



**HOUSING
CORPORATION**
CENTRE FOR RESEARCH
AND MARKET INTELLIGENCE



**Housing and economic development:
November 2008**

Housing and economic development: Moving forward together

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Executive Summary

Housing matters to economic development. It can enhance economic performance and place competitiveness, but it can also lead to segregation and spatial concentrations of poverty. Too often, however, housing investment has taken place in isolation from the wider economic context.

The Government's housing growth plans present an opportunity to improve the use of housing as an enabler of economic growth, but housing policy will need to be more responsive to local economic development conditions.

In the current downturn, ensuring new homes are delivered of the right type, in the right place, and linked to wider economic outcomes will be all the more important. If housing is treated as an isolated issue, future investment is unlikely to achieve either sustainable growth or the outcomes desired by the Government's recently published Regeneration Framework.

Implementing a more integrated response to housing and economic development will be the key challenge facing the Homes and Communities Agency. Based on the analysis in this report, we make the following policy recommendations.

Recommendation 1: Fund a research programme to explore how different types of investment in housing and 'quality of place' impact on economic outcomes across a typology of different spatial areas.

Recommendation 2: Provide a framework for coordination at the appropriate spatial scales

- **Regional** - use the Regional Regeneration Priorities Maps to make the housing and economic development linkages explicit. The Maps should be used as a tool to help different programmes and partners coordinate to address the underlying causes of deprivation.



“Influence the design of local economic assessments to ensure they identify the links between housing and economic drivers and outcomes”

- **Sub-regional** - work with local partners to set sub-regional targets in Multi Area Agreements to pool funding and link house-building targets with wider economic priorities.
- **Local** - influence the design of local economic assessments to ensure they identify the links between housing and economic drivers and outcomes. These links should feed through into all Local Area Agreements to facilitate coordinated delivery.
- **Growth areas** - explicit economic development objectives should be agreed and linked to housing and infrastructure plans, particularly in the eco-towns.

Recommendation 3: Track the economic impact of HCA housing investment at the sub-regional level

- Where the HCA makes significant investment in housing or infrastructure, local authorities, RSLs and partners should be encouraged to demonstrate how the investment is expected to contribute to economic development and regeneration priorities.
- Track and evaluate the place-based, as opposed to programme-based, economic impacts resulting from HCA investment in housing and infrastructure over time.

Recommendation 4: Use spatial planning to strengthen the link between housing and economic development

- Explore how the new Planning Policy Statement 4 (Economic Development) can be used to ensure that the economic impact of housing is more fully considered prior to granting planning permission.
- Work with RDAs to embed these considerations in the Integrated Regional Strategies. This should be used to align Regional Funding Allocations for economic development with HCA investment in housing and infrastructure.

Recommendation 5: Link housing supply to local demand conditions.

- In high demand areas, bring forward public sector funding to take advantage of lower land values, and encourage an improved and expanded private rented sector to support labour market mobility, which will be key in a recession.
- In weaker housing markets, focus investment on upgrading existing stock and quality of place improvements, over new supply in the current economic climate.



Foreword

Housing is often viewed as a barometer for the state of the economy, and this is certainly the case at the moment. The relationship between housing and economic performance, however, operates at a number of spatial levels. In recent years, policy makers and political leaders at the local and national level have started to make stronger links between housing and economic development at the local level and that is to be welcomed. This new focus has its origins in the report of the Lyons' review which emphasised local government's place shaping role to promote economic prosperity and the wellbeing of communities. The type and quality of the housing offer can have a significant impact on the health and wealth of places. Their ability to attract and retain people and provide support for those who need it relies on good housing and attractive and inclusive neighbourhoods. New approaches to delivering housing and regeneration increasingly recognise this.

This paper shows how the importance of housing to the wellbeing and prosperity of places plays out in three ways. Firstly, the growing importance of skills to places' economic performance means that getting the right housing offer, including affordable housing, is essential to attracting and retaining a skills base that will encourage inward investment. Secondly, by aligning our strategies for housing and economic development we increase the likelihood that efforts to address deprivation will be supported by measures to address the underlying economic causes of area deprivation. Co-ordinating regeneration and economic development interventions maximises the potential for achieving a virtuous circle that can deliver greater economic inclusion. Finally, housing investment in of itself can be a powerful driver of local economic activity. In 2007, turnover in the housing association sector was over £9bn and this activity can have a significant positive impact on local economies, particularly in deprived areas.

Over the last 44 years the Housing Corporation has supported communities across England by investing in the supply, and regulating the quality of, affordable housing. Through our work, we have transformed the lives of people with needs which cannot be met on the open market, including low-income families, key workers and people who require supported accommodation. We have delivered some 1.27m homes, and overseen the growth of a sector that has a present value of some £70bn. In 1988, we pioneered the use of private finance to boost the delivery of affordable housing - since then over £30bn of private investment has been invested, in what must be regarded as the most successful public-private partnership in the delivery of any public service. This investment in the physical capital of communities has supported local economies. It has also enabled places to provide the affordable housing necessary to accommodate the skills base that places need to attract investment and achieve growth.

As we transfer our investment role to the new Homes and Communities Agency and our regulatory functions to the Tenant Services Authority, this paper sets out some of the ways in which the new organisations can work locally using their wider remits and new powers to achieve positive social and economic outcomes for communities. Going forward, the provision of homes and investment in communities to promote prosperity and enable access to employment will increasingly go hand in hand.

Steve Douglas
Chief Executive
Housing Corporation

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Introduction

The role of housing policy in helping to promote economic growth and regenerate under-performing areas is undergoing considerable change.

The Barker Review of Housing Supply (CLG, 2004) made clear the threats housing shortages pose to the country’s future economic success. In response to this, the Housing Green Paper (CLG, 2007) set a challenging target to deliver three million new homes by 2020.

We have since witnessed substantial instability in both the housing market and wider economy and the three million new homes target is now looking unachievable. This means ensuring the homes that are built are of the right type - in terms of quality, tenure and form - and in the right location will be all the more important.

The links between housing and economic regeneration have also received significant policy interest of late, illustrated by former Housing Minister Caroline Flint’s concern over the links between social housing and worklessness. The draft Regeneration Framework (CLG, 2008) emphasises the need for housing policy to be better integrated with wider economic improvements by placing a stronger focus on tackling the underlying economic causes of deprivation.

As the Sub-National Review (HMT et al, 2007) is implemented, the role housing policy plays in enabling both growth and regeneration will need to be more closely aligned. The establishment of the Homes and Communities Agency represents an important step towards this, but much remains to be done if a more coordinated approach is to be realised. This thinkpiece aims to start the debate and assist the Housing Corporation and its successor bodies in the development of policy and strategy, with an emphasis on:

1. How future housing investment can maximise its contribution to economic development; and
2. How housing and physical regeneration interventions can be integrated with, and complementary to, economic development strategies.

Getting the policy response right, however, will depend on a much better understanding of the linkages between housing and economic outcomes. This thinkpiece will analyse how these linkages play out in cities and city-regions through probing the research questions identified below and considering their policy implications.



“How does housing shape economic performance?”

Research questions

- How does housing shape economic performance, including the impact of long-run affordability issues and ‘quality of place’ considerations?
- What are the economic development implications of short-run housing market instability?
- What are the economic development challenges and opportunities presented by the growth areas, growth points and eco-towns?
- What role does housing play in shaping concentrations of poverty?
- How have area-based regeneration interventions linked improvements in housing to improvements in economic performance?

Methodology

The research involved a comprehensive literature review to analyse the evidence base underpinning the relationship between housing markets, economic performance and spatial concentrations of poverty. Evaluations of regeneration programmes were examined to identify examples of schemes that have achieved improvements in housing, in addition to positive economic and social outcomes.

Due to gaps in the existing evidence base, the analysis was supplemented by 20 interviews with key experts and practitioners in the field to qualify the findings, understand the practical challenges and opportunities facing different cities and identify case study examples. Local, sub-regional and regional strategy documents were also analysed to examine the extent of alignment between housing and economic development objectives and inform the development of policy recommendations. The emerging findings were presented at a roundtable on 10 September 2008 where the attendees helped to shape the final report and policy implications.



