

The economic outlook and the role of housing in economic growth

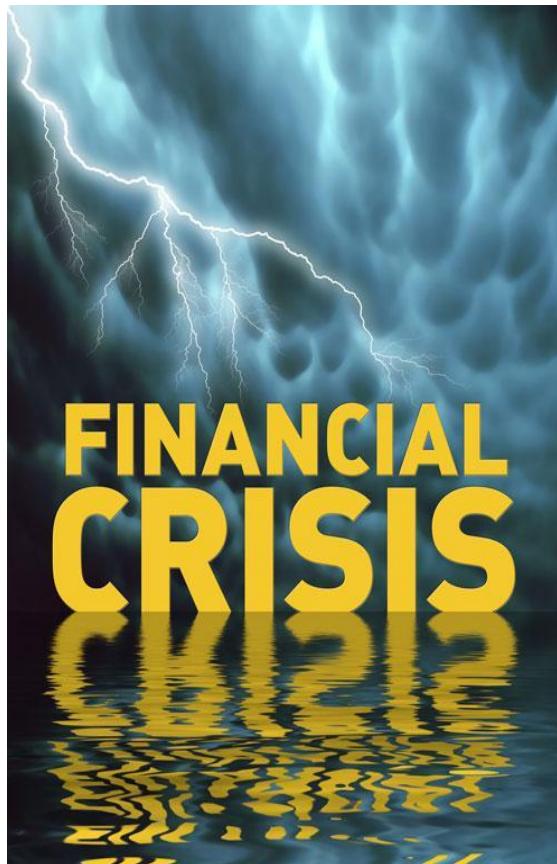
Stuart Ropke, National Housing
Federation

Gavin Smart, Chartered Institute of
Housing

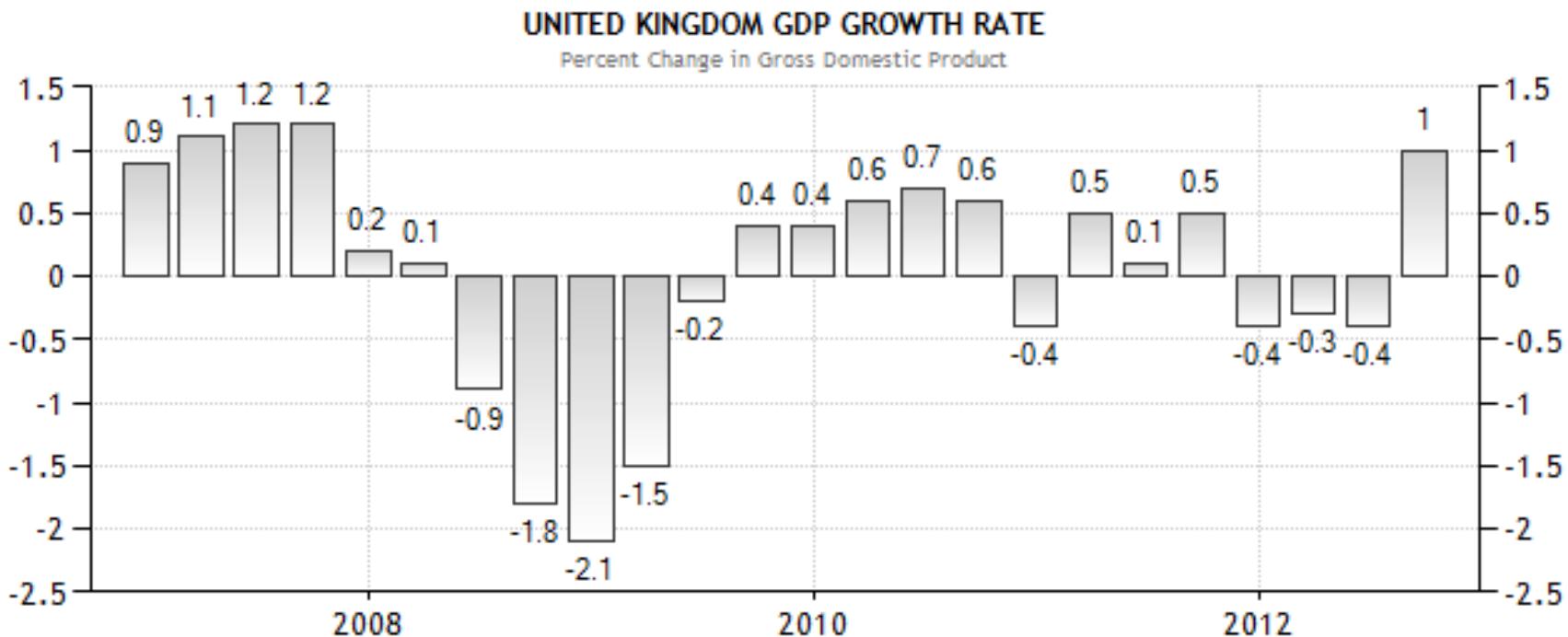
The lingering impact of the Financial Crisis

