

Policy: briefing

Housing market renewal

A discussion of the lessons learnt and the future role of the housing market renewal pathfinders

Summary

The housing market renewal (HMR) pathfinders have brought much needed investment to parts of the North and Midlands experiencing low demand for housing and long-term economic and social decline. This briefing examines the success of the HMR programme and makes recommendations for its future development in light of the recent decline in the UK housing market and the changing policy environment.

- The HMR programme has made substantial progress in tackling the causes of low housing demand and in creating neighbourhoods and communities in which people want to live. It highlights valuable lessons for policy-makers and practitioners.
- Long-term funding is needed to secure the future of the HMR programme. Funding for the programme has only been committed until the end of the 2008–11 Comprehensive Spending Review period. It is important that this level of investment is maintained in the next spending period.
- Poor practice by private landlords in the pathfinder areas can lead to neighbourhood decline. More needs to be done to tackle the problems caused by absentee landlords and poorly maintained stock, including the increased use of selective licensing by local authorities.
- Some pathfinders have sought to rebalance the tenure mix with a shift away from social renting. It is essential that reduced levels of social housing are balanced by an increased supply of affordable housing across the region as a whole to alleviate any shortages.
- Some residents in the pathfinder areas have experienced displacement and/or have high levels of support needs. Schemes to provide such residents with the support and financial assistance they need must be continued.
- The speed at which the HMR programme developed caused problems initially with the level of community involvement, but significant improvement has been made in engaging with residents.
- HMR is a good example in practice of the Government's agenda to promote greater cooperation between local authorities at the subregional level. This approach could be strengthened by ensuring that regional plans for housing growth both support, and are mutually compatible with, HMR strategies.

Introduction

In April 2002, the Government established the housing market renewal (HMR) programme with the aim of tackling housing market failure and low demand in the North and Midlands. At the time, an estimated 880,000 homes in England were affected by low demand – about one in 20 homes.¹ Areas of low housing demand can be characterised by a combination of some or all of the following: low or falling house values; high tenant turnover; low demand for social rented housing; and significant numbers of vacant or abandoned properties. The causes are complex and often interlinked but can be attributed to three broad factors: economic restructuring leading to depopulation; changes in housing preferences and behaviour patterns resulting in a surplus of older terraced properties and large council estates; and area ‘stigmatisation’.²

The HMR programme was designed to regenerate housing markets by demolishing, refurbishing and building new homes in nine ‘pathfinder’ areas³, with a further three subregional partnerships receiving HMR funding in 2005.⁴ HMR has also played a part in revitalising the communities and economies more generally in these areas. The programme is expected to have a life span of 10 to 15 years. Between 2002 and March 2008, a total of £1.2 billion was invested in the pathfinder areas. In October 2007, a further £1 billion was allocated to the programme for the three year 2008–11 Comprehensive Spending Review period.

The objectives of the pathfinder programme were set out in the Government plan *Sustainable communities: homes for all*.⁵ These were:

- to eradicate the problems caused by low demand by 2020; and to tackle low demand in additional locations outside the pathfinder areas⁶
- to reduce by a third the gap in the level of vacancies and house price values between pathfinder areas and their regions

- to reconnect pathfinder areas with housing markets in neighbouring areas.

Pathfinders have subsequently broadened their programmes to address a wider range of issues including good quality sustainable housing design, antisocial behaviour, worklessness, community cohesion and economic investment.⁷ Shelter has welcomed the way that the pathfinders have not just focused on housing, but looked at the wider social, economic and environmental issues within their communities. We believe that the pathfinders’ experiences in areas such as community engagement provide valuable lessons for future housing and regeneration initiatives. However, the pathfinders are only part way through their lifespan and their successes to date, and the significant challenges they are likely to face in the wake of the economic downturn, make it critical that they continue to receive adequate support from the Government.

This briefing looks at the effect the HMR programme has had on house prices, empty homes, housing supply, tenure mix and the private rented sector. It examines the impact on communities including strategies implemented around engagement, support, and employment and training. It also addresses the programme’s need for ongoing financial support and how it has adapted to changes to the policy framework around regional development, housing and regeneration.

Housing market change

House prices

Prior to the start of the HMR programme in 2002, house prices in the pathfinder areas had performed consistently badly in comparison to regional averages (see Figure 1).⁸ Since HMR funding began, house prices have risen until recently, and in most pathfinder areas, the gap against the regional averages has not widened. Although this is a broad trend, these figures may however disguise smaller pockets of market weakness at the neighbourhood level.⁹

1 National Audit Office, *Department for Communities and Local Government: housing market renewal*, 2007, page 10.

2 Bramley, G and Pawson, H, ‘Low demand for housing: incidence, causes and UK national policy implications’, *Urban Studies*, Vol. 39, No.3, 2002, pages 393–422.