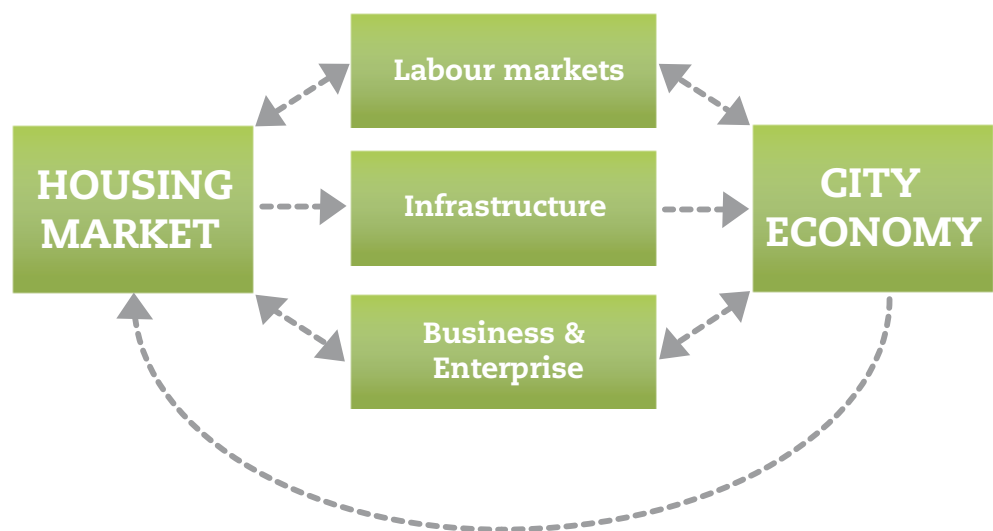
The role of housing in shaping economic performance

It is important to step back and look at the wider issues around why housing has become such an important area of debate. As the Barker Review of Housing Supply (2004) made clear, a shortage of housing can translate into instability in the wider economy. An insufficient supply of housing can restrict labour market mobility, raise business costs and exacerbate inequality – constraining economic growth (ibid).

It is equally important, however, to understand that housing is not just a numbers game. This can be most clearly seen at the sub-national level. While the housing market is often viewed as a national issue, housing markets are much more closely tied into local supply and demand factors (Maclennan, 1982). Their capacity to deliver housing of the right type, in the right place, and to an acceptable standard, is essential to the economic health of cities and their surrounding regions - and by extension the national economy (Gibb, O'Sullivan & Glossop 2008). Too often, however, housing investment has taken place in isolation from its wider economic context.

The way in which housing markets can impact on sub-national economic performance can be summarised under three broad headings: labour markets, infrastructure, and business and enterprise. Although a good case can be made for these links based on current concepts and theories, it needs to be acknowledged that significant evidence gaps remain.

Figure 1: Housing markets and city economies



“The capacity to deliver housing of the right type, in the right place, and to an acceptable standard, is essential to the economic health of cities”



“The type, price and quality of housing can have a significant impact on the attractiveness of cities to different types of workers”

How housing impacts on city economies

Labour Markets

Human capital is an important determinant of economic performance. An economy's stock of knowledge, talent and creativity determines its ability to increase productivity, innovate and sustain growth (Romer, 1990). The type, price and quality of housing can have a significant impact on the attractiveness of cities to different types of workers. Where augmentation of the housing stock fails to keep up with demand, affordability pressures can price existing employees out of the area and discourage new ones from moving in (DTZ, 2006).

Recruitment and retention problems can particularly affect lower paid employees, such as key workers, with implications for the delivery of essential public services (NHPAU, 2008c). High house prices can lead to longer commutes and increased congestion, which can have a negative impact on quality of life, with long-term implications for economic growth and sustainability (Roger Tym and Partners, 2003a; 2003b).

Housing tenure can also affect labour market performance, reflected in the differences in housing tenure linked to employment and income levels. Hills (2007), for example, highlighted the high levels of worklessness among social housing tenants, even when labour market disadvantage had been accounted for. Levels of residential mobility are also low for social housing tenants, as well as for owner-occupiers, due to the high transaction costs involved (Glossop, 2008).

This has led some commentators to claim that the small size of the private rented sector, and restrictions on mobility of council tenants, are important sources of inefficiency in British labour markets (Hughes & McCormick, 1987). A flexible housing system - one with adequate supplies of a range of housing, including high quality rental stock - can be essential to sustaining growth and labour market mobility, managing the adverse effects of migration (such as overcrowding) and providing housing opportunities for households to move through their individual life cycles (Gibb, O'Sullivan & Glossop 2008).

Infrastructure

Housing and population growth can put substantial strain on local infrastructure. If this is not met with adequate investment, cities can suffer high economic costs. The economic cost of transport delays to Central London employees and businesses, for example, was estimated to be £1,190 million a year (Oxford Economic Forecasting, 2005). Although the planning system may extract a proportion of the land value uplift and direct this towards funding infrastructure improvements (such as through Section 106 and the proposed Community Infrastructure Levy), significant funding gaps are likely to remain (as in the growth areas and new growth points).

Housing investment can be a necessary condition for positive neighbourhood change – through, for example, the development of mixed communities to tackle residential segregation and improve an area's skills profile (Berube, 2005). Unless this occurs alongside investment in transport and social infrastructure, however, the impact of housing improvements is unlikely to be sustainable.



“If two cities offer similar opportunities, high quality housing provision and a distinctive sense of place may well be the deciding factor”

Lower demand areas are often poorly served by public facilities and face a general infrastructure deficit, including weak public transport provision (Hills, 2007). This can restrict resident access to nearby employment centres, deter inward investment and limit business growth – exacerbating existing levels of deprivation, as in South Bristol (stakeholder interview).

Improvements to the physical infrastructure of cities and, indirectly, in their quality of life, can be important to supporting city competitiveness (Parkinson et al, 2006). Housing investment needs to be carefully planned alongside a high quality local environment, public realm, accessibility and social and community infrastructure if it is to have a positive economic impact.

Although ‘quality of place’¹ is not a primary driver of competitive advantage, its contribution lies in its ability to attract primary economic drivers, such as business investment and human capital (Bramley & Morgan, 2002; Llewelyn Davies Yeang 2006; Simmie et al, 2002). This is often highlighted as particularly important in a footloose global ‘knowledge economy’ characterised by highly skilled, mobile labour.

Some argue that quality of place becomes increasingly important as basic factors, such as employment and a strong economy, have been satisfied (Llewelyn Davies Yeang 2006). If two cities offer similar opportunities, high quality housing provision and a distinctive sense of place may well be the deciding factor (stakeholder interview).²

Business & Enterprise

In areas of high demand, the high costs of living will impact on the costs of doing business - raising wages and rent levels, and impacting on business location and expansion decisions, as in London (Roger Tym and Partners, 2003b).³ House price inflation, however, can also provide new business collateral - a region whose house prices rise in real terms will become wealthier and may invest some of that wealth in new enterprise (DTZ, 2006). In areas of lower demand, costs will be lower, but the often limited range and poorer quality of housing provision can fail to attract the necessary workers and restrict growth (Gibb, O’Sullivan & Glossop 2008).

The housing system can also be an important economic sector in its own right in terms of capital employed, jobs provided directly from construction, sale and turnover, and housing repairs and maintenance (Gibb and Keoghan, 1998). The housing sector in the London Thames Gateway, for example, has experienced significant jobs growth and is an important local employer (stakeholder interview). Turnover in the Registered Social Landlord (RSL) sector alone amounted to over £9 billion during 2007 – in more deprived areas this can be a powerful economic driver (Housing Corporation, 2008a).

1. Quality of place is defined here as the sum of those factors – including the local environment, public realm, housing, community safety, and accessibility – which together make cities and towns attractive places to live and invest.
2. A robust evidence base to support these assertions has, however, proved elusive largely due to the difficulty in both defining and isolating the ‘quality’ variable. Research often recognises the crucial role of quality of place, but its influence can be ‘indirect, lagged and difficult to measure’ (Cambridge Econometrics, 2002: 37). Further research in this areas is required.
3. Research undertaken on the economic impacts of affordability pressures in the South East found that 25 per cent of companies affected by housing costs were investing in capital goods in order to reduce their demand for people (ibid).



As the above analysis reveals, the way in which housing will impact on economic performance depends on the individual city context.

In strong city economies, such as in London, Cambridge and Bristol, there is a need to avoid housing shortages putting a brake on economic growth – placing pressure on existing infrastructure, raising business costs and exacerbating skill shortages. Given the rigidity of local housing markets - new supply is likely to constitute such a small proportion of overall stock that house price adjustments will be small - greater attention will need to be paid to alternate ways of meeting the housing needs of different workers. Options include expanding the intermediate market, making better use of existing stock and encouraging higher density developments.

