Housing and economic linkages

Oliver Kamm and Michelle Chivunga

Housing as a catalyst for sustainable economic growth
Michelle Chivunga, CIH South East Policy and Practice Officer

with contributions from Oliver Kamm, leader writer and columnist, The Times

The Chartered Institute of Housing (CIH) is the professional body for people involved in housing and communities. We are a registered charity and not-for-profit organisation. We have a diverse and growing membership of over 22,000 people – both in the public and private sectors – living and working in over 20 countries on five continents across the world. We exist to maximise the contribution that housing professionals make to the wellbeing of communities. Our vision is to be the first point of contact for – and the credible voice of – anyone involved or interested in housing.

Acknowledgements
The CIH South East would like to thank Oliver and Michelle for such a complete analysis and contribution to this report. We are appreciative of the significant help received from Chris Moquet of calfordseaden LLP along with all our international and local housing professionals that took the time to provide examples and contribute so positively to this report. We hope that this report is both informative and offers some solutions to the many issues we will be tackling in the years to come.

ISBN: 978-1-905018-00-0
All photographs: istockphoto.com, except page 9 – fotolia.com and page 46 – Andy Brooks.
## LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALMO</td>
<td>Arm’s length management organisation</td>
</tr>
<tr>
<td>BCB</td>
<td>Berinsfield Community Business</td>
</tr>
<tr>
<td>BME</td>
<td>Black and minority ethnic</td>
</tr>
<tr>
<td>CBI</td>
<td>Confederation of British Industry</td>
</tr>
<tr>
<td>CIH</td>
<td>Chartered Institute of Housing</td>
</tr>
<tr>
<td>CLG</td>
<td>Communities and Local Government</td>
</tr>
<tr>
<td>CLT</td>
<td>Community land trust</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer price index</td>
</tr>
<tr>
<td>DWP</td>
<td>Department for Work and Pensions</td>
</tr>
<tr>
<td>GDI</td>
<td>Gross domestic income</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>GVA</td>
<td>Gross value added</td>
</tr>
<tr>
<td>HA</td>
<td>Housing association</td>
</tr>
<tr>
<td>HB</td>
<td>Housing benefit</td>
</tr>
<tr>
<td>HCA</td>
<td>Homes and Communities Agency</td>
</tr>
<tr>
<td>HM</td>
<td>Her Majesty</td>
</tr>
<tr>
<td>HRA</td>
<td>Housing Revenue Account</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IFS</td>
<td>Institute for Sustainability</td>
</tr>
<tr>
<td>IPS</td>
<td>International Passenger Survey</td>
</tr>
<tr>
<td>JSA</td>
<td>Job seeker’s allowance</td>
</tr>
<tr>
<td>LABV</td>
<td>Local asset backed vehicle</td>
</tr>
<tr>
<td>LEED</td>
<td>Leadership in Energy and Environmental Design</td>
</tr>
<tr>
<td>LEP</td>
<td>Local enterprise partnership</td>
</tr>
<tr>
<td>LHA</td>
<td>Local housing allowance</td>
</tr>
<tr>
<td>LHT</td>
<td>Local housing trust</td>
</tr>
<tr>
<td>LSE</td>
<td>London School of Economics and Political Science</td>
</tr>
<tr>
<td>MAS</td>
<td>Manufacturing Advisory Service</td>
</tr>
<tr>
<td>NFA</td>
<td>National Federation of ALMOs</td>
</tr>
<tr>
<td>NHF</td>
<td>National Housing Federation</td>
</tr>
<tr>
<td>NHPAU</td>
<td>National Housing and Planning Advice Unit</td>
</tr>
<tr>
<td>NINo</td>
<td>National insurance number</td>
</tr>
<tr>
<td>OBR</td>
<td>Office for Budget Responsibility</td>
</tr>
<tr>
<td>ONS</td>
<td>Office for National Statistics</td>
</tr>
<tr>
<td>PFI</td>
<td>Private finance initiative</td>
</tr>
<tr>
<td>RDA</td>
<td>Regional development agency</td>
</tr>
<tr>
<td>RSS</td>
<td>Regional spatial strategies</td>
</tr>
<tr>
<td>SDA</td>
<td>Strategic development area</td>
</tr>
<tr>
<td>SEEDA</td>
<td>South East England Development Agency</td>
</tr>
<tr>
<td>SEERA</td>
<td>South East England Regional Assembly</td>
</tr>
<tr>
<td>WRS</td>
<td>Worker Registration Scheme</td>
</tr>
</tbody>
</table>
FOREWORD

The financial crisis and economic downturn have highlighted the importance of a well functioning and balanced housing market. With cheap lending playing a key role in a housing bubble that saw house prices soar beyond the reach of people on average earnings, we find ourselves facing difficult times ahead. Not only is homeownership increasingly out of reach for more and more people, but access to good quality affordable rented housing has also been squeezed.

Many facets of our housing markets have changed or are changing. We face much more constrained mortgage lending, a rethink of planning policy, a new approach to individual housing support, and a supply pipeline that looks set to fall significantly short of what is needed. Yet for too many people there is still an unspoken expectation that house prices will resume their upward trend. The emphasis on home ownership and a “right to buy, wrong to rent” mentality shows little signs of changing. Progress has been slow in asking the tough questions around how a more diverse tenure base might support our lifestyles and the economic development and growth that we need.

At CIH we are committed to playing our part in helping to shape our housing futures. At our annual conference we developed our Housing Pact calling for ongoing commitment to housing investment from government, in return for the sector’s continued innovation to meet the needs of individuals and deliver wider economic benefits. Our report Widening the Rental Housing Market calls for a wider range of rented housing. More recently, we have led the way in highlighting the very real concerns that exist around what are short-sighted housing benefit cuts. I was very pleased to read Oliver Kamm’s contribution to this report, which sets out clearly the need for a healthy rented housing sector, and echoes our concerns over the impact of the proposed housing benefit reforms.

This report provides a valuable resource for housing and other professionals seeking to understand and articulate the linkages between housing and the economy. Whilst its focus is on the South East of England, a market with distinct characteristics, it draws on examples from further afield and provides analysis that applies more universally.

I hope that you enjoy this report and will engage with CIH in its ongoing work, in the SE and throughout the UK. We face a challenging time as a sector with October’s Spending Review looking set to not only reduce investment in public housing but also re-shaping much of our operating environment. This report is timely in that it clearly highlights the importance of housing to our economy – a case we must continue to clearly articulate in the difficult times ahead.

Sarah Webb
CIH, Chief Executive
EXECUTIVE SUMMARY

We are operating in a dynamic, complex and competitive world that opens up both opportunities and challenges. The economic, financial and political environment has changed dramatically following what has been a severe recession indeed. The UK is not operating in isolation but within a global network that influences macro-economic activity and financial stability, as clearly seen now and during the recession. With a new coalition government set to implement radical change and new policy frameworks, it is important to assess and reposition the housing market to fit into the changed environment.

Global economies have faced many recessionary pressures; rising unemployment, scarce and expensive credit, difficulties in funding development programmes and subsequent failures within housing markets. Countries like Germany, South Africa, France and Canada with differing tenures to the UK have adopted different strategies to mitigate against housing and sustainability issues – Germany placing greater emphasis on their rental sector and implementing a range of sustainable projects.

Within the UK itself the dynamism and austerity surrounding political, financial and economic measures will have significant implications for housing, set to completely change the way the sector operates moving ahead. As spending decisions are about to be made in the Comprehensive Spending Review, the importance of investing in housing must be emphasised given the central role of the housing market within the UK economy. This study has looked at the dynamics of financial markets, linkages between housing and the macro-economic environment and the bigger role that a competitive housing market has to play in tackling both the housing and economic challenges to deliver more sustained communities.

Focusing on the budget deficit is top priority for the government and rightly so. The level of toxic debt and deficit facing the UK is unprecedented and is predicted to exceed many of the member states of the European Union. This deficit requires urgent attention yet a cautious approach in tackling it. The fiscal tightening of £128bn in the next five years to reduce the budget deficit and deflationary economic strategy adopted by the government will impose greater pressure on the economy. However, there is need to reduce expenditure, restore confidence and explore efficiency saving measures that can lead to a full economic recovery. Strategies adopted should aim to lift confidence, encourage a savings culture, boost productivity without risking the recovery of the economy or the welfare of the communities in it.

Although the changes outlined above present real challenges ahead, there are many opportunities. The housing sector needs to quickly adjust and seize existing opportunities which include; the greater flexibility in the development of local priorities including delivery of new homes, introducing and practising innovativeness, utilising existing assets to lever in investment and finally working across a range of partnerships to deliver on housing and other common goals. The housing profession now needs to exert leadership and be prepared for greater accountability, responsibility and control over what happens in the future.

A synopsis of the impact of the financial and economic pressures is provided by Oliver Kamm – economics and finance expert, leader writer and columnist for The Times. Oliver highlights the plights of a volatile economy, challenges of unstable financial markets and the potential housing problems, including the real risk that housing benefit reforms can contribute to added human misery. Oliver concludes by offering some concrete recommendations on exploring the potentials of a healthy private rented sector, and a stable and strong mortgage market as catalysts for a more sustained housing sector.

The UK housing market has suffered badly from the financial irregularities during the recession leading to: a continual pattern of demand massively outstripping supply; destabilisation of the mortgage market hence scarcity of credit; rises in repossessions; negative equity and severe reductions in housing delivery, crippling the housing market. There has been too much of an emphasis on homeownership in the UK, despite the very many challenges and hurdles that many face and will continue to face if they pursue this tenure route. It is strongly recommended that there is a greater focus on the private rented market and the opportunities that this sector can bring, particularly to the millions of young people that do not stand a chance in owning their own home for at least the next decade. In the South East of England, 71% of adults interviewed through a YouGov survey, believe their children living at home with them will not be able to afford to live within their communities. With average house prices well over average incomes, the likelihood for young people affording housing is very grim. Housing will continue to be a costly venture that
swallows up most of people’s disposable incomes, further limiting consumers’ spending capacity. The insufficient supply and unaffordability of housing in the South East has not helped as this poses significant problems for future generations and risks the region’s economic competitiveness as less people are able to afford to live and work in the area.

To add to this, the proposed housing benefit reforms will squeeze individuals’ disposable incomes and spending power. Housing benefit reforms need to be carefully planned, as major reform threatens serious political and social economic decline in the long term, severely hitting low-income households and vulnerable groups. Reductions in housing benefit in the South East could impact all 123,000 people in receipt of local housing allowance, if the reforms are implemented in 2011, potentially exposing them to greater financial inequality and homelessness.

Investing in affordable housing, be it in the private rented sector or in the social sector, is absolutely fundamental to create sustainable communities that, in turn, can contribute to the development of the economy. The simple fact is that there is an urgent need for more affordable housing of the right quantity, quality and type to match the mixed households in the UK.

Housing can, therefore, be a catalyst for sustainable economic growth through the multiple roles it plays. In supporting several vital sectors such as health, education and the labour market; by providing affordable and market housing, employment and allowing for labour and social mobility which are all fundamental drivers for economic prosperity. Local housing markets are major drivers of economic growth, providing employment, supporting vulnerable groups, creating attractive places for skilled labour and increasing investment returns from local house transactions. Housing addresses climate change issues through carbon emission reductions, retrofitting and building high-quality housing. Furthermore, house-building activity can generate tax revenue obtained through direct and indirect taxes from house building activity, suppliers and private consumption of workers.

On the other hand, housing can be an inhibitor to sustainable economic growth as disturbances within the housing market, coupled with chaos in the mortgage market, can contribute to severe financial and economic instability. The house price boom, for example, facilitated a sharp expansion of credit, resulting in the credit binge that has led to some of the inflexibilities within the housing market and the wider economy.

The South East’s competitive edge and well-developed delivery vehicles; infrastructure, a skilled labour market, greater economic resources and close proximity to major local and international business markets, have in the past sustained enormous growth rates but the recession has slowed this growth. Cities as drivers of change will have different priorities but it is important that there is a much stronger co-ordinated approach, whereby neighbouring cities work more collaboratively to address common issues. Incorporating the total place approach will be imperative to tackle deprivation that many areas still face.

The housing market needs to move away from old habits, reduce the reliance on public finance and work less in silos. The sector needs not only to rethink policy but to adopt new attitudes. It is important to consider the impact of changing demographic structures, labour market challenges and migration issues in the South East. Exploring alternative tenure structures, finance and delivery models that are better linked to the mixed communities in the UK is key moving ahead.
Although there has been some coverage around housing and its relationships with other core industries mainly the labour market, there is less emphasis on identifying the precise linkages between housing and the economy – an area that is fundamental following what has been an extremely severe recession which has changed the landscape in which professionals operate.

The aim of this report is to provide an overview of the links between housing and the economy evaluating:

• The contribution of housing to the macro-economic environment, financial and economic stability.
• The international impact of the recession on housing, identifying the main barriers hindering economic growth and creation of sustainable communities.
• Exploring the potential of housing as a catalyst for sustainable economic growth, social and environmental sustainability with examples from the South East.

The housing market has had a negative effect on macro-economic activity across the country, posing higher risks to the ‘sustainability agenda’. The previous Labour Government defined sustainable communities as those that are ‘strong, attractive, economically-thriving neighbourhoods’. This report is timely as the new coalition government looks at ways of tackling the economic deficit to ensure economic recovery and sustained growth in the country. Housing professionals are actively seeking to explore new recovery strategies and innovative ways to competitively position housing within this overarching goal.

It is now more important than ever that housing professionals understand the interactions between housing and the wider economy as greater emphasis is placed on the economic recovery and growth, sectors like housing need to explore the contribution it has to make towards this goal.

The housing sector needs to find its place within this and work on its competitive advantage at a time of significant political change and extreme public expenditure cuts. This review aims to ensure a better understanding of the linkages between housing and economy, housing’s role and offer in contributing to the wider economic agenda and creation of sustainable communities.

1.1 Research methodology

The research in this report is based on the following:

• A seminar on housing and the economy with key housing professionals and various sectors from finance and economics background.
• Experiences drawn from other international organisations and partnerships.
• Secondary research from housing journals, publications and a range of external studies.
• Feedback from housing providers.
2.1 Financial outlook in the short and long term

Financial conditions have been exceptionally volatile since the banking crisis. They are likely to remain so because of the huge uncertainties attached to the prospects for economic recovery in the UK and the other advanced industrial economies.

The response of financial markets to the near-collapse of the banking system in 2008-09 was genuinely comparable to the Great Depression of the 1930s. Stock market prices collapsed by as much as 50%. The low point was in March 2009, since then markets have made a strong recovery. The reason for the recovery is not especially complex: while the recession of 2009 was deep, it fell short of total disaster. The government and the Bank of England pumped money into the economy, and it had an effect. Economic growth returned, if uncertainly and fitfully. Financial markets have responded with collective relief.

But those remedial measures are now dominating the financial outlook, because they have left a damaging legacy. First, the annual rate of inflation is above 3%, which is well above the government’s target of 2%. Secondly, the public finances have deteriorated massively: the European Commission estimates that the UK will this year have the largest budget deficit as a proportion of GDP of any member state of the European Union. These two constraints are going to weigh on financial conditions in both the short and the long term. In addition, while the banks have returned to profit, their balance sheets are still far from purged of the bad debts they accumulated during the financial boom and bust.

These factors together suggest that financial conditions over the lifetime of the new government will be tighter than might be assumed from the current low level of interest rates. The government is pursuing a deflationary economic strategy, believing that the wide budget deficit is a threat to economic growth. If the financial markets doubt the government’s resolve to cut public spending, then long-term interest rates may rise sharply – the only reason that they have not done so yet is that investors believe that those spending cuts will indeed be made. Moreover, the persistence of inflationary pressures may also push up long-term interest rates. Food and energy price inflation is stubbornly keeping consumer price inflation well above the target level. Finally, the banks have barely begun to replenish their capital reserves, without which they will not be able to resume lending in any volume.

For all of these reasons, financial market returns are likely to be subdued over the medium term. The monetary authorities and the government have injected huge sums of liquidity into the market, and if they maintain that stance then there will be serious consequences: in the currency markets and the bond markets. Any slippage in the government’s plans to reduce the deficit will put downward pressure on sterling and push up long-term interest rates. And the risk with keeping interest rates at almost zero is that it will spark inflation before it stimulates economic growth. The Bank of England will then have the difficult task of deciding whether to concentrate on getting inflation back to below the target level or allowing it to accelerate. If it does not act, then it will increase the pressure on sterling; but if it mops up the excess liquidity in the system by selling in the marketplace some of the debt it has accumulated under the Quantitative Easing programme, then it might also risk a sell-off in the bond market. If bond prices fall, then asset management firms may suddenly find their investment returns under pressure and their balance sheets deteriorating. In short, one of the few parts of the financial system that was not in danger of collapse in 2009 – the big fund management firms – may be the victim of the remedial measures taken to deal with that crisis.
2.1.1 Investments and asset management strategies in the future

Investment returns are likely to be much more subdued on a two- to three-year view than they have been in the aftermath of the banking crisis. Equity returns will suffer from the deflationary impact of cuts in public spending and the likelihood that these will restrict the pace of economic growth. Bond markets and the pound will be under pressure from the inflation that very easy monetary policy has unleashed. The banks are most unlikely to resume lending in any volume while their balance sheets retain assets whose value is impossible to ascertain and while regulatory change will almost certainly impose higher capital requirements on them.

The likely impact on asset management strategies is to make them quite cautious even though money market returns at the moment are so low. Banks’ risk models were plainly deeply flawed during the crisis: the banks had precious little idea of the real risks they were taking on by investing in securitised instruments. These complex products were supposed to diversify risk away, but in fact attacked as contagion on the financial system. The risk models that the banks used – especially Value at Risk – relied on historic returns. Because exceptional events were by design not included in the estimates, they were of no guide in the financial crisis.

Institutional investors by and large use the same risk models or at least others that also rely on historic returns data. Given the failure of these models, there is likely to be unusual caution in asset managers’ investment strategies – and this too will restrict the investment returns that they earn.

In summary, the financial environment will be tight for some time to come.

2.2 Impact of the financial turmoil and housing

The housing sector is a central part of the recent story of financial turmoil in the UK economy. It will remain so. The main reason is that, for most people, housing is not only a place to live but also their only leveraged investment. The collapse of the US sub-prime mortgage market was only a symptom of the financial crisis. The cause was an explosion of credit, in the UK as well as the US, which was engineered by the banks. They assumed that low interest rates, subdued inflation and the development of complex derivative products had reduced the risks of lending. Moreover, they reasoned that the rise of house prices would increase the value of the collateral for mortgage loans.

That assessment was mistaken and the UK economy became distorted by several linked factors. These were the stress on investment in property rather than in financial assets, the dominance of the financial services sector in the economy of the South East, and the dominance of London’s regional economy. Those characteristics have prolonged the UK recession, and housing in particular will be central to the longer-term sustainability of economic recovery.