Shifting economic power

The state will be smaller in future

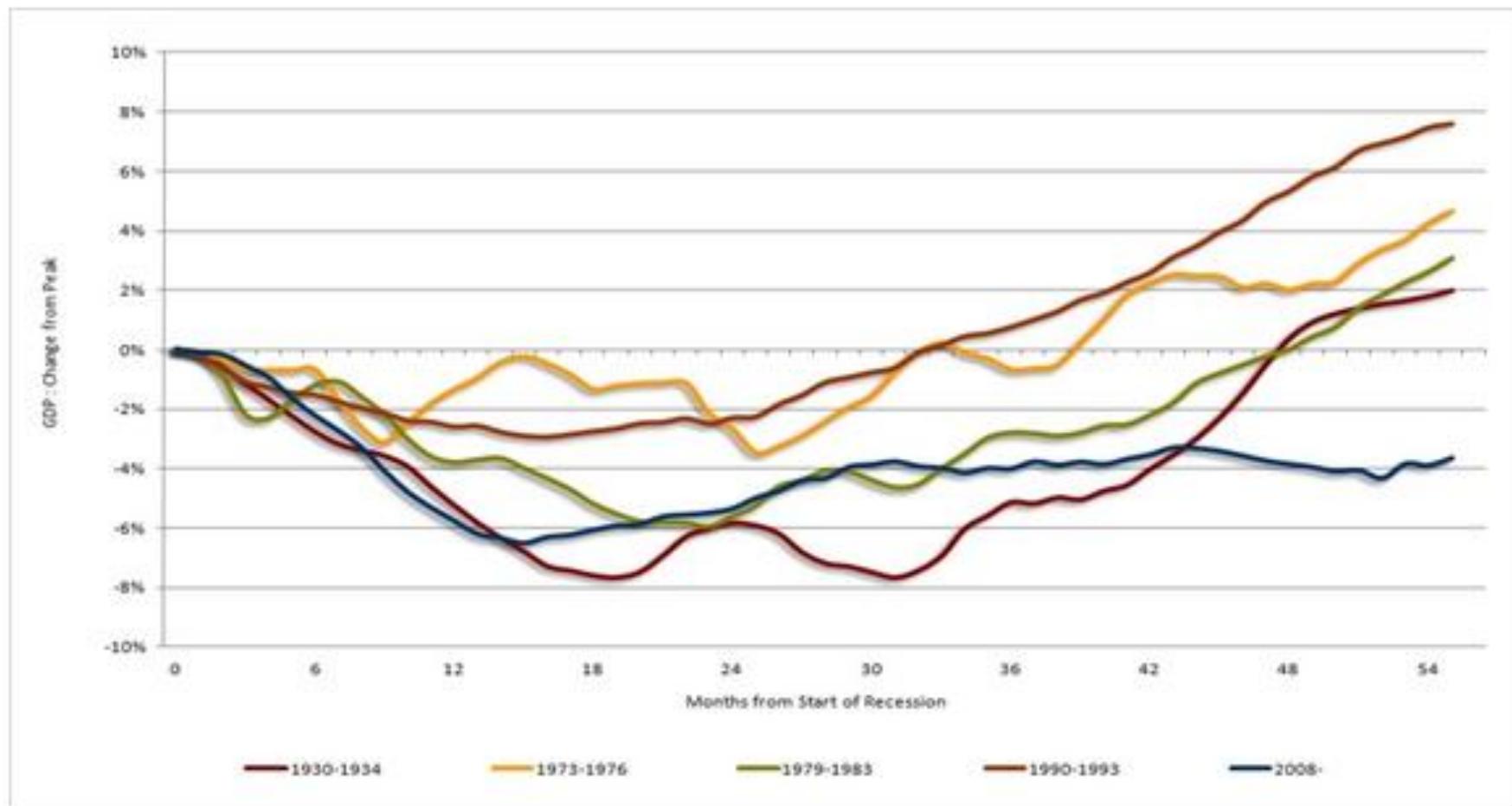


Bumping along the bottom?



