

**The implications of the economic
downturn for regional housing targets**
**A report by ECOTEC Research and
Consulting**

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ECOTEC

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1.0 Introduction

1.1 Context

This report is based on research undertaken by ECOTEC, with assistance from GVA Grimley on property market issues, into the implications of the credit crunch and the economic downturn on the housing markets of the West Midlands. That research was commissioned by West Midlands Regional Assembly (WMRA) and led to a report *Implications of Market Conditions for West Midlands Housing Markets and Regional Housing Policy*. The research for the report was undertaken between December 2008 and March 2009.

ECOTEC's research was undertaken at the same time as the preparations for the forthcoming (April to June 2009) Examination in Public (EIP) of the Phase Two Revision of the West Midlands Regional Spatial Strategy (RSS). A central part of the EIP will be an assessment of housing supply, the volume to be delivered within the plan period (2026) and its spatial allocation across the region.

In order to meet household projections produced in 2004, WMRA developed the Housing Preferred Option after an extensive review of options, tested against a set of deliverability factors, including land capacity to deliver new housing, and a review of potential development constraints, including flood risk assessments. The Preferred Option was published in 2007.

The Preferred Option would raise the region's housing supply of 2,224,651 dwellings in 2001 by 365,000 net new housing units supplied between 2006 and 2026, an approximate average of 18,500 new household units (net) per annum. A central objective of the RSS is the promotion of urban renaissance, stemming and reversing the out migration of households from the major urban areas (MUAs) to adjacent rural areas. As a consequence, 41.8%¹ of the additional housing proposed in the Preferred Option is allocated to the metropolitan area² and the urban areas of North Staffordshire. The successful Growth Point proposal for the Black Country emphasised the capacity of the urban areas to provide new housing supply.

¹ Table 1.1 Potential Scenarios Housing Distribution: Development of Options for the West Midlands RSS in Response to the NHPAU Report, Nathaniel Lichfield and Partners for the Government Office for the West Midlands (2008)

² Birmingham, Black Country, Coventry and Solihull

1.2 Project Brief

The brief for this report was to provide a commentary on the deliverability of the Nathaniel Lichfield and Partners (NLP) scenarios (see section 2) and the RSS Preferred Option, in the light of the findings of the ECOTEC study commissioned by WMRA and was based on:

- Statistics as available at the end of February 2009;
- Literature on the credit crunch and economic downturn, relatively limited in terms of considered analyses at this stage, but significant in terms of the catalogue of news events, even in the short period of the study;
- Individual and group discussions across the regions, including local authorities, developers, housing associations, banks and lenders, and a number of representative bodies (including the Building Societies Association, the National Housing Federation, the Royal Institute of Chartered Surveyors, and the Council of Mortgage Lenders);
- Informed views from the consultants on aspects of the housing market, drawn from regional and national perspectives. GVA Grimley's contacts with the property sector have proved a particularly useful source of current views.

The work had a strong regional and sub-regional orientation although a key conclusion is that the downturn is impacting adversely on all areas, urban and rural, prosperous and deprived, and that the West Midlands is largely reflecting current national trends.

The work is evidence based as far as possible but the situation has changed and is continuing to change rapidly. A degree of informed conjecture based on the professional opinions of the consultants is at the heart of this work.

2.0 The Nathaniel Lichfield and Partners Study Scenarios

2.1 Introduction

The West Midlands RSS was originally published in 2004 with the Phase 2 Revision, covering housing, employment, waste and transport, submitted in December 2007. Shortly afterwards in January 2008, Baroness Andrews, the Parliamentary Under Secretary of State, wrote in response to WMRA, expressing concern that the RSS Preferred Option did not make sufficient provision for new housing supply given household projections and the house building targets set in the 2007 Housing Green Paper.

Following a report on medium and long term housing requirements by the National Housing and Planning Advice Unit (NHPAU) (2008)³ a study was undertaken by NLP⁴, to explore the implications of the new 'higher' numbers for the West Midlands Region, commissioned by the Government Office for the West Midlands in February 2008.

2.2 The Growth Scenarios

NLP proposed in its October 2008 report three potential growth scenarios for the West Midlands for housing numbers in addition to those in the RSS for the 2006-2026 plan period. The three scenarios were:

- **Scenario 1:** South East Focus providing an additional 51,500 dwellings – in addition to the WMRA Preferred Option - including a new settlement in Solihull. The new additions would raise the net additional housing numbers to 417,100 by 2026;
- **Scenario 2:** Spreading the Growth providing an additional 54,000 dwellings to include a South East focus with some distribution to North Staffordshire, Telford and rural west, raising net additional housing units in the region by 419,600, by 2026;
- **Scenario 3:** Maximising the growth across a broad range of locations and increasing provision by an additional 80,000 dwellings. Broad locations include the MUAs,

³ Department for Communities and Local Government (2008), "Meeting the Housing Requirements of An Aspiring and Growing Nation: Taking the Medium and Long-Term View", NHAPU, June 2008

⁴ Nathaniel Lichfield and Partners (2008) Development of Options for the West Midlands RSS in response to the NHPAU report: Nathaniel Lichfield and Partners for the Government Office for the West Midlands (2008)

Staffordshire, Telford and rural west. The overall impact of this scenario would be to raise net additional dwellings by 445,600 by 2026.

In developing these scenarios the NLP report also asserts that the additional housing numbers need not harm urban renaissance nor reduce housing supply within the MUAs, if new housing is built outside of the MUAs.

The NLP study largely predated the credit crunch and economic downturn, although housing markets were facing difficulties at the time of the October report and a table in the NLP report⁵ set out a trajectory for the high and low supply figures set down by the NHPAU, together with the Preferred Option adjusted for a downturn from 2007/08 to 2009/10 (see Figure 9 in this report).

Further revised household projections were produced in March 2009 with further increases in the future household numbers and the size of the shortfall. These projections post date the NLP work and our own study and are not addressed in detail in this report. They do though underline the continuing pressures on long term housing supply.

⁵ Nathaniel Lichfield and Partners (2008), "Figure 8.1" in Supply Trajectories: Development of Options for the West Midlands RSS in Response to the NHPAU Report: NLP

3.0 The Implications of Market Conditions for West Midlands Housing Markets

3.1 Introduction

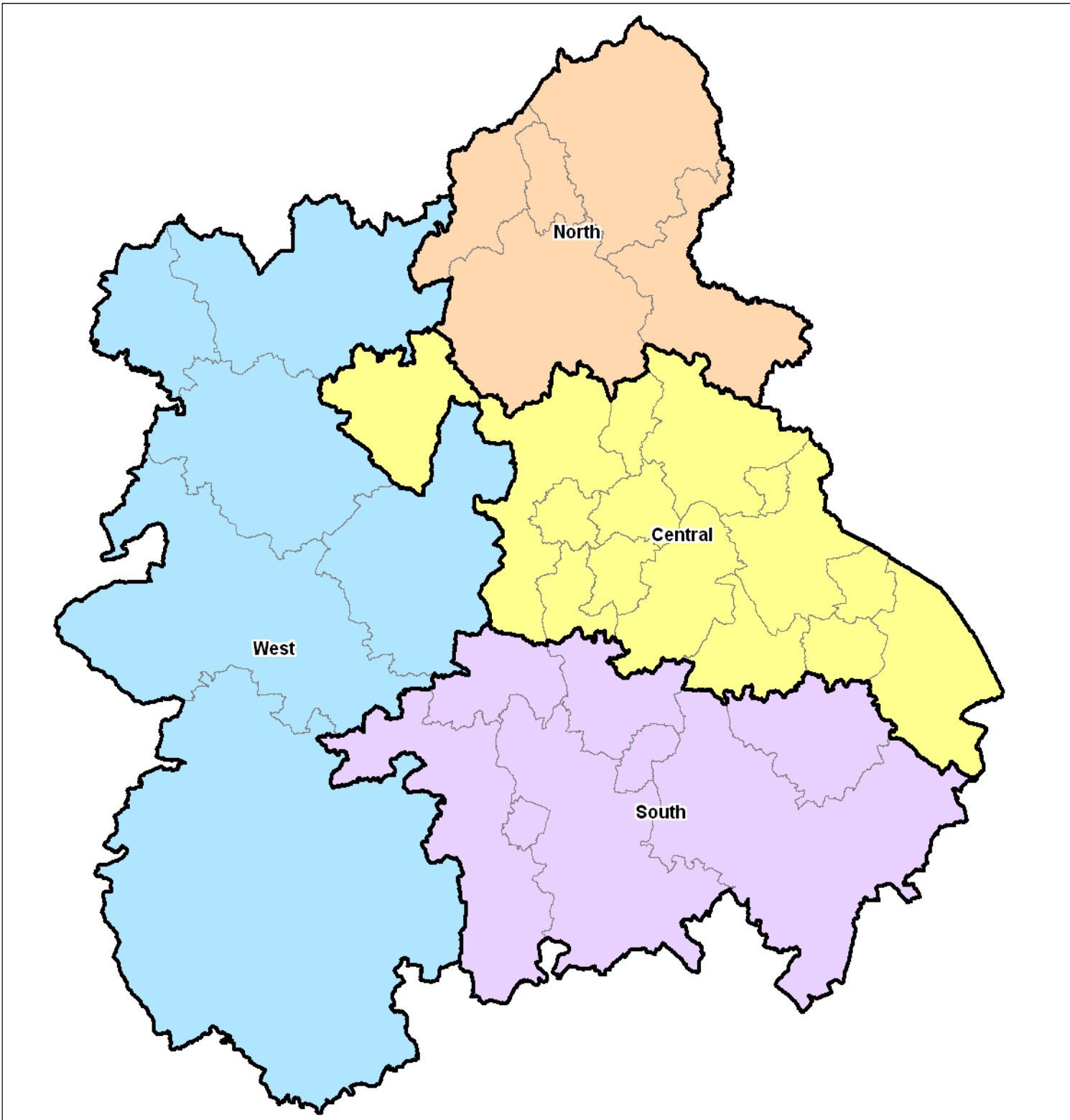
This section summarises the draft findings from the main report *Implications of Market Conditions for West Midlands Housing Markets and Regional Housing Policy* to provide a context to the debate over the proposed housing supply numbers.