In weaker economies, such as Hull, Bradford and Sunderland, housing and the supporting infrastructure have often received insufficient investment. Investing in the right type of housing - in terms of quality, tenure and form - and wider quality of place will be important to enabling growth through the attraction of higher skilled groups and new business investment. In the context of the Government's housing targets, it is crucial that attention is not diverted from upgrading existing stock, which caters for 95 per cent of all housing transactions (WMF, 1995).⁴

Given that economic inclusion does not necessarily follow on from economic growth, housing policy also needs to ensure that the needs of vulnerable groups are included in housing plans. Housing policy must find ways of tackling residential segregation and help more disadvantaged residents participate in the rising prosperity of the wider economy. The role housing plays in furthering regeneration and economic growth is inter-dependent and can no longer be treated as separate policy agendas.

These issues will be discussed further in the following sections of the report, where the housing and economy inter-linkages will be explored through analysing: the economic implications of housing market instability; the economic development challenges and opportunities of the Government's housing growth programme; the relationship between housing and spatial concentrations of poverty; and regeneration interventions that have linked housing to positive economic and social outcomes.

4. This means turning attention to longstanding issues such as the 600,000 plus vacant private dwellings and exploring ways of raising management and maintenance standards within the private rented sector (Peace, 2008).

“The way in which housing will impact on economic performance depends on the individual city context”



“Too often housing investment has taken place in isolation from the wider economic context”

Policy implications

- Due to evidence gaps in the literature, further research will be required if policy makers are to have a better understanding of the economic impacts from different types of housing investment, including wider ‘quality of place’ considerations, across different economic contexts.
- Where the HCA makes significant investment in housing and infrastructure, the place-based, as opposed to programme-based, economic impacts need to be tracked over time.
- Too often housing investment has taken place in isolation from the wider economic context. The new local economic assessments need to include a detailed housing market analysis and identify where housing feeds into local authorities other economic priorities - such as employment, skills, transport, business and enterprise.
- Spatial planning also needs to be used to strengthen the link between housing and economic outcomes. The revision of Planning Policy Statement 4 on Sustainable Economic Development should be used to ensure that the economic impact of residential developments is more fully considered prior to granting planning permission.



Short-run housing market instability: implications for housing delivery and economic performance

Current housing market instability and macroeconomic uncertainty reflect the links between housing markets and wider economic trends identified in the previous section. This will have important implications for housing delivery and sub-national economic performance, but the precise impact will depend on the strength of the economy in question.

In terms of direct implications, increased market uncertainty and the collapse of liquidity in the credit markets has significantly reduced effective levels of housing demand. By the second quarter of this year annual housing starts were down by 12 per cent and housing transactions were down by almost half in the year to August 2008 (CLG, 2008f; RICS, 2008). This has resulted in business activity associated with the housing market losing work, most notably in the construction sector, with subsequent employment and share price losses.

The loss of house-building capacity will have long-term implications for the Government's housing growth plans. Declining land prices will also mean that joint ventures (such as local asset backed vehicles) and planning mechanisms (such as Section 106 agreements and the proposed Community Infrastructure Levy) will have significantly less utility. Further uncertainty will be placed over infrastructure delivery, which in turn will restrict housing and economic growth – placing particular constraints on high demand areas. With an increase in applications below Section 106 thresholds and renegotiation of existing agreements, affordable housing targets and the delivery of mixed communities will be difficult to achieve (stakeholder interview).

As the downturn continues, weaker economies will face less potential for change through physical regeneration - where private investment relies on capturing the land value uplift - and the challenges facing market renewal areas will increase (CLG, 2008c). These economies will be the slowest to recover from the housing market downturn and regional inequalities could increase (Savills, 2008).

Property in regeneration areas has proved more vulnerable to market instability, relative to other types of investment property. The Investment Property Databank reported a six per cent fall in returns across regeneration areas during 2007 – nearly twice as high as the property market as a whole (IPD, 2008). There are reports of builders struggling to sell on existing schemes and delaying work on future development phases, leaving projects incomplete and unsightly gap sites which can further knock economic confidence (stakeholder interview). Regeneration projects in the initial stages of development and on more marginal, complex development sites - where the risk to the private sector is highest - will be most vulnerable.

In terms of indirect effects, short-run housing market instability can influence household formation, migration and mobility decisions (NHPAU, 2008c). If house prices fall sharply, this will reduce consumption demand for goods and services in the wider economy, with knock on effects on employment rates (Bean, 2008).

“Weaker economies will be the slowest to recover from the housing market downturn”



“A housing market bust can both exacerbate and feed off wider economic decline”

An important lesson from 1989-1993 was that a housing market bust can both exacerbate and feed off wider economic decline (Gibb, O’Sullivan & Glossop 2008). The Organisation for Economic Cooperation and Development, taking into account the impact of the residential market, has cut its forecast for UK growth from 2.4 per cent to 1.2 per cent this year, predicting two quarters of negative growth (OECD, 2008). It will be very difficult for Government intervention to revive the market in a technical recession. The latest figures from the Office of National Statistics show that the UK economy contracted by 0.5% in the third quarter of 2008 - the first decline in output since 1992 (ONS, 2008).

Nevertheless, compared to the 1990s long-term economic fundamentals remain stronger. The labour market is a key driver of the housing market and, although unemployment is now rising, base rates remain relatively high. Unmet housing demand, supported by increasing household formation and high rates of in-migration, point to a continuing demand-supply imbalance. With output falling and demand rising, the downward pressure on house prices is more likely to reflect cyclical volatility than a housing market ‘crash’. In the long-term, affordability pressures will persist and the level of pent up demand should prevent house prices falling below a certain level.

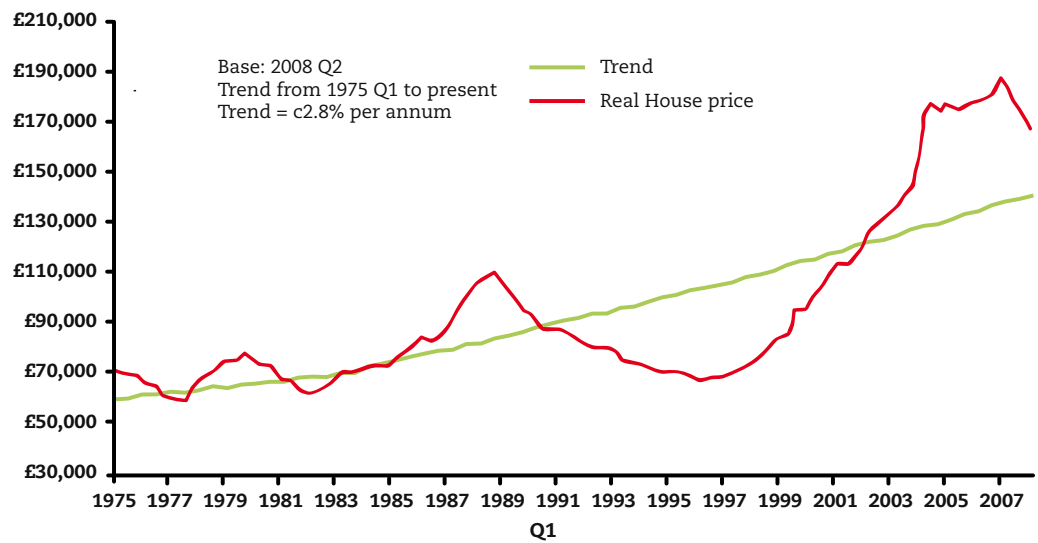
The Government has responded to worsening market conditions with a package of measures. Some of the changes introduced – including reforming Income Support for Mortgage Interest, additional support for priority regeneration schemes, and bringing forward funding for social housing and to purchase unsold homes off the market - are much needed. The package overall, however, is likely to have a limited impact given the lack of credit and rising numbers of vulnerable borrowers. The £300 million earmarked for shared equity will help only 10,000 first time buyers (and will tempt purchasers into the market when prices are set to fall further), while the £200 million mortgage rescue scheme will benefit only 6,000 households.

Other measures, such as temporary stamp duty holidays and ‘free’ loans for five years, risk distorting the housing market in the longer-term, and fail to grapple with the crux of the problem – which is the disruption in global financial markets, not housing market failure. The persistence of current financial market conditions will have severe implications for the economy. Nevertheless, as emphasised in Crosby’s interim analysis of mortgage finance, intervention in the mortgage market may risk unintended consequences and prolong the recovery process (Crosby, 2008).

