THE ECONOMIC FOOTPRINT OF UK HOUSE BUILDING

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HBF
HOME BUILDERS FEDERATION

nlp Nathaniel Lichfield & Partners
Planning. Design. Economics.

Home Builders Federation

The Home Builders Federation (HBF) is the representative body of the home building industry in England and Wales. The HBF's member firms 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.

Nathaniel Lichfield & Partners

Nathaniel Lichfield & Partners is an independent planning, design and economics consultancy. NLP has been the Royal Town Planning Institute's Planning Consultancy of the Year for the last three years. NLP has clients in both the public and private sectors and is a retained economic advisor to a number of house building companies and property sector corporates.

LAST YEAR THE UK HOUSE BUILDING INDUSTRY BUILT AROUND 140,000 NEW HOMES. ITS ECONOMIC FOOTPRINT WAS SIGNIFICANT

Investment

£12.5bn
invested in land and buildings for homes

£5.5bn
spent on suppliers [90% stays in the UK]

Jobs and Growth

£19.2bn
of Economic Output
based on the last quarter of construction sector orders

More than 600,000 jobs
233,000 directly employed in the industry (18% of the construction industry)

4.3 jobs for every home built

3,700 apprentices, 400 graduates and 500 other trainees
each year, excluding those in contractors and suppliers

Resources for Public Services

£1.4bn
of tax paid
Stamp Duty Land Tax, Corporation Tax, NI, PAYE, and Residents' Council Tax

£3.1bn
of new 'affordable housing'
38% of all new homes built in the UK are 'affordable'

£576m for infrastructure
including £225m on new and improved schools

Stronger Local Communities and Environment

6.5m trees and shrubs
planted or retained

£131m invested in open space, community, sport and leisure facilities

80% of construction waste recycled

£3.8bn spent in local shops and services by residents of new homes
Another £705m is spent to make each house "feel like home"

The UK should increase annual supply of homes by at least 100,000. Achieving this would mean:

- **£1.1bn** more net capital expenditure
- **£13.6bn** Increase in economic output
- **430,000** extra jobs
- **£1.2bn** more tax paid
- **£432m** extra investment in local infrastructure
- **£3.2bn** resident spending on goods and services

These extra benefits would be additional to the economic footprint of the current supply of 140,000 new homes.

Contents

1 INTRODUCTION

The economic contribution that house building makes to the UK economy has long been recognised by Government, policy makers and practitioners. However, the recent recession and ongoing housing crisis has placed the industry firmly under the spotlight, with house building increasingly acknowledged as a crucial driver of economic growth; capable of maintaining a prosperous economy as well as providing much needed housing to support sustainable communities.

In order to better understand and articulate this value and what it means in practical terms, the Home Builders Federation ('HBF') commissioned Nathaniel Lichfield & Partners ('NLP') to assess the economic footprint of the national house building industry and quantify its economic contribution to the national economy.

The study looks at a wide and comprehensive range of economic, social and environmental benefits that day-to-day house building generates in a way that has not been captured before. It uses a number of primary and secondary data sources to measure the industry's national footprint and draws on a survey of some of the UK's largest house builders as well as the latest economic appraisal techniques and benchmarks.

The remainder of the report is structured as follows:

- Section 2 summarises the methodology and approach;
- Section 3 provides an overview of the national house building industry;
- Section 4 considers the wider economic role of house building;
- Section 5 details the national economic footprint of the house building industry across a series of key themes and metrics;
- Section 6 considers the additional scale of economic benefits that could be realised if the delivery of new homes were to increase to meet the level of need identified by the latest demographic projections; and
- Overall conclusions are presented in Section 7.

Although the HBF is focused on England and Wales, many of its members operate in other parts of the UK, and where possible this report presents a UK-wide perspective.

2 MEASURING THE ECONOMIC FOOTPRINT

This report provides an in-depth quantitative and qualitative analysis of the contribution of house building to the UK economy. It quantifies the economic contribution of house building in terms of both direct impacts (through house builders themselves and their contractors) as well as indirect and induced impacts (from other sectors and firms that rely on house building and its supply chains and spending). It also considers some of the 'softer' or wider/non-monetary impacts generated by house building that are typically harder to quantify such as re-use of brownfield land and contributions made towards supporting education, healthcare and leisure facilities in local communities.

Due to the scale and complexity of the house building industry, there is no single source of data that provides comprehensive information about the industry and its day-to-day economic activity and operations. Whilst the larger house builders generally publish a wealth of economic information in the public domain (through for example annual corporate reporting), much less information is available for smaller house builder firms, particularly those trading as private limited companies who are not obliged to publish corporate information.

In light of this challenge and in order to ensure that the outputs from the analysis are as accurate and robust as possible, this study uses a combination of approaches to measure the economic contribution of the national house building industry, broadly following a three stage assessment as set out below.

a. **High Level Literature Review** - a review of recent work undertaken by industry leading organisations exploring the economic contribution of the UK house building industry and the construction sector more generally. Bespoke economic impact assessments commissioned by some of the UK's largest house builders are also reviewed to explore whether there is any consistency across the key economic footprint metrics reported by these assessments. This review establishes the most commonly reported metrics within the industry, as well as key assumptions and benchmarks against which to test subsequent analysis (as presented below).

b. **'Top-down' Assessment** - estimating the economic contribution of the UK house building industry through a 'top down' assessment using published Government accounts data and surveys. Although this approach ensures that the industry as a whole is captured, it is less useful in disaggregating official economic data associated with residential-only building (as opposed to all sub-sectors of the construction industry).

c. **'Bottom-up' Assessment** of the UK house building industry's economic footprint by collecting a series of primary company data from a sample of house builders, aggregating and extrapolating this up to cover the industry in its entirety. A sample of HBF house builder members were selected from each size tier (i.e. large, medium-sized and small firms) in order to undertake a detailed 'deep dive' analysis of each company's output, financial and monitoring data as far as this information is available and reported in a consistent format.

