

## Briefing Paper

### Northwest Annual Housing Conference 2010

April 2010

#### 1. Introduction

- 1.1 On 26<sup>th</sup> February 2010 I attended the Northwest Annual Housing Conference 2010 (organised by the Northwest Housing Forum) at Bolton as a representative of the Campaign to Protect Rural England.
- 1.2 The Northwest Housing Forum consists of the 39 strategic housing authorities and eleven arms length management organisations that operate in the region and the regional branches of the National Housing Federation and the Chartered Institute of Housing.
- 1.3 This briefing paper summarises the presentations that were made at the conference.
- 1.4 The conference also received the Northwest Housing Forum's Annual Report for 2010. The report addressed:
  - Raising the Profile of Housing Issues in the Northwest
  - Representing Members at the Regional Level
  - Support for the Sub-Regions
  - Housing Northwest Partnership
  - Forum Review
- 1.5 Councillor George Davies, Chair of the Northwest Housing Forum said that:

*"These have been challenging times as we have dealt with the impact of the recession on both organisations and residents. There have also, however, been opportunities, particularly through the Government's Housing Market Rescue Package, with a positive response to those opportunities from the region. As we now start to come out of that recession it is time to look forward, there will be new and different challenges, and we cannot underestimate the longer term impact that the past two years will have.*

*"As we do move forward, the only real certainty is change. By the summer we will have a new Government."*

## **2. Homes and Communities Agency (Robert Napier, Chair of the Homes & Communities Agency)**

- 2.1 The Homes & Communities Agency was launched in December 2008 at a time of recession, a banking crisis and property market decline. It was therefore a good time to make a new start with integrated housing and regeneration budgets and activities. Consequently the Agency has had to be flexible and innovative.
- 2.2 The financial model for Housing Associations has been tested with the loss of cross-subsidy and limits on credit. The Agency has played an important role in stabilising the situation with flexible (increased) grant rate; and by helping to deal with unsold stock. Nonetheless, social housing starts in the Northwest have fallen from 20,000 a year to 7,000 a year against a target of 23,000 a year.
- 2.3 Following the 2009 budget, £2billion was invested in the housing sector and was used to 'kick start' stalled sites. Of this £800million was for the affordable housing programme and £100million for low carbon schemes. Developers have been offered loans, equity and gap funding. The taxpayers' money that has been used for investment has not always been a subsidy. £48million was allocated to the Northwest that led to the building of 1,532 homes many in pathfinder areas.
- 2.4 Homebuy Direct has been introduced where a home is owned 70% by the buyer, 15% by the developer and 15% by the Agency. The Agency puts in money as equity and then gets it back when the owner staircases. Local authorities often contribute by building on their own land.
- 2.5 The Agency spent £4.9billion in 2008/09 and £7.0billion in 2009/10. This has led to the building of 53,000 affordable homes and some private sector homes representing about half the houses built in England.
- 2.6 Since December 2008 the Agency has focused on housing but it is also concerned with place and communities. The single conversations have brought together the democratic mandate of local authorities with other partners.
- 2.7 The reduction in the Agency's capital receipts since 2008 has reduced the viability of regeneration schemes. However, regeneration is a long-term game. The Agency has a fifteen year approach and so had always expected a downturn at some time.
- 2.8 The pathfinders were passed to the Agency as a delivery responsibility and since then the Agency has integrated pathfinder spending with other Agency budgets. There are still neighbourhoods that suffer from poor housing, market failure and deprivation and that need sustained physical and social investment.
- 2.9 Regeneration has slipped down political agendas and so the Agency needs to maintain awareness of the need for regeneration investment.

- 2.10 The 2010 Comprehensive Spending Review will lead to a reduction in public funding. As Housing and Regeneration are not high political priorities they will suffer cuts. To maintain outputs the Agency therefore needs to develop a model of 'more for less'.
- 2.11 Rent levels and tenures are seen as 'hot political potatoes'. While the Tenant Services Authority is involved in rent setting, changing rent policy is not 'a subject currently on the table for political reasons'.
- 2.12 The Agency considers that there are plenty of opportunities to develop and achieve more outputs per £. Current models are not sustainable as they are too dependent on government subsidy. There is therefore a need to be flexible and innovative going forward. The emphasis must be on co-Investment and partnership rather than subsidy. Investment will be made as a loan or equity with a return anticipated and cash recycled.
- 2.13 Greater use could be made of land held by the Agency, and central and local government. Local authorities should use land as an investment tool rather than as a source of capital receipts. There are already good examples of this across the Northwest including some small areas of land such as former libraries and filling stations.
- 2.14 Housing Associations have considerable assets and this raises the question of whether borrowing capacity is under-utilised. The Agency wants to find incentives for this capacity to be better utilised. There is a need to make £30billion of investment work better for taxpayers and residents. Equity investment is seen as part of this.
- 2.15 There is a need to drive down costs, especially of development. If the risk profile could be adjusted it should be possible to drive down developers' margins and costs. More attention should be paid to procurement and maintenance costs. There would be advantages in housing associations doing stock swaps.
- 2.16 The three key points are:
- Move from subsidy to equity
  - Make better use of assets
  - Be hard on costs
- 2.17 There is the challenge of taking a strategic lead in challenging climate change and the low carbon economy, addressing both new build and existing stock. There is a need to drive down the carbon footprint including values at level four. The next step after Decent Homes is a major retro-fit to achieve low carbon in all tenures. At an estimated cost of £10,000 to £20,000 a dwelling it will cost between £200million and £400million. Low carbon homes are good from all points of view as they have lower utility bills and the work will create employment in the construction industry.
- 2.18 The Agency helps 400,000 people a year to live in a better place and to have better life opportunities. This includes 50,000 people a year in the Northwest.