In retrospect, it is clear that the housing sector has seen a prolonged bubble and that this was a large explanatory factor in the economic boom of the early years of this decade. From 1995 to 2007, average house prices increased in a way unknown in recent British history: they doubled from 4.5 times average annual earnings to nine times. For most of the post-war period – excepting a brief spike in 1971-73 and again in the late 1980s – housing as an asset has not beaten shares or indeed working for a living, once you have adjusted for the effects of inflation.

Unfortunately, the bubble in house prices in this decade, while not being the direct cause of the financial crisis, did contribute to economic stresses in the sense that it supported a huge expansion of credit. If house prices were seen as a one-way bet, then credit quality was treated by the banks as much less important than it really was.

The peculiarity of the UK economy currently is that there has not really been a fall in house prices, as there has been in Ireland and Spain (to take two economies that also saw bubbles in house prices). This means that a necessary adjustment has yet to take place. The housing sector is quite vulnerable to a correction in prices if the economy is weak over the medium term; there will be stresses (negative equity) if that correction comes. But if there is no correction, and merely a long period of real stagnation in house prices, then that will also pose economic difficulties, by ensuring that the labour market remains less flexible than it might be. The credit binge that took place in recent years means that the financial system and the wider economy are not now well equipped to deal with the needs of the housing sector, and people’s need for mortgage finance. Essentially there are two scenarios:
1. **House prices remain a large multiple of average earnings**, while credit conditions remain tight. In this case, young workers will struggle to buy their own homes, and may retreat to the familial home – thereby consuming the capital of retired workers. If they rent or do manage to obtain mortgage finance, the substantial commitment that this will represent as a proportion of disposable income will act as a drag on consumption for a long time.

2. **House prices fall substantially**, because housing is such a large part of household net assets, this may well have a ‘wealth effect’ on personal consumption, ie households will cut back on spending even if they are not in negative equity, because they feel less well off.

In either case, the structure of the UK economy and the centrality of the housing market to it represent a threat to sustainable growth. The risk of a double-dip recession is not all that high, but there is a strong likelihood that the economic journey will be bumpy, in part because of the role of the housing sector.

Household debt is high because homeowners have in effect borrowed against the equity in their houses. This means that tax rises – which will have to come eventually – are not the government’s main tool of choice in reducing the budget deficit. Instead, the burden of deficit reduction will be borne by cuts in public spending, in case personal consumption is squeezed once more. Expansion will have to be supported by monetary policy – but, as discussed above, that runs the risk of higher inflation without having much of an effect on real economic growth. At some point, the Bank of England will be faced with the unpalatable task of raising interest rates in order to curb those inflationary pressures and support the currency. That is the point at which there is greatest risk that the long housing bubble will finally unwind, with damaging consequences for consumer spending.

The biggest risk to the UK economy in these circumstances is that consumer and business confidence might never pick up enough to sustain growth. Consumers will constrain their spending and businesses will not invest, even with interest rates that are close to zero. Easy monetary policy by the Bank of England would be ineffective in stimulating growth but would be reflected in higher inflation.

### 2.3 The housing sector in future – some recommendations

There are a number of ways in which professionals in the housing sector can try to head off the risks of this scenario. Housing is so important to the UK’s economic prospects and to social welfare that government needs to think hard about housing policy and listen to expert opinion within the sector. If some reforms are made, then housing could be a lubricant for economic recovery rather than a threat to it.

**Healthy rented sector as a catalyst**

Most important, there needs to be encouragement for a healthy rental sector. The stress on owner-occupation in Britain has economic costs, in diverting investment away from real assets (the equity and debt of companies that make things or provide services) towards speculation on property. It also makes the labour market inflexible. Workers are deterred from travelling further from home – or moving home – to find jobs that they are best suited to. That means that labour productivity is less than it might be, which in turn means that wages and salaries are lower, and hence consumption is lower. Because moving house is expensive in the absence of a large rental sector, then the economy is particularly vulnerable if there is a downturn in economic activity. That is precisely the risk of the UK economy at the moment.

To increase the attractiveness of renting, housing professionals might consider lobbying the government to eliminate the favourable tax treatment on housing relative to other assets. It could be balanced by eliminating stamp duty on house purchases.

**Strong mortgage market to encourage investment activity**

Moreover, the peculiar structure of mortgage finance in the UK means that investment in housing is more risky than it need be. Mortgage borrowing at variable rates is in effect a bet on future market movements, and done with borrowed money. That means that the effect of house price fluctuations is amplified rather than damped down. A greater availability of long-term fixed-rate mortgages, as are common in the US, would increase the attractiveness of housing investment while making it a less speculative activity – because investors could be more certain of their outgoings over a long period.

Further, the speculative character of the housing market could be reduced by making an agreement to buy a property a legally-binding contract. The practice of being open to other bids even while a property is under offer gives impetus to the speculative craze of pushing up house prices in the hope of making a quick profit.
2.4 Fundamental reforms – housing benefit changes and risks

Finally, the issue of reform of housing benefit threatens to be a serious political as well as economic problem. In his budget in June, George Osborne, the Chancellor, said that housing benefit cost the Exchequer £21bn a year, having risen by 50% over the past decade. The government proposes to curb those levels of support by £1.8bn a year to the end of the Parliament, by capping housing benefit. The problem is that it may well have far-reaching unintended effects, increasing homelessness by pushing people into bed and breakfast accommodation.

Breaking the link between benefit allowance and rent rises, by using consumer price inflation as a measure for future uprating, will put areas of the South East and especially London out of reach of low-income households. Housing professionals have an important role here in pointing out that, while there should be incentives for people to get back into the labour market and the budget deficit does need tackling, this will be a punitive measure unless the government reforms the housing market in other ways. As the issues stands now, the measure has the potential to increase human misery while not improving the flexibility of the labour market and hence the growth rates of the economy.
The housing sector finds itself in interesting and challenging times, continuing to grapple with the complexities of today’s volatile economic environment, welcoming a new Conservative-Liberal Democrat coalition government which has set out an ambitious vision for Britain’s future. The government has stated, ‘It is our ambition to distribute power and opportunity to people rather than hoarding authority within government. That way, we can build the free, fair and responsible society we want to see.’

The coalition government has established localism as a clear priority – devolving power and promoting greater empowerment, responsibility and control to local councils, communities, neighbourhoods and individuals. A shift in policy from the previous government’s top-down approach, increasing local decision making and accountability creating a society that is based on freedom, fairness and responsibility.

The government vision to transform Britain into the ‘Big Society’ creating greater opportunities and empowerment for citizens and allowing voluntary groups, entrepreneurs and community groups to run a number of services including setting up schools, post offices, libraries, transport services and shaping housing projects. It is difficult to predict how this will progress in practice given the levels of public spending cuts and budgets constraints moving forward.

The economic recovery and deficit reduction will be the focus of the government to ensure a more balanced and stronger economy. The 2009 budget clearly set out the need to restrict public sector expenditure which in 2008-09 accounted for just over £620,000bn. The previous government announced deficit reduction package of up to £73bn by the year 2014-15. Reducing the expenditure and borrowing, has been brought forward by the coalition government.

The government has adopted a more rigorous fiscal tightening strategy, further reducing the deficit by an additional £40bn by 2014-15. The majority of the cuts will come from spending cuts (£32bn) and the rest from taxes (£8bn). A further £15bn is expected to be reduced by 2015-16, in total a massive deficit reduction programme of £128bn in five years. The coalition intends to protect budgets in health services and overseas aid but for non-protected departments, a significant 25% cuts over five years is expected.

The IMF and OBR as external and independent examiners indicate that steady growth is expected in advanced economies like the UK and stronger growth in emerging markets like China. Although these projections are positive, caution should be taken towards the potential risks; continuing volatility within the financial and housing markets, threats to confidence and consumer expenditure as the possibility of a double-dip recession looms. The government will need to be proactive in devising policies that allow greater efficiency and flexibility given the limited level of government expenditure to follow.

---

2 ibid
3.1 Impact of monetary and fiscal policy

Fiscal and monetary policy moving forward will shape the momentum of other policy frameworks that will be developed. The International Monetary Fund (IMF) and other leading economic projectors including the newly established Office for Budget Responsibility (OBR) predict a steady economic recovery but if there is a double-dip recession, this will further hinder economic recovery. The level of the UK’s public debt and fragile state of the economic recovery to date has given rise to much debate over the extent and timing of public sector cuts. The government’s fiscal policy and monetary policy will have a critical impact on the future of sectors such as housing, which has been a recipient of public investment.

The level of uncertainty will continue as government explores ways of managing high debt level and at the same time look to ensure a smooth transition into economic recovery and growth. The OBR acknowledges that the emergency budget presents possibilities of a double-dip recession but also emphasises the likelihood of a stronger recovery. The OBR will not have a direct impact on housing policy but will be an influential player in projecting public expenditure plans which will have implications for most sectors.

3.2 Housing policy initiatives

Housing policy initiatives that have been announced by government to date are centred around greater access to homeownership and empowerment of local councils and communities. The devolvement of power will be brought in by the Decentralisation and Localism Bill giving councils greater powers, abolishing the Regional Spatial Strategies (RSS), replacing Regional Development Agencies (RDAs) with Local Enterprise Partnerships (LEPs) and allowing for the creation of Local Housing Trusts (LHTs) for the delivery of new homes.

Through the localism agenda, local authorities and communities will have greater powers to influence housing and planning, increasing housing supply through the trusts which will be supported by the National Community Land Trust Network set up to aid and simplify the process for communities wishing to deliver new affordable homes to local people. The forthcoming White Paper on Economic Growth will be critical in outlining the vision of councils and businesses expected to form strong LEPs to co-ordinate public and private investment in transport, housing, skills, regeneration and other areas of economic development. It is envisaged that LEPs will create an opportunity to drive further sustainable economic growth.

Radical change to the planning system will see the removal of the Infrastructure Planning Commission and allow for the set up of a consolidated national planning framework that will outline economic, environmental and social priorities. A number of other reforms will be pertinent to the sector particularly the welfare reform which includes major changes to housing benefit and local housing allowance which will undoubtedly impact on tenants and providers in a number of ways. A brief outline of some of the implications for the South East is provided in chapter 7.

3.3 Housing policy – challenges and opportunities for the South East

The South East is challenged by shortfalls in affordable housing, widening gaps in affordability, high levels of overcrowding, numerous housing delivery barriers and an ever-growing waiting list. A YouGov survey commissioned by the Chartered Institute of Housing (CIH) highlighted that 70% of children in the South East are priced out of their communities, reiterating the severe inability to afford housing in the South East. The survey revealed a number of pressing concerns:

- In the South East 23% of respondents agreed that they were opposed to new homes being built in their area, higher than the overall figure for the UK of 15%.
- Opposition is more where there are higher proportions of people owning their homes outright (28% compared to a 26% average).
- In addition, 20% of retired people and 22% of those who owned their home outright nationally said that they were opposed to new housing being built in their area.

---

6 Chartered Institute of Housing, Briefing Paper on the impact of changes to Housing Benefit and Local Housing Allowance in the budget, July 2010

7 YouGov Online Survey on people’s views and experience of housing. Total sample size was 2307 adults. Fieldwork was undertaken between 25-27 May 2010. The survey was carried out online and can be (accessed online at http://www.cih.org/events/conferences/harrogate2010/CIH-YouGov2010-analysis-charts.pdf 23 July 2010)
In several areas of the South East, there is desperate need for more affordable housing delivered at a faster rate than has been previously. Delivery of housing and necessary infrastructure has fallen dramatically with the economic downturn. There is need for a co-ordinated approach in the delivery of housing and adequate infrastructure so that there is the right balance of housing in local areas. The right mix of housing is crucial to meet the varying needs of changing households and market conditions. Exploring new delivery and funding methods along with a range of tenure options will be essential if the South East is to continue to provide the required affordable homes. The new government brings with it new policies and opportunities intended to exploit new ways of delivering housing that is better linked to local people’s needs. Devolving power to local authorities and communities presents real opportunity for focusing on local priorities.

Proposed changes to the Housing Revenue Account (HRA) aim to equip councils with more flexibility and opportunity to self finance and have greater ability to effectively manage their assets. Reforms to the HRA could provide chances for councils to lever in private investment, and contributes to general debt savings of up to £3.5bn. Discussions around rents, tenure mix and social mobility linked to the welfare agenda will be subjects of debate as we look to provide communities better access to jobs, less reliance on benefits and encourage efficiency and productivity through greater flexibility within the structures.

There are still concerns over local authorities’ strategic role, capacity, skills base and resources available to enable them to take on this increased responsibility. The leadership of authorities, robust asset management systems and the ability to balance efficiencies and at the same time to draw in additional investment will test and challenge the sector in the future.

---

8 Pawson, H and Wilcox, S, UK Housing Review 2010 briefing Paper, Chartered Institute of Housing
4.1 Recessionary pressures

The onset of what has been described as the ‘longest and deepest recession’ to hit post-war Britain stems from the collapse of the subprime mortgage market in the US, the poor lending policies and the mismanagement of financial markets triggering a global meltdown with profound impacts for world economies across the globe. Impacts from failures in the US banking sectors filtered swiftly into other nations with severe repercussions at local, regional and national level.

It is fair to say that most countries did not foresee the degree of impact that the recession would have both at national and international level, signalling global weaknesses on the ability to risk manage and provide rigorous early detection systems, sound financial regulatory and management systems that might have otherwise enabled countries to cope better with the effects of the economic downturn. The kind of problems experienced varies in each country and these cannot be covered in-depth in this report but a brief overview of some experiences in a number of countries is given in section 4.2 and in Appendix 1A/B.

The collapse of the financial markets and the consequential credit squeeze that followed this clearly affected the housing market, showing the vulnerability of the sector to changes within the financial system. Sir James Crosby reports on the mortgage market pointed out the liquidity issues and disruption in the financial markets. This led to lenders less willing to take on increased risk as they faced higher funding costs for mortgages meanwhile borrowers struggled with limited mortgage products.

The scarcity of credit meant falls in the number of mortgage approvals and drops in house price inflation as house sales decreased. Fundamentally bankers have been unable to lend as much as previously as they needed to pay back investors through residential mortgage-backed securities which were worth a staggering £257bn in 2007 accounting for about a fifth of the value of the British economy at the time. Sir James Crosby predicted that the price of new mortgages will continue to rise up until 2010. Affordability of mortgage products for many potential homebuyers has continued to be a real challenge, evidence showing that the average age for a first time buyer is now 31 with 80% receiving help from parents and grandparents.

The financial sector has benefited from the previous government’s interventions at a macro level but housing interventions have been at a fairly smaller scale: support through mortgage rescue packages; increased funding for social housing building; and support for homeownership products. Although these interventions have helped, long-term strategic solutions have been limited and some solutions have not necessarily come through Government but through the innovation and creativity within the housing sector. Housing providers have continued to work with partners tailoring services to provide more effective and efficient ways of addressing the issues.

---

9  BBC Live News, 27 January 2010
10 List of UK recessions available at http://en.wikipedia.org/wiki/List_of_recessions_in_the_United_Kingdom
As the economy continues to face a degree of uncertainty, it is even more important now to understand the factors that can contribute to strengthening the economy, in this context, housing elements that can play a part in developing the economy further. The slowdown of housing development for instance needs to be addressed by encouraging innovative delivery methods and gauging community support to deliver homes that are required to support a growing economy.

4.1.1 Recessions and economic growth
The recession affected all sectors but more apparent in the financial, housing and labour markets; the construction sector shrinking to record levels. The pressure of the economic downturn has limited economic growth, in the UK annual real growth falling from 2.8% in 2004 to 0.7% in 2008. GDP growth has been hindered by fluctuations in a number of macro-economic indicators; employment and productivity levels, changes in inflation, interest rates (Graph B) which are key fundamentals that influence the level of economic growth.

In comparison to previous years, the impact on unemployment was at a larger scale in the recession of the 1990s but during this recession, the impact is greater on GDP and productivity both of which have slowed in a number of key industries.

Graph A shows the decline of GDP and unemployment in this recession has not been as severe as in previous recessions of the 80s when unemployment and GDP fell to record levels, with GDP falls having a greater effect on jobs. The recession of the 1980s was driven by a shift in monetary policy to reduce inflation. Industries that slumped included the housing, manufacturing, steel and automobile production. Housing market instability has been a clear indicator of disturbances in the economy, extremely volatile and susceptible to recessions. Economic indicators in Graph B are declining in 2008 as the credit crunch hit, with lowered interest rates aimed at balancing out the economy.

**Figure 1: Key economic indicators**

**Graph A – GDP and unemployment**

**Graph B – Economic indicators**

Source: Graph A – Communities and Local Government and Graph B – East Sussex figures

14 Chivunga, M, *Impact of the credit crunch for the South East housing market* (CIH), January 2009
There will be spatial differences in the degree of impact on economic growth as regions’ responsiveness to the recession has been mixed across the country. Income and wealth distribution will inevitably continue to be driven by the successes and challenges of places in terms of overall economic growth. The levels of unemployment have been higher in industrial areas such as the West Midlands, North East and South Wales meanwhile places in the South East have experienced falls in productivity terms.

4.1.2 The rising debt crisis

The recession’s negative impact on consumer and business confidence, expenditure and borrowing has created considerable turmoil in the markets. Steve Wilcox, author of UK Housing Review, explains that the impact of the recession even with government intervention measures have resulted in higher levels of government borrowing and debt. Wilcox highlights that the UK’s levels of debt by 2013 may well exceed the stipulated EU average but may remain below other European countries.

Figure 2: Public sector debt and its cost

The rising government debt as indicated in the graph above has implications for future financing options as higher debt levels and costs of servicing these debts will certainly impact on the future expenditure programmes, influencing the Comprehensive Spending Review, which impacts on levels of funding available for housing. As a percentage of GDP, debt levels in the UK exceed a number of countries including Germany, Netherlands and Sweden but are far from those that have been experienced by the catastrophe in Greece. The degree of debt has spiralled and financial pressures will continue as the government juggles inflation and interest rates, details of which is highlighted in Oliver Kamm’s financial outlook in chapter 2.

4.2 The international impact of the recession on housing

The sector is now operating in a highly-globalised world, with new opportunities and challenges from international trade and business linkages which brings in foreign investment and growth to local economies. The shifts in international policy and the strengthening of trade opportunities from emerging and growing economies like China, India and Brazil will have increased impact on global economic activity.

Practice Example: Stable economic and political structures – Brazil

Brazil has moved away from high levels of inflation and reduced interest rates, benefiting from significant economic growth, predicted to grow by up to 8% this year. Brazil faced a short recession, one of the first to come out of it. The country continues to benefit from low unemployment, manageable debt levels and banks with significant capital. The political and economic stability has helped to tackle poverty, improve education, facilitate stronger financial markets, improve infrastructure in energy, housing and social assets. Although Brazil will continue to have its internal problems and structural disadvantages, it certainly has made a mark on the world and improved its global competitiveness.

