Rescue, recovery and reform

Housebuilding and the pandemic

June 2020

Until there's a home for everyone
shelter.org.uk

Shelter

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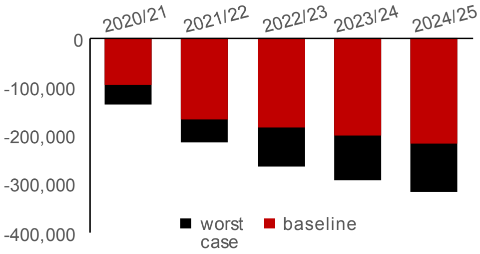
NUMBERS IN BRIEF

Without investment in social housing the pandemic and recession could lead to…

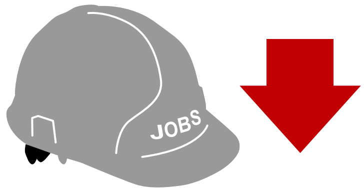
>300k new homes

lost over the next five years



244k jobs lost

in 2020/21 from construction and the supply chain

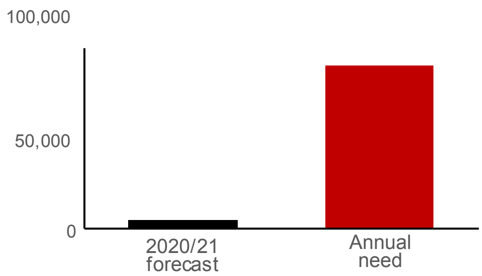


£29.6 billion

lost from the economy

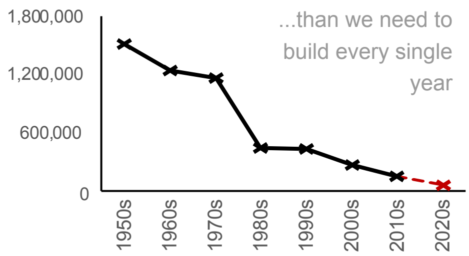
<5% the social homes

built in 2020/21 than we need to build every year



25k fewer social homes

built in the next decade...



1.2 million

households waiting for a social rented home

Enough people to queue from London to Istanbul

To prevent this, the government should…

1) Accelerate the £12.2 billion Affordable Homes Programme, to make it a two-year rescue and recovery package

2) Spend the bulk on building new social rented homes with realistic grant rates and be flexible and imaginative about using grant

3) Use the recovery as a launchpad towards delivering at least 90,000 social rented homes a year we need through a long-term programme

1. EXECUTIVE SUMMARY

This country is heading for the worst recession in over three hundred years. In April, GDP suffered its sharpest fall on record. The number of people claiming unemployment benefits more than doubled from May to March and more than a quarter of the workforce are now on the furlough scheme.

The housebuilding sector will be badly hit by worsening economic conditions. We cannot afford a collapse. The industry supports millions of jobs, is made up mainly of small businesses and builds the homes we need to live in. The Government must invest now in social housing to protect jobs and businesses.

England's housebuilding industry has proven particularly vulnerable in a weak economy. Looking back to the last big recession in 2008, there was a major decrease in housebuilding. As people stopped buying homes, big builders stopped building and work dried up for their contractors. Thousands of small builders went under. The result in the following years was job losses, fewer homes built and a worsening economy. We can't let that happen again. We can't build our way out if there's nobody to do the building.

Shelter commissioned Savills – experts in the industry – to assess the impact of the weakened economy on housebuilding. Savills have predicted that up to 244,000 jobs will go in the first year, and as many as 300,000 fewer homes will be built over five years. This is at a time when every job, and every home, counts more than ever.

But by investing in social housing, the Government can help avoid this. There's a clear moral argument. Everyone should have a safe and secure home, especially in the midst of a global pandemic. But there's also a clear economic case. When the private market dries up, government grant in social housing can deliver a direct and vital shot in the arm, protecting jobs, supporting SMEs and building us the genuinely affordable housing we so desperately need.

Right now is the time to invest. As the Prime Minister suggests, we must 'build, build and build' our way out of the recession and invest now to support the economy. During a downturn investment in social housebuilding is the most obvious, effective and proven way to stimulate jobs and economic activity.

Savills key findings

If no new investment in social housing is made, Savills forecast:

- Housebuilding will slump, with as many as 300k new homes lost in the next five years
- Employment will be hit hard, with as many as 116,00 job losses this year in construction and up to 128,000 more jobs lost in the wider supply chain
- All of this could amount to £29.6 billion lost from the UK economy
- 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

With some forecasters predicting an even bleaker economic outlook, the final impact could be even worse than Savills' project.

Savills project that demand for 'market sale' homes (i.e. newbuild homes sold to consumers on the open market) will be hit by weak consumer sentiment, growing unemployment and increasingly tentative mortgage lending. In short, demand for these homes will drop as fewer people will be willing or able to buy. And developers will respond by slowing or stopping building these homes.

Since 2010, the Government has relied heavily on the private newbuild market to deliver new homes. With lower demand for market sale, new housing supply will drop considerably, so a slump is expected to threaten jobs and capacity in the housebuilding sector.[1] With fewer homes being built and casual employment practices in the industry, there will be less demand for construction workers and tens of thousands of jobs will be lost.