It is important to situate the current downturn within the longer-term context. Graph 1 reveals how far above long-term trend rates of growth house prices were – showing that we are heading towards a long overdue market correction. Pending the outcome of the Crosby review, public sector funding should take advantage of lower land values and prioritise site assembly in high demand areas and long-term renewal plans where projects are already underway.



Graph 1: Real house prices versus long-term trend



Source: Nationwide Building Society

Positive aspects to the current downturn may be hard to glean. Lower prices may offer purchase opportunities, with potential redistributive effects. In areas of very high land values, a reduction in prices may facilitate regeneration by enabling capital investment to go further.⁵ Although the building programmes of RSLs may be squeezed, Housing Associations hold onto developments for the long-term and may be able to take advantage of lower property and land prices (2,000 unsold homes have been bought by the Government so far) – taking care as to the quality of the stock they take on. Reaping any of the benefits from the above, however, will be severely constrained by limited borrowing capacity.

New delivery vehicles, such as Local Housing Companies, may provide the private sector with the confidence and certainty they need to continue, through long-term partnerships with the public sector. By providing developers with public land upfront, joint ventures can reduce the amount of borrowing the private sector needs to raise (Blackman, 2008). The capacity of the public sector to take on more of the financial risk, however, will be limited. English Partnerships, for example, has seen a substantial fall in revenue because anticipated land sales to major house-builders have not materialised (Mathiason, 2008).

The buy-to-let market will face particular uncertainty. In certain segments of this market a downturn is not unwarranted. The short-term profit model of some speculative investors has resulted in a mismatch between supply and demand – with an oversupply of one and two bed flats and growing quality and management concerns. The ‘buy-to-leave’ model, where new build properties are purchased on a speculative basis and left empty to benefit from capital appreciation, has resulted in a significant proportion of vacant

5. For example, in Newham, East London, rapidly rising land values reduced the impact of SRB capital regeneration projects and the decision was subsequently made to focus remaining resources on revenue initiatives (stakeholder interview).

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“Longer-term affordability pressure will continue, placing particular constraints on high growth economies”

city centre flats in Birmingham, Leeds, Liverpool and Manchester, further reducing investor confidence.

Despite this, there are significant opportunities to deliver new housing through the private rented sector - particularly in high-demand areas.⁶ Falling property prices will slow the ‘buy-to-leave’ trend, and could encourage developers to adopt a longer-term investment model, raise standards, and diversify supply. Current market conditions present an opportunity for policy-makers to support a stronger private rented sector.

With demand for rented accommodation at an all-time high, greater policy attention should now be paid to how an improved private rented sector can relieve affordability pressure, support labour market mobility and flexible economic growth (Glossop, 2008). This is supported by the recent review of the Private Rented Sector (Rugg & Rhodes, 2008), which advocated ‘growing the business of letting’. Recommendations include reviewing the taxation framework to enable landlords to reclaim VAT on repairs and changes to stamp duty charges, which currently penalise large-scale investors (ibid).

Policy implications

- Short-run housing market instability poses a significant challenge for weaker economies. Housing policy in these areas should prioritise long-term renewal plans already underway, where the Regional Regeneration Priorities Maps, proposed in the Regeneration Framework, can be used to co-ordinate and focus public and private investment.
- Longer-term affordability pressure will continue, placing particular constraints on high growth economies. Explicit policy encouragement needs to be given to expand and improve the private rented sector to help relieve this pressure and promote labour market flexibility, which will be key in a recession. Any shorter-term interventions should bring forward public sector funding to take advantage of lower land values and prioritise site assembly, pending the outcome of the Crosby review.

6. Several recent reports, for example from CBRE (2008), have highlighted the potential for ‘cash-rich’ regions such as the Middle East and parts of Asia (where sovereign wealth funds are showing increasing interest) to offset the lack of domestic investor demand. Institutional investors have longer investment horizons and could be attracted to the UK residential market.



The Growth Areas, Growth Points & Eco-towns: Economic development challenges & opportunities

The growth areas, new growth points and eco-town plans were largely submitted before the current period of economic uncertainty began, but are by design long-term plans for increasing housing supply to help meet the three million new homes target.

The potential for housing investment to help steer growth into these areas will vary significantly in each location. Nevertheless, the economic potential is arguably the greatest in the growth areas and first round of new growth points, largely due to their strategic location⁷. Many are located adjacent to economically buoyant economies across the Greater South East.

Investment in high quality housing, in mixed-use developments, alongside investment in transport infrastructure, will help these areas to capitalise on their location and relieve overheating through the attraction of higher skilled residents and business investment (stakeholder interview). This should help to facilitate economic restructuring and the creation of higher value employment opportunities. Lessons can be learnt from the development of other towns and cities, such as Reading and the New Towns of Peterborough and Crawley, where investment in housing and infrastructure, as part of a wider economic strategy, has helped commuter towns to develop into economic centres (stakeholder interviews).

The challenge will be in releasing sufficient forward funding to enable timely infrastructure provision in advance of population and employment growth. Any uncertainty will pose strategic risks for the private sector, and for public agencies charged with delivering housing. Learning the lessons from the growth areas, investment in community and social infrastructure cannot be a secondary priority (Bennett et al, 2006). Insufficient investment will lead to unsustainable pressure on local schools, health care facilities and other essential public services.

Key to success will be getting the balance, timing and mix right between housing and employment growth. Providing a well managed offer and paying careful regard to the type of 'mix' - in terms of housing tenure, type, size and quality - will be key to attracting different types of workers. This will be as important as identifying complementary commercial uses to ensure local employment demand. Finding the right private sector partner to enter into a long-term relationship, with shared values and objectives, and the right mix of skills, is often cited as key (stakeholder interview).

Some of the growth areas and new growth points contain significant concentrations of deprivation. Although current plans to create mixed communities will offer an opportunity to revitalise neglected areas, greater attention may need to be paid to creating a mix of employment opportunities

7. The growth area initiative is designed to help tackle housing supply in the wider South East. Combined with London, the growth areas (Thames Gateway, Milton Keynes and South Midlands, London-Stansted-Cambridge-Peterborough and Ashford) should provide 200,000 additional homes above previously planned levels by 2016. The new growth points initiative is designed to support 'sustainable growth' outside of the growth areas, including new housing. 29 new growth points were announced in 2006 (covering the East and West Midlands, the East, South East and South West of England) to contribute approximately 100,000 additional dwellings by 2016.

“The potential for housing investment to help steer growth into these areas will vary significantly in each location”



“Key to overcoming these economic development challenges will be developing a coordinated approach at the centre, regional and local level”

that matches the qualifications of existing, not just new, residents. Given that the growth areas are not designed to be economically self-contained, and the new growth points are comprised of much smaller economies, skills and training provision (alongside investment in public transport) will also be essential to help residents access job opportunities elsewhere.

The challenge of inclusive growth in the Thames Gateway

The Thames Gateway contains areas of relative deprivation. Given that plans for growth focus on expansion in high skilled ‘knowledge economy’ sectors, a key challenge will be tackling the learning and skills deficits to enable existing communities to benefit from growth, particularly in the London Thames Gateway.

Although the proportion of degree qualified residents is increasing, qualification levels do not match predicted employer demand. Approximately a third of residents do not have a Level 2 qualification, yet 60 per cent of the extra jobs planned by 2016 are expected to require at least a Level 3.

Unemployment in the Gateway has increased from 6.8 per cent in 2005 to 7.3 per cent in 2007 (largely accounted for by inner London). These rates will only get worse as the demand for non-skilled labour declines. Perversely, this may be exacerbated by planned improvements to transport infrastructure and new investment in housing if existing communities are unable to compete with in-commuters and new residents.

Source: LSC (2008); stakeholder interviews

Key to overcoming these economic development challenges will be developing a coordinated approach at the centre, regional and local level. Effective partnership working so far has proved difficult – particularly in the growth areas, reflecting their scale and the number of partners involved. The lack of a strategic mechanism to co-ordinate departmental programmes and budgets reveals the more fundamental challenge of ensuring that the correct institutional framework to deliver inclusive growth is in place.

Collaboration for growth in Milton Keynes South Midlands

Milton Keynes South Midlands (MKSM) is widely regarded as the most successful growth area. It is also the largest - encompassing Aylesbury Vale, Bedford and Mid Bedfordshire, Luton and South Bedfordshire, Milton Keynes, North and West Northamptonshire. The area does not naturally lend itself to being a joined up entity - covering the edges of three regions (East of England, East Midlands and the South East) and 16 local authorities.