16 OECD, Economic Outlook Database
17 Financial Times, The New Brazil, June 29, 2010
International investment into the UK residential property market has been key in boosting growth within the housing market and contributing a small proportion to GDP. This small proportion has significantly reduced following the recession due to market inactivity, high uncertainty, financial instability and an increase in risk-averse foreign investors. Development of residential property has slowed down, particularly private sector development which collapsed with many projects seriously hindered by the credit squeeze. Increased demand for housing has been linked to shifts in the allocation of resources from traditional consumer goods to increased investments in housing which is perceived to be a valuable asset that adds wealth. The wealth effect that housing has drives up demand and competitiveness within housing markets.

Globalisation plays a critical role in the future prospects of international markets, as we have evidently seen with the impacts of the recession. As countries look to build up their economies, it is important to monitor and benchmark with similar countries, pick up some lessons and put into context wider repercussions that global market activity can have.

4.3 Global housing market structures and the recession

To get a broad overview of the impact that the recession has had, the following section provides an insight into housing in other countries. The findings within this section are based on research conducted by calfordseaden LLP, summarised in Appendix 1B and Table 1 below. The majority of the countries used in the report were selected based on their well-developed social housing infrastructure that allowed for easier comparison with the UK. It must be emphasised that the selection is not exhaustive and it does not mean that developing countries without such infrastructures are less important but that the challenges facing them are of another magnitude and beyond the scope of this analysis.

GDP is unsurprisingly much higher in the US while major European countries including the UK, Germany and France show closer levels of growth. With the weak banking legislative systems, the US banking sector failures led to a crisis that crashed the housing sector in the US. The US saw significant levels of foreclosures (repossessions) and reduced uptake of credit.

There are differences in the density and housing tenure structures, with most of Europe dominated by an owner-occupied market. Austria, Denmark, France and the UK have strong social housing sectors. Germany has seen a significant reduction in social housing but has seen a rise in private rental housing. There is little investment directed towards social housing through the German Federal system and developers have struggled to get loans during the recession.

Demark and France, like the UK, have struggled to build social housing – subsidies have been limited and emphasis has been placed on pre-recession programmes and refurbishing existing stock. The recession has had less negative impact on housing in Belgium and Austria. The former has secured funds delivered through a set five-year programme while the latter has invested in increased spending on housing renewal despite difficulties with obtaining loans. The Republic of Ireland’s housing pressures are similar to those experienced in the UK; limited supply and high levels of demand with over 56,000 households on the waiting list in 2009. In Canada, the crisis minimised capital improvements to public housing however also positively reduced the construction costs of some developments.

The UK has more people per square mile than the more populous Germany but then Belgium, which has an even smaller population, has more people per square mile. The design of properties in many countries is driven by population structures, important determinants of size and density of property built. See Table 1 on the next page.

The majority of European countries have over 20 million dwellings, the US with over 129 million dwellings. Despite the differences in each country’s political and economic structures, most of the countries have suffered similar housing pressures to the UK, issues exacerbated by the challenges of the recession. Most countries have experienced significant pressures around unemployment, credit and liquidity flows, funding and investment, development capacity and difficulties in programme delivery. A number of common issues reported by respondents from the various countries that contributed to the Calford Seaden report included:

---

18 OECD, *A Bird’s Eye View of OECD Housing Markets*, 2010
19 Calford Seaden, *The International Impact of the Financial Crisis on Social Housing*, 2009
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>£2.67 trillion</td>
<td>61,612,300</td>
<td>61,612,300</td>
<td>61,612,300</td>
<td>246/km²</td>
</tr>
<tr>
<td>Canada</td>
<td>£1.5 trillion</td>
<td>33,640,000</td>
<td>33,640,000</td>
<td>33,640,000</td>
<td>2/km²</td>
</tr>
<tr>
<td>USA</td>
<td>£14.6 trillion</td>
<td>306,367,000</td>
<td>306,367,000</td>
<td>306,367,000</td>
<td>31/km²</td>
</tr>
<tr>
<td>Austria</td>
<td>€44 billion</td>
<td>8,316,487</td>
<td>8,316,487</td>
<td>8,316,487</td>
<td>99/km²</td>
</tr>
<tr>
<td>Belgium</td>
<td>£504 billion</td>
<td>10,666,866</td>
<td>10,666,866</td>
<td>10,666,866</td>
<td>26/km²</td>
</tr>
<tr>
<td>Denmark</td>
<td>£341 billion</td>
<td>5,511,451</td>
<td>5,511,451</td>
<td>5,511,451</td>
<td>128/km²</td>
</tr>
<tr>
<td>France</td>
<td>£2.86 trillion</td>
<td>65,073,482</td>
<td>65,073,482</td>
<td>65,073,482</td>
<td>115/km²</td>
</tr>
<tr>
<td>Germany</td>
<td>£3.65 trillion</td>
<td>82,060,000</td>
<td>82,060,000</td>
<td>82,060,000</td>
<td>23/km²</td>
</tr>
<tr>
<td>Ireland</td>
<td>£268 billion</td>
<td>4,234,925</td>
<td>4,234,925</td>
<td>4,234,925</td>
<td>312/km²</td>
</tr>
<tr>
<td>South Africa</td>
<td>£277 billion</td>
<td>47,900,000</td>
<td>47,900,000</td>
<td>47,900,000</td>
<td>60/km²</td>
</tr>
</tbody>
</table>

Source: Calford Seaden Social Housing Report and GDP figures from World Bank – World Development Indicators

Notes:
- South Africa: 2008 est £277 billion (55% of GDP), population 47,900,000; population mainly made up of owner occupied and rented accommodation.
- France: one of the largest housing stocks with a very large second homes market which has shrunk following the crisis.
- South Africa:按照二房制度的住房市场，即出售的房屋。

Table 1: Economic indicators – global markets

<table>
<thead>
<tr>
<th>Country</th>
<th>Housing stock</th>
<th>Owner-Occupied %</th>
<th>Rental %</th>
<th>Social Rental %</th>
<th>Other %</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>125,309 social housing units (2006)</td>
<td>60%</td>
<td>40%</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>UK</td>
<td>26,000,000</td>
<td>69%</td>
<td>10%</td>
<td>21%</td>
<td>0%</td>
</tr>
<tr>
<td>Canada</td>
<td>12,437,470</td>
<td>69%</td>
<td>31%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>USA</td>
<td>129,386,000</td>
<td>58%</td>
<td>28%</td>
<td>19%</td>
<td>0%</td>
</tr>
<tr>
<td>Austria</td>
<td>4,820,000</td>
<td>68%</td>
<td>23%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Belgium</td>
<td>2,650,000</td>
<td>56%</td>
<td>25%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Denmark</td>
<td>29,495,000</td>
<td>53%</td>
<td>25%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>France</td>
<td>39,000,000</td>
<td>43%</td>
<td>51%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Germany</td>
<td>125,509 social housing units</td>
<td>80%</td>
<td>10%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Calford Seaden Social Housing Report and GDP figures from World Bank – World Development Indicators

Notes:
- South Africa: 2008 est £277 billion (55% of GDP), population 47,900,000; population mainly made up of owner occupied and rented accommodation.
- France: one of the largest housing stocks with a very large second homes market which has shrunk following the crisis.
- South Africa:按照二房制度的住房市场，即出售的房屋。
1. **Rising unemployment**
   The shared concern of rising unemployment is obviously no surprise. While the construction industry bore the immediate brunt of the downturn, both heavy and light industries, retail and the service sector are now suffering the consequences not just of the financial crisis but of the recession caused by that crisis. With a globalised economy even those countries which, through more prudent debt management (eg Canada and South Africa) escaped the worst of the immediate impact of the financial crisis suffered and continue to deal with the consequences.

2. **Credit availability**
   Many governments of the represented countries have pumped vast amounts of money into their banks and while respondents agree that this has so far averted the cataclysm of them failing, many add the complaint that the funding is still not working its way through the system to ease the credit squeeze. Similarly, the action of national banks to reduce their base rate has still not yet been reflected in significantly lower rates for borrowers, though there are now encouraging signs of the credit squeeze loosening. For those countries (primarily the UK and the US) which have, for a decade or more, allowed easy access to credit in general and for mortgages in particular, the problems of repossessions and subsequent homelessness had a bigger impact. Countries such as Canada and South Africa, which have had much tighter credit controls, were far better placed to manage this aspect of the crisis.

3. **Refurbishment of existing stock**
   All respondents with older and often dilapidated social housing stock argue for a government-funded refurbishment programme, citing the ancillary benefits of creating jobs in construction and long-term environmental benefits. The time it takes for these initiatives to go from intent to full implementation continues to be the subject of widespread criticism.

4. **Secured funding**
   Social housing providers in countries operating through longer-term funding are, not surprisingly, more positive. However, even in the UK, there remain concerns of what will happen once the funding already in place runs out.

5. **Approval of government response**
   A few participants express satisfaction with government action to date, though in some cases this is not so much praise, but rather a wry comment on the fact that as there was so little help with social housing before the financial crisis, the crisis has had little impact – as in Germany.
   
   Some are severely critical while the most typical response is agreement with what has been proposed and disappointment with the speed with which it is being done. In those countries whose governments (particularly the UK and the US) have stepped in to rescue banks, the speed with which that was done contrasts dramatically and unfavourably with the time it is taking for other measures to kick in. For example, the UK’s mortgage rescue scheme suffered in implementation.

6. **The green solution**
   From the outset of the crisis, the green lobby recognised the potential of channelling government aid into environmental improvements to housing – any such funding would provide the double benefit of reducing energy consumption and reversing unemployment in the construction industry. This opportunity, often expressed as part of a refurbishment programme for social and private housing stock, is picked up by many of the contributors. The US has announced a scheme along these lines and of significant magnitude. As part of the $789bn American Recovery and Reinvestment Act, $5bn will be spent on energy efficiency improvements for over one million lower-income homes and a further $6.3bn on similar improvements for social housing.

### 4.4 The impact of the recession on housing in the UK

#### 4.4.1 The housing boom pre-recession
   The UK over the last decade has enjoyed a buoyant housing market supported by a range of mortgage products, low borrowing costs and interest rates, competitive house prices and increasing demand. Stable macro-economic activity impacts positively on Gross Domestic Product (GDP) growth; with the availability of credit, low interest rates and inflation proving favourable to the UK economy during the boom days. British households took advantage of this by...
increasing consumption, purchasing property to build up their assets and equity. Following the credit crunch, the housing market in the UK suffered significantly as the chaos led to knocks in confidence, severe reduction in credit, drops in house values, housing delivery and a significant rise in arrears and repossessions.\textsuperscript{20}

4.4.2 House price inflation and the credit crunch

House price inflation and booming sales of property together with the stable economic environment attracted investors to the UK housing market. The recession changed this as problems with mortgage finance trickled through and less liquidity meant disposable incomes for consumers and businesses fell, affecting consumption and demand.

One of the most visible symptoms of the credit crunch was the drop in housing prices after peaking in 2007 as the graph below indicates. Up until 2007 house prices increased dramatically, providing homeowners with large housing equity shares but equally making housing unaffordable\textsuperscript{21} for those without property or assets.

There are a number of reasons for the increase in house prices, fundamentally driven by a stable economy with favourable macro-economic drivers, readily available credit and rising speculative demand for homeownership as house values increased. Barbara Compton, Head of Housing at Southampton City Council comments, ‘There is a speculative demand that depends upon expectations of future changes in house prices. As housing comprises a large proportion of household wealth, changes in house prices affect wealth, and thus aggregate consumption.’

The levels of personal disposable income, ability to borrow finance and the changing demographic factors\textsuperscript{22} explained in later chapters have been and will continue to be important determinants of ability for many to pursue homeownership. Homeownership in the UK has been a national obsession and is perceived to be a major, relatively secure source of wealth that contributes to an individual’s sense of fulfilment and achievement.

Figure 3: House price inflation

![House price inflation graph](source: Nationwide Building Society)

Homeowners on variable mortgages have benefited from paying lower rates as interest rates fell. On the other hand, owners on fixed-rate mortgages did feel more strained as some struggled to keep up with repayments. The recession has not only affected house prices but has limited the level of investment programmes, supply and regeneration work which has been beneficial in helping to rejuvenate neighbourhoods as evidenced through the housing market pathfinders market renewal projects. The work carried out is mainly in disadvantaged communities with many deprived people, some exposed to significant levels of poverty within households unsure about their future prospects.

The disturbances within the housing market can cause greater divide amongst households as the increase in equity and housing assets can impact negatively on those that lack these assets creating a bigger vacuum that encourages a platform for increases in social inequalities including poverty, crime, anti-social behaviour and deprivation.

\textsuperscript{20} Stephens, M and Quilgars, D, \textit{Managing arrears and possessions}, CML, 2007
\textsuperscript{21} National Housing and Planning Advice Unit, \textit{Affordability still matters}, July 2008
4.4.3 Impact on regional markets

Until the economic downturn, UK regional markets benefited from the housing boom with prices soaring to record levels, continuously rising from investment and growth in the property markets, and increasing the competitiveness of a number of areas. With the end of the housing boom and the credit crisis, house prices fell to substantially lower levels across the UK, increasing negative equity as values of homes fell. There have been some negative repercussions from rising house prices especially in terms of affordability. High house prices have exceeded average incomes in many regions, stretching first time buyers unable to purchase homes with limited access to credit and mortgages.

House price inflation\(^{23}\) has also added more pressure on households dealing with higher housing costs,\(^{24}\) arrears and in some cases loss of homes altogether through repossessions.\(^{25}\) This leads to higher levels of homelessness, a cycle that impacts negatively on other agendas, increasing demand for social housing as evidently shown in the rising waiting lists for affordable housing.\(^{26}\) The level of impact varies across regions, but the South East, South West and London continue to battle with greater unaffordability and low housing supply issues.

Although the housing market and the economy have shown some signs of stabilisation with steady GDP growth, slow increase in house prices, more mortgage activity and a steady flow of housing developments, it is too early to assume that we are in full recovery. Fundamental factors like limitations in finances, changes in political priorities (quicker and deeper public sector cuts to address the deficit) and reforms within the housing sector itself will make for a challenging recovery. Housing is central to people’s prospects to develop in the future and it is important to overcome risks to this. In terms of housing’s contribution to the recovery, a number of core challenges exist:

- The fiscal environment and new government policy moving forward, mainly the localism agenda and greater leadership role that is expected from the sector.
- Undersupply of housing resulting in worsening affordability, rising waiting lists and overcrowding.\(^{27}\)
- Challenging financial climate, likely to remain subdued, impacting on confidence and consumption levels.
- Difficulties in the mortgage market; scarcity of credit, tightened lending criteria and reduced product mix will affect affordability and overall market competitiveness, making for harder choices for potential first time buyers.
- Reduced housing development and stalled regeneration schemes as limitations in grant levels, cuts in public expenditure, planning issues and other delivery barriers pose risks to viability and further development.
- Higher housing costs; benefit reform and risks of increased arrears, homelessness and poverty.
- Changes in demographic makeup of neighbourhoods; meeting the needs of vulnerable, older people and an increasingly diverse range of people.
- Shortage of skills, lack of affordable homes and other labour-related factors that could risk social mobility and economic growth.
- Significant risk to capacity and productivity as the skills base changes, with insufficient levels of jobs, reduced investment required for training and development of youth for the future.
- Spatial imbalance and negative implications for deprived areas with heavy reliance on public finances, increased inequalities and social deprivation.
- Global challenges including climate change and poverty, particularly child poverty and how this impinges on delivering sustainable communities.

4.5 Dynamics of demand and supply

The linkages between housing and the economy are not easily identifiable due to the complexities of both demand and supply. In economic terms housing as a product presents its own complexities that conventional products do not\(^{28}\) but it is considered to hold significant wealth. The inelastic nature of housing, particularly the slow

\[^{23}\text{Nationwide}\text{http://www.nationwide.co.uk/hip/downloads/UK\_house\_prices\_adjusted\_for\_inflation.xls}\text{also see Wilcox, S, UK Housing Review 2009/2010, CIH, 2010}\]
\[^{24}\text{Reynolds, L, Breaking Point: How unaffordable housing is pushing us to the limit, Shelter, 2008}\]
\[^{25}\text{Council of Mortgage Lenders (CML), mortgage repossessions data-www.cml.org.uk/cml/statistics}\]
\[^{26}\text{Chartered Institute of Housing, Impact of the credit crunch for the South East Housing Market, 2009}\]
\[^{27}\text{Communities and Local Government (CLG), Survey of English Housing Overcrowding by region and tenure, DCLG 2005/06 to 2007/08}\]
\[^{28}\text{Garnett, D, Perry, J, Housing Finance, Chartered Institute of Housing, 2005}\]
responsiveness of housing supply to price adjustments, presents difficulties in meeting housing need. With insufficient homes supplied to meet the growing demand, the imbalance between supply and demand will continue and may well repeat the cyclical nature of rising house prices and problems with affordability. Lack of housing supply and the slow process in increasing that supply has over time created a time lag in which prices increase, impacting on the ability of households to afford to buy property of their own, a predicament clearly outlined in the Barker Review.²⁹

Housing supply in the UK has a number of barriers – the stagnation of the housing market being one of them but equally key are pressing issues around funding, land and inefficiency within the planning system. Delivery of affordable housing has been heavily reliant on government grant and planning gain (s106) obtained through the development of private housing. Fiscal tightening and uncertainties with the future of the economy will further scale back the level of grants or gain obtained. These measures have proved to be difficult to sustain, hence the heavy reliance on these needs to change, instead the focus should be on devising models that are flexible and can be adjusted to suit different market conditions.

A number of demand drivers have been mentioned in earlier sections of this report, a great degree of influence stems from availability of disposable income, household formations, high price expectations and other demographic drivers. Monetary policy, which determines interest rates, will impact on demand and mortgage rates.

Link-2 With shortages in housing supply, the economy also suffers due to reduced investment that filters through housing job creation, economic multiplier effects and other indirect benefits from housing market activities as explained in chapter 5.

Supply and demand correlation will continue to be difficult to manage as long as the markets continue to be distorted; demand will continue to outstrip supply for a very long while yet. Despite house prices falling during the recession, which might have led to the impression that housing was becoming cheaper, housing today is perceived to be more expensive, more so for the younger generation that is now so heavily reliant on parents to help with their housing costs.³⁰

4.5.1 Implications of the recession for housing providers

Challenges – What has been and will be the key issues

- Economic conditions and uncertainty in the financial markets will continue for some time due to significant levels of toxic debt that will take a very long time to clear.
- Reductions in public sector expenditure will mean reduced levels of grants and subsidies which impact on the development of affordable housing and regeneration programmes.
- Reduced receipts from low-cost homeownership reducing cross subsidy to fund social rent, a reduction in section 106 and other developer contributions and a rise in lending debt costs as providers seek alternative financing options.
- Limited finance will have implications for General Fund Account and the Housing Revenue Account. Financing capital and revenue expenditure will be challenging and will impact other budgets including repairs and maintenance, capital outlay and other allowances.
- In terms of housing associations, difficulties with housing grant which supports capital funding and changes to rents which are used as the main revenue support streams.
- Insufficient supply of affordable housing means pressure as social housing waiting lists will increase as more people are priced out or find their current housing too expensive to continue to live in it. There are higher costs of housing homeless households and those requiring temporary accommodation.
- Lack of investment in infrastructure means increased burdens through travel to work distance and associated environmental impacts.
- Changes in government structure and new policy formation will lead to different ways of working and transitional periods where things will move at a slow place jeopardizing existing schemes.