Social housebuilding is also set to be badly hit by the drop, because rather than investing in social housing, the Government has relied on private developers to build social housing in return for permission to build (so-called 'section 106 contributions'). But as the private market contracts, developers will be less willing or able to build these homes. Savills project this year we will build fewer new social rented homes than ever before, and 90% less than we regularly built in the early 1990s.

Rescue, recovery and reform

The future that Savills project can and must be avoided.

The problem lies in the home buying and selling market: even Government-funded 'affordable' homeownership products, like shared ownership will see reduced demand. Developers won't build if there is no-one able to buy, and if

[1] 'Market sale' means building homes to sell on the open market for their market price, normally for someone to live in as an owner occupier or rent out as a private landlord

they don’t build, we will lose jobs and homes alike. Smaller builders may even collapse.

But the Government has a direct lever it can use to stimulate housebuilding, even when the market is down: grant for social housing. By investing money now in social housing, as the private market struggles, it can protect jobs, support the economy and build the homes this country needs.

It not only makes good economic sense to base a rescue and recovery package on social rent, it will begin to address to the dire shortage of social rented homes that has been so visible in the pandemic.

The current Affordable Homes Programme is due to come to an end this year and the Government have committed to £12.2 billion over the next five years for the new programme. Rescue and recovery needs to be delivered much quicker. The obvious approach is to accelerate this existing commitment so that its spent over the next two years instead of five – exactly when it’s needed most.

But real recovery does not mean simply returning to the way things were. We need to build back better. That means permanent reform to our housebuilding system, to make it more resilient and fairer for everyone. That means a long-term programme of investment, delivering many more homes for social rent and giving certainty to the industry. Only by doing that will we make the housebuilding sector more diverse, able to withstand future downturns, and get it building far more decent homes that people on low incomes can genuinely afford.

Recommendations

1) Accelerate the £12.2 billion Affordable Homes Programme, to make it a two-year rescue and recovery package

2) Spend the bulk on building new social rented homes with realistic grant rates and be flexible and imaginative about using grant

3) Use the recovery as a launchpad towards delivering at least 90,000 social rented homes a year we need through a long-term programme

2. THE OUTLOOK FOR HOUSEBUILDING AND JOBS

Introduction

Since the coronavirus pandemic took hold and England went into lockdown, Shelter has focused on helping people whose housing conditions put them in immediate need. We've continued to advise people throughout the pandemic. Calls to our advice line rose 18% in April and over half the total were related to coronavirus.[2] And we've campaigned hard for the immediate changes that people need, like increasing Local Housing Allowance benefit rates so more people can afford to pay their rent and the introduction of a temporary ban on evictions.

But we are also worried about the longer-term impact of this pandemic on housebuilding and construction, and what that means for the social homes people urgently need. Before the pandemic we needed to build at least 90,000 new social rented homes every year, to turn the tide on England's housing emergency.[3] The experiences people have had through lockdown has made that need even more pressing. Too many homeless families have spent it living in awful quality temporary accommodation or haven't been able to get help. And too many others have been forced to endure unstable, unsafe or unsuitable private rentals.

In previous recessions the impact on housebuilding has been profound. It took over a decade for housebuilding recover after the Global Financial Crisis and it still hasn't fully recovered to previous peaks.

We are now expected to be heading for the worst recession in over three centuries. To understand what the impact of the current economic crisis will be if we don't invest in new social housing again, Shelter commissioned Savills to undertake a comprehensive analysis of the impact of COVID-19 and surrounding economic disruption. Savills are widely respected as leading experts in the housing market, with unrivalled insight across residential and commercial property and construction.

Savills' full report, *Impact of Covid-19 on social housing supply and residential construction*, projects that housebuilding will be hit hard by the pandemic and recession and can be found on the Shelter policy and research library.

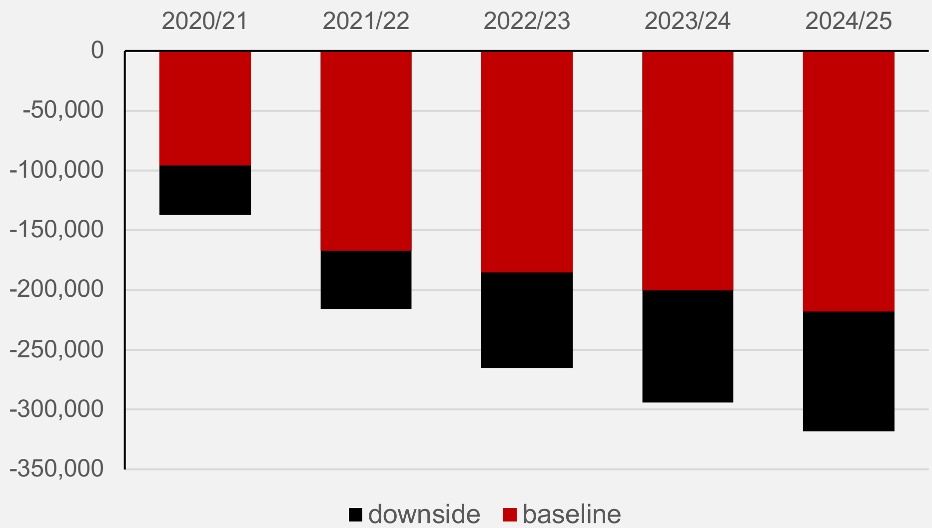
[2] Period covered 16th March to 16th April, 18% rise in calls on previous month
[3] Crisis, Centrepoint, DePaul, Homeless Link, Shelter & St. Mungo's, End homelessness now manifesto, 2019

Housebuilding set to collapse

Savills project that the pandemic will send 'net additions' of new homes down from just over 250,000 last year to just over 170,000 this year – a loss of around 80,000 new homes.[4]

Over the next five years, they estimate 218,000 fewer net additions will be delivered – or almost one in every seven new homes that would otherwise have been built. This is equivalent to losing a whole year of housebuilding.[5] In Savills' downside scenario, the loss over five years is 318,000 homes.

