



BRIEFING PAPER

Number 07666, 11 October 2016

Brexit: implications for the housing market and construction industry

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Introduction

The UK voted to leave the European Union in a referendum on the 23 June 2016. This decision will have an impact on a wide range of policy areas and industries, including the house building industry.

Below is a summary of data that gives a *very early indication* of the impact of referendum decision on construction and house building in the UK. Caution should be taken when correlating early moves in the data with the referendum decision: other factors such as global political uncertainty and the broader UK economy should also be borne in mind.

Construction industry confidence

The [construction industry Purchasing Managers' Index](#) (PMI) is a monthly survey of economic confidence among construction companies. The following chart shows how economic outlook of the industry has changed over the past few years.¹



Source: IHS Markit/CIPS

¹ Markit/CIPS, [UK Construction Purchasing Managers' Index](#), 4 October 2016. A score of 50.0 indicates no change in economic sentiment, below 50.0 indicates expected decline and above 50.0 indicates expected expansion.

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June 2016 saw the biggest contraction since early 2008, and July 2016 saw another smaller contraction. However, August's figures showed a slight improvement, and September showed the highest level of confidence since May 2016.

Markit noted that:

September data highlighted an upturn in business activity across the UK construction sector for the first time since May, primarily driven by a recovery in residential building.

And that...

Survey respondents cited improving confidence among clients and a reduced drag on demand from Brexit-related uncertainty.

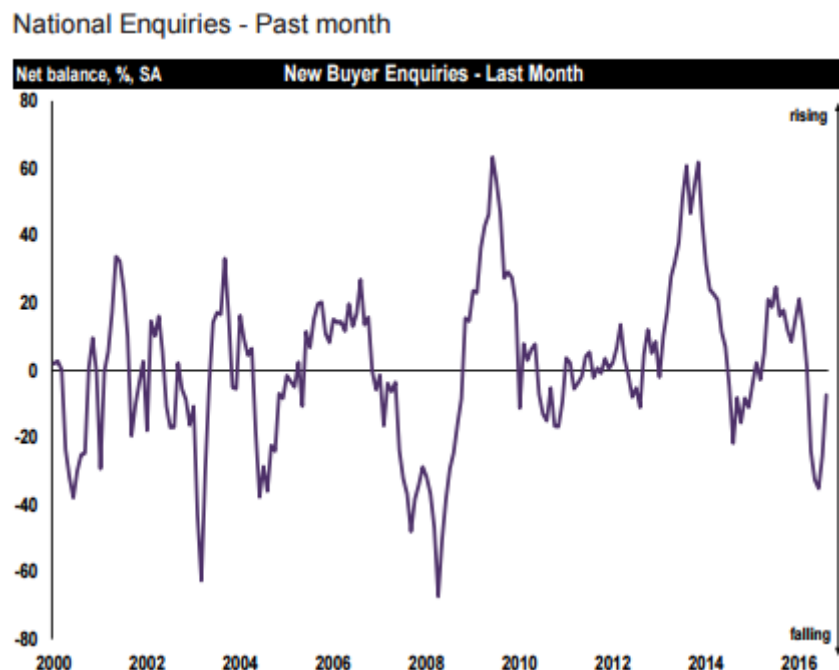
Housing market

The housing market is a crucial driver of demand for house building. Note that indicators of housing market sentiment can be volatile and are particularly sensitive to broader economic trends.

The Royal Institute of Chartered Surveyors' (RICS) [UK residential market survey](#) presents the views of surveyors working in the UK housing market. The [August 2016 survey](#) had the following key findings:²

- House price expectations remain "modest", despite improving in August compared with June or July.

One of the leading indicators of housing market activity is enquires from potential new house buyers. The following chart from the RICS survey shows the change in the number of responders reporting enquiries from new buyers since 2000:



New buyer enquires fell nationally in August, but by less than in June or July.

House Prices

Despite initial concerns that a Brexit vote might lead to significant falls in house prices, there are no firm indications so far that this has been the case. House price data fluctuates

² RICS, [UK residential market survey September 2016](#), 08 September 2016

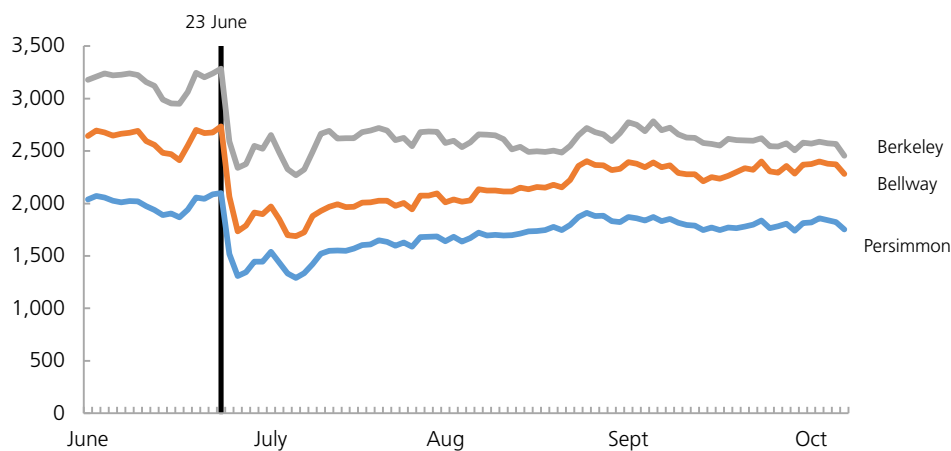
quite widely and data from different sources often provide differing narratives of the market.