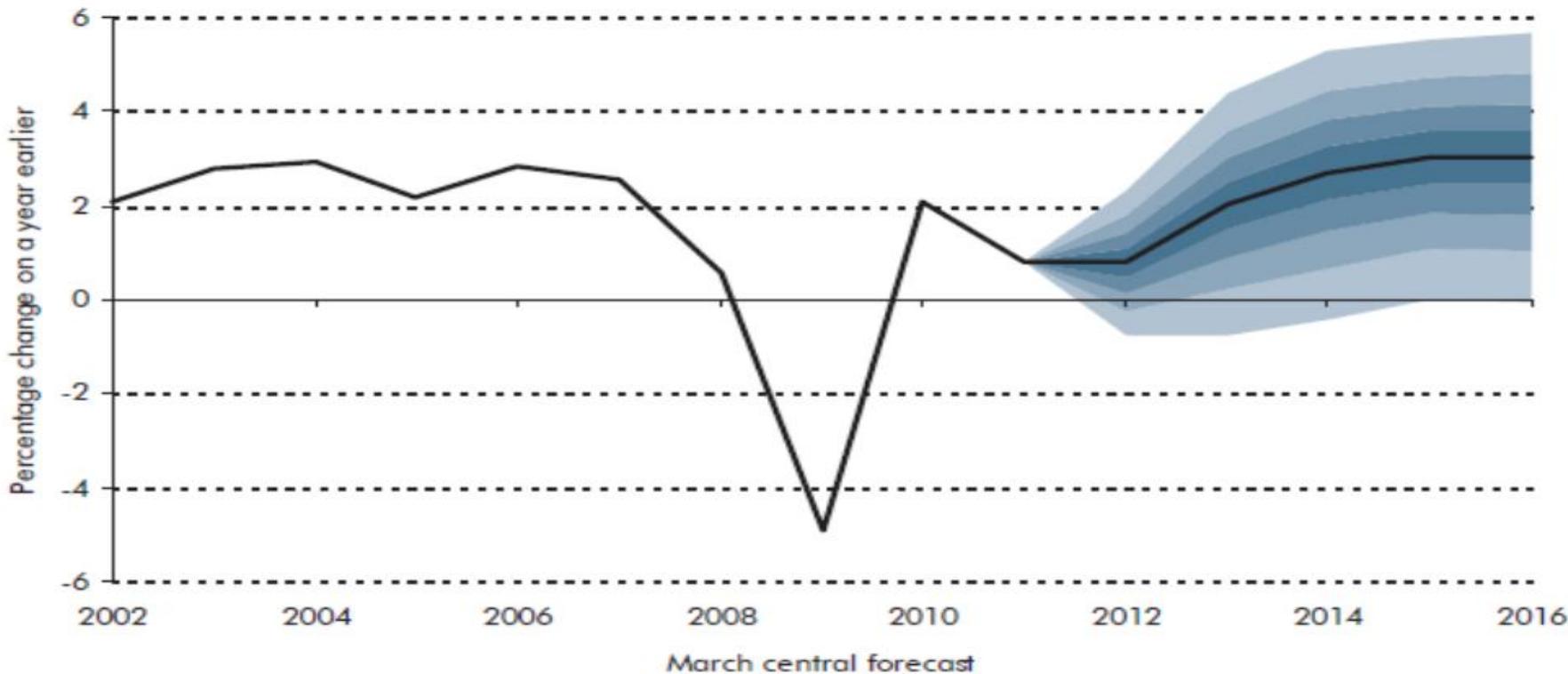
SOURCE: WWW.TRADINGECONOMICS.COM | UK OFFICE FOR NATIONAL STATISTICS

In it for the long haul



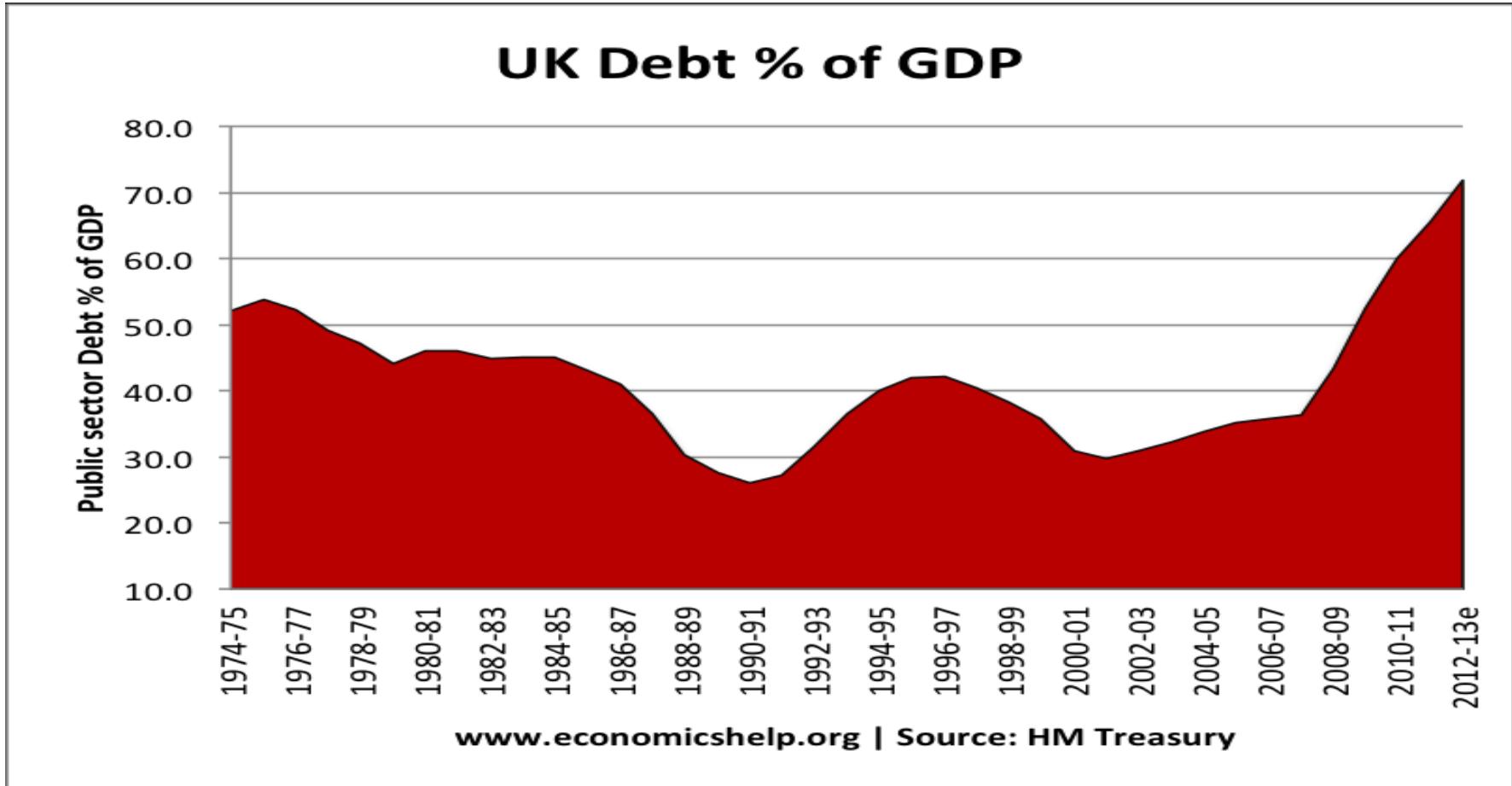
Uncertain growth prospects

Chart 3.8: GDP fan chart



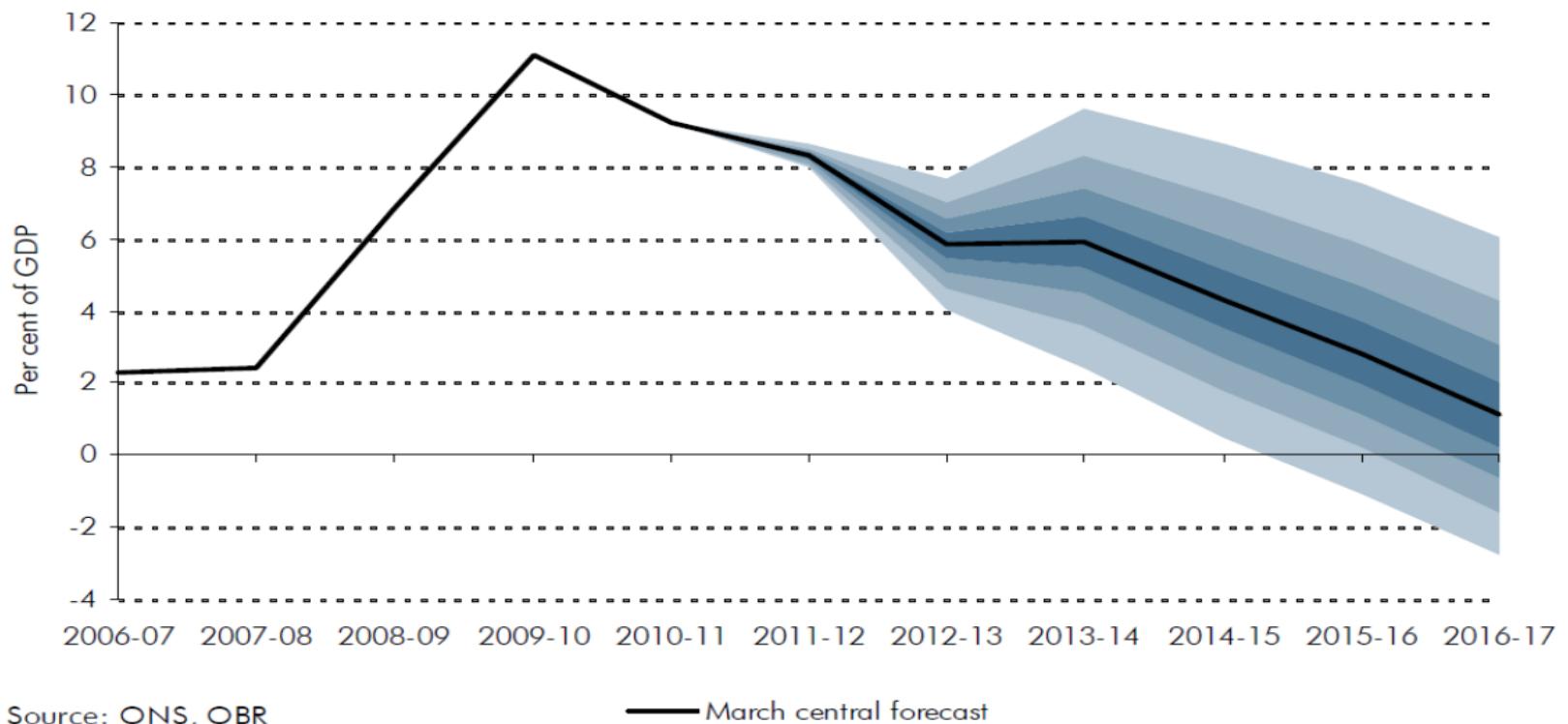
Source: ONS, OBR

Debt – a long way to go



Cutting the deficit

Chart 4.6: Public sector net borrowing fan chart