Whilst the causes of the credit crunch and subsequent economic downturn have been debated extensively, with broad general agreement, the current picture and the immediate and longer term prospects are subject to considerable variation, even on specific issues such as house price trends.

The inevitable time lag in accessing data does not help given the rapidity of change and much of the more recent evidence we have assembled has, inevitably, been of a more anecdotal and qualitative nature, especially at the sub-regional and local level where clear evidence is very patchy. Our research tried to assemble a snapshot of the current position and a future prognosis, but the situation will require ongoing monitoring and update as events continue to unfold.

In this section we review economic change and its impact on the region's housing markets, including the four main sub-regions (*Central, West, South and North*). Figure 1 (below) illustrates the region's four Strategic Housing Market Areas. It should be noted that the three sub-divisions of the Central Housing Market Area are now referred to as one single Housing Market Area, as was the case in the designations set out in the 2005 West Midlands Regional Housing Strategy.

Figure 1 West Midlands Strategic Housing Market Areas



3.2 Economic Change – Overall Trends

Even in November 2008 the UK Treasury was suggesting that a reverse of the economic downturn could begin in the second half of 2009 and that the forecast recession⁶, after more than 60 consecutive quarters of economic growth, would be quickly followed by a period of recovery. Property agents, Savills, predicted a return to 2007 house price levels by 2012 (seen as pessimistic in some quarters) with a gradual reversal of price falls late in 2009 and into 2010. At present (April 2009) there is no strong consensus view on when recovery might start, nor when 2007 house levels might return, and there is unlikely to be a common view whilst there is still considerable uncertainty in the economy and within housing markets.

By February 2009 UK interest rates had fallen from 5% in October 2008 to just 1%⁷ in a series of moves designed to support housing markets and the economy in general. House prices continued to fall with the majority of commentators looking to a continuing fall in the rest of 2009 followed by a period of stable prices, before any return to pre-credit crunch levels, and the possibility that parts of the housing market (including the rapid development of City Centre apartments in recent years) would not return to former levels.

Table 1 summarises some of the key events that have shaped the economic landscape since July 2008 (the point that the British Chamber of Commerce first publically announced that a recession was imminent) but with reference to some of the key events in 2007 that led up to the economic downturn.

Table 1 Timeline of Key Events Associated With the Economic Downturn

Time Period/Month	Key Milestones
July 2007-June 2008	<p>In July 2007, the Housing Green Paper, "Homes for the Future: More Affordable, More Sustainable" was published, which sought views on the Government's proposals to increase the supply of housing, provide well designed and greener homes that are supported by infrastructure, and provide more affordable homes to buy or rent.</p> <p>In September 2007, the Bank of England provided emergency financial support to the UK's fifth-largest mortgage lender, the Northern Rock. In February 2008, the bank was nationalised.</p> <p>In October 2007, Swiss bank UBS announced losses of \$3.4 billion from sub-prime investments, whilst Citigroup unveiled a sub-prime related loss of \$3.1 billion.</p> <p>In November 2007, the Calcutt "Review of Housebuilding Delivery" was produced to</p>

⁶ Two or more consecutive quarters of economic decline as measured by changes in Gross Domestic Product

⁷ The base rate was reduced again to 0.5% in March 2009

Time Period/Month	Key Milestones
	<p>identify the factors affecting the supply of housing, and to consider how these factors influence the delivery of new homes to achieve the Government's target (200,000 new homes per annum).</p> <p>In December 2007, the Bank of England cut interest rates by a quarter of a percentage point to 5.5%, whilst the US Federal Reserve co-ordinated an action by the world's five largest central banks to offer billions of dollars in loans to banks to allow them to provide credit.</p> <p>In spite of attempts to raise levels of liquidity in global financial markets, the number of homes repossessed in the UK in 2007 increased to 27,000 – the highest level since 1999.</p> <p>By April 2008, the number of mortgage approvals had dropped to its lowest level since 1999.</p> <p>In April 2008, Nationwide announced the first annual decrease in UK house prices for 12 years.</p>
July 2008	<p>On the 2nd July 2008 the UK Government announced the establishment of a National Clearing House to enable house builders to approach the [then] Housing Corporation with proposals to sell their unsold stock for affordable housing.</p> <p>US mortgage lender IndyMac collapsed – the second biggest bank in US history to fail.</p> <p>The British Chamber of Commerce warned that the UK was facing a serious risk of recession.</p> <p>Nationwide statistics showed that the average price of a UK residential property fell £17,000, or 9% since the peak reached in October 2007.</p> <p>The Chairman of US Banking giant Citigroup warned that house prices in the UK and the US are likely to fall for another two years.</p>
August 2008	<p>Government policy advisors indicated that UK unemployment could reach 2 million by the end of 2008.</p>
September 2008	<p>UK GDP fell by 0.7% in the three months from July to September.</p> <p>The Confederation of British Industry (CBI) forecast that the economy would grow by 0.3% in 2009.</p> <p>The Royal Institution of Chartered Surveyors (RICS) suggested that first time buyer numbers might struggle to hit 200,000 in 2008.</p> <p>The UK Government announced a mortgage rescue scheme.</p> <p>Mortgage lenders Fannie Mae and Freddie Mac were rescued by the US government</p>

Time Period/Month	Key Milestones
	<p>following the subprime mortgage crisis.</p> <p>Lehman Brothers filed for bankruptcy – the largest bankruptcy filing in US history.</p> <p>Mortgage lender Bradford and Bingley was nationalised.</p>
October 2008	<p>On the 8th October, interest rates in the UK fell to 4.5% from 5%.</p> <p>The International Monetary Fund (IMF) projected a 0.1% fall in UK output for 2009.</p> <p>The UK Government pledged £37 billion to safeguard the future of Royal Bank of Scotland, Lloyds TSB and HBOS.</p>
November 2008	<p>On 6th November, interest rates were slashed from 4.5% to 3.0%.</p> <p>The Euro zone officially slipped into recession.</p> <p>The CBI estimated that the UK economy would shrink by 1.7% in 2009, a dramatic downgrade from the forecast given in September, followed by weak growth in 2010. Capital Economics forecasted an overall contraction of 3%.</p> <p>The Crosby Report called for a temporary guarantee with tax payers money of new mortgage-backed securities stating that without such intervention net new mortgage lending would fall below zero in 2009 and see only a modest recovery in 2010.</p> <p>The pre-budget report announcement stated that the Government had brought forward £575m to support the delivery of approximately 2,000 new social housing units.</p> <p>The mortgage rescue scheme was extended to cover second charge lending (where existing home owners with mortgages take out further personal borrowing secured against their homes).</p> <p>A temporary cut in the level of VAT in the UK, from 17.5% to 15% was announced.</p>
December 2008	<p>On the 4th December, UK interest rates fell to 2%.</p> <p>UK GDP fell by 1.5% between October and December.</p> <p>In the US, a recession was officially declared.</p> <p>The number of people out of work between October and December in the UK rose to 1.97 million – the highest figure since 1997.</p> <p>The Council of Mortgage Lenders (CML) stated that it expected repossessions to rise to 75,000 in 2009 (an almost threefold increase on 2007 figures).</p> <p>The Royal Bank of Scotland (RBS) guaranteed not to repossess the properties of customers who fall behind on payments for at least six months.</p> <p>House prices in the UK were between 10 and 20% down from their 2007 peak, with</p>

Time Period/Month	Key Milestones
	<p>predictions of further falls between 15% and 20%.</p> <p>In the final quarter of 2008, the number of housing starts in England was down 58% year on year, according to figures released by DCLG. Completions in 2009 and 2010 were likely to be markedly lower than 2008, and significantly below 100,000, the lowest levels since 1947.</p> <p>In the six months to 31st December 2008, the UK house builder, Redrow stated that their reservations were down by 49% compared with 2007, with the number of completions decreasing by 51%.</p>
January 2009	<p>On 8th January, UK interest rates fell to 1.5%.</p> <p>The IMF revised a previous projection of 0.1% fall in UK output for 2009, to a 2.8% fall in output for 2009.</p> <p>A report for Communities and Local Government (DCLG) predicted that economic output in the UK for January to March 2009 was likely to fall by 1.1% or more.</p> <p>The Consumer Price Index showed that UK inflation had fallen to 3.0% - from a peak of 5.2% over the 12 months to September 2008.</p> <p>The UK officially entered a recession as fourth quarter GDP (October to December 2008) fell by 1.5% compared to the previous three months.</p> <p>The CML predicted that UK house sales would halve to 700,000 in 2009, compared with 1.6m just 2 years ago. According to the CML, mortgage lending fell by 8% in January compared with December – down to just £12.4bn, a 52% decline compared to the same month the previous year. The British Bankers Association stated that mortgage approvals were averaging 31,000 a month between June 2008 and January 2009. In January 2009, the number of mortgage approvals was 23,376 – a 43% decrease on the figure for January 2008.</p> <p>The Government announced an £18m deal to purchase 379 affordable homes. This as intended to enable house builders to sell their unsold stock to Housing Associations for use as affordable housing, either for rent or low cost home ownership.</p> <p>According to the Land Registry, house prices in England and Wales in January were 15.1% lower than a year earlier.</p> <p>The number of surveyors reporting falling rather than rising prices increased from 74% to 76%, according to RICS.</p>
February 2009	<p>On 5th February, UK interest rates fell to 1.0% (they went on to fall to 0.5% on 5th March).</p> <p>HBOS stated that house prices fell by another 2.3% in February – the average UK home was worth £160,327.</p> <p>However, Nationwide stated that house prices fell by 1.8% in February and the average UK property had fallen in value by 17.6% over the past 12 months, to</p>

