

## Shelter Briefing: Social Housing & Britain's Housebuilding Recovery

In England we are in the midst of a housing emergency. One characterised by high levels of homelessness, expensive private rents and a severe lack of genuinely affordable social housing. The impacts of this housing emergency have been exacerbated by the current pandemic. With many people forced to shield and isolate in wholly inappropriate living conditions.

The post-pandemic recession also brings severe risk for the English housebuilding industry, which we know from the 2008 experience will look to reduce output in an economic downturn. This means fewer homes built and many jobs lost. In fact, new analysis from Savills – commissioned by Shelter – shows that as many as 244,000 jobs in construction and the construction supply chain could be lost in 2020/21.

However, there is an answer available to government that will ensure construction jobs are saved, the country continues building homes through a downturn and those in housing need are provided with new and better accommodation. This answer is to invest now in the building of social housing.

The upcoming Great Recovery Bill offers a first chance to commit to this by:

- 1. Accelerating the existing £12.2 billion Affordable Homes Programme, to make it a two-year rescue and recovery package.**
- 2. Spending the bulk of the rescue and recovery package on building new social rented homes with realistic grant rates and be flexible and imaginative about allocating grant.**
- 3. Using the recovery as a launchpad towards delivering the 90,000 social rented homes a year we need through a long-term programme.**

### The challenges we face

In England, we face a housing emergency. One that has been thrown into sharp relief by the COVID-19 pandemic that we have all faced in recent months.

This emergency has not developed overnight. It is the result of four decades of failure to invest properly in the social homes that our country so desperately needs. The consequences of this failure are clear. Even before the COVID-19 pandemic, we have lived with the reality that:

- Just over 280,000 people in England were homeless on any given night in 2019, including over 236,000 people living in temporary accommodation – a statistic that includes more than 125,000 children.
- Home ownership is in decline, with the English Housing Survey showing that 64% of households owned their own homes in 2018/19, down from 68% a decade ago. At the same time, the average cost of a home in England has increased to eight times the annual pay packet and the average share of income that a young family spends on housing has trebled over the past 50 years.
- Private renters now spend an average of 40% of their household income on rent, with such high costs making the chance to save and move into homeownership a pipe dream for many. In fact, almost two-thirds (63%) of private renters have no savings at all.

The pandemic has served to exacerbate many of these issues and shine a spotlight onto them. The pandemic has served to exacerbate many of these issues and rightly brought them to the forefront of the political agenda. However, how we work to resolve the housing emergency has not changed at all; the benefits of investing in social housing have only become clearer. As Shelter set out in our 2019 report, [‘A](#)

[Vision for Social Housing](#)', the only way to turn the tide on all these issues is to rediscover our ability as a nation to build the social homes that people need.

In the three and a half decades that followed the Second World War, local authorities and housing associations built 4.4 million new social homes. That shows us what is possible with the right investment and the necessary political will. However, in 2018/19, just 6,287 new social homes were built in England. Moreover, when the losses of social homes through sales and demolitions are accounted for, the reality we have lost more than 17,000 homes over the course of just the last year.

As a country, we must do better. The challenge before us now is greater than it was even 6-months ago and there is an urgent need for government to act.

## **Potential impact of COVID-19 on housebuilding & construction jobs**

Over the course of recent decades, the English housebuilding industry has increased its reliance on private developers, despite the diversity of developers decreasing across the country. This means that a tiny number of extremely large private construction firms now control the lion's share of housebuilding output, with SMEs, local authorities and housing associations prevented from delivering as many homes as they historically have.

At a time when we face a potentially severe recession across the whole economy, this is concerning because this contraction of diversity has also reduced the overall resilience of the housebuilding sector. In simple terms, this means that the coming weeks and months will see construction output drop dramatically, as SMEs go out of business, skilled traders lose their jobs, and fewer homes of all types are being delivered.

We find ourselves in this situation because our focus on private development means we are reliant on one model of development: the speculative development model. In a speculative development model, a developer buys land years in advance of when they might build any homes. They make these purchases in a highly competitive land market where – as might be expected – the highest bid for land wins the day. This means developers are incentivised to make highly aggressive assumptions about things like the future selling price of the homes they might build.

When house prices are rising, these risks pay off in a big way and the rewards can be huge. For example, in 2017 the boss of Persimmon, was given an initial annual bonus of more than £100 million after the company posted record profits. It was the biggest bonus for any business in any UK industry ever. But when prices fall, speculative developers' bets can turn bad and they can make huge losses. In 2008, when the financial crisis hit, Taylor Wimpey realised it had paid far too much for the land they'd bought and made a £1.5 billion loss in just six months.

Over, the speculative development model lacks resilience. It produces homes when the economy is booming but moves straight to shutting down output when times are bleaker. Over the last decade, we have not addressed this fundamental flaw. Consequently, echoing the 2008 financial crash, the residential construction sector is currently facing serious challenges.

Research from the consultancy Savills, commissioned by Shelter, shows the potential impacts of an economic recessions, unless the government acts quickly:

- As many as 300,000 homes that would have been built over the course of this period will not materialise, as major developers reduce their output in the face of uncertainty.
- £29.6 billion could be lost from the UK economy.
- As many as 244,000 jobs could be lost in the construction sector and the extended supply chain.
- We are set for as few as 3,500 social rented homes to be built this year – the lowest number since the tenure's creation - at a time when at least 90,000 a year are needed.

Savills illustrate that demand for discounted homes to buy are hit just as hard during a recession, as "historic patterns show Shared Ownership sales tend to move in line with outright sales rates." This is significant because it means housebuilders may not be able to shift production to concentrate on shared

ownership during the downturn, or other discounted home ownership products, e.g. First Homes. These products will be affected just as badly by a lack of demand.