²⁹ Barker Review of Housing Supply www.hm-treasury.gov.uk/consult_barker_index.htm
**Opportunities – What has been and could be helpful**

- Some of the previous government-led initiatives to boost homeownership and the HCA capital budget have been helpful to kick start projects.
- Opportunities to explore other means of private financing and seeking other investment routes (from pension funds, bond activity, capital markets and private investors/partnerships).
- Working in partnership and seeking new business opportunities provides opportunities to influence and work collectively with other sectors to reap economies of scale and jointly contribute to resources.
- Exploring alternative delivery mechanisms to increase the supply of affordable housing, by seeking new development and financial models.
- Taken advantage of areas where there are falling house prices and favourable acquisition conditions to invest in affordable housing.
- Opportunity for housing providers to reevaluate plans, skills and training opportunities to better understand external factors to better plan ahead more effectively.
- Opportunity to offer customers alternative housing products and locally-driven schemes.
- Tighter operating budgets mean opportunities to be innovative and prioritise resources to areas of higher performance but not risking important elements such as quality and quantity.

---

31 TSA Private Finance Strategy, 2009
Housing impacts on the economy in a number of ways; from generating employment opportunities through to supporting businesses and other key sectors such as construction, health and education. A skilled labour market allows for productivity and a pool of skills which are critical drivers of economic prosperity hence it is important that this is supported particularly in times of economic instability. The negative fluctuations in the housing and mortgage market; credit flows, house price volatility, borrowing and low consumer confidence contribute to financial and economic instability.

Research that demonstrates this complex relationship in detail is limited and that which exists predominantly focuses on housing’s impact through supply and labour market connections, with some reference to the influences on poverty and deprivation. The findings from the Barker Review of Housing Supply pointed out that ‘a weak supply of housing contributes to macroeconomic instability and hinders labour market flexibility, constraining economic growth’.

A review by the Chartered Institute of Housing (CIH), National Housing Federation (NHF) and the National Federation of ALMOs (NFA) in their joint submission to the Comprehensive Spending Review provide some useful analysis and strong evidence of the positive economic outcomes generated from investment in housing. The submission highlights that investment in new affordable housing is fundamental in:

- supporting economic recovery
- supporting strong and stable families and ending child poverty
- improving health outcomes
- driving up the competitiveness and productivity of our economy
- raising educational achievement
- reducing crime and anti-social behaviour
- helping to create a greener future by tackling carbon emissions and supporting the creation of green jobs.

The submission provides a number of key highlights around housing’s contribution to the economy at a national scale. The CIH, NHF and the NFA have jointly asked the government to invest £9.5bn across the next four-year spending review period to provide 150,000 new affordable homes. The housing association sector will match this with £12.6bn from its own resources.

---

32 Department for Trade and Industry (DTI), Housing, Economic development and productivity a literature review, DTI, January 2006
33 HM Treasury, Barker Review of Housing Supply, March 2004
34 National Federation of ALMOs, National Housing Federation, Chartered Institute of Housing, Submission to the Comprehensive Spending Review-Responsible choices for a fairer future, CIH, NHF and NFA, July 2010
35 National Federation of ALMOs, National Housing Federation, Chartered Institute of Housing, Submission to the Comprehensive Spending Review-Evidence for responsible choices, CIH, NHF and NFA, July 2010
The NHF commissioned Oxford Economics (an independent economics consultancy) to analyse the economics benefits of building new social homes. Based on the modelling done by Oxford Economics, building of 37,500 new social homes per annum over a five-year period will result in the following summarised outcomes as referenced by the five year figures in this section.

- **House building as a catalyst for employment**
  - UK housing starts fell 41.2% in 2008, a further 14% fall in 2009 leading to 200,000 job losses in the construction sector.
  - Building 37,000 new social homes per annum over a five-year period will contribute a small amount of annual GDP (0.4%) but would safeguard 89,000 construction jobs.
  - Lack of investment in the five-year building programme could result in increased benefit payments of up to £412.5m a year by the final year of the five-year programme.
  - Increasing the output of homes by 100,000 would generate around 750,000 real jobs.
  - Repairs and Maintenance (R&M) accounts for over half of all production in the total housing sector in value terms. R&M directly supports 158,000 jobs. If these jobs were lost by the fifth year, it would reduce direct and indirect tax revenue by £4bn.

- **Investment and capital generation – tax revenue**
  - Implementing a five-year building programme would generate £937.5m per year from direct taxes and indirect tax receipts through VAT raised from private consumption of workers remaining in the jobs.
  - It would also safeguard £2.25bn in direct and indirect government revenue per annum by the final year.
  - A labour intensive house-building sector has significant economic multiplier effects. Economic multiplier effects can be derived from the supply-linked multiplier effects that includes spending on housing projects and purchases made from other firms in the supply chain. Multiplier effects can also be derived through the income multiplier that is the local spending resulting from incomes derived from the project and its supply linkages.
  - Every £1 spent on housebuilding, £1.40 of gross output is generated across the economy. Conversely, every £1 of spending on housebuilding that is cut, £1.40 will be lost from the economy as a whole.

- **Housing associations (HAs) – a catalyst for job creation and sustainability**
  - HAs employ just over 144,000 people, 94,549 females and 49,700 males in the UK.
  - The HA sector’s turnover is close to £11.6bn per year.
  - Maintenance and management of existing homes is about £4.5bn.
  - Every £34bn of public grant generated by HAs is matched with £60bn of private borrowing at very low interest rates.
  - Surpluses generated are re-invested back into new homes and community projects.
  - HAs are driving forward the sustainability agenda by building homes to higher environmental standards than private developers.

- **Housing in supporting other sectors – health, crime and education**
  - Unsuitable housing has direct and proven linkages with ill health, including pneumonia, asthma, mental health, and falls and hip fractures.
  - Housing-related support services generated savings of £3.41bn to the public purse by avoiding more expensive acute services.
  - Decent housing contributes to the prevention of crime, stable neighbourhoods and lower levels of re-offending, especially among young people.
  - Poor housing impacts on disadvantaged neighbourhoods increasing the risk factors for future delinquency, criminal and anti-social behaviour.
  - Poor housing that is overcrowded, poor quality, temporary, in poor neighbourhoods and unaffordable housing impact on educational achievements, truancy and exclusion.

### Link-4

It is clear that housing can be a catalyst to generate economic growth; GDP contribution from housing is in relatively smaller amounts compared to other industries, but housing’s contribution in terms of supporting other key sectors helps to drive growth, economic stability and sustainability, therefore making housing a fundamental element that should be given better recognition.

---

36 Figures that reference a five-year programme used in this section are those compiled by Oxford Economics used to provide a virtual scenario of the impact that building more social homes can have on the economy

37 Blackman T, *Health Risks and Health Inequalities in Housing: an Assessment Tool*. Housing Learning Improvement Network, Department of Health, 2005

38 CapGemini, *Research into the financial benefits of the Supporting People programme*, CLG, 2009
5.1 Housing as an investment product – attracting private investment

Residential housing investment in the UK has been at a fairly moderate pace in comparison to other European countries like Spain, which pre-recession had higher levels of demand and private consumption. Housing supply being very limited is not directly influenced by increases in house prices that drive up equity, but more so through a number of demand drivers, stable financial and economic environments that allow for investment and sizeable returns for investors. As indicated earlier, investment returns moving forward are likely to be subdued, with equity stakes likely to suffer from the deflationary impact of cuts. These issues present real challenges particularly in securing private investments that are scarce and difficult to access.

Private residential investments and developments through the buy to let market for example allows for an active rental market. Private development facilitates growth in private housing consumption and provides wealth attained from the ownership of housing assets. The buy-to-let market has been estimated to contribute about £30bn to the UK economy, and predicted to contribute about £5.2bn per year to the South East economy.39 The recession has curbed the level of buy-to-let transactions; reducing the range of products, lenders and increasing charges for mortgage finance, which in turn has knocked confidence.

Tapping into less conventional methods like pension funds and bond sales present other ways to increase investments. This will depend on the conditions in the bond markets, as if bond prices fall, investment returns may well be squeezed.

5.1.1 Investor requirements

Investors are now looking for investment returns over the longer term rather than quick profits. Private investors’ appetites are driven by lower risk, sound historic returns, and a less speculative housing market that offers greater certainty in returns. Institutional investors have had good relations in the past with social housing providers, providers perceived to have lower risks and better credit ratings. The Tenant Services Authority (TSA) reported a greater demand to lend to registered housing providers from the banking and capital markets, collectively having the capacity to provide £25 million.40 Housing providers will need to assess their business plans and be cautious when seeking to put up bonds as margins will be subject to the stability within the currency and bond markets. Providers do, however, have an added advantage by having stronger credit ratings.

Prime areas, like London, have better prospects in attracting investors, while less prime locations will struggle to draw in investment. Struggling areas need to explore more competitive strategies and look to offer investors more sustained steady flows of return which can also be obtained from rental activity. London as the capital with stronger market links continues to be the prime investment target, where international investors have taken advantage of the weakened pound to buy property off-plan41 and at favourable exchange rates. Investment has been less in other regions, in the South East market, activity is mainly from existing owner-occupiers with the extra income to purchase second homes. The South East investment prospects moving forward are likely to continue to come from domestic investors looking to invest over the long term although the South East will continue to be in direct competition with London which will continue to attract more investment.

A wider gap has been created as first-time buyers find ownership virtually impossible given the tightened lending policies. The main routes to homeownership for first-time buyers are through support from family and several government-driven homebuy schemes, most of which still prove to be expensive and unattainable for many. As a result, a large number of people have ended up on social housing waiting lists, which have proved challenging to shift, given the shortfalls in supply, partly due to right-to-buy sales coupled with reductions in the building of new affordable housing.

It is, therefore, significant that there are new models, vehicles, with attractive offers to investors and partnerships. The use of local asset-backed vehicles (LABVs), community land trusts (CLTs) and joint ventures (JV) will become more prevalent. Housing providers need fresh ideas around partnerships and managing their asset base to build up on both capital and revenue moving forward.

40 Tenant Services Authority (TSA), *Private Finance Strategy*, TSA, 2009
41 Savills, *Spotlight on ...New Build Housing*, 2010
5.1.2 Housing’s investment potential and attracting private investment

Views from housing experts in different parts of the housing sector (housing associations and local authorities) and international partners offer some evidence on the viability of housing as a competitive investment product and the changes that need to happen to attract more private investment.

**Neil Hadden, Group Chief Executive, Genesis Housing Group**
- Housing involves a considerable investment of resources.
- Resources spent on refurbishments on houses produce economic multiplier effects.
- The returns from private investors may be too low to entice them to invest large amounts.
- Income streams will be squeezed by government plans for benefit reform.
- Housing providers are key employers and can have a big impact on local economies in terms of spending power.

**Barbara Compton, Head of Housing Solutions, Southampton City Council**
- Focusing on housing as an individual investment has had a negative impact on the economy.
- The housing market needs to be restructured and as well as a cultural change in the UK to move away from the idea of a house being a piggy bank.
- Individuals need to view their home as a consumer durable rather than something there to make them a profit.
- Building a professionalised private rented sector where institutional investors can recognise that housing can provide not profit but a steady and reliable stream of income.
- A need for exemplars to show how models for the above will work, investing in the project management of exemplars.

**Jean-Luc Schutz, Directeur Generale, Norevie, France**
- Housing investment is really popular in France mainly because it is considered as an opportunity to build assets.
- 100% of your investment in housing can be borrowed.
- Governments usually use fiscal incentives in housing to boost the economy.
- The issue in France is to drive investments where there is real demand for new houses.

5.2 The private rented sector – a catalyst for a sustainable recovery

Given the challenges that many people will face, homeownership will be difficult to attain, perhaps to be perceived as a luxury that ‘only the rich can afford’. Times have changed dramatically and the focus needs to change accordingly. The reality is that there will be many people that will have to look for alternatives to homeownership or indeed social housing, which will continue to be competitive as waiting lists continue to rise.

The South East private rented sector is vital in providing housing predominantly to students, migrants and households unable to access social housing, homeownership or an alternative route for those leaving overcrowded social housing properties. Private developers have, however, experienced a range of difficulties including accessing cheaper credit coupled with higher rates from lenders and high land costs, which have made some schemes financially difficult to deliver. Higher risk levels and a lack of development finance limits capacity to develop the much needed affordable homes which are subsidized from market housing.

The security of tenure in the social sector does not exist in the private rented sector. Changing this and exploring a range of products or offers that match different income groups is absolutely key. Examples of some innovation set out by HA London & Quadrant models is set out below but these are dependant on the ability to maintain the financial requirements and once again geared towards homeownership, which will be inaccessible for many.

<table>
<thead>
<tr>
<th>UpToYou – up to £25k</th>
<th>UpToYou – over £25k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is a rent to purchase product aimed specifically at low earning, priority-need working households earning £12,000-£25,000pa.</td>
<td>Is a flexible rent to purchase proposition that allows customers to choose whether to rent (with option of indefinite renting) an 80% intermediate market rent or purchase through shared ownership.</td>
</tr>
<tr>
<td><strong>Client group:</strong> social tenants or low-income earners on waiting lists or poor quality private rented accommodation.</td>
<td><strong>Client group:</strong> Customers with incomes of £25,000-£60,000pa, mainly first-time buyers unable to raise large deposits.</td>
</tr>
</tbody>
</table>

Source: London & Quadrant as reported in CIH Widening Rental Housing
The Rugg Review\textsuperscript{42} initiated a pathway to explore the challenges and opportunities that the private rented sector could bring. The review highlighted the dynamism and complexity of the sector; the challenges of the landlord management functions and, at the same time, the advantages that a flexible, well-functioning rented sector can contribute in alleviating some of the demand and supply issues. There is need for the sector to be properly regulated with firm policies in place that allow for innovation around investments and flexibility in the provision of decent and affordable mixed-income tenures. An example of funding innovation from the Homes and Communities Agency (HCA) is reflected in the example below.

\begin{center}
\textbf{Practice Example: Innovative private rental funding initiative}
\end{center}

Berkeley Group and HCA have jointly signed a deal to establish a private rental fund that will help Berkeley Group deliver up to 555 new homes across London, the South East and South West which will be retained by the group for rent on the open market.

This is the first private rental initiative by the HCA. Under the terms of the innovative agreement, approximately 555 new homes constructed by the Berkeley Group over the next two years will be purchased by the fund, which is a wholly-owned subsidiary of the group, and which will retain the properties for rent on the open market.

The HCA will further provide Kickstart equity funding as well as supporting affordable housing through the National Affordable Housing Programme. This combined investment from the HCA will enable delivery of up to 922 homes for private sale and 299 affordable homes in addition to the properties retained in the fund.

Through these approaches, a real opportunity exists to build communities that are able to contribute more to their local economies rather than adding to economic costs through unemployment or due to inability to afford appropriate housing in areas where jobs are available. There is value in continuing the debate on how the sector can be revived to encourage labour mobility and competitively offer decent, high-quality housing with security of tenure so that the needs of the diverse range of household are met more sustainably.

The private sector should be given equal importance to homeownership, as rental tenure is likely to be the main option for many in the future. It’s an extremely vital alternative for many low-income households facing significant reductions in incomes as reforms like housing benefit are implemented.

This section provides a brief analysis of the South East economy; highlighting some of the key South East economic indicators, identifying how these indicators impact on housing in the South East. It is important to be aware of the regional economic positioning to better plan and devise strategies tailored to suit regional priorities. A better understanding of the linkages will facilitate better engagement with related industries and strategic alignment of resources that will stretch further to not only benefit the South East but enable positive change in other local, regional and national boundaries.

In a number of studies, links between housing and its contribution to the economy have long been recognised particularly in relation to the labour market. The construction and housebuilding industry are core employment vehicles, necessary to sustain the supply of housing which in turn drives economic growth and prosperity. Simpson et al provide a useful framework that helps to set in context the close relationship of housing and the economy at local, sub-regional and regional levels, setting out housing connections with place shaping, construction and design, growth and regeneration, labour market support, capital investment and service provision. This study called for clearer and closer integration of strategies, improving sharing of evidence and intelligence, adopting a common vision, building capacity and aligning funding with strategic priorities. The housing market needs to adopt models that allow for this sort of integration to ensure a strategic and co-ordinated approach in the delivery of housing services. This section does draw on some of these linkages, reflecting on the pertinent issues for the South East in the current economic environment.

6.1 Economic growth in the South East region

The South East region has enjoyed a buoyant economy with significant growth over the last few years. This growth has been fuelled by a strong business base, stable economic and labour market structures, a highly-skilled workforce and links with international markets. With the onset of the recession, like so many other regions, South East economic growth and housing market development has been seriously affected by the slowdown.

The macro-economic indicators that have been discussed in earlier sections of the report are reviewed further in context of regional markets with a particular emphasis on the South East. Economic drivers have an important influence on regional activity, the impact does however vary – noting the variations can be helpful for comparison as well as devising policies that reflect specific regional priorities.

---

44 Building Success: The Economic Role of New Housing in Wales, House Builders Federation, 2004
45 Simpson, M, Davis, S, Willey, M, 2008, Housing and the Economy, Integrating Strategies, Chartered Institute of Housing and Improvement Development Agency
At a local level, housing markets can be major drivers of the local economy, through the provision of employment, greater labour mobility, supporting businesses and infrastructure. The South East contributed a net total of £17.7bn to the government finances, close to 50% of the total national net contribution.

The South East region is the second largest economic contributor to the UK, accounting for 14% of UK’s GVA - about £176bn in 2007 – but even more significant is the record breaking £181.8bn GVA attained in 2008. A large amount of the output was generated in Berkshire, Buckinghamshire and Oxfordshire. Although GVA consistently increased over the years, it is evident that the downturn affected growth rates in the South East as GVA figures were at a much higher percentage in 2006 (19%).

The 2008 figures in the graphs below indicate despite the South East having GVA per head of £21,700 above the UK average of £20,520, output growth per head has unfortunately seen a substantial slowdown in comparison to other regions. Although a larger number of jobs were lost in the Northern parts of the country, job losses have not been at a similar scale in the South East that has taken a harder knock on productivity as the output per worker has slumped. It is clear that in the years to come, the South East will need to capitalise on building up productivity levels through efficient mechanisms and investment in developing the skills of workers and the younger generation to help accelerate growth in the region.

The South East region retains its position as a competitive contributor, well placed to develop this competitiveness further. This can be achieved by working more proactively with the private sector, investing and developing businesses, supporting the youth to build skills, increasing the supply of affordable housing and ensuring sustainability across the board, to drive forward economic growth at the same time tackle social inequalities and disadvantage.