Time Period/Month	Key Milestones
	<p>£147,746.</p> <p>Capital Economics suggested that lending volumes had now "found a floor". However, "a significant recovery in mortgage lending is unlikely before 2010".</p> <p>The number of homes in the UK repossessed by lenders rose last year by 54% to 40,000, according to the CML. Despite the recession, this was fewer than originally predicted, but it expects repossessions this year will reach about 75,000.</p> <p>The CML estimated that over 500,000 people would fall at least three months behind their mortgage payments during 2009 – double the number in 2008.</p> <p>Housing and the Credit Crunch⁸, a report published in February 2009, noted that the Government was unlikely to meet the ambitious housing targets set out in its Green Paper.</p> <p>It was estimated that there has been a £6bn drop in planning contributions to local authorities from private sector developers. It is expected that the value of contributions will fall below £3bn (from about £9bn) for the next few years as more schemes fail to get started.</p>

Source: ECOTEC Research, Quoting Various Sources

This new and unknown situation, the so-called "New Capitalism"⁹, may by necessity result in fundamental shifts in the economy and subsequently national and regional housing markets. Rapid house price growth, over several years, was fuelled by a seemingly endless supply of credit, often on favourable terms (e.g. 100% and more mortgages), that benefited house builders and households alike, and also helped to generate a 'new' market with borrowers taking advantage of buy-to-let mortgages, in part providing an impetus for the city-living, apartment developments seen in many cities and towns.

In hindsight, the credit supply was unsustainable and whilst the Government and the Bank of England have moved to revive the flow of credit it seems unlikely that previous levels will be matched, and likely that current and future governments would wish to impose safeguards to prevent a return of a 'credit crunch' once the economy and housing markets have begun a process of recovery.

At the same time the economy is likely to change with a further weakening of the manufacturing base, including the automotive sector, and in the service sectors, including both 'higher' level (in terms of skills and pay) jobs in finance, and lower level employment

⁸ House of Commons (2009), "Housing and the Credit Crunch: The Third Report of Session 2008-09",

⁹ BBC (2008), "The New Capitalism – an article by BBC journalist Robert Peston", December 2008 and available through the BBC website – www.bbc.co.uk/blogs/thereporters/robertpeston/16_12_08_new_capitalism1.pdf

in retail and leisure. The future 'economic map' of the region is likely to change and some of the 'certainties' built into regional planning such as continued growth pressures in the south east of the region and Birmingham City Centre may now be less certain.

Even when the economy and housing markets recover we could see fundamental shifts in attitudes towards debt with households less inclined to borrow, or at least to increase already high levels of personal borrowing. Home ownership may become less attractive over time if job insecurity coupled with falling or stable house prices becomes the norm. If home ownership is not seen as a relatively 'safe' investment in the longer term we could see a significant shift to renting and a move towards some of the continental European markets with a new set of institutional and private landlords. We are already seeing signs in the region of a growing demand for private and social renting, out of economic necessity. This could become a preference, although we should stress that the evidence for this at the moment is largely anecdotal and not yet apparent in the regional statistics or in the literature. It is though, a view worthy of debate and one that has been echoed in some of the consultations with agencies that have a very current insight into housing markets.

3.3 Economic Scenarios for the West Midlands region

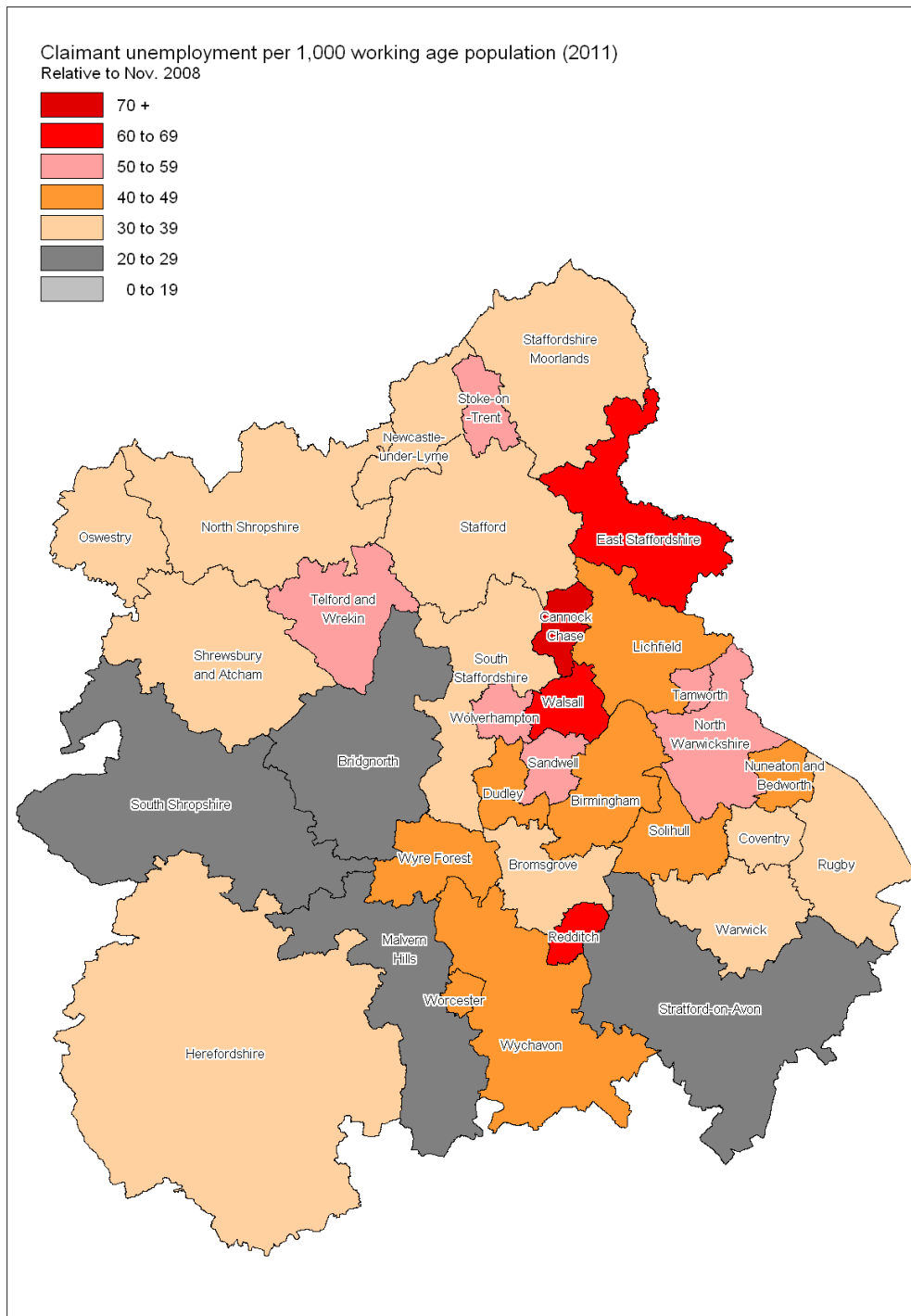
As part of the study ECOTEC compiled four economic scenarios that each have a different outlook based on a range of independent forecasts monitored by the Treasury and others, and then differentiated for the sub-regions based on the differing economic structures within the region. These are scenarios outlining possible futures and not projections. At this stage we would guard against 'hard and fast' views of the future but the scenarios, which range from relatively optimistic to very gloomy, do present some general conclusions, namely:

- Even in the more optimistic scenarios there are significant rises in unemployment in 2009 and initial falls in GDP, across the region. There is a concentration of job losses in the *Central* housing market area, where the bulk of employment lies, but the impacts of this permeate across the region (e.g. job losses and business failures in the Black Country and Birmingham also impact on adjacent areas, including surrounding market towns and rural communities, which have served urban economies). Figure 2 maps potential changes in unemployment 2008-2011, based on the most pessimistic of the four scenarios. It shows that the Major Urban Areas are mostly likely to see the steepest rises in unemployment;
- This downturn is impacting on professional households and is therefore directly impacting on suburbs and rural areas (especially in the *South* and *West* housing market

area) in the region, as well as the city living developments. Even for those who remain in work there is a high degree of uncertainty around jobs and incomes which is serving to postpone housing market moves;

- The more deprived urban core areas, already fragile, could be especially hard hit given possible job losses in retail and manufacturing, and lower skill office employment. Most of the housing led regeneration strategies in the region (e.g. the RENEW North Staffordshire and Urban Living Pathfinders and North Solihull) are predicated on increasing income levels and reducing deprivation, to achieve transformational change in 'difficult housing areas' and to provide a wider choice of housing to local residents. That task becomes increasingly important and increasingly more difficult;
- If the more pessimistic scenarios became reality and the downturn is deeper and more protracted than currently envisaged then the recovery of housing markets could take considerably longer than currently envisaged. If the economy re-adjusts and fails to recover to previous levels (the experience in Japan) we would expect this to be translated into lower levels of housing demand (discussed in more detail below).