For the bricklayers, plasterers and electricians, who physically build our homes, this is all extremely bad news potentially putting their livelihoods at risk.

Having learned from the experiences of 2008, we know that when skilled construction workers leave the sector, they don't rush back when the outlook improves. A loss of capacity in the construction sector will only entrench the challenges we face now, in building the homes we need, and risk extending the time before the sector can recover.

## Why are jobs at such risk?

### 1. Big developers do not employ construction workers long-term

Big developers know that housing markets are hit hard by recessions. This makes them reluctant to provide long term employment. Instead, employment risk is pushed down the chain to small and medium-sized (SME) building firms and contractors. Contracting and subcontracting is unusually common in housebuilding. This means, in the short term, developers can close sites and wait for prices to rise, without having to worry about paying workers. As such, the demand for construction workers' labour falls.

### 2. SMEs stop hiring or risk going under

SME housebuilders often don't have the reserves to weather a downturn and are unable to push employment risk down to smaller firms. This means they are unable to sit and wait for sites to become profitable again. Following the 2008 great financial crisis (GFC), 1 in 3 SME housebuilders left the sector, either switching to other services or becoming insolvent.

### 3. Construction workers leave the industry for good

Construction is characterised by unusually high levels of self-employment. Between January and March, self-employed workers made up 40% of the total construction workforce, as opposed to under 20% across all industries. A fall in available work means many of these workers go without employment or leave the sector to train in another industry.

It also has an ageing workforce. While a disproportionately high number of builders leave construction before retirement age in ordinary times, a drop-in demand for construction services risks many more taking the decision to retire early.

## Saving housebuilding via social housing

Social housing, unlike private market sale housebuilding, is counter cyclical and the demand for the product does not decrease when times are rough in the economy. In fact, as has been highlighted in many places – including the [2018 Letwin Review of Build Out](#) – the demand for affordable housing and social housing is extremely high.

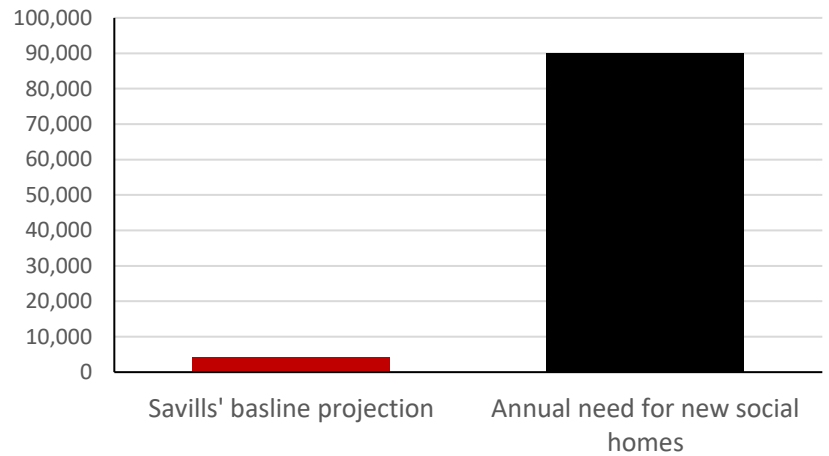
Already there are more than 1 million people on social housing waiting lists across the country, and this is just the tip of the iceberg, with millions more living in expensive, insecure, private rented accommodation.

Social rent levels are also set by a formula tying them to local incomes. This means they are affordable to low income households across the country. It also means that when incomes drop, the demand for social rent housing does not drop, in the same way it does for private sale homes. Not only will investment in social housing deliver the homes people need, it will also provide the certainty that our housebuilding sector needs to keep building and providing vital jobs for local people.

However, the approach we currently take to social housing will mean that, instead of providing a route to help save jobs and stimulate the economy, we will see delivery dip even further over the coming years.

Savills's projects that in the 2020s, 64,300 new social rented homes will be built in England. This at a time when we need to be delivering at least 90,000 social homes per year, not the 4,300 being projected next year in Savills worst case scenario.

Already, as of last year, we are in a situation where we are losing over 17,000 social homes (net figures) in England. At a time when we have hundreds of thousands of homeless families and millions trapped in expensive private rentals, this is simply not good enough.



The reasons for this are numerous but, at its heart, it comes down to a decision to prioritise other forms of housing over social rent. The reality is that those forms of housing are not the way we are going to save the housebuilding industry and they aren't the genuinely affordable homes that people need.

Social housing can be the answer we need right now. Or we can face another lost decade of delivery in this most vital of tenures.

## Recommendations

Shelter is recommending that the government take immediate steps to support the housebuilding industry through investment in social housing. This means:

- 1. Accelerating the £12.2 billion Affordable Homes Programme, to make it a two-year rescue and recovery package.**
- 2. Spending the bulk of the rescue and recovery package on building new social rented homes, with realistic grant rates and be flexible and imaginative about allocating grant.**
- 3. Using the recovery as a launchpad towards delivering at least 90,000 social rented homes a year to meet need, through a long-term programme.**

Taken together – and coupled with a flexible and nimble approach from government, Homes England and the Greater London Authority – these recommendations can be the difference between the collapse of our housebuilding centre and an increase in its resilience.

In the immediate term, we would see new homes delivered for those who truly need them, and many thousands of jobs protected. In the long-term, we would see the emergence of a better housing sector - one that can adapt to difficult conditions and delivers the diversity of tenure that we desperately need.

For more information please contact [robin\\_white@shelter.org.uk](mailto:robin_white@shelter.org.uk).