Brexit and Housing

Policy Briefing

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Key Points

The Brexit debate has stressed the UK economy, the Irish border, immigration, and trade, as well as specific sectors\(^1\). There has been little attention to other fundamental parts of the economy, such as housing. Aside from its cyclical and productivity effects, housing is a core element of the UK economy\(^2\). The quality, location, cost and price of housing matters to UK competitiveness and Brexit will shock both the housing supply side as well as have a significant effect on drivers of demand and needs requirements. While we recognise the fundamental uncertainties inherent with the final form of Brexit, the duration of transition and the complexities of implementation, on the basis that the consensus about the direction of the main economic impacts is valid, we conclude:

- Expected negative impacts on future UK income per capita will reduce housing demand and increase need.
- Different regional economies will be exposed because of their economic structure. In the short term this may have particularly negative effects on London, but in time the already resilient regional economies are likely to recover better.
- Slower growing fiscal resources nationally may make it harder to fund the economic restructuring required in the lagging regions of the UK, therefore poor housing in poor places will worsen.
- Reduced UK immigration will adversely affect construction sector capacity and construction costs are also likely to grow (absent more favourable negotiated trade deals), also because of rising costs of imported material supplies. If the UK is to grow post-Brexit and cope with an ageing workforce then non-EU migration may have to

\(^1\) For example, agriculture, finance, manufacturing.
\(^2\) Housing payments, broadly, absorb a fifth of incomes, housing wealth comprises half of assets and housing related employment involves a tenth of the workforce
rise to offset reduced EU arrivals: the likelihood is that areas currently impacted by immigration will continue to be so.

- Social housing will lose access to the EIB’s funding\(^3\). It may also be affected by revised State Aid rules (depending on future EU trade deals) and, above all, it will be directly impacted by tightening public sector budgets.

- Brexit demands an urgent rethink of housing policy fundamentals across the UK. There needs to be constructive thinking about how reformed policy programmes can improve the productivity performance of the economy and reduce inequality. The housing sector should position itself to play a much more central role in the years ahead, even if it has much to do, independently of Brexit, to ‘put its own house in order’.

Unpacking Brexit

It’s essential that we recognise the considerable uncertainties and the complexities of impact, with direct sector and place effects reinforced by the large-scale, wider effects of Brexit on the economy. There is also the need for localised understandings of what changes might occur as economic system effects will emerge at regional, metropolitan and town scales, as well.

Housing systems are characterised as being both complex (connected to labour, finance and materials markets), and linked to multiple geographical scales (local, regional, national and global). Understanding the impact of Brexit on housing requires an appreciation of bottom-up responses and top-down processes.

EU Impact Channels for the Housing Sector

Across the economy, membership of the European Union involves multiple arrangements for the conduct of trade and wider economic policies. For the UK, which stands outside the Schengen Agreement and the euro-zone, the EU encompasses a customs union involving tariffs and product standardisations governing more than half of UK exports, single market arrangements that impact flows of capital and labour as well as goods, regulatory frameworks and also participation in budget contributions to support major spending programmes, with particular significance for rural areas and poorer UK regions.

\(^3\) European Investment Bank
Uncertainty is intensified when the timing and range of forms of ‘withdrawal’ remain unclear. A difficult analytical exercise becomes a near impossible interpretation of likely political choices about the transition period, whether the UK will remain in the single market and whether a new trade agreement can be achieved.

Debate about the effects of leaving the EU for the macro-economy, specific sectors and regions has been bedevilled by these uncertainties but also by Brexit politics and disdain for experts. However, there is undoubtedly a consensus view stretching across a clear majority of economists. An editorial in 2017⁴ pointed out that initial pessimistic Treasury analysis was premised on immediate invoking of Article 50, which did not happen for 9 months. A longer-term assessment is required.

Economists have typically divided their forecasts between cliff-edge (no deal) forecasts and the consequences of different kinds of deals (hard to soft Brexit). With the exception of Patrick Minford (Cardiff Business School), the results are pessimistic about economic growth as the process unfolds. The debate was recently crystallised (January 2018) by the leak to BuzzFeed⁵ of the Government’s own analysis which suggested that:

- The UK would be worse off under every scenario. Growth would be 5% less than benchmark over a 15 year horizon comprehensive trade agreement; a WTO cliff-edge no-deal would be 8% worse; and a EEA soft Brexit would leave a 2% gap.
- Almost all sectors of the economy would be adversely impacted with relatively larger problems for clothes, chemicals, food & drink, retail, cars and manufacturing.
- Every UK region would be negatively impacted with the worst effects in Northern Ireland the North East and the west Midlands.
- Trade deals with non-EU countries are expected only to deliver small impacts in the long run (a US deal might improve on benchmark by 0.2% of GDP growth).

