

Transition to Transformation: One Year On

A review of the market renewal programme: emerging issues and the current policy debate

Discussion paper from the market renewal
pathfinder chairs, September 2007

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1 Introduction and executive summary

- 1.1 This paper reviews current progress in the housing market renewal (HMR) programme and sets out emerging issues relating to the programme. It takes into account the Government's recent Housing Green Paper and the Treasury Sub-national Review of Regeneration and Economic Development. The paper builds on the pathfinder chairs' September 2006 report *Transition to Transformation: Housing Market Renewal and Our Changing Communities* and updates the information contained in that report, particularly in relation to changes in prices, concentrations of vacancies and patterns of demographic change and migration. It then highlights emerging policy issues and highlights the continuing relevance of the programme to the agenda emerging from Government as the Spending Review 2007 reaches its conclusion.
- 1.2 The context of the HMR programme is well known. During the 1980s and 1990s, many urban areas in the North and the Midlands experienced low or in some cases negative household growth as a result of out-migration to surrounding suburban and rural areas. Increasing prosperity also fuelled demand for higher standards of housing. As the demand for new-build property increased, a crude surplus of property emerged. The combination of poor economic performance and population/household loss also meant that in many areas the excess supply of poor quality property forced prices down. Low or falling prices were geographically quite widespread, but in areas with the worst environments within towns and cities most affected by industrial change, the phenomenon of neighbourhood abandonment began to emerge.
- 1.3 The HMR programme recognised the multifaceted nature of these problems. It aimed to improve the quality of neighbourhoods and housing markets while integrating interventions within a sub-regional framework that linked housing, planning and economic development. Such strategy and policy integration at sub-regional level had rarely been tried before. It has required a high level of co-ordination between local authorities and other stakeholders, underlain by the statutory powers of local authorities, who support and implement local market renewal programmes. This has proved a highly successful

example of local authorities and their partners combining their place-making efforts. Figure 1 below illustrates how the market renewal programme works in practice.

1.4 To summarise the paper's main findings:

- There has been significant house price growth in the pathfinder areas in recent years. After this catching up, prices are now rising broadly in line with regional averages. However, HMR areas remain relatively low value.
- These higher house prices have brought increased private investment and higher values for public and private assets, in part as a result of the activities of HMR partnerships. But they have also brought costs, most notably growing affordability problems and higher-cost HMR interventions.
- House prices alone are an unsatisfactory indicator of housing market health. Data on vacancies and demographic change shows continuing vulnerability in the HMR, even where urban populations are growing. The loss of economically active households will undermine urban sustainability. This process of decentralisation will exacerbate problems of social cohesion in some pathfinders. The long term household forecasts for the HMR local authority districts show substantial growth. If suburbanisation and depopulation trends are to be reversed, continuing investment is required to ensure that new house building is focused on the urban core;
- The balance of the programme will increasingly shift from neighbourhood restructuring to enhancing new housing supply as the most obsolete stock is removed. It is vital that new building programmes deliver increased choice in terms of housing type and tenure, to create high quality neighbourhoods and ensure that populations stabilise and grow. These are the key ingredients if HMR areas are to secure economic and social sustainability;
- Speculative purchasing has had an impact in HMR areas, but press estimates of the cost are exaggerated. Our best estimate is a cost of some £50 million out of a total programme of £1.2 billion, or 4 per cent of the budget. The

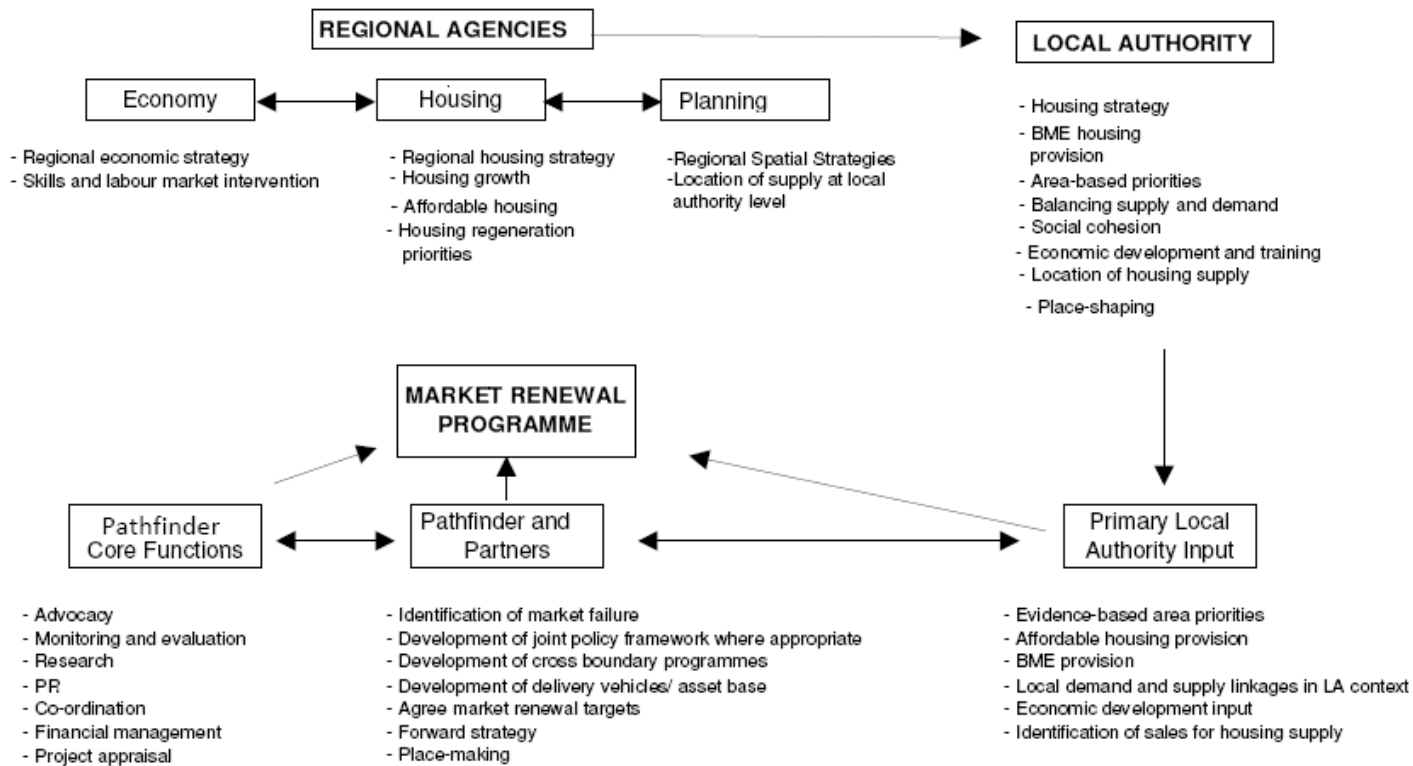
only way to avoid such activity would be to change compulsory purchase order (CPO) powers to exclude speculative value growth. But this would be technically difficult and unlikely to achieve public support, given that the biggest impact would be on owner occupiers rather than speculators.

