More Different Futures Network Topic Review: The Housing Construction Sector

1. Introduction

The purpose of this paper is to synthesise and summarise the discussions during the MDFN network sessions concerning the emergency, stimulus and longer-term/recovery impacts on the housing construction sector and the housing, and other, policy measures directed towards stabilising or expanding construction levels. The residential supply system, that includes using and amending the existing housing stock as well as new construction, arose as an issue in many of the bilateral discussions. Two questions were of particular interest within the network. First, how could the supply of housing be made more responsive in the face of demand increases and price rises. This question is addressed in more detail in TRP 7 as the construction sector is only one, significant, part of the supply chain transforming raw land into valued homes. Second, there was much discussion of the potential roles that the sector might play in economic stimulus expenditures to mitigate the covid-19 induced recession.

This paper is organised as follows. In Section 2, understanding of policy outcomes, gaps and limitations pre-COVID19 on housing construction sector are outlined, and Section 3 considers evidence on the impacts of the pandemic on the industry. Section 4 summarises and comments upon some of the emergency policy responses in construction. Finally, we outline long-term recovery measures and policies discussed in the meetings.

2. Understanding of Policy Outcomes, Gaps and Limitations Pre-COVID-19

Before the onset of the pandemic, the housing construction industries in all three countries had been faced with a diverse set of ‘external’ supply and demand side challenges and identified some internal, operational features constraining output and productivity. Covid-19 has added new difficulties and often reinforced pre-existing difficulties.

Demand-Side Constraints

When asked about covid-19 effects most construction sector participants identified shifting demands as their major concern. Interest rates, income growth and immigration, especially in Australia, Canada and the southern UK, have been the major long-term drivers of housing demand. Covid-19 has resulted in sharp reductions in interest rates in all three countries but has induced likely negative impacts on the other demand drivers for the next 2 to 5 years

- GDP growth in all three countries is expected to be significantly negative until 2022 at least (and as the network progressed expectations of a short sharp decline in demand followed by a sharp recovery through 2020 evaporated and the anticipated depth and length of the post-Covid recession increased: this has strengthened the case for government stimulus spending on new construction (but with little positive response from governments to date)
• Immigration, and this is particularly important in major Australian and Canadian cities, is widely assumed to fall sharply until economic growth resumes and that implies one or two years of greatly reduced demand
  - In Canada net migration has contributed greatly to recent increases in housing demand, even in slower growing metropolitan areas; for example, in the Halifax Regional Municipality, there was a 50% increase in single-family new home applications in 2018-19 reflecting inward migration
  - In Australia, new housing supply level easily adds 2 per cent a year of housing stock with immigration from overseas adding nearly 1 per cent to Australia’s population each year
  - Private housing sector is widely forecast to begin drying up.

High levels of immigration (with entry to Canada and Australia being more driven by the skills and resources of applicants than their family connections) have been important in driving housing demand as there has been a decreasing demand for home-ownership amongst Australians, and in the other two countries, for people under age 45. Overall residential construction levels by 2019 were lower than in the past and in the UK whereas before the Global Financial Crises (GFC) new-built supply added just 1% to the UK’s housing stock each year the sector, in the subsequent decade of austerity has struggled to add around 0.5% each year to housing stock.

The construction sector in all three countries is also facing significant structural shifts in the demand for housing within these broad ‘demand’ totals. The consequence of declining early age home-ownership has shifted growing demand to middle income, younger household rental housing and in some contexts, developers have been cautious regarding shifting to apartment and rental provision from more traditional home ownership offers. In the early stages of Covid-19 some new preference patterns are being identified as more workers expect to increase working time spent at home rather than in offices and as those who do have to travel to work are seeking to have shorter commutes times of shift travel mode from mass transit to more personalised forms of movement, including walking and cycling. Within metropolitan areas this may lead to a structural demand shift to lower density suburbs or demands for workplaces closer to work. For some households, including those closer to retirement and those who seek a family-home-ownership lifestyle precluded by high metropolitan prices, there appears to be an attraction to moving to moving to smaller high quality, well-connected towns and regional centres or indeed remoter coastal areas. House price activity in all three countries suggests transactions and price patterns consistent with such shifts but with so many uncertainties in future potential treatments for the pandemic and its economic impacts these apparent shifts are mysteries rather than certainties for construction firms looking to land purchases and future production.