Figure 2 Potential change in claimant unemployment¹⁰ (relative levels)



Source: ECOTEC Economic Scenario Analysis (2009)

¹⁰ Based on the most pessimistic of the four scenarios ECOTEC reviewed

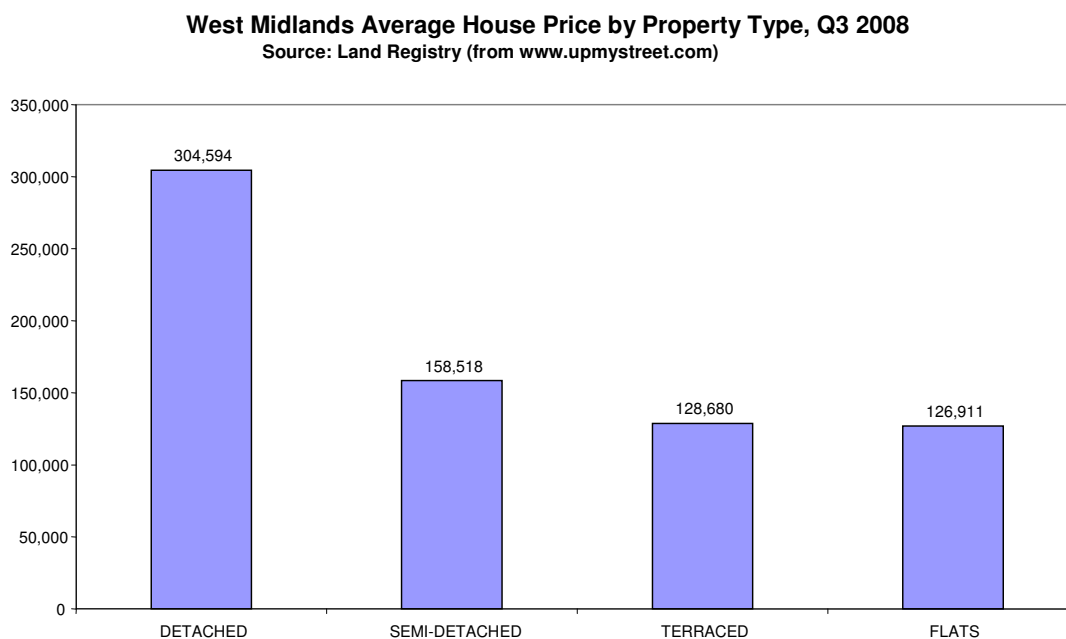
3.4 Impacts on Housing Markets

3.4.1 Before the Credit Crunch and the Economic Downturn

Even before the current credit crunch and economic downturn aspects of the region's housing markets were causing concern, especially in relation to:

- **Affordability:** Prior to the credit crunch and the economic downturn housing was becoming increasingly less affordable with prices rising considerably faster than incomes. Nationally, the average annual rise in prices up to the market peak (the third quarter of 2007) was just under 12% (see Figure 3 for average prices by property type according to Land Registry data). The West Midlands in general avoided the excessive mismatch between average prices and average household incomes present in some regions (notably the South East). In a market of rising prices, the problems of affordability are most acute for first time buyers who don't have previous equity gains to contribute towards property purchase. For this report, we have used Nationwide's measure of affordability, which is based the ratio of Nationwide first time buyer house prices to mean gross earnings for a full time worker on adult rates¹¹. The ratio between average prices and average household incomes, for this housing group, stood at 5:0 in the second quarter of 2007 and whilst it had fallen to 4.1 in the first quarter of 2009, affordability concerns remain, especially at a time of restricted credit and tighter controls on lending terms (controls introduced by Government to prevent a future credit crisis).

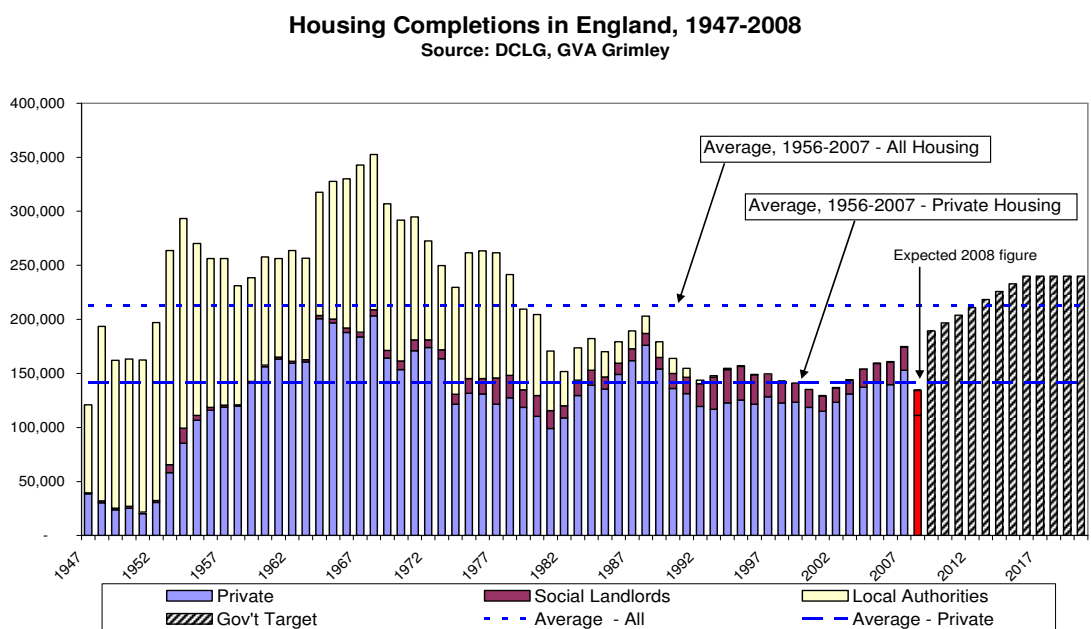
Figure 3 Average House Prices by Property Type



¹¹ http://www.nationwide.co.uk/hpi/downloads/FTB_HPER.xls -

- House building:** the levels of net new build at the time of a 'strong' housing market were somewhat below the annual targets in the RSS for the Preferred Option and were bolstered by high levels of apartment building in city and town centres. The total number of completions in the West Midlands in 2007/08 was 18,989, drawn from the West Midlands Regional Housing Land Availability Survey (see also Table 3 below). With demolitions approximating to 3,469 for the same period¹² the net new build of 15,520 fell short of the average 18,000 to 19,000 p.a. required to meet the targets in the Preferred Option. In some quarters the public sector (local authorities, RSLs, possibly even the Homes and Communities Agency directly as a developer) is seen as a part panacea to achieving house building targets in the short term but social house building has not exceeded 8 to 10% of completions in the West Midlands since 2000. Figure 4 sets out national trends in completions and the gap with Government targets. It also shows the post-war switch from predominantly public to predominantly private sector build. The potential role of the public sector in driving forward the house building programme, nationally and in the region, is something we come back to later. Figure 5 shows that the drop in starts, at a national level, is even sharper than the drop in completions, according to national returns to the DCLG, further impacting on future levels of supply.

Figure 4 Housing Completions in England 1947-2008



¹² Demolitions data is sourced from the Regional Housing Land Potential Study prepared for WMRA in 2007. The figures are averaged over the RSS Plan period so include actual and projected demolitions. Some 69,000 demolitions overall are assumed for the RSS Plan period which need to be factored in when considering the future housing supply

Figure 5 Annual Housing Starts and Completions - England



- City Living:** the popularity of city living schemes, characterised by one and two bedroom apartments, dominated the market in some parts of the region¹³ and helped in the achievement of high density, high volume developments, helping some districts such as Birmingham to meet housing targets¹⁴. However, many commentators were highlighting saturation levels some time before the credit crunch with high levels of vacancies (upto 40%) and a likely glut with several more schemes in the pipeline, fuelled by institutional investors.
- Private Renting:** there was evidence of growth in private renting at the bottom of the market where the 'easier in, easier out' terms have made this sector more attractive to some households than social renting (where accessibility has been constrained by availability – the level of waiting lists – and perceived and actual 'bureaucracy'). In work undertaken by ECOTEC and GVA Grimley for the Eastern Corridor¹⁵ (Birmingham and Solihull) it was noted that private renting had increased from 5 to 10% between 1991

¹³ Nationally, Parkinson et al estimated that 1-2 bedroom apartments constituted 47% of new build in 2007 up from 12% in the late 1990s. Not all of that will be located in city centres – the elderly is another key market for apartments – but city living schemes will have been responsible for much of the growth.

¹⁴ The West Midlands has a higher representation of flats, maisonettes and apartments than in England (19.3% compared to 14.1%)

¹⁵ ECOTEC and GVA Grimley (2006), "Eastern Corridor Study undertaken for Birmingham City Council"

and 2001, and was growing, and that private renting had made a significant contribution to meeting housing needs in parts of East Birmingham where both household growth and overcrowding is high. Concerns remain at the quality of some of the housing for rent and the quality of housing services provided by private landlords. It is nevertheless an important component of the housing market.

- **Accommodating BME household growth:** Within some of the South Asian and other new communities¹⁶ the demographic trends and surveys of housing preferences point to a growing number of households even before new in-migration is taken into account. Research¹⁷ shows changing preferences away from extended families in inner city communities to suburban and – for younger Asian households – and city living locations. This has been a trend amongst professional households (comparing the Census 1981-2001 shows the suburbanisation of Indian communities) but a reluctance, so far, within lower income Pakistani and Bangladeshi communities to move away from their community base and into adjacent – predominantly white – neighbourhoods.
- **Homelessness:** Significant progress had been made in reducing levels of homelessness in the region between 2004 and 2007, especially within some of the hotspots (including parts of the rural *West* HMA). However, the homeless are particularly vulnerable in the current market conditions and work by the Regional Homelessness Strategy Action Plan Implementation Group has highlighted a growing accommodation shortage as moves by households within the social renting sector and out of the private rented sector into home ownership – both of which would potentially free up accommodation, even on a temporary basis – have slowed.

