



# The Resolution Foundation Housing Outlook

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Welcome to Housing Outlook Q1 2021. In this Spotlight we consider the impact of the Covid-19 crisis on the supply of new housing. While construction sites have generally been allowed to operate throughout the pandemic, output was still severely constrained in the first half of 2020. While there was some pick up at the back end of the year, there are a number of reasons to think that house building will remain suppressed at least in the medium term.

To begin, while house prices may not yet have taken a tumble, some fundamentals suggest that their growth could stall, or even go into reverse. The experience of previous recessions indicates that this would have a significant impact on both the appetite, and ability, of construction companies to proceed with new developments.

At the same time, although the social sector may be less exposed to the market, its ability to play a counter-cyclical role is constrained by its level of grant finance. Furthermore, outward migration could leave a dent in the construction workforce, an effect that will be most keenly felt in the capital.

It is clear that the house building industry has not been hollowed out by the Covid-19 crisis in the same way it was after the financial crisis, reflecting stronger balance sheet for its biggest firms. However, the industry faces serious headwinds as a result of the pandemic. This leaves the Government's target of building 300,000 new homes each year by the mid-2020s looking ever-more unrealistic.

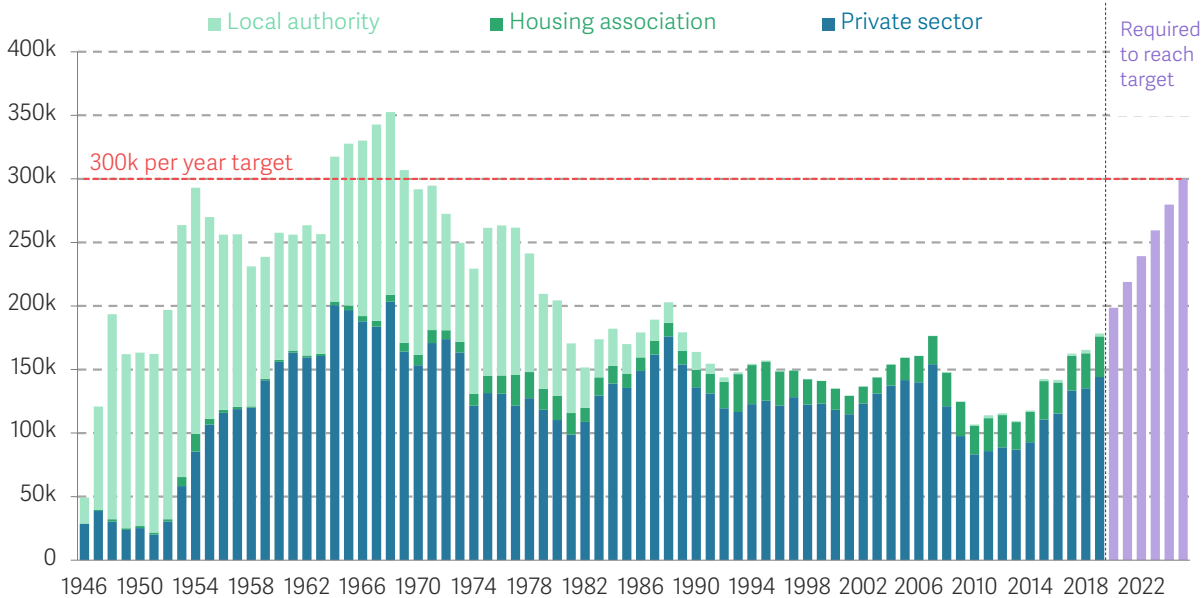
## Spotlight | The impact of Covid-19 on housing supply

Boosting housing supply remains a critical plank of the Government's policy agenda: in December last year, the Housing Minister [reiterated the ambition](#) of 'building at least 1 million new homes by the end of the Parliament, and an average of 300,000 homes a year by the mid-2020s'. But times have clearly changed since this commitment was written into the Conservative party manifesto in 2019. In this Spotlight, we assess the realism of the Government's house building target given the significant impact the pandemic has had on housing delivery in 2020, and the real possibility that it will frustrate house building over the medium term.

