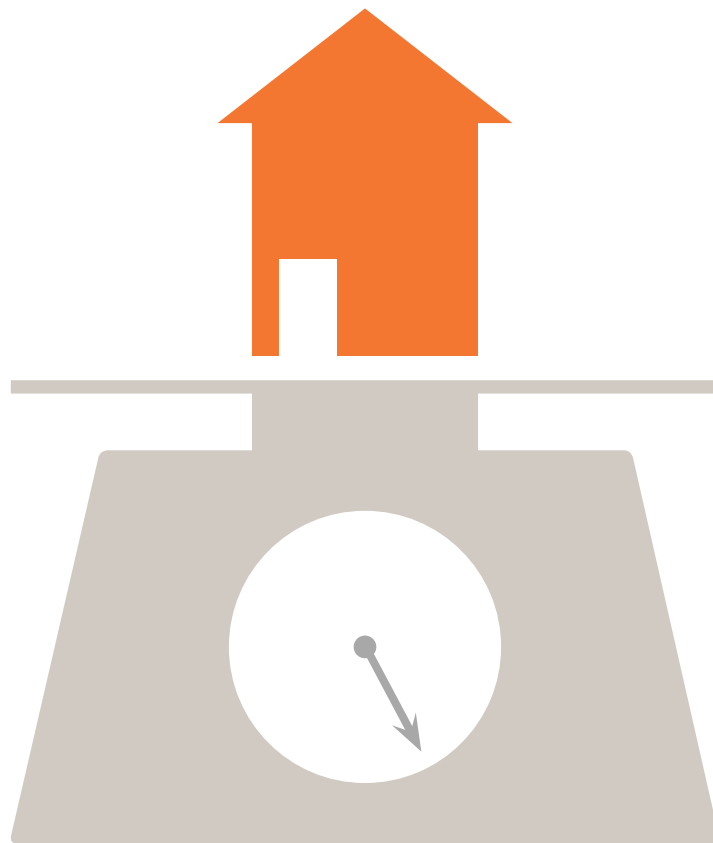


HOME ECONOMICS

THE ROLE OF HOUSING IN REBALANCING THE ECONOMY



REPORT

Ed Cox

July 2014

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ABOUT IPPR NORTH

IPPR North is IPPR's dedicated thinktank for the North of England. With bases in Newcastle and Manchester, IPPR North's research, together with our stimulating and varied events programme, seeks to produce innovative policy ideas for fair, democratic and sustainable communities across the North of England.

IPPR North specialises in regional economics, localism and community policy. Our approach is collaborative and we benefit from extensive sub-national networks, regional associates, and a strong track record of engaging with policymakers at regional, sub-regional and local levels.

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IDEAS to
CHANGE POLICY

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SUMMARY

This report looks at the role of housing in rebalancing the economy. The relationship between the housing market in the UK and the overall economy has been of great significance in recent months as concerns have been expressed about the risk of house price inflation leading to overheating in the economy more widely. Much of this focus has been on London and the south east. But these are not the only places where housing and the economy interact in significant ways. Outside of London, there are areas of significant housing demand as well as other housing pressures which in turn have an impact in the operation of subnational economies. This report looks at the differences between cities and regions and how short, medium and long-term housing trends can have a vital influence on subnational economic performance.

The impact of housing on subnational economies

Housing has a range of significant effects on economic performance at the national, subnational and very local level. Although it has seen a steady decline since 1997, the construction industry – with its particularly high multiplier effect and large numbers of direct and indirect jobs – contributes on average to around three per cent of gross value added (GVA) and therefore has a significant impact on the economy. Insofar as this varies from region to region by as much as a whole percentage point, such variations contribute to important differences in regional economic performance. Rents, representing up to 15 per cent of household income in some regions, are an important part of local economies too.

Housing also has a number of more indirect effects. Empirical evidence shows that there is a close relationship between household spending and household wealth, largely as a result of credit markets and household equity release fuelling consumer spending. Housing can also facilitate or inhibit labour market mobility. Once again, regional variations in house prices and tenure types can therefore produce very different effects on subnational economies, including somewhat strangely something of a brain-drain to London and the south east.

Finally, housing can have wider regeneration and place effects which affect the relative competitiveness and investment potential of an area and – in the worst cases – the social and environmental costs of concentrated deprivation.

None of these factors in their own right show particularly large regional effects, but together they can be seen to have a significant aggregate effect which exacerbates variations in regional economic performance.

Housing and subnational policymaking

Many of the factors that support or inhibit housing's economic role lie with macroeconomic decisions and the wider transmission mechanisms within the national economy. To this end a number of key policy decisions to enhance regional rebalancing lie with central government and other national actors. For example, in order to have greater control over the current house price cycle and overheating in the south east housing market some argue for council tax revaluation and a reformed national property tax system (JRF 2013) – in order to dampen the effects of household debt and equity withdrawal there is strong case for limiting leverage in the mortgage market through greater regulation of mortgage lenders (Dolphin and Griffith 2011). These issues are beyond the scope of this report.

There are, however, a number of factors that operate at the subnational level which are also crucial for marrying housing and economic development. These include:

- the composition of local labour markets
- the operation of local transport systems and other economic infrastructure
- the supply of land for new building
- the decisions of local planning authorities.

Following from this, decisions affecting such factors could and should lie within the remit of local and subnational policymakers and planners to enable connections to be made between the residential offer in a particular labour market area and the patterns and priorities for economic growth. This is not always the case. Throughout our research many have argued that too many decisions and policy choices are made according to the top-down thinking of Whitehall officials rather than the particular challenges facing localities and their wider city regions. As a result, many agree that too much decision-making is determined by the needs and interests of London and the south east and there is too little scope for housing actors further afield to align their particular housing opportunities and challenges with the economic needs of their areas.

Critical issues and recommended solutions

Our research has identified four main problems with the current policy environment and a number of solutions which are aimed at addressing each.

1. Problems with planning and coordination where local planning departments lack the capacity and scope necessary to address the more strategic needs of functional economic areas.

We propose the following three recommendations:

- the development of subregional housing boards, coterminous with local enterprise partnerships, to act as a joint strategic planning authority across functional economic areas
- the implementation of subregional Strategic Housing Market Assessments using the *Planning for Opportunity* approach developed by the Northern Way to align an area's residential offer with its economic growth plans
- the use of local procurement framework and local employment schemes in any significant housing development to maximise the multiplier effects of housing investment.

2. Problems with housing finance where current policies favour those areas with high housing demand and inhibit public investment where the residential offer could be critical in attracting inward investment and skills.

We argue that we should treat housing investment more like other economic infrastructure (transport, energy, skills) with greater justification for the use of public funds in areas of marginal viability to support wider economic benefit.

In line with this we propose the following three recommendations:

- raising HRA borrowing caps for local authorities with a clear strategic planning for housing development on the road to reclassifying borrowing for housing investment to remove it from the PSBR altogether as is the case in many other countries
- introducing the four-stage 'benefits-to-bricks' process for devolving housing finance, culminating in providing combined authorities with an upfront, multi-year affordable housing fund
- more use of housing bonds and local authority pensions funds to support housing investment.

3. Problems with land supply in key cities and places where there is scope for rapid economic growth.

We propose the following three recommendations:

- 'use-it-or-lose-it' power for local authorities to charge levies on stalled developments, streamline CPO processes, apply tighter time-limits on planning permissions and introduce new methods of land assembly
- the introduction of community land auctions to enhance the incentives available to local communities who support housing development
- the introduction of housing zones designated in areas where there are particular housing pressures and where particular incentives such as simplified planning processes, tax reliefs and new finance models could unlock development.

4. Problems with regenerating housing and neighbourhoods where there is low demand and weak connectivity to the local labour market.

We propose the following three recommendations:

- greater incentives for local enterprise partnerships (LEPs) and their local authority partners to ensure that areas of economic opportunity are more closely linked with deprived and marginalised neighbourhoods
- a significant unringfenced local growth fund to give LEPs and their partners greater freedom to align housing, skills and transport investments
- a new generation of locally driven approaches to neighbourhood renewal, learning from the lessons of neighbourhood renewal programmes in the past.

INTRODUCTION

The relationship between the housing market in the UK and the overall economy has been of great significance in recent months as concerns have been expressed about the risk of house price inflation leading to overheating in the economy more widely. The governor of the Bank of England, Mark Carney, used his recent Mansion House speech to warn that the housing boom in the UK represents the ‘biggest risk to the domestic economy’ (Kirkup 2014) as rising prices leave many homeowners with unsustainable levels of debt and with wider impacts on construction and on renters.

Such concerns are nothing new. Housing played a central role in the long economic boom from 1992 to 2007 and the subsequent financial collapse and recession. But too often the relationship between housing and the wider economy is considered only at the national level. While housing performance clearly has an important impact on national macroeconomic stability (Dolphin and Griffith 2011), such high-level considerations can sometimes mask the more finely tuned relationship that exists between housing and local or ‘subnational’ economies.

This report is concerned with the macroeconomic impact of the housing market on the economy, but it also looks at housing’s role from a more subnational perspective. It looks at the differences between cities and regions and how short, medium and long-term housing trends can have a vital influence on the performance of subnational economies.

The report is based upon research carried out in the early part of 2014 primarily through three roundtable events with leading housing policymakers and practitioners in three northern cities: Leeds, Liverpool and Middlesbrough. At each roundtable, participants outlined their perceptions of housing’s relationship with the economy and highlighted examples of the challenges and opportunities they faced in bringing forward new schemes and dealing with areas of low housing demand. (A full list of roundtable participants is available in the annex to this report.)

Chapter 1 considers the role that housing plays in driving economic performance. It explores the direct effects of construction, the indirect effects on consumer spending and the induced effects on labour market mobility. In each case it shows the relationship between subnational variations in housing and wider economic patterns.

In chapter 2 the report then explores the extent to which the existing governance and policy environment at the subnational level enables a positive interaction between housing and the economy. It identifies four main problems, each a function of policymaking being largely determined by the particular needs of housing in London and the south east, and suggests a number of solutions, many of which entail giving greater autonomy to local authorities and other subnational players.

The report concludes that with a favourable policy environment, housing could play an important role in addressing imbalances between regions in England.

1. THE ROLE OF HOUSING IN ECONOMIC PERFORMANCE IN CITIES AND REGIONS

There would seem to be a relationship between housing markets and wider economic performance but typically housing doesn't feature significantly in debates about local economic development. In chapter 1 we consider the relationship between housing and the economy and the role that housing might play in attempts to address economic imbalances between the north and south.

There have been a significant number of useful studies exploring the relationship between housing and the wider economy. Perhaps the most systematic recent study was carried out by Regeneris Consulting and Oxford Economics on behalf of the Homes and Communities Agency (Regeneris 2010). This study identified 13 different lines of enquiry across eight broad areas where it was considered that housing might have a role in economic performance. It provides an excellent baseline for analysis and concluded that housing has short, medium and long-term effects on the economy which require both micro- and macroeconomic approaches to address a number of major housing problems facing the UK. Despite its continued relevance, much of the data the analysis used predated the economic downturn and – with a few exceptions – took a national rather than a subnational frame of reference.