The outputs from each step have been brought together and synthesised in order to estimate the industry's existing economic footprint across the following broad categories:

a. **Capital Investment and Expenditure Benefits:** this relates to the value of capital investment and expenditure generated by the industry on new land for housing development;

b. **Construction Benefits:** this relates to the impacts of this capital investment on construction employment and associated income generation and economic output during the construction of housing;

c. **Direct Employment Benefits:** the number of people employed directly by UK house builders and their contractors, as well as the levels of economic output generated by such jobs;

d. **Indirect and Induced Employment Benefits:** further jobs supported in the wider economy in house building supply chains and by spending amongst direct and supply chain employees on goods and services;

e. **Resident Expenditure Benefits:** the level of expenditure generated by residents of new housing development;

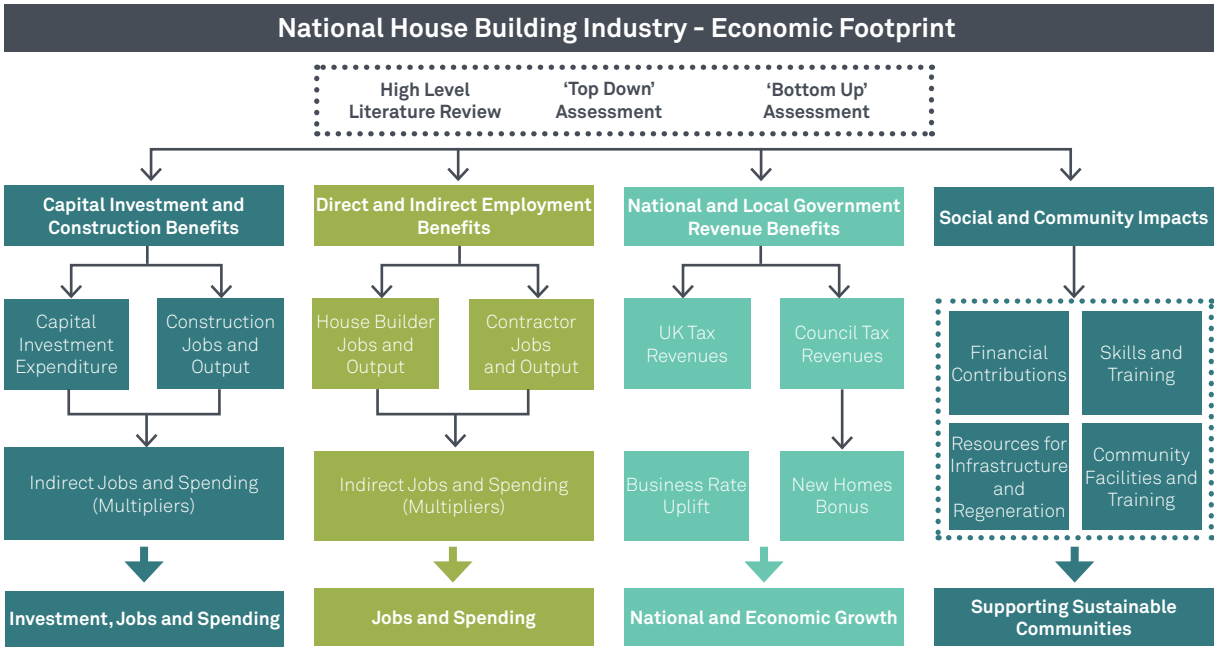
f. **UK Public Finances:** contribution to UK plc through tax revenues generated by house builders and their supply chain;

g. **Local Authority Revenue Benefits:** the benefits that house building development brings in terms of local authority financial receipts from New Homes Bonus and Council Tax;

h. **Local Community Benefits:** financial contributions made by house building to fund new facilities, services and infrastructure for local communities; and

i. **Other 'Softer' Benefits:** this relates to other benefits that tend to be non-monetary such as the re-use of brownfield land, open space preserved and enhanced and sector skills development.

Figure 1: Analytical Framework
Source: NLP



The analytical framework for the study is summarised above.

A glossary for the various terms and definitions is set out at Appendix 1.

It should be noted that, as with any research report of this nature, there are a number of limitations associated with the methodology and therefore outputs are intended to provide a broad 'point-in-time' indication of the house building industry's estimated economic contribution rather than a definitive assessment. It incorporates the latest data and other evidence available at the time of preparation.

The sample survey of house builder firms covers purely private sector enterprises. The results from the survey have been extrapolated to represent the industry as a whole - including the share of the industry accounted for by housing associations/registered providers and local authorities, both of which have an important role to play in delivering new homes each year – although it is recognised that operational models and day-to-day activity is likely to vary across different sub-sectors of the industry. The accuracy of data derived from the 'deep dive' sample survey of house builder firms, as well as other data derived from third party sources, has not been checked or verified by NLP.

Depending upon the output in question, it has not always been possible to draw together and synthesise primary and secondary data from all three approaches or methodologies and in some cases one key source has been used as a proxy to estimate the national economic footprint for that metric.

3 HOUSE BUILDING IN THE UK

The Need for Housing

For decades, housing completions in the UK have not been keeping pace with estimates of housing need and demand. In 2004, the Barker Review of Housing Supply[1] found that to increase affordability by freezing the real time increase in house prices would require an additional 240,000 homes per annum across the UK. Figure 2 shows that this level of growth was not matched by completions in any of the last ten years. In total, since 1980 housing completions in the UK have averaged just 192,000 per annum, and in 2013-14 the figure was just under 141,000.

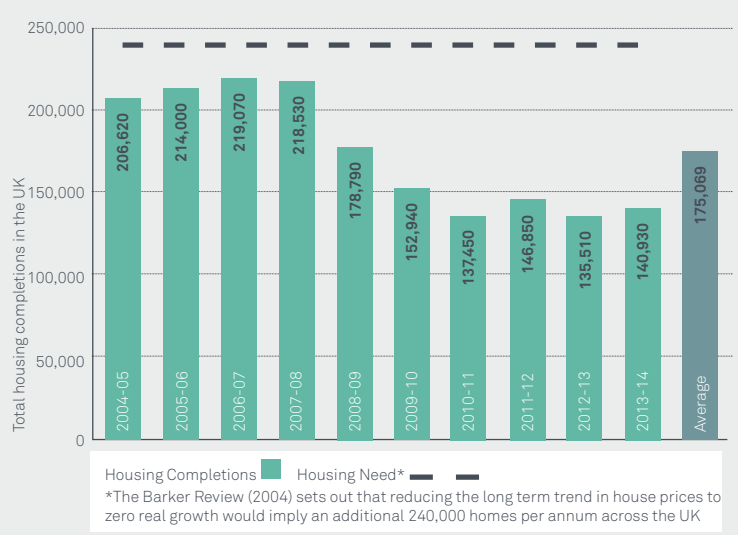


Figure 2: Housing completions 2004/05 to 2013/14 compared with housing growth to reduce the long-term trend in house prices to zero real growth
Source: CLG Live Table 209 and K.Barker (2004) Review of Housing Supply

The problems faced with regards to lack of housing supply are stark; the UK has not built enough new homes for more than a generation and the impact of the most recent recession has compounded this issue. One of the biggest impacts of a lack of housing supply is affordability; a knock on effect of this is that the quantity of concealed households is growing. To illustrate, ONS Data (2013)[2] shows that over 3.3 million adults in the UK aged between 20 and 34 were living with a parent (26% of this age group compared to 21% in 1996).

The latest English Housing Survey[3] found that in 2013-14 almost half (48%) of all households aged 25-34 rented privately, up from 45% in 2012-13. The proportion in this age group living in the private rented sector has more than doubled from 21% in 2003-04. Over the same 10 years, owner occupation in this age group dropped from 59% to 36%. Private tenants now spend 40% of their income on housing costs, compared to 20% of homeowners. The social consequences of a generation not being able to realise their housing aspirations are stark and, without an increase in supply, will only worsen.