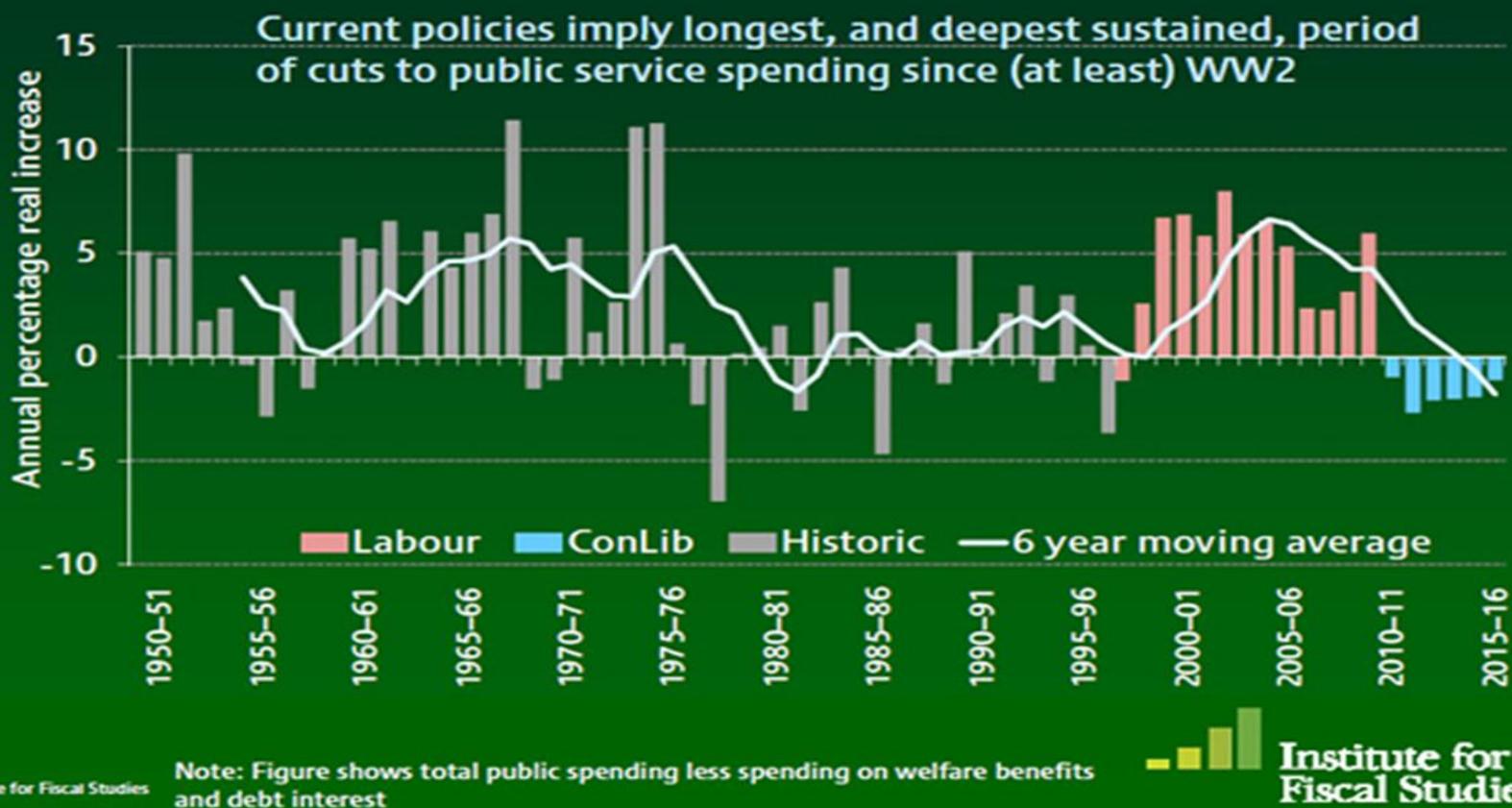


Source: ONS, OBR

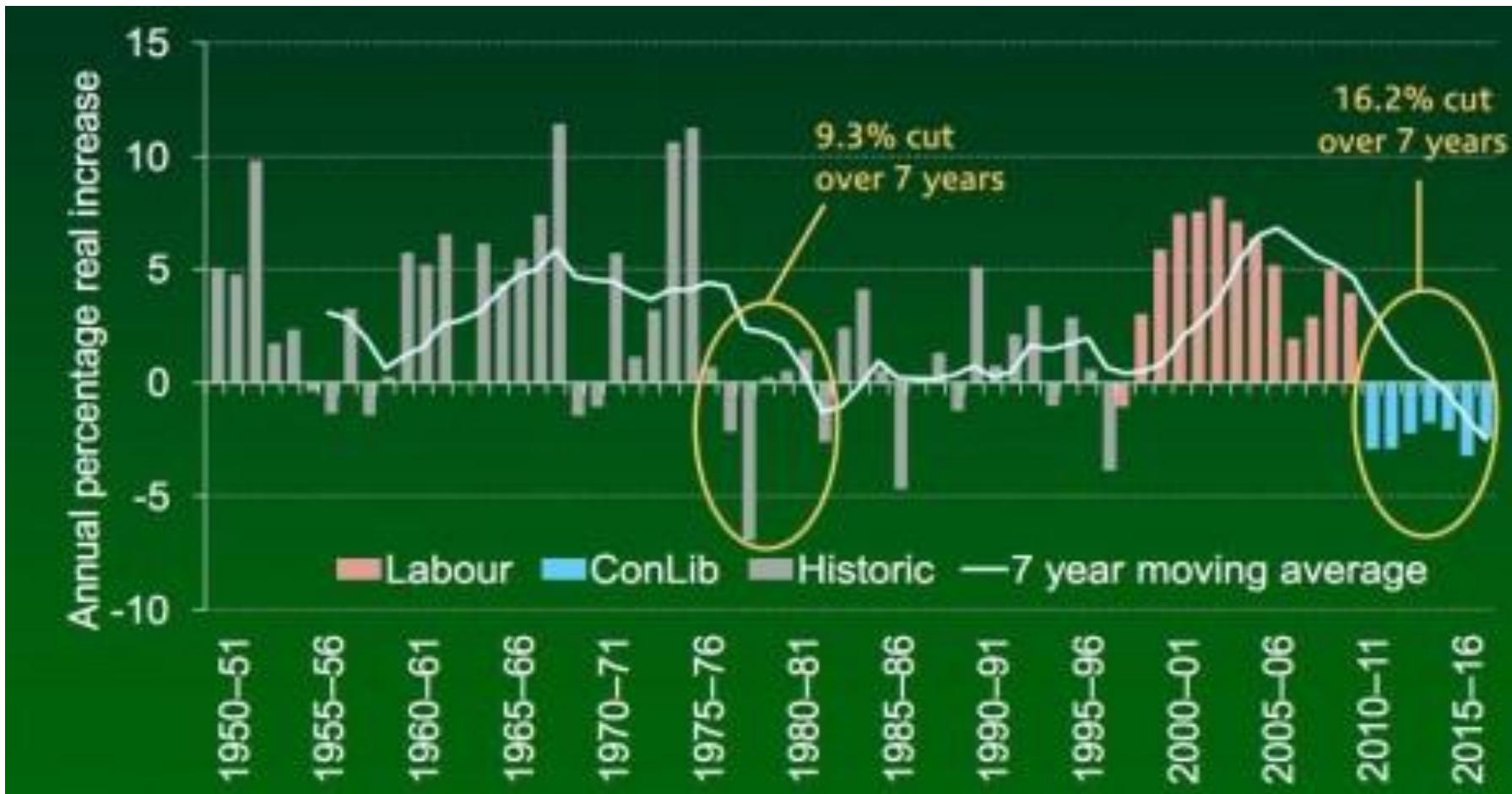
— March central forecast

Public spending projections

Public service spending set for a squeeze



The scale of the challenge

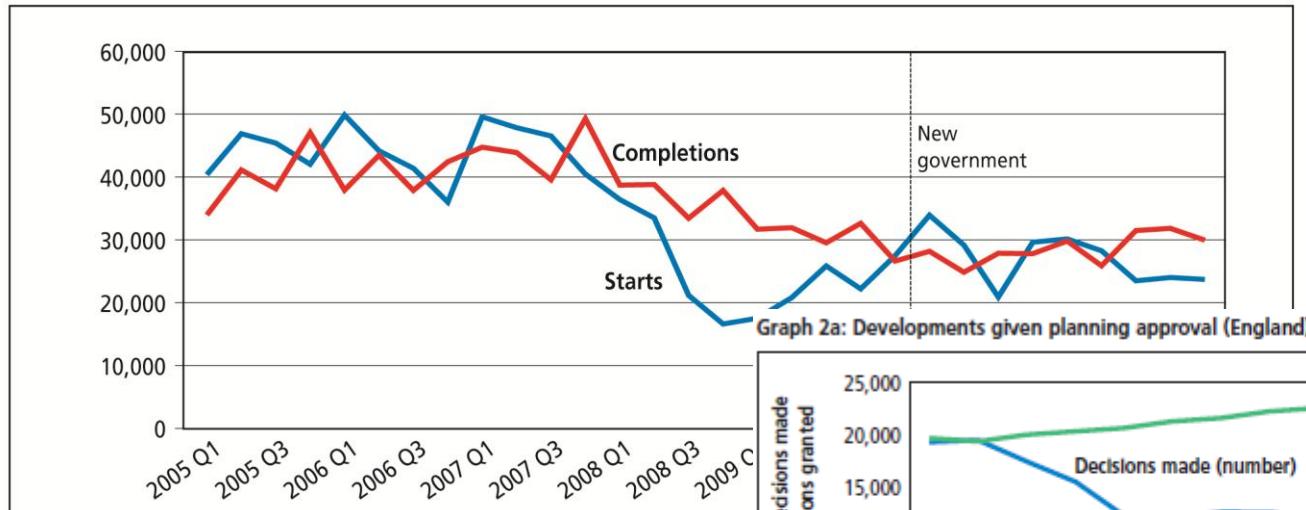


Housing supply – the scale of the challenge

- Starts down 30% since May 2010
- 114,160 homes in 2011 (7% up on 2010)
- Affordable supply slowly increasing
