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Title: Assessing the impact of current residential development processes on the fragility of the UK housing market

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Theme : Social impact of housing / The personal, social and financial costs of housing

Title : “Assessing the impact of current residential development processes on the fragility of the UK housing market”

The regeneration press¹ led recently on describing figures that purport to show the impact of the present economic recession on residential property values in parts of the UK's housing market. The headline message was that the Northampton area has been showing the greatest decline in property values over the past eighteen months, with 16.9 % of borrowers depicted as being in negative equity (i.e. borrowers with mortgage debts higher than their property's current value). The same figures point to the East Midlands region having the corresponding largest percentage of distressed loans across the country, with Wales and the East region being assessed as the next 'worst'.

Notwithstanding that key headline, it is clear there are other messages that might be distilled from the same data : for example, of the top five individual *postcodes* with the highest proportion of loans in negative equity it is an area of central Birmingham that is judged to have the highest percentage (31.2%), with Salford Quays (29.6%), central Sunderland (28.1%), Cambridgeshire (27.6%) and central Hull (27.2%) being the next. While the East Midlands region might contain more borrowers in this position than in other parts of England and Wales, there are clearly other places with more, albeit concentrated in smaller locations.

Examination of the data behind the headline figures ought to prompt questions, therefore, on the extent to which significant changes in property values may have particular characteristics that relate to the nature of recent property transactions in particular places. All the five postcode areas are in central urban locations, where there has been a deliberate government policy focus on housing 'growth' and 'regeneration' to invest in new housing development and to accelerate the rate of change and 'improvement' in the built environment. The East Midlands region, particularly its southern part containing Northampton and Northamptonshire, has been given a key responsibility to deliver the largest element of targets for new housing of the "Milton Keynes and South Midlands" growth initiative - itself the largest of the Government's 'growth areas' established in under the Sustainable Communities Plan - and where Northampton is now supposed to overtake Derby and Lincoln in size by 2016.

Throughout the current decade, part of the rationale of the planned housing growth has increasingly been to use 'value' created by the new housing developments – values that materialise in house sales and land receipts – to help cover the costs of other planning and policy requirements (such as providing dwellings for mixed-tenure, and infrastructure investment). This, allied with other government policy to increase densities of new-build development (maximising new unit numbers while attempting to limit other development sprawl) has particularly encouraged a substantial building of new apartments and flats, both to achieve density targets in urban centres and, for a time, increase receipts. It has been clear that there has been a market for new urban apartment life-styles – either from households interested in living the cosmopolitan 'city-centre' life for a while, or from investors interested in securing an early foothold into the new rental markets established in such quarters.

¹ Regen.net, "Mapping the prevalence of residential borrowings with negative equity", June 2009

So is a correct interpretation of the headlines about Northampton and the East Midlands that there is some intrinsic unattractiveness to this area, which is being reflected within wider reappraisals of its market 'worth', or is the notion of 'worth' something that needs to be appraised in terms of what has been happening there in housing and development terms? What the 'headline' reporting of this kind of data does not help understand is the extent to which fluctuating confidence in property 'worth' can be bound up with certain *types* of new property within local and regional markets where the recent history of property development practice may open areas to being more affected than others by a collapse in market confidence. For example, it has been interesting (and revealing) to hear in some housing development circles of the lack of enthusiasm within the financial sector to offer development finance for building further flats in the current economic climate – some banks have been known to refuse to support new apartment schemes completely, as there is little current sense of certainty of their prospective future worth. Neither is it that clear from the reports as to *who* constitute the 'borrowers' – is it cash-strapped owner-occupiers, or non-resident investors? And is the drop in local values a real drop in relative terms, a real decline away from figures representing property worth that had been sustained for some time, or more of a 'market correction' in that there is no longer such a frantic appetite for building *in order to* generate wider values rising - that 'bubble' has burst - and a fall in the respective value of some areas and dwellings could stem more from over-confidence in property speculators, rather than disinterest from households seeing particular neighbourhoods as a base for their own very personal futures? And, notwithstanding that some areas have seen new properties deliberately left empty so that their tradable value was not tainted by actual usage (they could be retained in a pristine condition so that future sale prices could capitalise on a monetary appreciation of the property remaining quite unused), how many properties in the areas quoted as losing value could be empty because too many of a certain type have been built than could ever meet household demand, as distinct from 'investment demand'?

Why does it matter to think about separating the extent of local speculative investments from an intrinsic interest in an area by households looking for secure and affordable homes for themselves - whether renters or borrowers? It is that an emerging understanding of how the use of housing-related loans have underpinned wider lending and consumer activities and contributed to the housing market 'bubble' could be sidelined by new investment interests seeking other avenues for capital returns which will fuel a new cycle of price and cost inflations. It might be hoped that there will no repetition of the less than upright practices and expenses that have been identified as contributing to previous problems – like unmerited banking 'bonuses', or price-fixing in the construction sector². It is, however, discouraging to hear current presentations on the state of the UK national and regional property market³ which can reflect on the series of changes in recent market activities for house sales and development (e.g. the largest banks have a substantially greater share of the lending market than was the case two years ago), but which still foresee a reversion to 2007 property values by 2013 or 2014 – i.e. a reversion to the level of property values which became so 'unaffordable' for a growing percentage of households to buy or secure through a sustainable tenancy. And that this revision is projected as automatically positive. This author has written elsewhere

² Office of Free Trading, "*Construction firms fined for illegal bid-rigging*", Press Release 114/0922, September 2009

³ Savills, "*Residential Development Volumes and Values in East Midlands*", (presentation delivered on 24 September 2009 to East Midlands Development Agency)

on the unnecessary fascination for new private sector investment in the rented sector⁴ in order to bring about new market confidence - there are clear arguments to make that replacing private investment in housing for sale with investment in private sector housing for rent could be attractive to institutional investors, but will not help address more fundamental issues of market 'sustainability'. It is difficult not to see a return to increased property values representing a renewed encouragement to land-owners, financial lenders and house-builders to have higher and higher expectations for future financial returns, whether those are immediate, or are dressed up within arrangements to hold on to the equity created in new property and thereby secure returns over a longer payback period – fuelling further encouragement to raise asset values, etc, etc.

Given the Government's⁵ refreshed calculations on the level of future housing needs, it is quite unlikely that opportunities for further residential investment will disappear – even a change of Government cannot risk being seen to leave the UK's 'growth' needs completely unmet. So where will the policy measures lie that could offer a challenge to future residential development not being part of another inevitable cycle of 'boom and bust' rises and falls in property values? These would seem to lie in developing a full understanding of the wide range of constituent parts to housing market 'dynamics' that has led different neighbourhoods to experience both the rise *and* fall of property values that makes the occasional headline. The personal, social and financial costs of housing are arguably not sufficiently reflected in the vagaries of individual property values, nor in the ration of loans to negative equity – however much these are a problem for the households concerned – it is whether or not we believe that the enormous value fluctuations are inevitable, and thereby stop believing the future could be different.

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[All views are personal to the author.]

⁴ M. Field, "*Towards an inclusive and sustainable housing market*", Town & Country Planning Association, May 2009

⁵ Dept. of Communities and Local Government, "*Official Projections of Households*" March 2009