3.3.2 The Current Housing Market

Since the housing market peak in 2007 there has been a dramatic downturn against a wide range of indicators:

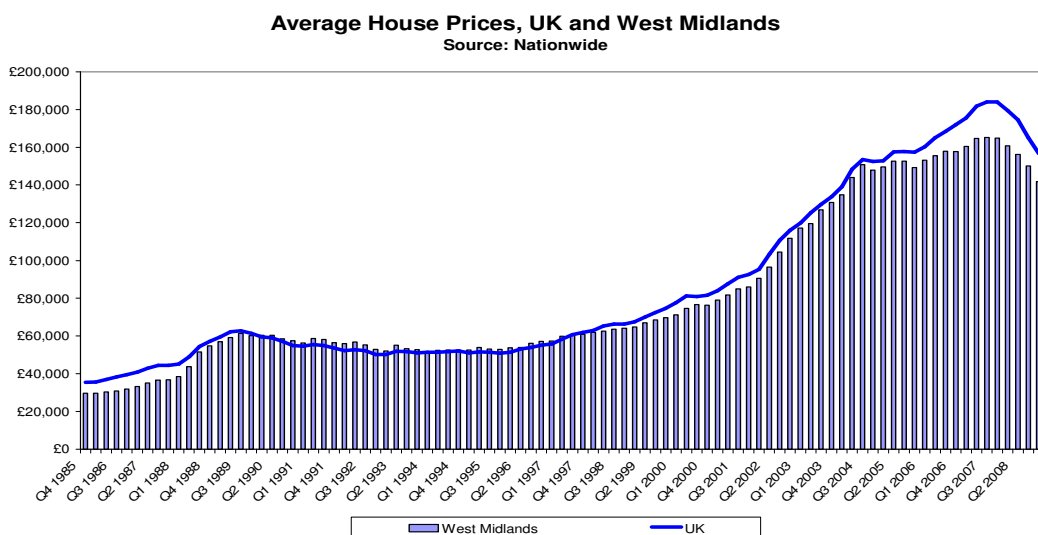
- **House Prices:** average prices are falling more quickly than their rapid rise in the early years of the 21st century. During 2008 average national prices fell by just under 15% (14% in the West Midlands). There was mixed data for January and February 2009 but a general consensus that the market has yet to bottom. This has contributed to householders deferring prospective purchases, the number of market transactions continuing to fall at all levels and not just first time buyers. Experian has forecast a

¹⁶ Including the Somali community in Birmingham

¹⁷ Bains (2006), "Futures Housing 2020: Housing Needs, Choices and Aspirations of South Asian Communities in the West Midlands"

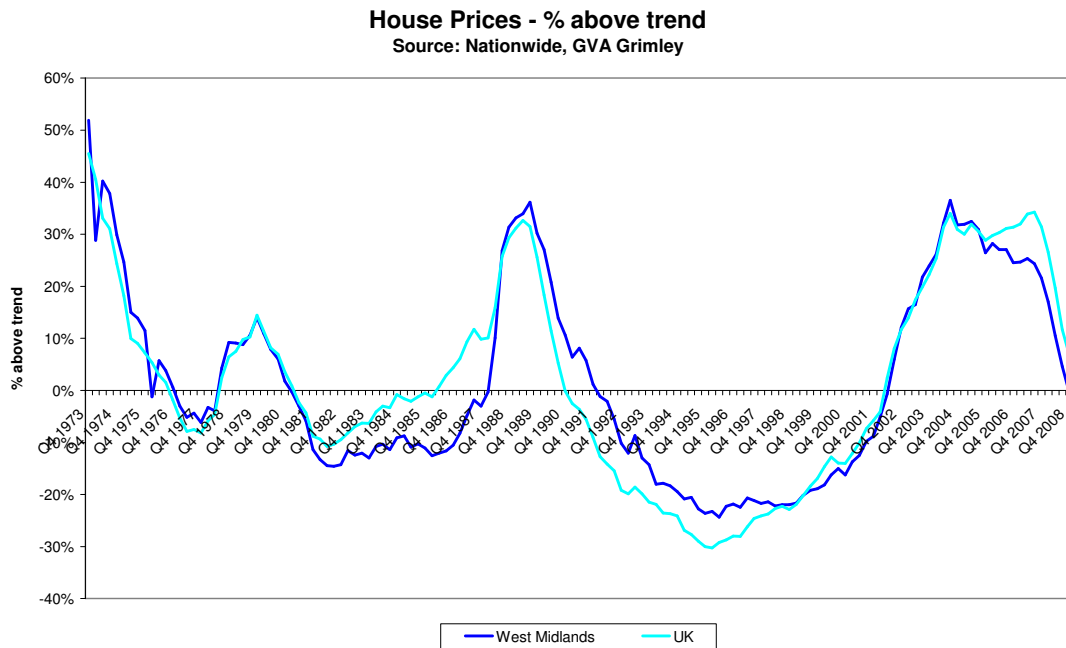
further fall of 15% in 2009¹⁸ with a levelling (zero growth) in 2010 before prices begin to rise again in 2011. Opinions for the period thereafter differ but based on our consultations and research and intelligence from GVA Grimley, one scenario is that prices could rise above the long term trend growth (average growth of 2.8% p.a. between 1973 and 2008), when confidence returns to the market and if the credit position is eased. A more cautious scenario is that prices do not rise until 2013 but then rise sharply (perhaps 10% or more per annum) as the market returns to a pre-credit crunch position. Even with the drop in house prices, the average household sales achieved were still just above the long term trend line (as explained above) in the last quarter of 2008, and have been below the line for spells in the 1980s and the 1990s. This would suggest that the scenario that prices over a longer term period will continue to display a modest rise is still valid. Figure 6 and 7 profile house price trends in the West Midlands against the UK average.

Figure 6 West Midlands House Prices Relative to UK Average



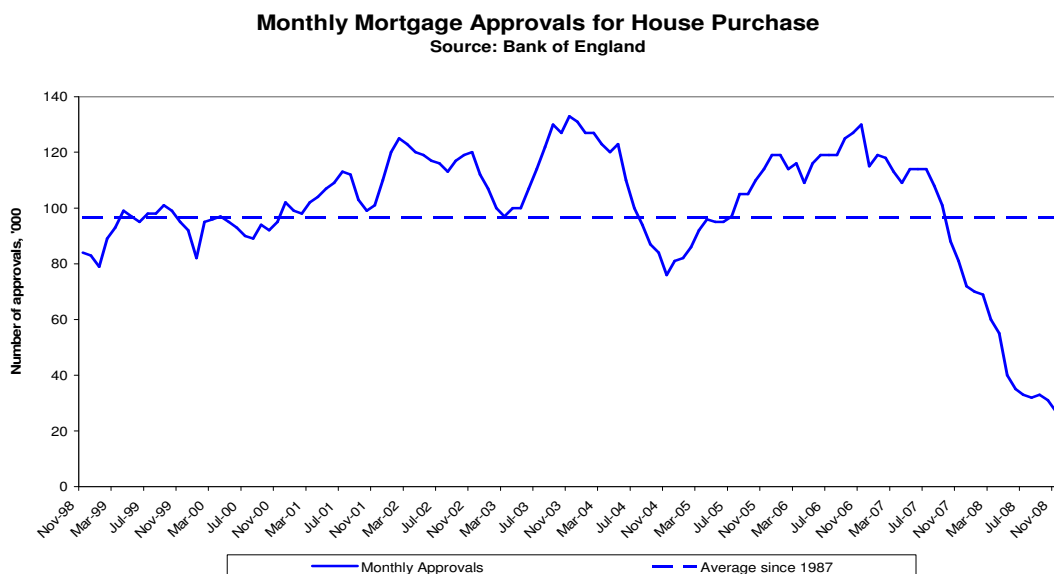
¹⁸ http://www.experian-da.com/news/enews_0903/Story8.html

Figure 7 House Price Growth in Relative Terms



- Mortgage Transactions:** the number of actual transactions, including remortgages, has shrunk dramatically (nationally, a drop of some 79% between late 2006 and late 2008) (see Figure 8). Total transactions in the West Midlands housing market peaked in excess 40,000 in the final quarter of 2002, twice the average level since 1995, but had fallen to just under 12,000 in the third quarter of 2008, with indication of further falls. The drop in buy-to let mortgages has been a significant contribution to the fall in transactions.

Figure 8 Monthly Mortgage Approvals for House Purchase



- House Building:** The most recent data from the Regional Housing Land Availability Survey covers the 2007/8 financial year. This does not reflect the accelerated downturn in completions and starts in the latter part of 2008 with the lowest completion figures since 1947 expected and well below the historic average for 1990-2007. The biggest fall had occurred in the private sector, which accounts for the bulk of all completions (90% in 2007). Indeed on the basis of DCLG data, housing association completions rose in 2008 and local authority completions featured for the first time in several years. The number of starts in the region using DCLG data, also fell in 2008 from just over 15,000 in 2007 to 8,390 in 2008, almost half of the previous year's figures. These two interlinked trends are set to continue and may accelerate as building projects are abandoned, either temporarily or for a longer time period, which could also result in blight on housing sites. The severe drop in private build has had an impact on housing associations, where housing associations have been delivering the affordable elements of private sector led housing developments, and where the expectation that section 106 agreements would help deliver affordable housing have failed (both through fewer development projects and declining levels of profitability/margins on individual developments). Housing density rates are likely fall in the medium term, planning policies notwithstanding, as new city living/apartments developments effectively cease. Tables 2 and 3 provide completions and starts data for the region.

