Investment and Housing Markets: Prospects for Regeneration in Urban England

ESRC Seminar: ‘Public Sector Investment & Urban Regeneration’
Keele – June 2010

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What's this paper about?

- Prospects for regeneration of urban areas in England, particularly poorer areas in cities and industrial towns of north & midlands, post Credit Crunch
- Mainly focused on housing markets and housing regeneration
- But some observations first about impact of public spending cuts more broadly
- ..and about locational patterns of housing investment
- Will then introduce forecasting models
- And assess prospects for prices
- ..with implications for development viability
- ..as well as wider tenure and other changes
• DETR ‘Low Demand Housing and Unpopular Neighbourhoods’, 2000, Bramley & Pawson *Urban Studies* 2002

• Treasury/NRU/SG ‘Mainstream Public Services and their Impact on Neighbourhood Deprivation’, NRU 2005


• ODPM ‘Measuring and Modelling Housing Demand’ (2004-06) Bramley & Leishman *Urban Studies* 2005

• Bridging NewcastleGateshead ‘*Modelling Future Markets* 2007-08 + 2009 follow-up

• West of England Housing Partnership – Strategic Housing Market Analysis 2007-09.
Policy Background

- Particular policy concern about poorer (and often run-down) urban housing areas in regions of economic weakness (North & Mids of Eng)
- Significant public resources and policy attention devoted to efforts at regenerating these areas e.g. Housing Market Renewal Programme
- Potentially linked to wider issues of ‘urban renaissance’ and ‘city competitiveness’.
- Such areas might expected to be particularly affected by market downturn, because they are more ‘marginal’ in the market, and they may be slow to benefit from market revival
- Housing market problems (turnover/churn, vacant housing, people trapped, stigma/residualisation) may accentuate social breakdown
- While concentrated public initiative and investment may turn such areas around, response to deficit crisis makes such a scenario much less likely to occur
- Such areas are vulnerable to public spending cuts across the board
Expenditure per Capita on Services Analysed by Ward Deprivation, Ranked by Redistributive Pattern
• Previous chart summarises analysis from two major studies of ‘where public spending goes’ and ‘mainstream services and neighbourhood deprivation’ (data refers to c.2001-02)

• Deprived areas get significantly more spending, overall and on most services analysed (not HE (!), pensions)

• Therefore, cuts will impact disproportionately on deprived areas (can we expect government to make a distributional impact statement for its spending review?)

• This will affect both real income/welfare and employment/incomes

• Housing investment spending is only a small part of this, although it is interestingly the most skewed
Where does housing investment go?

New Build by Sector, Ward Deprivation and Time Period

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Private housing investment much more important than social, in general – altho in earlier period social>private in most deprived areas

Private housing investment shifted and contributed much more in deprived areas in mid-2000s than earlier

Social housing investment remained low despite need rhetoric

Social housing investment remained strongly concentrated in most deprived wards – regeneration priorities, land holdings, etc.

So paradoxically private sector contributed more to social/economic mix, while social sector reinforced segregation!

Private housing investment grew most in city centres (city centre flat boom, now turned to bust) – see next slide

Social housing investment remained relatively concentrated in urban locations
Recent New Building Rates by Urban-Rural Typology

New Units per 100 Households

Urban-Rural Type by Region

- Central London
- Inner London
- Outer London
- South city centre
- South other urban
- South town fringe
- South village isol
- Mid-North City Centre
- Mid-North other urban
- Mid-north town fringe
- Mid-north village isol

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• Data presented for the whole of England, at geographical level of ward (N:=7,900)
• Base period varies slightly but broadly 1990s and 2000s: this period contains 1-and-a-bit market cycles – either 1 or 2 downturns, and 1 long upturn
• Data updated to c.2007-08; values for 2009* and 2011* based on modelled simulation/forecast from this point
• Housing outcomes of interest include:
  - house prices  - vacancies  - (turnover)
  - development viability  - new build rates
  - tenure, esp owner occupation  - poverty  - (affordability)
  - (migration, population & households)
• In summarizing picture distinguish ‘trend’ from ‘downturn’ effects
• Main comparisons between urban typology (core-rural) and deprivation levels, within broad regions
  * 2009 likely to be ‘low’ point for output’ 2011 probably trough for prices
Different Recessions?