 - 928 affordable rent (at March)
- Planning applications flat
 - But % approvals up

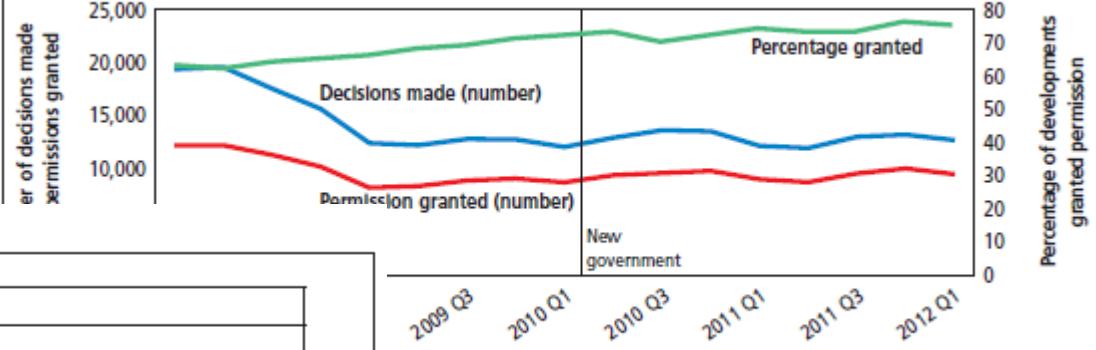
Future development prospects

Graph 1b: Starts and completions (England)



Source: DCLG Live Table 213.

Graph 2a: Developments given planning approval (England)

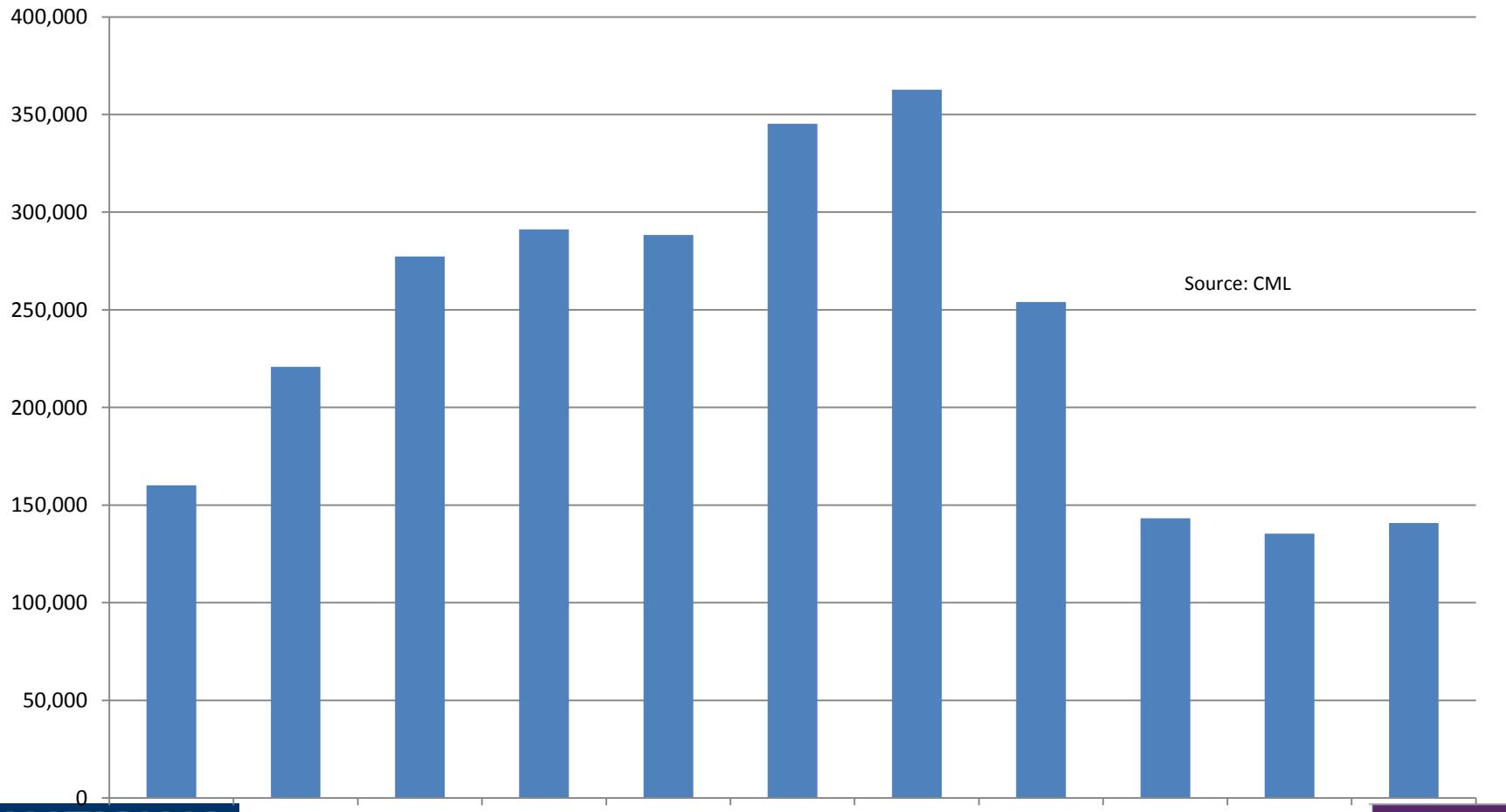


Source: Home Builders' Federation, New Housing Pipeline Q1 2011 Report.