To begin, it is worth remembering that even prior to the pandemic, building 300,000 new homes a year was a stretch target. As Figure 1 makes clear, there have been just six post-war years in which that level of output was surpassed, all in the heyday of social housing. While new builds have picked up pace in recent years (and additional dwellings from other sources which contribute to the target have also swollen supply), Covid-19 has clearly put a significant crimp on output in 2020. Although construction sites were [allowed to operate](#) in England and Wales throughout the pandemic ([in contrast to Scotland](#)), many builders chose to suspend operations in the early stages when guidance on workplace safety was unclear. As a result, [MHCLG quarterly returns](#) show that in the first three quarters of 2020, just under 96,000 new homes were built in England. While these figures are preliminary, they still suggest the final total will fall far short of the number required for the Government to be on track to achieve its house building target.

## FIGURE 1: The Government remains committed to a target to build 300,000 new homes per year by the 'mid-2020s'

Permanent dwellings completed, by tenure: England, 1946-2019



NOTES: Given housing is a devolved policy area, we assume the target relates to England only. Chart does not show all additional dwellings as it excludes, for example, new homes created each year through change of use and conversions.

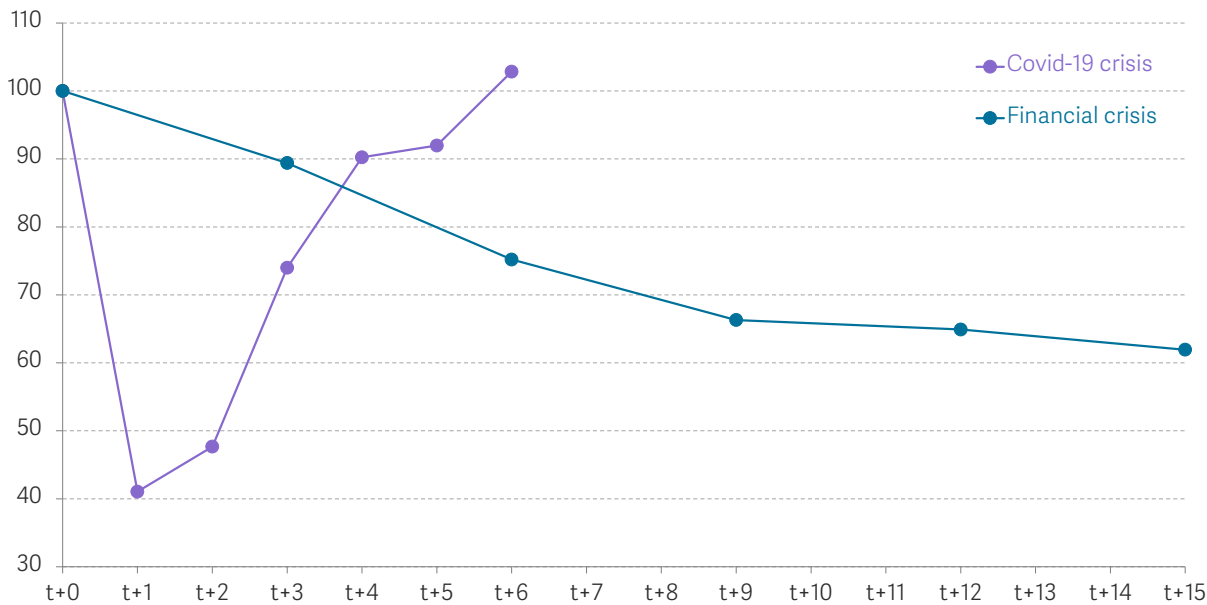
SOURCE: RF analysis of MHCLG, Live Table 244.