Figure 1: The cumulative loss of homes Savills project over the next five years



Source: Savills

This drop is partly down to the need for social distancing on building sites, which has inevitably affected building capacity. But impeding the recovery is a reduction in demand for market sale homes which will cause private housebuilding to fall.

Drop in demand for homes to buy

England's supply of new homes has never been more reliant on so few large developers building for market sale. Over the last four decades, due to decisions by successive governments to back ever larger corporate builders over investing in new social housing, other business models have fallen by the wayside. The housebuilding industry has increasingly become a concentrated, market sale one-trick-pony. This kind of housing development is extremely vulnerable to

[4] 'Net additions' includes newly built homes, as well as conversions and changes of use (e.g. offices converted to flats). The very small number of homes demolished or lossed in other ways each year is subtracted from the gross total. MHCLG, Live tables on housing supply: net additional dwellings, Table 118
[5] Based on average net additions (208,242) over the last five years for which data is available (2014/15-2018/19). MHCLG, Live tables on housing supply: net additional dwellings, Table 118

falling demand and lower house prices. So when times are tough, builders stop building. Savills project that the current outlook for demand is weak and sale prices will fall by 7.5% this year.

Box 1: why do housebuilders stop building when demand drops?

Building market sale homes is a high risk business. It takes a long time and a many of the big costs must be paid up-front, like buying land (the biggest single expense). Because house prices go up and down, developers must take a gamble on how much the homes they build will be worth when they're finished. This is why this business model is called 'speculative development'.

When house prices are rising, these risks pay off in a big way and the rewards can be huge. For example, in 2017 Jeff Fairburn, then 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.[6] Similarly, Tony Pidgley, Chair of Berkeley Homes, was paid over £70 million in three years 2014-2017.[7] 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.[8]

In a downturn, people are less likely to buy and house prices go down. If demand (and prices) drop sharply, it becomes unviable to start building on a new site. Faced with the only alternative of making a loss, developers will slow or even freeze building progress and wait for prices to rise, even if it takes years.

But larger developers may also slow the speed they build homes (called build-out) as part of a long-term strategy to protect profits. Many have built up huge cash reserves over the last few years, determined to ride out the next inevitable bust. They have carefully watched footfall in their showrooms to decide whether to speed up or slow down development and protect inflated house prices. This is what Sir Oliver Letwin referred to as the 'absorption rate' in his Build Out Review.[9] And the political upheaval of the last few years means large developers have been planning for demand to slow for some time.

They have three strategies: stop building on new sites, mothball unprofitable sites and rush to complete existing sites. The aim is to cut costs and wait until prices rise again. In other circumstances, rushing to complete might usually protect jobs in the short term, but because COVID-19 distancing measures are seriously limiting productivity, this is far less attractive.

[6] Financial Times, Former Persimmon boss was paid £85m in two years, 18 March 2019
[7] Berkeley Group, 2019 Annual Report
[8] Wealth Manager, Taylor Wimpey suffers massive losses, 27 August 2008
[9] O. Letwin, Independent review of build out: Final report, 2018

While the larger developers lean into their considerable reserves, it is their contractors – including many SMEs that do the actual building – who will lose out if the pipeline of work dries up. The result? Fewer homes built, job losses and a risk to SMEs.

Demand will be hit by weak consumer sentiment and a growth in unemployment. Higher unemployment will make people worry about their job prospects and financial security meaning fewer people will want to take on new debt. Even for those that do want to take on the risk, saving for a deposit for many will be constrained by a loss of income. Meanwhile, mortgage lenders themselves will be more worried about people losing their jobs and being unable to make repayments. Lenders will also be uncertain about house prices and what the homes they lend on are worth. This will mean lenders are more cautious, will lend less and ask for larger deposits, reducing access to mortgages even for those who want to buy.

We have already started to see this happening with, for example, the country's largest mortgage lender, Nationwide, tripling their minimum deposit for first time buyers to 15% in June 2020.[10]

With nearly two thirds of private renters having no savings at all even before the pandemic, buying a house will simply not be an option for the vast majority.[11]

The combined effect, Savills predict, will be a big drop in home purchases and sales of all types. They expect transactions to fall -45% on 2019/20 levels in the baseline scenario. Their downside scenario is for a -64% drop. Falling demand and transactions will lead to falling house prices and cause private housebuilding to seize up.

Savills show that demand for discounted homes to buy are hit just as hard during a recession and that "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.[12] Those products will be affected just as badly by a lack of demand. As a result, it also means housing associations, which have recently built and plan to build an increasing number of shared ownership and market sale homes, are more exposed to market fluctuations.