2.2. Supply-Side Constraints

The supply-side participants in the network discussions, whilst identifying land-use regulations and planning process costs and delays as unwelcome, did not see them as the sole, or even sometimes, major constraints on housing construction sector costs and flexibilities. All countries reported existing, significant shortages of skilled construction labour, and this must be a concern for stimulus package design (though there were also reported good examples of how skills training aligned to and coordinated with residential investment strategies could alleviate such difficulties). Key materials shortages can also be important. Land market processes, that are often confused with planning system effects, were also regarded as problematic. A recurrent review of supply chain blockages within local markets was identified as a practical step to addressing these often disputed processes. Participants reported particular national/local problems
In Canada

- One of the challenges in construction markets before the pandemic has been the attraction of a significant share of the supply of skilled labour into the oil sector in Alberta.
- There have been shortages of non-wood construction materials in recent years and Covid-19 has significantly disrupted material supply chains that reach out internationally, and particularly to the USA.
- Although not the only issue, land use regulations increase planning times and costs to start projects. Competition between developers for land is greater than competition between them in the market for selling finished housing.

- UK
  - Skills shortages have been a problem in the housing construction industry for nearly 20 years in the UK.
  - Supply of materials has not been a major worry, though Brexit may disrupt European supply chains.
  - The long waiting time to have projects approved undermines flexibility

- Australia
  - The medium density developments favoured by the construction sector rely mainly on Australian made construction materials. The larger higher density developments found mainly in the private sector, however, have a much heavier reliance on imported materials.
  - In some parts of Australia, particularly Western Australia (with the oil sector again a competitor for labour), subdued housing construction activities for several years before the pandemic, has eroded the availability of skilled labour. Skilled labour shortages are widely reported as a problem in Australia.

The evidence base that does exist suggest that the housing construction sector in all three countries has been characterised by low price elasticity and that major metropolitan areas have the least elastic supply arrangements. Inelastic supply is most pronounced in the UK.

3. The Housing Construction Sector the Period of Pandemic

3.1 Effects of Lockdown/Social Distance on Housing Construction Industry

Covid-19 has not only shifted demand patterns, disrupted sales-transaction systems, and disrupted materials and labour supply chains but it has intervened directly in onsite-production processes not least through social-distancing requirements. Lockdown and social distance exerted distinctive effects on housing construction industry in these three countries.

- In Canada, Coronavirus-19 has had a relatively small direct effect mainly because that sector has been allowed to continue to operate in all the major cities.
- In the UK, an increasing number of contractors have closed sites after lockdown disrupted commuting and selling activities (and indeed in Scotland the sector was closed by the Scottish Government aside from construction work for the National Health Sector). Developers in the UK had to stop all non-essential construction sites in the middle of March, and they were reopened for a soft start in the middle of June. IHS Markit/CIPS UK Construction Purchasing Managers' Index (PMI) reported the steepest monthly fall in UK construction output since the financial crisis (April 2009) in March 2020. However, developers report a significant improvement in the speed in planning consents and building warrants.
- In Australia, since March construction estimates for 2021 have been reduced from 170,000 down to 110,000 a massive reduction in forecast for the 2021. Even though construction...
activity has been allowed to continue the social distancing and lockdown rules inhibited potential customers from visiting display villages and visiting sales sites. Supply chains for component parts and building materials, with shipping affected from the first few weeks after the Australian onset of the pandemic, have been disrupted and project delays created. In all three countries there are now, by mid-July, heightened anxieties about construction activity from October onwards, as recession takes hold. Builders are concerned that falling sales and revenues will impair their cash flow and lead to business contraction and the disruption of well-established supply chains.

3.2 Housing Construction Industry Post-Pandemic

Looking beyond the recession (an increasingly long and foggy look in all three countries) construction sectors recognise that they will still face old as well as new challenges.

- Prolonged recession for the sector will mean deterioration in skills and disruption of material supply chains.
- Recovering demand, as noted above, may induce significant locational and structural shifts in the demand for new housing.
- Economic uncertainty and job insecurity are expected to discourage investors and financiers from starting up new building projects over the short term. The rate of utilisations of land with planning permissions is already diminishing and land purchases for the future may be deferred (with only the largest builder/developers capable of supporting land purchase at bottom-of-the-market).
- As long as coronavirus-19 persists builders will have to change their production model on site to meet social distancing requirements; this will involve fewer workers on a given site at the same time and slow site completions and for firms with output targets there would be a requirement to be working on a greater number of sites at any one time.
- There was relatively little discussion of the potential to increase off-site and modular construction that may more easily social distancing requirements and involve some scale economies

Issues were raised relative to particular country contexts:

