of the SRS which are not discussed here. However, the fact remains that where SRS tenancies include eligibility criteria based on maximum income thresholds, economic activity, or local preference, it is highly unlikely that households relocating to access employment will be eligible for housing within the SRS. In these cases households will face the affordability constraints in the PRS discussed in the previous section.

### Private Rented Sector

The private rented sector (PRS) is clearly the most mobile of the three tenures, with a median length of residence of only two years and a 48% likelihood that a household will move in any given year.

This mobility should not be overstated, as a significant majority of moves will reflect the length of Assured Shorthold Tenancies in this sector or the prevalent characteristics of private sector renters. However the proportion of households in the PRS that move because of their job is higher than either of the other tenures (at 17%).

The issues associated with affordability of the private rented sector, particularly within the most buoyant economies, suggests that greater numbers of households would move in order to access employment if affordable accommodation was made available in areas experiencing the strongest levels of employment growth.

### Conclusions: Tenure

The constraints to labour mobility vary across each tenure type. However by improving housing supply in areas of high growth it is possible to improve labour mobility across all tenures, by reducing regional disparities in house prices, improving the affordability of private rents, and allowing more social tenants to relocate in search of work.

The appropriate balance of tenures will vary according to the nature of the local housing market and the needs of those seeking work. However it is clear that the availability of affordable housing is a critical component in overcoming constraints to labour market mobility.

## Place Competitiveness

In addition to the arguments set out above, housing plays a much broader role in underpinning the competitiveness of a local economic area. This will be of increasing importance to areas of the country seeking to develop their local enterprise base, particularly in those areas most exposed to the public sector employment cuts.

The investment decisions of firms depend on a number of factors including the availability of a suitable workforce and business premises, and proximity to customer and supplier networks. However, investment in housing can influence the investment decisions of businesses by:

- Promoting a diversified population base with a broad range of skills that are attractive to businesses and support enterprise growth and expansion
- Directly generating employment locally in the construction sector and through associated multiplier effects. (Set out in [Housing Investment: Part 1](#))

### A Diversified Population Base

In relation to diversifying the population base, the emphasis is not on supporting local population growth, but instead on ensuring that the local housing stock is appropriate to attract and retain particular types of households.

A common challenge for many areas is to ensure that the local area includes an adequate supply of skills that would be sought by businesses looking to invest or expand within the local area. Research by DTZ identifies that a skilled labour market base is essential if an area is to compete in the knowledge economy<sup>10</sup>.

Clearly there is a complex relationship between the housing on offer and an area's ability to attract and retain a skilled workforce and business investment. For example, areas with established businesses may be more able to attract an appropriate workforce through paying higher wages.

Improving local housing in isolation is unlikely to be successful in delivering economic renewal. However, research by Llewellyn Davies Yeang<sup>11</sup> has found that the quality of environment factors

---

<sup>10</sup> Housing, Economic Development and Productivity: Literature Review, DTZ, January 2006

<sup>11</sup> Quality of Place: The North's Residential Offer, Phase 1 Report for the Northern Way, Llewellyn Davies Yeang, March 2006

(such as public realm and housing) may be more important to cities or regions seeking to grow their knowledge economy from a limited base.

Housing also remains a critical element in an area's suitability as an investment location. The same report undertaken by DTZ concludes that 'it is clear that while quality housing investment alone may not be enough to attract significant inward investment, a lack of high quality housing may preclude it'.

### Conclusions: Place Competitiveness

The housing on offer is a fundamental element of shaping perceptions of an area and in attracting and retaining a diversified population base that supports local enterprise growth. In this regard, the role of housing in 'place making' will be greatest in areas where local businesses are less able to pay a wage premium to attract an appropriate workforce, including those areas that are heavily dependent on public sector employment and / or have a limited enterprise base.

The role of the local housing stock must be considered as a central component of any local economic strategy and correspondingly, the priorities set out in the any economic strategy should be reflected in the appropriate planning documents.

## The Challenges Ahead

The housing investment package set out in the CSR represents a significant challenge to the delivery of affordable housing across the country.

