

# Economic benefits of housing market activity

*The important contribution that the housing market makes to the UK economy is widely acknowledged, yet assigning a value to that contribution is complex. There is no single source of data providing comprehensive information about the total economic impact of a housing transaction.*

**T**his report, produced in partnership with the Home Builders Federation (HBF), attempts to quantify that figure. For the purposes of this study we have looked at the re-sales market, taking into account the spending associated with moving house in the UK. The full methodology is outlined in more detail on page 4.

The analysis shows that for every resales housing transaction that takes place, the economy benefits by around £9,559 on average. Scaling that figure up means that for every 100,000 housing transactions, there is a net impact of just shy of £1 billion.

In addition, more than 11,500 jobs are supported either directly or indirectly by these transactions.

The research is particularly timely given the current backdrop. Activity in the UK property market has been robust since it re-opened in May, due in part to the release of short and longer-term pent-up demand.

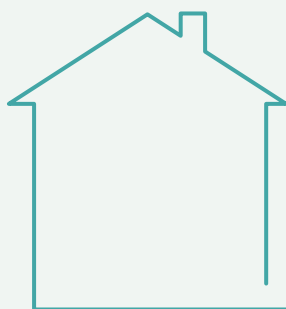
This trend has been accelerated by the announcement of a stamp duty holiday in July, which will run until the end of March 2021.

That the temporary tax break has been targeted at total activity rather than a specific buyer group is perhaps indicative of the fact

that the government recognises the positive contribution a liquid housing market can have on supporting the wider economic recovery. Indeed, in October, the Treasury claimed the move had already helped "protect hundreds of thousands of jobs, benefitting businesses across the housing supply chain and beyond".

The UK economy contracted by 19.8% in the second quarter of 2020 - the biggest quarterly decline since comparable records began in 1955. Oxford Economics expects the economy will contract by -9.7% this year as a whole. In the housing market, transactions are also expected

## Housing transactions contributions to economic growth



**£9,559**

Net contribution to GDP per housing transaction (existing homes)



**£955,943,416**

Net contribution to GDP per 100,000 housing transactions (existing homes)

to drop this year, down 15% on 2019 levels, though volumes are likely to remain relatively robust for the remainder of the SDLT holiday.

However, the wider economic mood is likely to remain subdued as the impact of a second national lockdown becomes clearer.

It is reasonable to assume that the factors which have underpinned the recent rise in activity will not last indefinitely, although the news on a Covid-19 vaccine is turning more positive, which may underpin activity.

The scheduled end of the stamp duty holiday also coincides with a scaling back of the Help-to-Buy equity loan scheme, as well as with the introduction of higher taxes for overseas purchasers and the scheduled ending of government support for employers, all of which could weigh on activity levels after March next year.

What happens with Covid-19 will, of course, be the deciding factor, but given the multiplier effect moving house can have on the economy, keeping the housing market moving could play an important role in supporting the recovery.