6.2 Regional divisions – the North and South

Figure 4: GVA and output growth

Graph C ONS - GVA per head of population 2008

Graph D - Output

---

47 Refuelling the engine of the UK economy: The regional funding advice for the South East England, February 2009
48 Office for National Statistics (ONS) - South East Regional Profile http://www.statistics.gov.uk/cci/nugget.asp?id=2287 (accessed on 10 June 2010)

~Figures in this section obtained from the ONS Regional Profile unless stated otherwise.
* Gross Value Added (GVA) is a measure in economics of the value of goods and services produced in an area, industry or sector of an economy. Gross domestic product (GDP) or gross domestic income (GDI) is a measure of a country’s overall official economic output. It is the market value of all final goods and services officially made within the borders of a country in a year. GVA + taxes on products – subsidies on products = GDP
There are gaps in the growth rates between the regions, and previous government economic policy aimed to narrow this gap. The reasons for the divide in recent times can be partly attributed to wider impacts from the recession but also in the longer term, to limitations of key delivery vehicles; lack of skilled workforce, problematic accessibility for businesses, lack of proximity to major markets and sufficient infrastructure. These are all significant for development, and the ability to continue to reap economies of scale through this multiple interaction.

Size and geographical factors can have an effect on logistical requirements and the supply chain. Cities within regions will, therefore, have different priorities and issues to deal with which will need tailor-made policies that are set around making real differences at local and regional level.

London and the South East dominate in GVA contribution, with advantages of well-developed delivery vehicles, substantial infrastructure, resources and close connections with both national and international markets. These regions are more likely to receive larger investments due to their growth potentials and the fact that these are major business hubs linked to global markets. This, to a degree, distorts the level of activity in the other regions if the concentration is predominantly within these two areas. There is potential to further increase economic and social disadvantage amongst communities in cities and regions that are not performing to the same levels.

Link-7 Cities are predicted to have a bigger role to play in shaping the recovery and can be the drivers of change. Through them adequate balance in investments around housing, skills and transport which can help lead to city developments that in turn contribute to the wider economic development in sub-regional areas.

The North-South divide is something that will continue to be debated as priorities and budgets for the regions are shaped by the Comprehensive Spending Review (autumn 2010). Cities will inevitably continue to compete for resources to develop. There is concern for smaller cities and areas perceived to be of less economic importance that may lose out to larger cities that are more likely to be able to deliver the economic objectives set out by the government. Areas outside London, the South East and East are to see an increase in business start-ups, triggered by government incentives and the availability of a regional growth fund to support increases in business employment and growth.

A balance is needed in the distribution of investment to regions and cities (critical growth vehicles) to encourage growth in declining areas. If less emphasis is placed on sustaining growth in declining cities, regions would suffer from even lower productivity, hence reductions in overall GDP.

Link-8 The level of growth within cities is a reflection of the performance of the regions in contributing to the wider economic output. If the level of growth is limited, this may influence future investment levels directed towards particular regions hence impacting on the ability to develop further. The cities within the regions will play an important role in driving forward the recovery but consideration needs to be given to the differing skills base, growth potentials at the same time recognising that it is hugely important to minimise risks to poverty, deprivation and other social and economic disadvantages.

50 Centre for Cities, Cities Outlook 2010, The Centre for Cities 2008
Housing has a close relationship with the labour market mainly due to businesses requiring a stable supply of housing to support a steady flow of skills. To support this there has to be affordable housing available in the right numbers, right types and right locations\(^{51}\) to meet the housing need of a skilled workforce. The lack of sufficient affordable housing in the South East can add to the decline of professional workers within the development and built environment sector\(^{52}\) as well as limiting the number of key workers which are important for the health and education sectors. Housing and the commercial property industry collectively employs over 375,000 people, generating £18bn per annum in the South East.\(^{53}\)

### 7.1 Business performance in the South East

Current trends indicate businesses have sustained stable growth in the past few months, with a higher proportion of businesses reporting improvements in business activity across the South East. Some of the core business sectors aiding growth are involved in engineering, aerospace and defence, environmental and energy technologies, ICT and digital, pharmaceuticals and health technologies, and financial and professional services which, in 2007, collectively contributed £65.9bn\(^{54}\) to the region’s economy. The real estate and renting activities made up 29% of the South East total GVA in 2007. Meanwhile the manufacturing GVA proportion decreased (see figure 5).

The South East labour market has been affected by the recession with the manufacturing and construction industries taking the worst effects, both being linked to the sharp falls in the UK economy\(^{55}\) and housing development. The damages from the downturn, mainly in the construction, manufacturing, retail and hospitality sectors, is evidenced by; having the highest increases in redundancies,\(^{56}\) vacancies, unemployment, and job seeker claimant counts.

![Figure 5: Changes in shares of GVA](image_url)

---

53 South East Centre for the Built Environment – www.secbe.org.uk
54 SEEDA, 2010, *Regional Priorities Statement*, 2010-11
56 *Financial Times*, 10 September 2009
Businesses are slowly recovering. SEEDA’s business snapshot survey\(^{57}\) of about 600 companies demonstrates that 77% of businesses reported stable or improving business conditions. Firms in Surrey, Berkshire, Hampshire and West Sussex were more optimistic about the business climate. Briefly looking at some of the major sectors, there are variations in the level of improvement and contribution to economic growth within each sector.

Manufacturing output has improved over the course of time – the rise in manufacturing output and improved recovery of European economies facilitating more exports from the South East, boosting confidence and business opportunities. The manufacturing sector is predicted to be worth an estimated £18bn and employing over 300,000 employees\(^{58}\) in the South East – a key sector for the region. Smaller businesses with lower turnover have struggled and some continue to find difficulties accessing the credit they require. South East manufacturing businesses have benefited from support through the South East Manufacturing Advisory Service that gives advice and has carried out health checks to over 3,000 businesses, delivering £314m of added value as a result of their services.\(^{59}\)

The construction sector has endured more challenges, with adverse effects on economic performance and housing market cycles,\(^{60}\) in particular severely limiting the construction of new homes. Housing development almost completely halted, leading to severe drops in construction jobs, which will mean a reduction in skills within this sector.

The construction industry is a significant driving force for economic growth, employing up to 8% of the UK workforce. In 2008 the sector added £124bn, approximately 8.5% to UK GDP.\(^{61}\) It is predicted that drops in job losses from 2009-10 could be up to 450,000 in the UK.\(^{62}\) This will have consequences for the existing skills gaps, leading to a shortage of skills limiting capacity and productivity which, in the long term, will hinder the South East’s ability to redress the economic imbalances.

### 7.2 Construction’s offer to the economy

The construction industry being very labour intensive is a significant employer of people with lower skills. Local markets are heavily reliant on the sector, which directly and indirectly supports other related industries to deliver on economic objectives. Through the construction supply chain, there are links to house building, the construction of schools and hospitals, ownership of real estate, infrastructure developments and emission reduction programmes through sustainable approaches to developments. A study by the UK Contractors Group\(^ {63}\) outlines the importance of reviving this core sector.

- The construction industry consists of 300,000 firms and employs 3 million people.
- It’s a major driver of growth for other sectors – without which could lead to the loss of domestic production, capacity and skills.
- £1 spent on construction output generates £2.84 in GDP.
- Investment in construction generates financial returns to the Treasury through income tax and benefit savings as job availability means retaining employees.
- Private sector construction is sensitive to changes in GDP.
- Construction has the greatest increases in redundancy rates.
- Government-funded projects represent a large proportion of regional construction.
- Reductions in public expenditure would risk reducing construction output further, compromising productivity and capacity.

The UK Contractors Group highlights that lack of construction demand in places like Brighton and Hove, Portsmouth, Slough and Southampton which has contributed to above average unemployment will affect the provision of employment for the local workforce. The benefits derived from construction employment helps to address other issues like poverty and deprivation, offering employment to younger and less skilled workers which, in some cases, come from severely-deprived neighbourhoods with less disposable incomes.

---

\(^{57}\) SEEDA, *Business Snapshot Survey*, January 2010

\(^{58}\) Manufacturing Advisory Service South East, available at [http://www.mas-se.org.uk](http://www.mas-se.org.uk)


\(^{60}\) Savills, *The Residential Property Focus*, September 2008


\(^{62}\) Construction Skills Network, July 2009

\(^{63}\) UK Contractors Group, *Construction in the UK Economy, The Benefits of Investment*, 2009
With the contracting of private construction, output falls thereby reducing employment, limiting GDP which hinders the recovery. The construction sector will need strategies that enable the reinvestment of lost skills, increased private investment and innovation on delivering new builds but, equally, repairs and maintenance for more sustainable homes.

As the economy recovers and construction activity begins to pick up pace, there will be a need to plan and provide additional skills to deliver on the shortages as a result of stalled activity. Failure to do so will pose a risk to the level of skills available in a region, hence affecting businesses and local employment. The inability to deliver on much-needed housing supply that is required to encourage social mobility would mean a bigger gap between demand and supply which could revert back to a situation of house price inflation, creating further affordability pressures, which in the South East will further scale back labour mobility and productivity that is so badly required to ensure a smooth recovery.

7.3 Unemployment and housing benefit structure in the South East

It is evident that housing is facing severe shortages in investment given the severity of spending cuts and the proposed reforms around housing benefit as the government embarks on saving £11bn by 2014-15 through its benefit reform. More radical measures were proposed in the June emergency budget around welfare reform than previous policy outlined in the 2008 Welfare Reform Green Paper. The new proposals, based on the report Dynamic Benefits, will affect private and social housing through changes made to housing benefit and local housing allowance. Along with an overview of the current labour market indicators, this section provides a brief synopsis of the benefit changes, wider implications to tenants and landlords and some highlights of implications for the South East.

7.3.1 Current trends: employment, unemployment and JSA claimants

Rising unemployment during the recession has led to higher numbers of people claiming jobseeker’s allowance (JSA). JSA claimants in the South East rose to a total of 153,608 in April 2009, a shocking 122.3% rise compared to April 2008. Current trends indicate a reduction in unemployment, which in May 2010 stood at 272,000, falling by 12,000 lower than the previous three months. The unemployment rate of 6.2% was the lowest of any region while the rate of employment at 76.1% was the highest of any region. But with only 40,500 vacancies to compete for, the number of people out of work will remain high.

Further slight reductions in the number of JSA claimants, in July at just over 131,000 along with slow improvements on a number of other economic indicators is positive, but the prospects of economic climate remains challenging.

It is therefore critical for the South East to be well prepared and aware of potential risks to better plan. The provision of jobs will continue to be limited but it is critical to continue to invest in training initiatives to retain the skills necessary for the recovery. It can be beneficial to invest in community projects that help to develop local people’s skills, to help them be more self-sustaining and deliver on their own community objectives. The social enterprise example shown below helps to exemplify this.

Practice Example: Social enterprise at Soha Housing

Berinsfield Community Business (BCB) is a social enterprise formed by Soha Housing to provide sustainable employment and training for local people. It improves the quality of services provided to the community and it maintains and enhances the local environment.

Now in its tenth year, it has grown to become a successful grounds and property maintenance company, providing a service to Parish, District and County Councils, as well as undertaking private contracts for businesses and homeowners. BCB has contracts with Soha Housing for the housing management of the housing association’s 320 homes in the village, the caretaking and cleaning, repairs management and landscape maintenance. It also has contracts with other housing associations with stock in the village, such as Sovereign Vale. The company employs nine staff with a further nine dedicated contractors of which half of the total workforce lives in the village.

---

64 Centre for Social Justice, Dynamic Benefits: Towards welfare that works, 2009
65 Chartered Institute of Housing, Briefing Paper on the impact of changes to Housing Benefit and Local Housing Allowance in the budget, July 2010
66 SEEDA, South East Labour Market Update Headlines, July 2010
7.3.2 Housing benefit reform

As housing in the South East is acutely limited in supply and highly unaffordable for many, the private rented market, as explained earlier, is an important alternative to those unable to access affordable housing. Reductions on levels of housing benefit (HB) and local housing allowance (LHA) will, therefore, hit tenants in the South East hard, especially those residing in the private rented sector. The impacts will also affect the social housing sector, for example limiting HB for working age tenants occupying a larger social rented property than required for their family size.

The National Housing Federation (NHF) predicts over 300,000 people will be affected by the HB changes in the South East, forcing families out of expensive places in London and the South East with increased risk of homelessness and poor-quality housing. The key benefit reforms which should be of concern to the South East are summarised in the table below.

### Table 2: Implications of housing benefit reforms

<table>
<thead>
<tr>
<th>Housing benefit reforms</th>
<th>Core implications</th>
</tr>
</thead>
</table>
| **Caps on the maximum LHA rates for each property size**                               | • Tenants can only claim a maximum amount per property size up to a four-bedroom house  
  £250 for one bedroom  
  £290 for two bedroom  
  £340 for three bedroom  
  £400 for four bedroom  
  Savings to government: £65m by 2014-15                                                 |  
| **Link LHA index to the consumer price index (CPI)** instead of linking to actual rent levels in rental market area | • LHA will not keep pace with rental inflation; LHA won’t reflect actual rent levels in an area  
  Savings to government: £390m by 2014-15                                                |  
| **Setting LHA at the 30th percentile of local market rents from the 50th percentile**  | • Tenants will have access to fewer properties in their area where full rent could be covered by their benefit  
  30th percentile-bottom third of properties  
  50th percentile-bottom half of the local private rented market  
  Savings to government: £425m by 2014-15                                                 |  
| **Increasing non-dependent deductions**                                                 | • Housing benefit tenants will see their net income reduce  
  Savings to government: £340m by 2014-15                                                 |  
| **Reduction in HB by 10% to tenants receiving JSA for more than a year.**                | • Housing benefit reduction by up to 10% from JSA claimants claiming for 12 months or more  
  Savings to government: £110m by 2014-15                                                 |  

Source: CIH Housing Benefit Briefing and NHF Benefits Briefing, 2010.

67 CIH, Briefing Paper on the Impact of changes to Housing Benefit and Local Housing Allowance in the Budget, July 2010
The reduction of HB and LHA to people in areas like East Sussex will result in extreme pressure, with 2,000 JSA claimants claiming for over a year possibly facing financial difficulties as a result of changes to the benefit system. It is predicted that a 10% reduction will affect this category of claimants. Challenges will be felt by social housing providers and tenants who will find it more difficult to meet their full rental payments even though discretionary housing payments are expected to increase by £10m in 2011 and by £40m in 2012.

Drops in benefits could impact all of the 123,000 people in the South East in receipt of LHA if new measures are introduced in 2011 as indicated in the table 3. These people face marginalisation and uncertain prospects for their housing future as they battle financial debt, instability, homelessness and overcrowding which adds to further housing pressures.

Table 3: Comparison of benefit impacts March 2010 budget and changes in 2011-12

<table>
<thead>
<tr>
<th>Regions</th>
<th>Area-Based on Local housing allowance case load of 123,000</th>
<th>Average HB (March 2010) £/week</th>
<th>Estimate of number of losers 61,810</th>
<th>Estimate percent of losers 50</th>
<th>Area-Based on Local housing allowance case load of 123,000</th>
<th>Average HB (March 2010) £/week</th>
<th>Estimate of number of losers 131,800</th>
<th>Estimate percent of losers 102</th>
<th>Estimate of percent of losers 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>South East</td>
<td>123,000</td>
<td>138</td>
<td>61,810</td>
<td>50</td>
<td>123,000</td>
<td>138</td>
<td>123,000</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>London</td>
<td>159,370</td>
<td>204</td>
<td>101,770</td>
<td>64</td>
<td>159,370</td>
<td>204</td>
<td>159,370</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>North East</td>
<td>45,160</td>
<td>96</td>
<td>20,650</td>
<td>46</td>
<td>45,160</td>
<td>96</td>
<td>45,160</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>North West</td>
<td>131,180</td>
<td>102</td>
<td>64,580</td>
<td>49</td>
<td>131,180</td>
<td>102</td>
<td>130,900</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>West Midlands</td>
<td>80,140</td>
<td>107</td>
<td>38,190</td>
<td>48</td>
<td>80,140</td>
<td>107</td>
<td>80,140</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>87,310</td>
<td>93</td>
<td>35,710</td>
<td>41</td>
<td>87,310</td>
<td>107</td>
<td>87,310</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>South West</td>
<td>83,180</td>
<td>117</td>
<td>36,700</td>
<td>44</td>
<td>83,180</td>
<td>117</td>
<td>83,180</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>East Midlands</td>
<td>59,100</td>
<td>99</td>
<td>25,620</td>
<td>43</td>
<td>59,100</td>
<td>99</td>
<td>58,680</td>
<td>99</td>
<td>99</td>
</tr>
<tr>
<td>East of England</td>
<td>71,010</td>
<td>124</td>
<td>30,430</td>
<td>43</td>
<td>71,010</td>
<td>124</td>
<td>70,970</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Department for Work and Pensions – Impact of Housing Benefit proposals: changes to local housing allowance to be introduced in 2011-12

It is clear that London and the South East have the highest numbers of potential LHA losers based on the March 2010 budget but, when the new measures are implemented, all areas except East Midlands will face up to 100% of their claimants affected by shortfalls in LHA, with the North West, London, the Midlands and the South East taking the biggest hits.

The South East and London will be at most risk as they have a high number of private renters who rely on LHA to make up the difference to their monthly rent which comes at higher rates than other parts of the country. Furthermore in the South East there is a high proportion of children still living with their parents, some claiming benefits along with their parents. The reforms will affect such families due to dependency deductions.

68 East Sussex in Figures Data- June 2010 (accessed online at http://www.eastsussexinfigures.org.uk on 1 July 2010)
69 Department for Work and Pensions, 2010
Non-dependant deductions have been previously frozen, but from 2011 unfreezing will begin with the likelihood that deductions will increase, therefore tenants will see their incomes fall. At the same time pressure will increase to tackle under-occupation if parents continue to reside in bigger properties once adult children have left. Overcrowding has been reported to be highest in rented sectors while under-occupation is highest amongst owner-occupied households.70 The South East has about 49,000 households under-occupying their social rented property, comparing this to about 20,000 overcrowded71 households. It signals an opportunity to develop innovative packages to tackle under-occupation which could be critical in helping overcrowded households in the South East. An example of such under-occupation packages in London include the Perfect Fit SE and the Perfect Fit SW schemes which are run by a number of participating boroughs and registered social providers.

There is a real potential that the South East will see an increase in inter-regional migration with many unable to afford to live in the South East moving to cheaper areas. The private rented sector may well contract in terms of people using it, as it becomes more expensive for people to live there, resulting in higher demand for cheaper social housing or cheaper private rental elsewhere. The flow of migrants, who can be a valuable alternative resource for businesses to draw on, especially in filling vacancies in the South East, will fall given the inability to afford housing, the reduction in jobs and as regulation on immigration is tightened. Given the dilemmas outlined above, the importance of increased housing development is clear as well as greater concentration on restoring empty properties and making best use of the existing housing stock as part of the sustainable solutions.