3 Bridging NewcastleGateshead; Elevate East Lancashire; Gateway Hull and the East Riding of Yorkshire; Manchester Salford Partnership; NewHeartlands Merseyside; Partners in Action Oldham Rochdale; Renew North Staffordshire; Transform South Yorkshire; Urban Living Birmingham-Sandwell.

4 West Cumbria, West Yorkshire, Tees Valley.

5 Communities and Local Government (CLG), *Sustainable communities: homes for all*, 2005.

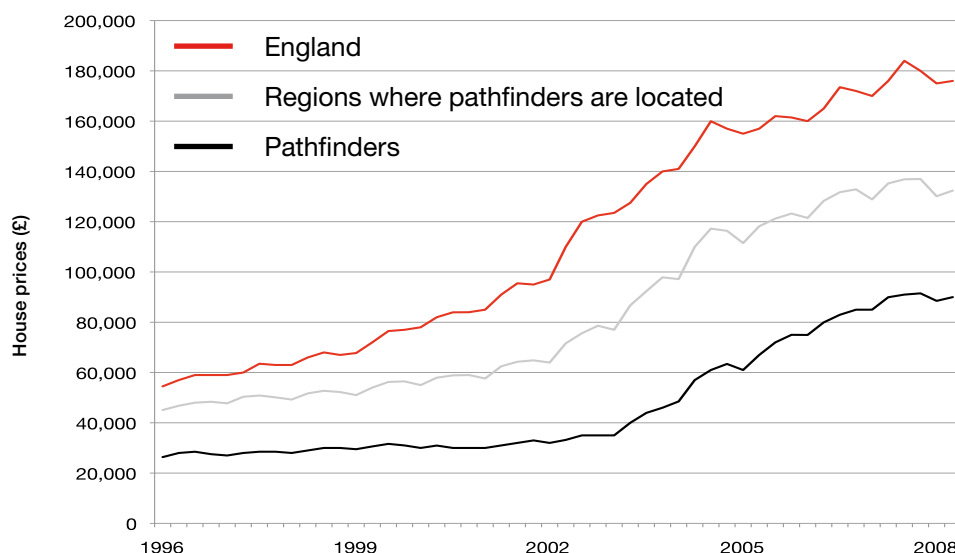
6 Leather, P et al, *National evaluation of the HMR pathfinder programme: baseline report*, CLG, 2007, page x.

7 Cole, I, *The housing market renewal programme in perspective: maintaining momentum through difficult times*, Centre for Regional Economic and Social Research (CRESR), Sheffield Hallam University, 2008, page 2.

8 Leather, P et al, *National evaluation of the HMR pathfinder programme: baseline report*, CLG, 2007.

9 Nevin, B and Leather, P, *Transition to transformation: one year on, a review of the market renewal programme: emerging issues and the current policy debate*, 2007.

Figure 1: Median house prices based on Land Registry data from 1996 (quarterly) 1–4.



In addition to the national rise in house prices, increases in the pathfinder areas are attributable to three broad factors. Firstly, the market intervention activities developed by the pathfinders. Secondly, in some pathfinder areas, speculative buying by investors in expectation of rising capital values pushing prices up.¹⁰ Finally, growth in the buy-to-let market increasing the ability of buyers to move in and out of areas quickly, temporarily inflating prices.¹¹

In line with the national picture, there was a dip in house prices across all the pathfinder areas in the first quarter of 2008. Property prices in regeneration areas have proved to be more susceptible to market instability than in other areas¹² and it may be that house prices in the pathfinders will see a steeper fall than elsewhere.

Empty homes

Properties left empty can have a damaging effect on the environmental quality of the neighbourhood and undermine the creation of vibrant communities. Despite significant reductions in some pathfinders, vacancy rates across all tenures remain higher than the national average.¹³ However, as with house prices, there are neighbourhood variations that cannot be captured at the pathfinder level and some areas have seen a steady decline in vacancy levels.