- 2.19 A Housing Association Chief Executive criticised the Agency for being more difficult to work with than the Housing Corporation. There have been no simplification of processes and no certainty for financial projects. Appraisal is slower. There is no flexibility around government funding or the code for sustainability. The conversation is going on but is one sided. The focus is on 'more for less' rather than on the Agency improving its processes. To unlock equity in the housing stock there is a need to raise revenue to finance loans so Housing Associations have no capacity to borrow despite their assets unless rent policy is revised.
- 2.20 Robert Napier responded by saying that he did not believe that the 'kick start' initiative would have happened with the Housing Corporation but that if things were not happening at the local level that was not satisfactory. In Cumbria, the Agency had inherited disparate funding streams that were not focused on economic growth and inclusivity. The Agency is trying to turn this round but it will take time. The Cumbria Sub-Regional Investment Plan is expected to be concluded in April 2010 but it is led by the local authorities with a wide range of housing association partners so it is difficult to engage effectively but from April there should be a shift to the local determination of priorities and closer working.
- 2.21 Increased numbers are renting in the private sector because of the shortage of social housing; and younger people often prefer private sector housing to co-ownership.
- 2.22 'More for less' can be achieved despite the risk-averse nature of banks and developers. Pension funds are looking for security and long-term returns and could be persuaded to invest in social housing if they could be offered sufficient certainty.
- 3. Developing an Evidence Base for the Regional Strategy (Professor Philip Leather)**
- 3.1 The Regional Strategy 2010 is a long-term strategy. Three of its themes are relevant to housing:
- Meeting Housing Needs
  - Tackling Regeneration
  - Enabling Housing to contribute to Climate Change
- 3.2 The full Northwest Evidence Base Review is available at [www.nwriu.co.uk/documents/Housing.pdf](http://www.nwriu.co.uk/documents/Housing.pdf).
- 3.3 Short-term challenges include:
- Impact of the credit crunch and the recession – not just short but also some medium to long term impacts.
  - Severe reduction in turnover continuing to 2011/12. Housing market turnover is now less than 50% of its peak level.

- Less impact on prices than anticipated, so little improvement in affordability to date. Affordability got significantly worse from 2003 to 2007 and has not improved much since then.
  - Prices to remain around current levels without rapid recovery or decline and no real growth for several years.
  - Problems of access to loans and credit terms compounding problems for first time buyers including deposits, loan supply and higher risks that is likely to continue for three to five years. First time buyers have to make larger deposits and take out smaller loans.
- 3.4 The Northwest Economic Forecasting Panel considers that unemployment will increase until 2012 and remain high until 2020 when employment levels may recover to 2007 levels. From 2010 there are predicted to be significant reductions in public sector employment but reductions will also occur in the private and third sectors.
- 3.5 Further short-term challenges include:
- If mortgage interest rates rise and as fixed term deals end, more people will experience mortgage distress.
  - Significant numbers of buyers with potential negative equity.
  - Eventual increase in repossessions despite forbearance and other measures.
  - Unemployment will continue to rise and stay high leading to further income polarisation and more benefit dependency.
  - Supply will remain well below targets as banks remain highly risk averse.
  - Increasing challenges in meeting density and PDL targets and securing affordable housing from private developers.
  - Increased dependence on public sector funding or land inputs to generate affordable housing
  - Some reduction in household formation rates due to reduced migration and higher unemployment.
- 3.6 An increase in private renting of 80,000 people nationally, including 10,000 in the Northwest has been experienced along with a reduction in owner-occupation. There has been a reduction in household growth since the review with less migration and household formation and more sharing and overcrowding. Housing problems would have been worse had it not been for the efforts of government, local authorities and the Housing Corporation. This action helped to stabilise house prices. There is no sign of the housing market being able to stabilise itself.

- 3.7 In the medium to long term growth and demographic change can be expected including:
- Resumption of household growth well in excess of past and current supply. Household growth has been the main issue until the recession and it can be assumed that it will resume when the recession is over. This is caused by migration, smaller households, increased birth rates and longevity. Under supply of housing is likely to reduce new household formation and increase rents. However, this is likely to result in 'unexpressed households' such as people living with their parents and separated couples living in the same house that could have a negative impact on aspects such as health and education.
  - In some areas higher natural population growth levels as a result of the youthful population structure, especially areas of BME communities or recent migration – this will exacerbate overcrowding and related problems. There will be differing demand and need patterns in these areas.
  - In some areas, significant population ageing will create high demand for supported housing services and potential labour shortages with associated housing supply implications in high cost areas.
  - In the Northwest natural change is expected to be more significant than migration between 2006 and 2031. The problem of low demand that was experienced in some areas in the 1990s is no longer present as the low population growth that was experienced then has now been replaced by inward migration and higher birth rates.
- 3.8 It is expected that in 2031, household composition in the Northwest will be 40% single person households, 32% married couple households, 13% cohabiting couple households, 8% lone parent households and 7% other households.
- 3.9 Medium to long term challenges related to the economy and demand include:
- Economic change precipitated by the recession will have differential local impacts. Across the board the growth of unemployment, inactivity and lower paid service sector employment will produce more income polarisation with more well paid and poorly paid employment. This will be connected to a decline in manufacturing and a growth in service industry.
  - There will be a decline in owner-occupation and an increase in private renting. This will be caused by competition from investors, increasing numbers of low income households, inability of some households to meet lending requirements and less availability of sub-prime mortgages. There will be increased reliance on family support to enter home ownership. Amongst owner-occupiers it is expected that there will be a decline in numbers with mortgages and an increase in numbers without mortgages.
  - Growth in the private rented sector will follow the requirement to meet need through private rented supply.

