Housing and Neighbourhoods Monitor 2011: fragility and recovery

Findings
Informing change

June 2011

The Housing and Neighbourhoods Monitor was established in 2008, just as the depth and severity of the global financial crisis became fully apparent. The Monitor seeks to make a unique contribution to understanding the interaction between housing and neighbourhood trends across the UK and within each of its four nations.

Key points

- The recession has had wide-ranging impacts on housing market performance and socio-economic conditions within neighbourhoods. The pressures are evident at a variety of scales, from national down to neighbourhood level.
- Northern Ireland has experienced the greatest shock from the economic downturn, as exhibited by drastic house price drops and labour market indicators. By contrast, the trajectories of change in Scotland suggest that it has been relatively insulated from the shock of the downturn.
- Despite house price falls, affordability remains a key issue, particularly in southern England, where the ratio of house price to household income is particularly high. The situation for many living in inner London is paradoxical in that housing affordability remains a major issue, yet high concentrations of deprived neighbourhoods suffering high levels of economic inactivity persist.
- Against a background of fragile, uneven recovery from recession, and fiscal tightening (tax increases and spending cuts), the divergent responses of devolved government to housing, planning and regeneration policy challenges are the result of different local market contexts across the UK.
- Current housing policy initiatives focus on promoting and incentivising growth. It appears likely that this approach will support an uneven, patchy recovery, reinforcing more buoyant growth areas but doing little to address decline and market failure in other locations. The localism agenda also risks creating a void in strategic planning and co-ordinated delivery, which could undermine successful regeneration.

The research
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Background

The Housing and Neighbourhoods Monitor (HNM) is a resource for understanding housing and neighbourhood trends in the UK. It uses a range of housing and neighbourhood indicators to examine interactions and key trends and comment on areas of policy concern.

Headline indicators

The recession has generated wide-ranging impacts on housing market performance and socio-economic conditions within neighbourhoods. These pressures have manifested themselves at a variety of scales, from national down to neighbourhood level, as highlighted in the following summary indicators:

- *House prices* – standardised English house prices decreased by 10.4 per cent between 2007 and 2009. This masks huge variations at local level. The greatest decrease was in a Birmingham neighbourhood (-40.3 per cent) and the greatest increase was in a neighbourhood in the London Borough of Camden (+81.4 per cent).

- *Affordability* – despite the overall drop in price levels, house prices remain high, resulting in continued affordability issues (see Figure 1). The ratio between house prices and income for Great Britain reduced from 7.7 in 2008 to 7.0 in 2009, implying marginal improvement in affordability. For England, the ratio fell from 8.1 to 7.3 and for Wales from 6.5 to 5. Conversely, Scotland experienced an increase in the ratio of price to income from 4.4 to 5.2 during the same period.

- *Housing starts* – these reduced by over 50 per cent between 2007 and 2009 in the UK. England recorded a fall of 53 per cent, Wales 54 per cent, Northern Ireland 42 per cent and Scotland 40 per cent. In terms of private sector starts, the average UK local authority saw 200 new builds; however, the Scottish average was around double this figure. Social housing starts were also highly variable. Scotland had the highest average social new builds by local authority (at 180), compared with Northern Ireland (33) and Wales (23). No social housing was built in 106 English local authorities in 2009-10.

- *Economic inactivity and employment rates* – these varied widely across UK local authorities in 2009-10. Economic inactivity rates ranged from 10.8 per cent in Ryedale (North Yorkshire) to over 37.9 per cent in Omagh (Northern Ireland). In English local authorities, the highest employment levels were found in the shire districts of Ryedale (86.1 per cent) and East Cambridgeshire (81.7 per cent). This was in contrast to the much lower rates in inner London (Newham 56.1 per cent; Haringey 59.4 per cent) and in urban areas in the Midlands and along the M62 corridor.