Savills indicate that the slump can be expected to hit building new affordable rented homes, including social housebuilding, too. This is because, as we've

[10] BBC News, Nationwide caps mortgage lending due to virus, 17 June 2020.
[11] MHCLG, English Housing Survey: private rented sector 2017/18
[12] Over recent years several different schemes have been created to offer some kind of home ownership at a discount on market house prices. Shared ownership is the most prevalent, while some schemes remain at the proposal stage, like First Homes, and others appear to have been abandoned, like Starter Homes. We refer to all of these here as discounted home ownership products

grown more dependent on the speculative development model, we've also changed the way we pay for new affordable housing. We now use much more cross-subsidy from market sale – for example Section 106 affordable housing obligations – than direct subsidy grant for affordable housing. If market sale building declines there will be less cross-subsidy available for affordable housebuilding of all types.

In previous recessions, when there's been more grant from government, social housebuilding has acted as an effective countercyclical measure.[13] When market housebuilding has gone into recession, social housebuilding has stepped in to make up the numbers. This time, unless government invests in much more new social housing again, the fate of market and social housebuilding are tied.

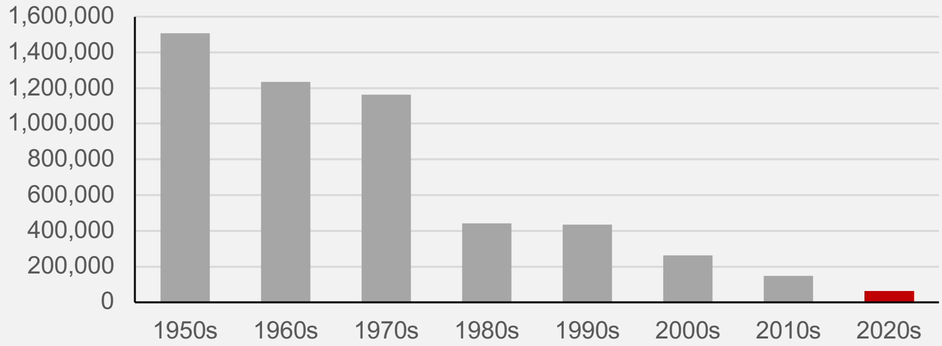
Another lost decade of social housebuilding

More bad news in Savills' research is the dismal projection for the number of new social rented homes built in the aftermath of the pandemic and years that follow. Even in their best scenario, without a change in government policy, the delivery of newbuild social housing they project is pathetic in comparison to historical delivery and what's needed. It would see the fewest built in any decade since social housing existed in a recognisable form. Without a change in course, the coming decade will do nothing to turn the tide on England's social housing shortage.

There's no way of sugarcoating the numbers. Savills' baseline scenario projects that, in total, across the 2020s, 64,300 new social rented homes will be built in England. This is less than half the level built in the 2010s, which was almost half as much as built in the 2000s. It is more than 25,000 fewer homes built over the whole decade than the number we need to build every single year.[14]

[13] Countercyclical spending replaces lost private demand at the time of a market downturn and is associated with Keynesian economics. The English housing market is highly cyclical, meaning it goes through cycles of big booms in demand and prices, followed by big collapses. To prevent a sudden a largescale withdrawal of private demand leading to long-term damage in the downward cycle, countercyclical spending can step in to replace it
[14] Crisis, Centrepoint, DePaul, Homeless Link, Shelter & St. Mungo's, End homelessness now manifesto, 2019

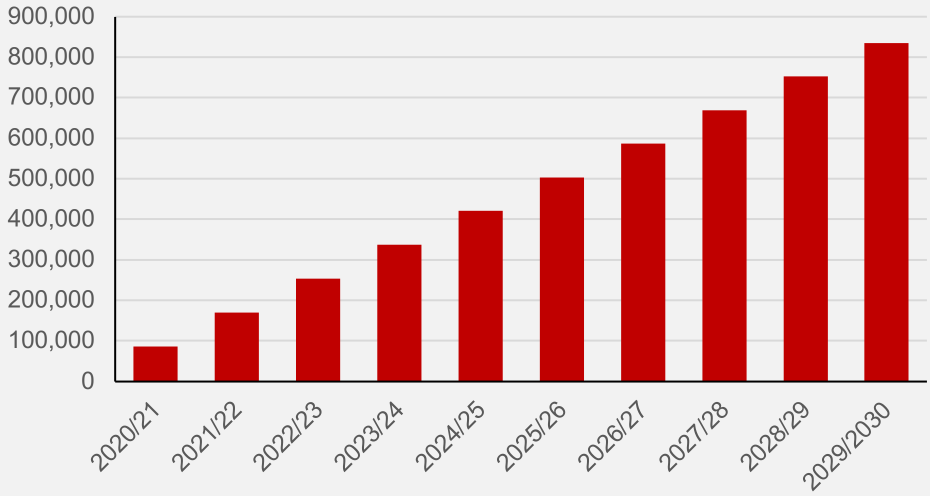
Figure 2: The number of new social rented homes built by decade, including Savills projection



Source: Savills; MHCLG, Live Tables 244 & 1000

Over the course of the decade, delivery at this level would increase the backlog of needed new social housing. In the baseline scenario, by the end of the decade the shortfall in delivery would be at least 830,000 social rented homes compared to what's needed.[15]

Figure 3: The running backlog of new social housing over the next decade (baseline scenario)