- The HMR challenge remains, as 20 per cent of dwellings in HMR areas are located in wards where the vacancy rate is more than double the Core Cities average. These wards contain more than 150,000 properties. More than 50,000 HMR dwellings are in wards where vacancy rates are 200 per cent greater than the Core Cities average.
- The rationale for the programme remains as strong as ever. Its strategy is consistent with the policy direction set out in the Housing Green Paper and the Sub-national Review.
- In *Transition to Transformation* (section 6.10) we highlighted the need to review intervention areas in light of changing circumstances. The business plan process for the 2008-11 funding programme will provide the opportunity to do so.
- Each HMR board has conducted a strategic review to examine how best to maximise the effectiveness of investment and the private sector contribution. Beyond 2010, the Single Regional Strategy prepared by the Regional Development Agencies, in conjunction with the Communities England programme and sign-off by local authorities, could be an appropriate mechanism for keeping the programme under review.
- It is our view that HMR resource requirements for 2008-11, as a minimum, will need to remain at the present spending review levels across the programme.

1.5 The next section of this paper illustrates some of the changes which have occurred since the programme started. The most striking changes have occurred in prices. It is also clear that some areas are also experiencing a reduction in surpluses as a result of demolition and net in-migration. However what is especially striking is that a core of neighbourhoods continues to experience problems of very high vacancies, high turnover, poor

environments and unpopularity which have not been eliminated by rising house prices.

Figure 1: Developing a Market Renewal Strategy: Illustrative Roles and Responsibilities

