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Why would stimulating the supply of housing, especially to first time buyers, help UK businesses?

(The following is a response to a question posed by a leading UK business school, using research published by the NHF, Inside Housing, and www.debtbombshell.com.)

The stimulation of the housing market will take a number of actions by the government that, in turn, will bring a number of benefits to businesses, primarily through the strengthening of the economy that will result.

One reason for this is job creation. The House Builders Federation states that every home built creates one and a half jobs, plus up to four jobs in the supply chain. So building one hundred thousand new homes would generate around seven hundred and fifty thousand jobs, which is more than the combined populations of Nottingham, Reading and Southampton.

There has also been research carried out by the National Housing Federation last year that showed that spending one billion pounds over three years on shared ownership properties for first time buyers would deliver over sixty thousand homes, one hundred thousand jobs in the construction industry, and nearly four hundred thousand jobs in the wider supply chain. It would also generate over 15 billion pounds within the wider economy.

But it's just not happening. One of the biggest problems in the housing market is the lack of supply. Homes are being built at the lowest rate per year since 1924, yet projections indicate that the population will increase from about 62 million in 2012 to over 68 million in 2033. That's nearly eight hundred new people every day! That means over five million new homes are needed, both to make up for previous underinvestment and for new demand.

The government have just announced their affordable housebuilding programme for the next four years, which is aiming to deliver around 80,000 new homes. Together with their previous commitments, this brings the total to 170,000 new affordable homes over four years. Some way short of the 240,000 homes per year required to meet demand.

But the new funding round relies heavily on higher rents and less on capital grant. The result is that as rents go up, so too will the burden on the housing benefit bill. In addition, those associations who would have developed using social housing grant are now being forced into private sector sales to cross-subsidise their affordable housing. This increases risk and therefore makes lenders more cautious about the sector. Already, some housing associations have issued bonds to help raise finance for their development programmes, instead of raising capital through more traditional (and less risky) borrowing.

Of course, the government will expect the private sector to deliver the majority of new homes, but the problem with this is that the private sector continues to suffer from a stagnant market caused by purchasers finding it difficult to obtain mortgages as a result of the recession. The Council of Mortgage Lenders recently warned housing providers that lending was likely to remain at current levels until 2015, and combined with a lack of jobs and economic uncertainty, this is a vicious circle.

One good thing the government is doing, however, is reviewing the planning framework. The existing framework runs to over a thousand pages; the new framework less than a hundred. The emphasis is to devolve decision making on planning to local authorities, and they will be expected to have robust local plans in place that will ensure the needs of their local areas are met. The overhaul is needed to help speed up planning decisions and get homes built where they are needed.

The government is set to borrow a further 170 billion pounds in 2011 against which the 15 billion pound stimulus from building shared ownership properties may seem a drop in the ocean. However, for businesses to grow and prosper, the economy needs to recover, and investment by the government in capital infrastructure is commonly associated with higher economic growth and output. As more properties are developed and brought into the market, other infrastructure projects will also be required as a result, such as road, rail and communication networks, which will further stimulate the economy.

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