It is against this background that we consider housing.

Housing’s Role: Political and Economic

Housing undoubtedly played into the voting decisions of leave voters. In the pressured towns and smaller cities of southern and...
eastern Britain high exit votes occurred in localities where shortages of housing and infrastructure, and provision pressures in schools and health are recognised. This has more to do with the efficacy of growth management and UK housing policy than, perhaps, the EU. Consequently, we need to put housing at the centre of understanding why Brexit has happened and how to achieve better future outcomes.

If the consensus economic forecasts are correct about the expected adverse economic consequences, future exchange rate impacts on inflation and interest rates on growth and incomes generally (and hence transmitted to housing specifically) are likely to hasten further economic retrenchment in face of lower growth and trade – a real concern is that we are likely to see housing market decline, higher need and, possibly, further austerity.

There is also a bundle of EU member rules/benefits that will no longer apply such as the loss of EIB funding for social housing. The UK will no longer be subject to public procurement and state aid rules impacting on physical regeneration, construction and possibly restrictions on public subsidy to social housing (though these will likely be reasserted in some form in any future EU trade deal).

There has been little debate on how housing outcomes impact the wider economy and its competitiveness. While understanding of these housing-economy linkages has improved our understanding of medium-term stability effects and short-term spending effects from housing investment, there is still little sense of how housing outcomes affect growth and productivity in the longer term.

Migration

The other major impacts of leaving the single market are via migration. Some £9.75 billion of the UK’s £51 billion construction supplies market in 2016 was imported, reflecting an overall building supplies trade gap. New tariffs and a lower sterling will increase UK construction costs. Migration effects will be potentially large for construction labour, but they are also relevant to related sectors such as capacity in the care sector, health service and on local housing demand. If there are significant reductions in migration this will have consequences, reducing (if unevenly) demographic driven household projections and levels of future need and demand.

6 According to the sectoral impact assessment on construction and engineering, released in December 2017.
Global immigration to the UK have increased in the core UK metropolitan housing markets, and the towns and villages of prosperous southern regions. Brexit in relation to labour flows could have significant localised housing demand impacts. One may see further adverse housing pressures on southern England arising in large part due to inadequate strategic responses in terms of housing supply and infrastructure.

Regional Imbalance

Housing policy has to become much better in recognising that housing is primarily but still only partly a local system. Clayton and Overman and the Centre for Cities’ have argued that soft or hard Brexit (the latter with more severe effects) will have particularly adverse effects in more prosperous cities (London and Edinburgh).

That analysis can be challenged (and is in the leaked UK government’s own analysis, and in evidence from the Scottish Government) suggesting that the older regions will have the most disrupted trade (proportionately) and less flexible capacity.

A challenge for policy is to get to grips with what the regional pattern of change in UK housing markets might look like in the decade ahead. The implication is that, despite current adverse price movements, London and the south-east may further unlink from the rest of the UK housing market. Meanwhile, the housing economies that will suffer more are Wales, parts of the north and rural regions (according to Demos). Third, there will likely be other regional reversals from finance outsourcing (already signalled by some firms) to Europe and North America.

9 https://www.demos.co.uk/project/making-the-most-of-brexit/
Final Reflections

We do not know, at this point, the rules of the game nor where negotiations will ultimately converge, but we fundamentally believe that clarifying the risks and most likely outcomes is essential. Moreover, we believe that housing is an important sector both as a large and important economic transmission sector but also through its social and distributional consequences.

Amidst the problems, there are also housing policy opportunities. Housing policy, especially in England, badly needs to be reset on some coherent path that supports fairness and productive economic outcomes fashioned ahead of a system that has promoted unearned gains and societal wide speculation in housing. This may take the form of housing becoming a key domestic policy concern, to echo what the prime minister has herself stated. Housing is likely to be a key part of the new political terrain and there will be space for ideas from different quarters. We also believe that a fundamental shift in the governance of housing policy to metropolitan and regional levels will be essential to better align economic, housing, transport and planning policies and this will also require fiscal reshaping.

Our plea is that debate should be rigorous and well-evidenced, inclusive and strategic. Housing policy should embrace a systemic approach to reform and seek the consensus required to deliver sustainable coherent long-term policy solutions to housing supply, policies aimed at market stability and more low-cost housing.

Looking to the future, scarce resources for housing policies have to be aligned consistently with strategies to reduce decline and boost growth in the British economy. Simply put, we need a housing policy for the economy. Integrating housing investment into rural, town, city and regional deals needs to become an important consideration in the design of UK housing polices.

The disruption caused by Brexit is an imperative to substantively redirect UK housing policy and there needs to be an urgent challenge to the strong vested interests in doing housing policy as ‘business as usual’.

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