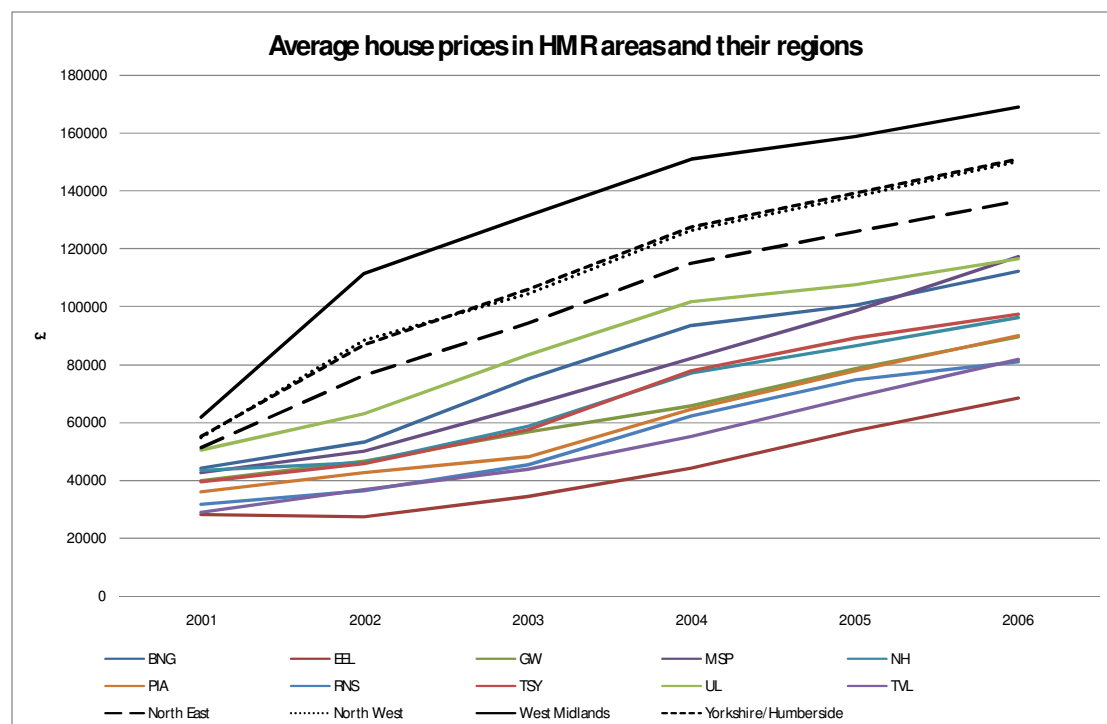


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2 Recent market changes

- 2.1 Last year's report reviewed housing market changes in the HMR pathfinder areas since the programme was established in 2002. Average house prices had increased, as had prices across most of the Midlands and the North. In some cases, price increases in parts of the intervention areas had exceeded regional average increases. This was a one-off catching up process, driven in some neighbourhoods by speculators attracted by low prices and by the new confidence generated by the HMR programme. There is a strong negative correlation between prices at neighbourhood level in 2002 and rising prices since then – the lower the price in 2002, the greater the subsequent increase.
- 2.2 Prices have continued to increase in the last year, but at a much steadier rate in line with regional averages (Figure 2). As a result, the ratio of HMR area to regional prices has remained largely unchanged. The HMR areas remain relatively low value areas within inner cities and declining industrial towns.

Figure 2: Average dwelling prices in HMR areas and their regions



Source: HM Land Registry data courtesy of Department of Communities and Local Government (DCLG). Note: for key to abbreviations, see Table 1.

- 2.3 As HMR intervention areas are large, this can mask concentrations of lower house price values in particular neighbourhoods. The programme has already dealt with some of the neighbourhoods with the lowest values in 2002. But other concentrations remain, even where the absolute level of prices in the HMR area as a whole has increased. In 2006, 6 per cent of neighbourhoods in the pathfinders had an average house sale price of less than £60,000, and a further 13 per cent an average price of between £60,000 and £70,000. These are the neighbourhoods where the market is least sustainable and where speculative purchasing has played a major part. So far, there is no sign that prices in these areas are falling; only 13 per cent of pathfinder neighbourhoods showed a fall of 5 per cent or more in average prices between 2005 and 2006. But the potential for falls if speculators decide to disinvest remains a major concern.
- 2.4 Increasing prices in HMR areas have been the market response to the increased confidence generated by the pathfinder programme and other interventions. This has brought some benefits, such as increased private sector investment and higher values for land and other public sector assets, but also disadvantages, such as increased unit costs for public investment. A particularly serious issue is the problem of affordability for those on lower incomes. Table 1 shows the changing ratio of prices to incomes for first-time buyers (FTBs) in pathfinder areas. In each pathfinder, the ratio has increased over the 2002-06 period, making housing less affordable. Average incomes increased by about 25 per cent over this period, but average house prices more or less doubled.
- 2.5 Pathfinders have already begun to address the issue of affordability, drawing on their track record of developing innovative solutions. They have made progress in developing affordable equity loan products. Taking this further, they are working with developers under innovative agreements to deliver affordable housing solutions. Examples of initiatives to date are set out in the paper *Stretching Resources*.¹

¹ *Stretching Resources: The innovative solutions and unique contribution to addressing profound housing market failure in key conurbations*, paper to Yvette Cooper MP, Minister for Housing and Planning, from the housing market renewal chairs.

2.6 As with all affordability comparisons, the figures in Table 1 do not take into account the quality and attractiveness of housing. In HMR areas, low cost housing is likely to be much less attractive than elsewhere, compounding the problem of affordability.

Table 1: Affordability (price to income ratio) for FTBs

	Price to income ratio					% change 2002- 06
	2002	2003	2004	2005	2006	
Bridging NewcastleGateshead (BNG)	3.5	4.9	5.9	6.2	5.6	61
Elevate East Lancashire (EEL)	1.8	2.2	2.7	3.3	3.1	73
Gateway Hull (GW)	2.7	3.2	3.6	4.2	3.9	46
Manchester Salford Partnership (MSP)	3.6	4.0	4.8	5.5	5.3	48
NewHeartlands (NH) (Merseyside)	3.3	3.8	4.7	5.0	4.5	37
Partners in Action (PIA) (Oldham Rochdale)	2.7	2.8	3.6	4.3	4.2	56
Renew North Staffordshire (RNS)	2.5	3.0	3.9	4.4	4.0	60
Transform South Yorkshire (TSY)	2.8	3.3	4.3	4.8	4.5	60
Urban Living (UL) (Birmingham Sandwell)	4.5	5.5	6.3	6.2	5.8	28
All pathfinders	3.0	3.5	4.3	4.7	4.4	49

Sources: National Pathfinder Evaluation Consortium, CACI Paycheck, DCLG, HM Land Registry

Note: Data not available for Tees Valley Living (TVL)

2.7 As stressed in our previous report, other indicators than prices give a better picture of the underlying health of housing markets. We have updated the table in our previous report showing vacancy rates for HMR pathfinders (see Table 2). This shows that HMR programme areas continue to have high vacancy rates, with little evidence of any significant reduction in overall vacancies or the level of long-term vacancies.