The research also highlighted that each locality faces very different demographic trajectories, which will shape future housing demand and wider socio-economic challenges. The highest household growth (2008-33) is projected for England (26.6 per cent), particularly in East Anglian local authorities such as Colchester (50 per cent), Suffolk Coastal (46.3 per cent) and Ipswich (45.4 per cent). Wales has the lowest projected growth (10.5 per cent) in the UK, but contains wide variations, from 41.6 per cent growth in Cardiff to a 1.6 per cent decline in Torfaen.

Regional variations across the UK

The devolved nations and market fragility in Northern Ireland

In terms of overall performance, Northern Ireland has suffered the worst impacts from the economic downturn and exhibits dramatic changes in its indicator values. This is clearly shown by the drastic drop in house prices and employment levels as well as rising rates of unemployment and economic inactivity.

The catastrophic collapse of house prices in Northern Ireland clearly demonstrates the scale of the impact. Average prices peaked in the third quarter of 2007 at £250,586 and plummeted to £149,795 in the final quarter of 2010. The ongoing correction in the market is the first time that the majority of home-owners in Northern Ireland have experienced the impact of a falling market; Northern Ireland escaped the market recession in the early 1990s.

By contrast, the trajectories of change in Scotland suggest that it has been more insulated from the shock of the downturn, although the volume of house sales has collapsed. Many neighbourhoods have benefited from the rippling effects of house price inflation and relatively high levels of social new build. Scotland's labour market conditions are also less problematic (for example, the lowest level of economic inactivity rates and high levels of employment rates). The picture is less positive in Wales, with poor performance across most indicators, although the situation is not as severe as that in Northern Ireland.

London and the South East

A particular finding regarding the interaction of housing and labour markets is the phenomenon of the 'two Londons' – inner London and the wider London and South East commuting belt. The lengthening of journey to work distances of the London labour market area led to house prices in London and its commuting locations rocketing to a very high level before the economic downturn. These housing markets have also been the first to recover.

This has created a paradoxical situation for those living in inner London, as housing affordability is still a major issue even in the current economic downturn. There remain high concentrations of deprived neighbourhoods suffering from poor quality of living as well as high levels of unemployment and economic inactivity. The pressure on housing is partly related to continuous population growth caused by international migration, which exceeds the loss of domestic population. However, the more affluent parts of the outer commuter belt, stretching to 60 km outwards from the City of London, are enjoying a higher quality of living. But the overheated housing market not only creates serious affordability problems and pressure to release greenfield land for housing development, it also raises wider concerns about the sustainability of the continuous lengthening of commuting distances.