The [Halifax House Price Index](#) showed a slight rise in house prices of 0.1% in September compared to August, whilst the other leading indicator of house prices, the [Nationwide Index](#), showed growth of 0.3%. Both sources noted that it was too early to say whether the referendum result had affected the housing market in any meaningful way.³

House builders' shares

The value of shares in major house building firms provide an indication of how the market viewed the impact of the referendum result on house building.

Major UK housebuilding companies' share prices
Closing prices, 2016



The three major developers featured on the chart above all saw large falls in share price on the day of the referendum: Berkeley's shares fell 21%, Bellway's shares fell by 24%, whilst Persimmon's shares fell by 28%. Since then, none of the featured companies' shares have recovered to their pre-referendum level.

Labour market

It should be noted that labour market data are a 'lagging' indicator of the state of the economy and the impact of the referendum result is not yet apparent in official figures.

Ahead of the referendum, many commentators argued that a Brexit vote would lead to a fall in the number of skilled construction workers as migrants ceased moving to the UK in the numbers seen in recent years, and those already working here moved back to their countries of origin. They argued that this would place increased pressure on the already small pool of qualified house builders, potentially pushing up wages in this sector, and ultimately increasing the cost of building houses.⁴

The estate agent, Savills, argued that the fall in the value of the pound following the referendum might act as a further disincentive to migrant labour as a salary paid in £ sterling became relatively less attractive.⁵

³ Halifax, [House price index September 2016](#), 7 October 2016

Nationwide, [House price index September 2016](#), October 2016

⁴ Financial Times, [EU workers fear impact of Brexit on jobs](#), 6 May 2016

⁵ Savills, [Brexit briefing: the impact on residential development](#), 21 July 2016

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However, some economists have suggested that even if eventually controlled by Government policy, EU immigration could temporarily rise in the period following the referendum, as foreign nationals seek to migrate to the UK ahead of new restrictions.⁶

The effects of this possible reaction to the referendum result on the housing market are unclear. This influx of people might boost the supply of skilled construction workers, enabling the pace of house building to quicken, and so potentially reducing house prices. However, it might be that increased immigration places further demand on housing supply, so pushing house prices up.

Responding to the referendum result, the Chief Executive of the Federation of Master Builders said:

The UK construction industry has been heavily reliant on migrant workers from Europe for decades now – at present, 12% of British construction workers are of non-UK origin...It is now the Government's responsibility to ensure that the free-flowing tap of migrant workers from Europe is not turned off...At the same time, we need to...train more construction apprentices so we are not overly reliant on migrant workers from Europe or further afield.⁷

In early July, the [Communities and Local Government Select Committee launched an inquiry](#) into the capacity of the housebuilding industry to meet demand for new homes, asking for written submissions of evidence by 12 September.

The Committee Chair, Clive Betts, said that Brexit “could throw up some further difficulties” for the industry, particularly in relation to the potential curbs on the movement of skilled labour from the EU.⁸

Potential policy responses

After the referendum the British Property Federation (BPF) called on the UK Government to consider a raft of policy measures to support real estate, particularly the commercial sector. In terms of residential housing development, the BPF suggested:

...the introduction of a range of tax reliefs for Build to Rent development, including CIL relief, relief for modular construction, and stamp duty relief for new build to rent developments on the condition that they will be let on tenancies of three years or longer with rent increases tied to inflation.⁹

Social housing providers have grasped the opportunity to argue for a change in the focus of Government housing policy – this is discussed in the following section.

Social housing providers: early impact and responses

In the aftermath of the Brexit vote, 23 housing associations had their AAA ratings downgraded to AA by Standard and Poor's (S&P) following the rating agency's decision to downgrade the UK's Sovereign rating. Moody's lowered the outlook, but not the ratings, of 41 associations.¹⁰ Lower credit ratings could increase the future cost of finance for associations, although L&Q's group finance director, Waqar Ahmed, told *Social Housing* magazine that he did not expect a “sector wide correction in ratings to increase borrowing costs.”¹¹

⁶ The Conversation, [What does Brexit mean for UK housing?](#), 18 July 2016

⁷ Federation of Master Builders, [Brexit could worsen construction skills crisis](#), 24 June 2016

⁸ Inside Housing, [MPs will examine Brexit impact on skills crisis](#), 8 July 2016

⁹ [BPF calls for policy measures to support commercial real estate post Brexit vote](#), 22 July 2016 [accessed 7 October 2016]

¹⁰ Social Housing, [Housing takes stock amid EU referendum fallout](#), July 2016