Figure 1 also makes clear how vulnerable (private) housing supply is to the economic cycle, frequently failing to return to its pre-crisis level before the next downturn hits. One [common explanation](#) for this is that building firms have tight margins and large sunk investments, and are therefore more prone to insolvency than many other types of companies during a crisis (this is particularly the case for small and medium sized enterprises, while larger firms face the challenge of a reliance on debt, and balance-sheet volatility). As a result, the industry can lose significant capacity in a recession: so when good times return, there are fewer players in the market, confidence remains suppressed and a lag in output is observed.

To date, however, there are some signs to suggest the industry is holding up relatively well in the face of Covid-19, at least compared to the previous crisis (where the housing market was implicated in the downturn and not just an innocent bystander). In Figure 2, we plot monthly private housing output since the beginning of the pandemic, alongside the equivalent figures for the financial crisis (available only on a quarterly basis). This shows the very sharp effect Covid-19 has had on private house building: from March to April 2020, output fell to just 40 per cent of its previous level. Six months on, however, when it was far clearer to firms what a 'Covid-secure' workplace looked like, output had returned and indeed surpassed its previous peak. This stands in marked contrast to a decade ago when house building remained in the doldrums for months (and indeed years) afterwards.

## FIGURE 2: Private housing output took a hard knock in 2020, but has bounced back quicker than in the financial crisis

New private housing output index, seasonally adjusted: GB, Q2 2008 to Q3 2009 & March 2020 to November 2020



NOTES: t+0 = Q2 2008 for financial crisis and March 2020 for Covid-19 crisis.

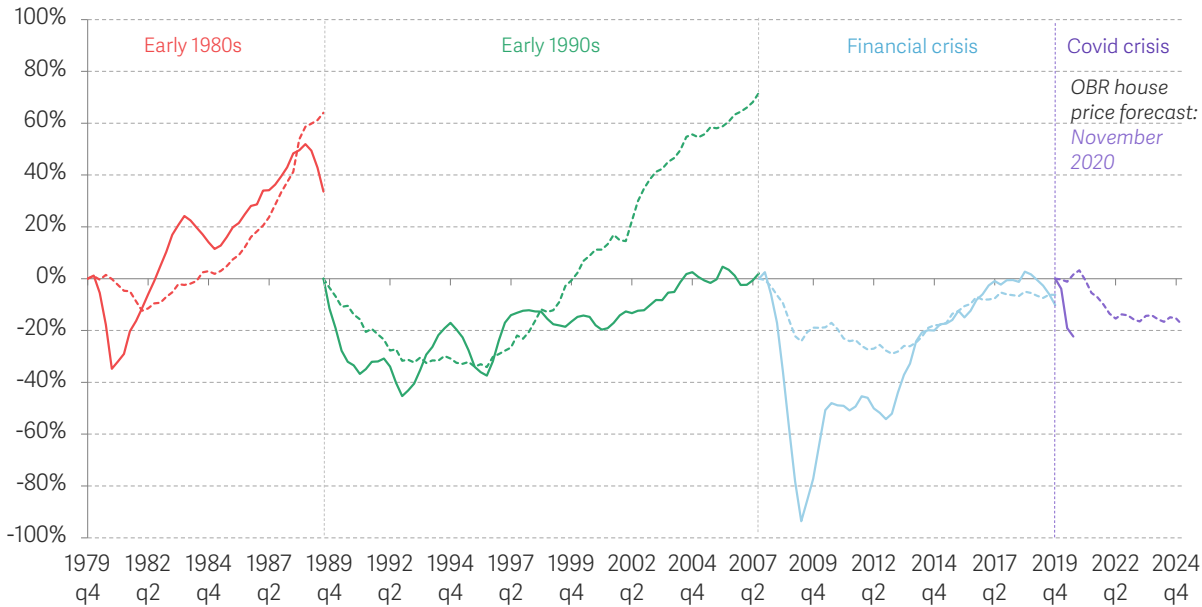
SOURCE: Office for National Statistics, Construction output in Great Britain: November 2020.