## Contributions to economic growth

Net impact per 100,000 transactions



**£538,961,848**

RENOVATIONS AND SPENDING ON HOUSEHOLD GOODS



**£72,095,058**

REMOVALS



**£30,592,848**

PROPERTY SURVEYS



**£314,293,622**

ESTATE AGENT AND LEGAL FEES

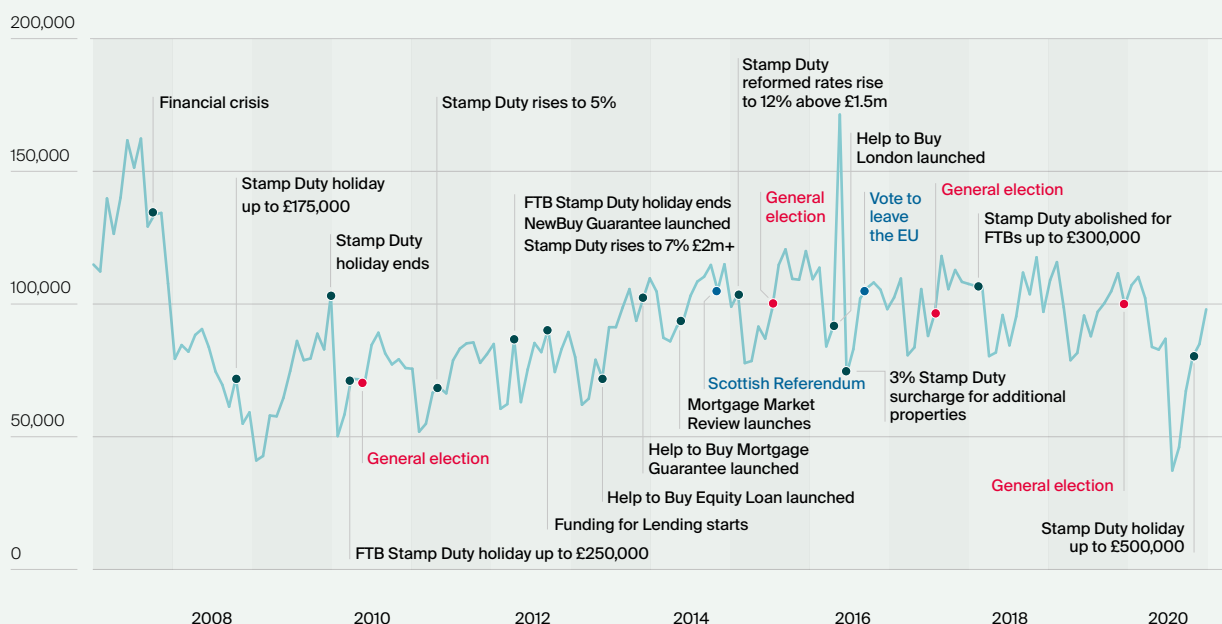


**11,557**

TOTAL JOBS SUPPORTED

## UK housing market transactions

Monthly sales volumes and key events impacting activity



Source: Knight Frank Research

## COMMENT



STEWART BASELEY, EXECUTIVE CHAIRMAN, HBF

In recent years we have begun to quantify the huge economic and social benefits that new housing development brings but the importance of the wider housing market to the national economy remains under-appreciated. While considerable focus is put on house prices, transaction volumes go less widely reported. But transactions in the housing market drive significant secondary markets and support a vast array of local and regional employment.

Over the course of the past decade, we have seen a 'new normal' level of

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**it is time for a proper discussion about the importance of freeing up the home mover market to allow for more housing opportunities for all households**

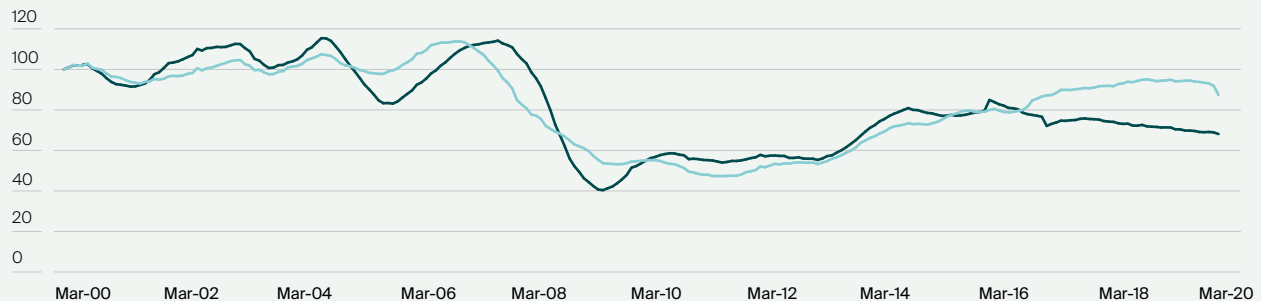
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housing market activity with some half a million fewer transactions per year compared with the highs of pre-2008. In spite of this, for much of this period the new build market has outperformed the wider market (see chart below), partly due to Help to Buy. With that support for first-time buyers being phased out over the next two years, it is time for a proper discussion about the importance of freeing up the home mover market to allow for more housing opportunities for all households, unlock greater labour mobility and provide the economy with a boost when it is most needed.