- Current downturn differs in some respects from that of early 1990s
- In 1989-92, high interest rates played a big part
- In 2007-09, dominant factor has been mortgage famine created by Credit Crunch
- Private renting (Buy to Let) investment more important in recent period
- London & South led downturn in 1989-92 and worse affected
- Sharper decline in output likely in 2007-09
Real House Price by Urban Typology Midlands & North England

- Nth City Centre
- Nth other urban
- Nth town fringe
- Nth village isol

Real House Price by Deprivation in North & Midlands 1989-2011

- Worst 10%
- 10-20%
- 30-40%
- 40-60%
- 60-80%
- Least Depr

Rural areas have higher prices but gap narrows in recessions.
Northern urban areas did not fall much in early 90s.
Slight relative gain for city centres.

Deprived areas have lower prices. Affluent-deprived gap narrows a lot in recession.
Deprived area prices lag affluent.
Apparent upward trend in deprived but lags may negate this.
New build initially higher & growing more in rural & fringe.
Rose sharply in city centres & urban from 2001-06 (policy)
Will be sharply reversed by slump

New build higher in affluent areas at beginning & end;
Rose in affluent, fell in deprived from 1992-2001
Reversed from 2001-2006 with strong building in deprived areas.
Will revert to previous pattern through downturn
• In order to say anything hard about outcome of current recession it is necessary to make some sort of forecast
• Housing market forecasting is notoriously difficult and prone to errors (esp about timing and extent of peaks & troughs)
• Articulation between macro/dynamic models and urban/local market models is little-developed
• Yet policy/planning framework in UK expects local & regional planners/policymakers to assess state & prospects of their markets
• You also need models to assess the impact of policy interventions on market outcomes or the feasibility of plans
• You can guess the impact of a policy/plan in terms of direction, maybe:
  - but quantification is necessary to decide if signif vs trivial, and to trade off different goals
  - and system is complex so direction of effect may not even be as you intuitively guess
Schematic of 2 Models

**HMA LEVEL**
- Set Parameters
  - policy/supply
  - economic
- Predict HMA values for
  - Output
  - House Prices
  - Migration
  - Vacancies
  - Turnover
- Repeat annually 2000-2026
- Output Time Series for HMA, Regions & England

**WARD LEVEL**
- Set Base Values
  - locate pot' develpt
- Predict Ward Changes '06-11/16/21 in (sequentially)
  - output
  - stock/demolns
  - social renting
  - house type
  - jobs, employment
  - occupation
  - poverty
  - private renting
  - owner occupn
  - vacancies
  - house prices
- Control Values key years
- Map Ward Outcomes
- Compare benchmarks

**AREAS OF CHANGE**
- Input Policy Priorities & plans
- Check/control key values
  - output
  - vacancies
  - house prices
- Apportion Outcomes to AoC
  - Tables & Charts
Market Area Level Model

- Econometric model fitted to panel data for 90 ‘health authority’ areas covering England over period 1983-2004 (annual)
- Equations for 7 key endogenous variables: price, completions, in- & out-migration, private vacancies, social relet rate (IV estimation)
- Key policy instruments: land, Plg Perm (flow), new social housing
- Models incl c.10 time- & space varying indicators (e.g. unemployment), some macro time series, and c.15 cross-sectional measures of environmental, housing, etc. factors
- System solves each year taking account of values in adjacent areas and some simple lags/dynamics
- In long term simulations some additional adjustment factors imposed to maintain e.g. relationship of households and dwellings

## Economic Assumptions

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Real House Price Simulation - Selected Regions 2000-2026

Year

Real House Price @ 2004 prices

Gateshead
New castle
Nth West
Sth East
London
England

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• Most of remaining evidence based on ward (neighbourhood) level analysis (N:=7,900)
• Wards compromise unit =: neighbourhood but not too small (sample numbers)
• Use 2004 statistical wards (some boundary chng)
• Choice and weighting of drivers based on regression models for house price and other changes over medium periods (calibrated on changes over periods between 1989/91 and 2004/05)
• Also developed forecasting models for
  – takeup of new development (now including viability effect)
    - employment rate – high NS-SEC occup
    - private renting - vacancies
  -- (turnover & relets)
  -- poverty rate
• And rather crude/mechanistic projections of demolitions, SR stock, housing types, job access, etc.

  see particularly Bramley, Leishman & Watkins (2008), *Housing Studies*, and (JRF) and Bramley & Watkins (2008) *Modelling Future Markets* (BNG)
Price Forecasts

Real Terraced House Price by Ward Deprivation in North-Midlands 2001-2021

Price

Price

Year

0

50,000

2000

2005

2010

2015

2020

2025

2000

2005

2010

2015

2020

2025

Year

Real Price Terraced House by Housing Market Renewal Status & Broad Region 2001-2021