Source: forecast from Savills; annual need from End Homelessness Now

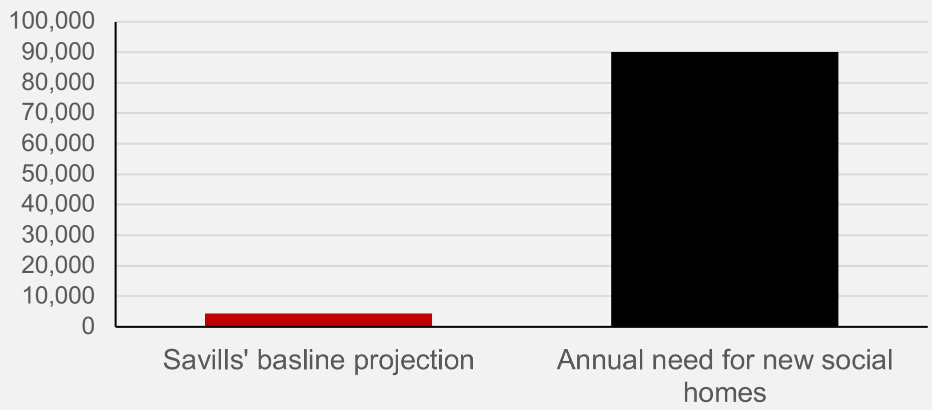
If the projection is realised, it means we won't build enough social rented homes across the whole country in the next decade even to clear the combined current waiting lists in Wakefield, Oldham and Plymouth, never mind the rest of the

[15] Based on a need of at least 90,000 a year as in the End homelessness now manifesto, 2019

country. With 1.16 million households on the social housing waiting list across England, if social housebuilding were sustained at that level, it would also take more than 180 years to house everyone currently waiting for a new social rented home.

This year (2020/21), Savills project the impact of the pandemic to reduce the number of new social rented homes built to only 4,300 in their baseline scenario, and as low as 3,500 in their worst case. If this is realised, it will be catastrophic level of delivery. It would be, by some distance, the lowest number of social rented homes built in any year since the Second World War. It's less than 5% of the 90,000 assessed annual need for newbuild social rented homes.[16] 4,300 new social rented would not even be enough to clear the current housing waiting lists in the local authority areas covered by the MHCLG ministerial team's constituencies.[17]

Figure 4: The number of new social rented homes to be built in 2020/21 compared to annual need



Source: Source: forecast from Savills; annual need from End Homelessness Now

But need isn't static. The pandemic and lockdown are expected to add further pressure onto our existing stock of social rented homes, for example through an increase in unemployment. The economic modelling underpinning the Savills research predicts unemployment to rise to 6.5% by Q3 2020.

A big loss of construction jobs

As housebuilding drops, so too does the demand for workers' labour. Savills project that the slowdown in housebuilding will lead to 81,000 construction job losses in 2020/21 in their baseline scenario. When including the knock-on effects

[16] Crisis, Centrepoint, DePaul, Homeless Link, Shelter & St. Mungo's, End homelessness now manifesto, 2019
[17] Ministerial team local authorities' waiting lists as follows: Robert Jenrick, Newark and Sherwood, waiting list 2,864; Chris Pincher, Tamworth, waiting list 1,511; Simon Clarke, Middlesbrough, waiting list 4,883; Luke Hall, South Gloucestershire, waiting list 3,804. MHCLG, Local authority housing statistics data returns 2018-19, Section C – Allocations

for the construction supply chain (manufacturers of construction materials for example), the projected job losses total 171,000 in 2020/21.

This would be a disaster for individual livelihoods and add to the growing risk of mass unemployment. It would also be a disaster for the long-term health of the housebuilding sector and the contribution it makes to the wider economy. Savills estimate that the decline in housebuilding activity will amount to a loss of £20.2 billion in value added to the economy. In the downside scenario, this figure reaches £29.6 billion.

And it could be even worse. The structure of the construction industry, and the prevalence of self-employment and casual employment practices makes it particularly vulnerable to job losses in an economic downturn. In previous recessions we've seen a jobs downward spiral triggered. There are worrying signs this may already be happening. Construction job vacancies – a lead indicator of future employment levels – fell 54% March-May, further than they have since 2008.[18]

Box 2: Why housebuilding jobs are at risk of a downward spiral

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 common in housebuilding[19]. This mean 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. As work dries up, many of the people doing the actual building are forced to quit the market.

2. SMEs stop hiring or risk going under

SME housebuilders often don't have the capital reserves to weather a downturn and are unable to push employment risk down to smaller firms.[20] This means they are unable to sit and wait for sites to become profitable again - with high levels of debt to service. Following the 2008 Global Financial Crisis, one in three SME housebuilders left the sector– either switching to other services, like repairs, or becoming insolvent.[21]

[18] Office for National Statistics, Employment and labour market: VACS02 Vacancies by industry, 2020
[19] Financial Times, Why the cracks are showing in Britain's construction industry, 4 June 2018
[20] Home Builders Federation, Reversing the decline of small housebuilders: Reinvigorating entrepreneurialism and building more homes, 2017
[21] *Ibid.*

For those that look to carry on building, the first thing they can do to avoid insolvency when housebuilding slows is stop recruiting. The Global Financial Crisis saw a big drop in the availability of work in construction which took a long time to recover.

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.[22] A fall in available work means many of these workers go without employment or leave the sector to train in another industry. As the Construction Skills Network annual forecast shows, the main outflow of workers from the sector is transfer to other industries.[23]

It also has an ageing workforce, whilst 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.