2.8 As with prices, there are major variations in vacancy levels among neighbourhoods within the intervention areas. While some

HMR neighbourhoods have vacancy rates close to the average for the area as a whole, others have much higher rates. Since last year's report, the Office for National Statistics (ONS) has published data on vacancies at ward level for the 2002-05 period. However, ward boundaries do not always coincide well with neighbourhood and HMR intervention area boundaries, wards are often quite large, and the data for some local authorities is missing or partial. Hence our analysis should be treated as indicative rather than definitive.

- 2.9 Table 3 shows the results for HMR area vacancies. It highlights the proportion of dwellings in each HMR area in 2005 that exceeded a series of thresholds, based on the average rate for the Core Cities.² For all HMR areas combined, over two-thirds of dwellings were in wards whose vacancy rate exceeded the average for the Core Cities, as we would expect. But just over 20 per cent of dwellings were in wards with a vacancy rate at least *double* the Core Cities rate, and about 7 per cent were in wards with a rate *three times* that level. Conversely, almost one-third of dwellings were in areas with a vacancy rate *below* the Core Cities average.
- 2.10 Table 3 also demonstrates the importance of looking at neighbourhoods within HMR areas, rather than at headline results for areas as a whole and, it follows, targeting interventions to deal with the problems in these areas. When the HMR programme was initially developed, there was real concern based on recent experience that problems of low demand were contagious and could spread rapidly among adjacent neighbourhoods. Hence the intervention areas were widely drawn. The subsequent strengthening of markets in many areas has removed this threat, but has not solved the problems in the worst neighbourhoods, as Table 3 demonstrates. This suggests a case for refocusing the HMR initiative on areas with the most serious problems. However, *all* the HMR areas experience high vacancy rates to some extent, and neighbourhoods with high rates include many different sorts of area. This suggests that crude approaches to targeting (for

² The Core Cities are Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. As large centres of economic activity, higher and further education and cultural activity, they tend to have higher vacancy rates than other urban and rural areas.

example, focusing exclusively on Core City areas or areas with deep-seated economic problems) would be inappropriate.

- 2.11 There is no significant correlation between vacancy rates and average house prices at ward level, but there is a weak negative correlation between vacancy rates in 2005 and the rate of price increase between 2002 and 2005. This re-emphasises the weakness of house prices as an indicator of market health in HMR areas. It also shows the perversity of market responses, in that the areas with the worst problems in terms of vacancies at the outset of the HMR programme were the most likely to experience higher price increases.

Table 2: HMR area vacancy rates

		HMR area									
		Birmingham Sandwell	North Staffs	Merseyside	Manchester Salford	Oldham Rochdale	East Lancs	South Yorkshire	Hull	Newcastle Gateshead	Tees Valley
All vacancies (%)	2001	5.5		10.8	10.2		7.0	4.5	7.2	9.7	
	2005		6.2	10.1	8.7	7.0	6.2		6.2	7.7	
	2006		6.5	10.4	8.3	5.3		4.0	5.8	7.2	
	2007		6.1	9.5	7.7		7.1	3.5	5.8	7.1	
Long-term vacancies (%)	2001	4.8					2.4		2.4		
	2005		4.1	6.3		4.7	3.2	2.1	3.5	4.5	
	2006	4.5	4.3	6.3		3.0	3.1	2.5	3.2	4.5	
	2007	5.3	3.6	6.4	2.8		5.5	1.2	3.1	4.3	

Source: HMR pathfinders and TVL. Note: this table updates Table 4.1 in the 2006 report *Transition to Transformation: Housing Market Renewal and Our Changing Communities* by the Housing Market Renewal Partnership (HMRP) chairs.

Table 3: HMR area vacancies – dwellings in neighbourhoods with high vacancy rates (see note)

Threshold	Birmingham Sandwell	North Staffs <small>see note</small>	Merseyside <small>see note</small>	Manchester Salford <small>see note</small>	Oldham Rochdale	East Lancs	South Yorkshire	Hull	Newcastle Gateshead	Tees Valley	All pathfinders plus TVL
Total dwellings (number)	58,010	38,118	109,248	24,616	55,968	49149	135,462	111,853	64,148	79,193	725,765
Core rate plus 200% (%)	5.70	11.26	9.51	15.50	7.69	22.27	4.99	3.55	4.52	3.73	7.39
Core rate plus 100% (%)	5.70	26.82	47.40	60.92	15.45	27.92	4.99	7.28	27.64	17.06	20.50
Core rate plus 50% (%)	29.60	26.82	70.38	79.72	46.25	51.61	11.09	28.34	46.20	36.27	38.64
Core rate plus 25% (%)	49.21	56.39	83.55	79.72	46.25	67.80	24.83	37.45	53.36	42.61	50.13
Over Core Cities rate (%)	75.12	85.68	100.00	100.00	84.33	87.69	45.19	42.99	71.15	45.79	67.74

Note: HMR areas in this table consist of aggregations of wards with centroids falling within intervention areas, not intervention areas themselves. 'Total dwellings' refers to the aggregate of household spaces within these wards in 2001. Data for MSP is for Salford only (Manchester data missing). Data for North Staffs is for Stoke on Trent only (Newcastle under Lyme and Staffordshire Moorlands data missing). Data for vacancy rates for Liverpool is based on 2001 dwelling stock as data is partly missing; otherwise based on dwelling data from Neighbourhood Statistics, Vacant Dwellings table. Data is for 2005 or latest year (2003-05) for which data is available, and dwellings in neighbourhoods with a vacancy rate at or above each threshold as a percentage of all dwellings in each HMR area. Thresholds relate to the 2005 vacancy rate (all dwellings) for the Core Cities. The Core Cities vacancy rate in 2005 was 4.61%. Sources: ONS, Neighbourhood Statistics, Vacant Dwellings 2003, 2004, 2005 and 2001 Census; 2005 Housing Strategic Statistical Appendix (HSSA) returns.