Table 2 West Midlands Gross Housing Completions by Year

	Major Urban Areas	Rest of Region	West Midlands Region
1989/90	6,243	11,938	18,181
1990/91	6,219	11,978	18,197
1991/92	6,277	11,457	17,734
1992/93	6,153	10,207	16,360
1993/94	5,562	10,946	16,508
1994/95	7,209	11,604	18,813
1995/96	6,249	10,045	16,294
1996/97	5,985	10,023	16,008
1997/98	6,117	10,638	16,755
1998/99	6,691	10,708	17,399
1999/2000	5,255	12,183	17,438
2000/01	6,119	10,757	16,876

	Major Urban Areas	Rest of Region	West Midlands Region
2001/02	6,403	10,133	16,536
2002/03	6,868	9,485	16,353
2003/04	7,985	10,178	18,163
2004/05	8,587	9,860	18,447
2005/06	9,701	10,908	20,609
2006/07	9,239	10,401	19,640
2007/08	9,494	9,495	18,989

Source: Residential Housing Land Availability Survey 1981/82 - 2007/08

Table 3 West Midlands Housing Starts by Year and Tenure

	Private Enterprise	Registered Social Landlords	Local Authorities ¹⁹	All Dwellings
1990	13,270	1,590	1,010	15,870
1991	12,670	1,620	380	14,670
1992	11,500	2,730	220	14,440
1993	12,200	2,610	320	15,130
1994	13,340	3,850	70	17,250
1995	11,040	2,100	20	13,120
1996	12,010	2,100	30	14,150
1997	12,210	2,070	-	14,280
1998	12,850	1,990	-	14,840

¹⁹ The Local Authority development in 1990-1993 is the tail end of such housing development, as figure 3.14 demonstrates. After that, it is almost non-existent (averaging less than 35 units per annum since 2004 in the whole of the West Midlands).

	Private Enterprise	Registered Social Landlords	Local Authorities ¹⁹	All Dwellings
1999	13,530	2,080	60	15,670
2000	14,310	1,480	-	15,790
2001	13,460	1,210	-	14,660
2002	13,180	1,420	30	14,630
2003	15,700	1,340	140	17,170
2004	15,490	530	40	16,060
2005	15,180	870	10	16,060
2006	14,860	750	10	15,610
2007	14,030	1,190	20	15,230
2008	6,890	1,320	160	8,390

Source: DCLG

- **Re-possession:** Nationally, the Council of Mortgage Lenders was estimating some 170,000 households in mortgage arrears by the end of 2008²⁰, an increase on their earlier estimates. Repossessions still accounted for a small proportion of all mortgages but this still represented a 12% increase over the year and with the rate of repossessions projected to almost double in 2009. The rate of repossessions for buy-to-let is rising more quickly than for all mortgages nationally.
- **Land Values:** Housing land values are made up of several elements, including land supply, demand for housing, developer profit margins, and constraints on development. Land values have fallen significantly since 2007 and have halved in some areas. There is also the complication of land previously acquired in anticipation of development and the ongoing and future land acquisition programmes of developers. Depending on individual and development portfolios, some developers have been hit very hard by falling values, and are experiencing financial difficulties. Acquisition programmes have reduced – although are now beginning to pick up again – and many developers are

²⁰ <http://www.moneyhighstreet.com/finance-news/770/>

seeking to offload sites to get some return, at a lower level than previously budgeted for. Build costs are also falling as contractors compete for reduced levels of business. To date the falls are more modest than the drop in house prices and land values but are expected to fall by 7%²¹ in 2009. In the longer term building costs could fall significantly through the increased use of pre-fabrication technologies.

- **House Building Capacity:** There is very little data at present aside from the headlines of developers, builders, architectural practices, estate agents and all others associated with the residential market, facing severe difficulties and closure in some cases. A process of mergers and acquisitions in the sector is expected which will result in stronger businesses post-recession, although the impact on actual capacity is hard to predict. In the course of the study we have gathered much anecdotal evidence with several developers/builders suspending residential developments and some agents reporting negative transactions (cancellations exceeding sales and lets). There is no doubt that the credit crunch and economic downturn has had a catastrophic impact on the sector and the conclusions of the 2007 Calcutt Review²² that the sector could meet the house building targets set out in the 2007 Housing Green Paper, even with a then anticipated market downturn now appear dated. Our discussions with developers and builders suggest there is great long term uncertainty but it could take the sector up to two years to re-group and re-skill once a recovery starts. In the interim the UK could become more attractive to overseas developers, construction companies and investors if the process of recovery lags behind mainland Europe (as suggested by the IMF²³) and if exchange rates encourage international investment (we have anecdotal evidence of overseas investors looking at purchasing properties, especially at auctions, to rent out). The impact on the support infrastructure (architects, builders, engineers etc.) also impacts on the social housing sector, RSLs often using the same suppliers. Some of the RSLs consulted reported this as a constraint on their development plans.
- **The Social Housing Sector:** Whilst the social sector is not subject to the same direct market consequences that are impacting on the private sector there are several linkages between the two sectors, and both are subject to credit restrictions, much of RSL development finance coming from private sources. Some RSLs have taken on 'redundant' stock originally intended as market housing from private developers at favourable prices, but this type of arrangement is probably limited. The specification of houses for private sale and rent, and social rent are different, and apartment

²¹ <http://www.cml.org.uk/cml/media/press/1999>

²² Calcutt, J (2007), "The Calcutt Review of House Building Delivery"

²³ The Guardian (2009), "UK faces worse recession than US and Europe, IMF warns", Reported in the Guardian 18.3.09 by Graeme Warden

developments normally come with a high service charge that cannot be met by social rents. There are also grant restrictions that impact on the level of new social renting provision although lately the Government has raised the possibility of the Homes and Communities Agency playing a direct housing supply role, with local authorities once again becoming providers of social housing, initially on a modest scale. The various 'shared ownership' initiatives that make up affordable provision have effectively stalled through a drop in demand and a number of vacancies in existing schemes. New products, including rent to mortgage schemes²⁴, might provide an answer but need to be tested.

3.4.2 Post-recovery housing markets

There is considerable uncertainty over future trends but the evidence gathered from projections and consultations suggests the following:

- **Housing Demand:** The long term demographic driver for housing demand, that underpins the 'Barker Review'²⁵, the West Midlands Spatial Strategy, remains and has to be met at some stage unless there is a reverse of long established trends that have seen the average household size drop to 2.3 (projected to drop further to 2.1 by 2026). The changed economic circumstances mean the assumptions on which demographic projections are based may be worthy of review. The demographic patterns are broadly set although in-migration could be less than anticipated (as suggested above in section 2). There is still a trend towards one and two bedroom units, not necessarily city living apartments, which is likely to be further encouraged by the ageing profile of the region's population. This is an area where current research is very limited, and advice to WMRA suggests that previously completed work may no longer provide a reliable guide. In 2007, SQW Consultants were commissioned by Advantage West Midlands to undertake a study to examine the interface between economic growth and housing demand in the West Midlands. Discussion took place between West Midlands Regional Assembly and SQW about the possibility of further analysis of this study but we understand that the advice of Cambridge Econometrics, the economic modellers for the SQW study was that such additional analysis would no longer yield valid insights given the changed economic circumstances. In broad terms the changed economic climate could sustain a lower level of households than that previously concluded. At least three possible components for that inference can be offered. One is a reduced rate of inward

²⁴ The Rent to Mortgage scheme allows people to purchase their home by paying just part of the Right to Buy price to begin with, borrowing the money to do this from a bank or building society by taking out a mortgage. Under this scheme, the landlord (the council or housing association) keeps a share of the property. (<http://www.london.gov.uk/london-life/housing/right-to-buy.jsp>).

²⁵ HM Treasury (2004), "Review of Housing Supply - Delivering Stability: Securing our Future Housing Needs", Kate Barker, March 2004

international migration and the outflow of previous recently arrived economic migrants. Secondly, is the potential reduction in the household formation rate as the population's actual and perceived economic circumstances lead to a more conservative approach to taking financial risks in setting up new homes, plus the difficulties in accessing mortgage funds will contribute to a slow down in new household formation. Thirdly, the same set of economic factors could be expected to inhibit household break-up. Given the potential for the recovery position stabilising at a lower level of economic activity, as evidenced in Japan following the 1990s crash, the cumulative effect of these inhibitors to household formation could be expected to impact on the wider policy debate on the amount of new housing required in the RSS plan period. The changed economic circumstances may imply that the household growth level capable of being sustained by the future West Midlands economy is lower than anticipated in the original SQW study, in the absence of strong economic recovery.

- **Housing Supply:** There is significant uncertainty over the future supply of housing, especially in an era of falling land values, falling house prices and a drop in housing starts and completions. Historic evidence, and the view GVA Grimley, is that all of these factors could reverse quickly once a recovery is in place. The speed of new house building will depend on the capacity of the sector to recover and restore capacity. None of this is certain and if the economic downturn deepens then recovery could be postponed and housing markets could take longer to recover. A slow recovery, coupled with reduced capacity in the house building sector could impact on development rates and could see house building stabilise at lower levels.

Whether recovery is medium or longer term we would not necessarily expect to see a growth in levels of home ownership, and possibly a fall in favour of private renting if perceptions of home ownership fundamentally change. There does seem to be a consensus that we will not see a return of the city living/apartment developments, and certainly not on the scale of recent years.

A significant increase in social housing would require a policy initiative at Government level that enables and facilitates RSLs and local authorities to provide new supply at a rate much higher than that achieved in the last decade. There is though a policy dilemma with both local authorities and RSLs consulted through this study, whilst acknowledging the need for additional affordable housing, reluctant to see an 'over supply' social housing, that might jeopardise policies that were designed to encourage mixed communities and dilute social housing stock in 'mono-tenure' housing estates. However, those estates were built out of necessity, to respond to a post war housing supply crisis, and it is not inconceivable that a similar policy response may be required again. Land supply, which supported the

post-war housing development boom, will be an issue if similar policies were to be adopted.

