

The economic impact of investment in affordable housing

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Shelter
Scotland

Summary

- **A safe, secure and affordable home for everyone:** the Scottish Government should increase funding to the affordable housing supply programme to deliver at least 12,000 affordable homes each year over the course of the 2016 – 2021 parliament. The Scottish Government is currently delivering around half this.
- **House building as a driver of economic growth:** every £100 million invested in affordable housing supply via both public and private finance generates £210 million of economic output in the wider economy and sustains 1,270 jobs. A housebuilding programme which delivers 12,000 affordable homes per year could sustain up to 19,000 jobs and generate £2.6 billion of economic output.
- **Housing and preventative spend:** in addition to being a key driver of economic growth, affordable house building plays a key role in addressing inequality over the long-term. The Scottish Government's approach to housing and homelessness should go hand in hand with policies which seek to address poor health in Scotland. Eradicating overcrowding, dampness, disrepair and fuel poverty all play a key role in reducing inter-generational health inequalities. Affordable housing also provides a stable environment in which policies which target educational attainment, tackling re-offending or reducing poverty are effective.
- **Reducing volatility in the housing market:** increased investment in affordable housing should be part of a wider effort to stabilise Scotland's housing market, avoiding the potential of a harmful downturn in Scotland's property market.

Key Facts

What the numbers say



12,000

12,000 affordable homes need to be built every year to meet demand.



19,000

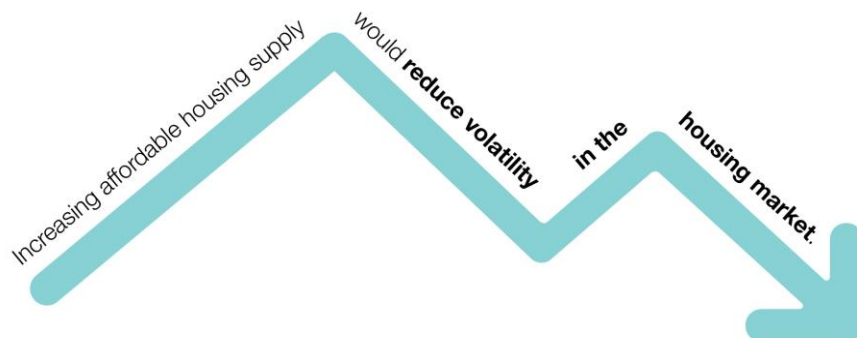
19,000 jobs could be sustained for every 12,000 affordable homes built.



£210 million

£210 million in economic output is generated for every £100 million invested in building affordable homes.

Investing in affordable housing has a positive impact on **health, inequality and education**.



Introduction: the economic case for investment in affordable housing

The economic benefits from investment in affordable housing are wide and varied. Not only are they felt by the individual – through having a secure, energy efficient, affordable home – but also by those employed directly in the house building industry. Benefits extend to government: providing sufficient affordable housing has the potential to reduce the housing benefit bill over the long-term, as well as creating stable environments in which to achieve other health and social justice outcomes.

Indeed, the Scottish Government itself highlights the importance of the affordable housing supply programme in its economic strategy.¹ This seems to be cutting through at a political level, with Nicola Sturgeon recently committing to spend £3 billion on affordable housing over the course of the next parliament if re-elected at the 2016 Scottish elections.²

This paper builds on the recommendations of the Commission on Housing and Wellbeing³ and sets out the positive economic impact of investment in affordable housing, and is split into four broad categories:

- the impact on individuals,
- the impact on the economy,
- affordable house building and preventative spend and
- creating a stable housing system.

Affordable housing investment's impact on individuals

Household budgets

When housing costs increase and wages and benefits fail to keep up with the cost of living, household budgets take a hit. This not only makes it more difficult for people to take up work but also reduces the spending power of consumers.