Note: Only includes units in developments of more than 10 units.

Mortgage Rationing

Gross Mortgage Lending 2001-2011



Source: CML

Supply – How has government responded?

Direct investment

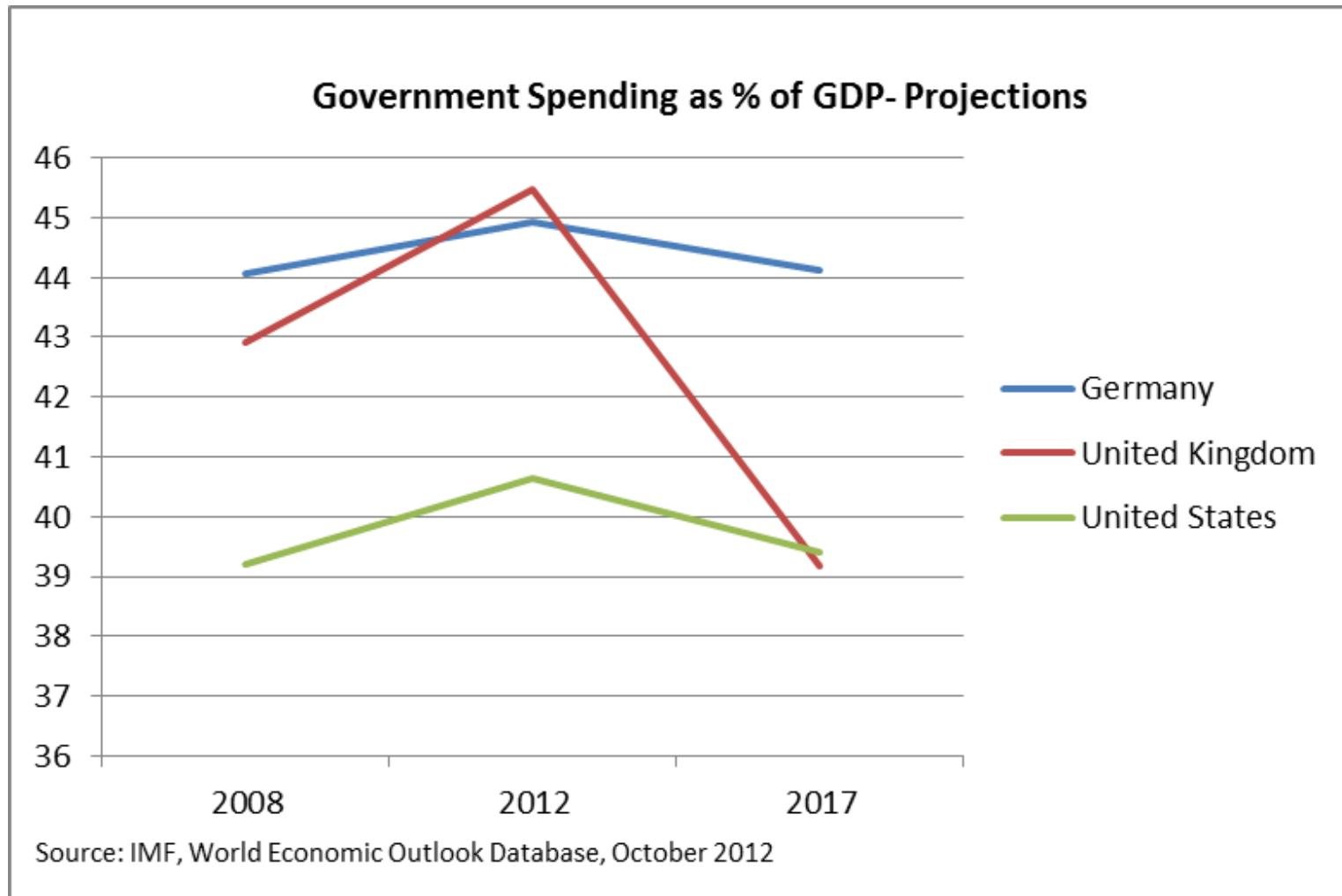
- £1.8bn for 170,000 sub-market rent
- £300m for 15,000 affordable homes & 5,000 empties
- £200m for 5,000 private rented homes
- £570m for 16,000 stalled homes through Get Britain Building
- £30m for self build
- £60m for travellers sites

Supporting investment

- Debt guarantees up to £10bn
- Planning reform
- Public sector land release / Build Now Pay Later
- New Buy
- £730m Growing Places for infrastructure
- Support for REITs and Build to Let
- Experts to help councils
- Community Right to Build

SO WHAT WILL IT FEEL LIKE?

The end of big government?



Growth restricted by headwinds

- “Demographic dividend” in reverse
- Rising cost of education
- Rising inequality
- Interaction between globalisation and ICT
- Rising energy costs
- Household and government debt

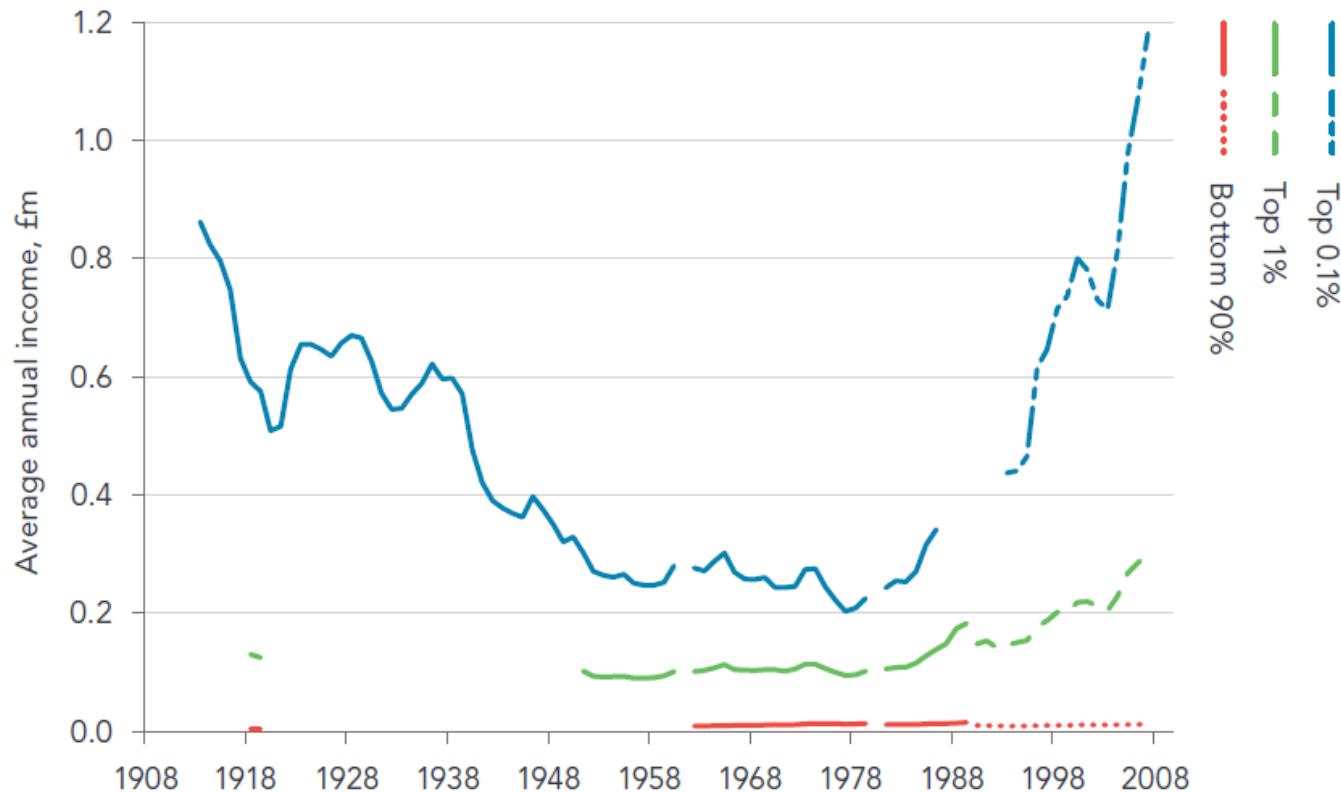
What will it feel like?