Even if capacity does not look set to be as significant a constraint on housing output as it has been in past downturns, there are still good reasons to think that house building will be suppressed in the medium term. While builders are naturally keen to complete ongoing projects in order to recoup existing outlays, their appetite for new development is highly contingent on house price expectations (this is especially the case if they have [bought land at a price which requires a high level of return](#)). We explore this relationship in Figure 3, which shows trends in housing starts by private developers (solid lines) and changes in house prices relative to consumer prices (dotted lines) in the previous three recessions. As this makes clear, negative or weak house price growth goes hand-in-hand with low levels of output (although as the 2000s experience also shows, rampant house price growth is no guarantee of increased supply either).

So, what could the future bring? In the pandemic period to date, house prices have bucked the recessionary trend, stimulated by further falls in interest rates, the Stamp Duty holiday, significant support for households and firms' incomes, the desire to access the more generous Help to Buy scheme ahead of its closure in March 2021 and the unleashing of demand pent-up over the first lockdown period. But as our previous [Housing Outlook](#) reported, there are good reasons to be bearish about future house prices in light of the Covid-19 hit to incomes – with some early signs that house price rises may be [beginning to slow](#). Moreover, while the OBR forecasts a relatively short period of negative house price growth in its November Economic and Fiscal Outlook, the emergence of new variants, further restrictions placed on economic activity since, and questions about the size and shape of future housing demand all suggest significant uncertainty about the outlook.

### FIGURE 3: Growth in housing supply is closely connected to trends in house prices

Cumulative percentage increase in house prices following recessions (CPI-deflated) and housing starts by private enterprises, outturn and forecast: UK, England



NOTES: House price data relates to the whole of the UK, while housing starts relate to England only.

SOURCE: RF analysis of HM Land Registry, UK House Price Index; OBR, Economic and fiscal outlook, November 2020; MHCLG, Live Table 213.

So the medium-term outlook for private housing supply looks weak, but is there scope for the social housing sector to step up output in its place? Housing associations and local authorities are far less exposed to the cycle than private developers, and grant finance enables them to keep building when times are tough. But there are two reasons why we should not expect social builders to dramatically increase their output in the coming months and years. First, while the Affordable Homes Programme 2021-2026 is [funded to the tune of](#) £11.5 billion, that remains less on an annual basis than the £8.4 billion finance made available to the social sector between 2008 and 2011 (the feedthrough of that programme to output can be observed in Figure 1). Second, social builders are actually far more exposed to the market today than they were in previous crises, and depend on cross-subsidy to drive forward their ambitious development plans.

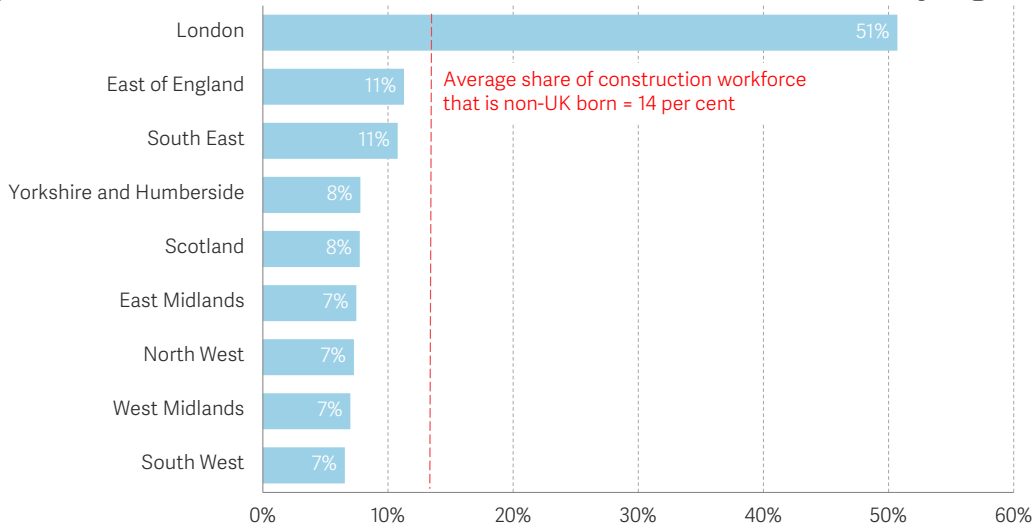
Overall, housing supply is unlikely to fall as persistently as it did in the wake of the financial crisis, but it would be wrong to think that the Covid-19 hit to output will be short-lived. Uncertainty about when the world will return to 'normal', future unemployment levels and the trajectory for house prices will all inhibit new private building activity, while the social housing sector is unlikely to scale up in any significant way. Although new builds are not the only source of new housing stock (the Government's continued liberalisation of [Permitted Development Rights](#) makes it easier to convert empty shops and offices into residential premises, for example), they are the primary way in which housing supply expands. All this means that Covid-19 has made the Government's 300,000 new homes a year target look less like a stretch, and more like it is out of reach.