The House Building Industry

The supply of housing is delivered via a large number of different organisations. Government data indicates that there are around 30,460 individual enterprises involved in the construction of domestic buildings across the country[4] generating in excess of £46 billion of turnover per annum. The HBF estimates c.3,000 house building firms, so the larger figure includes organisations in the supply chain as well as companies involved in repairs and maintenance.

So-called house builders represent just one part of the industry, and are not responsible for the entire value chain. Figure 3 below provides a summary illustration of some of the types of organisation that make up the supply of new housing and an indicative description of their role[5].

	Finance	Land	Planning and Design	Construction	Materials	Sales	Rent	Management
Financial Institutions	●	●						
Land Agents / Promoters		●	●					●
House Builders	●	●	●	●		●		
Professional Services Organisations			●	●		●		●
Contractors				●				
Suppliers					●			
Housing Associations / Registered Providers / LAs	●	●		●		●	●	●
Management Companies							●	●

Figure 3: Components of the supply of new housing
Source: NLP analysis

Much commentary on the residential development industry (and indeed the analysis in this report) focuses on house builders, and it is these organisations that are generally the nexus of most housing output – responsible either directly or indirectly for the construction and disposal of new homes (through sale to private customers or to housing associations/registered providers). However their economic footprint (and indeed many of the factors driving their effectiveness) is shaped by other types of organisations. For example, a significant proportion of land is actually controlled and promoted through the planning system by land agents / developers who do not themselves build or sell houses[6]. Many house builders sub-contract some or all construction work to contractors, and procure materials from a range of individual suppliers.

In terms of the organisations responsible for building homes and the contribution by scale of output, Figure 4 provides an estimated breakdown, by size and type of house builder, of the responsibility for construction of new homes. This is drawn from a synthesis of data on Government housing completions combined with evidence compiled by the HBF and National House Building Council (NHBC)[7].

The analysis highlights that the industry comprises a range of different types of organisation – from large-scale national volume house builders, through to medium size and regional companies, as well a local builders, housing associations/registered providers and local authorities.

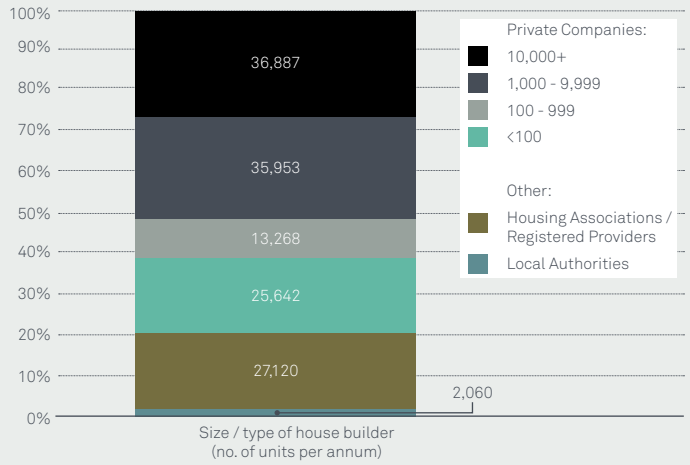


Figure 4: Responsibility for UK Housing Supply by Size (no. of units) and Type of House Builder
Source: CLG Live Table 209 / Housing Market Intelligence Report 2014 / NLP analysis

The NHBC notes that since 1988, the number of developers building up to 100 homes per year has fallen by 78%[8]. An industry characterised by a more diverse range of house builders is considered by many commentators to be crucial in order to increase the range of products on offer to homebuyers, help to insulate the market from external shocks and boost overall industry capacity. A 2013 Shelter Report[9] notes that a lack of diversity will hamper the step change increase in house building the UK requires. In practice, achieving this step change will mean all sectors of the industry (from the smallest to largest) being able to increase their supply, alongside encouraging new organisations to enter the market.

4 THE ECONOMIC BENEFITS OF HOUSE BUILDING

New school funded by house building section 106 agreement

Housing is inextricably linked to the wider health of the economy and is often referred to as a key barometer of national economic performance. Its relationship with the wider economy can be characterised in three main ways; through the impact of activity in the housing (and wider construction) sector, through the way in which housing wealth affects consumption behaviour, and supporting the economic competitiveness of places.

The threat that a shortage of housing poses to the country's future economic success and stability is considerable, as noted by the Barker Review of Housing Supply. Whilst the focus of this report is on the national economic footprint of the house building industry, it is important to recognise that it also has a range of significant effects on economic performance at the regional, sub-regional and local level.

Housing as a Driver of Economic Growth

At the national level, Government is clear on the economic importance of the house building industry and the role it can play in helping to stimulate economic growth and increase the pace of recovery[10]. In the recovery phase after recession, house building was seen in national policy as having a key role in leading the economy back towards growth and looking ahead is important in improving the long term competitiveness of the UK economy.

A defining feature of the house building industry is its significant and complex network of supply chains and contracting relationships, bringing together a vast array of trades, specialists and skills, from large manufacturers right through to sole traders. The breadth and depth of these supply chains means that the domestic spin-off benefits from house building activity are far greater than for many other economic sectors. Furthermore, the vast majority of goods and services used in the building of new homes originate from the UK itself, relying very little on imports and ensuring that the benefits of development are maximised within the country. For instance, research from 2009 showed the construction sector imported less than 8% of its supplies, while the UK car manufacturing sector imported nearly 28%[11].

Delivering 'Real' Jobs and Economic Value

The house building industry is a major source of national employment and economic growth (as is demonstrated in section 5 of this report). Housing construction supports more jobs, compared with equivalent investment in many other sectors of the economy, because it supports a large amount of related activity such as concrete production, and glass and brick manufacturing.

It is sometimes claimed that house building does not generate 'real' jobs and economic value, perhaps because – at an individual site level – employment and output is perceived as relatively transient. Nevertheless, the industry does support real, permanent employment opportunities (Barratt alone directly employs 5,700 staff) – jobs are transferred from site to site as new housing is delivered and not tied to a permanent position at one specific location.

The house building industry (and construction industry more widely) also provides a crucial labour market entry point for young, lower skilled workers and those moving out of unemployment, and supports significant numbers of Apprenticeships each year[12].

There are also significant parts of the country's economy and employment base that benefit more indirectly from house building and the value of consumption and spending generated by residents of new homes. As new residents spend money on goods and services in the local economy, this can have a positive impact on other sectors of the economy such as retail and leisure which depend upon consumer spending to sustain and grow[13] and generate local employment opportunities.