- It's going to be tough
- Govt spending cuts and cut backs
- Welfare reform –
 - pressure on landlords and tenants – esp bedroom tax
 - increased arrears, bad debt? Increased door step lending?
 - evictions (and not just the ones we are used to)
 - how will criminal justice system respond?
- Some evidence of economic recovery taking root, but...
 - People and geographies that we work with suffer most & recover slowest
- Continuing pressures across whole housing market
 - Insufficient supply – the “sponge” effect & its limits
 - Poor affordability – even where house prices are dropping
- Essentially housing effectively scarcer and so more expensive
- So who gets what?
- And it will take a long time...

SO WHAT DOES THIS ALL MEAN?

Rising inequality

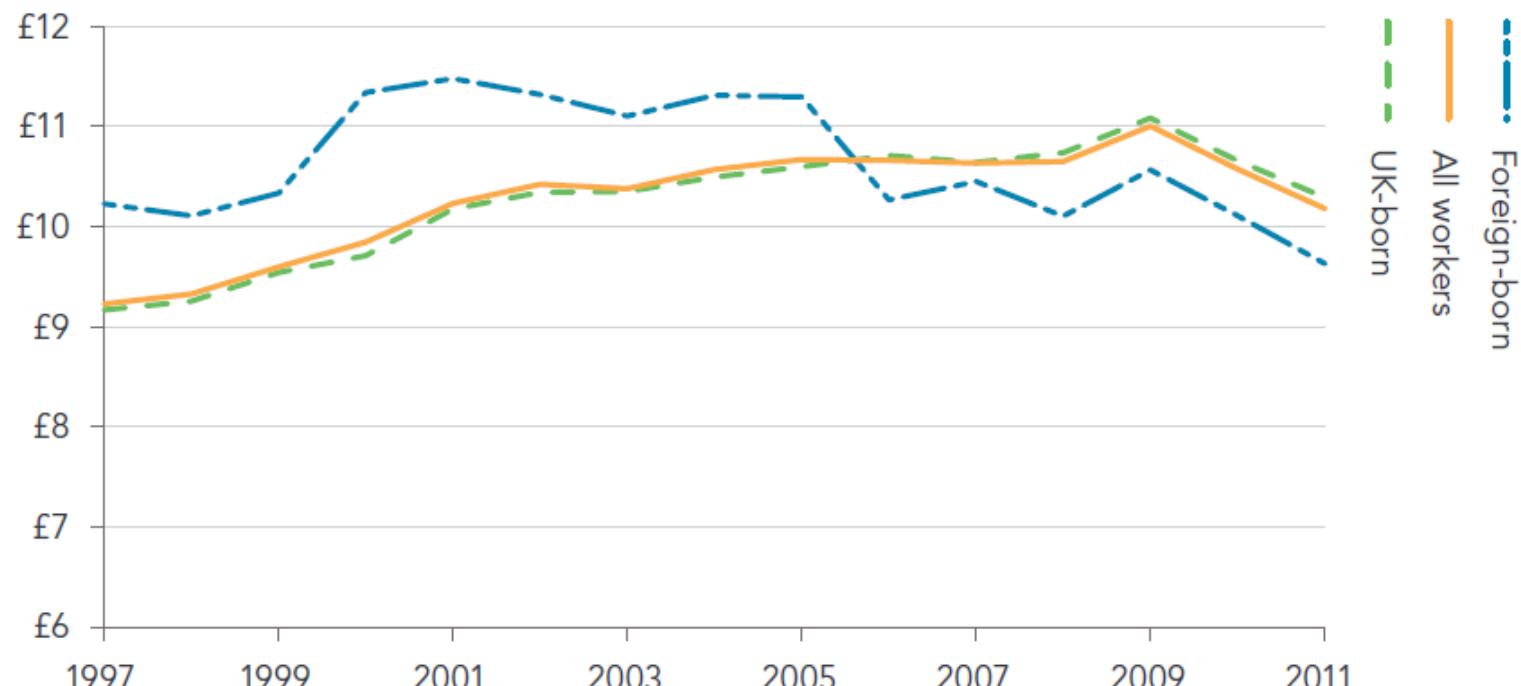
Figure 2.9: Average income at top and bottom of the income distribution in the UK, constant 2010 prices, 1908–2008



Note: Dotted series represent a shift from "tax units" to "adults" as the unit of measurement from 1990 onwards. Source: Atkinson, "The Distribution of Top Incomes in the United Kingdom 1908–2000"^[25]

Falling wages

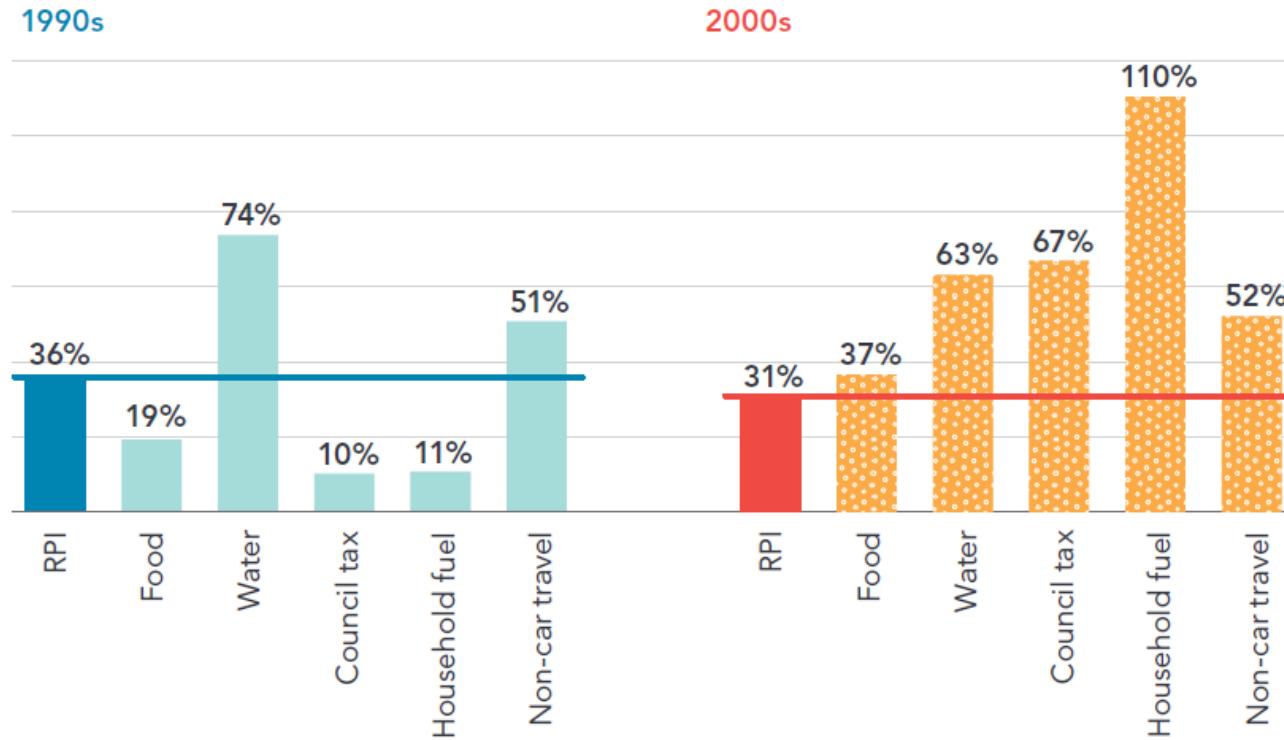
Figure 2.10: Median hourly pay in the UK among all workers by country of birth, 1997–2011