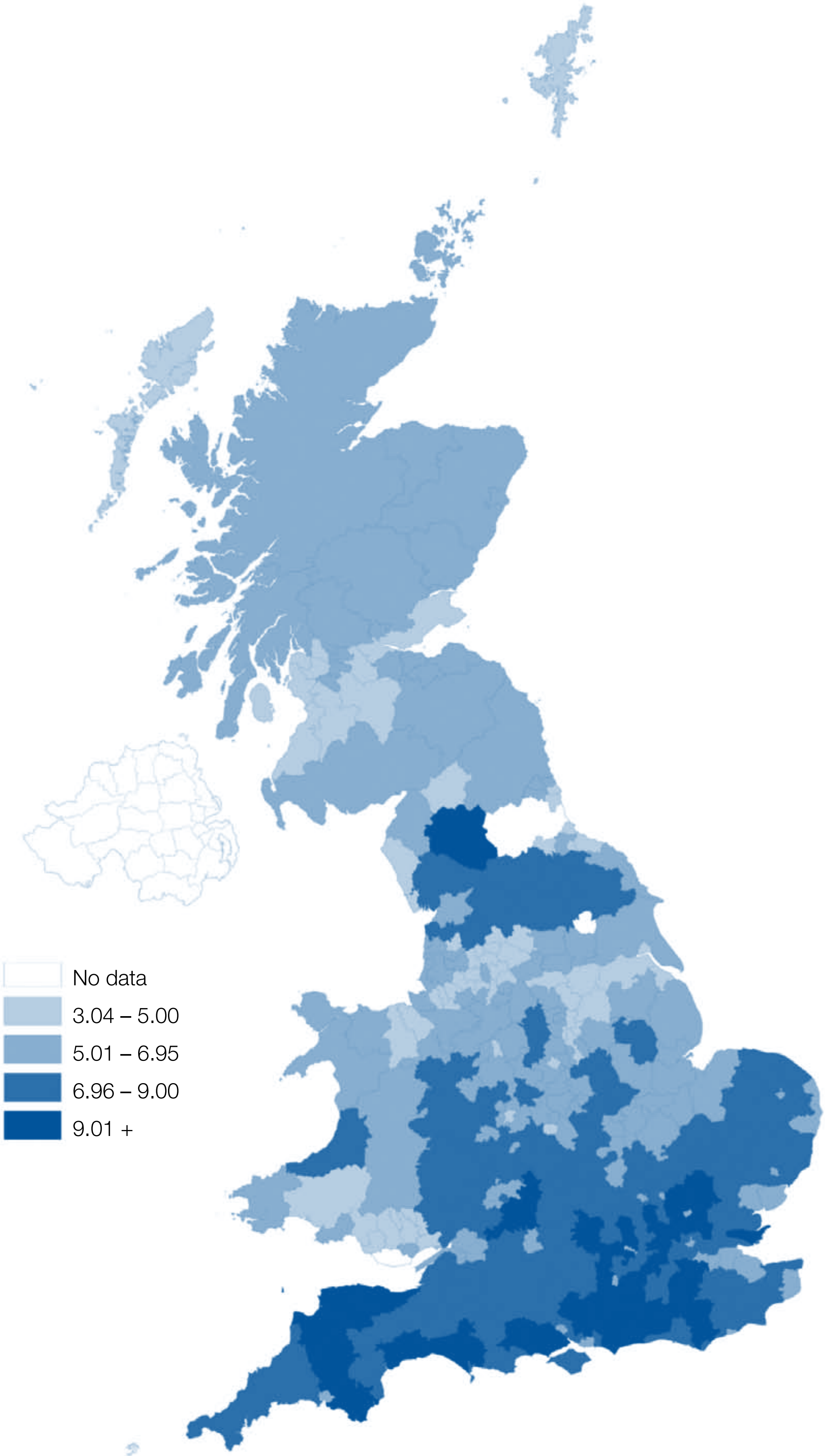
Outside London and the South East

The HNM indicators suggest that the recession brought a degree of convergence among the regions, but that this is already diminishing as the south pulls away fastest as the economy recovers. Patterns of change varied between urban areas outside London and rural areas. House price increases, population and household increases, and more favourable socio-economic conditions were found in rural England, particularly in North Yorkshire and the Lakelands.

Housing markets in the metropolitan areas of northern England have not been so badly affected by the downturn, in part because of the success of brownfield housing development policies. There have not been major negative impacts on the labour market and economic growth dynamics in these areas. This is probably related to these economies tending to be public sector oriented and the impact of the Government expenditure cuts not yet being felt.

Housing markets in the non-metropolitan northern industrial areas have performed less well since 2008. New-build activity has declined, and socio-economic conditions have also been declining. Since the public sector plays a major part in the local economy of these areas, the Government's major funding cuts will have a more significant impact here.

Figure 1: Housing affordability (ratio of house price to household income), 2009



What next for housing and neighbourhoods?

The UK is moving into a highly uncertain period combining significant policy change and fragmentation of policies across the nation, alongside a fragile and unsteady economic background. Housing investment and neighbourhood services and programmes are particularly susceptible to the deep public expenditure cuts facing local authorities and capital spending more generally that were announced for 2011-12 and are set to intensify further in the medium term.

Devolution and national policy challenge

While housing and neighbourhood policies are affected by national and global market contexts and by UK fiscal tightening, they are also constrained by matters that impinge on them directly: for example, housing benefit, housing and land taxation, and public expenditure rules. Nonetheless, housing policy, physical planning policy and neighbourhood or area-based regeneration strategies are devolved, and devolved governments do not have the same political make-up as at Westminster.

