Brexit should reduce the cost of housing

Dan Lewis shows why building materials could be cheaper after Brexit and housing more affordable

Depending on your point of view, Brexit is somewhere between the end of the world and bright sunny uplands for decades to come. Since the vote to leave though we have all been given the opportunity to look in detail at specific sector impacts and make our cases for what Brexitpocalypse or Free Trade Nirvana looks like.

As one of those who tends to side with the latter, one of those areas I have been studying are the 12,655 import tariffs of the Customs Union. As part of our EU membership fee, these are imposed on goods produced outside of the EU. The work is free to view at www.eutariffs.com , a platform of the Economic Policy Centre. These tariffs are collected by HMRC, last year amounting to just over £3 billion, a not insignificant sum.

And what I discovered was that with so many tariffs in force, virtually no sector was left untouched, including construction. Using agreed international coding conventions set by the World Customs Organisation, all tariffs are organised into 28 Sections, then sub-divided into 98 Chapters, then once again into a large number of Titles. The most relevant for the building sector is Section VIII – Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware – encompassing 341 tariffs on 3rd countries – those large parts of the world that do not have trade deals with the EU, including India, China, Russia and the USA. And here are some examples of what they are:

To be fair, compared to the 12,000 other tariffs, many of these are actually quite low and are more of a nuisance factor than a business critical margin. But that's not the whole story. Most property developments these days are leveraged returns on a low price of debt in a rising market. So a three per cent saving adds up to rather more than the headline figure. Further, there is a dynamic impact that money that would have been spent of tariffed goods, can now be put to more productive uses elsewhere, on a cumulative basis. And are they even worth paying customs agents to collect?

Another angle here that we must consider here is VAT. One of the conditions of membership of the European Single Market is to have a minimum standard VAT rate of 15 per cent, with the option of applying one or two reduced rates at a minimum of five per cent on approved goods and services. The UK's standard rate is now 20 per cent which applies to most building materials. Were the UK post-Brexit to exercise its newfound fiscal sovereignty, it would have the option of reducing the standard rate VAT below 15 per cent and that would have a much more significant impact on costs than tariffs. As it stands, within the EU, we only have the freedom to increase it above 15 per cent, which we already have done twice since 2009. In fact, the EU also sets the threshold at which VAT must be levied at £83,000. Here again, the UK could help small construction businesses and building suppliers and, indeed, many other SMEs, by raising the compulsory registration threshold to, say, £250,000 if it chose to after Brexit.

According to Stephen Herring, Head of Taxation at the IoD, lifting the threshold will be a lot less fiscally expensive to the Exchequer than reducing the VAT standard rate, which costs the Treasury over £5 billion for every one per cent cut. He also commented that there are some more tax technical areas where the legislation should be reformed post-Brexit to assist UK businesses including the rules which affect construction projects for financial services and other partial exempt businesses.

Moreover in the debate on housing in the UK, we do seem to be stuck with three rather vital questions over input costs that overlap with the wider Brexit impact;

Can Britain provide enough land and planning permission to build enough homes to house its fast growing population?

Do we have the resources in place, the brick factories etc. to ramp up supplies to meet the oft-proclaimed target of 250,000 homes a year or 1 million new homes by 2020?

Do we have enough affordable, skilled tradesmen and builder to reach that target?

Looking back over the last few decades and years, you'd have to say no to all of these questions. Housing is social infrastructure and Britain being Britain, there are always major time lags between demand and supply in infrastructure, especially when it is privately provisioned. There is no return in building for spare capacity but plenty in supplying a world of limited supply and excess demand. Largely thanks to government restrictions, the private sector has not delivered the annual build rate required since the 1930s. Back then, new mortgage financing combined with no green belt and few planning restrictions took the annual completion rate to 370,000 – a level never since surpassed.

Granted, the building industry has long profited from cheaper imported labour, most recently from EU countries like Poland and Romania. But will cheaper imported building materials post-Brexit compensate for the loss of at least some of this labour post-Brexit?

One also has to take a view of the future and not just a linear one. Over the next 25 years, one can start to expect some changes that dramatically affect land prices and geospatial economics;

i) The emergence of cellular agriculture, where meat is cultured in bioreactors, reducing the agricultural land requirement for growing feed and rearing animals by 95 per cent

ii) Where internet network speeds and 3D projections exceed real life definition – heralding the launch of the virtual reality, stay at home economy.

Dan Lewis is Chief Executive of the Economic Policy Centre and runs www.eutariffs.com

Should these both come to pass, we may actually start to see urban agglomeration economics head in the opposite direction, rejecting density and a return to larger suburban family homes with gardens, rather than the vogue for building flats in city centres. Together, these will herald a far bigger change than Brexit ever could.

It is early days for pre-Brexit, post-vote Britain. We should accept that come 2020 onwards, there is a lot of difference between a good trade deal with the EU, a bad deal, no deal, what the UK chooses to do next and indeed what other non-EU nations choose to do with us.

In 1972, Chinese Premier Zhou Enlai was allegedly asked what he thought was the impact of the 1789 French Revolution. He replied it's too early to say. I suspect it's much the same for the post-Brexit construction and housing industry today. But getting rid of most if not all of these tariffs, will be a positive and welcome boost for most of the country and a fine opening start to the post-Brexit era.

Description	**Tariff**
Prefabricated structural components for building or civil engineering	1.70%
Tiles, flagstones, bricks and similar articlesOf light concrete (with a basis of crushed pumice, granulated slag, etc.)	1.70%
Boards, sheets, panels, tiles and similar articles, not ornamented Other	1.70%
Windows, French windows and their frames Coniferous	3.00%
Assembled flooring panels For mosaic floors	3.00%
Articles for electrical lighting fittings (excluding searchlights and spotlights)	5.70%
Doors, windows and their frames and thresholds for doors	6.00%
Panels, boards, tiles, blocks and similar articles of vegetable fibre, of straw or of shavings, chips, particles, sawdust or other waste of wood, agglomerated with cement, plaster or other mineral binders	1.70%
Leaded lights and the like	3.00%
Prefabricated buildings - Mobile homes	2.70%