3.5 Summary

The main points to take into the discussion around the implications for the RSS and the NLP scenarios are as follows:

- **A much deeper and more protracted economic downturn than envisaged at Autumn 2008** and the persistence of credit issues, despite Government interventions, that combine to suggest that the current crisis will persist for some time with no certainty of recovery period, or indeed the scale of recovery. Our economic scenarios suggest further economic shocks to come with more job losses and unemployment;
- **The uncertainty faced by businesses and households around business survival and employment prospects has led to a 'paralysis' in the housing market** (e.g. households postponing housing moves), which will be difficult to reverse whilst jobs are at risk and confidence in housing markets continues to be eroded. Whilst there are varying impacts by geography and socio-economic group all parts of the region are affected;
- **A significant drop in house building and the shelving of some developments.** The associated capacity loss in the housing development sector means that even when recovery begins to take place the sector (nationally and regionally) will probably struggle to respond in the short term. Without significant intervention to stimulate house building and re-build capacity in the sector it is possible that house building activity could stabilise at lower levels, below the targets for the Preferred Option and the NLP scenarios, even with a 'log jam' of latent demand for housing resulting from an extended period of low building rates;
- **There are limitations on the contribution that social housing can make to house building.** There has been speculation that social housing backed by significant Government funding could address, in part, the gap between housing demand and supply. This is an attractive proposition, especially if we are seeing a growing interest in social housing (or intermediate housing) from owner occupiers or those who might aspire to owner occupation. It would also help to address the shortfalls in affordable housing. However, there are constraints including the capacity of housing associations (or local authorities) to build in volume, from a starting point of less than 10% of current starts and completions and without large land banks from which to start a building programme. From a policy perspective there is also a potential danger of 'over building'

in the social sector in some locations which would risk reversing policies that have sought to break down mono-tenure social housing estates and create mixed communities.

- **A significant – and continuing - drop in prices that is not connected with housing supply.** This illustrates the complexities of housing markets and their links to economic factors. A central tenet of the NHPAU/NPL argument has been a clear link between (increased) supply and (reduced or stable) prices;
- **The possibility of some fundamental shifts in housing market dynamics** in terms of tenure, and housing types and products. The old buy-to-let market may not recover and the city living apartment market may take some years to re-emerge, and probably less intense than in recent years. However, evidence from the consultations suggests a growing demand in renting at the beginning of 2009, given a mix of caution and difficulty in accessing credit for home ownership, from prospective home owners. We do not have enough details about the landlords serving this market. With prices falling and rentals relatively stable the yields available to prospective landlords are currently growing. Finding out more about this sector could be an area of future research;
- **A continuing drop in land values and house prices**, at least in the short term, which helps in terms of affordability but needs to be matched by improved access to credit if new entrants are to benefit;
- **A risk to regeneration projects**, aside from the collapse in the apartments market, which was over subscribed. Key regeneration programmes in the two Housing Market Renewal Pathfinders, in North Solihull, and elsewhere in the region, are at risk through the drop of private investment, and the collapse, for the moment at least, in the land based regeneration model which worked well in recent years (developed land yielding receipts to underpin regeneration programmes and reduce net public funding);
- **A long term and growing demand for housing**, driven by demographics and housing preferences, although this may be less than currently projected given the changed economic circumstances, certainly in the short term. We can speculate on the longer term impacts of the economic downturn on housing demand. There is an immediate – and at present largely anecdotal – impact in terms of a reduction in economic migrants but we can also speculate at other potential changes, such as households staying together through economic necessity, shared households and young households postponing a move into the housing market until later. These changes, if they were to

occur, would impact on the volume of housing required, a critical issue in light of the current debate over housing numbers.

4.0 Implications for the NLP scenarios and the Regional Spatial Strategy

4.1 Introduction

This section provides our assessment, based on the best available evidence, of the likely impacts of the credit crunch and economic downturn on:

- The feasibility of the NLP scenarios and the Preferred Option housing numbers, within the plan period;
- The impact on the core urban renaissance objective of the RSS;
- Some of the steps required to improve the prospects of meeting – at least - the Preferred Option.

Whilst global and national factors have determined the current position and will determine how and when recovery may occur, there are policy issues for the region that need to be considered to safeguard the strategy for the West Midlands. We highlight the main issues below.

4.2 The Feasibility of Delivering the Housing Numbers

For the EIP the key summary points are as follows:

- ***The long term demand for housing*** – the Preferred Option had the benefit of extensive technical work to determine the scale and patterns of long term demand which resulted in the total of 365,000 proposed net new dwellings by 2026. The NLP scenarios assume a higher level of demand, although the range is sizeable. There may be grounds to challenge the scale of the demand figures in the NLP scenarios, as the economic downturn has served to suppress demand in the short term. However, this is an area where the evidence requires further scrutiny, and beyond the scope of this report;
- ***The supply of housing in the plan period*** – the shortfalls in starts and completions, which continue, combined with the impact of the economic downturn on house building places the housing targets in the NLP scenarios and also the Preferred Option at risk in the plan period. At the very least there is significant uncertainty and a strong argument for contingency planning. Our evidence suggests that the current situation is not a 'blip' in the housing market, with a quick recovery, and could result in some fundamental

longer term changes in terms of tenure and housing type demand, and lower levels of build whilst capacity is restored in the development sector.

In addressing the Technical Seminar in January 2009 WMRA reiterated their view that the RSS should be seen as long term 20-year plan and was sufficiently robust to withstand changes in the market. The NLP argument is broadly similar, but for a higher level of housing, and therefore with a high degree of risk increasing from NLP scenarios 1 and 2, to scenario 3.

For the targets in the Preferred Option and the NLP scenarios to be met in the plan period, the level of new build has to increase from previous highs (2005 being the strongest year for new build in the West Midlands in the last decade and since the mid 1980s). That was always known and has been built into the Preferred Option, but the longer it takes for the housing market to recover, the steeper the new build requirement will be in the latter half of the plan period. This also has to be achieved from:

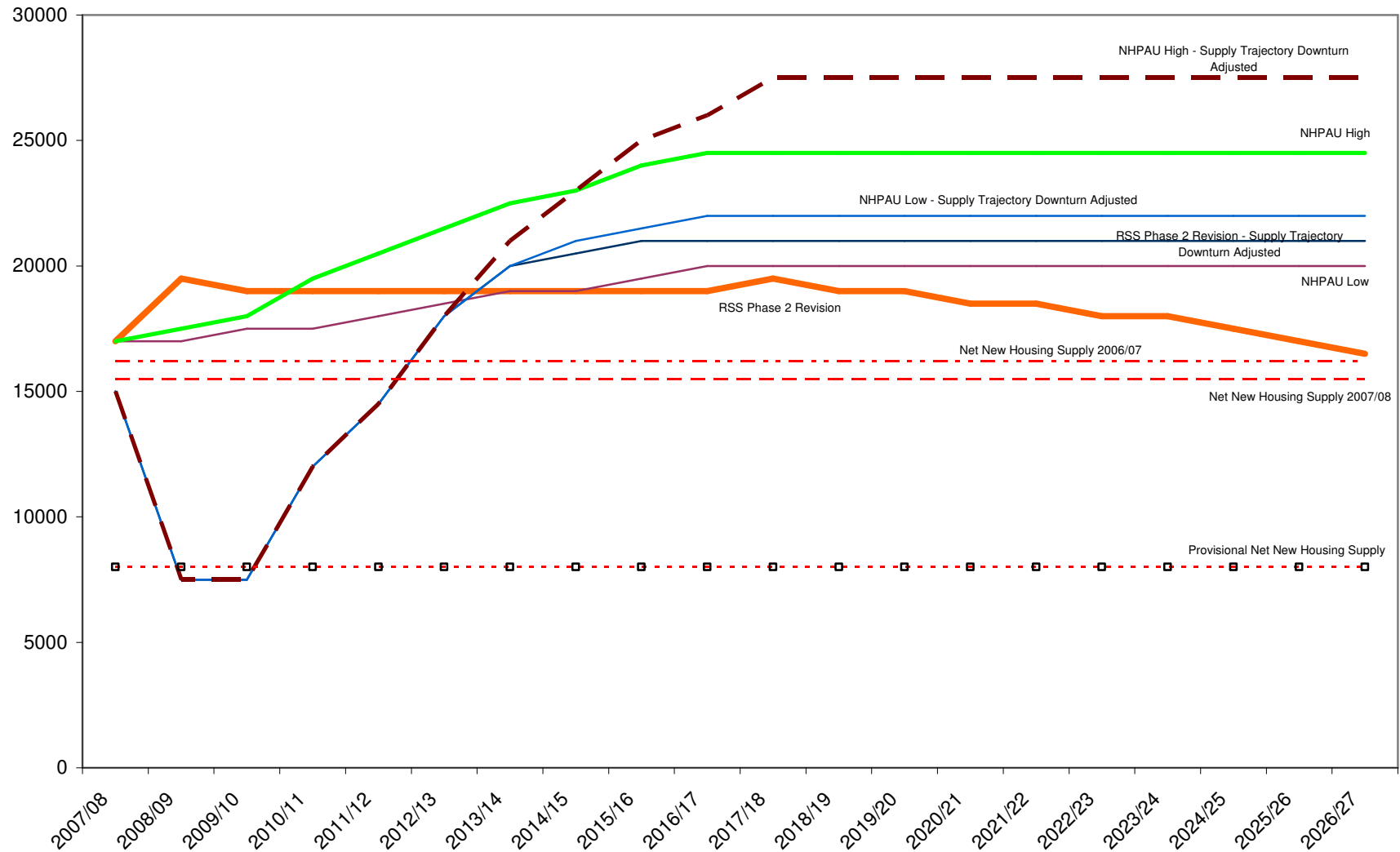
- A low base (2008 delivered less new homes in the region for any year since 1947; 2009 will be worse still);
- A decimated housing development sector, which could take some time to recover, based on our market intelligence and reports and data reviewed;
- The loss of high density city centre apartment developments that have contributed to the volume of new houses at high density and within the MUAs;
- A possibility that housing markets will not recover to 2007 levels quickly enough in the plan period;

To illustrate these points Figure 9 overlays the trends in net completions for 2006/07 (pre-credit crunch), 2007/08 (taken from the Regional Housing Land Availability Survey²⁶) and with the scenarios listed in the NLP Report²⁷. The comparisons are illustrative and highlight the challenges in moving from recent and current levels of net new supply to the Preferred Option and the NLP scenarios. However, achieving the steepness of the upwards curve required to meet the target numbers must be seen as 'high risk' given the state of the market and the capacity in the sector. That risk increases if recovery is delayed and the steepness of the curve is further emphasised.