The evolutionary progress of devolved government is key to understanding the divergent institutional responses to policy challenges, filtered by different local market contexts across the nations of the UK. The focus in Northern Ireland is on the highly volatile housing market, which is dealing with the economic and social consequences of house price reductions of more than 40 per cent since the local market peak. In Scotland, a variety of policy innovations aimed at securing more affordable housing are being introduced, albeit within a much reduced public budget. In England, debate is taking place around just how housing planning will function strategically in a context of localism, reflected in the end of regional planning and the growing involvement of local residents in influencing new development decisions.

Localism and incentivising growth

The complex, layered picture emerging from the HNM suggests that it will be harder to support wider neighbourhood change in a joined-up, coherent fashion under the localism agenda. Co-ordination of funding and delivery across the public sector (for example in terms of strategic infrastructure requirements) and alignment with private and voluntary sector activities is a central plank of successful regeneration. The proposed arrangements may reduce central government's capacity to act strategically and also risk creating a void in local strategic planning and co-ordinated delivery.

Current policy initiatives focus on promoting and incentivising growth. It appears likely that in isolation this approach will support an uneven, patchy recovery, reinforcing more buoyant growth areas but offering little to address decline and market failure in other locations. One initiative is to promote new affordable housing provided by registered social landlords, at 80 per cent of market rents. In some places this will generate intermediate rented housing, but in areas of low private sector demand there will be little scope for such niche investment because market rents and social rents will be similar. The New Homes Bonus, another flagship initiative, will reward house-building in areas of high market demand. The overall grant allocation to local authorities will be top-sliced, which will reallocate funding from renewal areas with no net housing additions to more prosperous areas with stronger housing markets.

Conclusion

The Housing and Neighbourhoods Monitor suggests that there are considerable variations in housing market performance in terms of unmet needs and affordability. Wider neighbourhood challenges relate in particular to the future of area-based approaches, in light of policy development by the Coalition Government, tax increases and spending cuts and the uneven economic recovery:

- Current Government thinking underestimates the potential for neighbourhood regeneration to facilitate growth.
- It also underplays the spatial and neighbourhood impacts of national policies to tackle major symptoms of disadvantage, such as worklessness, through the proposed universal credit. Better systematic understanding is needed of the role neighbourhoods play in local labour markets.
- Downgrading the leadership role from the centre fits with the bottom-up localism imperative, but risks losing the positive benefits of joining up economic, social and environmental interventions. It also risks creating a void in strategic planning and co-ordinated delivery.
- Concerns about housing and planning reform relating to localism, the New Homes Bonus, benefit reform and the planning system also have a neighbourhood and regeneration dimension. How will national policies play out in different areas? Will regional inequalities increase?

The HNM analysis across space and over time reveals much about the context for future policy-making and planning across the UK. The Government's commitment to delivering more housing and its pro-growth agenda have led to further reforms of the planning system, with a presumption in favour of sustainable development. The indicators and analysis in the HNM continue to serve as a policy instrument to ascertain the impact and effectiveness of local authorities in achieving sustainable forms of housing provision and neighbourhood regeneration across different parts of the UK.

About the project

The HNM is a UK-wide exercise reflecting developments in England, Wales, Scotland and Northern Ireland. The spatial analysis covers both the macro-spatial UK level and the micro-level of neighbourhood/local authority districts. The analysis relates to individual housing or neighbourhood indicators, and considers how housing issues interact with wider neighbourhood characteristics to affect trends in different types of neighbourhoods through the analysis of area typologies.

For further information

The full report, **Housing and Neighbourhoods Monitor 2011: fragility and recovery** by Cecilia Wong, Kenneth Gibb, Stanley McGreal, Brian Webb, Chris Leishman, Neale Blair, Stephen Hincks, and Sean MacIntyre, is published by the Joseph Rowntree Foundation. It is available as a free download from www.jrf.org.uk

For more on key trends in housing and neighbourhoods across the UK, visit JRF's Housing and Neighbourhoods Monitor website (http://www.hnm.org.uk). The site includes statistical analysis, charts, maps and reports and has been developed by Richard Kingston of the University of Manchester for JRF.

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