The high vacancy rate may in part be attributable to the large number of properties that have been earmarked for refurbishment, acquisition, and demolition as part of the programme, and have been left empty temporarily. The increase in speculative buying by investors in some pathfinder areas also has a detrimental impact because buyers are more likely to leave properties empty before demolition. Further, the current economic conditions are having an impact; already in one core city pathfinder there is evidence to suggest an increase in vacant properties.¹⁴

Tenure mix

In many pathfinder areas one of the reasons underpinning low demand has been the concentration of unpopular social housing stock. Some pathfinders have sought to tackle this through the regeneration process by looking to increase owner-occupation in their areas, and to develop mixed-income as well as mixed-tenure communities.

Shelter believes that there are a number of issues that need to be examined when addressing the right tenure mix and supply of affordable housing in the pathfinder areas. Maintaining too high a level of social housing may be inconsistent with the aims of the pathfinders. Conversely, too little provision will fail to meet the needs of residents who are unable to afford homeownership. In particular, homeowners

¹⁰ National Audit Office, *Department for Communities and Local Government: housing market renewal*, 2007, page 24.

¹¹ Spriggs, N, *National evaluation of housing market renewal pathfinders: thematic report – Buy-to-let housing market in the HMR pathfinders*, CLG, 2007.

¹² Glossop, C, *Housing and economic development: moving forward together*, Centre for Cities and the Housing Corporation, 2008.

¹³ In 2008, 3.1 percent of homes in England (CLG, Housing Strategy Statistical Appendix – Data returns for 2007/08), with just over six per cent in some pathfinder areas.

¹⁴ Parkinson, M et al, *The credit crunch and regeneration: impact and implications*, CLG, 2009.

on low incomes whose properties are compulsorily purchased through the programme are more likely to need access to social housing. This is because the higher cost of properties outside the pathfinder areas means for some displaced residents homeownership may not be a viable option.

During the current economic downturn it can be expected that an increase in unemployment rates and the risk of repossession, coupled with reduced lending, will push up demand for social and private rented accommodation. In regions where there is an overall shortage of social housing, reductions in the provision of social housing in the pathfinder areas need to be balanced by increasing the supply of affordable housing across the whole region.

Housing supply

The pathfinders have been very successful at securing long-term partnership arrangements with the private sector to secure greater investment and help deliver the HMR programme. As with many regeneration schemes, this was modelled on a buoyant housing market, but with the economic downturn there are greater risks involved in keeping developers 'on board', placing more pressure on regeneration objectives.¹⁵ These include developers cutting back and playing safe on the size and design of schemes.¹⁶ However, there are indications that the pathfinders are acting early in recognition that the most fragile markets will be hardest hit. For example, in 2008, Tees Valley implemented a 'credit crunch task force' to examine the impact of changing market conditions in both the short and medium term.¹⁷

There are a number of measures that can assist pathfinders in supporting the market, without artificially propping it up.¹⁸ For example, the affordable housing element can be provided at the start of a mixed tenure development to improve cash flow and stimulate market activity.¹⁹ The challenge will be to ensure that this remains 'mixed' with other alternative housing options over the long term.

Shelter believes that the continued role of private developers remains important, but alternative models of regeneration need to be developed that allow greater involvement from the public sector to ensure the continued delivery of the programme's objectives. To achieve this may require higher levels of public sector investment than previously. One option would be the use of an equity stake model to allow the public sector to receive a return on its investment once there is an uplift in the housing market.

A significant proportion of the programme has been focused on refurbishment — 40,000 homes have been refurbished between 2002 and 2008, compared to 1,100 new builds.²⁰ Shelter supports investment in the refurbishment of structurally sound and economically viable properties that people want to live in. Research on housing and economic development has suggested that in areas with weaker markets, investment upgrading the existing stock and quality of place should take precedence over new supply during the housing market downturn.²¹ However, over the long term it is important that this is accompanied by the building of new homes.

The role of the private rented sector

In many pathfinder areas there are high levels of private rented housing. In some neighbourhoods more than 30 per cent of all homes are privately rented²², compared to 12.9 per cent in England as a whole.²³

Many private tenants in the pathfinders are on low incomes. A study in NewHeartlands Merseyside found that 52 per cent of private renters were in receipt of income support, incapacity benefit or job seeker's allowance.²⁴

In Bridging NewcastleGateshead a survey of private landlords found that 44 per cent of tenants were in receipt of housing benefit²⁵, compared to 19 per cent nationally.²⁶

Pathfinders have raised concerns that a high proportion of tenants on low incomes and/or

15 Parkinson, M et al, *The credit crunch and regeneration: impact and implications*, CLG, 2009.

16 Cole, I, *The housing market renewal programme in perspective: maintaining momentum through difficult times*, CRESR, Sheffield Hallam University, 2008, pages 5-6.