## Regional focus: The construction workforce across the UK

Even if industry capacity and the house price effect on profit margins do not prove to be serious issues as we emerge from the pandemic period, there is one further problem that developers could face in the coming months and years and that is workforce shortages. As Figure 4 shows, in 2018-19, one-in-seven (14 per cent) of construction workers in the UK were born overseas. While this does not make it an especially migrant-dense sector (across the economy, 18 per cent of the workforce were non-UK-born in that time period), there is a strong regional skew to this picture. Most strikingly, in 2018-19, over half of London-based construction workers were migrants, the equivalent of over 150,000 workers. While not all would be involved in house building, they clearly made an important contribution to the capital's new homes programme.

FIGURE 4: **Migrant workers made up more than half of the London construction workforce prior to the pandemic**

Proportion of UK construction workers that are not born in the UK, by region: UK, 2018-19



NOTES: Excludes North East, Wales and Northern Ireland where non-UK born workers constitute a negligible share of the region's construction workforce.

SOURCE: RF analysis of ONS, Labour Force Survey.

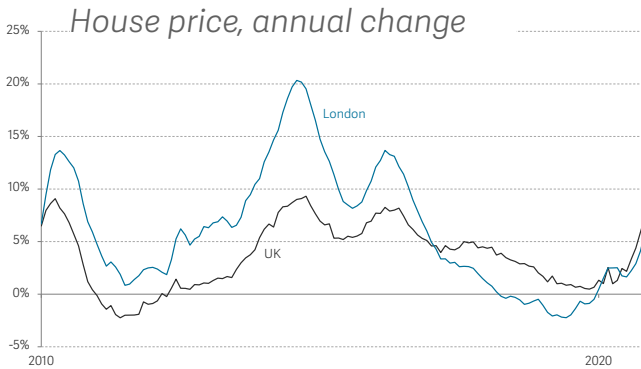
So how might this picture have changed in the wake of Covid-19? [Measuring migration flows is always a challenge](#), and the picture has become even more murky during the pandemic given problems with data collection. It is clear, however, that the flow of migrant workers has slowed since the EU Referendum: critically, EU-8 migrants left the UK in greater numbers than they arrived in 2019-20. Moreover, while some accounts potentially overstate the problem, it is likely that [exit from the UK has been accelerated by Covid-19](#). Put this together with the fact that entry for lower-skilled migrant workers is severely restricted by the new post-Brexit immigration regime and it is plausible that the construction sector has lost many workers in recent months. While companies may be able to draw instead on the pool of UK-born workers who find themselves unemployed as a result of the pandemic, in the short term, the loss of migrant construction workers could be keenly felt in the capital. And it's worth noting that the impact of migrants leaving the UK is not just limited to the supply side of the market. Fewer migrants could result in lower housing demand, and downward pressure on housing costs over the longer term, which, in turn, as set out above, could have a further impact on housing supply.