This is also true for a study produced by IPPR which considered the macroeconomic impact of housing on the UK economy (Dolphin and Griffith 2011). In this report it was shown that the relationship between the housing market, consumer spending and debt suggests that volatility in the housing market is intimately connected to instability in the national economy as a whole.

More recently the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University produced a report exploring the economic impact of housing *organisations* on the north of England (Dayson et al 2013). This contained useful analysis of the extent of the 'housing sector' more widely and also included a helpful subnational frame of reference.

Chapter 1 of this report draws upon these reports but presents updated figures and develops a particular focus on the role of housing at the subnational level: on cities and on regions. It identifies four broad areas where housing is seen to have important different but interrelated economic impacts:

- through the direct activities of the housing sector itself: construction, refurbishment and the role of housing organisations
- through its impact on macroeconomic stability, particularly as housing relates to consumer spending and investment
- through its effects on labour market mobility and in particular the ability of an area to attract and retain a skilled workforce
- and through its regeneration effects and the relationship that housing has with wider social concerns such as health and wellbeing.

We explore each of these in turn, looking specifically at variations between different places and regions.

1.1 The housing sector – construction, refurbishment and housing organisations

Activity in the housing sector is a key part of any economy and its general output. This includes direct and indirect effects.

Direct effects include building new homes, repairing and maintaining existing ones as well as many of the activities carried out by housing organisations, landlords and others who work in the housing sector who spend money on their day-to-day activities. Indirect effects can be separated into two main categories: procurement and supply chain impacts as construction companies and housing organisations buy in goods and services to support their activity; and the induced effect of employee spending within the local economies where they live and work.

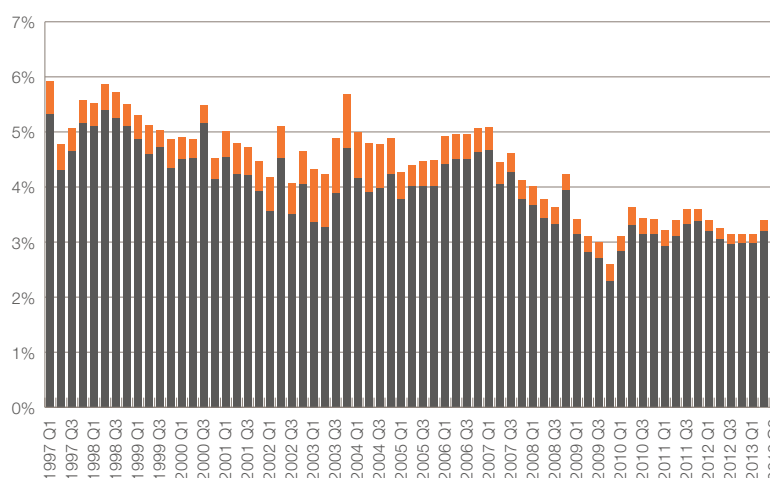
The combination of direct, indirect and induced effects of the housing economy can be measured by a housing ‘multiplier’. Unfortunately, limited data-gathering prevents a comprehensive ‘housing multiplier’ and the best proxy is that of the construction industry.

Construction has the fourth highest gross output multiplier of any industry in the UK (Regeneris 2010). Calculations vary from 2.6 (ibid) to 2.84 (LEK Consulting 2009) meaning that for £1 of spending on construction a further £2.60–£2.84 in gross output will be generated across the economy as a whole. This high multiplier effect is as a result of the construction sector’s reliance on local supply chains as opposed to imports and its high labour intensity – both of these factors mean that its benefits are also felt and retained at the local level more than other sectors (Bookman 2012). This in itself demonstrates the significance of housing in driving local economic activity and how trends in housing activity can have a profound effect on local economies.

Housing and economic output

A simple way of looking at housing’s role in the economy is to look at housing’s contribution to economic output. If we take gross fixed capital formation in housing¹ as a proxy measure of housing sector activity then it is possible to see housing output steadily falling from around 5.5 per cent of GDP in the late 1990s to just over 3 per cent in recent quarters and with a falling proportion of public versus private spending too.

Figure 1.1
Gross fixed capital formation in housing (% of GDP)



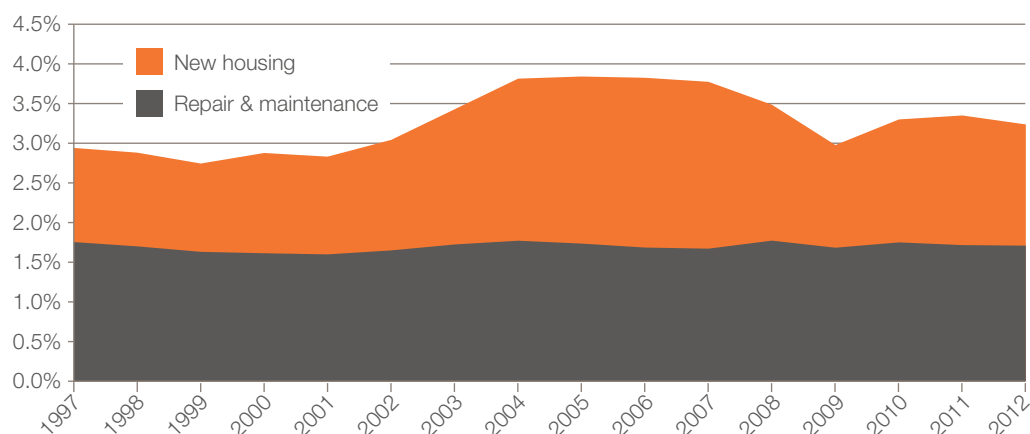
Source: IPPR North analysis of ONS 2014a

¹ This includes both housebuilding and renovation activity.

Looking at this in more detail (figure 1.2), it is clear that the contribution of repair and maintenance to the wider economy is relatively stable compared with the profile of new home building.

Figure 1.2

Output in housing (public and private new builds and repair & maintenance) as a percentage of GVA



Source: IPPR North analysis of ONS 2014b and ONS 2013a

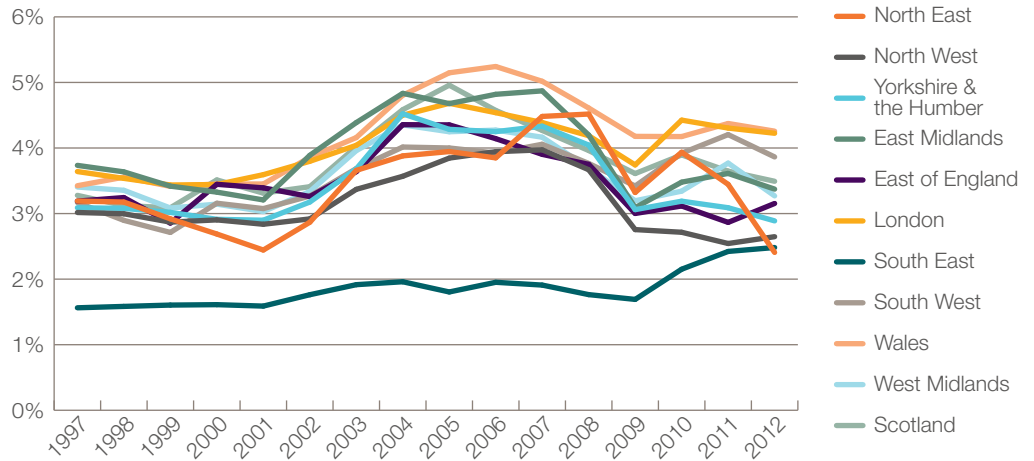
The long-term decline in housing's contribution to the wider economy was particularly marked during the recent recession. According to the ONS, much of the contraction in construction output in the late 2000s was caused by a fall of 38.2 per cent in the building of new housing between Q1 2008 and Q3 2009. This fall was more pronounced compared with the economic downturns of the 1980s and 1990s, when new housing fell by 10.1 per cent and 33.1 per cent, respectively. Its recovery has been relatively slow and although strong growth in new home building has characterised the past 12 months the quarterly level is still 10.3 per cent below its peak in 2008 Q1 (ONS 2014a).

Within these national figures, housing's contribution to economic output varies significantly from region to region as shown in the figure below. Looking at new building, repairs and maintenance as a percentage of gross value added (GVA), this shows the general decline highlighted above but with increasing divergence between different regions since 2009 and with a greater role for housing in London and the south east than has historically been the case (figure 1.3). This divergence becomes even more stark when we consider the absolute value of order for new housing construction over time (figure 1.4).

In summary, housing construction, repair and maintenance may have diminished in their overall importance to economic output but they remain a key driver of economic activity and display some significant regional variations.

Figure 1.3

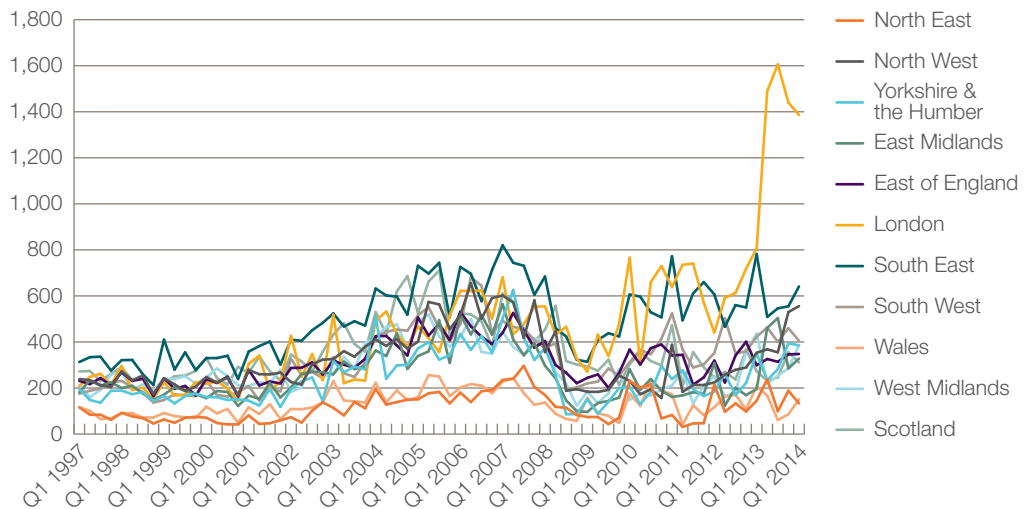
Output in housing (public and private new builds and repair & maintenance) as a percentage of GVA, by region



Source: IPPR North analysis of ONS 2014b and ONS 2013a

Figure 1.4

Value of orders for new housing construction obtained by main contractors



Source: IPPR North analysis of ONS 2014b

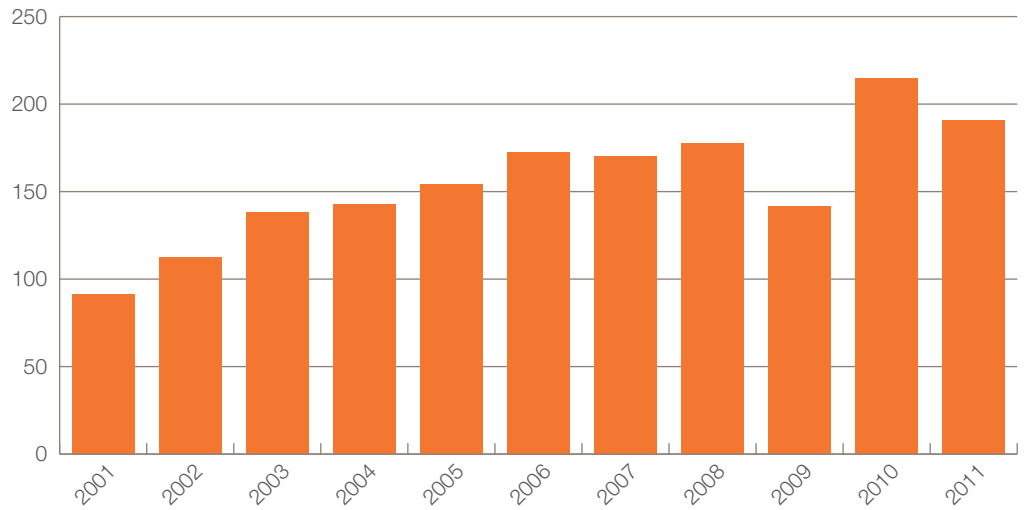
Housing and employment

The housing sector also has a direct contribution to the economy by way of employment. Work by Oxford Economics for Savills has estimated that the construction of 100,000 new homes would result in 228,000 new jobs in the construction sector (Savills 2010) and an equivalent number of jobs in other sectors too: an equivalent of 4.5 person years of employment for every new house built.

