In brief

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HOUSING CORPORATION
CENTRE FOR RESEARCH AND MARKET INTELLIGENCE

Housing and economic development: moving forward together

This report aims to assist the Housing Corporation and its successor bodies in the development of policy and strategy, with an emphasis on:

1. How future housing investment can maximise its contribution to economic development; and

2. how housing and physical regeneration interventions can be integrated with, and complementary to, economic development strategies.

Getting the policy response right, however, will depend on a much better understanding of the linkages between housing and economic outcomes. The report analyses how these linkages play out in cities and city-regions and considers the policy implications.

The report was written by Centre for Cities and commissioned by the Housing Corporations' Centre for Research and Market Intelligence (CRMI). It is available from the Housing Corporation website.

Introduction

Housing matters to economic development. It can enhance economic performance and place competitiveness, but it can also lead to segregation and spatial concentrations of poverty.

The government's housing growth plans present an opportunity to improve the use of housing as an enabler of economic growth, but housing policy will need to better reflect the inter-linkages with the wider economy.

In the current downturn, ensuring new homes are delivered of the right type, in the right place, and linked to wider economic development objectives will be all the more important. If housing is treated as an isolated issue, future investment is unlikely to achieve sustainable growth or the outcomes desired by the government's recently published Regeneration Framework.

Implementing a more integrated response to housing and economic development will be the key challenge facing the Homes and Communities Agency. Based on the analysis in the report, five key policy recommendations are put forward

The role of housing in shaping economic performance

The way in which housing markets can impact on sub-national economic performance can be summarised under three broad headings: labour markets, infrastructure, and business and enterprise.

The precise way in which housing will impact on economic performance, however, will depend on the individual city context.

In strong city economies, such as in London, Cambridge and Bristol, there is a need to avoid housing shortages putting a brake on economic growth – placing pressure on existing infrastructure, raising business costs and exacerbating skill shortages.

In weaker economies, such as Hull, Bradford and Sunderland, housing and the supporting infrastructure have often received insufficient investment. Investing in the right type of housing – in terms of quality, tenure and form – and wider quality of place will be important to enabling growth through the attraction of higher skilled groups and new business investment.

Short-run housing market instability: implications for housing delivery and economic performance

Current housing market instability and macroeconomic uncertainty reflect the links between housing markets and wider economic trends identified in the previous section. This will have important implications for housing delivery and sub-national economic performance, but the precise impact will depend on the strength of the economy in question.

As the downturn continues, weaker economies will face less potential for change through physical regeneration – where private investment relies on capturing the land value uplift – and the challenges facing market renewal areas will increase (CLG, 'New growth points', 2008). These economies will be the slowest to recover from the housing market downturn, with implications for regional inequalities (Savills, 'The residential property focus', 2008).

The growth areas, growth points and eco-towns: economic development challenges and opportunities

The potential for housing investment to help steer growth into these areas will vary significantly in each location. Nevertheless, the economic potential is arguably the greatest in the growth areas and first round of new growth points, largely due to their strategic location. Key challenges, however, remain around getting the balance, timing and mix right between housing and employment growth; enabling timely infrastructure provision, in advance of population and employment growth; and addressing concentrations deprivation, ensuring existing residents also benefit from the government's growth plans.

The second round new growth points programme extended growth plans to the North. The New Growth Point status will raise the profile of these areas as priorities for regeneration and housing growth, helping to lever much-needed public and private investment. Many of the designated points are situated in and around weaker economies – raising the quality of the residential offer will be essential if higher skilled groups are to be attracted and retained in these areas. In weaker housing markets, however, provision will need to be carefully aligned with clear evidence of demand if planned increases in supply are to complement, and not undermine, Housing Market Renewal activity.

The eco-town proposals present a different economic prospect from the growth areas and new growth points, given their smaller scale and distance from existing urban areas. They present an opportunity to plan for sustainable growth from inception, and may deliver important transferable lessons for cities. New settlements of 5,000 – 20,000 homes, however, will struggle to provide the economic fundamentals to be sufficiently contained, to generate the necessary mix of employment opportunities, or to provide the full range of services and amenities, risking large scale out commuting. Given their scale, the business case for transport investment in low-to-medium-density settlements will also be considerably weaker.

Housing and spatial concentrations of poverty

Spatial concentrations of deprivation often reflect poorly planned and badly designed housing and neighbourhoods. Poverty, however, is not triggered by bad housing alone. Previously good quality housing can decline due to economic shocks, job losses and out-migration – often reflecting an area's economic history.

The case study of Sunderland shows how the interaction between local housing markets and the wider economy – which in Sunderland's case is economic restructuring, skills deficits and the nature of the local labour market – can combine to produce spatial concentrations of relative poverty.

The decline of traditional industries in some cities has led to unemployment and population loss, and a resulting surplus of low-income private and public housing. The economic implications of this are often exacerbated at the neighbourhood level, where housing markets can have a residential 'sorting effect' – concentrating lower income groups in weaker housing markets with the worst schools, highest crime rates and lowest levels of public and private amenities. These area characteristics are capitalised in house prices and rents and can produce a more uneven distribution of welfare than the incomes of homeowners themselves. These effects can become self-reinforcing.

Place-based regeneration: linking improvements in housing to economic performance

Evaluations of housing-led regeneration approaches – including Estates Renewal Challenge Fund, Housing Market Renewal and Neighbourhood Management Pathfinders – reveal that a focus on housing alone will be unable to drive economic regeneration. Although there is limited evidence that place-based regeneration programmes have had a significant impact on economic development, some important lessons can be learnt. Two case studies are presented:

- Housing Action Trust, Castle Vale: which adopted a more integrated approach – treating issues such as housing, transport, employment and skills as related problems and initiating an integrated response based on building relations between service providers.
- New Deal for Communities, Preston Road, Hull: which adopted a more flexible and outward facing approach – illustrating the importance of taking into account the links between housing and demand side factors in the wider economy. This reflects the fact that local concentrations of poverty are often also symptoms of a city-wide economic problem.

These examples point to the need for a more integrated approach to future investment in housing and economic development.

Conclusion

The role housing plays in a) enabling growth in more prosperous neighbourhoods, and b) regenerating more deprived areas, is inter-dependent and can no longer be treated as separate policy agendas. However, too often investment has taken place in isolation from the wider economic context.

Place-based regeneration schemes reveal the need for a more co-ordinated response to the way in which housing, transport, employment and skills interact. With the decline of area-based initiatives, moving towards a more integrated approach will be all the more important and this needs to be applied at the city-regional level. Specific policy recommendations can be found below.

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Policy recommendations to the Homes and Communities Agency (HCA)

Recommendation 1

Fund a research programme to explore how different types of investment in housing and 'quality of place' impact on economic outcomes across a typology of functional economic areas.

Recommendation 2

Provide a framework for coordination at the appropriate spatial scales.

Recommendation 3

Track the economic impact of HCA housing investment at the sub-regional level.

Recommendation 4

Use spatial planning to strengthen the link between housing and economic development.

Recommendation 5

Link housing supply to local economic demand conditions.