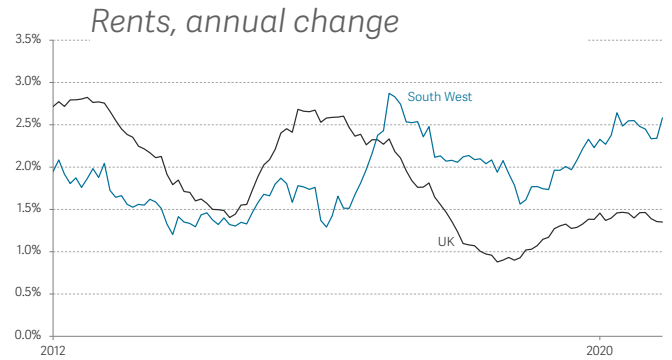
# Housing indicators | Exploring key trends in the UK housing market, and what this means for households and policy makers

The charts below look at key trends in the UK housing market as a whole, as well as among regions, tenures and age groups where these trends have differed or been more pronounced. View notes, sources and the interactive data behind our indicators at [resolutionfoundation.org/housingoutlook](https://resolutionfoundation.org/housingoutlook)

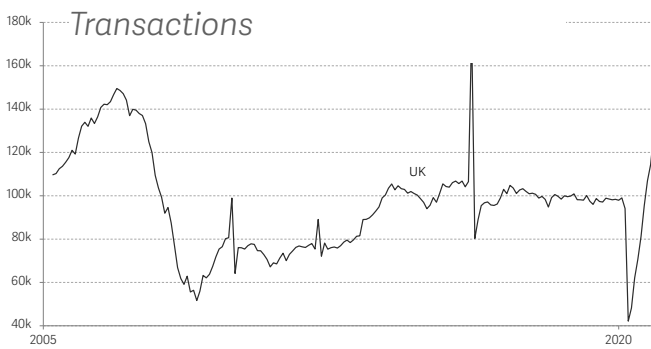
## Housing market trends:



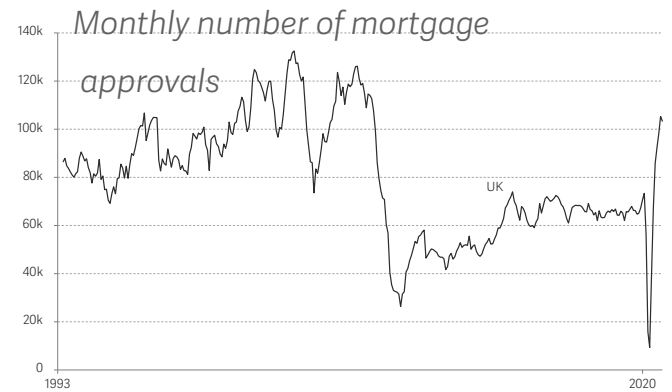
UK house price growth has appeared buoyant in recent months despite a weak economy, likely due to pent-up demand and changes to Stamp Duty.



Rents were edging upwards pre-crisis, but rental price growth appears to be slowing in the most recent data.

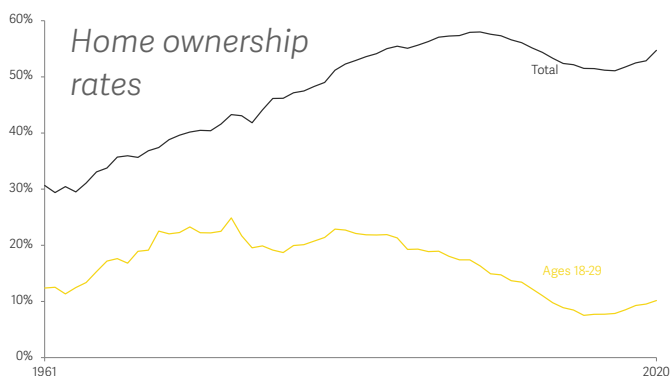


Transactions fell sharply over the lockdown period in April and May, but have now more than recovered, particularly following cuts to Stamp Duty announced in summer.