If workers leave the sector for good when demand for new homes returns, the workforce may no longer be there. Even just before the outbreak of COVID-19, housebuilding was widely regarded as facing a severe shortage of skills. In 2019, SME house builders cited access to skills as one of four main barriers to getting homes built as employment figures failed to reach pre-crisis levels.[24][25] When construction work eventually returns, productivity is poor as new workers are lower skilled and there is a lack expertise.[26]

A loss of SMEs is also a permanent loss of construction capacity. As SMEs exit, big developers, who are able and incentivised to build out slowly, increase their share of the market. The Home Builders Federation estimated in 2017 that returning to the number of SMEs operational in 2007 could boost housing supply by 25,000 homes per year and a further fall will add further constraint. [27] A long-term loss of capacity would be a significant setback for the government's housing targets and the wider economy.

[22] Office for National Statistics, Employment and labour market: EMP14 Employees and self-employed by industry, 2020
[23] Construction Skills Network, Industry insights: Labour market intelligence 2019-2023, 2019
[24] Federation of Master Builders, House builders survey, 2019
[25] Office for National Statistics, Employment and labour market: EMP14 Employees and self-employed by industry, 2020
[26] M. Farmer, The Farmer review of the UK construction labour model, 2016
[27] Home Builders Federation, Reversing the decline of small housebuilders: Reinvigorating entrepreneurialism and building more homes, 2017

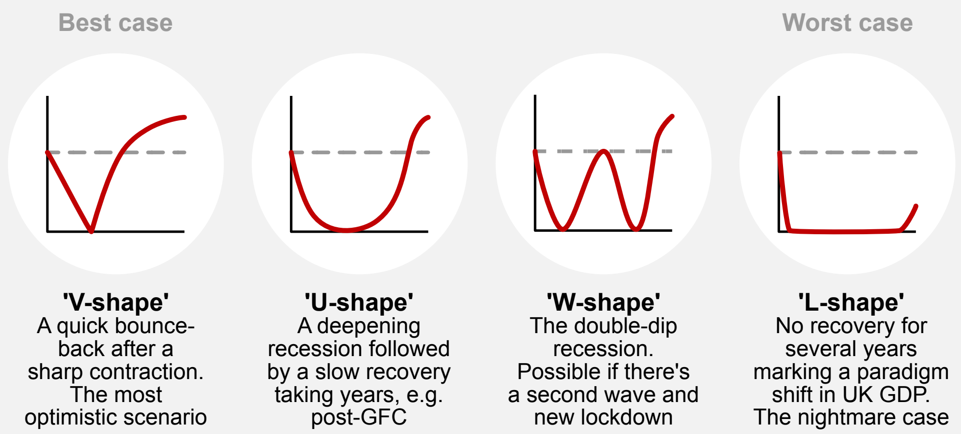
The impact could be worse still

At a time of great uncertainty, Savills' projection is necessarily conservative. But if is realised it would lead to a big loss in new housebuilding, miniscule levels of social housebuilding, many lost construction jobs and a hit to the economy. The final impact could be even worse.

In part, this is because of uncertainty about any economic projection at present. The economic model underpinning Savills' projections is Oxford Economics' estimate of the impact of the pandemic on GDP. Since making the initial projection in May used for this research, Oxford Economics have reforecast and now suggest the impact on the economy this year could be worse.[28] The OECD now projects the impact on UK GDP in 2020/21 will be -11.5%, compared to the -8.3% projected as Oxford Economics' baseline.[29]

A lot of the differing economic projections are due to uncertainty about how we will recover from the economic shock of the pandemic and lockdown. The hope is for a quick bounce-back, or what has been called a 'V shaped' recovery. But it's also possible that if there is a second peak of infections and the country is sent back into a severe lockdown, the recovery would take longer. Instead of being 'V shaped' the country could go through a 'U shaped', 'W shaped' or even 'L shaped' recession.

Figure 5: Several possible shapes of the economic recovery



The OECD now judge the likelihood of a 'W shaped' recovery with a second peak to be just as great as the single peak 'V shaped' recovery. If the recovery goes

[28] As of mid-June, Oxford Economics forecast for the impact on GDP in 2020/21 was -10.8%, down from -8.3% in mid-May

[29] OECD, OECD Economic Outlook, Volume 2020 Issue 1: Preliminary version, OECD Publishing, Paris, 2020. Available at https://doi.org/10.1787/0d1d1e2e-en

‘W shaped’, the impact on housebuilding, social housing and construction jobs could be worse than Savills’ worst case scenario.[30]

[27] *ibid*

3. BUILDING OUR WAY OUT

Government grant can make up for the market slump

So what can the Government do to reverse this decline? The Savills research is quite clear that increasing government grant will deliver more homes. And that it will get you more homes now, when private housebuilding has slowed and construction jobs are in urgent need of protection. This is because government grant for affordable homes is an effective countercyclical measure.

"Grant funded affordable housing can play a significant part in increasing delivery, particularly in circumstances where incomes and employment are impaired by the downturn", Savills write. "The need for Affordable housing in England is acute and therefore an increase in supply would be easily absorbed." Unlike demand for market sale homes, demand for affordable housing stays strong during a downturn.

During the Global Financial Crisis, grant funding for affordable housing increased and acted as an effective countercyclical measure.

Box 3: Support for housebuilding in the Global Financial Crisis

After demand for market homes slumped in the summer of 2008, the development of market homes fell by over 50%.[31] The initial government response was to rapidly inject grant for new affordable homes to keep housebuilding moving.