Supporting Labour Market Mobility and Wellbeing

Housing can have a positive impact on the national economy through its relationship with labour market mobility. A healthy, well-functioning labour market requires a good supply of housing that is affordable for local people to enable them to move jobs freely and match up skills supply with employer demand[14], supporting their ability to achieve their economic potential. Whilst the relationship between labour market flexibility and housing is a complex one, in general terms a dysfunctional housing market (and shortage of housing in the right place, of the right type) can inhibit labour market mobility (particularly for lower and intermediate level skills) and in turn stifle economic growth at a national level[15]. This has place-competitiveness impacts, summarised later in this section.

Housing supply issues can also have a fundamental impact on the quality of life of individuals and households (including educational attainment[16] and health[17]).

Enhancing Place Competitiveness and Local Economic Development

Another indirect effect that housing can have upon the economy is through its longer-term impact on the perceived competitiveness of specific locations[18] and the costs of mitigating the social and environmental problems associated with poor or insufficient housing[19]. A well-functioning housing market is considered important for an area to remain competitive and attractive to business and economic activity, which in turn will drive the economic growth the country needs.

Although there is a lack of firm quantitative evidence on the direct role of housing quality and supply on place competitiveness - due to the complexity of the impact of quality of life (of which housing plays one part) at different spatial scales - some ongoing research for the Homes and Communities Agency suggests that housing quality (as proxied by various measures) is a significant explanatory variable associated with levels of worklessness and Gross Value Added per employee at a local level[20].

As highlighted above, in areas of high economic growth and high labour demand it is crucial that the supply of workers is not inhibited by a constrained supply or availability of housing. The problem of housing affordability has the potential to have a negative impact on the ability of certain key competitive locations that provide unique productivity opportunities to the UK (such as Cambridge) to remain competitive. Recent research by London First[21] found that 73% of businesses think London's housing supply and costs are a significant risk to the capital's economic growth – in the context that London contributes around a quarter of UK Gross Domestic Product (GDP), that is a consideration of national significance.

New housing along with other development, can also help support investment in local infrastructure, including transport, public realm, and social and community facilities. Similarly, delivery of new housing plays a critical role in bringing forward, and making viable, sites for economic and commercial development, thereby creating new jobs and economic growth. The cross-subsidy offered by residential development remains critically important to the future delivery of new jobs across the country, particularly in more marginal areas away from key commercial centres where viability is more of an issue.

5 THE INDUSTRY'S ECONOMIC FOOTPRINT

House building makes a direct contribution to the UK's GDP through the economic output or Gross Value Added (GVA) that it produces. The industry supports a significant scale of employment and contributes to UK public finances through the tax revenues that it generates.

Looking more broadly, house building activity has an important role to play in stimulating further demand and economic activity through its extensive supply chains and networks, which in turn generates additional output, employment, spending and tax contributions.

This section draws together a number of data sources in order to quantify and present the range of economic benefits and impacts that house building generates for the national economy. Impacts are generally presented for the UK as a whole, although where this is not available this is clarified where relevant.

Capital Investment and Expenditure

The value of capital investment and expenditure generated by the industry on acquiring new land for housing development is significant. House builders are constantly investing in new land and sites in order to build their development pipeline and this expenditure can be reinvested into the UK economy.

Based on our sample survey of house builder firms it is possible to estimate that across the UK, annual capital investment and expenditure on new land for housing development amounts to nearly £11 billion. Theoretically this land has the potential to yield a significant supply of new homes. However, some of this land is associated with a strategic or longer term development pipeline, and does not currently benefit from any planning status, and indeed due to planning uncertainty, may well not be successful in securing allocations in local plans or planning permission. Based on our survey, the estimate is that house builders invested in land with equivalent capacity of 325,000 homes to feed their short term pipelines and on sites that are therefore anticipated to be developed in the coming years alongside those homes on sites acquired in previous years. How quickly these will come forward will largely depend on the time it takes for them to negotiate the planning process.

In addition, it is estimated that the house building industry generates over £1.5 billion of net capital expenditure[22] per year on acquiring or upgrading physical assets such as property, industrial buildings or equipment to support day-to-day commercial operations.

Economic Output

House building has an important role to play in generating economic output within the construction industry. As shown in Table 1 to the right, the construction sector as a whole generated £15.4 billion of economic output (as measured by construction sector orders) in Quarter 3 of 2014. Nearly a third of this (£4.8bn or 31%) was generated by private and public sector house building.

Extrapolated across the full calendar year 2014[23], this implies that private and public sector house building contributes £19.2 billion of economic output each year to the UK economy, although this may be affected by seasonal factors. This includes house builders themselves as well as their contractors and suppliers, but excludes induced economic output.

Type of work	Output (£ billions)	% of total
Private sector	**11.4**	**74%**
Housing	4.4	28%
Infrastructure	1.4	9%
Industrial	0.7	4%
Commercial	5.0	33%
Public Sector	**4.0**	**26%**
Housing	0.4	2%
Infrastructure	1.2	8%
Other	2.4	15%
Total	**15.4**	**100%**

Table 1: Value of construction output by type of work (Q3 2014)
Source: House of Commons, (2014), The construction industry: statistics and policy

It is also possible to estimate how much GVA (a measure of economic output) the house building industry directly generates using data from the Annual Business Survey. Across the UK as a whole, house building[24] was reported to generate £13.7 billion[25], but this figure will exclude some supply chain and induced impacts.

It is recognised that the industry has a large number of dependencies resulting from a substantial supply chain, and that it is important for the role it plays in underpinning and enabling growth in other sectors[26]. As a result, the house building industry specifically– including building and maintenance and repairs – is estimated to account for around 3 per cent of the UK's total GDP[27]. Analysis by Savills estimated that for every 50,000 new homes built, approximately 0.5% is added to national GDP[28].

The supply chain impacts of the house building sector supports significant levels of wealth generation. A number of recent studies have sought to quantify the scale of multiplier effect that direct economic output in house building has upon the wider supply chain, on both a national and individual house builder basis. An economic study conducted by L.E.K. Consulting indicates that every £1 spent on construction output generates a total of £2.84 in total economic output (i.e. GDP increase)[29]. Meanwhile, a recent assessment of Barratt Developments' socio-economic impact[30] estimates that a £1m investment in house building will generate £2.41m in the UK economy in total: representing a GVA multiplier effect 2.41. This analysis draws upon a Centre for Economics and Business Research (CEBR) report for National Housing Federation[31] (NHF) and GVA per worker averages produced by Experian.

Employment

House building plays a significant role in creating and supporting employment across the country. This includes people directly employed by house building firms and their contractors, as well as employees supported in the wider supply chain (i.e. in firms that supply house builders with goods and services) and in the wider economy through the spending power of house builder, contractor and supply chain firm employees.

Direct Employment

Whilst there is no agreed figure regarding the size of the house building sector in terms of direct employment, official Government data collated as part of the Business Register and Employment Survey (BRES) provides an estimate of the number of people directly employed in the construction of domestic buildings; in 2013, this equated to 230,800[32] . A very similar figure is identified by the Annual Business Survey which recorded a total of 233,300[33] people employed within the construction of domestic buildings in 2013. This is equivalent to just under 18% of total employment within the UK construction sector in 2013.