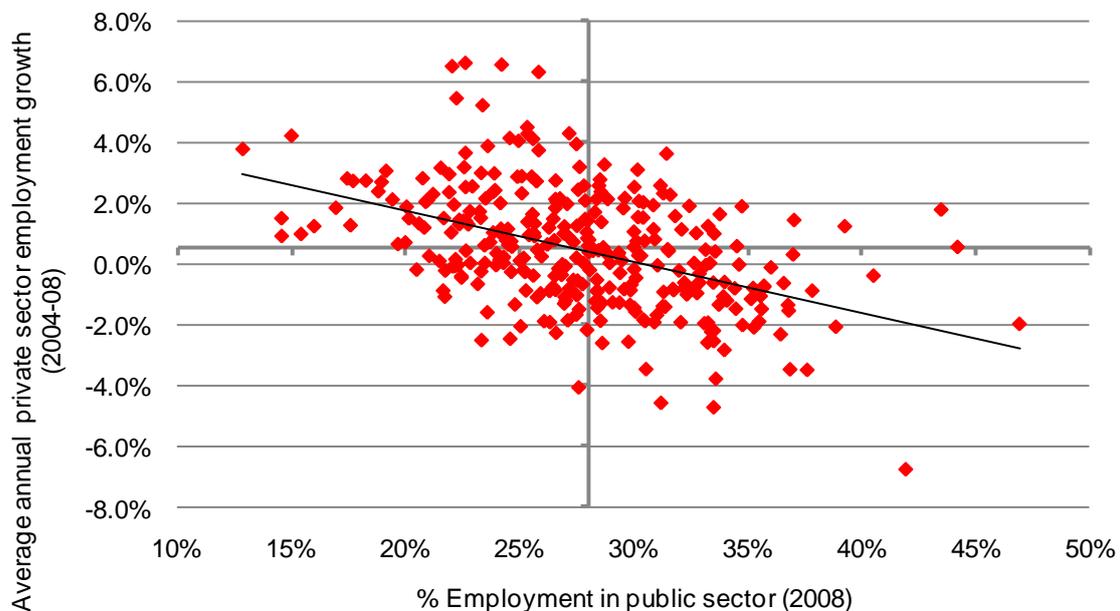
On an annual basis the CSR represents a cut of 60% on the level invested in housing since 2007 and there is uncertainty over whether the 80% Affordable Rent tenure will assist in overcoming the affordability challenges identified in this paper.

Furthermore, the public sector cuts are expected to lead to the loss of 330,000 central government jobs<sup>12</sup> with further job losses within local authorities and businesses delivering public sector contracts.

Figure 2 highlights the potential mismatch between areas most exposed to public sector job cuts and areas with the strongest private sector employment growth prior to the recession.

While entrepreneurial capacity may improve in less dynamic areas over the medium term, labour mobility and place competitiveness are critical to the success of local economies in the shorter term. Local Authorities and Local Enterprise Partnerships must ensure that the local housing offer aligns with the economic vision for their area and considers the issues set out in this paper.

**Figure 2: Relationship between public sector employment and private sector employment growth**



Source: Annual Population Survey, 2010

<sup>12</sup> Office for Budget Responsibility, Economic and Fiscal Outlook, November 2010

## Case Studies

### Reading

Reading is at the heart of the economically buoyant Thames Valley and acts as a centre for a variety of high value industries. The town is often credited as one of the key drivers of the national economy and received Growth Point Status in 2006.

A key component of Reading's success is its strong location and transport links. However, in recent years this success has resulted in more commuters, longer commuting distances, and a greater demand for housing. These issues are acknowledged by Reading Borough Council as contributing to local skills shortages.

However, Reading also contains deprived neighbourhoods and the gap between these areas and the more affluent neighbourhoods is growing.

While affordability has improved slightly through the recession, the cost of housing remains high. Reading's Housing Strategy (2009) reports that, prior to the recession, 80% of first time buyers were priced out of the market and many residents still struggle to afford the cost of renting within the town.

#### Local Housing Priorities

The need to support a strong and stable economy forms a central component of Reading Borough Council's Core Strategy and Housing Strategy. Both are aligned to the Borough's 2020 Vision for Reading to be the capital of the Thames Valley and to provide the highest quality services and facilities for its residents, businesses and visitors.

The strategies call for an expansion of housing supply with an emphasis on affordable housing, (particularly of family sized units) to alleviate the problems identified above. To deliver the affordable housing target set out in the Core Strategy (50% of units of all developments with more than 15 units) Reading Borough Council recognises the need for alternative ways to deliver affordable housing. Examples include local authority-led new build and the potential for raising contributions for affordable housing from major employment sites.

#### Local Challenges

Despite the recession, Reading remains in a strong position to sustain economic growth and move towards its 2020 vision. However, limited opportunities for raising developer contributions due to depressed property values and the cuts to national housing investment programmes may present threats to overcoming the problems associated with housing affordability.