Construction employment in housebuilding grew steadily to 2008 when it reached 177,000. Following a significant fall in 2009 as a result of the economic slump, it then jumped again to a high point in 2010 before falling back to 187,000 in 2012.

Figure 1.5

Total private contractors employment in housebuilding ('000s)

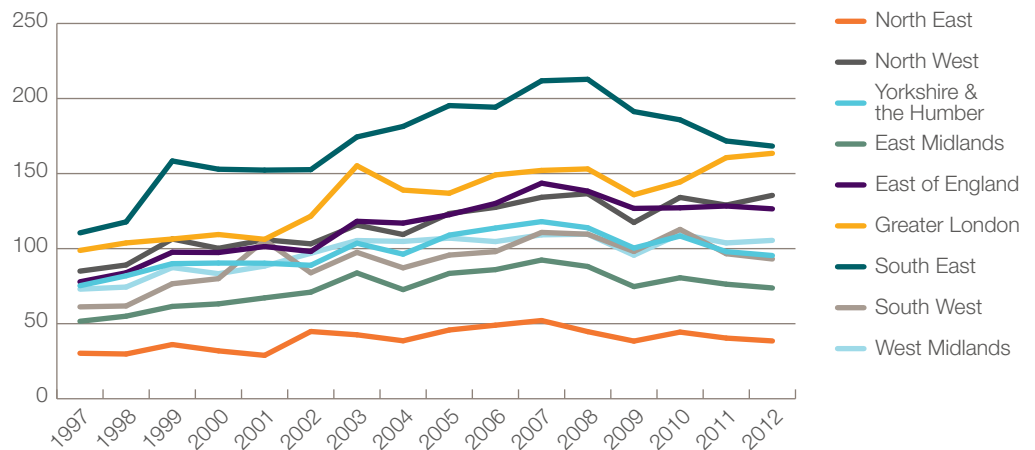


Source: ONS 2013b

Once again, these overall patterns mask some significant regional variations. Figure 1.6 shows all construction jobs by region and shows a steady growth in most regions to 2008 but with a flattening off or decline since then. The strongest growth since 1997 has been in Greater London which has continued to show strong growth since 2009 in contrast to all other regions.

Figure 1.6

Total employment in private contractors, by region of registration



Source: ONS 2013b

Alongside construction jobs, the housing sector also supports significant jobs through housing organisations such as housing associations, ALMOs (arm's length management organisations) and councils. According to a recent CRESR survey, there are 46,200 such jobs (41,600 full-time equivalents) in the north of England, almost the same number of jobs as in motor vehicle manufacture and call centres in the north combined (Dayson et al 2013).

Minimising leakage from the housing economy

Any local economy is vulnerable to the leakage of economic value as expenditure takes place across its local boundaries. For many companies involved in the housing sector this is of little importance, but it is often the case that those involved in housing planning seek to minimise leakage by adopting local employment and procurement policies.

More widely, local procurement policies can include the use of local suppliers and materials as well as establishing frameworks of local subcontractors to ensure that work is given to local SME businesses or others offering local social and economic impact. For example, Stockport Homes has helped local SMEs to get onto procurement panels by helping them to meet quality assurance thresholds (ibid).

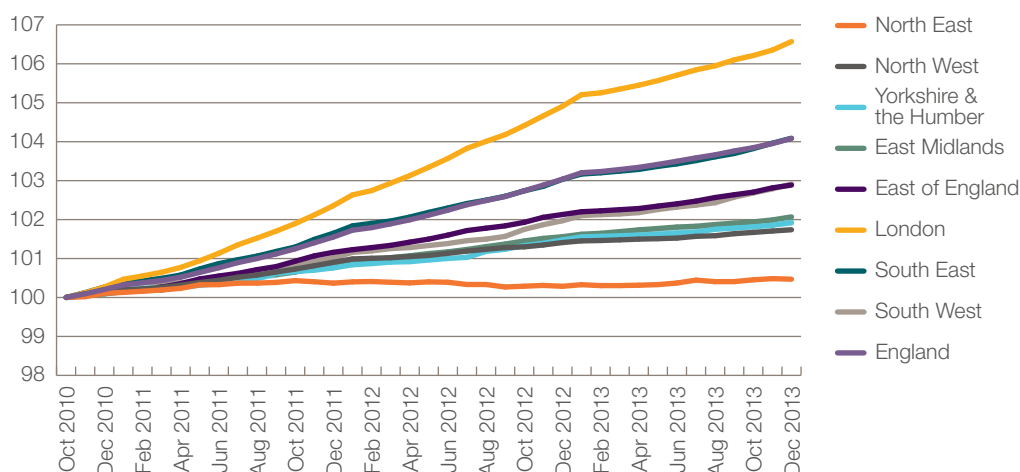
Rent and the local economy

Consumer spending on rent is often a key part of overall household expenditure and an important input to any local economy. The proportion of household expenditure spent on rent has nearly doubled over the past two decades to nearly 15 per cent of household spending. In 2009, total spending on rent (actual and imputed) was over twice as large as spending on food (Regeneris 2010).

Once again though, this is subject to significant regional variation. Figure 1.7 shows the divergence in levels of private rent from region to region since 2010. While rent may be seen to be simply an ‘internal transfer’ payment between tenant and landlord within a region, such stark variations are likely to have small economic effects.

Figure 1.7

Experimental index of private housing rental prices (100 = Oct 2010)



Source: ONS 2014c

In summary, although the housing sector’s direct contribution to the overall economy can be seen to have diminished over time as a result of the lack of housebuilding, when one considers employment trends and expenditure on rents it is clear that the housing sector still plays a significant role in local economies. This leads to some important differences between regions, many of which would appear to benefit London and the south east over northern regions. Conversely, if such trends were reversed, the multiplier effects associated with construction could bear significant fruits for subnational economies, not least those outside London.

1.2 Housing and consumer spending

Alongside the more direct effects of the housing sector itself, housing has a wider influence on consumer spending and macroeconomic stability more generally. As a relatively large sector, its very size can be seen to affect wider macroeconomic stability, but there are important reasons why the effect of housing on economic stability is amplified.

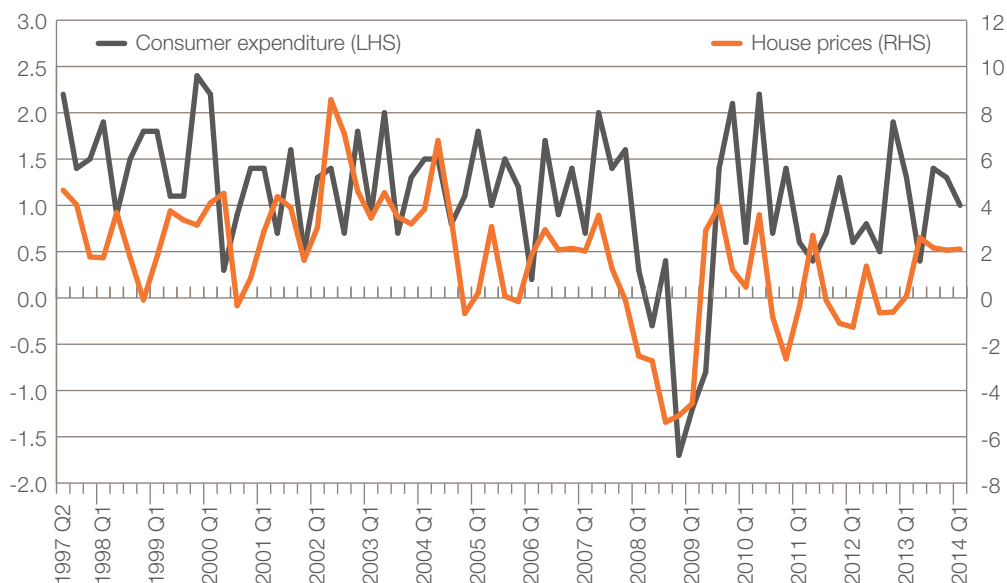
The principle reason is that housing, by its very nature, has relatively inelastic supply (Meen et al 2001, Barker 2008). This means that house prices tend to grow more quickly than incomes and the economy as a whole. As a consequence, house price inflation has an impact on consumer spending, investment and the wider financial system (Regeneris 2010).

At a simple level, one might expect that homeowners will spend more as they perceive the value of their homes to rise and that this would have a positive effect on the wider economy. However, rising house prices also mean that would-be homeowners feel they have to save more and therefore reduce spending. The Bank of England as a result estimates that the overall net effect of house price rises on consumer spending is neutral.

But empirical evidence challenges the apparently net neutral effect of house price rises by demonstrating a very close relationship between household spending and household wealth as shown in figure 1.8.

Figure 1.8

Quarter-on-quarter growth in consumption expenditure and house prices (%)



Source: IPPR North analysis of ONS 2014a and Nationwide 2014 (based on Dolphin and Griffith 2011)

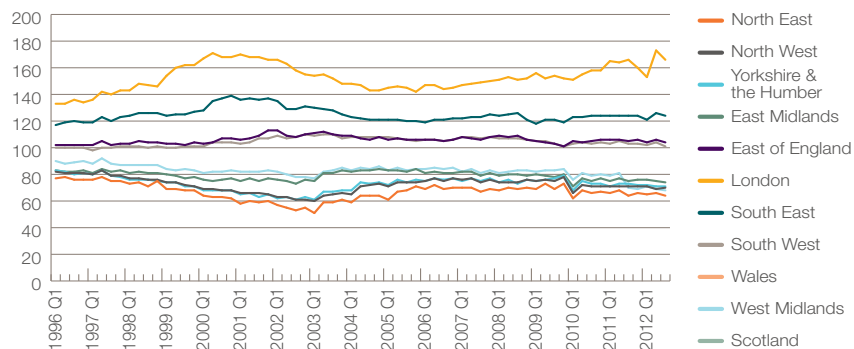
This positive relationship can be explained by the role played by credit markets. First, until quite recently loan-to-value ratios have grown steadily meaning that first-time buyers have been able to get onto the property ladder without necessarily having to save more and consume less (ibid). Second, consumption has been fuelled by house price rises as homeowners borrow against the rising value of their homes in order to finance their consumption through a process known as housing equity withdrawal (HEW).

