

Building Communities, Boosting the Economy:



Tapping Into the
Economic Potential of
Housebuilding In Wales

**January
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Executive Summary

As well as the bricks and mortar that provide families with homes, house building is almost unrivalled in the economic and social value that comes from increased activity in the sector. This was illustrated by the HBF report published in March 2015 which estimated the economic footprint of house building in the UK.

This report draws on that research and evidence sources to calculate the enormous economic potential of house building in Wales. This is more necessary than ever. Wales has a lower Gross Value Added (GVA) per capita than any UK nation or English region, as well as an unemployment rate that is higher than the UK average.

Impact of the crisis

Apart from the economic benefits, Wales is also in desperate need of new housing to meet existing and future demand. The number of 20-34 year olds in Wales living at home with parents has increased by 40% over the last decade.

An escalating crisis

Independent estimates of housing need in Wales vary from around 8,500 additional homes per annum to 11,600 additional homes per annum. The Welsh Government's own independently conducted study, published in September 2015, corroborated this, establishing a requirement of 8,700 to 12,000 new homes per year until 2031, adding that the majority would be required for market sale or rent.

Current delivery rate for new house building suggests that there is a large and growing shortfall in housing in Wales. Each year the shortfall is growing by between 2,740 homes and 5,840 homes. Since 2011, the cumulative shortfall between what is needed and what is being built has grown to almost 25,000 homes – the equivalent of a settlement the size of Merthyr Tydfil.

Untapped potential

If the required level of house building could be met and sustained, our estimated suggest that up to 25,112 new jobs could be created.

In addition, councils in Wales are foregoing up to £7.5 million in additional Council Tax revenue as well as £9.4 million per year in funding for education – enough for up to 2,219 school places.

Ideas for boosting supply

Recognise the positive role that planning can play in supporting local economies: Welsh Government and local government must recognise the positive role that house building can play in helping to grow the economy. This should involve positive planning, proper resourcing of services that are important for boosting output and a willingness to engage with the realities of delivering market housing.

Encourage local authorities to adopt up to date local development plans: Too few local authorities in Wales have an up-to-date and fully adopted local development plan, an essential requirement for effective long-term planning, house building and economic growth. The process of adopting a plan needs to be simplified and local authorities should take account of the realities of house building when identifying sites for housing, and allocate a range of sites that support small, local builders to build homes and increase overall supply.

Reduce regulation to ensure house building schemes are viable and to support smaller local house builders: The burgeoning regulatory costs and complexity associated with house building has damaged the viability of many schemes, and in particular they have frozen out new entrants and disadvantaged smaller house builders. Onerous requirements and extensive conditions mean that the cost of building a home in Wales is now significantly higher than in other parts of Britain.

Review the system of appointing preferred housing associations: The system of appointing preferred housing associations, and the lack of competition inherent in the process, means that the price obtained by house builders for new affordable homes is much lower than would be achieved in the market. This reduces the number of affordable units that can be provided and further limits overall housing numbers.

The Economic Benefits of Housebuilding

House building is almost unrivalled in its economic and social value to local communities. Each new house or flat built not only creates a long-term home for a family and helps foster a sustainable and healthy local housing market, the short and medium term advantages of house building are felt throughout the community through increased employment, investment in infrastructure, the construction of affordable housing and additional local expenditure. Because the benefits are often highly localised and suffer from very little import leakage, supporting the construction of new homes either through direct investment or by creating a favourable environment for private investment is an extremely expedient approach.

In 2014, the Home Builders Federation commissioned consultants, Nathaniel Lichfield and Partners (NLP) to evaluate the national economic benefits derived from house building and estimate the multiplier benefit effect for communities as a result of each additional home built. The result of NLP's detailed research was the report, *The Economic Footprint of UK House Building*, published by HBF in March 2015.

Using those estimates in combination with the latest statistics for current housing output and the best assessments of housing need, this report highlights the wealth of economic benefits that Wales is foregoing as housing need goes unmet. Tapping into this enormous potential could be transformative for the future of Wales.