This presents challenges to attracting private sector investment, managing growth plans and to joint working - particularly where local authorities compete for the same skills and inward investment. Unless greater co-ordination is achieved this will hold back growth across the area as a whole. Recent progress has been made, including an improved focus on the MKSM amongst Regional Development Agencies (RDAs) and their partners, amongst whom the collaborative efforts of local authorities will be particularly critical.

Source: Stakeholder interviews



“Economic growth and restructuring, in areas with a strong post-industrial legacy of decline will require more than a supply-side focus on new housing and employment land”

In 2008 the new growth points programme was expanded to extend growth plans to the North⁸, the majority of which are located in the North East, North West and Yorkshire and Humber. The New Growth Point status will raise the profile of these areas as priorities for regeneration and housing growth, helping to lever much-needed public and private investment (stakeholder interview).

In higher demand areas, such as in parts of the Leeds City-Region, the proposals are expected to relieve growing affordability and infrastructure constraints by accelerating housing delivery and supporting transport investment. Both will be vital to underpinning future growth. Additionally, housing investment - linked to transport and employment growth - will be critical to revitalising more deprived areas.

Many of the designated points, however, are situated in and around weaker economies. Providing greater housing choice, including family homes, and raising the quality of the residential offer will be essential if higher skilled groups are to be attracted and retained in these areas. Nevertheless, stimulating economic growth and restructuring, particularly in areas with a strong post-industrial legacy of decline, will require more than a supply-side focus on new housing and employment land – particularly where local skills are outdated and communities have been excluded from the labour market for a long time.

Many of the second round new growth points also encompass relatively weak housing markets, where housing provision will need to be carefully aligned with clear evidence of demand if planned increases in supply are to complement, and not undermine, Housing Market Renewal activity (stakeholder interview). Where sites require remediation and land values are low or declining, these areas will pose a high-risk investment for the private sector (stakeholder interview). Effective partnership working, for example through local delivery vehicles established at the right geographical level (often sub-regional), will be particularly important (stakeholder interview).

Nevertheless, some of the growth plans will need to be scaled back to reflect the changing economic climate since the proposals were submitted. In weaker markets, investment should prioritise infrastructure and quality of place improvements, which in turn will help to raise private sector confidence.⁹

From industrial decline to growth in the Black Country

The decline of industry has eroded the Black Country’s economic position, led to population loss and resulted in excessive amounts of poor quality, contaminated industrial land. The residential environment is largely a reflection of the area’s industrial heritage, where the limited range and quality of housing has undermined the success of previous economic development programmes and efforts to attract new industry and their employees to the area.

8. The second round includes 20 new growth points, which are expected to contribute 74,828 additional dwellings by 2016/17.

9. The Growth Fund will be unable to fund all the infrastructure requirements to enable growth - the first round of the Growth Fund was three times oversubscribed.



“Investment must be closely linked in with the Sandwell/Birmingham Housing Market Renewal Pathfinder, as well as wider economic development strategies”

The new growth point programme provides an opportunity to strengthen the strategic relationship between the four local authorities that make up the Black Country - Wolverhampton, Dudley, Sandwell and Walsall – and promote coordination across shared priorities. Providing a more attractive residential and surrounding environment will be important to counter the sub-region’s industrial image and increase housing demand. Changing the housing quality and type, in particular increasing the proportion of three and four bedroom housing, is expected to help to retain and attract higher income households and raise the local skills profile, building on the momentum from the recent small population increases.

Care, however, will need to be taken to ensure the area can accommodate the proposed levels of housing growth (which represent a 19 per cent increase above existing Regional Spatial Strategy targets) and investment must be closely linked in with the Sandwell/Birmingham Housing Market Renewal Pathfinder, as well as wider economic development strategies. Current plans for ensuring housing growth is linked to economic objectives include aligning investment with the provision of high quality employment land – both in the priority regeneration areas and in the four strategic centres (Wolverhampton, Walsall, West Bromwich and Brierley Hill). The aim is to expand these four areas as a foci for employment, retail and culture to help the Black Country develop a complimentary economic role to Birmingham and surrounding centres.

Source: Stakeholder interview

The Government’s proposals for eco-towns present a different economic prospect from the growth areas and new growth points, given their smaller scale and distance from existing urban areas¹⁰. They present an opportunity to plan for sustainable growth from inception, and may deliver important transferable lessons for cities (CLG, 2007c; stakeholder interview). The first eco-towns, however, will not be in place until 2016 (and hence not before much of the anticipated new house building) and will only provide a fraction of the housing our economies need. For every five houses built in eco-towns over the next decade we will need to build another 95 elsewhere to meet the Government’s house building target (Finch, 08b).

The aim is to achieve a critical mass to allow for a degree of economic self-containment and reduce levels of commuting. New settlements of 5,000 - 20,000 homes, however, will struggle to provide the economic fundamentals to be sufficiently contained, to generate the necessary mix of employment opportunities, or to provide the full range of services and amenities, risking large scale out commuting (Finch, 2008a). Given their scale, ensuring eco-towns are sufficiently connected to surrounding growth areas will be all the more critical - yet the business case for transport investment in low-to-medium-density settlements will be considerably weaker (stakeholder interviews).

10. Eco-towns are also part of the Government’s housing growth agenda. They will be small new towns of at least 5-20,000 homes, intended to exploit the potential to create a completely new settlement to achieve zero carbon development and more ‘sustainable living’. According to CLG they will have a distinct identity, with good links to surrounding towns and cities in terms of jobs, transport and services and will be comprised of mixed communities, including a mix of tenures (30-50 per cent affordable housing) and size of homes.



“Attracting skilled workers and business investment is not a linear process and adopting an integrated approach to investment will be essential”

The proposed housing affordability target of up to 50 per cent means that providing for economic inclusion will also need to be given greater consideration. The resources required to support residents into work will be considerably higher relative to urban extensions, where there will be a wider range of employment opportunities and related support services.

Needless to say, ensuring a coordinated approach to housing and economic development will be crucial. Building a community from scratch is a highly complex proposition and one with no existing tax base from which to fund infrastructure developments (stakeholder interview). Attracting skilled workers and business investment is not a linear process and adopting an integrated approach to investment will be essential. Economic development objectives for the eco-towns – including employment, qualifications, and business and enterprise – will need to be agreed and linked to housing and infrastructure plans to ensure all partners are working towards the same end goals (Deegan, 2008).

Policy implications

- In all of the growth locations demand side factors, such as skills and training provision and investment in public transport, will need to be aligned with supply side investment in housing and employment land. This must take into account the needs of existing residents if they are to compete with in-commuters and new residents or access job opportunities in the wider economy.
- In the second round of new growth points, plans for growth and renewal need to be realistic and based on a careful assessment of local demand. In weaker housing markets investment should prioritise infrastructure provision and quality of place improvements, in the current climate.
- In the eco-towns, economic development objectives should be agreed - including employment, qualifications, and business and enterprise - and linked to housing and infrastructure plans.
- These considerations need to be embedded in the Integrated Regional Strategies and used to align Regional Funding Allocations for transport and economic development with HCA investment in housing and infrastructure to enable a more co-ordinated approach to housing, regeneration and economic growth.



Housing and spatial concentrations of poverty

Unless existing residents are included in the Government's growth plans, economic inclusion will not follow on from economic growth. Spatial concentrations of deprivation often reflect poorly planned and badly designed housing and neighbourhoods. Poverty, however, is not triggered by bad housing alone. Previously good quality housing can decline due to economic shocks, job losses and out-migration – often reflecting an area's economic history.

Residential segregation in Sunderland

Sunderland has had to adapt to large-scale industrial change from the decline of the mining and shipbuilding industries in the 1970s and 1980s. This has resulted in high rates of unemployment, population loss and concentrations of deprivation in certain parts of the city.

The housing market is characterised by several distinct segments that are relatively self-contained. Several wards in the south contain more attractive and prosperous areas in contrast to the densely developed inner urban area, with 19th century terraced housing to the west and more dispersed estates resulting from post-war house-building. Areas to the north of the city, and adjacent to the city centre, particularly in the East End and Hendon, suffer from relatively high levels of worklessness, ageing high-density housing, low levels of service and amenity provision, and a poor quality environment.

Concentrations of unemployment largely reflect the spatial distribution of social housing. The social housing stock was transferred from the City Council to Gentoo¹¹ in 2001, where approximately only 25 per cent of tenants are in either full time or part time employment, with 40 per cent in retirement. Major demolition and redevelopment has taken place in many of Gentoo's neighbourhoods, where mismatched and unfit stock has been replaced by new and refurbished dwellings.