17 Audit Commission, *Market renewal performance review: Tees Valley Living*, 2008.

18 Cole, I, *The housing market renewal programme in perspective: maintaining momentum through difficult times*, CRESR, Sheffield Hallam University, 2008, page 7.

19 Ibid.

20 House of Commons Committee of Public Accounts, *Housing market renewal: Pathfinders, thirty-fifth report of session 2007/08*, 3 July 2008.

21 Glossop, C, *Housing and economic development: Moving forward together*, Centre for Cities and the Housing Corporation, 2008.

22 Audit Commission, *Innovation and good practice in regenerating communities: Learning from the housing market pathfinders, focusing on the private sector*; www.audit-commission.gov.uk/marketrenewal/

23 CLG, Live tables on housing: Table 104 dwelling stock: by tenure, England, 2007.

24 NewHeartlands, *Business plan*, 2008–11.

25 Green, S et al, *Bridging NewcastleGateshead: private landlords survey*, CRESR, Sheffield Hallam University, 2007.

26 CLG, Live tables on rents, lettings and tenancies: Table 718: household units receiving housing benefit, average benefit, from 1992.

receiving benefit in the private rented sector (PRS) is not good for communities. Although the PRS has a role to play in providing greater housing choice and flexibility in the pathfinder areas, care needs to be exercised in relation to the way it functions. There is a risk it may lead to problems associated with 'absentee' landlords; it could create barriers to achieving sustainable housing tenure mix; and landlords may fail to maintain decent quality housing if they do not have a vested interest in the area or lack the funds to achieve this.

One way of addressing the issue of problem PRS landlords has been the use of landlord accreditation schemes. The Housing Act 2004 gave local authorities in areas suffering from problems of low demand or antisocial behaviour the power to license all private landlords in defined locations with the aim of ensuring a minimum standard of management.²⁷ For example, from 2007 in the Manchester and Salford pathfinder, private landlords in certain areas have been required to have a licence in order to rent out a property.²⁸ Failure to have a license can result in being liable to a fine of up to £20,000 and could also lead to a management order being made against the property.

Shelter supports the use of additional or selective licensing of private rented housing by local authorities in the pathfinder areas, which we feel goes some way towards addressing concerns expressed about the instability within the PRS. We also think that engaging with, and offering advice to, private landlords can help alleviate problems associated with the PRS. This is especially important for small-scale landlords who tend to need more advice and guidance on their responsibilities than larger landlords.²⁹

Impact on communities

Community engagement

In the early stages of the HMR programme there was criticism of the level and effectiveness of community engagement. The Sustainable Development

Commission and Empty Homes Agency have both argued that, in some cases, consultation happened too late to allow existing communities any real say in shaping plans for their area or, worse still, was undertaken purely to justify decisions that had already been made.³⁰ The National Audit Office found that, because of the speed at which the HMR programme was implemented, a number of schemes were started before community engagement strategies had been established.³¹ In some areas residents have set up groups to campaign against pathfinder plans, particularly in relation to the demolition of homes.³²

Shelter is pleased to note that the quality of community engagement in the pathfinders has improved significantly, particularly in terms of capturing the views of potential residents and hard-to-reach groups. For example, in one area of Bridging NewcastleGateshead, a month of workshops and site visits took place giving residents the opportunity to give their views on the services and facilities for the new town centre.³³ Furthermore, all pathfinders have worked closely with local authorities and housing associations to deliver community engagement strategies.

The transitional period for neighbourhoods under regeneration can cause frustration, anger and disillusionment among residents. Research in a major housing development area found that contrary to the perception among policy-makers that residents would be feeling 'consultation fatigue', most residents indicated frustration that their views on their neighbourhood had never been sought.³⁴ Shelter believes that community involvement is vital to ensure the pathfinders meet existing and potential residents' needs, and to maintain community support and trust in their plans.

Support for displaced households

Between 2002 and 2006, average incomes in the pathfinder areas increased by about 25 per cent but average house prices almost trebled.³⁵ For homeowners relocated by the pathfinders' regeneration activities, the increase in house price-to-income ratios has led to problems in affording an

27 OPSI, *Explanatory notes: Housing Act 2004*.

28 Audit Commission, *Case study – selective licensing (SL) in Manchester and Salford*, 2007, see tinyurl.com/ctlx6p

29 ECOTEC, *The private rented sector in NewHeartlands, final report*, July 2007.

30 National Audit Office, *Department for Communities and Local Government: housing market renewal*, 2007, page 25.

31 Ibid, page 6.

32 For example, SAVE: www.savebritainsheritage.org

33 For other examples of community engagement in the pathfinders, see Lister, S, Perry, J, and Thornley, M, *Community engagement in housing-led regeneration: a good practice guide*, Chartered Institute of Housing (CIH), 2007.