Price

Price

Year

0

500,000

450,000

400,000

350,000

300,000

250,000

200,000

150,000

100,000

50,000

0

2000

2005

2010

2015

2020

2025

2000

2005

2010

2015

2020

2025
Comments on Price Forecasts

- Price ‘pecking order’ by deprivation remains
- Gaps widening in recovery period
- Most deprived areas may see slight fallback in prices after 2016
- Market renewal areas will continue to have prices somewhat below average for regions
- (model may exaggerate price fall in London in 2008-09)
Tenure Change

Tenure Change by Deprivation Level 2006-21

Tenure Change by Market Renewal Status and Broad Region 2006-21

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• Social renting declining generally, but more so in deprived northern areas
• Owner occupation also declining in this period/forecast (actual decline recorded in last few years)
  - this decline is greater in most deprived wards, although not in HMRP areas
• Big increase in private renting, in all areas, but especially deprived areas and HMRP areas
• This will not help much with neighbourhood stability and social capital, although it will increase mobility and choice
Work on Viability

- Drawing on work for NHPAU on mix/density, and involvement of 3 Dragons (viability toolkit)
- Selection of case study sites with different mix/density options, with/without affordable housing
- Prices based on ‘hedonic’ house price models for Newcastle-Gateshead HMA, modified by actual LR data
- Costs based on standard model using BCIS etc
- More generalised formula approach across country, informed by case studies, using Emap-Glenigan data for cost model
- Issues arising – affordable housing inclusion (& grant)
  - density and mix
  - costs, incl impact of Code for Sustainable Homes
- Broader debate about viability principles – what ‘margin’ is reasonable for landowner to be willing
- Comparisons with recorded land values for housing & industry
Viability Prospects

Proportion of Wards 'Viable' for Market Development by Deprivation and Broad Region 2006-21

Year

Percent

- 2006
- 2009
- 2011
- 2016
- 2021*

NTH-MIDS
Worst 10%
10-20%
30-40%
40-60%
60-80%
Least Depr

SOUTH
Worst 10%
10-20%
30-40%
40-60%
60-80%
Least Depr

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• In base period (2006), a lot of more deprived wards in North-Midlands were not viable
• In recession, viability deteriorates in most areas
• By 2016, viability recovers although not fully to levels of 2006-07
• Rising costs, partly due to ‘regulatory burden’ and sluggish prices contribute to this
• Deterioration in viability for 2021 due to imposition of Code for Sustainable Homes Level 6 (low/zero carbon homes)
• Pressure in deprived wards to improve viability by lowering standards, increasing density, etc. (altho currently high density not viable in some areas)
• Implication that if subsidy is scarce not all weaker areas can expect any development - possible prospect of abandonment and ‘grassing over’
Viability by HMRP Area 2006-2016

- full-HMRP
- Newcastle-Gateshead
- Manchester-Salford
- South Yorkshire
- Blackburn-E Lancs
- Stoke & NewcastleuL

Percent Viable
0% 20% 40% 60% 80% 100%

Area

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Market Renewal Areas

- Clearly wide variation between different market renewal areas in terms of prospects for viability of housing market investment
- Some ‘city’-based areas look OK by 2016 altho some dip in 2011
- Some other former industrial towns & mining areas look very weak in medium term e.g. E Lancs, Stoke, S Yorks
• It can be argued that aim of urban regeneration is to raise quality of urban environment, so more people choose to live there.

• We have tested impact of package of environmental quality measures through HMA-level model, as an alternative or complement to quantitative planning policies.

• Measures include increasing share of brownfield land in new housing, and reducing private and social sector stock in poor condition, homes with no central heating, terraced houses, and vacant/derelict land.

• The main impact of this is to increase net migration into core areas (+190%), with consequential boost to population & household numbers.

• Small positive impacts on output, vacancies, relets; small negative on prices.
Conclusion & Observations

- It is not true for all housing outcomes that poorer urban areas do worse in recession (e.g. prices, poverty) - the problems of these areas are mainly structural, whereas better off areas are more cyclical
- Some outcomes showed positive longer term trends for poorer areas, despite fluctuations (e.g. poverty)
- But these areas are more dependent on public spending and are likely to suffer disproportionately from deficit-reduction
- Planning & regen policy encouraged big rise in new private investment in poorer urban areas 2001-06, but this is now threatened
- Shift to private housing is more towards private renting than owner occupation
- New build much more constrained by viability in poorer areas and this is accentuated by recession, and by regulatory burden
- Divergent performance of some northern cities vs other urban areas