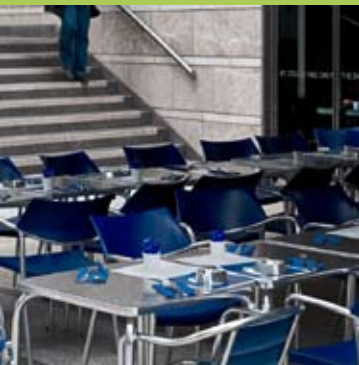
Gentoo have achieved the Decent Homes standard for all their stock - the challenge now remains to help their tenants into work and raise their quality of life. Gentoo was restructured in 2007 to create a separate arm 'Gentoo Living' that focuses on the problems facing the people living in these areas, rather than problems associated with the housing itself - targeting resources on tackling issues such as the low levels of enterprise, skills and employment in the most deprived neighbourhoods.

Source: Sunderland Partnership (2008); stakeholder interview

As the above example shows, it is the *interaction* between local housing markets and the wider economy – which in Sunderland's case is economic restructuring, skills deficits and the nature of the local labour market – that can combine to produce spatial concentrations of relative poverty.

11. Gentoo, previously Sunderland Housing Group, is the city's local housing company, manages 30,000 housing units, which represents one quarter of Sunderland's total housing stock.

“It is the *interaction* between local housing markets and the wider economy that can combine to produce spatial concentrations of relative poverty”



The decline of traditional industries in some cities has led to unemployment and population loss, and a resulting surplus of low-income private and public housing (Power & Mumford, 2003). The economic implications of this are often exacerbated at the neighbourhood level, where housing markets can have a residential 'sorting effect' - concentrating lower income groups in weaker housing markets with the worst schools, highest crime rates and lowest levels of public and private amenities (Cheshire, 2007b). These area characteristics are capitalised in house prices and rents¹² and can produce a more uneven distribution of welfare than the incomes of homeowners themselves (Cheshire, 2008).

A lack of investment in housing and infrastructure can lead to higher income groups moving away, further increasing segregation as residential sorting becomes a self-reinforcing process. This can result in a high turnover of residents, loss of social cohesion, management problems and deteriorating local services (Anderson, 2002).

Meen et al (2005) tracked segregation at the national level by employment and tenure and found that movement between areas compounded polarisation between 1991-2002. Population churn has often been cited as a reason behind the failure of area-based regeneration initiatives to turn an area around, with households moving out of deprived areas as their circumstances improve.¹³

The extent to which spatial concentrations of poverty reflect the geography of social housing has become a particular concern for policy makers, related to government failure through an increasingly constrained social housing allocations process, which concentrates the most vulnerable groups together (Paskell & Power, 2005). Social housing is now almost exclusively the preserve of the poor, located in the most deprived fifth of English neighbourhoods (Feinstein, 2008; Hills, 2007). Data from the Families and Children Study in 2005 showed that social tenants are 6.8 per cent more at risk of experiencing worklessness, poor quality housing, mental health problems and lack of qualifications relative to owner occupation or private renting.¹⁴

Of particular concern has been the strengthening correlation between housing tenure and disadvantage over time. The proportion of social housing tenants in employment fell from 47 per cent to 32 per cent between 1981 and 2006 (Hills, 2007). Although there is nothing inherent about social housing provision to suggest that it contributes to worse life chances, Feinstein et al (2008) found a significant 'residual effect' when controlling for the characteristics of social housing tenants. This has pointed many to the potential role of 'area effects'.¹⁵ These can take the form of 'place effects' - arising from poor infrastructure and services, lack of transport, and lack of local employment opportunities - and 'people effects' - relating to the damaging effect of living with a high proportion of other workless people, including limited information about jobs and poor role model effects (Sanderson, et al, 2005).

12. For example, Cheshire & Sheppard (2003) found houses in the catchment areas of high performing schools now command a house price premium estimated at 33 per cent.

13. Other research, however, has found a relatively weak relationship between deprived areas and high rates of turnover. Bailey & Livingston (2007) found that deprived areas are not the 'leaky bucket' commonly believed. Moreover, approximately half of all out-migrants from deprived areas were found to move to another deprived area - one area's loss is therefore another's gain.

14. Owner occupation, in particular, is associated with significantly higher incomes and educational attainment (Bennett, 2008).

15. The work by Feinstein et al highlighted not just the possibility of neighbourhood effects, but also that social housing may be concentrated in places with weak local economies. For some of the results it was possible to add area measures to the controls, which reduced the apparent 'social housing effect' by 42%.

“Area characteristics are capitalised in house prices and rents and can produce a more uneven distribution of welfare”



“Little evidence has been found to show that residents have improved their economic prospects merely by living in mixed income areas”

Social housing and worklessness

The correlation between worklessness and social housing, controlling for labour market disadvantage, has been put down to:

- An increasingly constrained allocation process since the 1980s focused on those in greatest need due to the residualisation of stock;
- Fears about loss of benefits if employment is gained (partly put down to the steep withdrawal of housing benefit once income rises);
- The location of social housing in the poorest areas/worst environments, characterised by poor services and transport connectivity and low employment generating activity;
- The difficulty of moving house to get a jobs once a social housing tenant (within social housing just 3 per cent of moves were job related 2005-06, even within the same area);¹⁶ and
- Area effects from concentrations of deprived groups.

Source: Hills (2007)

Although evidence underpinning the ‘area effects’ argument is weak (Cheshire, 2007b), the creation of mixed communities has become a central objective of housing policy: the aim being to create neighbourhoods that are able to attract and retain households on a wide range of incomes and avoid segregation through providing a range of different housing types and tenures.

In support of the mixed communities premise, research has shown that mixed communities overwhelmingly are not characterised by the problems often linked with exclusively low income areas (Allen et al, 2005; Berube, 2005). Mixed communities have been found to reduce the stigma of a neighbourhood, lead to a reduction in crime, the provision of better services and amenities (supported by a wider range of incomes), increase neighbourhood satisfaction and quality of life (Allen et al, 2005; Tunstall & Fenton, 2006).

The positive social outcomes may be clear, but what is less evident is the impact on key economic indicators, most notably employment. Although mixed communities often have higher employment rates than monotenure estates, little evidence has been found to show that residents have improved their economic prospects merely by living in mixed income areas (DWP, 2007; Fenton & Tunstall, 2006). Other factors, such as skills and the type of local employment opportunities, are more important - entry-level jobs can offer few prospects for developing skills and moving residents out of poverty (DWP, 2007; Taylor, 2008).

The rationale for policy intervention to create mixed communities largely relies on the evidence of what happens when communities are *not* mixed. The strength of market processes, however, mean that interventions to

16. A study by DWP (2008), however, found that few respondents reported that the difficulty of moving house within social housing acted as a barrier to securing work. The jobs these groups were qualified for were low paid, insecure, low skilled work. This was likely to remain the case wherever they lived. The report concluded that restricted opportunities for mobility were not a key barrier to work as long as this was the case. Increasing mobility, however, might improve prospects of tenants already ‘close’ to the labour market.



produce more socially mixed neighbourhoods may only succeed within narrow parameters, and for a limited period of time (JRF, 2007). Unless mixed communities initiatives are better integrated with policies that help to address the underlying causes of poverty and help link residents to economic opportunity, they may have limited effect.

Policy implications

- Greater attention needs to be paid to the location of new social housing, not just tenure mix, if future investment is to break up spatial concentrations of poverty. This must include considerations such as the location of appropriate employment opportunities and public transport access, alongside policies to address the underlying causes of disadvantage, such as upskilling local residents and providing tailored labour market support. Housing policy needs to consider the functional role the estate will play within the wider economy and link this to initiatives that will help residents to take part.
- The proposed Regional Regeneration Priorities Maps could be used as a guide to coordinate different programmes, funding streams and partners (including the private and third sector) to tackle the underlying causes of deprivation, alongside new housing investment. The regeneration priorities must be linked in with the broader economic objectives prioritised in the Integrated Regional Strategies to ensure growth and regeneration interventions are complementary.

“Housing policy needs to consider the functional role the estate will play within the wider economy and link this to initiatives that will help residents to take part”



Place-based regeneration: linking improvements in housing to economic performance

Evaluations of housing-led regeneration approaches - including Estates Renewal Challenge Fund, Housing Market Renewal and Neighbourhood Management Pathfinders – reveal that a focus on housing alone will be unable to drive economic regeneration. The draft Regeneration Framework responded by placing a stronger focus on tackling the underlying economic causes of deprivation. According to the draft, housing policy will be expected to contribute towards three priority outcomes: improving the economic performance of deprived areas; improving rates of work and enterprise; and creating places where people want to live and work.