Research for the CBI estimated that if housing and commuting costs rose at the same rate as the Consumer Prices Index, households across the UK would have £4 billion extra per year spending power: £3.2 billion of this from higher housing costs and £770

¹ Scottish Government, Economic Strategy, March 2015 <http://www.gov.scot/Publications/2015/03/5984>

² Nicola Sturgeon's speech to the Scottish National Party conference on 15 10 2015

http://www.snp.org/snp15_nicola_sturgeons_opening_speech

³ Commission on Housing and Wellbeing, 'A blueprint for Scotland's future', 2015

<http://housingandwellbeing.org/>

million from higher transport costs.⁴ Consequently a failure to address house price instability and demand for affordable housing has a very real impact on household budgets. This combined with a reduction in the help available to low income and unemployed households through social security can have a detrimental impact on Scotland's economy: reducing the overall spending power of consumers and increasing financial barriers to employment.

Employment opportunities

High housing costs can contribute to inflexibility in the labour market. High house prices, driven in part by a lack of supply, constrain people's ability to move for work. Homeowners from low price areas can't afford to buy in high price areas and those from high price areas are reluctant to move because they fear they will not be able to move back. Social renters are also hit by the lack of supply: those seeking work in other areas are, in general, not prioritised on housing waiting lists given the squeeze on available stock.⁵ And a move to the more expensive private rented sector would have a significant impact on their monthly outgoings, potentially cancelling out any economic benefit they may see from a change in employment. This is in addition to the cost of a relocation itself: including moving costs, transport costs and the potential that valuable informal support networks are left behind, increasing childcare costs. By making sure that housing costs are affordable, and tenure is secure, these factors can be mitigated against. Businesses have also reported that high housing costs hold back economic growth. In high housing cost areas local businesses will either need to pay higher wages than they would normally need to, or find that the pool of employees they are able to recruit from is restricted.⁶

Affordable housing investment's impact on the economy

The construction sector's contribution to Scotland's economy

Increasing investment in affordable housing will filter through the economy, not just in terms of providing households in housing need with homes, but also in boosting

⁴ p8, CBI, Homes for Growth, 2014

<http://www.cbi.org.uk/media-centre/press-releases/2014/09/uk-housing-shortage-is-costing-consumers-%C2%A34bn-each-year-cbi-report/>

⁵ Shelter, Housing investment part 2: The role of housing in building local economic growth, 2011

http://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/housing_investment_part_2

⁶ Shelter, Housing investment part 1: The role of housing in building local economic growth, 2011

http://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/research_briefing_housing_investment_part_1

employment and spending in the wider economy. The construction of buildings is a major contributor to the Scottish economy, generating £2 billion of economic output in 2013.⁷

Construction and employment

House building is considered to have a significant impact on the wider economy. It creates a wide range of jobs including legal, real estate and housing management jobs as well as jobs which service new residents, for example health, education, retail, transport and local government jobs.⁸ In the UK, models for measuring the employment impact of new house building have estimated that 200 new jobs are created for every 100 homes built.⁹

There is also much international evidence on the positive impact that the construction industry has on the wider economy. The National Association of Home Builders in the US developed a model which estimated that 324 local jobs would be created during the construction of 100 family private properties for home ownership and 53 jobs when homes are occupied. For rental properties this estimate was 122 during construction and 32 jobs when the properties were to be occupied.¹⁰ Evidence from the UK construction industry also highlights that house building usually employs low skilled workers who are at risk of unemployment,¹¹ boosting the sector's economic impact further.

The multiplier effect: construction and housing-related industries

Evidence has shown that investment in house building has a strong 'multiplier effect'. This is where output in a certain part of the economy generates economic activity in other areas of the economy. Multipliers can measure how government investment in house building can generate additional income across the economy, including for people who live nearby developments and eventually even government itself.

An increase in 'final demand' for a product and an associated increase in the output of that product, where other producers of goods and services respond to this increased demand, is known as the 'direct effect'. This can run right through the supply chain,

⁷ Scottish Annual Business statistics 2013

⁸ 2.1.2 What does the literature tell us about the social and economic impact of housing? Report to the Scottish Government: Communities Analytical Services

<http://www.scotland.gov.uk/Resource/Doc/313646/0099448.pdf>

⁹ DCLG, Laying the foundations: a housing strategy for England, 2013

<https://www.gov.uk/government/publications/laying-the-foundations-a-housing-strategy-for-england--2>

¹⁰ 2.1.2 What does the literature tell us about the social and economic impact of housing? Report to the Scottish Government: Communities Analytical Services