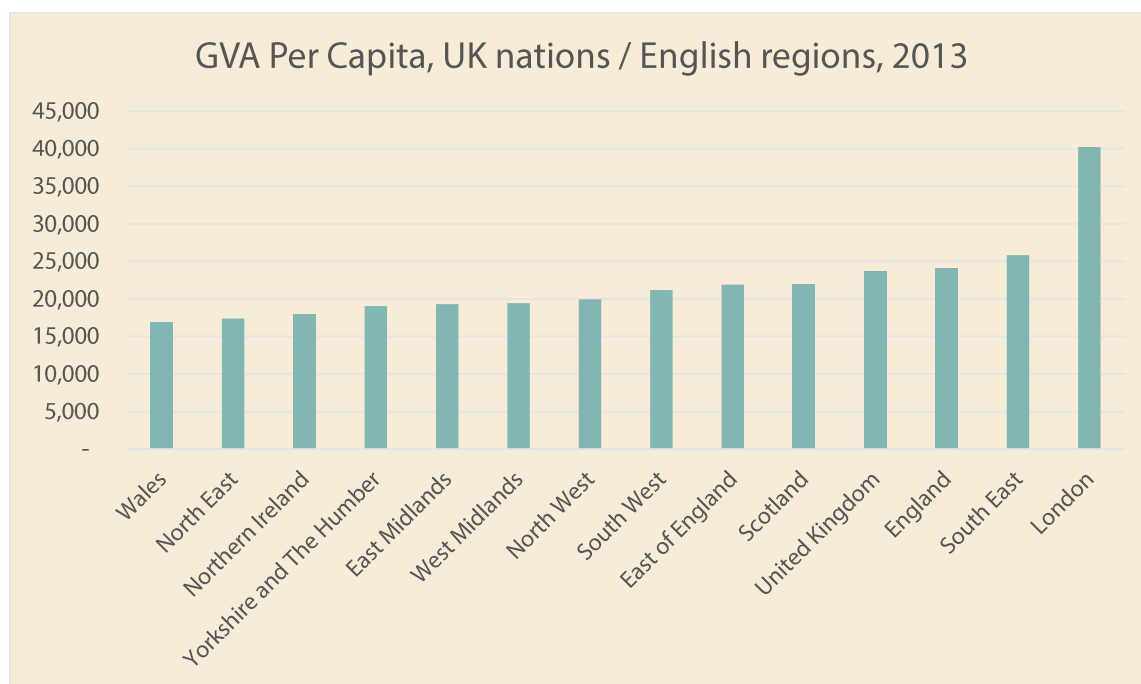
Although unemployment has been declining gradually since 2011, the proportion of the economically active population without a job is higher in Wales than the UK average.¹ The impact of public sector austerity has arguably been felt greatest in Wales where a larger percentage of the population is employed in the public sector. The most recent figures show that 9.6% of people are public sector employees (down from more than 11% in 2011). This compares with a UK rate of 8.4%.² Meanwhile, Gross Value Added per capita in Wales remains below that of any other UK nation or English region, 6% lower than in Northern Ireland and 13% less than in the West Midlands of England.³ In 2013, three of the seven sub-regions in Great Britain with the lowest GVA per head were found in Wales.⁴