34 Shelter, *Neighbourhood watch – Building communities: learning lessons from the Thames Gateway*, 2008.

35 National Audit Office, *Department for Communities and Local Government: housing market renewal*, 2007, page 22.

alternative home. In 2006, there was, on average, a £35,000 shortfall between the payment received and the cost of purchasing a suitable alternative property.³⁶ Pathfinders have developed a number of support packages to address this affordability problem, including relocation grants and loans, low-cost homeownership products, the use of planning agreements to require developers to provide discounts on new homes and debt counselling.

Under HMR, the use of equity loans, approved by the Financial Services Authority, has been developed to fund the gap between the value of existing homes and the price of alternatives for people affected by clearance. Equity loan schemes assist with the purchase of a new home, or fund the improvement of an existing home without the homeowner having to make ongoing repayments. The loan is only repaid when the home is sold and the repayment is based on a fixed proportion of the value of the home, subject to any restrictions on the total amount repaid if house prices have increased rapidly over the period.³⁷

HMR pathfinder areas often have a high proportion of vulnerable households with support needs. It is important that the needs of such vulnerable households are planned for and met, including through providing high-quality support services and access to supported housing. For example, the individual advocacy and support project in East Manchester has been put in place to assist displaced residents. One couple decided to rent from a housing association rather than buy another home when their house was being compulsorily purchased by the local authority. The couple's advocacy worker liaised with agencies such as a solicitor, surveyor, housing staff, HMR staff, removal firms, and benefits agencies.

Employment and training

Overall, the pathfinder areas are characterised by high unemployment rates and a low skills base among the working population. Although addressing imbalances in the labour market is not an explicit responsibility of the HMR programme, pathfinders have been working in partnership with other agencies to address levels of worklessness and the skills imbalance of local residents. Partners in Action Oldham Rochdale has set up a construction initiative, J21, which works

with employers and training providers to help local people access construction-related jobs. Since it was established in 2005, 800 people have benefited from the programme. In addition, J21 works with local suppliers and subcontractors to help them compete effectively for work.

Across the pathfinder areas, employment levels, occupations and skills present a varying picture. In Manchester Salford, Gateway Hull and the East Riding of Yorkshire, and Transform South Yorkshire, the proportion of those in employment has grown in excess of their 'city region'. In contrast, four out of the nine pathfinders have seen a decline in the rates of their working population relative to the rest of the country.³⁸ Shelter is concerned that with unemployment figures rising nationally, economically disadvantaged areas will experience more pronounced unemployment and greater pressure will be put on schemes that help people back into work. It is therefore vital that funding and support continues for programmes that have been set up to tackle worklessness in the pathfinders.

Funding and the broader policy context

It is important that the Government continues to fund the HMR programme. From the outset it was acknowledged that a long-term commitment of 10 to 15 years would be needed to turn around the areas covered by the programme. However, funding has only been secured until the end of the Comprehensive Spending Review period in 2011. To ensure that the benefits achieved from the funding already invested are not compromised, and given the increased risks to pathfinders during the recession, it is important that funding is maintained at least at the same level for the next Spending Review period. Responsibility for HMR has now been transferred from CLG to the Homes and Community Agency (HCA). As the HCA develops its role, it is important that long-term support is provided for the HMR programme.

The public policy framework within which HMR is being delivered is undergoing a process of fundamental review. The Government's sub-national review, *Prosperous places*³⁹, and draft regeneration framework, *Transforming places, changing lives*⁴⁰,

36 Cole, I, and Flint, J, *Demolition, relocation and affordable rehousing: lessons from the housing market renewal pathfinders*, CIH (on behalf of Joseph Rowntree Foundation), 2007.

37 Audit Commission, *Innovation and good practice in regenerating communities: Learning from the housing market pathfinders, focusing on the private sector*; www.audit-commission.gov.uk/marketrenewal/

38 Elevate East Lancashire (-8%), New Heartlands (-1%), Renew North Staffordshire (-11%), and Urban Living (-3%). Source: Leather, P, et al, *National evaluation of the HMR pathfinder programme: baseline report*, CLG, 2007, page 74.