Source: ONS, LFS (all data for Q4 in given year)

Soaring costs of essentials

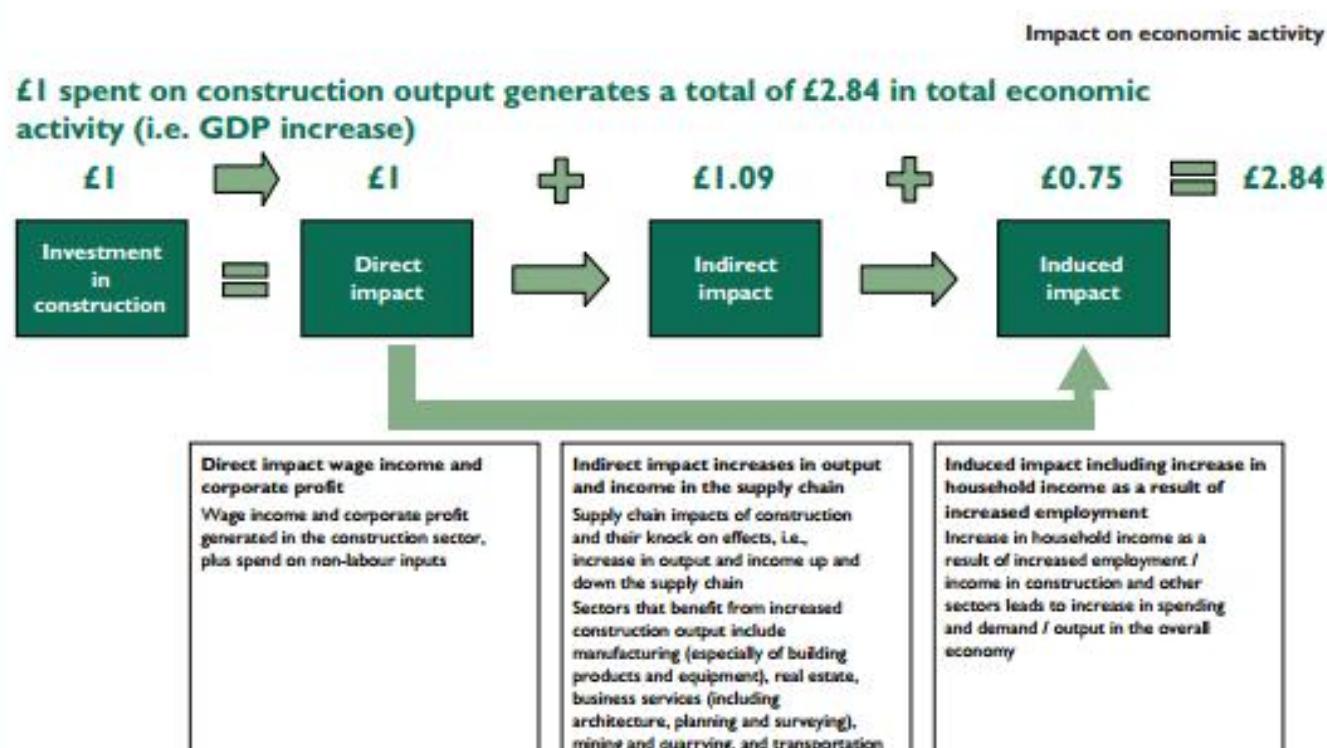
Figure 2.13: Cumulative RPI inflation and inflation in key categories, UK, 1990s and 2000s



Note: 1990s = April 1990 to April 2000; 2000s = April 2000 to April 2010. Source: ONS category-level price inflation, Hirsch, Plunkett and Beckhelling Priced Out^[50]

HOW HOUSING CAN HELP THE ECONOMY

Housing's economic potential



- The type I output multiplier is a measure of the direct and indirect effects associated with an additional £1 spent on a particular sector. The type I multiplier for construction in the UK was estimated by the ONS to be 2.09
- Type II multipliers include the induced impacts associated with the increased economic activity and income in the economy. This has been estimated by L.E.K. based on income tax and National Insurance rates, indirect taxes, savings ratios, and import share of disposable income

Source: ONS (2002); L.E.K. analysis
UK Construction Group. Construction in the UK economy.

Housing and the economy

- Housing & construction has been 50% of the recession
- Strong case for housing investment to drive growth
- But what role for housing in more normal times?

How can housing help government to drive growth?

- Autumn Statement possibilities:
 1. Rent (& investment) certainty
 2. Rapid release of small sites for development
 3. Planning consent changes and self-build
 4. Raise LA borrowing caps
 5. Universal Credit certainty & welfare reform
 6. Guarantees certainty
 7. VAT and tax changes

Consequences for landlords

- Income risk – inc. future of rents and investment
- Who will we house? – taking control of who you house?
- Even more pressures for efficiency - £3.8bn on repairs
- Pressure to delivery quality services and housing management
- Increased customer pressure post welfare reform?
- Customer insight.
 - What are doing and what will you need to do?
- Risk, risk risk!!!
- Service expansion, maintenance or retraction?
- Know your purpose
- Which opportunities?

The professional challenge

- More for less
- Key skills shortages
 - Traditional trades & technical roles
- Skills to develop + new skills to acquire
 - Contract management
 - Risk management – more market risk?
 - Procurement – more than just vfm
 - Market analysis
 - Asset management – much more proactive asset and portfolio management
 - Debt recovery and collection
 - Alternative housing management? – PRS, following Welfare Reform
 - Market sale & other commercial activities...
- New relationship with consumers post Welfare Reform & market rent
- Greater sectorial variety & competition
- Private comparators – levelling up vs levelling down

Conclusions

- Future doesn't look like the past
- Know your purpose
- Manage your risk
- We're in it for the long haul
- There are opportunities out there
- We can do it!