

Theme: Regeneration & The Credit Crunch

BBP Regeneration is a specialist property and regeneration consultancy providing advice to public and private sector clients at all stages of the development process. Our experience in property development and our understanding of its economic, social and political context helps clients achieve their regeneration objectives effectively and efficiently.

This newsletter discusses the implications of the Credit Crunch on regeneration including;

- Our thoughts on the likely effects of a slow down based on experience of previous downturns and recessions.
- How private and public sectors can respond to difficult economic conditions, keeping regeneration projects on track.

What is the Impact of The Credit Crunch?

THE causes of the Credit Crunch and its effects on the economy and property market are well publicised but how will it affect urban regeneration and what can be done to address its impacts?

Undoubtedly, the promoters of regeneration schemes will have to be more creative in their approach than was required over the last decade when escalating housing land prices could be relied upon to help bridge funding gaps and attract interest from developers.

The reaction to liquidity issues originating in the sub-prime mortgage crash in the USA, has resulted in an increased pricing of risk on the part of institutional lenders, restricting the availability of funding and increasing the cost of borrowing for developers, businesses and home owners. This has squeezed development viability from the supply and demand sides simultaneously. The fall out from the Crunch continues to feed through to a sharp decline in UK economic growth prospects.

Our experience, drawn from previous downturns and recessions in the UK, suggests that land values in marginal locations - especially those outside the Southeast of England - tend to be more volatile and their populations tend to be more exposed to social and economic deprivation caused by economic decline. This is will be a concern for those promoting urban regeneration as a medium for economic development - particularly as a means to address regional disparities and the impacts of the decline in traditional industries.

AS the economist J. K. Galbraith pointed out, although downturns following periods of speculative growth have many common features in terms of market behaviour, each has a unique set of background circumstances. In this instance the features with particular relevance to regeneration include the following:-

- In the last decade, the house price to income ratio has rocketed from 3.2 to peak at 6.8, according to data from Nationwide. This has been driven by the availability of cheap finance which has now disappeared, leaving an affordability gap especially for those not already on the housing ladder.
- Since 2001, the proportion of apartments developed has risen from 20% to 44% whilst the number of family homes has fallen from 44% to 23%. This has driven up densities and, correspondingly, land values. This change in emphasis was driven by planning policy which responded, amongst other things, to projections by bodies such as the Joseph Rowntree Foundation of demographic change reflecting the aging population and, especially, increased family breakdown. Proportionally and in absolute terms provision of family housing has declined dramatically.
- The growth of the buy-to-let market has helped to absorb much of the increased supply in apartments and overseas investors have created further demand. Both sectors have now declined dramatically. Although, the private rental sector may provide a moderating influence on the housing market, if rental values decline, a tipping point may be reached in the viability of rental property leading to forced sales.
- The search for affordability in housing has increased travel to work times affecting roads and public transport with impacts on transport infrastructure costs, commuting costs, the environment as well as social cohesion as commuting impacts on work/life balance.

Questions have been raised as to whether the housing bubble is sustainable but they must also focus on whether the concentration on high density, small apartments ignores the importance of developing new communities based on sound economic principles which guide their optimal social mix and employment uses. In many areas inner city areas, the number of new apartments is now suppressing values,. However, developers have been slow to respond by developing new forms of urban family housing.

This presents a backdrop which suggests very weak demand in the residential sector which could last until factors which fuelled the recent sharp growth fall back into equilibrium.



Above: River Tyne Regeneration
Below: Middlehaven, Tees Valley





Above: Avenue Coking Works
Below: Greenwich Millennium Village



“BBP Regeneration has been involved in major regeneration projects from scoping and feasibility stage through to completion.

“Recently we have undertaken a raft of evaluation studies on completed programmes of public sector investment.

“This has given us further insight into which measures are most effective in delivering change in terms of physical development but also, importantly, in making real improvements to the accessibility of suitable homes and employment”



Above: New Wembley
Below: Woolwich Arsenal



What Can Be Done to Help?

It could be argued that delivery of new development over the last decade was not achieved fast enough given the prolonged period of economic growth. Housing completions over this period remained relatively stable until 2007.

The Centre for Economic and Business Research (CEBR) estimates that housing completions will now fall to 139,000 units per annum by 2010 - well below the government's target of 185,000 per annum, a target only achieved in 2006-7.

A straw poll of analysts suggests that restrictions in finance may ease from 2009 but that the housing market may take longer to recover. In the meantime, the impacts of the credit crunch will feed through the economy - most seriously in the key projected employment growth areas of finance and business services.

So, what can be done to maintain momentum in physical regeneration in the current economic climate?

By providing **leadership** to the development process, the public sector can highlight the opportunities available to the private sector and provide a focus for dialogue on constraints - and how these can be overcome. The role of the planning system in this process cannot be understated. The evolving Local Development Frameworks provide an opportunity for policy makers to set out their development objectives clearly and back these up with a robust evidence base to which the private sector can respond constructively.

In addition, there is a plethora of bodies involved in urban regeneration with numerous, and sometimes complex, procedures and funding streams. By bringing these bodies together under a lead authority charged with vision and authority, greater strategic **clarity** can be provided, helping developers and investors to navigate public sector requirements and make best use of the support available. Currently, developers see negotiating with multi-faceted public sector bodies as time-consuming, expensive and risky.

The public sector can help to **mitigate risk**, addressing the areas of uncertainty that developers and funders price into schemes and which then affect viability. This can be achieved - cost-effectively - by investing in scoping studies to clarify the technical aspects of the development prior to their promotion in the market including market studies, infrastructure reports, contamination investigations and master planning. These should be co-ordinated beneath an economic strategy which provides an evidenced framework for physical development. Investment in enabling infrastructure will also be critical.

Working in **partnership** with developers, the public sector has a gamut of tools which it can employ to share risks and returns. As well as gap funding, providing financial guarantees or direct development, it can contribute its own assets to stimulate development. By deferring the realisation of any equity stake, adopting an open book approach with developers and by exploring the capacity for flexibility on s106 or tariff payments, cash flow issues can be eased considerably until markets improve and a return to the community can be secured.

As well as project focused aspects, **Central Government** could consider intervention by purchasing developers standing stock for the affordable market - the Olympic Delivery Authority's buy-back arrangements for apartments in Stratford may provide a model. They could consider engaging developers to build affordable housing for a fee and helping to pump prime regeneration schemes. Taxation initiatives such as Tax Increment Finance could allow recycling of local tax revenues into area improvements and reforming SDLT regime as an incremental system would remove marginal value thresholds.

Commodities prices and increasing environmental standards are squeezing viability from the cost side. Part of the challenge of regeneration will be maintaining these design standards. Investment in the UK **supply chain** can help maintain progress and ensure that expenditure on these progressive measures is retained in the UK, supporting employment.

Even where physical development is not immediately possible, it is **critical** that opportunities are teed up so that advantage can be taken of any upturn, ensuring these schemes secure a favourable market position. It is absolutely vital that, during this period, the public sector ensures that it undertakes the required work on preparation, planning, consultation and infrastructure to ensure that projects are delivery-ready once confidence improves.

It is now more important than ever that public and private sector combine to realise latent potential and that a range of approaches is employed to realise economic growth and higher returns for both sides.