

The Economic Benefits of House Building in the North East

A study by Nathaniel Lichfield & Partners
Summer 2004



Nathaniel Lichfield
and Partners

Planning Design Economics



This brochure provides a summary of the findings of an analysis of the house building industry in the North East. The study was commissioned by the North East members of the House Builders Federation and was undertaken by a consultancy team headed by Nathaniel Lichfield and Partners and assisted by the property consultancy storeys:ssp.

The main aim of the study was to provide an analysis of the housing stock in the region, consider the role of the housing stock in a changing economy, and identify the economic benefits of providing more new homes.



Family housing at
Newcastle Great Park



A Changing Economy

The North East's economy has changed dramatically moving away from traditional industries and manufacturing towards a service economy. This is reflected in the increase in professionals and the reduction in skilled manual workers between 1971 and 2001.

The change in the socio-economic make up of the North East's population is reflected in changing aspirations for home ownership. A report undertaken in 1999 by Roger Tym and Partners on behalf of the HBF shows that 90% of the professional sector and 70% of the intermediate sector in the region aspire to home ownership.

Recent evidence shows that the region has experienced a net in-migration of population in 2002 and a survey by Demos/RICS emphasises the evidence of a "brain gain" into the region, with 36% of new recruits in the last three years from outside the North East. Additionally, recent research by the Centre for Economic and Business for

One NorthEast shows that if we are striving for economic growth to reach the UK average then the region could experience population growth of between 150,000 and 500,000 by 2016. It is therefore important that future house building levels are realistic and can accommodate these positive population levels to avoid the risk of a lack of housing particularly the right type, frustrating economic growth.

Improving the choice of housing

House building has a crucial role to play in attracting workers to the region. Surveys from house builders have shown that 16.5% of recent purchases are from outside the region and that the strongest demand for properties for people outside the region are those in the £200,000 to £300,000 price range. Only 12% of the region's housing stock is detached compared to a UK average of 21%. Quality housing in the North

East is in short supply. As part of this research work, Nathaniel Lichfields questioned key employment sectors in the North East. 98% of respondents considered the range and quality of housing available in the North East as very important or important to perceptions of the region as a place to live.

The 2004 Barker Report states that the prices of detached housing relative to the average house price in the North East is

"exceeding the detached price premium in regions such as the South East and South West... eroding the quality of life elements that may attract more affluent economic migrants to the region".

Addressing housing shortages of detached 'executive' homes could help to overcome labour market mobility barriers contributing to a highly skilled workforce and economic growth.

A Change in Policy

The Northern Way (ODPM Feb 2004) identifies

“a long term vision that can fully exploit the economic and transport corridors that connect the north”.

To deliver this objective a number of initiatives are identified including:

- Revitalising housing markets
- Creating thriving towns and cities
- Reviving coalfield communities
- Supporting New Deal for Communities
- Creating sustainable rural communities
- Providing decent homes
- Improving liveability and quality of life

The above policy messages are reflected in the Regional Housing Strategy which provides the framework for the development of housing solutions at a regional, sub-regional and local level. The strategy emphasises that:

- The quality of housing is critical in retaining highly skilled, creative and entrepreneurial people
- Major restructuring of the housing market is required for the region to offer good housing choices - there is currently too much undesirable social housing and too much older smaller terraced housing
- There is a need to meet the requirements for new housing that result from household growth and aspirations for better housing
- There is a need to demolish obsolete unhealthy housing stock

- There is a need to increase owner occupation and increase the proportion of larger housing types and quality of housing

To achieve the above aims, the Regional Housing Strategy sets out an annual demolition rate of between 3,000 and 6,300 existing houses and the building of between 6,700 and 11,300 new houses per annum.

Private sector house builders will have a key role to play in delivering the above policies by working in partnership with local authorities and registered social landlords to deliver housing market renewal.



Residential development in Hetton-le-Hole

Labour Force

The Regional Housing Strategy states that 7,000 people are directly employed by the house building sector. However, due to the use of sub-contractors the employment and economic impacts for the region are substantially greater. During the house building process on average each major house builder will use 221 sub-contracting companies for a range of activities including on-site support, sales and marketing and professional services. Therefore the house building sector has a major role to play in contributing to the economic vitality of a wide range of firms in a number of sectors within the North East.