Dolphin and Griffith (2011) show that there has been a relatively close relationship between HEW and consumer spending over the past four decades despite a period during the 2000s when this relationship broke down. There is a much closer relationship though between HEW and the savings ratio, including during the 2000s. Following Turner (2008) they argue that the housing boom of the 2000s was necessary to support consumption during a period when growth in real disposable incomes was slow.

If there is a relationship between housing wealth and consumer spending at the national level, one would expect that regional variations in house prices and housing wealth would both have effects on subnational economies.

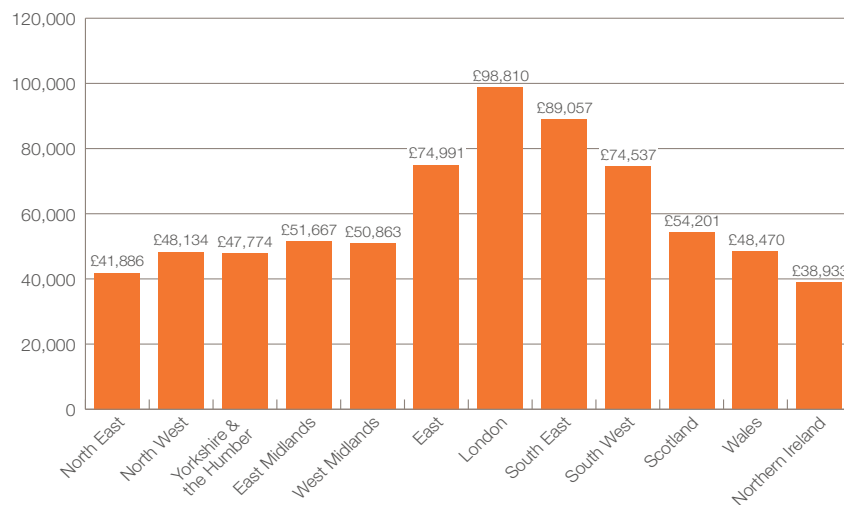
Figure 1.9 below shows that there are significant differences in house prices from region to region with London median house prices reaching some 60 percentage points higher than the England average and the north east falling some 40 points lower. Figure 1.10 then shows that there are also significant disparities in household wealth with London and the south east accounting for nearly 40 per cent of all housing wealth in England. We might expect that these factors, working together, would have a significant effect on consumer spending in each region.

Figure 1.9
Index of regional median house prices (100 = English median)



Source: CLG 2014a

Figure 1.10
Value of privately owned housing stock per capita, 2012



Source: IPPR North analysis of Halifax 2013

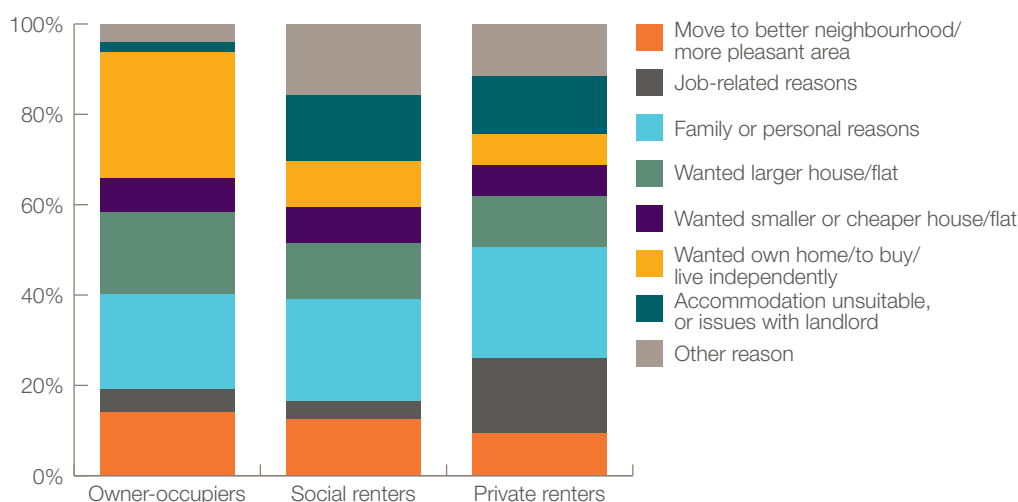
1.3 Housing and labour market mobility

The third way in which housing can have an impact on the wider economy is through its relationship with labour market mobility. In simple terms, a healthy labour market requires a good supply of affordable housing to enable people to move jobs freely in order to enable match up skills supply with employer demand. Conversely, a dysfunctional housing market will inhibit labour market mobility and in turn stifle economic growth. In reality, the relationship between labour market flexibility and housing is more complex.

First, according to the Department for Communities and Local Government's Survey of English Housing (CLG 2014b) only around 11 per cent of all household moves in the UK are job related. However, this proportion increases to around one third of all house moves between regions and interregional house moves account for over half of all job-related moves. So although overall the relationship between housing and labour market mobility appears weak, regional differences in housing have a more important relationship with labour market mobility.

Figure 1.11

Main reason for moving, recent movers, by tenancy



Source: CLG 2014b

Second, labour mobility varies significantly between different social groups. In the UK, lower occupational groups are far less likely to move house for work than those with higher skills (McCormick 1997). This is caused by a combination of factors.

- Regional house price differentials (set out in figure 1.9) make it prohibitive for low and middle earners to move from a relatively low to a relatively high housing cost area almost irrespective of the availability of jobs.
- Moving within or out of socially rented housing can have a very disruptive effect on benefits and housing allocation and levels of subsidy can be significantly different between regions meaning that those with lower earnings potential have little incentive to leave more highly subsidised homes (typically in more affluent areas).

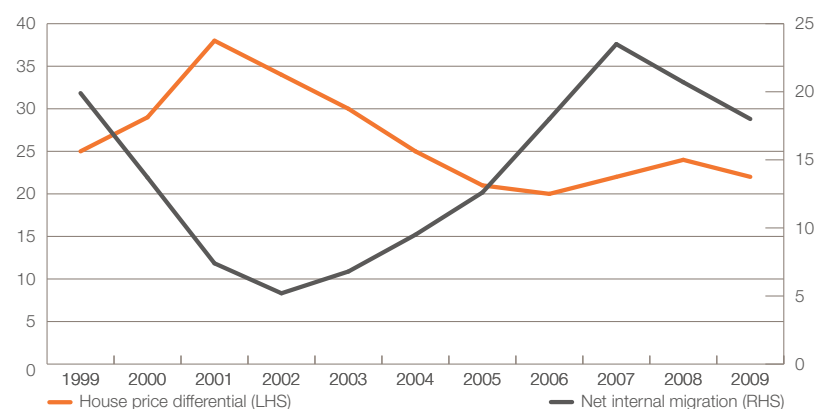
In effect, these issues are an important reason why certain parts of the country suffer a 'sorting effect' whereby those with lower skills can become concentrated in particular places. This has a cumulative effect on economic competitiveness.

Third, as figure 1.11 shows, there are some interesting variations in movement patterns between tenure types. In particular, while private renters have typically moved the most and moved the furthest, the private rented sector is increasingly being filled by people who are less geographically mobile for the reasons explained above as a result overall labour market mobility is reducing. There is also evidence to show that private renters are more keen to move – particularly between regions – than the numbers that actually do, suggesting that there is a level of inflexibility in the housing market rather than simply intransigence on the part of private renters (Broomleigh Housing Association 2009).

Finally, and most importantly for this study, labour market mobility is affected by regional house price differentials as set out in figure 1.9 above. In simple terms, although job opportunities and good quality amenities represent a strong attraction for people to move, high house prices (and mortgage lending in particular) means that those on lower incomes can find it very difficult to move. Conversely, homeowners with high house prices are reluctant to leave areas for fear that they will not be able to return, while lower house price areas are often considered to be risky and undesirable, which both combine to discourage a balancing out of the housing market. Empirical evidence makes these factors very clear.

Figure 1.12

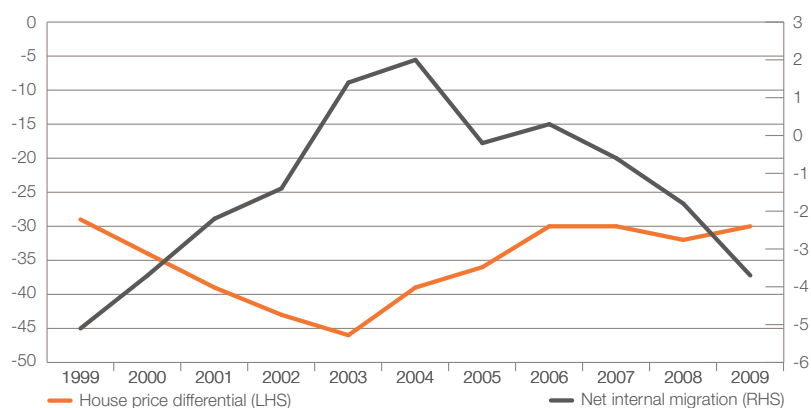
Difference between regional median and England median house price (%), and net internal migration, London



Source: IPPR North analysis of CLG 2014a and ONS 2010

Figure 1.13

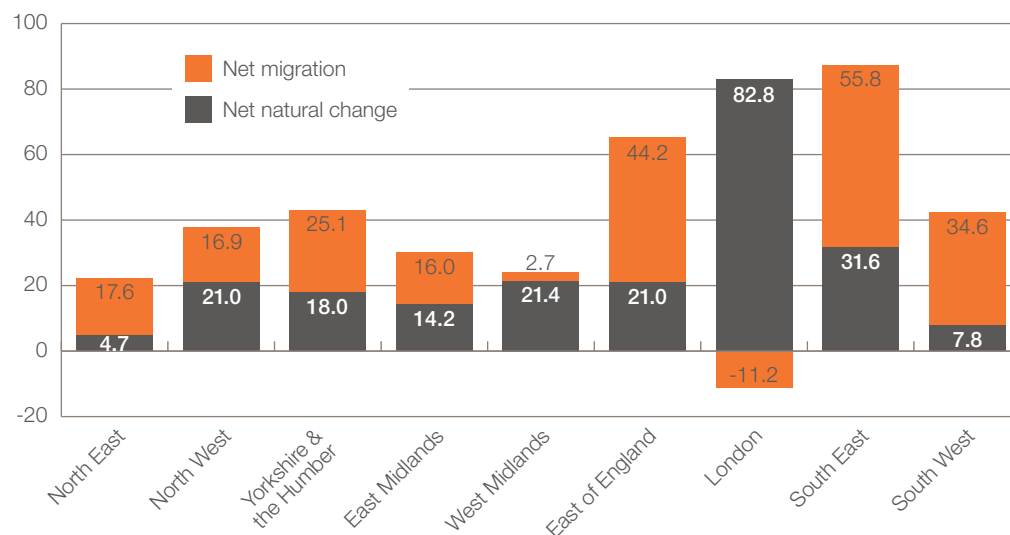
Difference between regional median and England median house price (%), and net internal migration, North East



Source: IPPR North analysis of CLG 2014a and ONS 2010

However, in the past decade, although London has experienced net out-migration this has largely been to the greater south east. Taken together, London and the south east have experienced significant net in-migration of nearly 45,000 people in the decade since 2001, nearly a quarter of all English in-migration, despite rising house prices.