¹ *Key Economic Statistics*, Welsh Government, October 2015

² *Ibid.*

³ 'Regional Gross Value Added', Office for National Statistics, December 2014

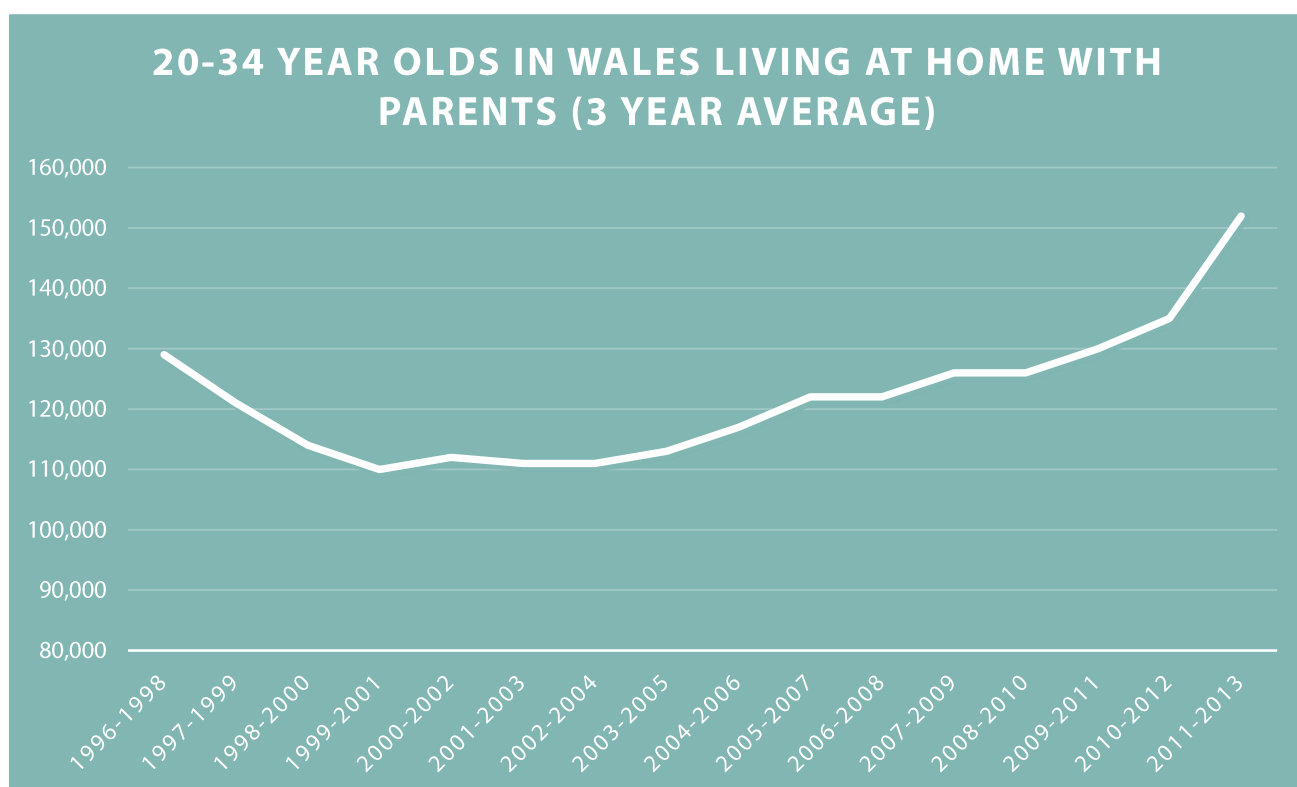
⁴ Isle of Anglesey, Gwent Valley and South West Wales sub-regions ranked numbers 1, 4 and 7 respectively. 'Regional GVA NUTS3, 1997-2013 Table', Office for National Statistics, December 2014



We recognise that the most important opportunity cost of failing to deliver the homes the nation needs is felt by those who suffer as a result. However, the advantages of boosting housing supply are not experienced only by the purchasers or renters of new build homes. More widely, increased house building benefits the entire community while providing a significant boost to the local and national economy.

Impact of the crisis

- The number of 20-34 year olds in Wales living at home with parents has increased by almost 40% in the space of a decade⁵
- The house price to income ratio for the average first-time buyer in Wales is now 3.9, compared with a 30-year average of 3.2.
- There are more than 5,000 homeless households in Wales, 40% of whom are currently living in temporary accommodation