<http://www.scotland.gov.uk/Resource/Doc/313646/0099448.pdf>

¹¹ LEK, 2009 as cited on p 62, JRF, ications/laying-the-foundations-a-housing-stra<http://www.jrf.org.uk/sites/files/jrf/poverty-housing-options-full.pdf>

known as the ‘indirect effect’. As employment increases so too do levels of household income, some of which is spent on other goods and services, and this is known as the ‘induced’ effect.¹²

Various different ‘multipliers’ published by the Scottish Government measure impact across different industries. Construction and other housing related industries feature in these multipliers via multipliers for the construction of buildings.¹³ The table below contains the multipliers for the construction and housing-related industries for 2009, and provide an indication of the effect the construction of buildings has on the Scottish economy.¹⁴

For the purposes of this analysis, two multipliers for the construction of buildings are used to estimate the impacts of house building on the Scottish economy – the output multiplier and the employment effect. The output multiplier reflects the ratio of a change in building construction output to the resulting change in final demand. The employment effect reflects the ratio of the change in the output from an industry, and the change in the number of overall employment.

Table 1: Multiplier effects from the construction of buildings in Scotland, 2009

Construction of buildings	Output multiplier	Employment effect
Direct and indirect effects (type I)	1.8	14.3
Direct, indirect and induced effects (type II)	2.1	17.4

Source: Scottish Government, Input-Output Tables 2009

For example, £100 million invested in the construction of buildings would increase final demand by £210 million and sustain 1,270 jobs. Further, government subsidy in affordable housing also attracts private investment, making affordable housing supply budgets go further. Grant funding can be as good as matched by private finance in some cases – representing a doubling in the economic impact of the public subsidy. Assuming an average construction cost of £125,000 and an average grant rate in the region of

¹² Scottish Government website, <http://www.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Multipliers>

¹³ These are generally accepted to give a good indication of the multiplier effect associated with the construction of housing, see Duncan MacLennan and Tony O’Sullivan, ‘Raising the Game: the Economic Case for Housing’, Centre for Housing Research St Andrews and Newhaven Research, 2011

¹⁴ The latest available figures

£58,000¹⁵ a major housebuilding programme which delivers 12,000 homes per year could sustain as many as 19,000 jobs and generate £2.6 billion of economic output.

Multipliers for the construction of buildings are high in comparison to other industries – such as the motor industry, banking and finance and retail distribution.¹⁶ As a consequence government can expect a significant boost to the rest of the economy through the additional jobs and spending which filter through the economy from an increase in the number of people employed in the construction industry.

Housing investment as preventative spend

Targeted spend on affordable housing should play a key long-term role in reducing inter-generational inequalities through prevention, as well as seeking to reduce costs across the public sector.¹⁷

Social security and investment in affordable housing

If demand for new homes is not met then it is likely that the number of people who cannot afford a home will grow, and the housing benefit bill will also increase.¹⁸ Part of the reason for this increase is the growing number of private renters claiming housing benefit and the rise in those in work who need help to pay their housing costs. This is a side effect of increasing property prices feeding into private rents combined with low wages increasing individuals' reliance on housing benefit. Therefore, increasing the supply of affordable housing would not only benefit those in need of secure housing they can afford, but would also, over the long-term, play a key role in reducing the housing benefit bill. To accelerate this housing benefit should be reformed to shift the weight of housing subsidies from demand-side to supply-side subsidies.¹⁹

¹⁵ Based on current figures taken from the Report of the 2015 Subsidy Working Group, June 2015, and Scottish Government guidance note HSDGN 2015/03

¹⁶ 2.1.3 What does the literature tell us about the social and economic impact of housing? Report to the Scottish Government: Communities Analytical Services, 2010
<http://www.scotland.gov.uk/Resource/Doc/313646/0099448.pdf>

¹⁷ Christie Commission, 'Report on the Future Delivery of Public Services', 2011

¹⁸ p.30, Shelter, Building the homes we need, 2014

¹⁹ Mark Stephens, Janice Blenkinsopp and Kenneth Gibb, The Devolution of Housing Benefit and Social Security: Rebalancing Housing Subsidies in Scotland, 2015
http://scotland.shelter.org.uk/professional_resources/policy_library/policy_library_folder/the_devolution_of_housing_benefit_and_social_security_rebalancing_housing_subsidies_in_scotland