7.3.3 Impact on government spend

Investing in affordable housing could save the government a benefit bill of up £625.6m.72 Table 4 reveals, as result of the government’s budget measures, HB expenditure will begin to reduce by 1.5% from 2012-13, continuing to fall at higher percentages beyond 2013.

| Table 4: Revised expenditure forecasts as a result of budget measures |
|---------------------------------------------------|--------|--------|--------|--------|--------|--------|
| Forecast HB expenditure (£m, cash)              | 09/10 | 10/11 | 11/12 | 12/13 | 13/14 | 14/15 |
| March Budget 2010                               | 19,910| 21,210| 21,830| 22,170| 22,930| 23,880|
| June Budget 2010                                 | 19,980| 21,540| 21,930| 21,830| 21,220| 21,910|
| Difference from March                            | +     | +     | +     | -     | -     | -     |
| % diff from March                                | 0.3%  | 1.5%  | 0.5%  | -1.5% | -7.5% | -8.3% |

Source: Department for Work and Pensions

Along with the changes discussed above, there will be wider implications and challenges following 21st century welfare proposals; to integrate HB into a universal credits system, simplifying the benefits system to just one benefit incorporating a range of other means-tested benefits. At the same time, the aim is to use a single income assessment and minimise the administration burden by centralising delivery through a single agency distribution point.

70 English Housing Survey Bulletin, Issue 1
71 South East England Regional Assembly (SEERA), Challenging Perceptions of Affordable Housing, SEERA, 2009
72 National Federation of ALMOs, National Housing Federation, Chartered Institute of Housing (2010) Submission to the Comprehensive Spending Review – Evidence for responsible choices, July 2010
The long-term objective should be to explore a range of schemes that offer real choice and alternatives for a mix of people who will be at different stages in their life; in terms of wealth, health, family structure and their ability to move from one tenure to another. A holistic and critical evaluation should be conducted on the proposed reforms to understand better their implications and risks to developing the sustainable communities that are needed in the South East and across the country. An in-depth analysis into the private rented market, alongside exploring a range of tenure options in the social sector, would be of great value.

At a glance, the overriding intentions to encourage people to have less reliance on benefits by encouraging them into work, to be independent and have greater control over their future is good, but the speed and levels of cuts do pose some risks to the vulnerable members of the communities across the country.

To build a society that is based on fairness, freedom and responsibility, it is important to incorporate these principles in light of the various circumstances that a range of people will face. It might be perceived unfair if genuine people who need benefits to support them are denied these, be it they need it for a short period of time or, for example through poor health or other reasons, for longer periods. Freedom or opportunity to exert responsibility will come with power or choice given to the communities.

Housing providers will now need to start assessing the likely implications for their local markets in order to fully prepare, providing strategies that address the specific issues within their localities.

7.4 Demographic challenges

7.4.1 Supporting the young, ageing and other vulnerable groups

A diverse ageing population and the increasing number of vulnerable households within our communities raise a range of issues that need to be considered and planned for; the availability of adequate care and support services; including health services; housing-related support to allow this group to live independently and with less reliance placed on health services or public expenditure.

There is well-documented evidence that poor housing has negative health impacts on the physical and mental health of vulnerable tenants in overcrowded and non-decent housing. John Hills’ social housing review further emphasises that social tenants are more likely to be older, disabled, from black and ethnic minority (BME) backgrounds, on low incomes or unemployed. This is therefore a very diverse group of people that require services that are personalised and reflective of their individual requirements.

It has been established that housing-related support can help the government to save £3.41bn annually by adopting a preventative approach and avoiding otherwise larger expenditure on acute health services. The evidence suggests housing-related support facilitate savings of £315.2m on health costs, £413.6m on crime and criminal justice costs and £95m on homelessness costs. Carers are predicted to save the UK between £40bn and £87bn in what would be paid care costs.

An ageing population highlights the need to ensure skills are passed on and retained. The investments required to continue to provide adequate care and support services are critical. As funding for supported housing services is evaluated and Supporting People budgets are slashed in places like the Isle of Wight, it is important to plan alternatives for the future. Service providers need to work collectively, where possible pulling in resources to jointly fund some projects as funding will be very limited.

73 Department of Health, Saving lives: our healthier nation, Department of Health/The Stationary Office, 1999
74 National Federation of ALMOs, National Housing Federation, Chartered Institute of Housing (2010) Submission to the Comprehensive Spending Review – Evidence for responsible choices, July 2010 see page 14
76 CapGemini, Research into the financial benefits of the Supporting People programme, CLG 2009
77 National Federation of ALMOs, National Housing Federation, Chartered Institute of Housing, Submission to the Comprehensive Spending Review – Evidence for responsible choices, CIH, NHF and NFA, July 2010
7.4.2 An ageing population in the South East

The South East population in 2007 stood at 8.3m people, 16.6% of which were aged 65-78 and over compared with 16% for England as a whole. Nationally there is an increasing trend to ageing, including more numbers of the very elderly; by 2036 a 184% rise in people over the age of 85 is predicted. Nationally, it is estimated that 30% of households are headed by someone over 65. By 2026 this will have increased by 48%, an addition of 2.4m households.

The proportion of over 60s in the South East is expected to increase by 58% between 2006 and 2031. East Sussex has the highest proportion of people over pensionable age in the whole of England and Wales, with the concentration of elderly people highest in Eastbourne.

Figure 6: Age structure in 2001

It is important to plan for the needs of the ageing population. Extensive research into the care of elderly people in the South East highlights some important factors:

- Demand for care homes is expected to increase due to the high numbers of older people. The South East has good care services but there are areas in the South East like Slough that need additional care services.
- There are 1,988 care homes primarily for older people in the South East, mainly in Kent and Hampshire.
- Different areas of the region will require different approaches to changing care needs. Care issues in rural areas will differ from issues in urban areas; urban areas have better access to infrastructure, which allows easy access for medical help, whereas rural areas are more constrained.
- Carers contribute to employment and support of the labour market due to their differing skills that can be applied to a number of sectors and roles in the South East.
- Organisations need to work together to deliver and plan for services, gaining a better understanding of customer needs.
- The overseas workers market is a strong source of care workers in the region – risks are posed to this as policy on immigration is developed.
- There is need to assess further needs for increased numbers of wheelchair-standard and other specialised housing. A number of barriers exist; availability of sufficient land to develop housing that allows for adaptations, standard and design of housing being built, better understanding of need through strategic assessments and ensuring sufficient levels of investments required meeting these needs.

79 Lifetime Homes, *Lifetime Neighbourhoods: A national strategy for an ageing population*, 2008
7.4.3 Migration in the UK

Economic migration has a long history in the UK and the impact of migration has made headline news during the last election. It is interesting that there are varying perceptions on the impact of migration across the country, perhaps due to the lack of statistics and clarity on the flow of migrants at national and regional levels.

It is difficult to give definitive and comprehensive analysis on migration due to the inconsistencies and limitations in the data and evidence base\(^\text{82}\) on migration but, given that this has a significant impact for the future of the South East economy, it is important that a brief overview is provided. The ad hoc nature of migration statistics might limit the scope of review but there are a number of data sources\(^\text{83}\) that do allow for some degree of scrutiny. International migration has at a national level contributed a relatively small proportion towards population growth but with a greater effect on some regional and local markets. The surge in immigrant levels in 2004 and 2007 (see figure 7 below) has mainly been driven by migrants from the A8 Accession states entering the country predominantly seeking economic opportunities.

Figure 7: International migration

The Office for National Statistics (ONS) provides some key statistics that show a mixed picture on migration trends:

- The UK had close to 3.5 million migrant workers in early 2009. About 1.5 million (42%) have arrived since 2004, 620,000 of these from A8+2 accession countries in Eastern Europe.
- An estimated 590,000 people arrived to live in the UK in 2008 up from 574,000 in 2007. Out of the 590,000 immigrants, 86% were non-British citizens.
- Net migration to the UK (the difference between immigration and emigration) was 163,000 in 2008. This was 70,000 lower than the 2007 figure of 233,000 and the lowest figure since A8 Accession.
- Emigration rose in 2008 with about 427,000 people emigrating from the UK, up from 341,000 in 2007. Emigration of citizens from A8 Accession countries more than doubled from 25,000 to 69,000 between 2007 and 2008.
- There were 670,000 NINos overseas registrations to December 2008, 62% higher than in December 2004.

7.4.4 Migration in the South East

The South East population’s makeup has increasingly diversified in terms of ethnicity and the numbers of people moving in and out of the region. It is projected that the South East population will increase at a rate of 7.8% with migration considered to be a major driver in that growth; an estimated 32,000 migrants on average each year. The level of migration might reduce in the coming years as the new coalition government introduces caps on the number of immigrants from non-EU areas. This is likely to have a bigger effect on some businesses in the South East, which rely on immigrants to make up the resources needed for hard-to-fill vacancies or expertise that is not readily available in the country. It is difficult to measure precisely the level of impact that increased migration might place on public services, however, it is important to plan for these changes.

\(^\text{82}\) House of Lords Select Committee on Economic Affairs, April 2008
\(^\text{83}\) ONS estimates of Total International Migration, National Insurance Number registrations, Work Permit statistics, Seasonal Agricultural Workers Scheme, Labour Force Survey, Individual Learner Record, Worker Registration Scheme
A report conducted by the Warwick Institute for Employment Research and the BMG research group on migrant workers in the South East provides a detailed analysis of migration in the South East economy, which helps to shed some light into the migrant community within the region. More importantly for this study, it provides strong evidence of the importance of migrant communities in contributing to economic growth.

Migrants in the South East provide a resource to meet labour shortages in sectors such as manufacturing, hotels and restaurants, and social care work. Although there are higher concentrations of migrant workers within lower-skilled occupations, a growing proportion of highly-skilled migrants have been beneficial in filling the skills shortages in core sectors and have indirectly contributed to the growth of the economy.

The South East accounted for 15% of the UK total number of immigrants in 2008, the second highest region following London.

**Figure 8: NiNo registrations and immigrants to the UK**

![Figure 8: NiNo registrations and immigrants to the UK](image)

Source: DWP, National Insurance Number allocations to adult overseas nationals.
Note: EU Accession countries here include the A8, the A2 (Bulgaria and Romania) and Cyprus and Malta.

**Table 5: Geographical distribution of immigrants to the UK, 2008**

<table>
<thead>
<tr>
<th>Area of destination</th>
<th>Thousands immigration</th>
<th>Proportion of immigrants</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>520</td>
<td>100</td>
</tr>
<tr>
<td>England</td>
<td>460</td>
<td>89</td>
</tr>
<tr>
<td>Wales</td>
<td>15</td>
<td>3</td>
</tr>
<tr>
<td>Scotland</td>
<td>38</td>
<td>7</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>North East</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>North West</td>
<td>38</td>
<td>7</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>44</td>
<td>8</td>
</tr>
<tr>
<td>East Midlands</td>
<td>22</td>
<td>4</td>
</tr>
<tr>
<td>West Midlands</td>
<td>33</td>
<td>6</td>
</tr>
<tr>
<td>East</td>
<td>51</td>
<td>10</td>
</tr>
<tr>
<td>London</td>
<td>145</td>
<td>28</td>
</tr>
<tr>
<td>South East</td>
<td>78</td>
<td>15</td>
</tr>
<tr>
<td>South West</td>
<td>29</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: International Passenger Survey (IPS) estimates of long-term international migration

International migrants are dispersed across the country but large concentrations of migrants are in urban areas, which tend to offer greater flexibility for social mobility, education and better access to employment opportunities. Migrants are drawn to a few coastal cities although a majority reside in London, Kent, Milton Keynes, Oxford, Reading, Slough, Southampton and Portsmouth. The wealthier parts of the South East region, like Surrey, are attractive to highly-skilled migrants seeking to live and work within the region or in the surrounding areas predominantly closer to London. Through National Insurance number (NiNo) registrations, the Polish community made up the highest international group. The South East has seen a sharp increase on the numbers of NiNo registrations, which is indicative of the growing presence of international migrants seeking employment opportunities.

84 Warwick Institute for Employment Research and BMG Research, 2008, *Migrant Workers in the South East Regional Economy*
7.4.5 Inter-regional migration

Inter-regional migration to the South East has risen, adding a net inflow of 21,900 people in 2008. The South East, South West and London had the highest rises in inflows but not surprisingly the South East, as a key business hub, has the highest numbers of inflows from a number of the other regions, mainly from London and the South West commuting into the region.

There have been some concerns raised about the impact of the South East region’s economic development plans on surrounding regions. The South West Councils Strategic Leaders’ Board in its oral response to the House of Commons inquiry into housing in the South East, highlighted the need for a better balance in terms of economic development, calling for greater provision of affordable homes and careful planning, assessing the inter-regional implications of any such developments. The leaders’ board pointed out that the South East needs to consider the impact of high scales of developments on the environmental sustainability for both regions. Regional markets do need to co-ordinate and interact more with one another as there are many areas like migration flows and development impacts that will continue to have knock-on effects within the regions. It is therefore important in the future, for regions to work collectively together to minimise adverse impacts across regional boundaries.

7.4.6 Migration and housing

Planning for and monitoring migrant levels is fundamental in managing the pressures that increased population levels might have on public service provision, particularly in the provision of health, education and housing services. The impact of migrants on services tends to be localised, affecting individual areas differently. Changes could mean higher demand for health and education services as migrants settle. Research conducted around housing experiences of new migrants and asylum seekers indicate that new migrants tend to reside in private rented housing which may be poorly maintained and located in deprived communities, the result of which may pose other social risks including community tensions and misconceptions about housing allocations as one example.

Research by the Chartered Institute of Housing and Housing Associations Charitable Trust (Hact) on improving services for refugees and new migrants indicates that migration impacts on local housing markets in a number of ways:

- Overall demand for private lettings may increase, stimulating growth in private lettings, pushing up rent levels and reducing the supply of low-cost housing for sale.
- Landlords may take advantage of migrant workers by allowing houses to be overcrowded and/or occupied on a shift basis, reducing standards and causing environmental problems in an area.
- Some lettings may be in former right-to-buy properties, which people in the area may think are still social lettings (hence concluding that migrants have jumped the queue).
- There are small but growing numbers of migrants from new EU countries either applying for social housing or entering the homelessness route as they intend to stay in Britain.

---

86 South West Leaders’ Board – Housing in the South East Inquiry, House of Commons South East Regional Committee, March 2010
87 CIH, hact, Opening Doors Project, Improving Housing Services for refugees and new migrants, 2009
Service provision in the future will see greater challenges as resources become increasingly scarce and local areas with limited resources may experience pressures to meet requirements for services. Local authorities will therefore need to be better at monitoring migrant flows and placing control measures to mitigate against the problems that may arise as a result of fluctuating migrant levels within their communities.

7.4.7 Economic contribution of migrant workers
An economically-active migrant community positively contributes to economic growth through the take up of jobs that help to facilitate increased outputs and productivity, in turn contributing to the growth of industries and the economy. It is estimated that migrant workers account for approximately 15% of English output (15.6% of the South East total) contributing to the growth of many cities.

An economically-active migrant community positively contributes to economic growth through the take up of jobs that help to facilitate increased outputs and productivity, in turn contributing to the growth of industries and the economy. It is estimated that migrant workers account for approximately 15% of English output (15.6% of the South East total) contributing to the growth of many cities.

Link-12 Migrant contributions to GVA in the South East rose by 48% from 2002 to 2007.88 Migrants clearly benefit some regional economies, with the potential to contribute significantly to the recovery with relatively lower investment requirements.

But it poses other important risks; exploitation of migrants, saturation of the market, imbalances in employment opportunities for the local workforce and business over-dependency on migrants. Heavy dependency on migrants to address labour market issues, leads to an inability to invest fully in the local workforce and uncertainty in the future supply of a skilled workforce to promote regional growth. The changing patterns in migration levels will impact on the recovery, mainly in areas where migrant communities have had a key part in delivering economic growth.

7.4.8 Migration in the future
Despite the high probability of tighter immigration controls for non-EU international migrants, it is likely that international migrants will continue to arrive in the UK but at significantly slower rates. The effect on regional employment markets will vary although those that are heavily reliant on this resource may well suffer more and see greater risks to capacity and skills shortages that the local labour market may struggle to fill at least in the short term.

The state of the economy moving forward will be critical if the recovery is threatened and signs of economic stability are not restored. There is the likelihood that, as a result of reduced confidence, EU migrants may drop, resulting in shortfalls in skills and resource to feed into the labour market. This does pose some risk for the South East considering that a high degree of the labour market is supported by a strong presence of migrants. It is therefore appropriate for businesses not to be too dependent on this resource alone but look to invest in developing a sustained local workforce.

More research and analysis is required to establish the likely implications of new government policy on migration and the risks to economic growth especially pertinent for local and regional areas as they explore recovery strategies.

---

88 Cambridge Econometrics estimates of GVA* Note that figures on GVA are based on limited data
8.1 Housing delivery in a recession

The number of homes being built has fallen dramatically as supply has been hindered by the recession. The South East region had just over 18,000 homes built in 2008-09, much lower than levels indicated in the Regional Spatial Strategy (RSS). House building has been driven by national targets outlined in the South East Plan, something that will change with the implementation of the localism agenda. The South East Plan proposed 32,700 additional homes per year between 2006 and 2026 to meet the backlog of housing need and the growth in households in the future.

The set housing targets have been hugely contested by a number of industry bodies arguing that they are not sufficient and are not reflective of the changes in the region’s demographics and the type of housing required at the local level.90 Due to increases in households (CLG estimated increase of 28% between 2006 and 203190) and changes to the demographic makeup, it was proposed by the previous government’s NHPAU, that the region should consider the delivery of between 38,000 and 53,000 homes a year between 2008 and 2031.91

8.2 Impact of reduced housing delivery

The level of impact to local areas varies with some experiencing more severe shortfalls than others. Falls in the delivery of new homes can be attributed to a number of issues; complexities within the planning system, insufficient or over/under-valued land, limitations in funding through section 106, lack of suitable skills,92 reductions in government grants or subsidy, and credit barriers. These pose greater challenges for the provision of new homes. The reduced levels of government grant available to fund affordable housing has had a significant impact on delivery, which means that it will be increasingly competitive for people on the waiting list as supply is so limited.

The reduction of affordable housing delivery is evident as developers have struggled to maintain the levels of house building required, leading to reductions in affordable housing delivered through planning gain for example. With the South East region struggling to meet the needs of over 200,000 households on the social housing waiting list in 2008, local authorities will need to be proactive and think creatively about how to best use existing assets to tackle the overall housing shortages in their areas. The availability of affordable housing is critical to supporting the local economy in the South East where affordability is significantly diminishing. This will have implications on labour mobility, affecting employment opportunities that further hinder the long-term growth of the region.

This clearly signals the need for the government to radically stimulate sustainable house building in both urban and rural areas to support a strong network of businesses and communities.

The South East is a major business hub with vast growth potential and with increased affordable housing can be a catalyst for economic growth and prosperity. Without the adequate support services to sustain this development, the region may well become less attractive to people, businesses, investments and trade with international organisations, thereby draining the economy of vital resources needed for the recovery.