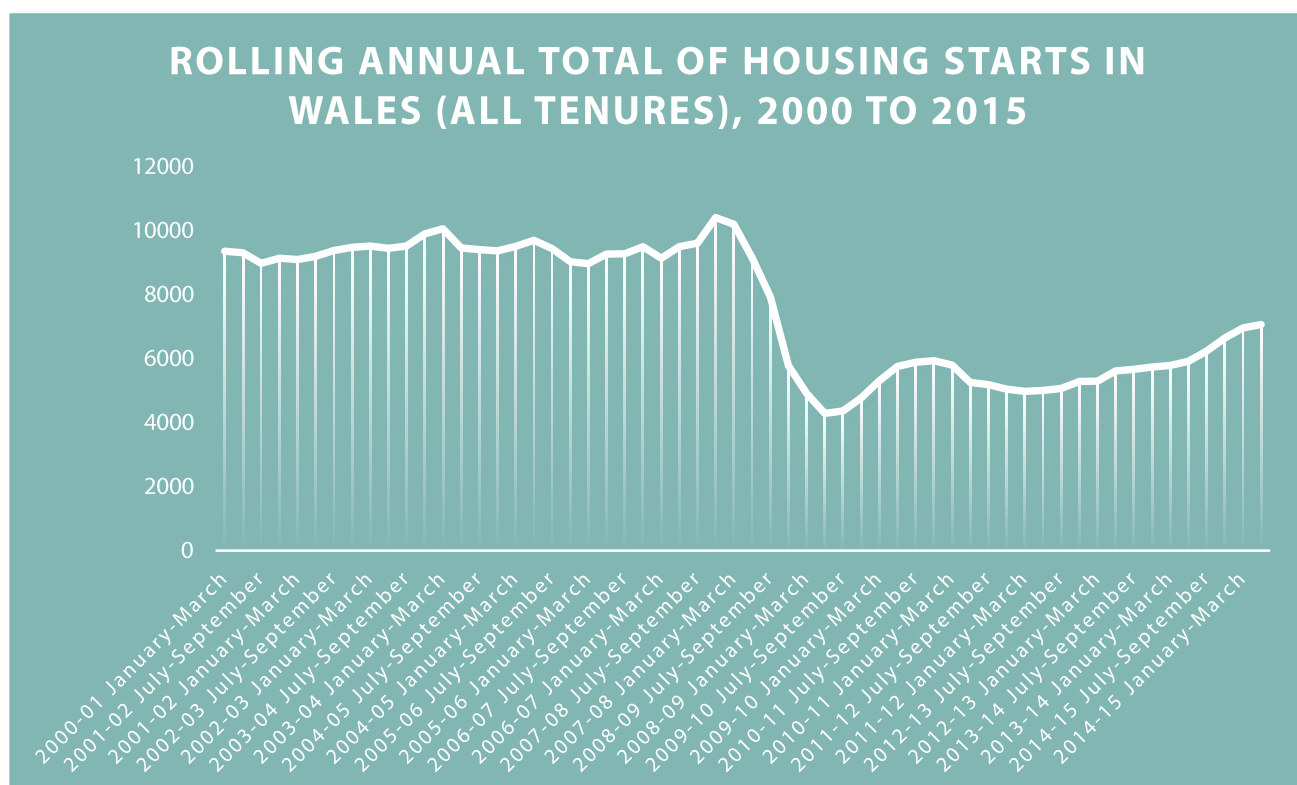


⁵ 152,000 20-34 year olds living with parents in Wales during 2011-2013 compared with 111,000 in 2001-2003. 'Young Adults Living with Parents', *Statistical Release*, Office for National Statistics (January 2014)

An escalating crisis: Housing need in Wales

Estimates of housing need in Wales over the period 2011 to 2031 vary from around 8,500 additional homes per annum⁶ to 11,600 additional homes per annum⁷.

In September 2015, the Welsh Government published a report on 'Future Need and Demand for Housing in Wales'. The research, conducted by the Public Policy Institute for Wales, concluded that 8,700 to 12,000 homes per annum is required between now and 2031. It was estimated that the majority would need to be market homes for sale or rent.



In the four completed financial years since 2011, housing completions have averaged 5,760.

Based on the more conservative estimate of housing need in Wales, this represents a **shortfall of 2,740 homes per year**, a cumulative shortfall since 2011 of 10,960 homes.

⁶ Based on 2011-based projections of household growth by Welsh Government

⁷ Nathaniel Lichfield & Partners' 'index-based approach', *Assessing the Need for Housing in Wales*, May 2015
<http://nlplanning.com/uploads/files/2015/05/673727.PDF>

Based on the higher assessment of housing need in Wales, the **shortfall is 5,840 homes per year**, a cumulative shortfall since 2011 of 23,361 – the equivalent of a settlement the size of Merthyr Tydfil.⁸