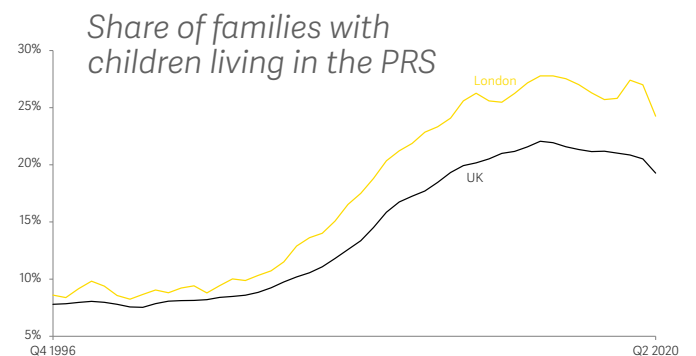


Mortgage approvals had been flat for around five years pre-crisis, but fell sharply during lockdown, before a significant recovery in recent months.

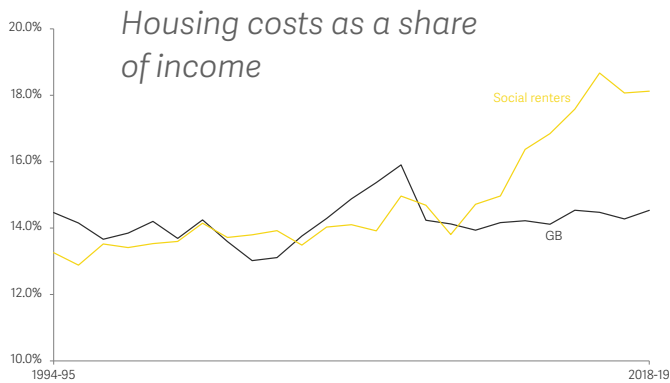
## Housing and living standards:



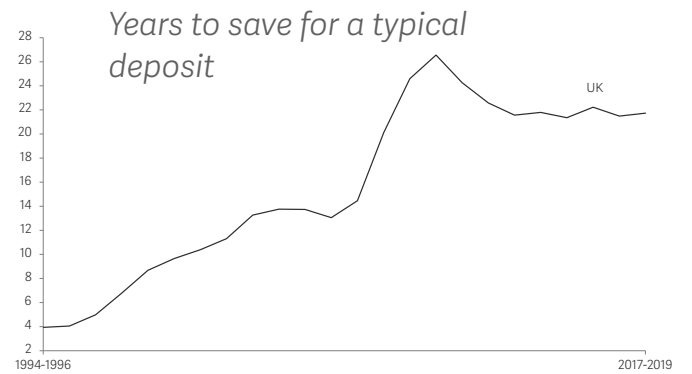
Home ownership rates have ticked up since 2016, a trend continued in the latest data.



The share of families with children that live in the PRS has increased almost three-fold since the 1990s, despite a slight decrease in the most recent data.

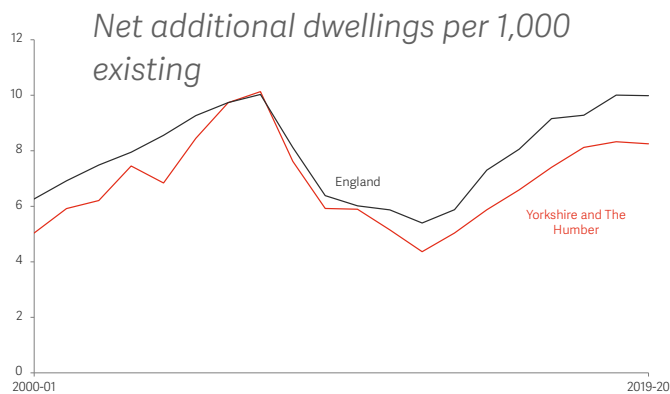


Housing costs as a share of income fell for mortgagors after the financial crisis, but have increased fast for social renters - and we have yet to see the impact of the crisis in this data.