- 3.10 Medium to long term challenges related to managing and meeting need include:
- There is potential for increasing under-investment in existing stock and high localised vacancy rates as the role of investors increases
  - A major challenge of managing the Private Rented Sector to secure better conditions, tenancy terms and management standards. The sector is not able to meet need in its current shape. It needs to become suitable for a wider range of groups. There needs to be provision for security of tenure as people need stable housing.
  - Without significant intervention there will be overcrowding, concealment and sharing due to chronic under supply.
  - Growth in demand for social rented housing will more strongly focus the most deprived and workless in the social rented sector and challenge mixed communities policies.
  - There will be a shortfall in affordable provision from the public and private sectors. This will be exacerbated by the Right to Buy and restrictions on funding.
  - Action will be required on private sector stock condition and to address CO2 omissions.
  - It was reported that in Burnley terraced houses were being bought by absentee landlords who were allowing the houses to deteriorate to the detriment of the local neighbourhoods. It is not clear how this can be controlled or regulated although there is a need to ensure that the private rented sector is run properly.
- 3.11 Medium to long term challenges related to sustainability, regeneration and renaissance include
- Weakening of regional strategic frameworks, especially strategic planning through PPS3 land supply requirements and the proposals to abolish the Regional Spatial Strategy.
  - Pressure to secure supply in areas where private market is willing to supply it – a threat to regeneration and renaissance.
  - An increasing proportion of supply in the most attractive and lowest development cost sites and the migration of the most affluent to these locations.
  - Ongoing affordability problems in rural areas, unless rising oil prices make commuting and long distance retirement very unattractive.
  - New vehicles for housing supply and affordable housing.
- 3.12 The political desire to sustain and increase high levels of owner occupation is seen as unrealistic. Other countries do not have such high levels of owner occupation and market forces are leading to a trend away from owner-occupation to private renting.
- 3.13 The recovery of the economy is seen as critical in securing the recovery of the housing market and the solution of the problems that have been identified.

#### **4. Implications of the Recession for Housing Policy (Professor Philip Leather)**

- 4.1 Gross Domestic Product fell sharply from the end of 2007 and by mid-2009 the economy had contracted by 5.7% over the previous year. The rate of decline has now levelled off. There was a return to growth at the end of 2009. However, the Bank of England's projections are for growth of between +6% and -1% between now and 2012.
- 4.2 In the Northwest, unemployment fell slightly in the late quarter of 2009 to 300,000 (8.7%), lower than the Northeast and West Midlands but higher than in the south. The number of job seekers' allowance claimants is still increasing and currently stands at 3.2%. 70.8% of people are in employment and 77.9% are economically active.
- 4.3 Sectoral change is being experienced as follows:
- Financial and business services sectors, the construction industry and the retail sector have seen the largest fall in the number of jobs.
  - Highest increases in claimants by occupation are in sales, elementary and administrative occupations and skilled construction.
  - Private sector employment has fallen sharply, while public sector employment has increased slightly, although some of this relates to the public ownership of banks. Lloyds and the Royal Bank of Scotland are now classed as in the public sector
- 4.4 The housing market experienced a boom between 2002 and 2007 with house prices increasing faster than incomes increasing unaffordability. The boom was characterised by:
- Relaxation of lending criteria, sub-prime lending, self-certification, high loan to value ratios and new lenders.
  - Migration driven demographic growth
  - Investment including buy to let mortgages
  - High prices and a decline in home ownership.
  - Breaking the link between first time buyers' incomes and house prices.
- 4.5 The credit crunch and the recession have been characterised by:
- Credit Crunch – Loss of confidence by buyers, severe reduction in loan availability and rapid collapse of the new build apartment sector.
  - Banks are only happy to lend where people have 40% to 60% equity.
  - Falling house prices, but no relief on affordability. The fall is now levelling off.
  - Reduction in sales turnover.
  - Reduction in mortgage availability and worsening terms. This is likely to be a long-term issue. Mortgages are theoretically available but are not as accessible as before. It is now difficult to use equity to secure loans for home improvements.
  - Mortgage repayment problems. These have been deferred in the short-term.
  - Crisis in the development industry with a collapse in supply.
  - Demographic demand is reduced but still strong.

Appleby Business Centre, Bridge Street, Appleby in Westmorland, Cumbria. CA16 6QH.  
Telephone: 017683-52165 or 52347. Mobile: 07502-142658. Fax: 017683-54005.  
Email: [Adrian.waite@awics.co.uk](mailto:Adrian.waite@awics.co.uk). Websites: [www.awics.co.uk](http://www.awics.co.uk) and [www.awics.eu](http://www.awics.eu).