Figure 1.14
Comparison of net migration across England, 2001–2011



Source: ONS 2012

This is because there are other housing market effects at play, in particular people’s expectations of earnings growth and house price appreciation in the south may well be a factor encouraging in-migration despite relatively high house prices. Alongside the huge natural increase in London’s population – and significant constraints in housing supply – this is causing a further pressure on house prices in the greater south east.

Although London continues to experience net out-migration, it is not at all clear though that the impact of high prices will ease migration to the wider subregion any time soon. Research by Cowling (2009) shows that although there is no significant correlation between ‘talent’ and the housing offer in cities, there is a significant correlation for housing and new graduates and there would also appear to be a significant draw to London and the south east for international migrants. This relationship between rising house prices, the expectations of high earnings growth and the attraction talent can be seen to have something of a ‘brain drain’ effect on the rest of the country and is one reason why London and the south east experiences high levels of productivity than elsewhere.

Finally, there is also some anecdotal evidence that local housing supply can be a key factor affecting the ability of some places to attract highly skilled labour. In the north east, for example, some employers have complained that a lack of high-end housing has made it difficult to attract the most senior staff. There is also broad recognition that housing provision is important in relation to large new economic developments such as the location of large factories or the development of enterprise zones.

In summary, there is a clear relationship between housing and labour market mobility. Although the numbers are relatively small, housing has a disproportionate

role in interregional migration patterns and it would appear that housing factors may be a significant inhibitor for those with lower skills to move for work. This has significant regional implications, for although regional house price variations should act as a correction on the availability and cost of labour, the powerful agglomeration effects of London and the south east, fuelled by expectations of further rises in earning and house prices, appear to be causing something of a brain-drain in the national economy.

1.4 Housing and wider regeneration and place effects

A further indirect effect of housing on the economy is its longer-term impact on the perceived competitiveness of areas and the costs of mitigating the social and environmental problems associated with poor housing.

Competitiveness and investment

As has been shown in the section on labour market mobility above, one might expect that housing would play an important role in relation to the attractiveness of an area – both for workers but also for investment more widely. There is a clear relationship between housing structure and worklessness and a relationship between housing structure and GVA per employee, but these relationships do not imply causality – indeed, the evidence that housing affects investment decisions is quite mixed (Regeneris 2010).

Work by Parkinson et al (2004) argued that although quality of life factors (including housing) have a general influence on urban competitiveness, there was no evidence to show that any one aspect of quality of life was significant on its own. A review by DTZ stated that ‘while high quality housing alone may not be enough to attract significant inward investment, a lack of high quality housing may preclude it’ (DTZ 2006). But Meen (2002), looking at the relationship between housing investment and industrial investment concluded that ‘the direction of causality [between the two] suggests that jobs move to workers’.

Perhaps the most significant study of housing and regeneration in the north of England was carried out by the Northern Way as part of a ‘Residential Futures’ programme (Llewelyn Davies Yeang 2006, Northern Way 2009). In a series of volumes, evidence was presented that although housing only operated as a ‘second tier driver’, the residential and quality of life offer in northern city regions would be a significant factor in enabling or inhibiting future economic opportunities for the north of England.

Using a relatively sophisticated methodology, the study linked economic forecasting for different places with forecasts for household formation and developed a typology for different areas within city regions where there may be particular pressures and opportunities for housing and other local amenities. The typology identified allowed for a fine-grained analysis for a number of city regions according to four categories:

- strategically significant regeneration areas
- near-market municipally built housing areas
- mixed/transitional areas
- ‘hot’ market areas with affordability issues.

The research culminated in a number of toolkits to enable planners to better facilitate the relationship between housing and economic opportunity in order to attract and sustain investment in key sites. We will return to this analysis later in this report.

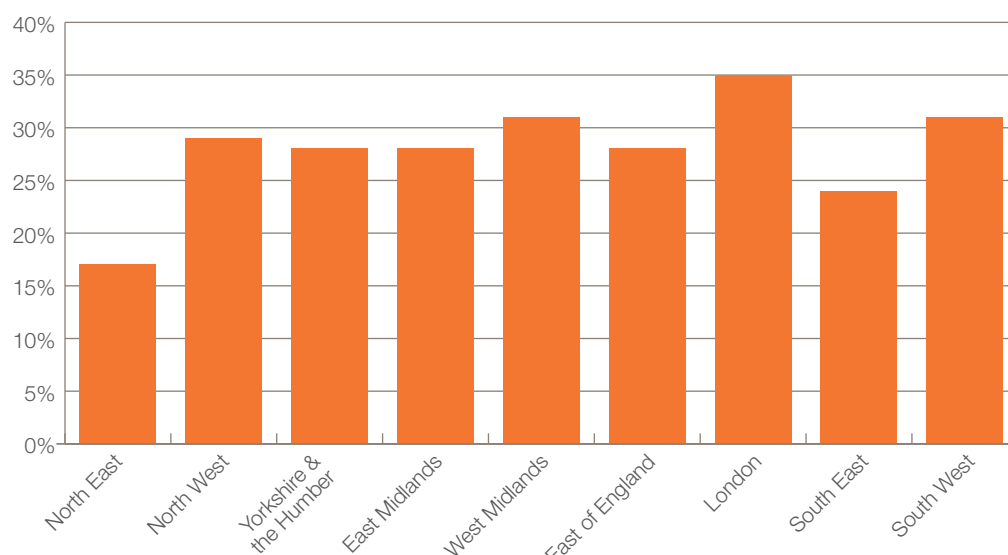
Housing and social and environmental costs

Housing can also have an indirect impact on local economies insofar as it is linked with a wide range of social and environmental outcomes. There is much evidence

linking housing conditions and a range of other social issues including poor health, poverty and educational underachievement. In simple terms, poorly heated or overcrowded homes can have a big impact on individual health and wellbeing (Harker 2007). But where poorer people are concentrated in particular areas of poor housing or particular tenure types, certain neighbourhoods can suffer from wider negative ‘place effects’ including high levels of crime, inadequate service provision and poor quality of their environment (see for example Silverman 2006, Feinstein et al 2008, Cox and Schmuecker 2011).

Once again, the extent of poor housing varies from region to region with the highest concentrations of non-decent and overcrowded homes found in London as shown in figure 1.15. These regional patterns, however, hide the fact that areas of poor housing can be highly spatially concentrated within a region or city region.

Figure 1.15
Bad housing (non-decent home or overcrowding)



Source: Barnes et al 2013 (analysis of CLG 2013)

Although decent housing is often expressed as a basic human right, the economic consequences of concentrations of poor housing and poor social outcomes are clear: first, poor health and wellbeing leads to lower workforce participation and lower productivity; second, housing-related poverty, health and crime issues can have significant ‘costs’ to the taxpayer and to wider society.

For these reasons, local concentrations of poor housing quality and wider neighbourhood deprivation can be closely related to disparities in local economic performance. Although the direction of causality is not immediately clear and the many factors at play suggest that any remedies will entail complex and long-term approaches, addressing housing issues is likely to be a necessary if not sufficient condition for improving economic performance in many localities, cities and their wider subregions.

1.5 Conclusions

Housing has a range of significant effects on economic performance at the national, subnational and very local level. Although it has seen a steady decline since 1997, construction – with its particularly high multiplier effect and large numbers of direct and indirect jobs – contributes on average to around three per cent of GVA and therefore has a significant impact on the economy. Insofar as this varies from region to region by as much as a whole percentage point, such variations contribute to important differences in regional economic performance. Rent variations, representing up to 15 per cent of household income in some regions, can have an important effect on local economies too.

Housing also has a number of more indirect effects. Empirical evidence shows that there is a close relationship between household spending and household wealth, largely as a result of credit markets and household equity release fuelling consumer spending. And housing can also facilitate or inhibit labour market mobility. Once again, regional variations in house prices and tenure types can therefore produce very different effects on subnational economies, including something of a brain-drain to London and the south east.

Finally, housing can have wider regeneration and place effects which affect the relative competitiveness and investment potential of an area and – in the worst cases – the social and environmental costs of concentrated deprivation.

None of these factors in their own right show particularly large regional effects, but together they can be seen to have a significant aggregate effect which exacerbates variations in regional economic performance. Chapter 2 explores whether anything can be done to mitigate these effects.

2. HOUSING AND SUBNATIONAL POLICYMAKING

In this report so far we have shown that there is an important relationship between housing and regional economic competitiveness and that regional economic imbalances may be exacerbated by housing issues.

As the analysis demonstrates, many of the factors that support or inhibit housing's economic role lie with macroeconomic decisions and the wider transmission mechanisms within the national economy. To this end a number of key policy decisions to enhance regional rebalancing lie with central government and other national actors. For example, in order to have greater control over the current house price cycle and overheating in the south east housing market some argue there is a need for council tax revaluation and a reformed national property tax system (JRF 2013). Likewise, in order to dampen the effects of household debt and equity withdrawal there is strong case for limiting leverage in the mortgage market through greater regulation of mortgage lenders (Dolphin and Griffith 2011). These issues are beyond the scope of this report.

There are, however, a number of factors that operate at the subnational level which are also crucial for marrying housing and economic development. These include:

- the composition of local labour markets
- the operation of local transport systems and other economic infrastructure
- the supply of land for new building
- the decisions of local planning authorities.

Following from this, decisions affecting such factors could and should lie within the remit of local and subnational policymakers and planners to enable connections to be made between the residential offer in a particular labour market area and the patterns and priorities for economic growth. This is not always the case, throughout our research many have argued that too many decisions and policy choices are made according to the top-down thinking of Whitehall officials rather than the particular challenges facing localities and their wider city regions. As a result, it has been widely argued that too much decision-making is determined by the needs and interests of London and the south east and there is too little scope for housing actors further afield to align their particular housing opportunities and challenges with the economic needs of their areas.

In chapter 2 we explore the extent to which the existing governance and policy environment at the subnational level enables a positive interaction between housing and the economy. Our roundtable seminars and wider interviews have identified four main problems with the current policy environment.

1. Problems with planning and coordination where local planning departments lack the capacity and scope necessary to address the more strategic needs of functional economic areas.
2. Problems with housing finance where current policies favour those areas with high housing demand and inhibit public investment where the residential offer could be critical in attracting inward investment and skills.

3. Problems with land supply in key cities and places where there is scope for rapid economic growth.
4. Problems with regenerating housing and neighbourhoods where there is low demand and weak connectivity to the local labour market.

