

Housing investment and neighbourhood market change

Findings
Informing change

May 2007

This study of neighbourhood housing markets in England in the 1990s and early 2000s describes and explains patterns of change in housing market performance, with a particular focus on the impact of new investment. It draws on extensive secondary data, as well as six local case studies.

Key points

- The level of deprivation in a neighbourhood appears to be the most significant factor affecting house price differences, and other measures of demand, between neighbourhoods. The effect is less clear-cut in London.
- Deprived areas have improved their relative position in terms of house prices since 1988. However, the price changes in these areas can be quite volatile.
- New social housebuilding has been concentrated in more deprived neighbourhoods. This has tended to increase the concentration of poverty even while other factors (e.g. job availability) were reducing it.
- There has been an increase in new private housebuilding in deprived neighbourhoods, partly reflecting its profitability to the developer.
- The economy and employment opportunities have a strong influence on the housing market at the wider area level. At the neighbourhood level, access, urban form, neighbourhood quality and social status are particularly significant.
- New private housing has a negative effect on house prices, but mainly at the wider area level where supply–demand effects predominate. At the neighbourhood level, the effects may be positive or negative, depending on circumstances, but are generally small.
- The effects of new social housebuilding are mixed, particularly when account is taken of an increase in the overall proportion of social housing, and an increase in the concentration of poverty in an area. However, for some periods the effects on price change can be positive, indicating that physical improvement of the area may outweigh social impacts.
- Local practitioners had mixed views about previous regeneration initiatives in the case study areas. They felt that individuals and parts of a neighbourhood had gained, but there was a failure to transform the social standing of many of these neighbourhoods.

The research

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Introduction

This study of neighbourhood housing markets in England in the 1990s and early 2000s describes and accounts for patterns of change in housing market performance over this period. While there is a particular emphasis on house prices, the study also reviews other aspects of housing including vacancies, turnover and residents' satisfaction.

The research explored what factors had most effect on local and neighbourhood housing market performance, and within this focused particularly on the impact of new investment.

The study is relevant to a number of key policies, particularly Housing Market Renewal, Neighbourhood Renewal, 'urban renaissance', planning for greater housing supply within 'sustainable communities', and the promotion of home ownership and mixed and balanced communities.

Housing market patterns and change

There are strong, well-established patterns of regional difference in the English housing market. The extent of these differences has fluctuated over the times of 'boom' and 'slump' that have been experienced since 1988. They widened in the upswing and narrowed in the later stages of booms and during the recession.

In London, house prices are much higher in the central area. However, in the rest of England city-centre prices are only slightly higher than surrounding urban areas, and are lower than in the edge city and rural hinterlands.

The level of deprivation in a neighbourhood appears to be the most significant factor affecting house price differences, and other measures of demand, between neighbourhoods. However, the effect of deprivation on house prices is less clear-cut in London. Low prices and low demand also reflect factors such as social renting, terraced housing, higher density, and residing in an urban rather than a rural location, that may lead to dissatisfaction with a neighbourhood.

Price changes over time show that deprived areas have improved their relative position over the period since 1988, which has seen an overall cycle of boom–recession–boom. This improvement happened early and late in the period covered by this research, with a falling back between 1996–2001. The most deprived and the most affluent neighbourhoods showed the greatest volatility in the north of

England. Over the whole period, city centres have improved their relative price performance.

New social housebuilding by registered social landlords (RSLs) has been concentrated in more deprived neighbourhoods. New private housing is more evenly distributed; previously it was prevalent in more affluent areas but recently more private housing is being built in deprived neighbourhoods. The size of the dwelling stock and the number of households have decreased in the most deprived wards, with systematically greater growth in the more affluent wards. In terms of profitability, private housebuilding remains marginally profitable in deprived areas of the north, while being generally highly profitable in London.

House sale transaction rates rose from 1996 to 2004, and this increase was much more striking in deprived northern areas, although rates had fallen back by 2006. A breakdown of transactions by sources of supply and demand indicates that a range of factors contribute to this pattern. Supply was influenced by out-migration, moves into renting and changes in household circumstances (e.g. deaths, relationship breakdown), and demand was affected by greater affordability and an upsurge of speculative investment in private renting. The rate of house sales is affected by the demand for housing in an area, and also by structural features such as the proportion of flats and smaller dwellings, which have an effect on turnover.

Low housing demand, across all tenures, remains a particular problem for deprived areas of northern England, and was especially acute in the late 1990s. However, demand increased from 2001 to 2004, and has fluctuated over the last two years.

Answers to survey questions about residents' dissatisfaction with their neighbourhood present a similar picture – that the level of deprivation of an area has an impact on its appeal. These surveys also identify some problems relating to high density. However, there is some indication of an improvement in these measures since 2001.

What factors influence the housing market?

The role of the economy and employment in driving the housing market was found to be particularly significant. It is not just the economic performance of the wider area that matters, but also the access to jobs at ward level.

Proximity to city centres has in recent years been a positive factor in terms of increasing prices; rural areas have seen lower price increases over the medium term. The physical form of neighbourhoods, in terms of

density and local green space, has a significant effect on both house price levels and residential satisfaction.

Wards that started with low prices, in absolute terms and relative to predicted levels, tended to see greater subsequent increases, and vice versa, suggesting markets tend to adjust to disequilibrium over time.