- There are no longer improvement or renovation grants
  - Individual planning applications are needed for extensions.
- 4.6 Declining house starts are now feeding through to declining completions. Local authorities want to carry out their own developments and facilitate development in the private rented sector. The under-occupation of social housing, for example single people living in family homes, is seen as a problem.
- 4.7 Many areas of the Northwest are 'red-lined' as unaffordable and existing affordability measures are seen as being of limited use. The Homes & Communities Agency is under pressure to increase the number of new builds and / or to buy on the market.
- 4.8 Across the United Kingdom there are 903,000 households (5% of the total) in negative equity and a further 1,100,000 (6% of the total) with less than 10% equity. In the Northwest the corresponding figures are 119,000 (6%) and 110,000 (5%).
- 4.9 It is important to separate out the long term issues relating to the restructuring of housing and labour markets from the short term challenges posed by the current recession.
- 4.10 Long term change includes:
- An increased reliance on market forces to distribute housing and meet housing need.
  - A reliance on markets has been accompanied by increases in income and wealth inequality.
  - A persistent decentralisation of employment and housing.
  - New housing supply has developed a long term downward trajectory.
  - The Northwest region has become more spatially polarised.
- 4.11 This has led to:
- The proportion of dwellings that are accounted for by the social rented sector is falling, and will fall faster in the next decade as new build will be restricted by the national crisis in public sector finance.
  - Because of rising inequality in income and wealth, housing assets are being concentrated in fewer hands which means a fall in owner-occupation and a rise in private renting.
- 4.12 Housing Supply shows the following characteristics:
- There is a positive but imperfect long term relationship between change in Gross Domestic Product and new housing supply.
  - The long term trend in housing construction is downward.
  - New housing development is not correlated with levels of employment or unemployment.
  - Supply of new property is not responsive to increases in price. It is 'supply inelastic'.

- Supply is constrained by the business model adopted by the development industry and restrictions on the supply of land. There is a history of construction activity falling rapidly during a recession and being slow to recover afterwards. This was especially marked after the 1990/91 recession.
- 4.13 The economic context is as follows:
- Clear differences in economic performance between urban and rural areas.
  - The areas worst affected by recession are the old manufacturing centres.
  - The income profile in post-industrial cities is ‘hollowing out’ – with housing market impacts.
  - Some areas are relatively unscathed by the recession – these have experienced real private sector employment growth and are located to the west and south of the conurbation.
  - Areas disproportionately dependent on public expenditure, such as West Cumbria, will experience a further economic contraction
- 4.14 Recent housing market changes include:
- More economically resilient areas outside the conurbation are less hard hit by price and turnover falls as are commuter areas.
  - Aspiration and income inequality are influencing price change even during a recession, reflecting how deep seated these drivers of change have become.
  - The map of price changes reflects the changing economic geography of the Northwest and could also act as a proxy for the distribution of income and wealth.
  - There are vulnerable loans in major urban areas.
- 4.15 Short term policy issues include:
- The General Election of 2010 followed by the Comprehensive Spending Review that will cover the period 2011 to 2014.
  - There is a clear need to secure a funding line in this review to support housing supply in regeneration areas and areas experiencing high demographic growth.
  - The extent to which this should take precedence over refurbishment and other housing activity will need to be the subject of regional debate.
  - Housing strategies need to be reviewed in the light of both the long wave of change identified and the immediate crisis stimulated by the credit crunch and the associated recession.
  - New models of delivery are needed and interventions to replace the traditional model of development that is partly driven by land speculation.
  - The model for delivering affordable housing is broken, and we need alternatives after 2014 when public expenditure may be considerably lower.
  - There will be a public sector recession in the period 2011-18 and understanding the impact of this on housing and labour markets will be key to implementing effective interventions to mitigate the negative outcomes.

4.16 Longer term issues include:

- Urban areas are vulnerable to further manufacturing decline against a backdrop of projected increases in population and households. This is an unusual set of circumstances.
- Owner occupation is unlikely to be sustained at its current level in these areas. Private renting poses challenges.
- Any major decline in owner-occupation will have an economic impact through a reduction in consumer expenditure, for example, on improvements and renovation.
- The Homes & Communities Agency is exploring public sector stimuli for the growth of the private rented sector via institutional finance to raise the quality and quantity of the sector through new build.
- The new build market in the conurbations will be influenced by economic success from within the BME communities. This is already evident.
- New and developing employment centres outside the urban areas may also attract developments for key workers.
- If the supply inelasticity continues alongside increasing demographic growth, the outcome will be an increase in the utilisation of the existing stock. For some communities, this will mean an increase in overcrowding, sharing and concealment.
- This confirms the need for greater integration between economic, planning and housing strategy and policy.

4.17 The Northwest has traditionally had low demand. For the next ten years it will be very difficult to get funding in the North. New supply will get thinner on the ground. There is a need to make links with national policy agendas. If the Conservatives gain power they would delegate planning powers to local authorities and less development could result. There is a need to make better use of existing assets – for example, the Northwest has a large number of empty houses that could be brought into use.

4.18 It was reported that in Barrow there are between 2,500 and 3,000 private rented properties many of which are of poor quality and / or are badly managed. There are only two officers for enforcement and this is not sufficient. There is a need for additional funding for regulation.

4.19 A Housing Association Chief Executive raised the question of where demand to fuel growth will come from in future. In Cumbria there are a lot of micro-economies and in reality things are different from the regional spatial strategy. There is a recession and a lack of public funding. The Homes & Communities Agency is already spending in 2010/11 at a third of the level that it spent in 2009/10. In future, investment will be driven by the private sector that will only want to invest in growth areas. The question is how social housing could make the most of planning gain. In practice development will concentrate in growth areas and the likely effect in other areas is a concern.