2.12 Our previous report also looked at the underlying demographic indicators of migration and population change. Since that report, new population estimates for 2006 have appeared and earlier estimates revised. Table 4 updates our previous report's table on mid-year population estimates for the local authorities containing HMR areas. Uncertainties around levels of net in-migration from abroad have been the main cause of these revisions, and many HMR areas have been significantly affected. There is evidence that population growth is more widespread than previously thought, extending in some cases beyond conurbation core cities to other areas such as Sandwell, Rotherham, Barnsley, Hull and Hartlepool, which had not previously begun to benefit from growth. However, in most cases growth levels are probably well within the range of uncertainty associated with the estimates. It is too early to be confident about sustained growth, except in a few cities such as Manchester. The Merseyside HMR authorities appear to be still losing population despite international in-migration.

Table 4: Mid-year population estimates, HMR authorities

	Mid-year population estimate (000s)							
	1991	1996	2001	2002	2003	2004	2005	2006
BNG	477	478	457	458	458	458	460	461
EEL	459	463	464	465	466	467	468	468
GW	263	265	250	250	251	253	255	256
MSP	664	648	640	642	647	652	661	670
NH	1,103	1,072	1,040	1,037	1,034	1,031	1,029	1,025
PIA	422	424	425	425	426	426	426	426
RNS	466	463	457	456	457	457	458	459
TSY	1,289	1,279	1,266	1,270	1,273	1,279	1,288	1,293
UL	1,297	1,290	1,269	1,274	1,277	1,282	1,290	1,294
TVL	557	555	554	555	555	555	557	558

Source: ONS.

Note: Except for Gateway Hull, population estimates are not available for HMR intervention areas within authorities, so these figures are aggregates of the authorities represented in each HMR programme.

2.13 The most recent official projections show high rates of population growth and new household formation over the next two decades (Table 5), resulting from increased natural population growth in some areas and continuing net in-migration from abroad. The projections are based mainly on past trends, but even under this scenario HMR areas are projected to experience considerable

growth. This will be further enhanced as regional spatial strategies' policies to focus growth more strongly on brownfield sites in sustainable locations have an impact.

Table 5: Household projections, HMR authorities

2004-based household projections							
	2006	2011	2016	2021	2026	2029	% increase 2006-29
BNG	205	213	221	228	233	236	15.1
EEL	191	196	203	208	212	214	12.0
GW	110	114	118	121	123	125	13.6
MSP	292	310	327	342	355	362	24.0
NH	454	473	491	509	523	529	16.5
PIA	176	183	189	196	201	204	15.9
RNS	250	256	264	270	275	276	10.4
TSY	552	576	604	628	649	660	19.6
UL	523	544	565	586	605	615	17.6
TVL	234	242	249	255	260	262	12.0

Source: DCLG.

Note: Except for Gateway Hull, population estimates are not available for HMR intervention areas within authorities, so these figures are aggregates of the authorities represented in each HMR programme.

- 2.14 Tables 4 and 5 show population estimates not for HMR areas but for the authorities within which they are located. As with other indicators, it is important to try to focus on changes within HMR neighbourhoods to derive a better understanding of the processes of change. Since our previous report was published, ONS Neighbourhood Statistics has published data on population change and migration at neighbourhood level for the period 2001-04 (Table 6). This data is available for middle-level super output areas (MSOAs), which have an average of around 7,500 residents each. The data in Table 6 is aggregated from MSOAs, so does not correspond exactly with intervention area boundaries. However, it gives a better picture of population change than the estimates for whole local authorities in Table 4.
- 2.15 Table 6 indicates that only the Manchester Salford and Urban Living neighbourhoods showed any significant population growth between 2001 and 2004. This suggests that most growth in the authorities making up HMR areas took place outside the intervention areas. This is not surprising, given that HMR

programmes were either under development or in their very early stages at that time. The programmes will begin to impact on growth over time, but there is still a long way to go, even in those areas where growth is strongest.

- 2.16 The age composition of the population in HMR areas is also shown in Table 6. There are considerable differences, with some HMR areas having a high proportion of younger people aged 15-29 and others having more older people, suggesting that they were yet to experience the full impact of household growth led by younger in-migrants. However, the data on the rate of change of population by age group shows clearly that most HMR areas were only gaining population in the 15-29 age group while still experiencing net losses among children and those aged 30 or more. The levels of loss were much greater than those experienced by the local authorities within which HMR areas are located. This shows how these changes are masked by the wider context of change in areas around the pathfinders.
- 2.17 Table 6 includes data on migration and population turnover, prepared by ONS from NHS records of GP registrations. This source suggests a greater level of population loss than the mid-year estimates, but does not pick up all migrants. In particular, it understates moves by younger people and people coming into the UK from abroad. Areas known to be a focus for international in-migration, such as Urban Living in Birmingham/Sandwell, can therefore have a very high rate of outward migration, but still fare better in terms of net population change. Despite this, the data again shows high net losses of children and those aged 25-44 from all the HMR areas. In other words, outward movement by couples, families with children and middle-aged people is continuing, with more affluent people undoubtedly over-represented in this outward movement. Reducing or reversing this flow is central not only to HMR programme objectives, but also to the Government's wider aims of securing a genuine, sustainable urban renaissance where urban areas are populated by stable, mixed communities and by those with choice as well as those who cannot afford to leave.
- 2.18 This brief review and updating of data from last year's report shows that the task of housing market renewal is unfinished. Despite a continuing improvement in house prices, there is