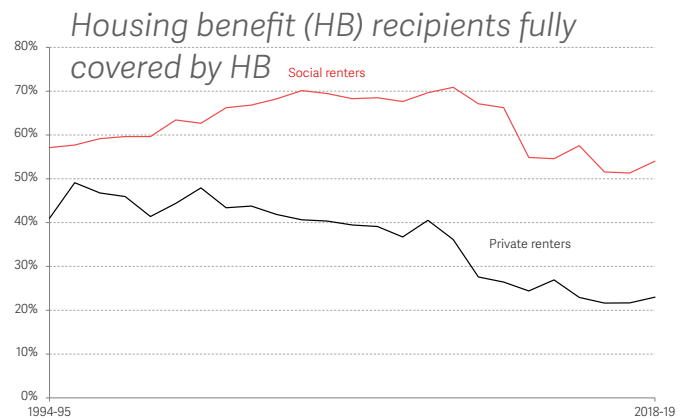


It would take 22 years for a typical young family to save for a deposit, down from 27 years in the immediate aftermath of the financial crisis, where credit was constrained.

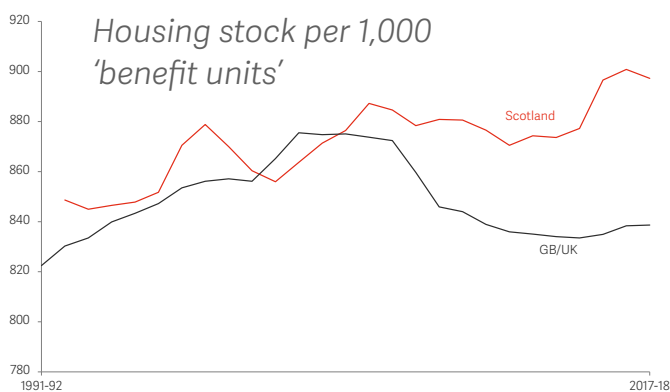
### Housing and policy



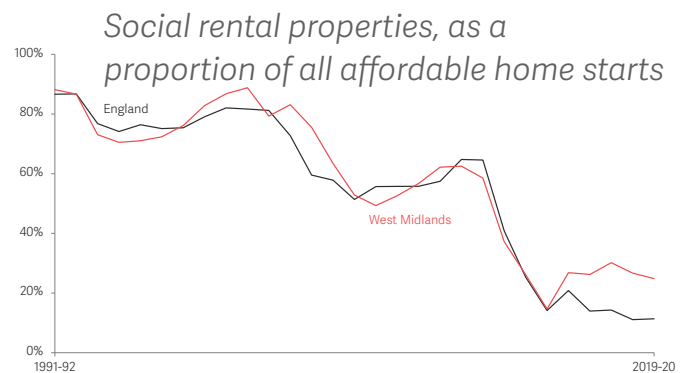
Overall net additions had recovered since the financial crisis, but not in all parts of the country - and we have yet to see the impact of the pandemic on house building.



The share of families in receipt of housing benefit whose housing costs are fully covered fell throughout the 2010s - we do not yet have data reflecting the changes made to housing benefit in March 2020.



Relative to the number of families, the UK's housing stock has declined since the turn of the century.



Social rental properties have fallen significantly as a proportion of the affordable housing built in England through the 2010s.

For more of our housing work and notes, sources and interactive data for this report, visit [resolutionfoundation.org/housingoutlook](https://resolutionfoundation.org/housingoutlook). This document is published under the [Creative Commons Attribution Non Commercial No Derivatives 3.0 England and Wales Licence](https://creativecommons.org/licenses/by-nc-nd/3.0/).

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We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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