This includes employees directly employed by house builder firms and organisations as well as firms contracted to deliver new homes on behalf of the country's house builders. It should be noted that direct employment of trade labour by house builders is low, with only 15% of the workforce estimated to be employed directly.[34] The construction industry as a whole (as well as house building more specifically) relies on a high degree of sub-contracting to specialist firms to carry out the bulk of housing construction on a site-by-site basis.

Based on our sample survey of house builder firms it is possible to estimate that across the UK as a whole, house builder firms and organisations directly employ nearly 71,000 people. Our survey results would suggest the number of personnel on site (including both direct employees and sub-contractors) is equivalent to 939,000 over the course of a year, although this figure is not a Full Time Equivalent figure and indeed is likely to include some double-counting, reflecting multiple contracts and sites.

A number of recent studies have sought to quantify the number of direct jobs created by house building activity across the UK. For example, Professor Michael Ball's report on behalf of the HBF and Construction Skills (2005) found that volume builders (> 500 units p.a.) created around 1.2 direct full time jobs per dwelling, compared to an industry average of 1.5 full time jobs[35].

Indirect and Induced Employment

In addition to direct and on-site employment, it is widely recognised that the house building industry has a large supply chain, and this was reflected by our survey of firms which identified a larger number of suppliers – albeit many of whom will supply more than one house builder. Annual expenditure on suppliers (i.e. providing goods, services and materials) across the UK house building industry is estimated to total £5.5 billion, based on our sample survey of house builder firms. Much of this supplier spending is retained within the UK; for example, it is estimated that for every £1 spent in construction at least 90% stays in the UK[36].

Recent studies have identified a range of multipliers to calculate the extent of the sector's supply chain in employment terms, as summarised below:

a. The work by Professor Ball estimated that for every 50,000 homes built, approximately 75,000 direct jobs and 50,000 indirect jobs are supported[37], indicating that every 1 direct job supports 0.5 indirect jobs in the supply chain;

b. Ernst & Young's Economic Impact Assessment for the Berkeley Group identifies a supply chain multiplier in construction of 1.53, i.e. 1 construction job supports 0.53 jobs elsewhere in the supply chain[38]; and

c. The CEBR report for the NHF 2013 identifies a supply chain multiplier of 1.78, i.e. 1 construction job supports 0.78 jobs elsewhere in the supply chain.[39]

When also taking into account induced employment effects – i.e. employment supported by the wage spending of construction and supply chain workers in shops, services and other businesses throughout the UK economy - a range of higher 'combined' employment multiplier figures can be identified by recent studies:

a. CEBR's report for the NHF identifies a multiplier of 2.51. This indicates that for every 1 construction job, 1.51 indirect and induced jobs are created elsewhere in the supply chain and wider UK economy[40];

b. Drawing upon company specific data, Ernst & Young's assessment of Berkeley's Economic Impact identifies a multiplier of 2.53, indicating that for every 1 construction job created by Berkeley, 1.53 jobs are created elsewhere; and

c. Barratt Developments' 2014 Socio-Economic Footprint identifies a multiplier of 2.6[41], indicating that for every 1 direct job created, 1.6 jobs are created elsewhere.

Employment Summary

In overall terms, the national house building industry is estimated to support up to 606,580 people across a range of organisations, operations and occupations. As summarised in Table 2 on the right, just over a third (38% or 233,300) of these employees are directly employed by house building firms and organisations and their subcontractors. The remaining 373,280[42] is relatively evenly split between indirect employees (i.e. those working within the house building supply chain) and other employees working across the wider economy, for example providing goods and services to house builder, subcontractor and supplier employees.

	Total
Direct employment supported (i.e. by house builders and their subcontractors)	**233,300**
Indirect employment supported (i.e. in the house building supply chain)	**116,650 – 181,970**
Induced employment supported (i.e. in the wider economy)	**235,630 – 191,310**
Total employment supported (direct, indirect and induced)	**585,580 – 606,580**

Table 2: Summary of House Building Employment
Source: NLP analysis (based on the range of sources and employment multipliers outlined above)

This scale of employment supported by house building is equivalent to between 4.2 and 4.3 direct, indirect and induced jobs per dwelling built[43].

UK Public Finances

The house building industry also makes a significant contribution to UK plc through tax revenues generated by house builders and their supply chains.

Stamp Duty Land Tax (SDLT) is charged on all purchases of houses, flats and other land and property in the UK over a certain price and generates over £9.3bn per year for the exchequer[44]. House builders alone are estimated through our survey sample to generate £355 million of Stamp Duty Land Tax per year through sales of new build homes, and this figure seems likely to be an underestimate given the sector's share of the market.

Corporation tax is levied on profit generated by house builders and provides a direct revenue stream for UK plc. Based on our sample survey, it is estimated that house builders incur nearly £359 million of corporation tax each year, of which £102 million was 'paid' in the most recent year[45], reflecting the fact that, in accounting terms, the majority of house builders were, in the survey year, still incurring losses associated with the recent recession and downturn in activity.

House builder firms also make a significant contribution to HMRC revenues through employee related National Insurance and Pay As You Earn (PAYE) contributions, which are estimated to total over £807 million per year. This figure excludes tax paid by employees in contractors and the supply chain.

The industry also contributes to the Exchequer through a range of other taxes such as landfill tax, business rates and non-recoverable Value Added Tax (VAT).

More broadly, analysis undertaken by KPMG and Shelter estimates that for every £1 spent on housing construction, 56p returns to the exchequer of which 36p is direct savings in tax and benefits[46].

Local Authority Fiscal Benefits

The house building industry also delivers economic benefits for local authorities through financial receipts generated in the form of New Homes Bonus (NHB) payments and ongoing Council Tax. At a time when finances are constrained through the Government's public sector austerity measures, this additional revenue represents a significant source of income for local authorities.

In 2010, the Coalition Government introduced an incentive-based scheme to support delivery of new housing. The NHB matches for a six year period the increase in Council Tax income from new homes, or homes brought back into use. Payments are not ring-fenced and therefore allow local authorities to use Bonus payments in the most beneficial way to support their needs. A premium is payable on affordable housing units. In the financial year 2014-15, NHB allocations to local authorities across England amounted to £917 million[47], bringing total allocations up to £2.2bn over the 4 years between 2011 and 2015. There is, however, a redistributive effect associated with NHB, linked to its design, which means that authorities who are rewarded for housing output in their areas do so at the expense of other locations.

Ongoing Council Tax generates £23.4bn[48] each year for local authorities across England. It is estimated that residents of the 140,930 additional homes built across the UK in 2013/14 alone contributed just under £180 million of Council Tax receipts.