89 Evidence presented by the Home Builders Federation, South East England Partnership Board and The Campaign to Protect Rural England to the House of Commons Select Committee Inquiry into Housing

90 Communities and Local Government, Household Projections to 2031, 2009

91 National Housing and Planning Advice Unit (NHPAU), More Homes for more people: advice to Ministers on housing levels to be considered in regional plans, July 2009

Despite the difficulties some developments are taking place as the example below shows. There is further potential in several areas to develop a significant number of affordable homes through the development sites identified in the table 6 below. The issues really do rest heavily on the funding available and the willingness of local places to develop housing. There is a real need to explore sites that will allow for sustainable development. In some places, the harder job will be encouraging those that oppose sustainable development the relevance of housing development to support communities.

Practice Example: Woolston Riverside development-Southampton
Partnerships: SEEDA, HCA, Southampton City Council, Radian and Spectrum Housing Groups and Crest Nicholson. The development is expected to provide 1,620 houses including approximately 405 affordable homes, a marine employment quarter, a shop, a range of mixed-use office and retail space, a hotel, restaurants and cafes – the whole development is expected to create 1,000 new jobs.

Table 6: South East potential development sites

<table>
<thead>
<tr>
<th>Local authority</th>
<th>Site</th>
<th>Total housing</th>
<th>Affordable housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rushmoor</td>
<td>Aldershot Urban Extension</td>
<td>4,500</td>
<td>–</td>
</tr>
<tr>
<td>East Hants</td>
<td>Bordon Eco Town</td>
<td>5,200</td>
<td>2,200</td>
</tr>
<tr>
<td>Eastleigh/Winchester</td>
<td>Hedge End SDA</td>
<td>6,000</td>
<td>–</td>
</tr>
<tr>
<td>Fareham</td>
<td>North of Fareham SDA</td>
<td>10,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Portsmouth</td>
<td>Tipner</td>
<td>1,600</td>
<td>480</td>
</tr>
<tr>
<td></td>
<td>Horsea Island</td>
<td>800</td>
<td>240</td>
</tr>
<tr>
<td></td>
<td>Port Solent</td>
<td>1,200</td>
<td>360</td>
</tr>
<tr>
<td>Southampton</td>
<td>Woolston Riverside</td>
<td>1,620 (work started)</td>
<td>405</td>
</tr>
<tr>
<td>Southampton</td>
<td>Meridian</td>
<td>500</td>
<td>–</td>
</tr>
<tr>
<td>Test Valley</td>
<td>East of Icknield Way</td>
<td>2,500</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>Picket Twenty</td>
<td>1,200</td>
<td>480</td>
</tr>
<tr>
<td>Aylesbury Vale</td>
<td>Berryfields</td>
<td>3,235</td>
<td>970</td>
</tr>
<tr>
<td>Aylesbury Vale</td>
<td>Salden Chase SDA</td>
<td>5,390</td>
<td>1,617</td>
</tr>
<tr>
<td>Cherwell</td>
<td>Bicester Eco Town</td>
<td>5,200</td>
<td>2,200</td>
</tr>
<tr>
<td>Milton Keynes</td>
<td>SE SDA</td>
<td>4,800</td>
<td>1,440</td>
</tr>
<tr>
<td>South Oxfordshire</td>
<td>Great Western Park</td>
<td>3,300</td>
<td>–</td>
</tr>
<tr>
<td>Vale of White Horse</td>
<td>Grove Airfield</td>
<td>2,500</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Source: Government Office for the South East Region

Delivery of housing moving forward will be locally driven in line with the localism agenda although there are great concerns over how this delivery will work in practice. There are government incentives to encourage developments but in places like the South East where resistance is high, incentives are unlikely to make a significant difference. The challenge will be to develop new local models and better engagement with local communities to better meet local need and type of housing required. There might be clear divisions and growth monopolies, as areas lacking capacity to deliver struggle with those that can deliver. Models that allow the right to Build to Rent to Buy and Restore to Rent to Buy should be encouraged and could be the steady progression into homeownership. The former refers to new development built to rent out and eventually bought while the latter refers to restoring empty non decent housing to rent and eventually to buy.
8.3 Housing service provision

It has been highlighted in chapter 5 the economic value of building more homes and the contribution that investment in new affordable housing can make to the economy. The housing sector does also contribute to local and regional economies through support opportunities offered by housing providers.

Social housing providers offer a range of other specialist services; support and care, neighbourhood management, estate management, repairs and maintenance, providing significant support to the communities within the region.

- There are 232 housing associations (HAs) in the South East, owning more than 333,700 affordable homes in the South East.
- London and South East HAs have a combined turnover of nearly £1.6bn in 2009.
- HAs in the South East employed about 16,400 people directly and more indirectly through contracting and investing in local services and businesses.
- Housing associations have invested millions of pounds annually on neighbourhood services, in 2009 spending £545m in the management and maintenance of people’s homes.

Housing associations have been hugely successful in delivering affordable housing and leveraging investments, maintaining a strong relationship with lenders, which helps associations to deliver on a number of agendas. The ongoing investment by government through the HCA is crucial; this, together with the association funding, is key in the delivery of some of the affordable housing that is required.

Housing providers, house builders and other partners need to work collectively to explore the individual strengths that they can bring to work in partnerships to draw in investment, explore new models of delivery and seek to address ongoing challenges together. Housing associations help to build up local communities in a range of ways as the following Testway Housing Association examples show.

### Practice Example: Testway Transform – community fundraising at Testway Housing

Since the launch of Testway Transform in 2005, the scheme has helped to improve the lives of many people. The charity has a Money Box fund which, in the last three years, has given over £100,000 to community projects. Testway’s Managing Director, Steve Benson, said, ‘Small changes in lifestyle or attitude can be the start of a whole new way of life. A small investment can have a huge impact. Testway’s investment in Testway Transform and its Money Box Fund has made a huge difference to thousands of people in the areas where we work.’

**Groups benefiting:** So far, the fund has supported 97 groups with over 7,000 members. Grants ranging from £200-£2,500 have been given to projects for both young and old. Grants to Andover Community Education Group, given money to buy inks and computer equipment to train homeless adults or getting those hit by hard times back into work. Romsey Sea Cadets bought two boats for youngsters to practice their water skills while a group of blind people now enjoy line-dancing lessons.

**Impact of the scheme:** By giving groups small grants Testway can help to improve the neighbourhoods and make a difference to the lives of communities as a whole. The money has helped people stay fit and active, find work, cope with disabilities and helped people build their community spirit. Local MP, Sir George Young, one of the charity’s patrons, said, ‘I am proud to be a patron of Transform, and proud to be the MP that hosts both Transform and Testway.’

8.3.1 Housing design and sustainability

The creation of a low carbon society is critical if sustainable places are to be developed. It can not be overemphasised the necessity to ensure that all continue to tackle climate change and ensure that environmental concerns are embedded in national and regional goals and ambitions to provide a more sustainable society.

---

93 National Housing Federation, 2010
94 CIH, Housing, the environment and our changing climate, CIH, 2009
With 27% of carbon emissions coming from existing homes in Britain, an opportunity exists for the housing sector to lead the way in retrofitting these homes and ensuring that new developments are designed to the highest possible standards. Social housing providers have been exemplary in the delivery of high-quality housing that meets some of the highest environmental standards. It is estimated that about 5% of private homes are top rated for energy performance, compared with 21% of social homes.95

The reduction of carbon emissions and the adoption of energy efficiency mechanisms is high on the agenda of the UK government and a number of other European countries. The previous government had set ambitious targets to ensure a 60% carbon reduction by 2050. The new government, through the Green Deal proposal, clearly understands the importance of environmental sustainability, retrofitting homes so that they are more energy efficient and maximising on the economic, social and environmental benefits from this activity through the creation of jobs, ability to up-skill and train individuals at the same time as ensuring energy savings that help people save costs. Energy saving measures are significant in tackling climate change and reducing emissions but also critical in minimising fuel poverty and creating healthier environments for communities.

Developing a retrofit programme has complexities that require the expertise of a range of partners especially when dealing with a range of housing types. Housing providers and growth areas like the Thames Gateway are in good positions to deliver on this – the former with their engagement with residents that result in customer-tailored results and the latter driving partnerships to work together to benefit different households.

**Practice Example: sustainability and retrofitting – Thames Gateway**

It is critical to identify a key group to deliver a retrofit programme. With the Thames Gateway for example, the Institute for Sustainability (IFS) has lead in the development of sustainable technologies, systems and services for new and existing communities. The IFS will demonstrate how retrofit solutions for a range of different housing types can be developed. Through the Thames Gateway, the SusCon programme supports low carbon developments and ensures skills in sustainable construction through education and training.

The South East has high levels of owner-occupation and has a good proportion of private rented accommodation, hence it is critical to explore ways of targeting reduced emissions from these markets given that it is estimated that in the UK, these markets make up 80% of emissions from housing. Experiences from other European countries that have excelled in retrofitting activity are vital to grasp and share.

Developing to the highest standards, retrofitting and implementing the energy efficient measures will be of great value but there may be some difficulties in sufficient funding, given the financial burdens that are faced. Developers in the past have struggled to build to level 6 of the Code for Sustainable Homes, which in turn may limit the recovery of house building. The government must be careful not to set difficult targets but balance the benefits and costs associated with investments that are made towards the environmental agenda.

### 8.4 Housing’s contribution to place-based initiatives

Urban regeneration has benefited several cities across England,96 local areas rejuvenated to create thriving communities during times of stronger economic performance and increased public expenditure. In the South East, regeneration success is evident in and around the Thames Gateway area with the Chatham Maritime benefiting from 25 years of transformation, bringing improved infrastructure up to 1,000 new homes and creation of up to 3,500 jobs.

The recession and financial pressures have dampened this activity dramatically providing real challenges for growth in deprived areas of the country, a trend that will continue given that regeneration will face funding cuts moving forward. Regeneration is likely to be at a much smaller local scale, clearly needing partnerships that incorporate a place-based approach to maximise positive impacts for communities.

95 Chartered Institute of Housing, Making the case for Housing-housing pact, June 2010
Practice Example: Joint regeneration and housing delivery

Partnership: Walsall Housing Group and Walsall Council, West Midlands

The partnership was formed to ensure a strategic alignment of resources to develop housing-led regeneration activity in Walsall. The establishment of a strategic regeneration framework has helped to draw in additional funding from a number of funding sources including European funding, together with the group's resources. A joint housing and regeneration investment programme has brought many benefits for Walsall including raising the profile of Walsall locally, regionally and nationally. Economic and social benefits are embedded into one strategic framework. The partnership has a fund – Visionary Investment Enhancing Walsall (VIEW) - currently holding up to £9m, which adds value to Walsall Council resources.

Total Place97 involves 'local public services working together to deliver better value services to citizens by focusing on joint working and reducing waste and duplication.' (HM Treasury, March 2010). The evaluation of the 13 pilots revealed a number of problems; inefficient costly investments, poor asset utilisation, duplication and administrative burdens in the delivery of public services.

The evidence from the pilots showed the need for a radical approach in the delivery of services to improve citizens' outcomes through cost-effective measures that place customers at the centre of services. The findings from the pilots provided the drive to develop a range of policy offers allowing for greater freedoms from financial control, incentives for high-performing local authorities, a reduction in inspection and ring fencing.

8.5 Regeneration in new times

With regeneration targeted for further spending cuts, this presents huge implications in the long term, bringing additional risk to regeneration programmes, some not yet complete and others having stopped completely. The cuts in regeneration activity will have potentially bigger impacts in the most disadvantaged areas. This will widen the gap between neighbourhoods, increasing the unequal distribution of income and posing significant risk to the development of cohesive communities that are equal and fair. With limited budgets and uncertainty, spatial competitiveness for funding within cities will increase and the distribution of spatial equity will continue to be less balanced. The challenge in closing the North-South divide will be tougher, given the magnitude of constraints faced, but there is some potential to minimise the regional gaps.

The government’s proposal to redistribute economic growth by incentivising businesses to set up in areas other than London and the South East offers an opportunity to stimulate growth in these areas that have struggled. An equally-important factor would be to ensure a more strategic approach that ensures a balance of innovation, partnerships and investments, co-ordinated across the areas of most need. Apart from supporting the set-up of businesses which, as emphasised in this report, are critical growth vehicles, investing in the range of services (housing, health, education and necessary infrastructure) will be vital to create total places rather than selective places of growth that, in the long term, will be unsustainable and will create further inequalities.

The South East is competitively positioned with the presence of such growth vehicles; strong businesses, financial services and investments that allow for growth. However the area still faces pockets of deprivation and disadvantage. Places like Reading, Slough and Crawley, despite some renewal activity, still have areas of acute poverty.

8.5.1 Tackling deprivation

With the right-to-buy, significant reductions in stocks of social rented housing and prioritisation of allocations to those in greatest need such as the homeless and other vulnerable households has resulted in increased concentrations of deprivation on particular housing estates. The John Hills Review98 into social housing highlighted the important role housing providers have in tackling social exclusion, poverty and deprivation. Social landlords take active roles in working in partnerships, supporting social enterprise projects that help neighbourhoods and boost local economies. This sort of engagement is key especially in helping to minimise levels of child poverty, crime and anti-social behaviour by keeping an active community as the partnered youth engagement example below shows.

97 HM Treasury/CLG, Total place: a whole area approach to public services, March 2010
Practice Example: Testway 7s youth initiative and partnership work

Testway 7s was started in 2001, a youth-orientated, multi-agency project operating in Test Valley, Hampshire. The scheme takes an innovative approach to beating nuisance crime. The initiative uses sport and partnership working to build sustainable and fruitful relationships with young people. One of the project’s aims is to get young people playing a sport they haven’t played before. In the first year, 50 youngsters took part in one sport, rugby. Nine years on, 9,000 youngsters took part in seven sports.

Testway 7s initially helped reduce school holiday crime and nuisance rates on targeted neighbourhoods by almost 50%. The scheme has helped in preventing and reducing crime and anti-social behaviour, encouraging diversity and social inclusion, sharing resources and outcome measures, offering sustainability and value for money.

Partnerships include local sports clubs, together with members of the local community such as Hampshire Fire & Rescue Service, police, youth service, social services, pupil referral unit, Mencap, YISP, YOT and the local family learning project.

Deprivation is worse in areas in the North and the Midlands where, compared to the South East and London, incomes are lower and growth has been driven by regeneration of major city centres. It is hugely important that investment is adequately rationalised based on geographic requirements but, at the same time, not posing further risks to neighbouring areas perceived to be unlikely to contribute to the economic agenda.

Deprived communities suffer with higher levels of unemployment, poor educational prospects, poor health, crime and anti-social behaviour. Furthermore an increase in income inequalities will impact in housing terms as there will be limitations for poorer households to meet their housing need, possibly leading to increased problems with overcrowding.

Deprivation is often looked at in isolation but it clearly has multiple linkages to a number of other issues as the below practice example indicates. It is worsened by the lack of strategically aligned investments and adequate support systems like access to affordable housing, health and education services.

Practice Example – Small estates tackling deprivation

South Shields – North, Kent – South and Coventry – Midlands

The issues

The approach by the small estates taskforce was to look holistically at issues of three estates with inter-connected problems that cause great deprivation; unemployment, low self-esteem of residents, stigmatised estates, family instability and parenting problems, problems for young people’s development and aspirations. The three estates considered linking local multi-agency partnerships that covered estates. The reputation of an area provides many challenges and social capital sometimes has negative effects including exclusion and hostility towards newcomers to an estate. Estate culture impacts on young people’s aspirations.

The lessons

The Kent taskforce identified problems with young people and engaged with local primary and secondary schools and other partnerships to offer support to this group. The taskforce also aimed to improve estates’ reputations, self-esteem and parental engagement. In South Shields the neighbourhood management team organised a drop-in session for local residents to consult about the actions proposed. The taskforce also used community engagement for environmental improvements and improving the wellbeing of families. The Coventry team focused on developing confidence and bringing mutual respect to better community relations.

Local enterprise partnerships (LEPs) and other enablers, such as the Homes and Communities Agency (HCA), will play a critical role in supporting this multi-disciplinary approach and co-ordinating local priorities which are important in ensuring that local areas benefit.

Local leadership needs to drive the concentration of resources and build capacity to achieve benefits; the creation of places; efficiently and effectively boosting local economic performance, minimising poverty, promoting safer and cohesive communities and facilitating cross-sector engagement to improve the welfare of communities. As much as it
is important to create competitive markets and access to growth vehicles that in turn promote economic welfare, further social decline needs to be avoided to ensure that the most vulnerable are protected.

It is important to incorporate the total place approach which will aid in maximising any government investment that goes into schemes. There must be a strong emphasis for strategic vision and consideration into the long-term economic, social and environmental impacts of policies and interventions. In the future development and regeneration will be driven by local partnerships and the emerging delivery vehicles discussed.
The global recession clearly had an impact on many international countries and lessons should be learnt from the experiences. International collaboration is required to share knowledge and tackle common issues around investments, asset management, capacity building, climate change and sustainability.

A complex financial climate, spending cuts, political structural changes and the difficulties within the economic environment present real challenges for the housing market. Limited finances will mean that now, more than ever before, the housing sector needs to work harder and smarter. There is need for greater innovation, efficiency, investment in capacity building, developing partnerships and skills to deliver the sustainable communities that are necessary to tackle the deficit and rebuild the UK. Fiscal and monetary policy will be hugely significant moving forward therefore monitoring confidence, inflationary levels and other financial irregularities is important.

Lending will not return to pre-recession levels as banks continue to explore methods to shift their toxic debts and are closely monitored. Therefore credit will continue to be scarce and expensive. As Oliver Kamm explains, despite the easy monetary policy with low interest rates currently maintaining economic stamina, inflationary pressures may well kick in to increase the economic pressure, leaving a scenario where there is further reduction in confidence and consumer spending.

Developing the housing linkages with the labour market and other sectors is imperative for a strong recovery. Both the manufacturing and construction sectors are recovering; more investment in construction will in turn increase the provision of housing. The South East, a regional example used for this study, highlights the economic benefits derived from having strong delivery vehicles but also helps to point out regional disparities that potentially create a wider gap and increases to poverty and deprivation. Developing skills within the labour market will increase productivity in the South East, which is crucial to maintain competitiveness.

The localism agenda has provided an excellent opportunity to develop local leadership to take on the housing delivery role but local leaders and groups do face significant barriers around funding, capacity, local opposition and delivering for mixed-income communities. It is recommended that on each of the delivery barriers, local leaders are able to work collectively with relevant partners, offering strategic direction and input into locally-driven strategies that are sustainable and achievable in the current climate.

In a housing context, the government needs to act now to devise policies that allow access to affordable credit, increased investment activity, the speedy increase in new affordable housing but also firmer policy on tackling issues around empty properties. Furthermore providing clarity on the security of tenure and improving tenure choices is critical so that the housing needs of millions of people can be addressed. Housing providers will need to develop innovative strategies that allow for wider interaction and investment. The following summary of ten recommendations are not exhaustive but do offer some pointers for government, housing professionals, individuals, investors, and corporate groups on how to address some of the issues highlighted in this report.