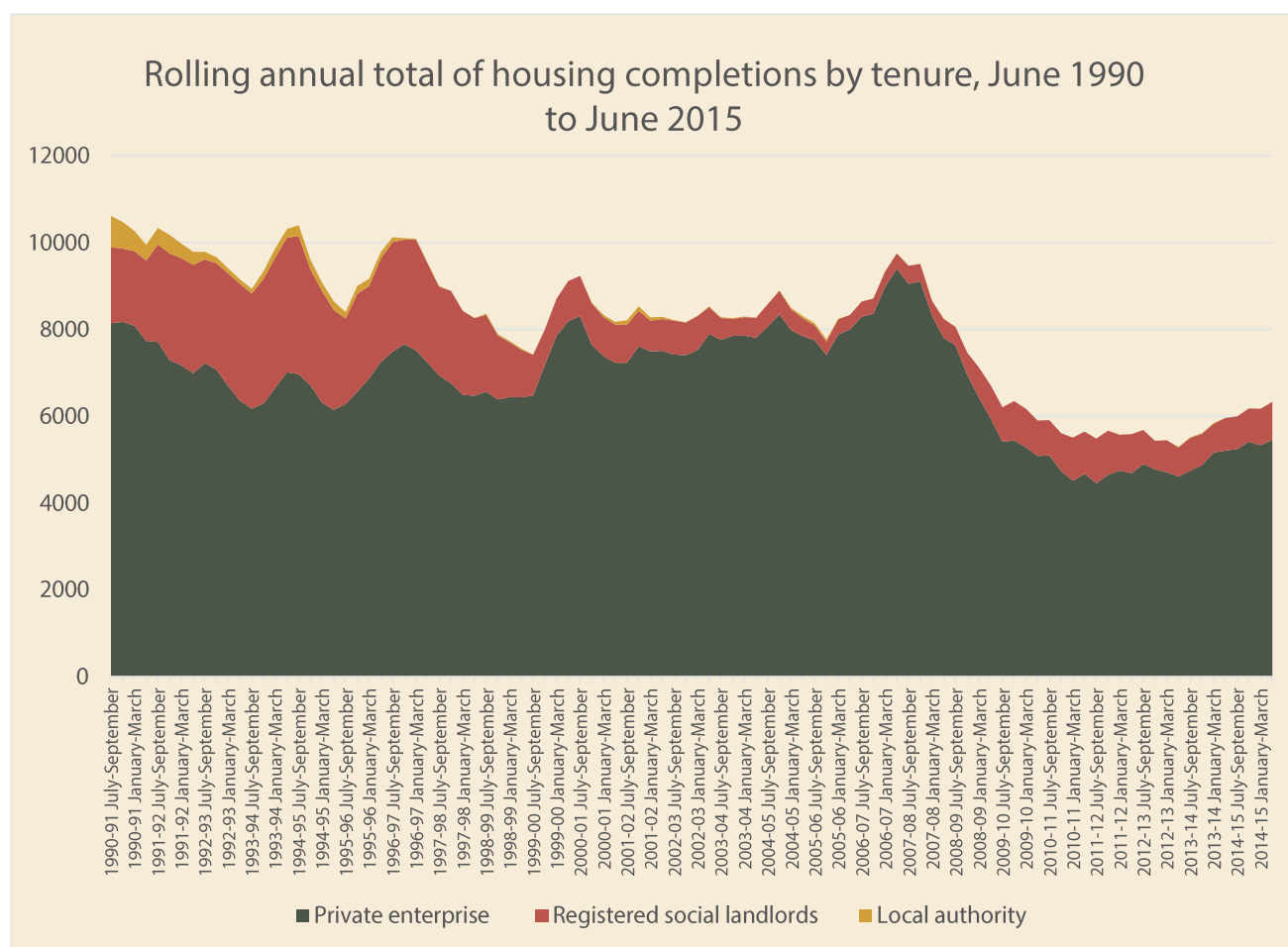
Some areas, particularly towns and cities such as Wrexham, Swansea and Newport are expected to grow exponentially over the next decade and a half with projected household increases of more than 15% while Cardiff is expected to grow by around one-third.⁹

