DTP VIEWS

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First Brexit, now Trump...housing sector reels from systemic shocks

– Sam McGrady, Director, DTP

Just when we thought the shocks to the system couldn't get any bigger than summer's Brexit vote, we now find ourselves discussing in all seriousness what 'President-elect Trump' will mean for the global economic and political outlook.

The parallels have already been drawn by many commentators between June's referendum result and Trump's eye watering victory in the US election on November 8. Most of the focus has been on the so-called 'left behinds' – the 'unheard' voters who felt both globalisation and the mass migration of recent decades has been of little or no benefit to their lives. The same demographic (mainly white and working class, but not exclusively) which hurled Britain out of the EU also swept Trump to power, or so the argument goes.

If social housing tenants are anything to go by, then there was clearly something going on in disadvantaged communities across the UK when the referendum votes were counted. More than two thirds of social housing tenants voted to leave the EU, while interestingly it seems most of the staff and boards of social housing landlords voted to remain. One impact of Brexit will be to understand how we bridge that apparent gap.

Overall, Trump's victory will be less easy for the social housing sector to gauge than Brexit (not least because it has only just happened and he himself is such an unpredictable, unknown quantity). At the same time, gauging the impact of Brexit certainly hasn't been easy up to now.

Our quarterly survey of senior housing professionals, set out in the Weather Forecast Group (WFG) report which we produce in partnership with HouseMark, this month concluded that Brexit hasn't had a major impact – so far. That isn't to say it won't, but, as yet, the impact has been limited.

However, those we spoke to all have Brexit and its potential fallout on their watchlist. For some, the issue has made it into their risk registers, while others are undertaking stress testing to calculate what the impact of different post-Brexit scenarios might be. On a positive note, many think the effects will be of a 'slow burn' nature – giving providers time to plan. In summary, the sky hasn't fallen in yet, and it probably won't do so at a rapid pace at least.

Beyond that, there is a lot to be uncertain about, and the WFG report uncovered a number of factors which are giving RPs cause for concern.

If Brexit, as seems likely, results in curbs on immigration and the free movement of people, this has a number of potential consequences for RPs. Some of those we spoke to suggested this could affect their ability to recruit and retain staff – especially those in maintenance/DLO or social care roles. Our report reveals a mixed picture with some not anticipating problems recruiting from the domestic labour force, while others felt the UK could face a post EU-exit skills shortage.

At the same time, if Brexit results in fewer people coming to the UK from Eastern Europe, some providers felt this could impact on the ability to rent out less popular homes. This was a concern in particular for some operating in the north of England.

Several contributors to the WFG report said they were concerned about the social cohesion implications of Brexit. Reported increases in hate crime, including racist incidents, could prove a challenge for landlords who felt they had made progress in this area in recent years. That disconnect between how many tenants voted in the referendum and how most provider staff/boards voted was also seen as another potential cause of difficulty.

Other negative side effects of Brexit included forecast cost rises associated with the fall in the value in the pound and an expected increase in inflation. This is likely to push up the cost of imported goods – with the effect on building materials especially problematic for our sector. Wider economic analysis suggests this will take hold in early 2017 and could impact on the ability to build the number of new homes required.

The loss of European Social Fund investment was also cited as a downside of the referendum result – especially its impact on training, employment and regeneration. The report also revealed there could be unanticipated impacts on pension fund contributions with one provider forecasting a £500,000 increase in its expected annual contributions to staff retirement schemes. For providers in the north, signs of a possible weakening government commitment to devolution and the Northern Powerhouse (as a result of a change in administration, a bi-product of Brexit) were also viewed with concern.

But as well as the threats, there were also possible opportunities from Brexit. The Bank of England's decision to reduce interest rates in the wake of the vote had helped some providers to reduce their borrowing costs, especially those who were in the process of refinancing their debt at the time. And some felt the UK could now become a more attractive investment proposition – especially for Chinese and other Asian investors with potentially positive implications for investment in housing.

In terms of the UK housing market, some contributors to the WFG report felt the heat could be taken out of house prices. This would be especially welcome in London where affordability is currently at its most acute.

On government housing policy, we gauged a mixed response. On the one hand, the change in leadership at the top of government has delayed clarity on new regulations and guidance in areas such as Pay to Stay, fixed-term tenancies, Voluntary Right to Buy and the sale of high value council voids. On the other hand, if the result is a shift of government of focus away from social housing, this could bring some welcome relief from the change and upheaval of the last 18 months. Some even sensed a more conciliatory mood coming from central government, and a softening of policy on home ownership is viewed as encouraging. At the same time, signals that there could be an easing of austerity were also welcomed.

A word of caution emerged from the report, which the whole sector might do well to pay heed to. While Brexit is likely to result in a big shift of course for the UK, one contributor at least suggested we would do well not to react too drastically before the split happens. It's vital we don't become over-focused on Brexit and risk creating a self-fulfilling prophecy, they argued. In fact, the approach which much of the sector is adopting seems sensible – maintain a sense of 'business as usual' while keeping a watchful eye on developments. Barring any further major shocks (and who would rule those out?) this should hold us in good stead.