- Canada
  - Canadian builders noted that immigration policies do not facilitate the arrival of a sufficient number of unskilled workers that could be employed in blue-colour construction jobs.
- UK
  - Three key concerns at this stage of the pandemic would be revenue uncertainty, build capacity and the number of sales outlets.
  - More concern about long-term labour and material supply with Brexit looming.
  - Government funding constraints may tighten rather than expand for housing and related infrastructure.
  - There are tensions in England regarding whether major reforms of the planning system are best advanced amidst the Covid-19 recession
• Australia
  ➢ Some argue that demand limitations mean that only the top 20-30% of the income distribution will be able to go to the market and buy a house at all and that a large segment of the population cannot now be served by developers; this seems to be a remarkable fixity of industry product preferences as rental housing and supply for middle and lower income households is required.
  ➢ Consumer preferences will alter in the pandemic.
  ➢ Higher rental vacancy rates are already becoming apparent in some major cities and if this continues there is unlikely to be any new supply at the affordable end of the market for some time.

4. Emergency Policy Response in the Housing Construction Sector

Since the beginning of the pandemic, the construction sector has been put forward as a potentially important conduit for stimulus measures. The main economic argument for this is that housing construction has a high and local multiplier effect and comprises a quite direct and fast route from government spending to wider impacts on jobs, incomes and local consumption. The networks work on better economic cases conformed the significant size of housing construction multipliers but also argued that the often ignored productivity effects of housing investment should also be considered for particular kinds of investments.

In the UK there has been a recommitment, to 2022, to the help-to-buy schemes which have been regarded by developers as a key form of support for developers as well home-owners. With potential house price falls of 10-15 percent over the next two years it is unlikely that take-up of these schemes will be extensive until after they are due to terminate. Arguably and this applies to similar stimulus schemes in Australia government will need to rethink the housing output that stimulus packages are intended to create. The shortage of skilled labour noted above also means that housing and skills programmes in governments will need to be effectively aligned.

In the Australian context the major stimulus announced to date allows owner-occupiers to qualify for $25,000 home renovation grants provided that they intend to spend $150,000 or more of their own money and employed builders to carry out the work. It can also be used as a cash grant towards building a new home and the cost of the policy has been set at $688 million dollars. It’s not yet clear whether there will be a large scale construction stimulus later this year. The President of CMHC has also (in mid-July), in Canada, dampened expectations of a large new housing stimulus programme and cited both the emerging shortage of fiscal resources in Ottawa as well as the significant National Housing Strategy Spending since 2016. An alternative view is that strategic resource commitments were made in a policy context with little priority for housing multiplier effects and that in the novel and dangerous context or covid-19 the Government of Canada may choose to debt-fund a stimulus programme. They key issue will really be, and CMHC make this point, is that it will be critical for feasible stimulus packages to maximise private funding leverage. Well-developed stimulus packages that will make a difference to housing outcomes as well as jobs and incomes remain undeveloped (at least in public) in all three countries. It is a worry that constructions sectors, with skills and materials shortages, are not ready for effective major stimulus but an even greater concern that governments have no clear strategic stimulus plans for housing that will work in the deep downturn of 2020 and 2021. In the Australian context, the severity of the Covid-19 recession, it is widely agreed, will be deeper and more prolonged that the modest GFC effects. The Commonwealth Government provided a housing stimulus package to counter the GFC that provided first-time buyers support of $1.5 billion and a social housing package of $6.4 billion. Most economic commentators observe that allocating $0.69 billion to cope with the Covid-downturn is a somewhat under-powered stimulus.
5. Summary of Post-Pandemic Housing Construction Sector Considerations

Network members made several widely applicable suggestions for more effective residential construction post-pandemic. These included:

- Promote innovation in housing construction sector, including material, technics, and process innovation etc. Encouraging the use of zero carbon homes, district heating systems, modular construction etc. Youth are more jobs ready – building construction moving to digital platforms, support workforce so they are jobs ready for a more digital world.

- Increase diversity and flexibility in housing construction industry: tenure, housing type and suppliers, to meet the needs of different people and households. We need to understand the barriers to diverse housing products and the barriers to affordable housing providers face when they try to get projects up. We probably need to talk about standards of new housing stock and design.

- Solve the skill shortage problem through housing stimulus packages linked to apprenticeships and skills training.

- For Not-for-profit affordable housing providers access to cheap land is important. For example, Homes England model – understanding is that all surplus public sector land is transferred into Homes England, who then deliver it into the affordable housing sector.

- Reform planning process. Promote viability and feasibility of planning process. Support from local authorities to keep that pipeline moving.

- Circumstances could be improved through increasing affordable housing supply across different tenure types and models.

- Housing treated as economic and social infrastructure. Through cost benefit and CGE analysis, realise the contribution of housing combined with the coordinated infrastructure provision.