²⁶ West Midlands Regional Assembly (2008), "Regional Housing Land Availability Survey"

²⁷ Nathaniel Lichfield and Partners (2008), "Development of Options for the West Midlands RSS in Response to the NHPAU Report", October 2008

Figure 9: Trends in Completion in Comparison With NLP Report Scenarios



Source: Base graph from Nathaniel Lichfield and Partners (2008), with the net housing completions from 2006/07 and 2007/08 in the West Midlands overlaid (WMRA, 2008)

If we assume, as the evidence suggests, that the first half of the plan period (2006-16) sees the gap between demand projections and supply grow, the pressure on the second half (2016-2026), when the market could have recovered, will be immense, and would probably require a doubling (in the case of NLP Scenario 3) of recent (pre credit crunch) house building levels, which, in 2005/06, were at their highest levels in the West Midlands, for almost a decade (just over 20,000 gross).

4.3 Steps to Boost Housing Supply

Putting to one side the relative merits of the Preferred Option and the NLP scenarios there is a consensus that the current and projected market conditions will not provide the supply of housing required to meet housing demand without some significant Government policy shift.

This could be a Government backed programme as called for by the Town and Country Planning Association²⁸ which advocates a new raft of local housing companies and similar organisations. There are initiatives already underway. Within the West Midlands, the Black Country was awarded £8.3m from central government in 2008, as part of its second round of the Growth Points funding programme. The grant will go towards the construction of thousands of new homes, supporting infrastructure, feasibility and enabling work and will be allocated across the four Black Country local authorities: Sandwell, Wolverhampton, Walsall and Dudley. The Black Country bid included £4.6m for preparatory work on housing sites in Smethwick, Cradley Heath and West Bromwich, which would create 3,900 new homes and for preliminary work on highways schemes in West Bromwich. By working in partnership with Government, the Growth Points programme aims to build 32,850 homes in the Black Country over the next eight years. The funding will also help with land assembly, relocations and remediation to create sustainable development areas.

At the same time Birmingham is a pilot local authority for the new strategic investment plans that the Homes and Communities Agency plans for selected local authority areas. Current plans focus on Lozells, Aston, Birchfields and Newtown in the Urban Living HMR Pathfinder area, augmenting the final two years of bespoke HMR funding and developing a longer term programme in anticipation of HCA funding. These proposals and others are welcome and have the added advantage of supporting growth in the major urban areas. However, they are unlikely to be enough to boost supply to meet the Preferred Option or the NLP scenarios in the plan period.

²⁸ Town and Country Planning Association (2009), "Press Release 9th March 2009 – Developing in a Downturn: TCPA's Agenda for Action"

There has been speculation over a deeper role for Government working on several fronts to ease credit restrictions, provide infrastructure for new housing, and promote and build housing on a grand scale, as occurred in previous generations. This would be very costly and would require an organisational infrastructure and a resource that is not currently in place, although the HCA is a starting point. A national house building programme would need to be on a significant and co-ordinated scale, something akin to post-war slum clearance and estate building programmes.

Whilst possible we would question the likelihood of this scenario, certainly in the short term, given that it would require:

- All party political support
- Significant public funding at a time when public funding is likely to be reined in
- Capacity to build – the public sector shares suppliers (builders, architects etc.) with private developers
- 'Developer infrastructure' – Neither RSLs nor local authorities have the developer capacity/experience for volume building at a scale that would make an impact on the housing numbers and whilst that could be developed over time (for the second half of the plan period) the costs and processes involved should not be underestimated.

With less private funding available for public/private 'estate' based schemes the resources of Government will need to concentrate on fewer schemes. At the current time the HCA seems poorly equipped – in terms of resources – to deliver major housing programmes and RSLs are also handicapped by credit restrictions (as are local authorities) and a lack of private resources, via development agreements, that have supported affordable housing developments as part of mixed tenure schemes.

There are other factors that could constrain a Government push, including concerns amongst local authorities and other organisations consulted, that social housing led programmes will adversely impact on mixed communities policies whether or not justified. Cutbacks on public spending are also likely at some time in the short or medium term, putting pressure on direct interventions in housing markets by Government.

There are two additional factors that could boost housing supply if undertaken on a significant scale:

- The re-use and better use of existing housing stock through the promotion of improvement areas and similar initiatives, as well as de-conversions/conversions and

empty homes policies. It is questionable how many additional units could be added but it could contribute to an easing of supply issues in specific areas (e.g. inner city areas with high population growth);

- The extensive use of advanced prefabrication techniques which have several potential advantages, including speed and cost of build, and using environmentally friendly construction techniques. There is an opportunity to develop new capacity in the region to supply construction, especially if the current downturn is used productively to develop the industry.

4.4 Safeguarding urban renaissance

The potential impact of the NLP scenarios on the core urban renaissance objective of the RSS has been central to the debate. It is a factor recognised in the NLP report with a strong statement about safeguarding urban renaissance through careful phasing. This could be translated as undertaking urban extensions and/or new rural settlements only when urban renaissance is secure and both the Preferred Option and the NLP scenarios have high levels of new housing within the urban areas.

From our analysis we see two significant threats to urban renaissance.

The potential negative impact of urban extensions and rural settlements on the urban housing markets: This has been central to the WMRA argument and is a likely outcome given the fragility of many of the region's urban housing markets. Much progress has been made in the past decade in attracting private investment and developers to urban areas, either through city living projects or regeneration projects, many designed to transform estates built by local authorities and to create balanced mixed tenure areas. It could be argued that green belt and planning restrictions have served to push developers towards urban markets but there have been other attractions including discounted land in urban regeneration schemes and the high densities and high values that until relatively recently were a feature of city centre developments. A lessening of planning controls and the reduced attraction of urban markets could push a recovering developer market to 'easier' greenfield locations but the onus is on the authorities and agencies (including the HCA) operating in the MUAs to provide developable urban sites with the necessary infrastructure. If that can be achieved a land release phasing policy, that prioritises urban locations is more credible and deliverable. If not the catch-up pressures for new housing, wherever it is located, may be difficult to resist. In that scenario the more difficult urban housing locations may struggle to compete for developer interest, with urban extensions and/or greenfield locations;

The threat to urban housing markets irrespective of any of the housing growth options:

Fragile urban housing markets have become more so, and are under increasing threat. Our economic scenarios suggest that the core urban areas are hit the hardest in terms of unemployment and lost output, with manufacturing, retail and some service industries particularly vulnerable. All of this will serve to reduce average household incomes and increase debt amongst the poorest households, increase the demand for social and private renting (owner occupation will not be an option, even with falling prices) and social and community cohesion could give way to social unrest.

The demand for housing in these areas, especially the poorer and more deprived neighbourhoods, may intensify as households have limited or no choice. In some BME housing areas demographic factors may increase demand, which may not be satisfied if housing development slows. Those BME communities – and also predominantly white communities on peripheral urban estates – are increasingly tied to their areas for economic and cultural reasons, severely limiting migration and movement between housing areas. However, the latent growth in some BME communities and the availability of public land in many urban areas also presents an opportunity for household growth within the MUAs.

.To safeguard urban renaissance there are a number of policy considerations:

- Lobby for additional Government support for regeneration projects, probably through the Homes and Communities Agency. Whilst the HCA is seeking to negotiate local programmes through the 'single conversation', there may be scope for a regional dialogue with the Agency;
- Phase housing land releases to protect and prioritise developments in the urban areas, use a form of sequential testing that prioritises brownfield sites first, as set out in PPS3. This would need to be suitably robust and unlikely to work if there are not viable urban development alternatives that can be quickly advanced in a recovery period;
- Bringing forward infrastructure projects in the urban areas to serve high levels of urban housing development. This would involve an update of the GVA Grimley and Mott MacDonald's work on the delivery of housing infrastructure in the region;
- Work with the Council of Mortgage Lenders and the Building Societies Association, and key lenders to develop schemes to support new entrants to the housing market in urban areas. This initiative should include those local authorities that are considering mortgage support schemes;

- Identify and work with those developers (including housing associations) still active in urban areas and seek to address constraints on development. It is possible to use the recession period to undertake a lot of preparatory work around acquisitions and planning.

4.5 Conclusion

It is not the purpose of this work to challenge the detailed analyses that have led to housing demand figures in the Preferred Option and the NLP study. We can though conclude that there is a high level of risk in delivery against both the Preferred Option and the NLP scenarios within the plan period, given the severity of the impact of the economic downturn on house building and the capacity of the house building sector. Equally, there are limitations on public policy and finance in delivering new supply of the scale to compensate. As we move forward the gap between the delivery rates required to meet the Preferred Option and the NLP scenarios grows and the realism of achieving against targets in the plan period (2026) diminishes. In the meantime there is strong latent housing demand to meet, even if that is suppressed somewhat by the impacts of the economic downturn (e.g. less economic migrants) in the short term. The urban areas can play a significant role in satisfying medium and long term demand but this will only happen with major investment in land and infrastructure, as well as supporting employment creation.