## **5. New Models for Delivery (Claire Griffiths, Plus Dane Group and Mark Patchitt, Riverside)**

- 5.1 The context is the position with demand and supply that can be summarised as follows:
- There are over 500,000 people on social housing waiting lists in the Northwest – a 50% increase over five years.
  - During 2008 housing starts fell by 67% in the Northwest.
  - 18,000 fewer homes were built nationally in 2009/10 than in the previous year. This was the lowest number in any peacetime year since 1923/24.
  - 150,000 construction jobs are likely to disappear across the United Kingdom.
  - Housing Associations built 45,000 homes in 2009/10 with the support of government and the Homes & Communities Agency.
- 5.2 The political context is one of uncertainty. Housing is not high on the agenda of any of the main political parties. Spending cuts are inevitable.
- 5.3 The financial context can be summarised as follows:
- Challenging public financial position.
  - Reductions in capital budgets of 20% are expected.
  - The Labour Government has made a commitment to halve the deficit in four years as outlined in the Fiscal Responsibility Bill.
  - Analysis suggests that public housing budgets will be reduced by 18% a year during the period 2011 to 2014. This would result in only half of the million homes planned for 2020 being built. This compares with reductions of 5% a year from 1979 to 1997; increases of 3% a year from 1997 to 1999; and increases of 13% a year from 1999 to 2011.
- 5.4 The National Housing Federation has issued an election manifesto that suggests:
- Investing £11.7billion to build 150,000 homes between 2011 and 2014.
  - Each £1billion will keep 21,000 construction workers in their jobs.
  - Maintaining Housing Market Renewal funding at £1billion over the next three years.
- 5.5 There is a Development Strategy Group in the Northwest that includes Housing Associations and Arms Length Management Organisations. They have looked at new ways of building affordable homes and sustainable communities. The models developed include
- A commitment to collaborate
  - Reporting back to all developing associations through the Federation Development Group
  - A focus on sustainability including financial, tenure mix and flexibility, environmental, people and place and greater flexibility for households and homes.
  - Fuel poverty is addressed through having household emissions at 30% of the average.

**Appleby Business Centre, Bridge Street, Appleby in Westmorland, Cumbria. CA16 6QH.**  
**Telephone: 017683-52165 or 52347. Mobile: 07502-142658. Fax: 017683-54005.**  
**Email: [Adrian.waite@awics.co.uk](mailto:Adrian.waite@awics.co.uk). Websites: [www.awics.co.uk](http://www.awics.co.uk) and [www.awics.eu](http://www.awics.eu).**

**Managing Director: Adrian Waite MA CPFA ACIH FIPSM.**  
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5.6 Questions to consider include:

- How can we offer flexibility of tenure?
- How do we achieve mixed communities in a recession?
- How do we attract new investors?
- What opportunities are there in the environment agenda?
- How do we make the case politically for the need for funding?
- Does the changing demography offer opportunities for new delivery approaches?

5.7 Plus Dane Group has developed a flexible funding and partnership model. The model captures:

- Investment – Grant, Equity, Assets and Borrowing.
- Outcomes – Regeneration, Mixed Communities, Sustainable Communities and Economic Growth.
- Partners – Homes & Communities Agency, Local Authorities, Developers, Registered Providers, Investors and Communities.
- Outputs – Homes, Infrastructure, Amenities and Jobs.
- Investment Returns – Assets and Equity, Recycled Grant, Traditional Profits and Dowry.
- Structure – Local Housing Company, Community Land Trust, Public / Private Partnership and Asset backed Vehicle.

5.8 The model enables Plus Dane Group to:

- Respond to the need for greater innovation in funding and partnership.
- Scenario test options for funding and partnerships in reality.
- Market and secure buy-in from partners and funders.
- Understand how to structure a partnership and to use flexibility to secure deliverable outcomes.
- Capture ‘thinking’.

5.9 The model plans, understands and illustrates:

- New ways to structure partnerships.
- Deferring Value.
- Capturing equity and returns differently.
- Capturing capital and revenue in one place.
- Taking returns flexibly.

5.10 The model:

- Is not a magic bullet.
- Must speak to the existing models of Plus Dane Group’s funders.
- Should allow Plus Dane Group to plan, illustrate and scenario test their big ideas.
- Will not generate additional surpluses or returns.
- Will not provide a full financial appraisal or business plan.
- Will not address the legal framework.
- Is working for a single partner.

**Appleby Business Centre, Bridge Street, Appleby in Westmorland, Cumbria. CA16 6QH.**  
**Telephone: 017683-52165 or 52347. Mobile: 07502-142658. Fax: 017683-54005.**  
**Email: [Adrian.waite@awics.co.uk](mailto:Adrian.waite@awics.co.uk). Websites: [www.awics.co.uk](http://www.awics.co.uk) and [www.awics.eu](http://www.awics.eu).**