Vacancies seem to have complex relationships with local market dynamics, in some cases indicating slack demand while in other cases being associated with speculative elements of demand.

School performance has some positive impact on the housing market, but this effect strongly overlaps with that of poverty and social class. Crime does not have a significant extra negative effect on the market.

Poverty was found to be very important for the market status of neighbourhoods. However, deprived areas may also display more market volatility. From a policy point of view, the question is, how can the level of poverty in neighbourhoods be reduced? The evidence from this research suggests that changing the tenure mix of housing supply can make a difference, although most of the reductions in poverty since 1991 reflected labour market changes and other factors, rather than patterns of housing development.

Increased owner occupation has generally positive effects on the health of local housing markets, whilst the effects of increased social renting are more ambiguous; physical improvements associated with new houses and remodelling may be offset by the impact of increases in concentrations of poverty within an area. An increase in the proportion of flats in a locality is associated with higher demand and house prices, although it can mean a fall in prices in the particular neighbourhoods where the flats are concentrated.

Increased concentrations of minority ethnic populations seem to boost housing demand at the wider market level while having some negative impacts on prices at ward level.

Rather similar models to those used for house prices can be used to analyse other neighbourhood market outcomes, including household growth, poverty change, and changes in low demand. One common feature here is that increased social renting tends to be associated with more adverse outcomes.

Residents' dissatisfaction with their neighbourhood was found to be linked to a number of common negative factors, including deprivation, social renting, terraced housing, higher density, and residing in an urban rather than a rural location.

Local perspectives

The views of local practitioners interviewed as part of this study generally reflected its findings, in terms of the factors that affect investment in neighbourhoods and neighbourhood change. Some factors were widely understood to be important, regardless of where local practitioners were based – for instance, the importance of environment and quality of life, of an area's status and reputation, and of access to work and social opportunities.

Local practitioners were positive about the idea of mixed/balanced communities, but recognised that past patterns of development have not strongly promoted this. They were concerned to see a greater diversity of choices available in local markets, including within neighbourhoods, and including affordable options. The need to work together sub-regionally was generally recognised but not yet working very smoothly in practice.

The impact of new investment

Is new housing good or bad for the neighbourhood housing markets affected by it?

New private housing has the effect of reducing house prices, but mainly at the wider market area level where supply–demand effects predominate. At the neighbourhood level the effects can be positive or negative, reflecting a mixture of social, environmental and confidence effects, but are generally small in magnitude.

New social housing appears more positive than negative in its direct effects on price level and change, particularly at local authority level. The effects are rather more mixed at ward level, particularly when account is taken of overall changes in tenure share over longer periods. However, for some periods the effects on price change can be positive, indicating that positive environmental effects (e.g. from new homes and improved public spaces) may outweigh negative social impacts (from more poor people living in the area). But these findings on the effect on house prices of new social housing must be weighed alongside evidence of generally negative impacts on other outcomes, including indirect effects through reinforcing the concentration of households living in poverty in deprived areas.

There is some evidence that, as expected, new housing has differential effects according to the state of the local housing market. The negative effects on house prices at local authority level seem to be more pronounced in lower demand areas, suggesting that these areas are more vulnerable to oversupply. This

supports the policy of being cautious about the number of new houses built near Pathfinder and similar areas.

However, although the initial impact of, for instance, new housebuilding may be negative in the short term, longer term the effect can be more positive. Demolition, for instance, although having a negative effect on house prices and other outcomes in the short term, can have a positive effect over a longer time period.

The rate of take-up of new private housebuilding opportunities is shown to be generally positively related to price levels, and the profitability of development. Nevertheless, the responsiveness of supply is generally rather low. The absolute amount of development is strongly related to the amount of land made available through the planning system.

Allowing for these factors, new build rates are lower in more dense urban areas and where brownfield land is more predominant. New build rates are higher where vacancies are higher, providing further support for the significance of speculative development processes in some areas. Particularly interesting is the finding that new social housing tends to have a positive effect on new private building, which may be related to the increasing role of s106 agreements and the positive leverage of subsidy in the wider market.

The case-study authorities in this research have had substantial experience with different kinds of regeneration activities. The perceived impacts of previous initiatives are pretty mixed, with gains for individuals and parts of neighbourhood environments, but a broader sense of failure to really transform the social standing of many of these neighbourhoods. This is attributed to a mixture of insufficient resources, the wrong kind of resource/unbalanced programmes, and tendencies for people whose economic situation improves to move out. However, in view of the powerful

forces driving local housing markets, and wider social conditions, perhaps this rather critical view should not be surprising.

It is too early to assess the impact of the current more ambitious programmes of Housing Market Renewal Pathfinders. Although recently prices have clearly risen more in these areas than in other comparable areas, other indicators suggest continuing challenges.

About the study

The study was carried out over a period of 18 months from the beginning of 2005 to the summer of 2006. The statistical data analysis covers the period from 1988 up to 2004, drawing on a wide range of secondary data sources, with limited updating to 2006. Some data and analyses are shared with a parallel study for ODPM/CLG that involved 'developing a system to measure and model housing demand'.

For further information

The full report, **Transforming places: Housing investment and neighbourhood market change** by Glen Bramley, Chris Leishman, Noah Kofi Karley, James Morgan and David Watkins, is published by the Joseph Rowntree Foundation (ISBN 978 1 85935 575 6, price £17.95). You can also download this report free from www.jrf.org.uk

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