⁸ Based on household numbers in Merthyr Tydfil County Borough

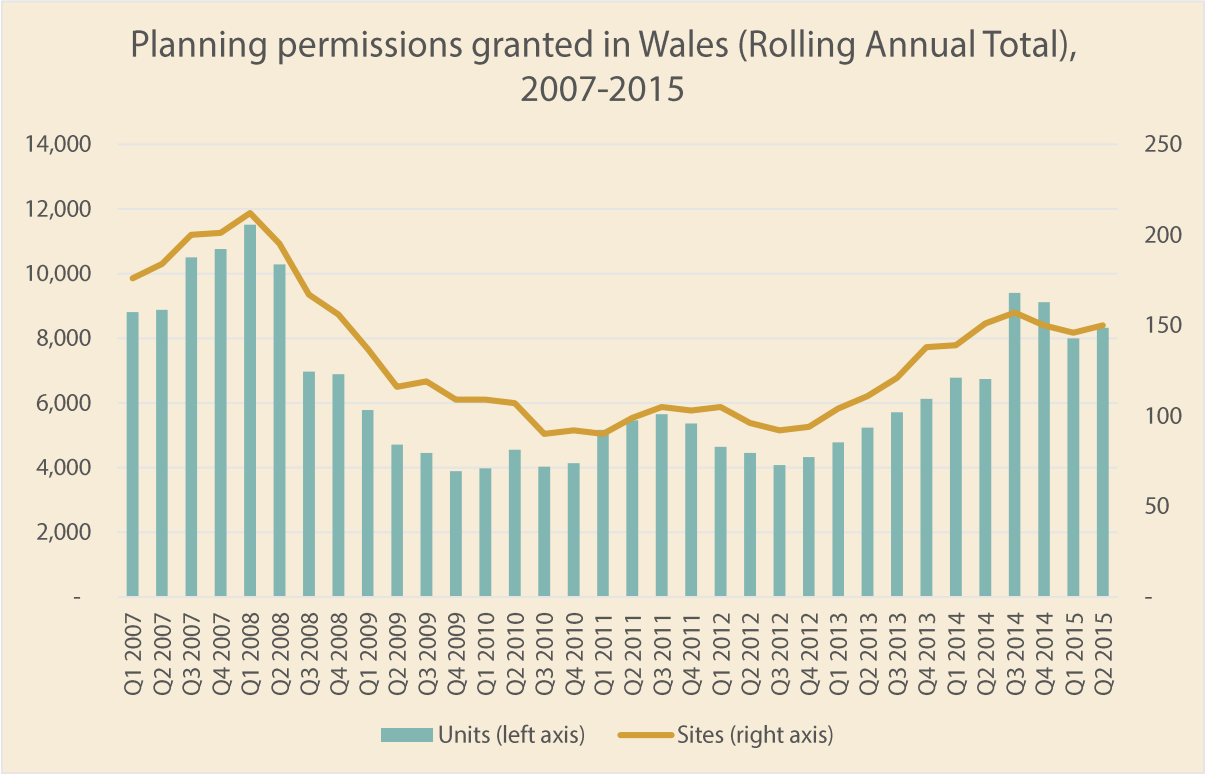
⁹ *Assessing the Need for Housing in Wales*, Nathaniel Lichfield & Partners, May 2015

Current house building activity

House building in Wales has shown recent signs of improving with housing starts at their highest level since mid-2008. Similarly, housing completions have increased in recent months, returning to levels last seen in 2009-10. Whilst increases of around 20% on the number of homes completed two years prior are encouraging, this falls short of growth recorded elsewhere in the UK and a significantly insufficient to meet the national housing need.



Planning permissions have showed similar signs of growth from early 2014 onwards but increases have been less rapid than in other parts of the UK.



Untapped potential

The magnitude of the current annual shortfall in housing output is difficult to precisely define but as discussed elsewhere in this report, the best calculations range from an annual shortfall of 2,740 homes per year to 5,840 homes per year. Even at the lower end of this spectrum the scale of the untapped economic potential in Wales is enormous.

If the levels of house building required in Wales could be achieved up to 25,112 new jobs could be created – providing jobs for more than one-quarter of the 90,000 people currently unemployed in Wales. Even at the lower estimate of required housing supply, 11,782 new jobs could be generated. In addition, a step change in housing supply could help to create hundreds of new apprenticeships or traineeships.

As well as direct and indirect job creation and training for young people, some of the wider social benefits of house building are derived from contributions to infrastructure and community facilities that are made by developers as part of planning agreements. House builders already contribute millions of pounds each year to Welsh local authorities in order to fund new or improved transport infrastructure, school facilities or community spaces or sports opportunities, but a wealth of untapped potential is evident when we consider the gap between current home building levels and the country's housing need.

Based on typical infrastructure contributions made by house builders, Welsh local authorities could expect to benefit from between £4.4 million and £9.4 million in additional education funding generated from Section 106 agreements with developers. At the upper end of the estimate, this could fund school places for up to 2,219 pupils.

In addition, £2.6 million to £5.5 million could be expected in additional funding for local authorities for use in financing community sports facilities, open spaces and leisure centres.

In the most recent year for which figures are available, 36% of new affordable homes built were constructed as a result of Section 106 payments by builders of private sector housing demonstrating how building greater numbers of market homes will provide much-needed affordable housing for households in most need.