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- Needs to be road-tested on a real project and then replicated to involve multiple partners.
  - Needs the user manual to be embedded.
  - Needs training of the staff administrator and users to be rolled out.
  - Needs accreditation and peer review.
  - Needs copyright.
- 5.11 The next steps are to:
- Aim to have a full working model operational by the end of March 2010.
  - Work with a number of partner agencies that have expressed interest in reviewing real opportunities in the model including the Homes & Communities Agency, Local Authorities, House builders, Developers and Landowners.
- 5.12 The Riverside Partnership have worked within a local authority led neighbourhood strategy in the Lee Valley. The scheme was based on the Northern Way recommendations for 'near market municipally built housing' that included intensification (better use of land assets), mixing it up (diversification of tenure), distinctiveness (avoiding monotony of housing provision) and Quality (improving the relationship between the built environment and open spaces). The Lee Valley targets were to build 500 more homes, reduce social rented housing stock by 5% (despite the fact that residents wanted more social housing to enable new generations to live in Lee Valley), increase provision for older households to 15% (and improve the design brief) and to increase quality (especially to address the negative image of Lee Valley outside the estate).
- 5.13 The Strategic Housing Market Assessment identified a need to demolish some flats and replace them with homes for sale and shared ownership.
- 5.14 The proposals for housing regeneration funding were;
- A more flexible approach to tenure outputs – that Housing Associations are best placed to deliver.
  - Investment in the environment to improve values as well as Quality of Place
  - Re-think the use of existing assets as part of the wider housing offer.
  - To consider how local authorities and the Homes & Communities Agency can lever in additional Housing Association investment.
- 5.15 Another Riverside development is Weston Heights at Stoke on Trent that is based on flexible tenure outputs. This was a joint venture with Lovell called Compendium. Lovell built to sell but there was a one stop shop that also included shared ownership. Recycled capital grant was used to finance shared ownership. Riverside de-risked the scheme for Lovell by guaranteeing a shared ownership sale if there was no market sale. This enabled Lovell to continue to build through the recession.

5.16 Riverside has re-thought the use of assets in a Housing Market Renewal Area of Merseyside that includes Tranmere. They have sold houses at 75% of their value as a way of diversifying tenure on condition that the owner stays in the house for at least five years. The proceeds have been used to fund housing for the elderly.

5.17 Housing Association investment has been levered in by:

- Investing in environmental improvements including through section 106.
- Deferring land receipts (and possibly investing them as part of shared equity).
- Setting longer term (not immediate) targets for return on investment thus de-risking development for sale.

## **6. Housing and Regeneration and the Development of RS2010 – Regional Strategy 2010 (Peter Styche, Northwest Housing Forum and Petet Bailey, Homes & Communities Agency)**

6.1 The Regional Strategy 2010 has been produced because:

- The region is legally obliged to do this but the Northwest started developing the Regional Strategy in 2008 and it is the most advanced region.
- Past efforts to align regional economic, spatial and housing strategies were only partially successful and an integrated regional strategy was seen as the next step.
- There is strong partner and stakeholder support and ministerial blessing.
- It is an opportunity to present single regional vision, aims, objectives and actions, behind which private, public and third sector partners can unite to drive investment and development in an integrated way.
- Looking at economic, environmental and social issues together leads to very different conclusions. The added value of the integrated strategy is already evident.

6.2 The aim is that ‘Sustainable Economic Growth means economic growth that can be sustained and is within environmental limits, but also enhances the environment and social welfare and avoids greater extremes in future economic cycles’.

6.3 Part one is the high level strategic framework. It is led by the Northwest Development Agency, 4Northwest and the Regional Leaders’ Board. It is managed by the Northwest Development Agency and 4Northwest virtual team supported by the project management group of key partners. Engagement is via the Regional Strategy advisory group where over fifty organisations are represented including the Northwest Housing Forum. A strong, peer-reviewed evidence base has been developed. It is based on the Vision, Values and Outcomes contained in the 2009 Principles & Issues paper and consultation report. It includes futures work and a sustainability appraisal.

6.4 The draft part one proposes a vision; indicators to monitor progress towards agreed outcomes; a strategy to deliver the vision and outcomes based on four strands and six key spatial issues. It seeks views on twelve outstanding questions and four strategic options. The vision is that:

*“the quality of life for the people of the Northwest will be excellent and the region will become more prosperous, more equitable and produce less carbon; by 2030 it will be a better place to live, learn, work, visit and invest and where...”*

6.5 Responding to climate change is seen as the biggest single challenge but economic, environmental and social success is also sought. The four strands are as follows. They are not in priority order and success will depend on achieving all of them:

- 1 - Capitalise on the opportunities of moving to a low carbon economy and address climate change
- 2 - Build on our sources of international competitive advantage and regional distinctiveness
- 3 - Releasing the potential of our people and tackling poverty.
- 4 - Ensuring the right housing and infrastructure for sustainable growth.

6.6 Strand one is to be achieved by:

- Positioning the region to take full advantage of the opportunities from low carbon energy and technologies
- Ensuring that the region understands and adapts to the implications of unavoidable climate change
- Ensuring that all sectors, including housing, transport and industry, are considering the challenges and opportunities and developing low carbon, resource efficient solutions.

6.7 Proposed action areas for strand one include:

- Reducing demand for energy and resource use in business, domestic and transport sectors.
- Developing housing retrofit programme
- Setting high environmental standards for new construction including housing
- Identifying risks and increasing resilience of communities and (housing) infrastructure to adapt to unavoidable climate change.

6.8 Strand two is to be achieved by:

- Developing our strengths in internationally competitive sectors;
- Strengthening our concentration of knowledge-based assets driven by our universities and science and innovation base;
- Improving our international connectivity; and
- Developing our world class sporting/culture/quality of place offer.