The 2008-11 grant programme was increased to £8.4 billion and, in a series of fiscal stimulus announcements, government accelerated the programme to spend £3.6 billion in 2009/10 alone. As a result, the number of new social rent homes completed reached a high of almost 40,000 in 2009/10, the highest since the mid-1990s.[32] Without this rapid intervention, the impact of the Global Financial Crisis on housebuilding and jobs would have been even worse.

After 2010, there was a change in approach that had the effect of increasing our dependence on fragile market sale, speculative development for new homes. Grant for affordable housing was dramatically reduced by 60%.[33] Meanwhile, the introduction of the Help to Buy made a significant proportion of

31 MHCLG, Live table on housebuilding: New build dwellings, Table 244
32 MHCLG, Live tables on affordable housing supply, Table 1000
33 BBC, Social housing budget 'to be cut in half', 19 October 2010

new housebuilding reliant on government underwritten mortgages for market sale homes.[34] Planning and regulations for market sale homes were relaxed.[35]

These measures, helped to re-inflate the bubble and get market development going again, but at the expense of social housing. Such measures (increasing finance, relaxing regulations) are also subject to diminishing returns. Now they have been done, it will be increasingly hard to repeat the trick.

Irrespective of the size of the downturn and the shape of the recovery, the government will need to find a way to make up for lost demand for private housebuilding expected in the near future to prevent a downward spiral of job losses in construction and long-term scarring for the industry.

Social rent is the most certain form of countercyclical grant spending

Not every kind of grant spending on affordable housing will work as a countercyclical measure. Savills show that affordable homeownership products – like shared ownership – are affected by the same drop in demand and transactions that affect market sale homes. Shared ownership sales fell from a just under 18,000 in 2006/07 to a low of around 7,000 in 2011/12, following the Global Financial Crisis. Weak consumer sentiment, lender caution and a reduction in incomes and savings all impact the demand for discounted homes for sale, just as they do for market sale homes. The government's proposed First Homes would be no different.

In contrast, the business model for properly grant funded social rent is unaffected by fluctuations in demand for market homes.[36] This makes it the most certain countercyclical response. The reason social rent remains largely unaffected are because of the way its rent levels are set and because of the excess unmet demand for social rented housing.

Social rent levels are set by a stable formula that references local incomes.[37] This means that they are affordable to low income households across the country. It also means that when incomes drop there isn't uncertainty around social rents as there are around private rents, house prices or other 'affordable housing' products that are tied to them, like shared ownership or 'Affordable Rents' (which are tied to house prices and market rents respectively). The excess demand for social rent housing – embodied in the country's massive waiting lists – also does

[34] MHCLG, Evaluation of the Help to Buy: Equity loan scheme, 2017
[35] Deregulatory reforms made to the planning system in recent years include: the extension of Permitted Development Rights and the introduction of a 'small sites exemption'. Both limit the ability of local authorities to ensure affordable housing is delivered. Following the Global Financial Crisis, the government also made it easy for developers to negotiate down affordable housing obligations (on the basis that the obligations would make their planned developments unviable, as market prices had fallen). This loophole was closed in 2018.
[36] In recent years, per home grant levels for social rent have been reduced, making the development of new social rent – such as there has been – increasingly dependent on cross-subsidy from market sale. As we propose in our recommendations, this must be reversed
[37] MHCLG, Policy statement on rents for social housing, 2019

not drop in the same way as it does for private sale homes. The government's independent review of build out rates found that unmet demand for social rent homes is virtually unlimited.[38]

Box 4: How can grant be used quickly and effectively?

Grant for new social rent homes

Grant for new, high quality social rent homes should be the priority for getting housebuilding back on track and meeting unmet demand for social housing. But in a downturn grant needs to be used in a much wider range of contexts alongside funding new schemes as many existing schemes will have stalled. Further, reduced construction capacity will limit the speed at which entirely new schemes can be delivered over the next two years.

Converting affordable homeownership schemes to social rent

Savills note that "top up grant" (or Section 106 partial grant) has been used to good effect in the past, including in 2014/15 in response to the delayed impact of the Global Financial Crisis. Additionally, as affordable homeownership products, like shared ownership, are affected by the slump in consumer demand (see above), grant can be used to convert shared ownership homes on existing schemes to social rent. This can ensure housebuilding continues whilst delivering more social rented homes on sites where price drops have impacted developers' willingness or capacity to build.

Bulk buying homes for market sale

Similarly, where suitable, grant can be used to convert homes that would otherwise be set for market sale to social rent at a discount. The National Housing Federation (NHF) argues that social housing providers like housing associations could use grant to 'bulk-buy' homes from developers at a discount to convert to genuinely affordable homes for social rent.[39]

Smaller scale conversions

While it's understandable that buying at scale would be prioritised, lower development rates in rural areas mean it may be impossible to convert homes to social rent in large numbers, even where they are suitable and needed. In these areas, where development is largely done by SME builders, it would be worth considering converting suitable homes in smaller numbers too.

Not all stalled market homes would be suitable for conversion. Consideration would need to be given to price, location, size and access to public transport, among others.

[38] O. Letwin, Independent review of build out: Preliminary update, 2018
[39] National Housing Federation, Coronavirus: Social and economic recovery, 2020

4. RECOMMENDATIONS: RESCUE, RECOVERY AND REFORM

Savills' projection gives a relatively optimistic view of what impact the pandemic will have on housebuilding, jobs, the economy and social housing. Even still, if it's realised England faces a lost decade of social housebuilding. We stand to lose hundreds of thousands of other homes that otherwise would be built. And many decent construction jobs will be lost.