39 CLG and BERR, *The Government response to 'Prosperous places': taking forward the review of sub-national economic development and regeneration*, 2008.

40 CLG, *Transforming places; changing lives, A framework for regeneration*, 2008.

both highlight the need to produce comprehensive plans to align economic development, housing, planning, energy supply and transport, as well as tackling the underlying causes of economic decline in deprived areas by addressing worklessness, skills and promoting enterprise.

For HMR to be successful, it must continue to be delivered in a way that fits within the wider context of developing regional and local spatial, economic and housing strategies. There is a risk that plans to build homes in the wider regions could threaten efforts in the pathfinder areas to restructure housing markets. It is therefore important that HMR and regional growth strategies are mutually compatible. Successful integration with regional plans offers the potential to strengthen existing subregional working arrangements, contribute towards wider regeneration and renewal, and develop good-practice models in creating mixed income communities that are socially, economically, and environmentally sustainable. In the medium term, the preparation and creation of a single regional strategy led jointly by the Regional Development Agencies and the Regional Leaders Boards, and the new responsibility for Upper Tier/ Unitary Authorities to produce Local Economic Assessments could be an appropriate mechanism for reviewing the priority areas for future HMR intervention.⁴¹

The experience of the HMR pathfinders suggests a range of lessons for other areas of housing policy. For example, the HMR pathfinders are one of the few instances where subregional working arrangements are in place and working well. As such, they provide an exemplar for the Treasury's proposals – set out in its review of economic regeneration and development – for greater cooperation by local authorities at subregional level, supported by multi-area agreements or through statutory subregional arrangements. The experience of the HMR pathfinders has also served to highlight the skills requirements involved in delivering major housing developments at a fast pace, particularly for local authorities.

Conclusion

Overall, Shelter believes the HMR programme has achieved a number of positive outcomes in neighbourhoods that were experiencing deep-rooted social and economic decline. These are areas where intervention in the market was desperately needed and it is right that a more radical approach has been taken. However, this has not always been a smooth transition for the pathfinder programmes or the communities that live there. Given the current economic environment, it is likely that the pathfinder areas will be harder hit than more buoyant housing markets over the next few years. We believe it is vital that the HMR programme continues and that the Government provides the funding to allow the delivery of the commitments made to the communities in the pathfinders, as well as build on the results of the investment to date.

⁴¹ Nevin, B and Leather, P, *Transition to Transformation: One year on: A review of the market renewal programme: emerging issues and the current policy debate*, 2007, page 26.

Recommendations

- The Government must commit to funding the HMR programme through the next Spending Review period to ensure its long-term objectives of sustainable regeneration can be achieved. At a minimum, funding should be at the same level as the last Comprehensive Spending Review. Funding will become increasingly important if private sector investors are less willing or able to take risks in areas of market fragility.
- HMR must continue its aim to create inclusive and sustainable communities by providing a range of housing types and tenures to meet different housing needs. It is important that sufficient proportions of affordable housing are provided. If levels of social rented housing are decreased in the pathfinders, this must be balanced by increasing supply across the region as a whole to alleviate affordable housing shortages.
- The current economic crisis has emphasised how dependent regeneration schemes and the supply of affordable housing has been on the private sector. New models of regeneration must be developed urgently. This is critical to ensure that areas with long-term social, economic and environmental needs do not suffer further decline.
- Support structures for existing residents should be maintained, including access to advice to ensure they are able to make an informed choice about their housing options and to offer assistance with moving home. As the population changes the needs of more vulnerable and longstanding residents should continue to be supported. Community engagement processes should remain throughout the life-span of the HMR programme.
- Shelter supports the adoption by local authorities of selective licensing of private rented housing for the duration of the HMR programme. This helps ensure that private landlords maintain and manage their properties in a responsible manner and can prevent the short-term deterioration of neighbourhoods.
- Relationships between the pathfinders and private landlords need to be further strengthened. Engaging with private landlords and offering advice and access to information on housing law and rights can help to alleviate problems associated with the PRS and assist in developing a more sustainable private sector.
- It is vital that projects aiming to address high levels of worklessness in the pathfinder areas continue to be funded, particularly as unemployment levels are likely to rise during the recession. Multi-agency working must be maintained between the pathfinders, local authorities, Jobcentre Plus, local employers and other partners to provide intensive training and support packages for local residents.
- As the role of the HCA develops, it is important that continuity for the pathfinder programme is established quickly, and that the partnership and funding arrangements put in place by the HCA are consistent with the long-term HMR framework.

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Until there's a home for everyone

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