6.9 Proposed action areas for strand two include:

- Developing technologies for retrofit and new build which could be exported to other regions/markets
- Developing the housing offer in support of economic and social goals.
- Promoting the North west as a great place to live

- Local authorities to work together to ensure there is sufficient land in the right places to accommodate anticipated growth
- 6.10 Strand three is to be achieved by the following actions. A Regional Skills Strategy will be embedded in the Regional Strategy 2010:
- Increasing the potential of the workforce by improving employment opportunities, enterprise and skills;
  - Building on our strong tradition of social enterprise;
  - Regenerating areas with deep-seated economic and social challenges and building strong communities.
  - Tracking the serious challenges raised by social exclusion, deprivation, ill health and equality; and
  - Addressing the implications of demographic change of the workforce and services.
- 6.11 Proposed action areas for strand three include:
- Continuing to regenerate those areas facing significant economic and social challenges
  - Supporting the workless to gain sustainable employment, focussing on communities and groups most adversely affected
  - Providing accessible public services
  - Ensuring public sector procurement and commissioning in line with regional compact for public / third sector to ensure appropriate support for all members of the community.
- 6.12 Strand four is to be achieved by:
- Securing high quality housing in locations which support sustainable economic growth.
  - Ensuring high quality digital connectivity to stimulate enterprise, improve service delivery and reduce the need to travel.
  - Improving internal connectivity through a sustainable transport infrastructure which better connects opportunity and need
  - Developing the critical infrastructure the region needs to support sustainable economic growth
  - Developing the regions green infrastructure to provide economic, environmental and social benefits.
- 6.13 Proposed action areas for strand four include:
- Ensuring new housing is well designed, high quality and affordable, which is well located in relation to need, employment opportunities, transport and services, and supports economic growth (in urban & rural areas)
  - Improving our housing offer to maximise its role in regenerating communities and supporting economic growth.
  - Meet the needs and aspirations of local community by continuing to support restructuring and vulnerable housing markets as part of wider regeneration and placemaking.
  - Improving the quality and energy efficiency of our housing stock.
  - Developing innovative approaches to providing critical infrastructure to support growth, focussing on water, electricity and waste challenges for Liverpool and Manchester city region.
  - Recognising the specific needs of those living in rural areas in order to achieve more sustainable rural communities.

- 6.14 There is a need to consider the role of places and relationships between them. The key spatial issues for the strategy are:
- Developing Liverpool and Manchester as world class cities, plus the international potential of the Liverpool-Manchester corridor through the Atlantic Gateway concept.
  - Preston's role as a driver of regional growth.
  - Crewe, Chester, Warrington, Lancaster and Carlisle's roles as key sub-regional hubs.
  - The role of the Lake District and other outstanding natural and built assets in contributing to the region's image and profit.
  - Those parts of the Pennines, Lancashire, Blackpool, Barrow and West Cumbria as well as areas within the Manchester & Liverpool city regions, that face substantial social and economic regeneration challenges.
- 6.15 There is a need to develop a response from a housing and regeneration perspective. This will build on the Regional Housing Strategy, address the role of housing in economy and growth, start the case for a new regeneration narrative, recognise the importance of quality and existing stock and be an influence on the Homes & Communities Agency's Business Plan. There is a need for strengthened partnership working across agencies, in line with Total Place and Total Capital.
- 6.16 Challenges and Opportunities include:
- Balancing Needs and Potential
  - Practical issues – How do we deliver? Are Structural changes in the market undermining ambition?
  - Using other ways of working including sub-regions, Joint Local Investment Planning and public – Private partnerships
  - The Hills agenda
  - Collective response to retro-fitting
  - Views of the new administration after the election?
- 6.17 The next steps will be:
- Consultation on draft Part 1 ended in February 2010. A revised Part 1 plus draft Part 2 (detailed spatial and thematic policies) and Implementation Framework will be developed.
  - Formal public consultation on revised Part 1 and Part 2 in Summer 2010.
  - Examination in Public- submission late 2010.

## **7. Finance Market Recovery and Implications for Delivery (Richard Donnell, Hometrack)**

- 7.1 The market context for funding and developing housing is the credit crunch that has affected mortgages and bank funding; the residential development market that has declined and the impact and outlook for the housing market that is adverse. Since 2008 the private sector has 'retreated into its silo and de-risked itself'.
- 7.2 As we start 2010 there is a partial price correction, lack of liquidity and housing scarcity. Financial markets remain constrained regarding funding, regulation and appetite for risk. Private developers have slashed their capacity and adopted a low risk approach. The affordable sector has felt much of the burden. All this is happening against a backdrop of macro-economic and financial tightening.

Appleby Business Centre, Bridge Street, Appleby in Westmorland, Cumbria. CA16 6QH.  
Telephone: 017683-52165 or 52347. Mobile: 07502-142658. Fax: 017683-54005.  
Email: [Adrian.waite@awics.co.uk](mailto:Adrian.waite@awics.co.uk). Websites: [www.awics.co.uk](http://www.awics.co.uk) and [www.awics.eu](http://www.awics.eu).

Managing Director: Adrian Waite MA CPFA ACIH FIPSM.  
Company number: 3713554. VAT registration number: 721 9669 13.