evidence that in the core neighbourhoods of market weakness, vacancy rates remain high. Demographic indicators also suggest that much remains to be done to reverse the processes of outward migration which have undermined markets in these areas in the past. If the present vulnerability of HMR areas is not to be exacerbated, and long term sustainability is to be promoted, it is vital that resources are made available for sustained housing investment in line with Regional Spatial Strategy recommendations. Both renewal and growth are required if urban flight and suburbanisation are to be halted and reversed.

Table 6: Population and migration by HMR areas, 2001-04

	BNG	EEL	GW	MSP	NH	PIA	RNS	TSY	UL	TVL
Population										
Population 2001	150,800	130,201	249,913	268,936	262,053	182,864	157,533	299,726	126,785	184,025
Population 2004	150,111	128,262	248,530	275,813	262,460	182,946	156,368	299,928	128,901	179,426
Population change 2001-04	-689	-1939	-1383	6877	407	82	-1165	202	2116	-4599
% population change 2001-04	-0.46	-1.49	-0.55	2.56	0.16	0.04	-0.74	0.07	1.67	-2.50
2004: % aged 0-14	18.61	23.98	18.59	18.21	18.24	23.80	18.55	20.36	23.93	20.26
2004: % aged 15-29	22.96	21.94	22.26	30.58	26.15	21.52	22.12	19.70	26.43	22.08
2004: % aged 30-64	43.06	41.00	44.17	39.19	42.39	42.06	43.42	44.42	38.58	43.01
2004: % aged 65+	15.37	13.09	14.98	12.03	13.22	12.61	15.91	15.52	11.06	14.66
% change 2001-04: aged 0-15	-0.87	-0.49	-1.23	-1.26	-1.64	-0.38	-0.52	-0.69	-0.52	-1.26
% change 2001-04: aged 15-29	1.44	0.25	0.62	2.06	2.18	0.46	0.05	0.67	0.93	0.92
% change 2001-04: aged 30-64	-0.14	0.52	0.71	-0.03	-0.16	0.30	1.05	0.23	0.37	0.22
% change 2001-04: aged 65+	-0.44	-0.28	-0.10	-0.77	-0.38	-0.39	-0.58	-0.21	-0.78	0.12
Migration/turnover										
Net migration 2001-04	-519	-674	-618	-1270	-1184	-749	-331	-894	-1381	-975
Net migration aged 15-24	533	-443	362	1149	691	-174	24	-114	-1121	-407
Net migration aged 25-44	-1098	-1054	-1211	-3202	-2579	-1031	-628	-1319	-1797	-1671
Net migration/1,000 population	-3.44	-5.18	-2.47	-4.72	-4.52	-4.10	-2.10	-2.98	-10.89	-5.30
Turnover/1,000 population in 2001	23.30	23.17	25.86	29.14	28.87	22.77	26.45	21.50	23.89	25.38

Source: ONS, Neighbourhood Statistics, Resident Population Estimates and Population Turnover Rates

3 Evolution of the HMR programme and the emerging policy debate

3.1 The previous section has confirmed the continuation of trends that were evident within the pathfinders' 2006 submission to the Comprehensive Spending Review. However, the following issues have subsequently emerged or increased in importance.

- *The importance of new housing supply:* A common misconception about the HMR programme is that it seeks to reduce the overall supply of property. The reality is far more subtle. The areas included in the programme experienced serious reductions in population over a period when the suburban hinterlands surrounding them experienced substantial growth. However, there was no lack of demand per se, just for certain types of property in relation to the size of their supply (in many cases, non-traditional types of social rented housing, or back-of-pavement terraces in the private sector). The solution has been to action a modest reduction in the supply of these obsolete property types where there is insufficient demand to keep vacancies and residential turnover to manageable levels. For the programme to succeed, however, new housing supply needs to be reintroduced to facilitate repopulation. Over time, the balance of activity within the programme is therefore shifting from neighbourhood restructuring to reprovision. In areas with strong economies such as Manchester and Birmingham, this shift is already well under way. This is not a sign that the programme is not needed – it is a sign that it is beginning to work.
- *House prices – increased demand, public policy and speculation:* Some elements of the press and some local activists contend that the HMR programme is no longer required because rising house prices within the pathfinder areas demonstrate that the market is functioning normally. Although this issue has been addressed in the 2006 chairs' report, and in section 2 above, it is essential to nail this misconception by summarising the factors influencing price changes:
 - *Increased demand* – increased demand arising from a surge in international in-migration and black and minority ethnic (BME) household growth has affected prices across much of

the country. The pathfinder areas are no exception, and indeed some are important reception locations for migrants. This factor is highly significant in Manchester and Birmingham, but in most pathfinder areas has not been sufficient in net terms to reduce vacancy levels. However, it may have stabilised them, for example in Stoke-on-Trent.