Local Community Benefits

In addition to delivering much needed housing and supporting employment across a range of sectors of the economy, house building also provides a wide range of other economic benefits for local communities through financial and other contributions made through the planning system.

Section 106 and CIL Contributions

Section 106 of the Town and Country Planning Act 1990 (amended) provides a tool for securing investment in essential infrastructure arising from the impacts of development and this contribution can be used by local authorities to fund new services and infrastructure in the local area. Key examples include education, healthcare and leisure facilities, transport and highway improvements and the provision of public open, play and amenity space.

Based on our sample survey of house builder firms it is possible to estimate that across the UK, over £576 million of s.106 contributions are made each year towards funding these facilities and services. The majority of this funding relates to financial contributions made to the local authority, with the remaining associated with works undertaken directly by house builders to construct and/or implement the facilities themselves. S.106 contributions most commonly relate to education provision (i.e. school places), although significant financial contributions are also made through house building activity towards funding public open space, community facilities and improvements to public transport and highways (Table 3). Due to the challenges experienced by some respondents in collecting comprehensive data on s.106 agreement obligations, it is considered that this figure is likely to be a conservative estimate.

The Community Infrastructure Levy (CIL) was introduced by Government in 2012 to allow local authorities in England and Wales to raise funds from developers undertaking new building projects in their area. The income can be used to fund a wide range of infrastructure including road improvements, flood defences, schools, hospitals, park improvements, green spaces and leisure centres. The CIL is levied separately to s.106

contributions. Based on the sample survey of house builder firms, it is estimated that the industry generates over £33 million of CIL contributions each year to support local community infrastructure. This relatively modest amount reflects that, at the time of writing, just 70 local authorities are recorded as having adopted Charging Schedules, many of them having done so late in 2014, thus unlikely to have been reflected in the figures[49]. This figure will increase significantly in future years as more local authorities adopt CIL charging schedules.

Type of Facility	Annual s.106 Contributions
Education facilities	£225.3m
Public open space	£72.6m
Youth and community facilities	£40.2m
Sport and leisure facilities	£18.2m
Healthcare facilities	£5.9m
Other contributions (including public transport, highways and public art)	£213.8m
Total	**£576m**

Table 3: S.106 Contributions by Type
Source: HBF/NLP House Builder Survey 2015

Affordable Housing

House building also has an important role to play in supporting mixed and sustainable communities by providing affordable housing as part of residential schemes to help meet the housing needs of local people. Affordable housing is defined as social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the wider market. It must remain at an affordable price for existing and future eligible households.

A total of 42,710 affordable homes were delivered in England in 2013-14[50], representing approximately 38% of all residential dwelling completions. The majority (73%) of these homes were delivered in the social rented sector with the remaining 27% being made available for affordable home ownership (so called 'intermediate' affordable housing).

These affordable homes were delivered through a combination of private sector house builders, registered providers of social housing and local authorities. Based on our sample survey of house builder firms, it is possible to estimate the value of affordable housing sales (associated with private enterprise house builders) at £1.9 billion per year across the UK, representing a total discount to market value (in effect, a subsidy) of around £1.2 billion or 38% on average. This represents £3.1bn of affordable housing.

Whilst the latest official published Government data on affordable housing contributions is a little out of date, it was estimated that in 2011-12, approximately 32,000 affordable homes were agreed through section 106 agreements, with a total value of £2.3 billion[51]. A further £1 billion was paid in direct contributions towards affordable housing. Delivery of this would be extended over more than one year.

Resident Expenditure

New housing development also offers an opportunity to increase local expenditure as residents spend their money on goods and services in the local area. It is estimated that residents of the 140,930 additional homes built across the UK in 2013/14 generated £3.8 billion[52] of spending over the course of the year[53] and a further £705 million of one-off spending on furnishing and decorating a property to make their new house 'feel like home'. This latter figure (based on a notional £5,000 per dwelling[54]) could be an under-estimate: a recent survey of residents living in a new development by Barratt in Middlesbrough found average 'first occupation' spending was around £10,000 per dwelling. This additional expenditure in turn supports a range of retail and leisure jobs in local service sectors, helping to maintain the vitality of local economies across the country.

Wider Benefits

Whilst traditional economic impact assessments of house building have tended to focus upon monetary benefits, it is important to recognise that the industry and its activity also has an important role to play in generating more qualitative, wider benefits that are often harder to quantify or assign a monetary value to. The extent to which these wider metrics are monitored or recorded varies significantly across the house building industry, although these wider metrics are being increasingly recognised as a valuable way of capturing and measuring the industry's contribution in wider socio-economic and environmental terms. Some of these are covered below.

Re-use of Brownfield Land

The Government recognises that brownfield land (i.e. land that has been previously developed) suitable for housing has a vital role to play in meeting the country's need for new homes while protecting the countryside[55]. This is particularly important in those areas of the country that face the challenge of a constrained supply of land for development, and for this reason the Government wants to maximise the number of new homes built on suitable brownfield land. For example, it has put in places measures to make it easier to build on brownfield sites by creating 30 Housing Zones on brownfield sites across the country which will benefit from Government funding and simplified planning policies.

Analysis of land use change undertaken by the HBF shows that between 2008 and 2011, 72% of all new homes built were on Brownfield land[56] and this proportion has been increasing over the last few years. At a notional density of 40-55 dwellings per hectare, every 100,000 homes built would regenerate between 1,818 and 2,500 hectares of brownfield land.

Sector Skills and Employability

The house building industry (alongside the construction industry more widely) provides a crucial labour market entry point for lower skilled workers and young people entering the labour market for this first time. The industry offers a range of opportunities across different trades and skill sets from bricklaying and carpentry through to plumbing and maintenance.

According to official Government data, there were 16,000 Apprenticeship starts within the Construction, Planning and the Built Environment broad sector in 2013/14[57], and this figure has been increasing over the last few years.

Our sample survey of house builder firms provides an estimate of the number of Apprentices, Graduates and Trainees that are directly supported by the industry (i.e. in-house through house builder firms and organisations themselves). Across the industry and UK as a whole, this is equivalent to over 3,700 Apprentices, nearly 400 graduates and 500 other trainees. The actual figure is likely to be significantly higher as many more will be employed by contractors and suppliers.

It is possible to point to a number of specific examples of house builders pro-actively increasing the numbers of jobs and apprenticeships they offer, including[58].

a. Barratt Developments, who are expanding their recruitment programme over the next three years for graduates, apprentices and trainees to 1,100 – in addition to 600 apprentices recruited over this and last year;

b. Taylor Wimpey, who have doubled their intake across entry level trainee programmes in the last year, including trade and site apprenticeships, management trainees and graduates and plan to continue to expand these over the next three years;

c. Crest Nicholson, who each year add up to 60 new apprentices onto their payroll;

d. Persimmon, which has a dedicated team to help former soldiers start a new career in construction; and

e. Redrow, who have plans to start a new National Veterans' Training Initiative.