There is, however, limited evidence that place-based regeneration programmes have had a significant impact on economic development. This is unsurprising, given that these schemes operate on a small spatial scale; the long-term nature of neighbourhood change, particularly on key economic indicators; and methodological difficulties in isolating the causal variable, exacerbated by population churn.

Nevertheless, some important lessons can be learnt from the experiences of previous regeneration schemes. Several past initiatives have adopted a more integrated approach to linking housing with economic and social outcomes and the Housing Action Trusts (HATs) provide a rare early example.¹⁷

An integrated approach to place-based regeneration

Housing Action Trust in Castle Vale

The Castle Vale HAT was established in 1993 after a tenant/leaseholders' ballot voted in favour of a stock transfer from Birmingham City Council. The objective was to improve the physical and socio-economic conditions of residents living in Castle Vale, six miles north east of Birmingham, following 30 years of decline.

The programme involved substantial investment in housing and the physical environment - including stock diversification in terms of housing type and tenure, and intensive neighbourhood management. This went in tandem with an impressive range of schemes to tackle residents' wider socio-economic needs.

One of the most notable initiatives was the establishment of an enterprise park alongside a social enterprise, Merlin Venture - to help create jobs, provide training and local business support. Merlin Venture played an important role in coordinating with a variety of subsidiary social enterprises, which included the establishment of community childcare centres and transport schemes - providing employment opportunities and accessible services for local residents

17. Six HATs were set up under the provisions of the Housing Act 1988 to regenerate some of the most deprived local authority estates in England. The initiative involved the transfer of social housing stock to Non Departmental Public Bodies managed by a board, which included residents elected as representatives of the estates and members of the local authority. HATs incorporated a range of community development services – including health, education, employment and community safety – alongside traditional housing management.

“A focus on housing alone will be unable to drive economic regeneration”



“The involvement of the third sector in the HAT was particularly instrumental in providing a ‘bridge’ between tenants and local economic opportunity”

Training provision was supplied through the Castle Vale Learning Centre - where services were supported by partners, including Job Centre Plus, Connexions and the local college. Other provision included a Construction Training and Employment Programme and a Managed Labour Market scheme, aimed at the harder to reach.

New young families and other residents were attracted into the area, facilitated by the housing and environmental improvements, transport provision and enhanced secondary school education facilities. This helped to create a more balanced community, with positive outcomes for local school performance, and helped to attract new business investment.

In 1993, 26 per cent of working age adults in Castle Vale were unemployed (against a Birmingham average of 18 per cent). By 2004 unemployment in Castle Vale had dropped to 5.3 per cent, against a Birmingham average of 7.6 per cent. Educational attainment also increased (the proportion of 5 GCSE passes increased from 13 per cent in 1994 to 40 per cent in 2003) and positive social outcomes were identified, including improvements to health and social well-being. Nevertheless, given economic growth within the wider city economy and the level of population churn, these positive outcomes cannot be solely linked to the HAT intervention.

Source: ECOTEC (2004); MEL (2004); Mornement (2005); stakeholder interview

Prior to the HATs, regeneration was regarded as primarily a physical issue. Key to the scheme’s success was treating issues such as housing, transport, employment and skills as related problems and initiating an integrated response based on building relations between service providers.

Engaging and upskilling local residents enabled them to benefit from the economic opportunities created, while investment in housing and the physical environment helped to transform the functionality of the neighbourhood - from a transitional role to a community where people wanted to stay (APUDG, 2008; Bailey & Livingston, 2007; Bramley & Pawson, 2002; Robson, 2008).¹⁸ Attracting private investment into housing, providing employment land and putting the businesses back into Castle Vale helped to secure sustainable improvements. The HAT also provides an early example of attempts to capitalise on housing investment to create local jobs, improve skills and encourage the development of community owned businesses.¹⁹

The involvement of the third sector in the HAT was particularly instrumental in helping to address underlying social problems and in providing a ‘bridge’ between tenants and local economic opportunity - pointing to the potential for extending the involvement of the third sector and front line service delivery agencies. In light of the growing policy emphasis on the economic role of regeneration, reflected in the Regeneration Framework, ensuring coordination with mainstream service providers and the third sector will be all the more important. Positive social outcomes will not automatically follow on from increased employment opportunities.

¹⁸. This example also shows the importance of housing management to sustain these improvements - revealing the need for revenue, not just capital funding.

¹⁹. The HAT generated over £93 m of additional private sector investment, including investment in housing developments, company relocations and the Castle Vale Enterprise Park (ECOTEC, 2004). Since the HATs, there have been numerous examples of local authorities, HAs and their developer partners entering into local labour market clauses, providing apprenticeship opportunities and sponsoring Construction Academies.



A flexible and outward facing approach to place-based regeneration

New Deal for Communities in Preston Road, Hull²⁰

Preston Road lies three miles to the east of Hull city centre. The area was awarded funding in 2000 under the New Deal for Communities (NDC) scheme, a ten year neighbourhood renewal initiative.

The area was predominantly comprised of social housing, largely in a poor state of repair. Almost 60 per cent of the residents had no formal qualifications and local employment opportunities were limited. Tied in with the highly localised outlook of the residents, this led to unemployment rates almost double the city average, and a culture of benefit dependency – placing some validity behind the ‘area effects’ argument.

The NDC developed an integrated strategy, which was retained as a live document and adapted in response to changing needs. The approach was more balanced relative to other NDC programmes. Given Hull’s weaker economic position and the lack of any other major employment centres within reach, demand side economic factors were given particular importance, alongside the need to upskill local residents. This led to a strong emphasis on creating new job opportunities and promoting business start-ups, through engaging with wider economic strategies, including Hull’s Employment Plan.

The evaluation of Hull NDC highlighted in particular the importance of developing good relations with agencies both within and beyond the NDC boundary, including Job Centre Plus, Hull College and a local social enterprise, PROBE. This enabled the programme to both complement and influence related service provision and provided the policy context for the sustainability of the initiative. Developing relationships with agencies with a wider spatial remit, such as the Learning and Skills Council (LSC) and RDA, and with employers has been more challenging, but was deemed more successful in Hull relative to other NDC areas.

Substantial investment went into improving the housing and wider environment, leading to a waiting list for some property types, and significant progress was made in combating entrenched levels of worklessness. Although worklessness remained more severe than all the NDCs average, the rate declined by 6.5 per cent between 1999-2001.

Source: Sanderson et al (2005); stakeholder interview

The Hull case study illustrates the importance of taking into account the links between housing and demand side factors in the wider economy. This reflects the fact that local concentrations of poverty are often also symptoms of a city-wide economic problem (Parkinson et al, 2006).

20. The NDC Programme was launched in 1998 to reduce the gap between deprived neighbourhoods and the rest of the country through community-led partnerships in 39 neighbourhoods. All NDC Partnerships tackled problems across six themes: poor job prospects, high crime, educational under-achievement, poor health, poor quality housing and physical environment.

“Local concentrations of poverty are often also symptoms of a city-wide economic problem”



By contrast, other NDC programmes were found to place greater weight on more localised issues. The Newham NDC, for example, adopted a stronger supply-side emphasis, reflecting the different labour market context of the sub-region (Sanderson et al, 2005). The challenge in Newham was not the shortage of employment opportunities in and around the area as much as the need to help local residents to compete with in-commuters (stakeholder interview).

Adopting a flexible approach to regeneration is crucial if schemes are to be responsive to the role housing and labour markets play within the city-regional context.²¹ Deprived areas are not the same, but neither are they static. The role they play within the wider city-region can also change and it is important that local players have the flexibility to respond.

As the Hull example shows, responding to the interdependent nature of deprivation requires a high level of coordination between external agencies and partners at the local, sub-regional and regional level, including alignment with wider economic development strategies. In response to the Sub-National Review, Hull Council and partners have advanced their approach through progressing the development of a city-wide masterplan with the aim of integrating regeneration investment (stakeholder interview).²² This reveals the importance of having place-based plans to tie together policy and funding streams to achieve shared objectives.

The benefits of an integrated partnership approach have long been recognised. In practice, however, coordinating a complex chain of partners can be challenging. Multiple initiatives are underway, often each with their own policy agendas, funding streams, targets, timelines and geographies. Neighbourhood regeneration programmes in particular, given the localised nature of the schemes, can struggle to engage with partners operating at a wider spatial scale (such as RDAs and LSCs). This points to the need for streamlining partnership arrangements at the city-regional level if the Homes and Communities Agency is to hold a 'single conversation' that addresses both housing and economic development.