1) **Strengthen financial markets** – greater degree of scrutiny and accountability is required. A balanced regulatory system should be established to ensure proper control of credit flows, a stronger mortgage market and financial security. The government needs to devise policies that are rigorous but flexible to allow innovation, robust asset management strategies and monitoring systems that will mitigate against any further potential risks. Financial stability will mean a more balanced mortgage market and stimulate private investment activity.
2) Develop Investment skills – housing professionals need to build skills to draw in additional investment required for the delivery of housing and regeneration programmes moving forward. Working collectively with the HCA to explore mechanisms to do this is essential but simply not enough. There needs to be a better understanding of what private investors require, the risks associated and the models that best match individual housing providers capacity. An opportunity exists for investors to gain steady returns from a more professionalised private rented sector and a social housing sector that better markets its product and offer.

3) Localism that delivers – the government has provided a platform that should facilitate communities to deliver on local priorities, but this will not only depend on devolved power to local communities but on financial resources and skills necessary to deliver. There should be clear policies on the localism agenda. Flexibility in the framework is needed to allow efficient local planning and delivery of quality housing.

4) Financial innovations – that provide routes to new financial and development models that are viable in the current climate and can easily adjust to changing economic market structures. The level of debt will mean less debt financing models and a greater emphasis on innovative equity financing strategies. Development models should look to address development challenges at local level where often issues around land values, site acquisitions and demand will vary considerably.

5) Invest in the Private Rented Sector – developing and investing in a healthy private rented sector is critical given the fact that this will be the main tenure choice for many households in the future. The private sector needs investments to allow improvements in its quality of stock and management functions. The sector could benefit from better security of tenure and diversification to pull in new investors.

6) Tenure Innovation and balance – a collection of new tenure structures that provide a wider range of services and products to match the mixed income communities and current economic pressures that households face. A right to Build to Rent to Buy and Restore to Rent to Buy as examples of models that can be adopted to develop both the rental and ownership tenures.

7) Build up the right Partnerships – building the right partnerships will help in tackling some of the challenges especially around funding and delivery. A closer engagement with the private sector will help explore new investment vehicles and new approaches to delivery. Greater community insight and engagement to understand local demand and match their needs with quality provision.

8) The cross-sector offer – private and public sectors face a number of constraints but these can be managed by increased collaboration. The private sector has a range of skills in development, project management and place making but is challenged by reduced confidence and risk taking, inaccessible and expensive credit. The public sector on the other hand has access to publicly owned land, planning control and strong landlord management functions. The two sectors face limitations in financing hence could look to share resources and risks. Cross sector interaction is also necessary to help tackle some of the more common social issues like Anti-social Behaviour and poverty.

9) Monitor demographics – local markets need to better plan and monitor household formations, population makeup and migration levels which will impact the pace of economic recovery. Monitoring these means stronger customer insight, effective planning and delivery of public services with minimal cost elements especially around housing, health and education.

10) Minimise the barriers – in each of the current existing tenure structures, significant barriers exist. The cost of homeownership is too high for first time buyers who struggle with deposits, stamp duty costs and low incomes to obtain sufficient mortgages. The social sector is struggling to meet demand and elements of private rented sector lack proper management and quality provision. Policy should be tailored to address these issues, in particular;

a. Stamp duty exemption – the current exemptions on stamp duty will help a minimal number of buyers with access to a mortgage but will be ineffective for larger proportions of buyers who seek higher mortgage levels for family homes. The exemption could be more relative to local market affordability and need for particular type of housing.

b. Mortgage deposit flexibility – consider incentives to encourage savings for deposit and work with lenders to reduce the levels of deposits, aligning requirements to earnings capacity.

It is critical that there’s greater recognition of the bigger role housing has to play in driving forward economic recovery but also in creating sustainable environments that people want to live in. This key message needs to be increasingly recognised by the government and partners the sector works with, as we tackle the deficit, promote economic recovery and ensure a balance of social, economic and environmental sustainability.
The role housing has to play in contributing to economic recovery and growth – experts’ views

Neil Hadden, Group Chief Executive, Genesis Housing Group

Housing involves considerable investment of resources. When resources are being spent on refurbishment on the building of houses they produce an economic multiplier effect. Traditional Keynesian economics theory would say that such expenditure would assist in economic recovery and growth.

The question is where those resources will come from. Returns for private investors are/may be too low to entice them to invest large amounts. Housing associations, whilst keen to sweat their assets, will have their income streams squeezed by government plans for benefit reform. This might therefore mean we need investors content to receive low but steady and guaranteed returns, eg pension funds, maybe foreign sovereign funds.

If such funds are available, housing provides jobs in construction, the supply chain, management and repair activities. It should not be forgotten that housing associations (and indeed local authority housing departments) are big employers and can have a big impact on local economies in terms of spending power.

Some associations also have arms that try to help residents into employment or training as well as assist with financial inclusion, all of which helps to increase residents’ spending power.

Barbara Compton

Is housing a viable competitive investment product given the complexities within the new economic climate?

Housing as a competitive investment product has had a negative impact on the economy in recent years in the UK (but also Ireland and Spain) probably as the focus has often been on individual investment. (Demand for housing depends upon demographic factors, income levels and the mortgage rate, which in turn depends upon interest rates.)

There is also a speculative demand that depends upon expectations of future changes in house prices. As housing comprises a large proportion of household wealth, changes in house prices affects wealth, and thus aggregate consumption. The economy in the UK has been volatile in recent years, booming in the late 1980s but then entering recession in the early 1990s. This helped to sustain economic growth in the macro economy at a time when share prices were falling.

The housing market needs to be restructured and there needs to be a cultural change in the UK to move away from the idea of it being a piggy bank. The individual needs to view their home as a consumer durable rather than something there to make them a profit. At the same time there is a need to build a professionalised private rented sector where institutional investors can recognise that housing can provide not profit but a steady and reliable stream of income. (Building this sector would also help to change the culture of housing in the UK.)

How can the housing offer attract more private investment?

There is a need for exemplars to show how the above model would work – successful exemplars could then be marketed to others. There needs to be investment in the project management of these exemplars.

France – Jean-Luc Schutz

Is housing a viable competitive investment product given the complexities within the new economic climate?

First, please forgive my poor English, but I will try to give you a French point of view of these questions. Housing investment is really popular in France mainly because it is considered as an opportunity to build assets without having funds at the beginning. Almost 100% of your investment in housing can be borrowed and this is quite unique.

Secondly, governments usually use fiscal incentives in the housing market when they want to boost the economy. There is a saying, ‘Quand le bâtiment va, tout va’ - the construction of new buildings is pulling up the whole economy.

How can the housing offer attract more private investment?

The problem in France is not to attract more private investors, but to drive these investments where there is a real demand for new houses and to build new homes for the people who are waiting for them. With the de Robien Scellier Government scheme, 75% of the dwellings built are affordable for only 25% of the population and thousands of houses or flats have been built in areas where there is no demand at all.

Canada – Margie Carlson-Global Networks Manager, Social Housing Services Corporation, Toronto

The main difference you will find with Canada is that we weren’t affected by the crisis in the same way as either the UK or the US. So the questions are a bit difficult for me to answer.

The reason why we never experienced a crash is primarily due to the fact that our relationship with our major banks is different than with yours. Our banks are controlled centrally and monitored by the Bank of Canada. Ironically some of the solutions that have been talked about in the UK are already in place in Canada and have been for years (ie our entire housing system is buoyed by mortgage insurance that is provided by Canada Mortgage and Housing Corporation, a federal agency). The Canadian real estate market saw drops in prices in all markets from 2007 to 2009,
but not at the levels experienced in the US. Since then, the market in Vancouver, Toronto and Ottawa has risen (to new records in the first two cities), while the decline has continued in Calgary and Edmonton.

Furthermore, the social housing sector only occupies about 5% of the total housing stock in Canada – which of course is a very large country. We are a marginalized sector in a lot of ways and although we have several social landlords that are very large, most of them are not. Canada instead has focused on small community-based non-profits, which do not attract either media attention nor do they assume a larger responsibility to addressing economic recovery.

Responsibility for housing is a provincial jurisdiction so it is often very hard to draw comparisons about what is happening in different parts of the country. 13 provinces and territories respond individually to their own economic circumstances. As to the larger social housing providers in Canada, like Toronto Community Housing Corporation, most of them are municipally or provincially controlled (like BC Housing) so they don’t act completely independently and must be mindful of their government ties.

So where am I going with this...what I’m trying to get at is that Canada hasn’t had the same economic downturn that you’ve had and the Canadian social housing sector isn’t generally where folks turn to solve economic woes. Where this is opportunity, is for social landlords to push the boundary on environmental sustainability or accessible housing. TCHC plus BC Housing are true leaders in this area and have been practicing not just energy efficient homes but also water efficiency, waste management, recycling etc. That is generally where our opportunities are.

Appendix 1A – Challenges and opportunities for housing in the future

Challenges and opportunities for housing in the future

Neil Hadden, Group Chief Executive, Genesis Housing Group

We have to accept there will be a scarcity of public subsidy in the short to medium term. We are going to have to look for innovative solutions. The problem is affordable rents can only be provided if there is some form of subsidy. Associations’ ability to provide internal subsidies (reducing reliance on grant) will be enhanced by agreeing to a new settlement with the government which frees associations to employ proper asset management strategies which might include disposals and lettings on a different tenure basis. This could be a great opportunity to create a modern affordable housing sector.

Barbara Compton, Head of Housing Solutions, Southampton City Council

The challenge for housing is meeting the needs of those who cannot access the housing market, who are already marginalised and face further problems with changes to the housing benefit in the UK from April 2011. Opportunities may arise from new models of funding set out by the HCA.

Jean-Luc Schutz, Directeur Général, Norevie

The housing market will remain strong and sound because the demography is still robust and because the size of households is still shrinking in France (elder people live alone, divorces create smaller families, many singles in big cities etc).

Maybe the best policy would be to focus government subsidies in favour of people who have real difficulties to find affordable housing (young people, low income people) and to stop disturbing the market and the decision of private investor with measures that are both costly and inefficient.

Appendix 1B – Delivery and innovation

Impacts on delivery and innovation – international views

Denmark – Keld Adsbol, Consultant, Economist, BL – Danish national housing association; Bo Godt, Danish Housing Federation; Claus Bech-Hansen, Area Manager, Glostrup Housing Association

The impact on improving existing and providing new affordable housing

In Denmark, estates are run democratically with residents voting on any proposed expenditure. There is little effect so far on planned maintenance, since it’s financed by appropriations provided through previous years’ contributions. It is, however, simply too expensive at the moment to build social/affordable housing because of insufficient subsidies – most housing associations cannot meet the stipulated cost parameters. Entrepreneurs are hungry for work, so it is a buyer’s market.

The impact on innovation and quality in the provision of new affordable housing

Because there is virtually no new build happening, there are no innovations being introduced.

France – Jean-Luc Schutz, Directeur Général, Norevie

The impact on improving existing and providing new affordable housing stock

As virtually all subsidies for improvements to existing social housing have been withdrawn to save public money, the crisis will have no impact in this regard. It remains to be seen how the new funding mentioned above will stimulate new construction.

NB: The actions of the French government highlight the debate facing most, if not all governments in the developed world – fund the refurbishment of existing social stock or build new properties. Arguably, the decisions being made are
heavily influenced by the chosen strategy pre-crisis – hence the UK’s Decent Homes refurbishment programme continues unaffected towards its 2012 conclusion.

The impact on innovation and quality in the provision of new affordable housing
French civil servants never worry about the economic situation when drawing up new standards. There have been quite a few new standards in housing over the last 2-3 years (disabled access in new homes; improvements in sustainable growth; improved energy efficiency etc) and as these remain in force, there can be no reduction in the quality of social housing. What impact the crisis may have on further innovation remains to be seen. Hopefully, the crisis will reduce construction costs.

Austria – Dr Wolfgang Foerster, Head of Housing Research, City of Vienna
The impact on improving existing and providing new affordable housing stock
For the public sector (which is stronger in Austria than almost anywhere else in Europe) the crisis has ironically improved the situation. There is more public spending on housing renewal and improvement and decreasing construction costs due to less private sector activity. On the other hand, bank loans are more difficult to get and will become more expensive (not only because of the crisis, but also due to the Basel II conditions). In principal, the impact of the financial crisis on the provision of affordable housing has therefore remained weak.

The impact on innovation and quality in the provision of new affordable housing
It seems that the necessity to increase public investment, in part to stimulate private consumption, will have a positive influence on innovation and quality. The Vienna region, for example, maintains its public housing programme by building 7,000 new units a year and refurbishing 10,000 flats, at the same time initiating new quality and affordability monitoring.

Republic of Ireland – John Hannigan, Finance Director, Respond Housing Association
The impact on improving existing and providing new affordable housing stock
The government has maintained spending on new stock at last year’s level though the department with budget responsibility can only spend up to 90% of it this year, 75% next year and 60% the year after. Therefore, as most of this money is already committed to ongoing projects there will only be a few, if any, new social housing projects over the next three years. This is having a considerable impact on organisations that are set up to deliver housing and will do nothing to reduce the 56,000 households on waiting lists. This is the official figure – the unofficial figure is closer to 78,000 households on the waiting list.

The impact on innovation and quality in the provision of new affordable housing
Innovation in the development and use of renewable energy continues and is beginning to enter the mainstream. Innovation in how projects can be funded through the private sector with government support is also gaining pace – though from a low base as Ireland does not have a private finance sector experienced in lending for social housing provision. Prospective funders have therefore been slow to engage but they are being encouraged to enter the market. Several structural elements in the sector need attention including rent support and the fixed charging of property as they remain out of kilter with current inflationary pressures.

Canada – Margie Carlson, Global Networks Manager, Social Housing Services Corporation, Toronto
The impact on improving existing and providing new affordable housing stock
In one respect – construction costs – the impact of the crisis has been more positive. For example, a large housing provider in the City of Ottawa had been planning the construction of a 250-unit development for eight months which finally went out to tender on the back of falling construction costs.

In other parts of the country (eg British Columbia and Alberta), private landlords are coming forward offering to house low- or moderate-income households in their vacant units in return for rent supplement funding. This is a typical response by the private sector in times of economic downturn. While it does not create permanent affordable housing (historically, landlords have terminated these agreements when the market recovers), it does increase the number of short-term affordable units.

On the negative side, provincial governments in both British Columbia (BC) and Alberta had been considering delaying capital improvements to the public housing stock to help avoid deficits. The danger is that unless capital spending is resumed in the future, stock will deteriorate rapidly. With the Federal Government requiring match funding, BC and Alberta may yet decide to proceed with the work.

Banks are increasingly risk-averse and so providers are still finding it difficult to obtain affordable funding for new construction.

Much of the existing social (not public) housing portfolio is financed through mortgages with a long amortisation but fairly short terms (usually five years). Financial institutions so far have not cut their rates, despite moves by the Bank of Canada. Unless the financial industry moves soon, the cost of existing mortgages may rise on rollover, thus increasing governments’ subsidy cost.

The impact on innovation and quality in the provision of new affordable housing
One major effect of the crisis has been to force a re-examination of the energy efficiency of new affordable housing. Providers planning new housing are all looking at ways of reducing consumption of greenhouse gases through better cladding, geothermal heat where possible, reduced requirements for the number of parking spaces, etc.
For example, in mid-2007 the Government of BC announced that all new housing construction receiving provincial funding had to meet The Leadership in Energy and Environmental Design (LEED) Gold Standard. The first wave of buildings so constructed opened in February 2009. The Province’s new construction standards now permit six-storey wood-frame housing arguing timber has less environmental impact than concrete. Since last summer, BC has also allowed its social housing agency to make construction financing loans to the private market as well as social housing providers at or below market rates. The Alberta government has improved housing accessibility standards for people with physical disabilities.

Not all of these initiatives were sparked by the financial crisis, but providers expect that the capital cost of innovations will be reduced as the construction industry will be hungrier, and therefore more competitive.

**Germany – Professor Fritz Schmoll, Berlin School of Economics**

*The impact on improving existing and providing new affordable housing stock*

Since several years public programmes have been reduced sharply. This was before the financial crisis. The remaining programmes have not been reduced further, as far as I can see. But in the federal system Bund, Bundesländer and local authorities give (little) money for the housing sector. So the picture is differentiated.

(Federal) tax reduction for refurbishment of historical buildings and of buildings in urban renewal areas still exists – there is no discussion about abolishing it so far.

*The impact on innovation and quality in the provision of new affordable housing*

Private developers find it extremely difficult to get loans/mortgages for new developments. But there are still some who can. So there is little innovation, but still high standards in the general quality and in the green aspects.

**Belgium – Roger Sannen, Chief Executive, Brussels Housing Corporation**

*The impact on improving existing and providing new affordable housing stock*

Thankfully, we have a five-year housing programme for the Brussels region and the necessary funds had already been set aside and have been ring-fenced.

*The impact on innovation and quality in the provision of new affordable housing*

With funding secure, neither the quality nor quantity of new social housing projects should be affected.

**US – Bill Povalla, Assistant Housing Commissioner, City of Chicago Housing Authority**

The financial crisis has caused problems with the pay in rates for the Low Income Housing Tax Credit Program (LIHTC). First, one of the major purchasers of the LIHTC was Fannie Mae and following their bailout in 2007 (and the subsequent political furor) their appetite for the tax credits is now virtually zero. This in turn has caused problems in finding organisations that are willing to purchase the tax credits. Second, because of the weakening demand for the credits, the pay in rate has dropped from 90 cents on the dollar to 68 cents on the dollar. This means that the tax credit itself is worth less and thus we have to find more soft money (ie direct Federal subsidies) to make projects work. Without new funding from the Federal Government, we will produce less housing.

Additionally, the downturn in the mortgage market has made buyers much pickier in their choices of neighbourhoods and housing options. The end result is that our program to replace the public housing units with 33% market rate, 33% affordable housing and 33% former public housing residents, is having problems attracting market rate buyers. Therefore, many units are vacant. One idea to address this is to turn the homeowner units into rental units but this would entail considerable bureaucracy and problems with monitoring.

*The impact on innovation and quality in the provision of new affordable housing*

At the moment, innovation is not suffering. Because of how our funding is structured, there appears to be more money still available for cutting-edge green technology. The Stimulus Package includes measures that would actually increase the funding available for green technology. Quality, too, is being maintained thanks to the monitoring and code-related mandates with which developers have to comply. However, this might be an issue in the private market where gap financing is not available to make up the difference between a development’s profitable sale price and its current value.

**South Africa – John Hopkins, Chief Executive Officer, South African Housing Federation, Cape Town; Eleanor Blou-Spies, Mayor of Knysna**

*The impact on improving existing and providing new affordable housing stock*

There appears to be a slow down in the building industry in general for reasons other than the credit crunch, eg the Government-subsidized market is hamstrung by red tape and large amounts of Government funding for low-income housing takes a long time to reach the consumer. Meanwhile, social housing companies have cut back on their budgets and are being forced to be more competitive to compete against rapidly rising costs. However, with the prospect of the FIFA 2010 World Cup, large capital works are still being completed. The cost of building products has increased markedly in over the past nine months.

*The impact on innovation and quality in the provision of new affordable housing*

Innovative housing design has always been more costly compared to conventional brick or block building systems and, in the middle and lower-income market, is believed to be of inferior quality.

Source: Calford Seaden, 2009