Quality of Place

Provision of green and open space is recognised by the Government as a key element that contributes to quality of place. High quality green infrastructure and open spaces can have a significant impact on economic vitality as locations are increasingly competing with one another to attract investment. The analysis of s.106 agreement contributions estimated that house builders have invested £72.6m into open space through planning obligations, although this figure will not include landscape space provided within schemes separate to what is required via a legal agreement. It also excludes private gardens: Barratt told us they created 260 hectares of private gardens in 2014 – if this was extrapolated for the whole industry, this would mean almost 2,500 hectares of private green space.

Open spaces provided within housing developments generate opportunities for local residents to undertake recreational activities, contributing to improved physical health, fitness, mental health and wellbeing. A high quality environment also provides opportunities for social interaction between people of different communities, fostering social inclusion and community development.

Based on our sample survey, it is estimated that 6.5 million trees and shrubs are planted or retained on housing developments each year, thereby making a significant contribution to public realm and environmental amenity within local communities across the country. This is equivalent to around 45 trees and shrubs per dwelling completed.

Waste Recycling

Given the scale of development associated with house building across the country each year, it is crucial that steps are undertaken to minimise any negative impact of development upon the environment and surrounding communities.

Whilst policy and legislation represent a key driver behind construction waste recycling and re-use in the UK, the financial benefits of recycling can also be significant. All of the house builder firms responding to our survey cited that at least 80% of their construction waste is recycled, while over half (55%) recycled more than 90% of construction waste generated by residential development.

6 THE ECONOMIC BENEFITS OF INCREASING SUPPLY

As set out in section 3, the UK has, for decades, been providing far fewer new homes than it requires. It is broadly accepted that at least an additional 240,000 homes are required each year across the country in order to meet demand and maintain existing levels of affordability. This figure was identified back in 2004 by the Barker Review and remains broadly applicable in light of the most recent household projections[59]. Last year housing completions across the UK totalled 140,930[60]; annual delivery is therefore falling short of the target by approximately 100,000 new homes.

The analysis presented in the previous section shows that the national house building industry already generates significant economic benefits to the UK economy; however the scale of benefits and value that can be achieved is being constrained by under delivery. Table 4 indicates that if housing supply were to increase by around 100,000 per year across the country (i.e. in order to match need), the benefits could be substantial.

In other words, these are the additional economic benefits that could be achieved each year across the UK if the supply of housing was to increase to meet the identified level of need.

UK Public Finance and Local Authority revenue flows from a combination of taxes, levies and bonus payments which are clearly not all guaranteed and are subject to changing legislative arrangements or shifts in future policy. Whilst there are likely to be significant calls upon that income for delivery of necessary infrastructure, it is a measure of the potential scale of development across the country that the additional development-related income (to help support public services and infrastructure delivery) is substantial.

All figures are based on current estimates/levels which are likely to increase in scale/value in future years as a result of productivity. Commensurate to a strategic high level study, assessments have been based on conservative assumptions of economic benefit per new dwelling, taxes levied and resident spending profiles based on current averages. On this basis, the additional economic benefits that could be achieved in the future if house building were to increase in scale and volume are therefore likely to be even greater than illustrated here.

Type of Economic Benefit		Annual Economic Footprint		
		Current Delivery[61]	Potential Uplift[62]	Total Potential Footprint[63]
Net Capital Expenditure	Acquiring or upgrading physical assets to support day-to-day operations	£1.5bn	+£1.1bn	£2,6bn
Economic Output	Builders, their contractors and suppliers	£19.2bn	+£13.6bn	£32,8bn
Employment	Direct	233,300	+165,500	398,800
	Indirect	181,970	+129,100	311,100
	Induced	191,310	+135,700	327,000
	Total	606,580	+430,400	1,037,000
UK Public Finance Revenue	Stamp Duty Land Tax Receipts	£355m	+£252m	£607m
	Corporation Tax Incurred	£359m	+£255m	£614m
	NI and PAYE Contributions	£807m	+£573m	£1.38bn
Local Authority Revenue	New Homes Bonus payments[64]	£917m	+£651m	£1,57bn
	Council Tax Receipts	£180m	+£128m	£308m
Local Community Benefits	S.106 Contributions	£576m	+£409m	£985m
	Community Infrastructure Levy Payments	£33m	+£23m	£56m
	New Resident Expenditure	£4.5bn	+£3.2bn	£7.7bn

Table 4: Economic benefits of increasing housing supply (by 100,000 units per year)
Source: Summary of Economic Footprint Analysis presented in section 5 / NLP

In reality, achieving this step change in housing delivery will mean that all sectors of the industry (from the smallest to the largest house builders) will have to increase their scale of activity and dwelling completions, but will also provide the opportunities for new organisations to enter the market. As noted earlier, an industry characterised by a more diverse range of house builders is considered by many commentators to be crucial in order to increase the range of products on offer to homebuyers. Whilst realising this outcome will necessitate a fundamental shift in the composition of the current house building industry and the way that it operates, the analysis shown above indicates that the scale of economic value to be gained from this shift is considerable.

Based on the geographical split inferred by the household projections[65], the majority of these additional economic benefits are expected to be generated in England, equivalent to an additional 375,000 jobs (direct, indirect and induced), £11.9 billion of economic output, just under £1 billion in tax revenues to UK plc, nearly £356 million of s.106 contributions to fund local community facilities and nearly £2.8 billion of additional resident spending each year. Within England, London and the South East are expected to account for the majority of new housing supply (accounting for nearly 43% of the England total between them) and therefore uplift in economic benefits over and above the current position.

7 SUMMARY AND CONCLUSIONS

Over recent years, much of the debate over the economic benefit of new housing has focused on the undoubtedly important structural benefits to the nation of securing a better balance of supply and demand for homes, particularly in terms of matching homes with jobs and ameliorating the pressures on house price affordability. This research reviewed as part of the preparation of this report highlights the significant relationship between new housing and national economic competitiveness:

a. housing as a driver of UK economic growth

b. delivering 'real' jobs and economic value

c. supporting labour market mobility and wellbeing

d. enhancing place competitiveness and local economic development.

More recently, the Government's Housing Strategy identified that *"housing is inextricably linked to the wider health of the economy... [and] getting house building moving again is crucial for economic growth"*. The NPPF re-states the economic imperative behind the planning system and the need to increase housing supply.