As well as the benefits which come from house building activities, the creation of new homes also provides income for local and national government. In particular, Welsh local authorities could expect to collectively receive an additional £3.5 million to £7.5 million per annum in extra Council Tax revenue.

Ideas for boosting supply

Recognise the positive role that planning can play in supporting local economies:

Positive planning for new housing helps bring economic growth, jobs and prosperity to the Welsh economy. It also ensures home builders can build the homes the Welsh people need. But if house builders are to continue to increase housing output, local authority planning and legal services must be maintained to an appropriately high standard. Inefficiency, delay, high costs and uncertainty reduce home building and damage the Welsh economy. To boost local authority resources, we would encourage the exploration of innovative approaches, such as increased competition, outsourcing and Payment by Results. Simply imposing higher planning fees across the board, without any corresponding improvement in service, will not help the industry boost home building.

Encourage local authorities to adopt up to date local development plans:

Too few local authorities in Wales have an up-to-date and fully adopted local development plan, an essential requirement for effective long-term planning, house building and economic growth. The plan-making process is taking far too long in many cases and the absence of a reliable five-year supply of residential land is introducing more uncertainty into the land market and the planning environment. There is also a tendency for local authorities to release a few very large sites for housing and restrict development elsewhere. This can make development viability very challenging, it reduces the variety of site sizes, locations and products that house builders can offer to the local market, and it cuts out smaller house builders, all of which inevitably reduce overall house building activity.

Reduce regulation to ensure house building schemes are viable and to support smaller local house builders:

The burgeoning regulatory costs and complexity associated with house building have damaged the viability of many schemes, and in particular they have frozen out new entrants and disadvantaged smaller house builders. House building in Wales is disproportionately dependent on large national house builders. Onerous requirements and extensive conditions mean that the cost of building a home in Wales is now significantly higher than in other parts of Britain. For example, the Wales Parking Standard 2008 imposes stringent requirements for garages alongside new dwellings, while Welsh Building Regulations (Part L) and the introduction of mandatory sprinkler systems taken together can add around £7,500 to the build cost of a new home in Wales compared with an equivalent dwelling in England. When these high regulatory costs are combined with low house prices in some areas,

alongside very high site preparation costs, this prevents the development of new homes which is ultimately depressing output in Wales.

Review the system of appointing preferred housing associations:

The system of appointing preferred housing associations, and the lack of competition inherent in the process, means that the price obtained by house builders for new affordable homes is much lower than would be achieved in the market. This very significant 'subsidy', which is a direct cost of development, when added to the already high costs of development in Wales, reduces the number of affordable units that can be provided and further limits overall housing numbers.

Help to Buy Wales: The scheme has been an enormous success. It has enabled more than 2,000 home buyers to purchase a brand new home, many of whom would not have been able to get a first foot on the housing ladder without the scheme. It has also helped the industry to achieve a big increase in home building in Wales, bringing thousands of additional jobs, with knock on effects right through the Welsh economy. The recent extension of the scheme to 2021 will give house builders greater certainty about the outlook for new home demand, allowing them to plan for higher levels of home building and securing many more jobs for the future. It will also allow thousands more people to buy a brand new home.

Conclusion

The scale of the housing crisis in Wales is now near universally accepted to be a major social and economic concern. Fundamentally, the remedy must be to build more homes and better meet demand. Whilst house building activity has increased in recent years, progress must be continued and accelerated.

The benefits of tackling the crisis are many and varied: Improving affordability of housing, helping the vulnerable into a home and supporting young people onto the housing ladder are all worthwhile and compelling objectives but this report also illustrates the economic imperative which should incentivise everyone with the best interests of Wales and Welsh communities to go further in meeting the housing need that is still going unmet.

Never more so than today this motivation should underpin the actions and policies of Welsh Government and local authorities. With a lower GVA per capita than anywhere else in the UK, greater reliance on public sector jobs, an unemployment rate above the UK average and local government operating within severe financial restraints, capitalising on the untapped potential of the house building industry in Wales to create economic growth and boost employment would benefit the entire population while creating thriving new communities.





About HBF

The Home Builders Federation (HBF) is the representative body of the home building industry in England and Wales. The HBF's members account for around 80% of all new homes built in England and Wales in any one year, and include companies of all sizes, ranging from multi-national, household names through regionally based businesses to small local companies.

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home building
industry"*