¹¹ Social Housing, [HA markets teeter amid Brexit chaos](#), July 2016

The National Housing Federation (NHF), the representative body of housing associations, has identified risks for associations around a development programme focused primarily on home ownership products. The Autumn Statement and Spending Review 2015 clearly spelled out the Government's priority of increasing home ownership; all unallocated Homes and Communities Agency (HCA) funding for the 2015-2018 Affordable Homes Programme (AHP) is now going towards home ownership schemes. The £4 billion in funding for the AHP between 2018/19 and 2020/21 is to be directed towards the development of properties for shared ownership. The UK Housing Review 2016 described this as a "radical switch in central government support from rented housing to home ownership."¹²

Following the referendum the NHF advised associations to stress-test their business plans against a potential fall in property prices and tighter lending conditions. Development by associations would also be impacted by wider market conditions, particularly the loss of skilled migrant labour in the construction industry.¹³

In terms of the sector's contribution, the NHF argues that associations can assume a greater role in housing supply during periods of uncertainty, citing their flexibility and sustainable business models as factors enabling them to respond rapidly to changed market conditions. The Centre for Economics and Business Research (Cebr) was commissioned by the NHF to analyse how associations might help to stabilise an uncertain post-EU referendum economy by playing a more significant role in developing new housing.¹⁴ The initial analysis by Cebr supported the NHF's position:

This initial analysis conducted by Cebr for the NHF indicates the greater role that could be played by Housing Associations in sustaining the increasing rates of housebuilding that have been observed since the Great Recession. Greater investment in the building of affordable homes by Housing Associations could support the economy through its market cycle – in particular during the dips – affording a countercyclical buffer against economic downturns.¹⁵

The social housing sector has identified an opportunity arising out of the Brexit vote to present the case for the development of more housing at sub-market rents. The NHF has put an [offer](#) to the Government setting out the sector's readiness to build "through the uncertain times following the vote to leave the EU" and has requested flexibility to invest in a variety of tenures:

Housing associations have a track record of stepping up during times when private developers have lost their capacity to develop – and this time is no different.

With the right support, we believe housing associations can build 300,000 homes for home ownership and rent over the course of this parliament – that's nearly a third of the Government's target of one million new homes. What we need to be able to deliver this is greater flexibility in Government investment programmes to build homes of all tenures.

We've made the case that by relaxing the restrictions on how we can use government investment and what we can build, and without any new money, housing associations could maintain their strong housebuilding ambitions and build homes quickly to deliver a boost to the whole economy.¹⁶

There have been some indications that Theresa May's Government *is* willing to consider a policy shift away from ownership products in order to boost overall supply.¹⁷ The sector is

¹² UK Housing Review 2016, Wilcox, Perry, Williams and Stephens, p71

¹³ NHF, [The vote to leave the EU – considerations for housing associations](#), 26 July 2016

¹⁴ Cebr, [A role for housebuilding in times of economic uncertainty](#), July 2016

¹⁵ Ibid., p10

¹⁶ NHF, [Housing associations – building through uncertain times](#), 15 July 2016

¹⁷ Inside Housing, [May focuses on supply in policy shift](#), 5 October 2016

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hopeful that the Autumn Statement 2016¹⁸ will deliver on some of the funding flexibilities requested.

Additional support for the development of more social rented housing has come from a [report](#) by the thinktank, Capital Economics, which was jointly commissioned by the National Federation for Arm's-Length Management Organisations (NFA), the Association of Retained Council Housing, the Local Government Association (LGA) and campaign group Social Housing Under Threat. Capital Economics considered four post-Brexit scenarios for social housing, including weak and strong economic outlooks, and concluded that savings of between £102 billion and £319 billion could be generated over a 50-year period through the development of 100,000 new social rented homes a year. The forecast savings would arise from reductions in expenditure on Housing Benefit as fewer claimants would be living in the more expensive private rented sector.¹⁹

European Investment Bank (EIB) funding for social housing

A further area of concern is the impact of Brexit on housing providers' ability to access loans through the EIB. The EIB has invested approximately £5.5 billion in UK social housing in the UK over its lifetime.²⁰

In a [statement](#) released in response to the referendum result, the EIB said:

At present the UK shareholding in the EIB remains and the EIB's engagement in the UK is unchanged. Any change to the EIB's shareholder structure or lending activity is a decision for the member states.

We expect that the EIB's shareholders, the 28 EU member states, will discuss the EIB's engagement in the UK as part of broader discussions to define the future relationship of the UK with Europe and European bodies. At present, the EIB's shareholders have not requested the Bank to change its approach to operations in the UK.²¹

While existing loan funding is unaffected, the UK's future access to EIB funding post-Brexit remains unclear and dependent on negotiations. Switzerland, and other countries outside the EU do not benefit from EIB funding except in the fields of energy and transport.²²

¹⁸ 23 November 2016

¹⁹ Capital Economics, [Building new social rent homes](#), 2016

²⁰ NHF, [The vote to leave the EU – considerations for housing associations](#), 26 July 2016

²¹ [EIB Statement](#), 24 June 2016

²² NHF, [The vote to leave the EU – considerations for housing associations](#), 26 July 2016