Housing investment and the cost of homelessness

Beyond the human cost of homelessness for the thousands of individuals and families who lose their homes each year, there are also financial implications for both local and national governments. These range from additional costs to the health service due to the health inequalities tied up with homelessness and bad housing, the cost of providing out of work benefits, the cost of tenancy failure and the cost to the criminal justice system of repeat offending, particularly where prison leavers have no stable housing arranged upon their release.

While the reasons behind homelessness are often complex – and can include issues such as relationship breakdown, drug and alcohol misuse, domestic abuse and loss of employment – ensuring that there is an adequate provision of suitable permanent accommodation and support where this is needed can help reduce a homeless applicant's time in temporary accommodation. Reducing the administration costs associated with homeless applications and potentially the high cost of temporary accommodation met through housing benefit, benefitting homeless applicants as well as central and local government. This could also enable local government to focus services on the most acutely vulnerable.

Estimates of the financial cost of a case of homelessness to the public purse in Scotland range from £15,000 to £83,000.²⁰ Research from England by Crisis compares the cost of service use associated with ongoing and repeat homelessness where interventions either fail or are not offered. This strongly concludes that preventing or rapidly resolving homelessness always costs the public purse less than allowing homelessness to continue or be repeated.²¹

Therefore targeted investment in housing supply and housing support for those in acute housing need, preventing homelessness wherever possible, has benefits for those in housing and local and national governments.

²⁰ Estimates from Crisis (2003) and Homeless Action Scotland (2007) (formerly Scottish Council for Single Homeless), Scottish Government and the Convention of Scottish Local Authorities, Prevention of Homelessness Guidance, June 2009 <http://www.gov.scot/resource/doc/274719/0082198.pdf>

²¹ Crisis, At What Cost?, An estimation of the financial costs of single homelessness in the UK, Nicholas Pleace, Centre for Housing Policy, University of York, July 2015

Housing investment and health and wellbeing

Housing conditions and the cost of housing are inextricably linked to the health and wellbeing of Scotland's population. While it can be difficult to establish whether factors – such as poor housing conditions – have a causal link with poor health and notions of wellbeing, it can be said that poor house conditions can exacerbate health problems. For example if you live in a damp house and have respiratory problems, or if you are suffering stress due to economic hardship and your rent becomes unaffordable.

Evidence has shown that investing in housing improvement has a positive impact on mental wellbeing. The GoWell study of regeneration programs in Glasgow found that improvements to the fabric of properties, secure doors and upgrading bathrooms all had a positive impact on mental health.²² Links have also been drawn between the cost of housing and mental wellbeing. Studies have found that housing stress increases during economic difficulties, such as the financial crisis of 2007-08. Housing stress can be linked to tenure, too, with renters more likely to experience housing stress than homeowners.²³ Given that reforms to social security since 2012 have specifically targeted housing benefit, this has the potential to exacerbate housing stress. Another risk is the increasing numbers of renters living in the comparatively more expensive private rented sector. A combination of cuts to support for housing costs through housing benefit at the same time as rents continue to rise, along with a volatile housing market, could have serious health implications over the long-term.

The case for taking preventative steps – by investing in good quality housing which is affordable – is strong. Good quality housing which is safe and secure has been shown to improve mental wellbeing, and an increased supply of affordable housing would not only act to stabilise Scotland's housing market but also reduce the risk that many households in Scotland suffer from housing stress due to their high housing costs.