The rest of this report will address these problems and offer some policy solutions in each case.

2.1 Problems with planning and coordination

Local authorities have more than 50 different statutory obligations regarding housing, including everything from their homelessness duty to making housing allocations, from running a Housing Revenue Account to developing a Local Plan (CLG 2011). In recent years, local authorities have been subject to significant cuts to their revenue support grant and as a result most aspects of their operations – including how they meet their statutory obligations – have undergone significant upheaval.

This is having a big impact on planning departments. According to a 2013 survey carried out by the *Guardian* newspaper, three-quarters of all councils have made cuts to their planning departments and some plan to cut them further by as much as 50 per cent (Taylor et al 2013). Research participants have made it clear that reducing the capacity of such key functions within local authorities may well have a negative impact on the ability of planning authorities to process applications in a timely and effective manner. Housing associations and developers have made it clear that this is already causing frustration and concern.

But alongside reducing capacity at the local level, the Coalition government has also removed capacity at the more strategic level too. Regional development agencies (RDAs) were abolished at a critical time when regional spatial strategies (RSSs) were just beginning to take root. These strategies – although often the source of some local tension – were providing the basis for planning at a strategic level that enabled a context and framework within which local authorities could align their own decision-making.

Having said this, one of the main reasons given for the abolition of the nine RDAs and the RSSs is that they were largely administrative by nature and their boundaries did not conform effectively to so-called functional economic areas. In their place, government has instituted 39 local enterprise partnerships (LEPs) whose boundaries (in many cases) are much more closely aligned with travel-to-work areas and local housing and labour markets. The formation of these partnerships has not been without some challenges too.

First, as bottom-up, business-led creations there has been significant variation in their composition and capacity. Until recently, government has been deliberately unspecific as to exactly how they should be formed, how they are to be resourced and what they should prioritise in order to drive local economic development. In the main, LEPs have been little more than a small secretariat juggling board priorities with an ever-increasing list of government demands and grant opportunities. One consequence of this has been that housing has rarely featured on LEP agendas: generally considered to be of less importance than perhaps skills, innovation or transport issues, LEP plans and strategies have mostly overlooked the role of the residential offer in driving economic growth.

Second, without any formal accountability – democratic or otherwise – LEPs have tended to conduct their affairs with little interaction with local planning authorities. Some have local authority leaders or other elected members on their boards, some have set up shadow boards of local authority leaders with a view to working collaboratively almost as some form of local second chamber, but these

mechanisms have taken time to form and do not often enjoy particularly effective working relationships. More recently, the advent of combined authorities in the case of five northern city regions, has been vital in galvanising LEP–local authority relationships but there is some way to go before there will be close collaboration between the interests of subregional business leaders and local planners.

And third, linked to the above, LEPs do not have the statutory authority that RSS processes did to overcome historical tensions between neighbouring local authorities, not least on issues of development and housing supply. Where the RSS had enabled some cross boundary working to identify key sites for development, there is no longer any mechanism with the same clout to ensure local authorities can assemble land, take a firm stance with developers, review strategic sites outside their own boundaries, or develop innovative financing mechanisms and develop cross-boundary infrastructure.

That is not to say that this is impossible altogether, but most LEPs and combined authorities have some distance to travel before they establish the clout and vision of the RSS process while maximising the advantages of (in most cases) having more coherent and effective boundaries.

Solutions

As has been made clear already, LEPs, combined authorities and other subnational partnerships are all at different stages of development, each quite rightly responding to the different needs and priorities experienced in different areas while also seeking to benefit from a variety of government programmes, including the regional growth fund and local growth fund. Over the past year, this process has been galvanised by the development of strategic economic plans but few of these recognise the importance of housing, construction and the wider residential offer to economic growth.

In order to address this we propose three initiatives for bringing greater coordination and coherence to subnational housing strategy.

1) Subregional housing boards

In order to restore the more strategic nature of the RSS process, it is proposed that subregional housing boards are established across areas which are coterminous with the functional economic areas covered by local enterprise partnerships.

These housing boards would have a clear relationship with LEPs and constituent local authorities, either through direct representation on the board from the LEP and elected councillors, or through operating as a ‘subgroup’ of the LEP or combined authority itself. Where there is a combined authority it may be the case that this takes the role of the housing board in order to minimise the proliferation of different bodies.

Subregional housing boards would act as a joint strategic planning authority and would have a number of strategic responsibilities but also a number of important incentives that would be designed to encourage all local authorities within the subregion to play an active and constructive role in their development. Such powers and responsibilities would include:

- responsibility to develop a subregional Strategic Housing Market Assessment (see below) in order to coordinate housing market interventions to support future housing and economic growth across the whole area
- the ability to create housing development corporations to acquire and assemble land to manage strategic housing growth or drive forward the regeneration of key sites requiring more radical interventions (see below)
- the ability to designate housing action zones and other key sites for development (see below)

- responsibility for the design and implementation of the subnational affordable housing fund (see below) and for devolved Homes and Communities Agency (HCA) budgets and assets, other capital grants and any other financial gains from land value uplift (see further on).

All of these powers and responsibilities would need to be exercised within the wider economic context established through the Strategic Housing Market Assessment.

Useful examples: local housing strategy

Greater Manchester has formed a Planning and Housing Commission and a Greater Manchester Housing Investment Board in order to drive forward strategic planning in relation to housing in the Greater Manchester area. Through the Greater Manchester Strategy these boards have committed to a target of returning to delivery of 9,200 new homes per annum by 2015, and retrofitting 25,000 per annum.

Liverpool City Region Combined Authority Housing and Spatial Planning Board is responsible for undertaking strategic housing and land-based assets functions delegated to it by the Liverpool City Region Combined Authority. The membership of the board comprises of representatives of the six constituent councils of Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral and it has developed a Liverpool City Region Housing Strategy 2013–16.²

In Leeds City Region a joint board has been established between the Leeds City Region Partnership and the Homes and Communities Agency. The LCR/HCA Board oversees the delivery of strategic projects and programmes, as set out in its Housing and Regeneration Investment Plan and associated strategies. The board is responsible for advising the LCR Partnership on levels of housing and regeneration investment needed, simplifying planning and directing the distribution of HCA investments across the city region.

2) Strategic Housing Market Assessments

The principle purpose of the subregional housing board is to coordinate the area's residential offer with its economic growth plans. It is proposed that this is achieved through a Strategic Housing Market Assessment (SMHA) covering the whole housing market area. The SHMA would not have a statutory basis and yet without having conducted an SHMA a joint planning authority would not be eligible to draw down the powers and functions described in the section above.

Each assessment will, by definition, reflect the particular circumstances of the subregion concerned. There are however a number of tools that might assist with this process, not least the *Planning for Opportunity* approach developed as part of the Northern Way's Residential Futures programme (Northern Way 2009).

Planning for Opportunity

The *Planning for Opportunity* approach brought together the implications of future economic development with the demand for housing in the eight city regions that form the north of England. Through careful econometric analysis, a typology-based model was developed which enabled each city region to carry out detailed analysis of its residential offer and its readiness to support new economic growth.

Assessing key factors such as the residential offer (range, quality and affordability), liveability and local services, and the wider quality of place, it was possible to categorise ward-level areas into four broad types.

- Type 1: strategically significant regeneration areas. These are large, often brownfield sites, of a sufficient size and scale that they need to be considered in a wider city-region context. The opportunity is to see what these areas can do to plug gaps in the city-region's place and residential offer. These are often city centre or city centre adjacent locations, or large former industrial sites.

² See <http://liverpool.gov.uk/media/103944/housingstrategy20132016.pdf>

- Type 2: near-market municipally built housing areas. These are the best of our municipally built areas – that is, where there has been an amount of private residential development, high levels of positive right-to-buy/acquire, and which are not among the more problematic of housing estates. The opportunity for the future is for these localities to play a greater role in their city region’s residential offer by offering a quality product at the lower end of the mainstream market. The objective is to blur further the boundary which stigmatises one area as being mono-tenure – effectively what might be termed ‘normalisation’.
- Type 3: mixed/transitional areas. On balance, these areas tend to have a reasonable physical place quality structure or base, but fail on many of the place-based specifics. This type falls into two broad subcategories: inner suburban Victorian/Edwardian stock, often with a large private rented sector, and often a reception area; and modest market towns with a moderate commuter role to the urban core. In the best-case examples, these problem ‘points’ could be addressed relatively easily. At the opposite end of the spectrum, there are clearly no easy solutions; but we do point to the potential that these areas represent. They are the ‘lazy assets’ – the places that could be squeezed to do a lot more for their city regions, and where the public sector role is more about focus than it is about large-scale investment.
- Type 4: ‘hot’ market areas. These are areas where affordability pressures are evident. It is of particular interest to understand the spatial distribution of affordability pressures. By their very nature, these localities perform well as an example of residential choice. At its simplest, the price attached to properties in these localities tells us this. However, our interest was not just in understanding how these areas worked and what their place quality characteristics were. Rather, we were ultimately interested in their collective impact; where affordability levels had become a concern and the extent to which choice was available.

By plotting every ward area in this way, the approach enabled city regions to tie together housing plans with wider economic development priorities.

Source: Northern Way 2009

The final ‘output’ from such Strategic Housing Market Assessments should serve as a clear housing development strategy for the subregion with clear alignment to economic priorities and with clear ownership by the LEP and other subregional partners. For an example of an SHMA, see the work being carried out by the Sheffield City Region.³

3) Local procurement and training frameworks

There is growing awareness of the importance of local procurement in driving the multiplier benefits of housing development, repairs and maintenance. Recent research into housing association expenditure in the north of England shows that over £5 billion is spent by housing organisations within the northern regions – the equivalent of 72 per cent of all housing expenditure (Dayson et al 2013).

Local procurement frameworks are an important means by which such multiplier benefits can be maximised. There is a wide range of different frameworks addressing different aspects of housing development such as the use of local repairs and maintenance suppliers, the use of local materials in building development, support for local SMEs to get onto procurement panels, and so on. Northern Housing Consortium has itself developed a brokerage service to help support organisations seeking to develop different kinds of local procurement policy.⁴

Another way in which local economies can benefit from locally focused initiatives is through local employment, skills and apprenticeship training associated with housing development. In Liverpool, for example, government has committed a

3 See <http://www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/sheffield-strategic-hma.pdf>

4 See <http://www.northern-consortium.org.uk/Livesolutions>

£5 million regional growth fund as part of the redevelopment of the Anfield area. This includes an apprenticeship scheme operating between Liverpool City Council and lead-developer Keepmoat Housing.⁵ In Greater Manchester, seven housing providers have developed an apprenticeship training scheme in collaboration with the Greater Manchester Chambers of Commerce. This will deliver at least 250 apprenticeships and £15 million for skills training.⁶

2.2 Problems with housing finance

The Coalition government's programme of austerity measures has hit the Department for Communities and Local Government harder than any other. Public sector expenditure on housing development fell by £4.5 billion (40.7 per cent) between 2009/10 and 2012/13 (HM Treasury 2013). Given the multiplier effects associated with the construction industry set out above, there is a very straightforward case for arguing that such cuts have exacerbated and elongated the recession, not least in northern cities and other places which have had potential to grow.⁷ What has become clear – and has been clear in previous recessions – is that the private sector does not automatically fill this gap (Griffith 2011).