Since the lockdown started, the outlook for the economy has deteriorated. In April, the UK saw the biggest economic contraction on record and we are now heading for the worst recession in more than three hundred years. The responsible course for public policy is planning to avert the worst outcome.

Recommendation 1: Accelerate the £12.2 billion Affordable Homes Programme, to make it a two-year rescue and recovery package

Government grant is needed now to rescue housebuilding numbers and construction jobs from the worst possible effects of the recession and help the industry recover from the shock. Not only do Savills point to grant as an effective and sensible countercyclical measure in their research, but it is also the tried and tested response used in previous recessions. It works.

The government is in a strong position to provide this immediate rescue and recovery package by accelerating the grant programme it announced in the March 2020 budget. £12.2 billion was announced for the next Affordable Homes Programme to be spent over five years. [40] They have reiterated this commitment since the lockdown began.[41] The Housing Secretary has written to metro mayors and Local Enterprise Partnerships asking for shovel-ready capital projects that could be delivered in the next 18 months to help power the country out of the recession.[42] Accelerating the Affordable Homes Programme so that it's delivered over a similar time period – two years instead of five – would provide the rescue and recovery package housebuilding needs and give the economy a major stimulus.

Delivering the accelerated £12.2 billion rescue and recovery package over two years will require a proactive, flexible and nimble approach to deliver. The one thing that must be prioritised is for the overwhelming bulk of spending to go towards building new social rent homes.

[40] HM Treasury, Policy paper: Budget 2020, 2020
[41] House of Commons Hansard, Planning process: Probity, Volume 677, 11 June 2020
[42] Financial Times, UK government issues urgent call for 'shovel-ready' projects, 12 June 2020

Recommendation 2: Spend the bulk of the rescue and recovery package on building new social rented homes with realistic grant rates and being flexible and imaginative about using grant

There's a bulletproof economic case for prioritising social rent in the rescue and recovery package. Not only is it an investment in an asset over which government retains some control, unlike Help to Buy. Social housing spending also has the most certain business model at a time of market uncertainty. As Savills' research shows, affordable home ownership products like shared ownership suffer from the same lack of consumer demand that hits market housebuilding during a recession. Thus, spending grant on shared ownership or First Homes would be an ineffective countercyclical response. And with Affordable Rents often unaffordable and linked to market rents, Affordable Rent spending is less certain and has less demand than social rent.

With Savills projecting pathetic levels of social housebuilding over the next decade, there's also a clear just case that social rent should be prioritised in the rescue and recovery package. It's the sensible thing to do, because it will stimulate the construction Industry, help tackle homelessness and clear housing waiting lists. But it's also the right thing to do.

To deliver the rescue and recovery package within two years, Homes England and the GLA will have to upscale their capacity to allocate grant. Its approach and government policy will need to be much more proactive, flexible and nimble. There are several measures that should be considered.

- The NHF argue that we can increase the speed that the new Affordable Homes Programme gets off the ground by allowing bids for the new programme on the same conditions as the current
- It argues for directing additional grant to existing schemes (e.g. to convert unviable shared ownership to social rent)
- Grant could also be used to top-up Section 106 obligations where schemes have become unviable, in line with Savills' suggestion
- The NHF also argues that – where suitable – grant could be available for 'bulk-buying' market homes at a discount to convert to rent[43]

Buying homes could be considered at a smaller scale as well, for example in rural areas. With generally smaller developments it would be less possible to bulk-buy in these areas, but it would potentially provide a route to directing grant to more SME builders who otherwise risk being unable to access it.

Finally, it's clear that grant rates for social rent are too low and do not allow the social rent homes needed to be built in much of the country. There must be much more flexibility and realism on grant rates to deliver a social rent led rescue and recovery package.

[43] National Housing Federation, Coronavirus: Social and economic recovery, 2020

Recommendation 3: Use the recovery as a launchpad towards delivering at least 90,000 social rented homes a year we need through a long-term programme

A two-year £12.2 billion rescue and recovery package would make a significant contribution to averting the lost decade of social housebuilding. But to get social housebuilding to where the country needs it will take long-term commitment, not just a temporary stimulus. As with wider calls to 'build back better' from the pandemic, the recovery can't just be about returning to the way things were. It must be about making permanent reform.

For England's housing, that permanent reform must be ending homelessness and creating a more resilient housebuilding sector by building 90,000 social rented homes a year, every year. The rescue and recovery package won't take us all the way towards doing that. The NHF say that £12.8 billion would be required every year across the country to properly address housing need; and the G15 and GLA say £4.9 billion would be needed annually just for London.[44][45] Rescue and recovery will only be short-term and our capacity to build social housing again will need to ramp up. The recovery should be a launchpad to permanent reform.

To do that, government should work towards delivering a new long-term grant programme to begin in 2023/24 when the rescue and recovery package comes to an end. For example, the NHF argue that a ten year programme could boost productivity by 70%.[46] In addition to putting grant in place, it should use the intervening time to consider what complementary legislative and regulatory changes would best allow the country to sustainably deliver 90,000 social rented homes a year over the long-term.

[44] National Housing Federation, £12.8bn needed every year to end the housing crisis, 2019
[45] G15, The 2022-32 affordable housing funding requirement for London: Technical report, 2020
[46] Inside Housing, Ten-year social housing funding cycles could boost construction productivity by 70%, says report, 18th June 2020

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