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REGENERATION PROJECTS AND THE CREDIT CRUNCH

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BURA
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1: Contents

- BURA
- What is going on?
- The crisis in regeneration
- What is to be done?

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2: BURA

- 600 members
- Uniting private, public and community sectors to support excellence in regeneration
- Helping to make better places, overcome disadvantage and spread opportunity
- Leading the policy debate
- Learning and training
- Awards for best practice
- Through our network, we will be monitoring what is happening to regeneration and housing supply on the ground, and putting proposals to Government

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3: What is going on?

Confusing, constantly evolving position, in which events are moving far faster than official statistics
September 2007: Northern Rock
September 2008: Lehman Brothers

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4: Key strands

- GDP
- Banking system
- Lending
- Mortgage market
- Housebuilding
- House prices
- Consumer spending

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5: GDP and jobs

2008 3rd quarter:
GDP fell 0.5%
Unemployment rose in all UK regions
2008 4th quarter:
Forecasts suggest fall of 0.8 or 0.9%

2009: some forecasts suggest 1% fall
Standard Chartered (7/12) suggest 2.3% fall
Upturn: Late 2009? 2010?

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6: The banking system

Two crises:
- Solvency;
- Liquidity.

Action by UK Government has successfully prevented banks from going bust, and depositors from losing their money -

But has not yet succeeded in getting banks lending again

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7: Lending

Lending to companies falling sharply
Banks seeking to reduce liabilities to improve balance sheets
Risk is that good companies as well as bad will go down
Clear risk in regeneration and housebuilding

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8: The mortgage market

October 2008: mortgage approvals down 42% on October 2007;
Just 32,000 new loans;
Forecast for 2009 is that repayments will exceed new loans;
Particular problems in buy-to-let sector;
Inability of banks to re-finance existing mortgage backed lending.

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9: Housebuilding

Government target 240,000 new homes each year;
48% down on 2007;
NHBC estimate 101,000 completions in 2008;
2009: 60,000? 50,000?
Some forecasts lower than that.

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10: House prices

November 2008 Halifax survey:

- Average price of a new home £163,605;
- Prices falling at an annual rate of 14.9%;
- Monthly fall Oct – Nov 2008: 2.6%;
- Back to 2005 levels – but still 124% above ten years ago;

CBRE forecast average price may go to £130k.

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11: Consumer spending

- Falling steeply
- Fall forecast to continue into 2009

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12: But on the bright side…

- Inflation is down (but could be too far down…)
- Affordability is easing

  Ratio of house prices to average earnings:

  * July 2007 5.84
  * Nov 2008 4.56
  * Long term average 4.0

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13: Who's doing all right?

- Pawnbrokers
- Bailiffs
- Lawyers
- Tax advisers
- Receivers
- Take away pizza businesses
- Budget hotels

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14:Crisis in housing and regeneration

Within the wider international and national crisis, there is a specific crisis of:

- Housing supply;
- *Affordable* housing supply;
- Regeneration

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15: Three issues

- Housebuilders
- Housing associations
- Section 106

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16: Housebuilders

Existing model depends on:

- Housebuilders taking risk on land;
- Much affordable housing delivered on the back of market developments for sale;

But the model has ground to a halt:

- Schemes not started/mothballed/phases cancelled;
- Sales collapsed - Bellway report sales halved in comparison with last year – 50/60 homes per week.
- No firm can cope with that kind of volatility;
- Firms laying off staff, share prices collapsing.

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17: Housing Associations

For the last twenty years we have relied on housing associations to deliver almost all new social rented housing. Associations have relied on sales of shared ownership properties to service debt.

BUT*:*

- Severe problem with shared ownership sales – estimates suggest only half of shared ownership completions sold – so collapse in capital receipts
- Existing loans can only be refinanced on penal terms;
- Balance sheet problems because of previous land valuations.

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18: Section 106

Public sector has become more and more reliant on developer contributions to deliver schools/health premises/infrastructure – and affordable housing.

- Developers seeking to renegotiate S106s;
- But even if no planning gain, many schemes unlikely to proceed.

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19: The crisis in regeneration and housing

- New schemes not starting;
- Existing schemes and phases halted
- Good firms going to the wall;
- Housing associations under acute pressure;
- Collapse in housing numbers, and in particular affordable housing.

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20: What is to be done?

Profound crisis in:

- Provision of affordable housing
- Renewal of our cities and towns

Housebuilding has fallen off a cliff

Our model of how to increase housing supply, and how to regenerate communities, is no longer fit for purpose.

Recovery will not mean restoration of status quo ante..

Moment of change and discontinuity; need for new:

- Policies
- Structures
- Institutions

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21: The challenges

For the economy as a whole:

- To restore confidence to spend and invest;
- To get the banks lending again.

For regeneration and housing:

- To get development moving

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22: Action so far

- Government and international action to restore financial stability and confidence;
- Government and Bank of England action to stimulate demand in UK;
- Establishment and early priorities of HCA

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23: Next steps

- Social housing
- Private rented sector
- Housing associations
- New concordat public/private
- Infrastructure
- Worklessness

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24: New vehicles for social housing

Time for the public sector to get back into direct provision…
Learning lessons from past;
Reinventing council housing;
Without restoring the monolithic estate;
Renewing capacity;
Mixed communities;
Parity of esteem between tenures

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25: New vehicles for private rented sector

Also need to develop private rented sector
Buy to let not sufficient to establish long term stability;
Need for new vehicles;
Some developers now moving into direct letting.

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26: Stabilize the housing association sector

Create facility to renew loans at viable rates – preferably through the banks, if necessary through the HCA;

- New grant regimes to get social housing moving.

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27: New concordat between public and private sectors

Need to share assets and risk to procure development:

- Joint ventures
- Local housing companies
- Asset backed vehicles

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28: Public sector to take lead on infrastructure

- Cannot rely on S106 model for coming period;
- Right in principle that developers should contribute;
- But for now it may be necessary for public sector to provide essentials.

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29: Action on worklessness

- Need to join up regeneration and welfare to work;
- Housing market disadvantage reinforces labour market disadvantage
- All new development using public funds must incorporate employment and training targets

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29: Beyond the credit crunch

- Within the overall economic crisis a highly specific crisis of housing, housing markets, and affordable housing;
- Many of the policy instruments developed over the last thirty years now neither relevant nor viable;
- Need for urgent action to protect vulnerable communities

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30: Social values

"The money changers have now fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths."

"There are social values more noble than monetary profit"
FDR Inaugural Address, 4 March 1933