Over recent decades, housing finance has also been increasingly dominated by housing benefit. During the course of this parliament, 95 per cent of government spending on housing will go through the benefit system, with just 5 per cent invested in new home building. Even as the economy recovers, the housing benefit bill is projected to rise in real terms throughout the next five years, reaching £25.4 billion by 2019 (Cooke and Davis 2014). This creates pressures throughout the housing system and across the whole country but one of the main problems with this situation is that it is particularly unresponsive to variations in the housing market.

Regional and local housing market variation significantly affects the level of housing benefit expenditure needed to meet a given level of housing need in different parts of the country. Moreover, the extent to which relying on rent subsidy, compared with building new homes, is the best way to meet the housing needs of a particular area varies from place to place, depending on the local housing market. As such, this centrally driven, benefit-orientated system of housing finance inhibits any possibility for strategic decision-making to shape local housing market dynamics or encourage labour market flexibility.

The government has made some moves to increase housebuilding and to incentivise private investment in housebuilding, unfortunately though, these have tended to benefit those areas with high housing demand and exacerbate the regional disparities, as highlighted by the following two government initiatives.

First, the Community Infrastructure Levy (CIL) was first introduced in 2010 but has been subject to a number of changes since then in order to iron out various unintended consequences of its introduction. CIL is designed to be a fairer, faster and more transparent process for agreeing planning obligations between local councils and developers and gives local authorities greater freedom to set their own priorities as to how the levy can be spent, subject to a proportion of levy funds having to be spent in the neighbourhood affected. While such a system is a useful incentive for areas where the primary constraint on housebuilding is the planning system, in areas where viability is the greater concern, CIL represents a further disincentive to developers to invest. As such, very few councils with more marginal housing markets have taken up the opportunity to introduce a CIL scheme.⁸

5 See <http://www.keepmoat.com/news/anfield-renewal-scheme-shortlisted-britain%E2%80%99s-best-regeneration-project>

6 See http://www.gmchamber.co.uk/service_brands/housing

7 It is important to note that while housing expenditure in England more than halved, it held up and even increased in the devolved nations where housing policy is effectively devolved.

8 See for example <http://www.trafford.gov.uk/residents/news/articles/20140409-trafford-council-first-authority-in-greater-manchester-to-adopt-the-community-infrastructure-levy.aspx>

Second, the New Homes Bonus (NHB) was introduced in 2011 to provide financial incentives to local authorities to encourage housebuilding. Some £7.5 billion will have been spent on the programme by 2017/18 but while nearly £1 billion per annum is allocated as a ringfenced grant, a further £600 million per annum has been reallocated from within the local government formula grant so creating clear winners and losers within the programme. According to analysis undertaken on behalf of the House of Commons Public Accounts Committee, the NHB has provided particular incentives for developers in those areas where there was a greater likelihood of development anyway, and that the bonus has not necessarily been sufficient to encourage housebuilding in those more deprived places where viability is weak (HoC 2013). The effect then of the NHB has been to reinforce regional imbalances in housing supply and economic growth.

Solutions

Fixing housing finance is perhaps one of the biggest policy conundrums facing national policymakers. Solutions range from changes to bank lending and decisions taken by the Bank of England's monetary policy committee to developing a growing role for housing cooperatives and promoting self-build initiatives. This section does not attempt a comprehensive solution but offers first a principle and then three particular policies that will help redress issues of regional imbalance.

The principle: treat housing as any other economic infrastructure

Typically, UK government does not treat housing in the same way as it might transport, energy or skills. This is in some ways understandable, for many people a house can be bought and sold as a private asset in an open market, unlike other economic infrastructure which requires collaborative provision.

However, for large groups of people housing is not a private asset. With 34.9 per cent (CLG 2014b) of households now living in private rented accommodation or in the social housing sector, their home is much less a commodity which can be bought and sold but more of a 'service' which enables them to live in a particular area and work in a particular job. In many developed nations, this is well understood and supported and government recognises its important role in ensuring good quality, affordable housing is available to support a flexible and mobile workforce.

Given the evidence set out above about the importance of the residential offer – not least to highly skilled individuals, recent graduates, key workers, and so on – to sustainable economic growth, it can be argued that housing should be treated much more like other forms of economic infrastructure than is currently the case.

This principle has a number of implications.

- It justifies the investment of public funds to subsidise development in areas where the viability of housing investment may be marginal and where there is a clear case for enhancing economic opportunities.
- It justifies a wider role for the state in intervening in housing markets in order to bring about economic and social outcomes that private developers, investors, landlords and other private interests may not naturally prioritise.
- It requires national government, LEPs, combined authorities and other key economic actors to take more seriously the role of housing in their economic development plans.

Beyond this principle, there are a number of further actions that government could take in order to finance housing development in the regions, three of which are highlighted below.

1) Local authority borrowing

The scope for local authorities to borrow responsibly to finance investment in new housing or improve existing housing stock is currently extremely limited. This is despite many authorities having strong balance sheets, including a valuable asset-base in social housing stock, which generates a secure income stream, and evidence that investment in housing generates capital and income growth over the long-term.

For this reason, we propose that HRA borrowing limits should be raised for those local authorities with a clear strategic plan for housing (see above). Estimates suggest this could support the construction of between 12,000 and 17,000 new affordable homes per year, depending on how far the government was prepared to go in reallocating spare 'headroom' within existing HRA caps or allowing councils to borrow up to their prudential limits (Griffith and Jeffreys 2013). Government has taken a first step in this direction by allowing a time limited widening of the HRA borrowing cap by £300 million from 2015-2017 but this needs to go further.

A significant concern with this approach is that it simply adds to the national deficit. This need not be the case. At present we allow housing associations to build homes outside of the public sector borrowing requirement but not local authorities. Reclassifying borrowing for house-building to take it out of the PSBR, while not without risks, would bring it into line with other types of government investment such as building schools and foundation hospitals and is a practice exercised by other European nations. Indeed, one could argue that investment in housing is less risky than some forms of off-balance-sheet borrowing insofar as it is supported by future revenue streams (Hull, Cooke and Dolphin 2011).

2) The affordable housing fund

In a recent publication (Cooke and Davis 2014), IPPR has argued for a phased process for giving local areas powers and incentives to finance new home building by switching funding from subsidising rents to investing in affordable homes. The four phases can be summarised as follows.

Phase 1: 'Earnback deals' between local councils and the Treasury

In order to provide a greater incentive for local authorities to reduce housing benefit expenditure, it is proposed that the government should create a framework whereby local authorities can agree a multi-year deal with the Treasury to retain the savings from bringing down the housing benefit bill in their local area. When combined with greater scope to borrow against their housing assets to provide an initial injection of housing investment, local authorities could take a range of actions to reduce the local benefits bill from increasing the supply of affordable homes to driving better value for money from the private rented sector.

Phase 2: Redrawing broad rental market areas (BRMAs)

BRMAs are used to determine local housing allowance rates but at present they are set over very large geographical areas with little sensitivity for variations in local housing costs. This means that some private landlords can overcharge for their properties and price out housing benefit recipients in other places. We propose that local authorities with earnback deals should also be able to replace their BRMA with one or more 'local rental market areas' (LMRAs) which can be drawn more sensitively in relation to more local variations in housing costs.

Phase 3: Devolve housing capital budgets to combined authorities

Where local authorities act together as part of a subregional housing board, it is proposed that they should have direct control over their housing capital budget. Under current plans the Homes and Communities Agency (HCA) is responsible for allocating £4.5 billion of public money over four years in grants to support housebuilding. We propose that a formula is agreed where – as in London – this

capital budget is allocated to combined authority areas. The HCA could continue to play a role in brokering arrangements and providing advice and support as well as having a regulatory and monitoring remit in such areas. (It would also retain its current role outside of combined authority areas).

Phase 4: Providing combined authorities with an upfront, multi-year affordable housing fund

The final phase of devolved housing finance would see combined authorities having control over all housing expenditure earmarked for their area alongside the powers set out above. Upon the development of an Affordable Housing Plan, each area would then be responsible for providing a system of rent subsidy and for determining the rates of support available, subject to a national minimum. This would give combined authorities much greater scope to build new homes, bargain collectively with private landlords, strike 'grant-for-rent' deals with housing associations, and take other measures to convert 'benefits-to-bricks'.

3) Bonds and investment funds

In recent years there has been a growing trend for housing associations to issue bonds to support housing investment with more than £4 billion raised in 2012 alone (Hammond 2013). This has been made possible particularly through the relatively stable income derived from social rents largely underpinned by government in the form of housing benefit. Private investors have also provided vital funds through PFI bonds for housing regeneration and investment. For example, Pension Insurance Contribution (PIC) has invested over £150 million in regeneration schemes in Salford and in Manchester.⁹

There is also scope for the more creative use of local authority pension funds. The Greater Manchester Investment Fund, for example, is a unique collaboration between a new joint venture company called Matrix Homes, the Homes and Communities Agency, and the Greater Manchester Pension Fund. The collaboration will see the development of over 250 homes across five different sites funded through investment from the GM Pension Fund.¹⁰

With the reduction in public spending in the years ahead, these more entrepreneurial approaches to housing investment will be fundamental to securing housebuilding and redevelopment in the future.

2.3 Problems with land supply

It is often assumed that housing pressures lie exclusively in London and the south east. But housing shortages and rising costs exist in other places too – not least in growing cities such as Manchester and Leeds (Griffith 2014 forthcoming). Having robust housing strategy and finance at the local level are key elements in addressing housing pressures, but neither of these will work unless there is also an effective system for planning, development and land supply.

In recent years the Coalition government has introduced a number of planning policy reforms. Through the Localism Act 2011 and the National Planning Policy Framework 2012 (NPPF) the intent has been to free up developers to be able to build by scrapping regional housebuilding targets, introducing a 'presumption in favour of sustainable development', and attempting to devolve power to neighbourhood forums to develop neighbourhood plans outside the conventional planning process.

While the direction of travel for planning reform has been the right one, in practice, these reforms appear to be having some unintended consequences.

⁹ See <http://www.actuarialpost.co.uk/article/pic-invests--74m-in-second-manchester-social-housing-bond-5792.htm>

¹⁰ See <https://www.homesandcommunities.co.uk/news/manchester-housing-investment-fund>

First, the devolution of power to neighbourhoods, far from opening up opportunities for housebuilding, has become something of a ‘NIMBY charter’ enabling those who oppose development to use their new powers to block vitally needed growth.

Second, local authorities are still required to maintain a local housing needs assessment and five years’ housing land supply. Developers tend to accuse local planning authorities of deliberately underestimating their requirements in order to minimise the challenges facing their areas and appease those who resist development.¹¹ But equally local authorities argue that, with nearly 9 out of 10 planning permissions granted and with 86 per cent of councils with their five-year supply in place, developers are using the system to cherry-pick their preferred sites and avoid sites that might be of more strategic importance – not least brownfield sites.