As in the Hull NDC example, evaluations of regeneration projects (including Neighbourhood Renewal Fund, Single Regeneration Budget, and the National Coalfields Programme) commonly reveal progress to be more evident in relation to place-based indicators, such as fear of crime, satisfaction with housing and the wider neighbourhood environment, relative to people-based indicators, such as employment, education and health - which have a much longer time lag (Lawless, 2006). This reflects the long-term process of neighbourhood change.

If regeneration is to have a discernable economic impact, policy will need to move away from individual projects, towards a long-term, single integrated approach that can be self-sustaining (Anderson, 2002; CABE 2008;

21. Deprived areas within otherwise successful city-regional economies often require housing investment to be linked to investment in skills and transport to connect residents to employment opportunities, where as deprived areas within under-performing economies may require a stronger focus on measures to strengthen the local economy itself (Robson, 2008; Troni & Kornblatt, 2006).

22. This will include funding from Building Schools for the Future, City Care (delivering the NHS Local Improvement Finance Trust in Hull), Economic Development, Gateway (Housing Market Renewal Pathfinder), Housing, and Hull Forward (City Development Company).

“If regeneration is to have a discernable economic impact, policy will need to move away from individual projects, towards a long-term, single integrated approach”



Power & Tunstall, 1995). This will pose a significant challenge for the Homes and Communities Agency and local authorities' who are under pressure to meet short-term objectives. Moreover, place-based and people-based outcomes need to go together – affecting one or the other will result in unsustainable outcomes. If the focus rests solely on economic outcomes, the Regeneration Framework may have gone too far.

Policy implications

- The proposed Regional Regeneration Priorities Maps should be used to guide the coordination of different programmes, funding streams and partners across shared priorities to address the underlying causes of deprivation. This should help to engage private and third sector partners and focus mainstream service provision on priority regeneration areas to achieve positive social, as well as economic, outcomes.
- Local authorities will need greater flexibility and autonomy if they are to be responsive to the different challenges in each local area. In Multi Area Agreements, the HCA should work with local partners to set sub-regional targets, devolve or pool funding streams, to link housing supply to regeneration, training, transport and other economic objectives. Piloting these tools will be key to achieving greater integration spatially, as well as across sectors, although the three year time span may need to be extended.
- The links between housing and economic outcomes should be made explicit in all Local Area Agreements alongside complementary targets to prevent different policy areas from working at cross-purposes.

“Local authorities will need greater flexibility and autonomy if they are to be responsive to the different challenges in each local area”



Policy recommendations

The role housing plays in furthering both a) economic growth in more prosperous neighbourhoods and b) regeneration in more deprived areas is inter-dependent and can no longer be treated as separate policy agendas. With the decline of area-based initiatives, moving towards a more integrated approach will be all the more important and this needs to be applied at the city-regional level. The Government's housing growth plans present an opportunity to adopt this approach, but the Homes and Communities Agency will need to ensure future housing investment is more closely aligned with wider economic outcomes.

Place-based regeneration schemes reveal the need for a more co-ordinated response to the way in which housing, transport, employment and skills interact. If this can be achieved, housing investment has the potential to help realise the three priority outcomes espoused in the draft Regeneration Framework:

1. Improving the economic performance of deprived areas – for example, through breaking up spatial concentrations of poverty and promoting greater labour market flexibility;
2. Improving rates of work and enterprise in deprived areas – for example, through investing in mixed-use developments that match the skills profile of local residents and attracting a more diverse income and skills base into the area to generate demand for local goods and services; and
3. Creating places where people want to live and work - through investing in high quality housing and quality of place, raising quality of life and levels of neighbourhood satisfaction.

Joined up intervention, however, is found to be more challenging than it should be. Greater flexibility and autonomy will be required if local authorities and their partners are to be more responsive to the way in which housing and the economy interlink within each local area. There is a real need for streamlining partnership arrangements if a 'single conversation' is to result in co-ordinated interventions. All housing providers need to be encouraged to think outside of their own target framework and develop a greater appreciation of how success in one domain can influence success in another.

Based on this analysis, we make the following recommendations to the Housing Corporation and its successor bodies.

Recommendation 1: Fund a research programme to explore how different types of housing provision impact on economic outcomes

- The impacts from investment in housing, and wider 'quality of place', need to be analysed across a typology of functional economic areas containing areas of both economic growth and persistent deprivation. This will help to guide the HCA's investment, to ensure the programme fits the place, rather than the place fitting the programme.

“Housing providers need to be encouraged to think outside of their own target framework and develop a greater appreciation of how success in one domain can influence success in another”



“House-building targets need to be aligned with regeneration, training, transport and other economic objectives”

Recommendation 2: Provide a framework for coordination at the appropriate spatial scales

- **Regional** - ensure the housing and economic development linkages are explicit in the proposed Regional Regeneration Priorities Maps, as proposed in the Regeneration Framework. The quality of the data will be important and should be analysed across functional economic areas. The Maps should guide the coordination of different programmes, funding streams and partners (including the third sector) across shared priorities to address the underlying causes of deprivation. This will help to focus mainstream service provision on priority regeneration areas and link private sector and the HCA’s capital investment with public sector partners’ revenue expenditure. It will be essential that the priority areas are analysed in the context of the economic objectives identified in the Integrated Regional Strategies to prevent policies for growth and regeneration being viewed as separate agendas.
- **Sub-regional** - work with local partners to set sub-regional targets in Multi Area Agreements to facilitate a more strategic approach across the real geographies of housing and labour markets. House-building targets need to be aligned with regeneration, training, transport and other economic objectives with the associated funding streams pooled or devolved. Piloting these tools will be key to achieving greater integration spatially, as well as across sectors, although the three year time span may need to be extended.
- **Local** - influence the design of local economic assessments, proposed in the Sub-National Review, to ensure they include a detailed housing market analysis and identify where housing feeds into other economic priorities such as employment, skills, transport, and business and enterprise. Where these impacts cross local authority boundaries, joint working and intelligence gathering will be essential. To enable coordinated delivery, the links between housing and economic outcomes need to be identified in all Local Area Agreements, alongside complementary targets to prevent different policy areas from working at cross-purposes.
- **Growth areas** - explicit economic development objectives should be agreed and linked to housing and infrastructure plans to ensure all partners are working towards the same end goals, particularly in the eco-towns.

Recommendation 3: Track the place-based economic impact of HCA investment

- Where HCA makes significant investment in housing and infrastructure, local authorities, RSLs and partners should be required to demonstrate how the investment is expected to contribute to economic development and regeneration priorities and how the investment will link in with related initiatives.
- Track and evaluate the place-based, as opposed to programme-based, economic impacts from HCA investment – including employment, skills, business and enterprise. This will provide a greater understanding of how housing and infrastructure shapes growth and inclusion over time within specific economic contexts.



“Implementing a more integrated framework will be key to coordinating investment between the HCA, and public sector and private sector partners”

Recommendation 4: Use spatial planning to strengthen the link between housing and economic development

- Explore how the revision of Planning Policy Statement 4 (Economic Development) can be used to ensure that the economic impact of residential developments is more fully considered prior to granting planning permission. Local authorities need to place greater weight on issues such as the location of developments and quality of design (including social housing), alongside other factors that are known to enable growth - such as public transport investment and ensuring a mix of uses to include employment opportunities that match the skills profile of both existing and new residents.
- Work with RDAs to ensure that these considerations, alongside other housing and economic development linkages, are embedded in the Integrated Regional Strategies. This should be used to align Regional Funding Allocations for transport and economic development with HCA investment in housing and infrastructure.

Recommendation 5: Link housing supply to local demand conditions

- In high demand areas, bring forward public sector funding to take advantage of lower land values and prioritise site assembly. Greater attention should also be paid to ways of encouraging an improved and expanded private rented sector, which will be crucial to maintaining open and flexible labour markets, particularly important in a recession.
- In weaker housing markets, focus investment on upgrading existing stock and quality of place improvements, over new supply in the current economic climate. This should help to raise private sector confidence and provide an enhanced residential environment to attract higher income groups and business investment.
- All housing plans need to be explicitly linked to evidence based demand, which should form a key part of the new Local Economic Assessments, and aligned to plans for transport, employment growth and other economic development priorities, as set out in recommendations 2 and 4. Implementing a more integrated framework will be key to coordinating investment between the Homes and Communities Agency, and public sector and private sector partners - and to holding the ‘single conversation’ on housing, economic growth and regeneration.



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