- *Pathfinder interventions* – the lowest-value and previously abandoned stock has by now been demolished through the HMR programme. As this stock was selling at very low prices (under £20,000), its removal from the market immediately increased average prices.
- *Speculation* – this is a misunderstood term. At least three types of process are involved, which are not necessarily mutually exclusive. Firstly, the buy-to-let phenomenon has been particularly evident in low-value terraced markets in the North. A speculative element is attached, as many purchasers are anticipating capital growth, which may offset disappointing rental and revenue performance (particularly with interest rates rising). Secondly, many estate agents market 'regeneration areas' at auction and in person, and some purchasers are persuaded to pay more because the area will improve. Although this is a form of speculation, in reality the net effect is to bring forward the value of regeneration. The key to making money in this instance is to buy early in the process. The third type of speculation occurs where buyers deliberately invest in property which will be subject to a CPO. If well organised/publicised, a CPO can push prices and other compensation up. This form of speculation has recently made national news, and we return to it at the end of this section.
- *The extent of the challenge remaining:* the analysis in section 2 of this paper shows that 20 per cent of dwellings in the nine pathfinders and TVL are located in wards where the vacancy rate is more than 100 per cent greater than the Core Cities average (Table 3). These wards contain more than 150,000 properties.³ In many cases, long-term housing market renewal

³ The actual number needs further detailed examination, as ward boundaries only approximate pathfinder boundaries and can obscure more localised

initiatives are already in place or at an advanced stage of planning, to address the chronic problems these areas face. Over 50,000 dwellings are located in wards where the vacancy rate is more than 200 per cent greater than the Core Cities average. In these areas, radical interventions will be needed to secure regeneration and repopulation.

The key issues

- 3.2 The 2006 chairs' submission highlighted the need for a dialogue with the Government over the need for an increased supply of housing, and the affordable component of this supply. Additionally, the submission requested a long-term commitment from the Government to fund and complete the programme. In return, the pathfinders expressed willingness to review the objectives, programmes and boundaries of the areas in which they operate. This discussion paper has confirmed the importance of these issues, as well as making the first tentative assessment of the scale of the task that still needs to be completed.
- 3.3 One additional issue that needs to be addressed in dialogue between the pathfinders and the Government is how to manage speculation. Earlier in this section we identified three types of speculation. Two of them, buy to let and the process of investors buying into regeneration areas, are in the medium term subject to market forces. The buy-to-let market will need to withstand higher interest rates and lower rental streams in markets with higher frictional vacancies, and investors in regeneration areas may have underestimated the time it will take for regeneration processes to be completed. There may therefore be some market corrections in prices in the short to medium term.
- 3.4 The major concern is the potential for investors to manipulate the small number of areas where CPOs remain to be made. In these areas, there is of course no long-term market exposure. Section 2 showed that price increases in pathfinder neighbourhoods have been greater in areas with the highest vacancy levels. The tendency is also for the price gap between sustainable areas and areas potentially subject to CPO action to close when

concentrations of problems. In addition, areas outside the present HMR initiative may also demonstrate these problems.

consultation processes begin. This is the opposite of the blight traditionally associated with compulsory purchase.

- 3.5 Our best estimate of the total cost of this form of speculation is that it will have added an average £10,000 to the cost of acquiring a property for clearance from an owner occupier during the first five years of the programme. To date, around 10,000 properties have been cleared since 2002-03 using HMR resources. About 50 per cent of these properties will have been owner occupied/privately rented, with the remainder in the social rented sector. Hence some £50 million of HMR expenditure can be attributed to speculation within CPO areas. Total investment over this period has been £1.2 billion, so the speculative cost to the public purse is in the order of 4 per cent of the budget. It is important to note that this speculative uplift benefits both recent investors and long-term residents. The latter at least are able to use the increased compensation to buy into other sustainable neighbourhoods, thereby reducing the required level of public subsidy via relocation grants. Hence the net cost to the public will be less.
- 3.6 Action is needed to limit these speculative increases in future, and the pathfinders are keen to progress this in discussion with the Government. One solution would be for district valuers to monitor the uplift in values once the intention to clear is declared, and for compensation regulations to be amended to allow discretion to exclude any subsequent narrowing of the differential between CPO areas and sustainable neighbourhoods following declaration.

The evolution of government policy and the HMRP

- 3.7 During summer 2007 the Government has published two documents with great significance for the future direction of the HMR programme. In July, the Treasury produced its *Review of Sub-national Economic Development and Regeneration*. It contains a number of messages and proposals which will guide the allocation of regeneration resources in the medium to long term. These are highlighted below:
- The Treasury is proposing to bring forward measures to facilitate greater co-operation by local authorities at sub-regional level. These measures may be supported by multi-

area agreements, or through statutory sub-regional arrangements.

- Economic development and competitiveness are central to the achievement of sustainable and cohesive communities.
- There is a prerequisite for market failure to exist to justify large-scale regeneration expenditure.
- Resources will be refocused on a smaller number of areas where market failure is considered to be more widespread and intense.
- Future neighbourhood interventions will need to be justified in line with the philosophy underlying the findings of the Review.