There is wider evidence of the domination of private interests within the planning system, where landowners seek to maximise their own gains at the expense of the wider economic good. In particular, many accuse landowners of ‘land hoarding’: buying up strategic sites with little intent on building but holding them for speculative purposes in the knowledge that their value will rise or that the site has a ‘book value’ which can be used for other financial purposes. This has been particularly true for brownfield sites where, because planning permission outside cities is so hard to come by, they are very likely to retain and improve in value (Griffith 2014 forthcoming).

The dominance of landowning interests and the high asset value of land have in turn consequences for developers. First, it squeezes out smaller developers who find it hard to enter the market and difficult to take on the high risks associated with housebuilding. This allows the domination of a few large developers who can pick and choose their developments and who can effectively control housing supply to maximise returns. In effect this means choosing small-scale, high-value developments over large-scale sites.

Solutions

There are a wide range of tools that might be used to unlock these land supply blockages, some of which involve a degree of technical and legal detail, again best addressed at the local level. In this report, we focus on three possible solutions.

1) ‘Use it or lose it’ powers

LGA research shows that at the beginning of 2012 the average time between planning permission being granted and building completion was nearly two years (LGA 2013). One of the principle reasons for this is ‘land hoarding’ and as a result it has been proposed that councils should be able to narrow the time limit after which permission is automatically revoked. Alternatively, councils should be granted powers to revoke planning permissions where they believe landowners have no intention of building out their developments (Crowe and Howell 2013).

Alongside ‘use it or lose it’ planning permissions, there are a number of other measures that could assist councils to get developers building:

- allowing councils to charge additional levies on stalled developments
- introducing new measures to streamline and reform the compulsory purchase orders (CPOs) process to make it easier for councils to take action on key sites (Griffith 2014 forthcoming)
- introducing new methods of land assembly for both private and public land through joint venture arrangements, development corporations, land ‘swaps’ and other arrangements with private landowners (Griffith 2014 forthcoming).

11 See <http://www.planningresource.co.uk/article/1125476/nppf-means-for-housing-land-supply>

2) Community land auctions

In order to address concerns that CIL and Section 106 planning gains are too meagre to incentivise development, particularly for local communities, there is growing interest in the concept of a community land auction. Under this process, the local authority invites offers of land, grants planning permission and then re-auctions the land at a higher price, keeping the difference in value (Leunig 2011). Leunig argues that they could become a key plank in releasing land for development in areas where there is high housing demand but also significant resistance to development:

'There is lots of land in Britain that could be developed, and local authorities want to see only small amounts developed. Lots of potential sellers mean that prices of land that the local authority accepts are likely to be low. Equally, when the local authority comes to sell the land to developers it is the only seller, and there are many potential purchasers. This means that it will receive a full price for the land.'

Leunig 2011

Calculations made for the south east suggest that the value of community benefits from such a process could be as much as £45,000 per house built (ibid). In other regions it is likely to be significantly less and yet it could still make a significant difference. For example, even in cities like Liverpool and Newcastle there is a £26,000 difference between industrial and residential land prices per housing unit which, although not necessarily an equivalent to the potential benefits, gives a clear indication of the viability of such an approach and would make it more likely that communities will get behind potential housing developments.

3) Housing zones

A third solution which has been suggested to address problems with land supply is the development of housing zones (HZs). Housing zones are based on the principle of enterprise zones whereby a designated geographical area receives a series of incentives to remove barriers to enable housing development to take place.¹²

There are various ways in which such zones could be designated and a variety of different 'powers' and policy incentives that could be applied. In Germany, for example, areas which have been designated for development have their land value frozen. Municipal authorities can then buy up the land, make necessary improvements and then sell the plot on to developers (Falk and Munday 2014). In the Netherlands, designated areas require that the landowner gives first right of refusal to the municipal authority when selling land (Buitelaar 2010).

In the UK context, Home Group housing association has proposed that consortia of local authorities and private developers could bring forward proposals to designate a housing zone within which all public sector land can be utilised and a joint venture partnership is established to enable an effective sharing of risk and rewards (Home Group 2014, unpublished paper). Home Group proposes that HZs then receive a number of incentives including:

- simplified planning processes and local development orders, aimed particularly at encouraging smaller developers to invest
- enhanced compulsory purchase order powers to enable land assembly to address land hoarding
- tax reliefs for developers (including discounted business rates, corporation tax and VAT exemption maintenance post-completion) and enhanced capital allowances for machinery operating within the HZ

¹² See, for example, Northern Housing Consortium's proposals, <http://www.northern-consortium.org.uk/assets/Policy%20Documents/NHC%20Spending%20Round%20submission.pdf>

- earnback, tax increment financing or New Homes Bonus uplifts for local authorities involved in the joint venture
- stamp duty and council tax relief for people buying into the area
- local procurement and apprenticeship schemes to operate within the HZ.

Clearly there may be concerns about displacement and deadweight costs associated with this approach. These would need to be addressed in initial bids and business case development. But the concept could be an important way to align and to pilot a number of recommendations set out within this report.

2.4 Problems with deprived neighbourhoods

In an environment of fiscal constraint, the corollary of spending decisions which support investment in high demand areas is that those places where the viability of housing development is weaker have tended to stagnate. Where historically programmes such as Housing Market Renewal and other regeneration programmes have helped to enhance viability and enable city regions to improve their residential offer, in recent times such areas have been unable to address local housing problems as effectively. Indeed, many such schemes have stalled or failed altogether as government funding has dried up.

For some this is simply an inevitable consequence of the operation of an efficient housing market, for others this represents a failure on the part of government to support economic development in areas of the country that need support in their transition from an industrial past.

This report is not the place to review government initiatives to regenerate deprived neighbourhoods and tackle housing problems on low-income estates. In a recent publication addressing these matters IPPR summarised its findings as follows (Cox et al 2013).

Concerning regeneration policies under New Labour...

It is very difficult to assess the success of these [regeneration] programmes given that wider economic effects had such a large part to play in conditioning what was happening at the neighbourhood level and that many of the gains have not been maintained through the recession but in Lupton's most recent overarching analysis (Lupton et al 2013) she argues that they were successful in achieving:

- 'a new, better informed and better co-ordinated approach to tackling spatial inequalities'
- 'improvements on specific issues such as employment, education, crime and health'
- 'a reversal in the trend towards widening neighbourhood disparities'
- 'good value for money'.

Concerning neighbourhood effects...

The fact that population movement lies at the heart of long-term neighbourhood change has led many policymakers to two conclusions. First, that it is the wider economic context that is the most important factor in determining the immediate and future prospects of any given place; and second, that an individual or household's personal characteristics (such as employment status, educational attainment, health) should be the primary focus of public policy and that neighbourhood 'sorting' will be a natural consequence of individual differences.

But although an individual's characteristics are profoundly important for determining his or her life chances, places do matter. Neighbourhood effects are found to be important in terms of the physical location of a neighbourhood, the development of neighbourhood stigma and the result of the aggregate characteristics of the people living in a particular place. For example, a concentration of people out of work in one particular area can result in a lack of information about job opportunities so reinforcing unemployment problems.

Concerning neighbourhood change and neighbourhood policy ...

A 'theory of neighbourhood change' can be summarised as follows:

- most neighbourhoods change only very slowly and these changes are a function of the population movement mainly associated with wider economic factors
- as a result, we can expect that there will always be gaps between neighbourhoods and the principal means of narrowing these gaps will be through economic growth combined with measures to ensure that the proceeds of growth are better shared
- there are nonetheless some important 'neighbourhood effects' which come about as a result of this population sorting and the physical location and characteristics of particular places and which can 'trap' people who have less money
- these effects reinforce concentrations of poverty in particular places and, in some cases, lead certain neighbourhoods to enter a spiral of decline.

Neighbourhoods 'policy' then is necessarily a long-term process and although it may not produce immediate change, it is vitally important for three main reasons.

1. To make sure that all neighbourhoods can generate jobs and wealth themselves or, perhaps more importantly, they are connected to economic opportunities in the wider area.
2. To ameliorate the worst effects of wider economic trends and ensure that people in all neighbourhoods receive minimum standards of neighbourhood decency and service provision to prevent some places getting significantly worse.
3. To bring about the radical transformation of those neighbourhoods that have become caught in very costly spirals of decline.

To this end IPPR made a number of policy recommendations including the following.

- Local enterprise partnerships and their local authority partners should ensure that the benefits of economic recovery are spread widely across and within regions, while subregional plans and strategies for economic growth need a detailed understanding of the role that neighbourhoods have to play in supporting and spreading economic prosperity – particularly those in the most deprived and marginalised places.
- Government should commit existing centrally held funds in areas such as housing, transport and skills to the unringfenced Single Local Growth Fund and in turn LEPs and their partners should commit to developing the kind of neighbourhoods approach set out in the recommendation above.
- In conjunction with the above, local authorities and their partners should learn the lessons of neighbourhood renewal programmes and adopt some of the key principles as they bring forward new plans for neighbourhood investment and change, not least the importance of mobilising local residents to contribute to neighbourhood change.

2.5 Conclusions

This report has demonstrated clearly that housing plays a crucial role in driving economic performance. Whether through the direct effects of construction, the indirect effects on consumer spending, or the induced effects on labour market mobility, housing and the economy work hand in hand. This is significant at a macroeconomic level which is why government and the Bank of England are right to keep a careful eye on the extent to which a new housing bubble is forming, particularly in the south east. But the relationship between housing and the economy has subnational dynamics which are also of important local and regional economic significance and which are important in addressing regional imbalances in economic performance.

Chapter 2 of this report has therefore explored the extent to which the existing governance and policy environment at the subnational level enables a positive interaction between housing and the economy. It identifies four main problems, each a function of policymaking being largely determined by the particular needs of housing in London and the south east, and suggests a number of solutions, many of which entail giving greater autonomy to local authorities and other subnational players and many of which have been highlighted by existing good practice, not least in the north of England.

But if we are to see a transformation in both the housing and economic landscape in England, these tentative experiments in housing development and finance will need to be scaled up. This requires strategic actions across wider areas and between a wide range of housing bodies – public and private. It requires innovation both in terms of finances and in terms of land assembly. And it requires courage from national government to let go, and from local players to take on new powers, responsibilities and risks.

Should they do so then the benefits will be great – a triple win: more affordable homes and a stronger northern economy playing its role in rebalancing the nation. Now is the time to act.

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ANNEX: ROUNDTABLE PARTICIPANTS

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Middlesbrough, 10 March 2014

- John Anderson, assistant director – policy and regeneration, Darlington Borough Council
- Paul Fiddaman, chief executive, Cestria
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- Martin Hawthorne, group director of development and regeneration, Fabrick Group
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- Carla Keegans, head of strategic housing, Northumberland County Council
- Angela Lockwood, group chief executive, North Star Housing
- Brian Robson, policy and strategy manager, Northern Housing Consortium
- Carol Straughan, head of planning, Stockton-on-Tees Borough Council
- John Walker, head of business research, Gentoo Group

Liverpool, 20 March 2014

- Councillor Ann O’Byrne, assistant mayor and cabinet member for housing
- Phil Gandy, chief executive, Symphony Housing
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- Councillor Hetty Wood, assistant cabinet member for housing