- 7.3 Demand continues to exist but only for the right tenures at the right prices. There is therefore a need to work existing assets or to get new developments to stack up.
- 7.4 The origins of the credit crunch are in the extended global credit boom of the late 1990s and early 2000s. Rising savings and global imbalances resulted in lower interest rates and higher borrowing. Asian economies wanted to invest cash resulting in low interest rates. This induced a search for yield among financial markets and greater dependence on wholesale and overseas funding together with a rapid expansion in bank balance sheets (lending). Wholesale funds made a lot of loans and then sold them on. Banks in the United Kingdom trebled their loans. There were loans with no proof of income attached and many of these were sold to Asian investors. Rising defaults in the United States sub-prime market ended the boom and exposed the fragilities of the financial system. The impact in the United Kingdom was higher house prices and higher indebtedness that created vulnerability especially because of the growing reliance on wholesale funding of mortgages.
- 7.5 From 1997 to 2006 there was a significant expansion in lending by specialist lenders (including buy to let and ocean finance) as opposed to traditional monetary and financial institutions. Specialist lending was all funded in the wholesale markets and deposits were often not taken. Since 2007 there has been a major decline in lending on homes.
- 7.6 Banks had a problem funding existing loans let alone new ones. 21% of mortgages were funded through wholesale lending – mostly by United States lenders. Six years of savings are needed to cover existing loans. This has led to the increase in the cost of mortgages above LIBOR (London Interbank Offer Rate). Mortgage rates were close to LIBOR in 2007 and are now about 3.5% above LIBOR.
- 7.7 Issues facing banks include:
- Restructuring balance sheets
    - Liquidity – how liquid are bank assets
    - Capital – pressure from credit losses
    - Toxic assets and impairment – commercial loan books
    - Funding – Replacing government and Bank of England funding and funding new business
  - New Regulatory Environment
    - Turner Review – Banks allowed to operate with too little capital and liquidity and the shadow banking system too lightly regulated.
    - Increased regulation will increase the cost of credit
  - Higher cost of funds in Housing Association sector.
  - Limited competitive pressures in mortgage sector for some time yet

- 7.8 These financial problems have led to a 'turning off of the taps' when it comes to new house building. In 1997 it became government policy to encourage the building of flats. By 2008 builders had come to see building flats as too risky. The recent recovery in house building has been in houses on small sites not flats on large sites. Analysis shows that there is still a new build premium on houses but not on flats. Active sites are also concentrated in urban areas. No new build is taking place in areas where housing is not affordable especially in rural areas.
- 7.9 The housing market is still very variable with reduced turnover. The recover is seen as one dimensional and not sustainable. Market sentiment is improving but houses are taking longer to sell with bigger reductions on asking prices. The 'recovery' is based on scarcity and low volumes and this is expected to last for three to five years. More sales are taking place in wealthy areas than in poorer areas.
- 7.10 Only people who are able to buy outright or who are able to put down a deposit of over 50% are buying at present. Only 25% of private tenants could afford to buy. However, lenders will not lend to private rented people who are potential first time buyers. The deposit required to buy a lower quartile value house with a 90% mortgage varies in the Northwest from £15,000 in South Lakeland to £5,000 in Burnley; and on a 75% mortgage from £35,000 in South Lakeland to £12,000 in Burnley. Most potential first time buyers therefore cannot afford a mortgage.
- 7.11 The private rented sector can be seen as part of a wider 'affordable' sector. Only 10% are 'lifestyle renters' and 11% are 'middle market' and these are the only private tenants who could theoretically afford to buy a low value house. This raises the question of whether the Tenant Services Authority should regulate the private rented sector. I consider that there is a strong argument that it should.
- 7.12 Analysis shows that local market and acheme dynamics varies geographically. Private renting only works in 20% of areas because in other areas private rental is more expensive than owner occupation. For private rented housing to be effective it needs to occupy a position in the market between that of owner-occupation and social renting. An exception is Manchester where private renting is more expensive than owner occupation because many people want to live in the City Centre.
- 7.13 Shared ownership is only effective if there is a significant gap in the cost of private renting and owner occupation. The 2008 core lettings database shows that this is only the case in 10% of areas. However, 26% of social tenants could afford to pay intermediate rents.
- 7.14 In summary:
- An illiquid, volatile, supply constrained housing market is the near term backdrop and funding issues will remain a constraint on demand and capacity.
  - There is divergence between equity and debt driven housing markets
  - Further pressure on intermediate and general needs markets can be expected.
  - House builders can be expected to maintain a low risk approach to development.

- There is too much focus on new build and grant rates.
- There is a need to work with the existing market and to tailor policies to local market dynamics.

## **8. Conclusions**

- 8.1 On 26<sup>th</sup> February 2010 I attended the Northwest Annual Housing Conference 2010 (organised by the Northwest Housing Forum) at Bolton as a representative of the Campaign to Protect Rural England.
- 8.2 The Homes & Communities Agency has been focused on mitigating the effects of the recession but in the face of future reductions in budgets will soon start to focus on moving from subsidy to equity, making better use of assets and reducing costs. In particular they will be looking for Housing Associations to deliver 'more for less'.
- 8.3 The Regional Strategy addresses meeting housing needs, tackling regeneration and enabling housing to contribute to tackling climate change. The evidence base that supports it suggests that an expansion in the private rented sector can be expected alongside reduced levels of owner-occupation due to declining affordability and constraints on social housing due to resource pressures.
- 8.4 The recession has encouraged the trend towards private renting. There is also a need for new models for the delivery of social housing. In future, new social housing is likely to be more dependent on planning gain and this would have severe implications in areas where potential for economic growth is limited.
- 8.5 Housing Associations are exploring more flexible models for delivery.
- 8.6 The Regional Strategy for 2010 has four strands, all of which are deemed essential to achieve, as follows:
- 1 - Capitalise on the opportunities of moving to a low carbon economy and address climate change
  - 2 - Build on our sources of international competitive advantage and regional distinctiveness
  - 3 - Releasing the potential of our people and tackling poverty.
  - 4 - Ensuring the right housing and infrastructure for sustainable growth.
- 8.7 Changes in financial markets are having an impact on housing. There is too much focus on new build and grant rates. There is a need to work with the existing market and to tailor policies to local market dynamics.

**Adrian Waite**  
**April 2010**