3.8 The Government has also published a Housing Green Paper, *Homes for the Future: More Affordable, More Sustainable*. In line with the Treasury's view, the Green Paper highlights decentralisation and institutional change, and the importance of successful economic outcomes. In addition, it places considerable emphasis on place-making and an increased housing supply to address the problem of affordability. In line with the views expressed in the Treasury Review about regeneration more generally, the Green Paper notes that for market renewal:

'we will need the programme to provide greater focus on areas where there are deep-seated structural problems' (page 26, paragraph 11).

3.9 It is clear that the public policy framework within which housing and regeneration programmes are derived and managed is undergoing a process of fundamental review. The problems which the HMRP is addressing remain central, but the programme is also capable of evolving with the Government's agenda. If we consider the evidence contained within this discussion paper, it is clear that the following points are consistent with both the Treasury Review and the Housing Green Paper:

- Market failure will continue to exist in neighbourhoods within existing HMR areas, which in aggregate contain more than 150,000 properties (plus, probably, some similar areas

elsewhere). The problem in these areas lies with the market's inability to balance supply and demand for housing (in some cases over a period of a quarter of a century or more). Additionally, the market does not cover the costs associated with high residential turnover and neighbourhood management. Finally, many of these clusters of neighbourhoods also experience labour-market failure and high levels of worklessness, and so meet the criteria for continued investment specified within the Treasury Review.

- The HMR initiative is one of only a few instances where sub-regional working arrangements are in place and working well. The market renewal *approach* must be distinguished from the targeting of the HMR *fund*. The latter is focused on housing interventions in those areas most seriously affected by the operation of market forces at sub-regional level. The market renewal approach has adapted the wider sub-regional planning, economic development and housing frameworks to protect vulnerable places and people.
- The Government's wish for an enhanced focus on place-making is also central to what the pathfinders are doing. Each of the HMR partnerships has been working with English Heritage, the Commission for Architecture and the Built Environment (CABE) and other experts to improve the neighbourhoods which are subject to intervention, and to create new high-quality places. Many of the neighbourhoods with the highest vacancy rates are now the focus of intensive regeneration activity aimed specifically at improving their environment, services, facilities and reputation.
- Initially, the pathfinders focused on understanding the forces that have shaped local housing markets and on developing intervention programmes. As the HMR programme has evolved, it has incorporated new approaches to fostering economic development and competitiveness. This aspect of public policy was initially most advanced in the Core Cities, but more recently East Lancashire and North Staffordshire have developed proposals for more effective integration of economic development, housing and planning policies, programmes and strategies. Transformational programmes of investment will take up to 10 years to complete, but provide

an immediate platform on which to build the Government's new approach to economic development and competitiveness.

- As the focus of housing policy more widely has shifted towards ensuring an adequate supply of housing accessible to all sectors of the community, this issue has also become more important to the HMR programme. Affordability problems do not just apply to neighbourhoods which have been targeted for intervention. Many of the market renewal areas have experienced significant population loss over a 50-year period. In the worst cases, neighbourhoods are no longer priorities for investment because they have virtually ceased to exist. There are examples of this situation in North Liverpool, East Manchester, West Newcastle and Sandwell. Repopulation will increase the efficiency of service delivery, reduce public sector costs (for example, public sector transport and schools budgets) and support shops and retail facilities. This important task emphasises why the HMR programme needs to focus on wider areas rather than on specific neighbourhoods alone. Place-making in the context of the HMR programme has relevance for entire urban areas, not just neighbourhoods experiencing market restructuring.

Conclusions and recommendations

- 3.10 This paper updates information on the core housing market indicators since the 2006 pathfinder chairs' submission to the Comprehensive Spending Review 2007. It also highlights a number of new issues that have emerged subsequently. It takes tentative steps towards identifying the scale of the task that needs to be addressed as a prerequisite for the programme to succeed. The paper also notes the extent to which the market renewal approach is appropriate to the Government's emerging agenda. Indeed, in retrospect the initiative could be considered to be a pilot for much of the innovation the Treasury wishes to see, as expressed in its review of economic development and regeneration.
- 3.11 The 2006 chairs' report set out a number of issues that needed to be developed and thought through from a public policy perspective. This discussion paper addresses several of these

issues. The initiative needs to be adapted to accommodate changes in the market, better intelligence and understanding, a refined sense of priorities, and the Government's new policy directions.

- 3.12 The best mechanism for initiating this action is the dialogue with HMR programmes over the business plan process for 2008-11. This must examine how to focus the resources for each area most effectively. It should take account of the extent to which changing land and property values have increased the capacity to lever in a greater share of private investment. It should also review market volatility within HMR areas in order to concentrate resources on the most vulnerable neighbourhoods.
- 3.13 In the medium term, the preparation and creation of a Single Regional Strategy, led by the Regional Development Agencies and involving Communities England and the relevant local authorities, could be an appropriate mechanism for reviewing the priority areas for HMR intervention. This would also require the involvement and expertise of the DCLG's recently established National Housing and Planning Advice Unit.
- 3.14 We look forward to our dialogue with Ministers on these issues. Our aim is to ensure that the HMR initiative evolves to meet changing circumstances and emerging issues, but at the same time continues with the task of restructuring failing housing markets in our inner cities and older industrial areas.

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