Building a stable housing system

House price volatility – the kind which led to the global financial crisis of 2007-08 – combined with a lack in the supply of housing is a huge risk to Scotland's economy. This risk was recognised by the Scottish Government in its housing strategy document of 2010, noting that volatility in the housing market can lead to instability in the wider

²² GoWell, Housing Improvements, Housing Quality and Psychosocial Benefits from the Home, Glasgow Community Health and Wellbeing Research and Learning Programme, February 2012
http://www.gowellonline.com/assets/0000/0559/Briefing_Paper_17.pdf

²³ Para. 3.7-3.8, Scottish Government Communities and Analytical Services, A Select Review of Literature on the Relationship Between Housing and Health, September 2010

economy.²⁴ The document also notes the role that a relatively unresponsive supply of new housing plays in this, and the potential role that taxation could play in adding stability to the housing market.²⁵

The Scottish Government's National Indicator "increase the number of new homes" also highlights this. Here, the government sets out its aim to encourage "a housing system that is more integrated, responsive to demand and therefore better able to reduce market volatility and improve affordability."²⁶ Indeed, volatility in the housing market puts a huge chunk of Scotland's economy at risk: the collective value of Scotland's housing stock amounted to around £325 billion in 2014,²⁷ more than double Scotland's Gross Domestic Product (GDP).²⁸

This instability creates big risks for homeowners: property prices are pushed up and with this the chance that the property market suffers another crash is increased. These risks extend to social landlords and businesses, too, whose long-term business models are reliant on stability in the land and property market. And for those looking to enter the housing market affordability pressures are increasing: in 2014 the average house price in stood at £163,563, 6 times the median salary in Scotland.²⁹ In 2004 the average house price was 5.6 times the median salary in Scotland. The Barker Review of Housing Supply raised this as an area of concern – in the UK real house prices rose by 2.4% in the thirty years to 2004 while in Europe this averaged 1.1%.³⁰ Central to this is an inability to ensure available housing stock building meets demand.

There are knock on effects for private rented sector tenants, too. Property prices push up rents, increasing pressure on household budgets. Given the doubling in number of private rented sector households in Scotland over the past decade, and the squeeze on available social housing, there is a big risk that more low income households will be paying a higher proportion of their income on rent. Combined with insecure, low wage

²⁴ Chapter 1 para. 12, Scottish Government, 'Housing: Fresh Thinking, New Ideas', 2010
<http://www.gov.scot/resource/doc/312740/0098899.pdf>

²⁵ *Ibid*, Chapter 1 para. 14

²⁶ Scottish Government, National Indicators, New homes
<http://www.gov.scot/About/Performance/scotPerforms/indicator/newhomes>

²⁷ Savills UK, <http://www.savills.co.uk/news/article/72418/185344-0/01/2015/uk-homes-now-worth-a-total-of-over-£5.7-trillion--up-10--year-on-year>

²⁸ Scottish Government, Key Economy Statistics, November 2015
<http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy>

²⁹ Registers of Scotland, Annual Market Review 2014 and the Annual Survey of Hours and Earnings 2014

³⁰ Barker Review of Housing Supply, 2004

employment this can have very direct consequences for poverty rates in Scotland.³¹ This is particularly the case in Scotland given the relatively large difference between private rents and social rents.

Even given the high degree of risk tied up in our housing system and the high-level acceptance of the role that housing supply plays in stabilising Scotland's housing system, house building still remains unresponsive to demand. There is then a need to articulate how stability in the housing system is to be achieved in Scotland. This should consider a wide range of issues including ensuring housing supply meets demand and considering how measures, such as taxation, might play a role in moderating future house price bubbles and affordability pressures.

³¹ Joseph Rowntree Foundation, 'Monitoring Poverty and Social Exclusion in Scotland', March 2015
<http://www.jrf.org.uk/publications/monitoring-poverty-and-social-exclusion-scotland-2015>

Conclusion

Building affordable housing should be a central pillar of the Scottish Government's economic strategy. There is strong evidence demonstrating the positive impact a drive to build 12,000 affordable homes per year would have on Scotland's economy, with the potential to sustain up to 19,000 jobs and generate £2.6 billion of economic output. Increasing investment in affordable housing would also have long-lasting economic impacts for individuals and government. Prevention-orientated policies which address inter-generational inequalities and target educational attainment are made more effective. Flexibility in the labour market is increased and pressures on household budgets are lessened. Government reliance on the comparatively expensive private rented sector is reduced, in turn reducing the housing benefit bill. Housebuilding also has a stabilising effect on the whole housing market, reducing volatility and the risk of a damaging crash with far reaching consequences.