This research takes the debate one step further by providing an assessment of the current economic footprint of the house building industry. Based on a mixture of literature review, analysis of published statistics, and a survey of house building companies, this report has identified some headline conclusions on the economic value of the c.140,000 new homes that were built across the UK last year:

1. Annual capital investment and expenditure on new land for housing development amounts to nearly £11 bn.
2. £1.5 bn of net capital expenditure per year on acquiring or upgrading physical assets such as property, industrial buildings or equipment.
3. Official figures show that house building generated £13.7 bn of economic output last year, whilst extrapolating the most recent quarter of construction sector orders (including builders and their suppliers) suggests economic output by the industry of £19.2bn.
4. The number of people directly employed in the industry is just over 233,000, equivalent to just under 18% of total employment within the UK construction sector.
5. Annual expenditure on suppliers (i.e. providing goods, services and materials) of £5.5 bn, of which 90% is likely to stay in the UK.
6. Taking into account the supply chain and induced effects up to 606,580 jobs across a range of organisation, operations and occupations. This is equivalent to 4.3 jobs per new dwelling.
7. Significant fiscal benefits, notably £355m of Stamp Duty Land Tax, £102 million of Corporation tax paid (the amount incurred is £359m), and National Insurance and PAYE contributions, of over £807m per year. Residents of the 140,930 new homes built in 2013/14 alone will have contributed just under £180m of Council Tax receipts.
8. Over £576m of s.106 contributions are made each year towards funding facilities and services, notably education facilities (£225m), public open space (£72.6m), community facilities (£40m) and sport and leisure (£18.2m), with the remainder (£220m) on important areas such as transportation, health and public art.
9. Around 38% of all new homes built in the UK are classified as 'affordable housing'. House building firms built about £3.1bn of affordable homes last year, with a discount to market value (in effect, a subsidy) of around £1.2bn.
10. The combined s.106, CIL and 'subsidy' for affordable housing equates to around £1.8bn.
11. It is estimated that residents of new homes built last year generated £3.8bn of spending in shops and services over the course of the year and a further £705m of one-off spending to make their new house 'feel like home'.
12. The vast majority of new homes are built on brownfield land. At a notional density of 40-55 dwellings per hectare, every 100,000 homes built would regenerate 1,818-2,500 hectares of brownfield land.
13. The industry provided opportunities to over 3,700 apprentices, nearly 400 graduates and 500 other trainees each year, with many more in contractors and suppliers.
14. House builders planted or retained 6.5m trees and shrubs on housing developments, equivalent to around 45 trees and shrubs per dwelling completed.
15. House builders recycle at least 80% of their construction waste while over half (55%) recycled more than 90% of construction waste generated by residential development.

The need to increase the supply of housing is very high on the agenda for most policy makers, given the scale of the housing crisis that effects many parts of the UK. How to deliver increased amounts of house building is likely to feature in the political manifestos of most parties in the forthcoming general election. Analysis in this report shows that if UK house building output does increase by 100,000 units to achieve the c.240,000 homes requirement (matching the Barker Review and the latest official household projections for the constituent parts of the UK) there will be an economic as well as housing dividend:

a. An extra £1.1bn of capital expenditure

b. £13.6bn extra economic output in the UK economy

c. 430,000 extra jobs

d. £1.2bn of increased UK tax revenue (£128m of extra Council Tax to local government)

e. £432m of s.106 and CIL payments for local infrastructure improvements

f. Residents of these extra new homes will spend £3.2bn on goods and services.

These positives are on top of the structural economic benefits that will arise in the UK from having a housing market that meets the needs of its population, improves macro-economic stability, supports its labour market and facilities the competitiveness so vital to the UK's economic prosperity.

For house builders, these national benefits support the industry's contribution to the housing policy debate in different parts of the UK. Recent contributions to the policy debate on the future of planning and housing supply[66] have referred to potential national spatial planning or 'larger than local' strategic planning. It is essential that the economic dimension of house building is properly referenced in those plans.

However, there is also a local dimension. All housing developers are regularly engaged with local planning authorities and communities as part of the planning process. It is important that the economic factors identified in this report are treated as material considerations in the planning balance when Local Plans[67] are formulated and planning applications determined. House builders should give active consideration to how they present the economic case for their proposals to ensure these factors are given appropriate consideration by local planning authorities, alongside other planning matters that are typically considered.

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APPENDIX 1: GLOSSARY

Affordable Housing

Affordable housing is defined as social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.

Brownfield Land

Brownfield land is an area of land or premises that has been previously used, but has subsequently become vacant, derelict or contaminated. Brownfield sites typically require preparatory regenerative work before any new development can go ahead.

Business Rates

Businesses and other non-domestic occupiers of property pay non-domestic rates (known as business rates) to contribute towards the cost of local authority services.

Capital Investment and Expenditure

Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. This includes both capital expenditure (i.e. on-going asset management, upgrade, maintenance and refurbishment work) and capital investment (i.e. in a new building or extension).

Community Infrastructure Levy (CIL)

The Community Infrastructure Levy is a new levy that local authorities in England and Wales can choose to charge on new developments in their area. The charges are set by the local council, based on the size and type of the new development. The money raised from the CIL can be used to support development by funding infrastructure that the council, local community and neighbourhoods want, such as new or safer road schemes, park improvements or a new health centre.

Concealed Households

Concealed households are family units or single adults living within 'host' households.

Corporation Tax

Corporation tax is a corporate tax levied in the United Kingdom on the profits made by companies.

Full Time Equivalent (FTE)

The number of equivalent employees working full-time. One FTE is equivalent to one employee working full-time.

Gross Domestic Product (GDP)

Gross Domestic Product is one of the primary indicators used to gauge the health of a country's economy. It represents the total value of all goods and services produced by a country over a specific time period.

Gross Value Added (GVA)

Gross Value Added is the amount of wealth created by a company, calculated as net sales less the cost of bought-in goods and services. This information can be aggregated up to provide average GVA per employee by sector.

Indirect and Induced

Impacts supported by additional spending effects in an area as contractors/suppliers and workers directly benefiting from an intervention purchase goods and services from local providers.

Multiplier Effects

Further economic activity (jobs, expenditure or income) associated with additional local income, local supplier purchases and longer term effects.

New Homes Bonus

The New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use. The New Homes Bonus is paid each year for 6 years. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. A premium is payable on affordable units.

Pay As You Earn (PAYE)

Pay As You Earn is the system by which an employer deducts income tax from an employee's wages before paying them to the employee and sends the deduction to the Government.

Registered Providers

Registered providers (often known as social landlords) are the bodies that own and manage social housing. They tend to be non-commercial organisations such as local authorities or housing associations.

Section 106 Planning Obligation

Planning obligations are legal contracts made under Section 106 of the 1990 Town and Country Planning Act. They are used to prescribe the nature of development to comply with policy; compensate for loss or damage created by a development; and mitigate a development's impact.

Stamp Duty Land Tax (SDLT)

Stamp Duty Land Tax is charged on all purchases of houses, flats and other land and property in the UK over a certain price.

Town and Country Planning Act 1990

The Town and Country Planning Act 1990 is an act of the United Kingdom Parliament regulating the development of land in England and Wales. It is a central part of English land law in that it concerns town and country planning in the United Kingdom.

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