### Pennine Lancashire

Pennine Lancashire is a group of six eastern Lancashire districts that have developed a combined 20 year vision of creating a housing market where local people can afford a good quality home, where its communities will prosper and where people choose to live, work and visit.

This vision is set within the context of a legacy of industrial decline and areas of widespread deprivation and housing market failure. Significant improvement in parts of Pennine Lancashire demonstrate the potential for development across the whole area, however investment is still required to support the economic interventions set out in the Integrated Economic Strategy for the area.

#### Local Housing Priorities

In recognition of these challenges, Pennine Lancashire's Housing Strategy developed a Market Progression Model (MPM) which defines the interdependency of housing and the economy and promotes housing growth, economic competitiveness and inclusion to achieve a balanced housing market.

This builds on Pennine Lancashire's ambition of moving the local housing and neighbourhoods to 'where they need to be to support economic growth' and builds on two key principles:

- Ensuring sufficient supply of housing of the appropriate quality and type to meet the economic aspirations and social needs of Pennine Lancashire residents.
- Developing sustainable neighbourhoods and offering opportunities to inward movers and investors to reduce the disparities between neighbourhoods and provide linkages to economic growth and employment opportunities.

#### Local Challenges

Good quality affordable housing forms a central component of the approach to housing renewal in Pennine Lancashire. However it is recognised that the area does not have a sufficiently robust underlying economy to resolve many of its challenges through private sector investment alone.

The strategy sets out a number of funding sources that could support the transformation of the local housing market and the announced investment cuts will may impact Pennine Lancashire's ability to achieve the necessary scale of transformation.

## Conclusions and Recommendations

### Housing Supply

The paper has demonstrated how supply constraints across all housing tenures are having implications for local economic growth, with individuals unable to move to access work and businesses facing higher costs of recruitment. In an unstable economic environment and with 330,000 jobs forecast to be lost within central government alone, it is essential that all barriers to growth at a local and national level are effectively tackled.

Given the state of the housing sector set out in Shelter's Housing Investment Part 1 and the pre-recessionary projections of a shortfall in long term housing delivery (Homes for the Future, Shelter, 2008), it is highly unlikely that a sufficient housing supply will be delivered by the private sector alone.

The announced cuts to housing investment present a significant threat to both longer term capacity within the house building sector and the ability for local areas to support and grow their local employment base.

### Affordable Housing

The issues are even more challenging in relation to the provision of affordable housing and enhancing place competitiveness.

Ensuring an adequate supply of affordable housing is essential if households are able to access employment opportunities within the most buoyant economies. The alternative is a rising wage premium faced by businesses to cover increased costs of accommodation or commuting and a below optimal level of employment.

Affordable housing has traditionally relied on a combination of contributions from developers and the public sector (through the National Affordability Housing Programme). As the Reading case study

highlights, a high requirement for affordable housing reduces the scope to fund such schemes from developer contributions and in an environment of declining and unstable property prices these issues are even more pronounced. Without adequate provision of funding it is highly unlikely that the appropriate level of affordable housing can be delivered nationally.

Similarly the issue of funding housing development in areas seeking to enhance their place competitiveness is highlighted in the Pennine Lancashire case study. The successful implementation of such strategies is dependent on appropriate provision of public sector investment and the future of such schemes is highly uncertain in the context of the proposed funding cuts.

Beyond the issues of funding, the local and national planning framework will also affect how these issues are dealt with at a local level. The proposed overhaul of the planning system incorporated into the Localism Bill is based on a national planning framework that will set out national economic and environmental priorities and a series of Local Plans that will set out local residents' preferences for sustainable development in their area.

Shelter believes that to ensure that the delivery of affordable housing is prioritised appropriately the role of affordable housing in supporting economic growth should be clearly set out in the national planning framework.

A simplified guidance note on the economic and social standards for sustainable development should also clearly define the types of housing that can be regarded as genuinely affordable.

These should be supplemented by a requirement within each local authority to assess affordable housing need in their area and set out in their Local Plan how they plan to meet this need.

Shelter, the housing and homelessness charity.

**Until there's a home for everyone.**

88 Old Street

London EC1V 9HU

[shelter.org.uk/policylibrary](http://shelter.org.uk/policylibrary)

Registered charity number in England and Wales (263710),  
and in Scotland (SC002327).

# Shelter