Research undertaken by CITB highlights skills shortages within the construction sector, with the need to recruit an additional 17,700 employees in the North East over the next four years, or up to 3,500 trainees per annum. Recruitment difficulties are cited in a range of skills including site managers and supervisors, bricklayers, carpenters and joiners, electricians, plumbers and roofers. 73% of house building companies in a survey undertaken by HBF stated that the shortage of suitably qualified staff was having an impact on their work. Currently, only half of the house building vacancies that are advertised are filled.



Economic Impacts

In 2003, approximately 6,500 new homes were built in the North East. The purchase of land, remediation of derelict sites, construction and sale of these new homes generated an economic value of £780 million. Without doubt, this represents one of the largest business sectors in the region.

Of this £780 million, approximately £312 million was spent directly on construction costs, the other £468 million was spent mainly on land acquisition, clearance of dereliction and contamination, planning applications and community benefits. Given the high use of sub-contractors, most of the construction costs are re-invested within

the supply and services chain of the regional economy to generate an additional £338 million.

In 2003, private house builders spent £234 million on the acquisition of land, £58 million of which went directly to local authorities for the purchase of their land. In recent years the trend towards building on more brownfield sites has seen an increase in the acquisition of land from local authorities, NHS, MOD, One NorthEast and many other public sector organisations.

If new house construction levels rise from 6,500 to 10,500 per annum, an extra 5,000 construction jobs would be created and the regional economy would benefit through the injection of a further £400 million each year.

Regeneration Impacts

In addition to the economic value of the industry and employment generation, house builders provide wider regeneration impacts. In the North East region in 2003, these additional benefits included:

- The reclamation and redevelopment of 136 hectares of brownfield and derelict land
- £92 million was spent on off site transportation improvements including cycleways, footpaths, bus stops and roads
- £93 million went towards improving community facilities such as libraries and schools
- 10,700 trees were planted in landscaping schemes
- 53 hectares of new public open space were created

Additionally, research both in the UK and America has shown that home ownership is linked to an improvement in public health, particularly mental health and respiratory problems. The study in America showed over a thirteen year period that people who had been moved from areas of deprivation to new housing areas had improved employment and educational opportunities as well as a better quality of life, a reduction in the fear of crime and greater levels of community involvement. A positive impact on health through good quality housing can therefore contribute to improving the percentage of economically active people who can work.



Regenerating towns and cities



Working in partnership with housing providers



City centre regeneration



Innovative approaches to living

The Future

The house building sector as identified in the 2004 Barker Review of Housing Supply has, and will continue to have, an important role to play in delivering housing market renewal and providing the right type of housing in the right location to meet the population's aspirations. However, it is also important to highlight the crucial role of the house building sector within the region's economy.

As a result of how the industry operates, house building in the region underpins the survival of up to 5,000 indirect jobs in firms that are used in the house building process including other

construction firms, professional services, sales and marketing and retail.

Unlike other sectors, the majority of the output of the industry is retained within the region's economy due to the use of sub contractors and local supply chains. Depending on the number of units completed, Local Authority land receipts in the region will continue to rise and would be nearer £100 million per annum if 10,500 homes were built. This money could then be used to undertake further regeneration work and support vital public services.

The industry also contributes to upskilling the workforce, providing trainee placements, reclaiming

brownfield land, contributing to new infrastructure, community provision as well as the health of the region. However, the industry still requires more skilled people and is looking to public sector training agencies for help in meeting training requirements.

Housing market renewal cannot be delivered with existing public sector commitments, therefore the house building sector has a critical role to play in delivering housing numbers and types that can assist in overcoming past economic trends.



Nathaniel Lichfield
and Partners

Planning Design Economics

House Builders Federation
Tower Court Business Centre
Oakdale Road
Clifton Moor
York
YO30 4XL

Tel: 01904 557624
Fax: 01904 557625
e-mail: north@hbf.co.uk

The HBF thanks the following North East House Builders for their assistance in the production of this brochure:

Barratt, Bellway, Bett Homes, Bowey Homes, Broseley Homes, Dunelm Castle Homes, George Wimpey, Grainger Homes, Haslam Homes, Miller Homes, Persimmon Homes, Taylor Woodrow, Yuill Homes