### New build homes v existing home transaction volumes (annualised)

Indexed 100 = Jan 2000

■ New build ■ Existing homes

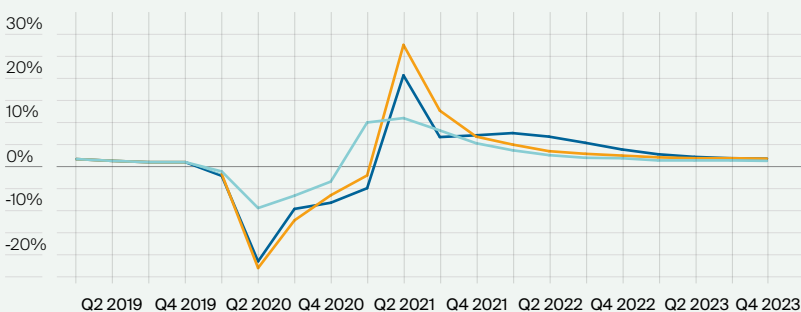


Source: Knight Frank Research / Land Registry

### A deteriorating economic outlook

Forecast annual change in GDP through the year

■ April ■ July ■ October



Source: Oxford Economics

### The economic footprint of UK house building

The HBF has previously released research assessing and quantifying the economic contribution of house building to the national economy which can be read [here](#).



## WHAT'S BEHIND THE NUMBERS?

Input-Output (I-O) modelling was used to evaluate the economic impact from the expenditure associated with moving home.

This economic technique is used for calculating the direct, indirect and induced impacts of economic activity on the overall economy. The model assesses the Gross Value Added (GVA) to the economy and the employment supported as economic indicators.

The sum of direct, indirect and induced impacts equals the total gross GVA and employment supported. We have accounted for a level of displacement within additionality considerations to assess the net impact.

## METHODOLOGY

### Gross Value Added

We agreed the level of spending associated with moving to a new house in the UK, including: Estate agents' fees, legal fees, conveyancing fees, removals, renovations and spending on household goods. These were then assigned to the relevant Standard Industry Classification (SIC) code and netted off any VAT.

$$\text{Direct GVA} = \sum_{(i=n)}^N \text{Expenditure}_i \times \text{GVA per output \%}_i$$

Where  $i$  is for each SIC code in which expenditure occurs and  $\text{GVA per output \%} = \frac{\text{GVA effects}}{\text{GVA multiplier}}$

$$\text{Indirect GVA} = \sum_{(i=n)}^N \text{Direct GVA}_i \times (\text{GVA multiplier}_i - 1)$$

$$\text{Indirect GVA} = \sum_{(i=n)}^N \text{Direct GVA}_i \times (\text{Type II GVA multiplier}_i - \text{Type I GVA multiplier}_i)$$

### Additionality

As per HM Treasury Green Book guidance, additionality will need to be considered. The level of additionality considers four factors which we outline below:

- Deadweight is output that would have occurred anyway, i.e. the number of housing transactions that would occur anyway. As this is a theoretical evaluation we are presenting the results as the level of impact an additional 100,000 housing transactions would have, i.e. the deadweight is assumed to be zero.

- Displacement is the idea that if the expenditure does not go on housing transactions some will have been spent elsewhere in the economy. It is likely that some of the renovations may have occurred without moving to a new home whilst other expenditures are unique to housing transactions. Whilst if they are not spending on housing some will be spent and some will be saved. For the purpose of this assessment we assume a level of 25% displacement as per the median level in the BIS guidance.

- Leakage is the impact which is felt outside the assessment area. As we are looking at the impact for the UK it is assumed that all benefits and expenditure will be with UK companies and therefore the leakage is zero.
- Substitution is when a firm substitutes a jobless person to replace an existing worker to take advantage of the public sector assistance. Due to the nature of this assessment it is assumed to be zero.

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