regeneration in a downturn:

what needs to change?

Edited by Paul Hackett

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This publication builds on the work that the Smith Institute has undertaken in shaping the policy debate on regeneration and renewal. It follows on from the work we have completed on housing, regional policy and economic development, and complements the recent reports by government and others on regeneration in a recession.

The essays, by leading players in the field, offer a unique set of perspectives on the effects of the downturn as well as a menu of ideas and recommendations on the future direction of regeneration policy. The world of regeneration has been turned upside down by the credit crunch; we hope that this publication can provide some guidance on what needs to change in order to prepare for the upturn.

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Chapter 1

The credit crunch and regeneration

Professor Michael Parkinson CBE, Director of the European Institute for Urban Affairs at Liverpool John Moores University

The credit crunch and regeneration

What is the credit crunch and what caused it?

There has been much successful regeneration across England during the past decade as many urban areas benefited from a buoyant national economy and extensive public expenditure. But the picture has been changing during the past year as a result of the international credit crunch and economic downturn. In simple terms, the credit crunch means that lenders will not lend, borrowers cannot borrow, builders cannot build and buyers cannot buy. But this is shorthand for a hugely complex set of issues that have been worsening and changing their shape during the past year.

The credit crunch began as a local phenomenon in a specialised housing market. But it has now gone global and mainstream. *The* national economy is slowing down and concerns about the impact of the crunch have filtered into wider concerns about how the performance of the economy may exaggerate the constraints upon development. The risk is that the property decline, the financial problems and the economic downturn become thoroughly intertwined. The hidden social consequences of the physical downturn will increase, with fears about increased debt, poverty, repossessions and homelessness.

What is happening to regeneration?

The speed with which events unravelled shocked all those involved – bankers, investors, property developers, house builders, governments, regeneration agencies and public organisations. The prospects for regeneration remain uncertain at best. But it is certain that the pressures on the sector will become worse in the coming months before they improve. No one in the regeneration sector knows how long it will last, but no one believes it will end before 2011.

None the less, three things are clear. First, the financial crisis is as severe a one as anyone can remember. Second, it is not over yet and the pressures on regeneration will become more intense in the coming months and years. Third, this means that identifying and sticking to some clear principles to guide our behaviour in the future will be even more important. Those principles are not rocket science. Mainly they are those that partners have developed together in the recent good times. Indeed, a crucial message is that principles that are good in good times are even better in bad times.

There has been a flight from risk and a flight to quality. This means that marginal places, projects, partners and people are most threatened. The crisis hit them sooner, will be deeper and will probably last longer for them. In terms of places, London and the South East have been better protected in development. But the position may change, as the

economic downturn threatens jobs in the financial services. The North and Midlands have been worse hit. The cities with a more robust economy, and more entrepreneurial leadership, will weather the storm better than others. Small and medium-sized towns that are dependent on single declining economic sectors will be badly affected. Rural areas are not immune from the impact either. Paradoxically, public-sector employment may protect places from the worst of the recession, as it did in the 1990s.

In terms of sectors, housing has been among the worst hit. This especially applies to city-centre apartments, buy-to-let and volume house building. Other sectors have been less badly affected so far – but the position is worsening. Projects that have started will probably finish, whereas projects that were about to start may not. The position is worse where the market has overprovided in recent years and where developers are financially exposed. It is better where the developer has long-term aspirations and resources, where the money was organised before the crunch began and where there are pre-lets for projects. Public-sector projects have been most likely to continue. The public sector is currently keeping the wheels of regeneration turning, as the private sector is sitting on its hands.

Some schemes and developments are going ahead unaffected, but some are slowing down or being delayed. Other sites have been mothballed. The residential sector is extremely difficult. In particular, city-centre apartments and buy-to-let markets and volume house building have been badly affected. Commercial property – retail, industrial, leisure and mixed-use – are less pressed but the situation is deteriorating. Projects that are already on site will probably finish. Others that are not on site already may or will not start – especially without pre-lets. Nowhere is immune. All places have been affected, although some are better protected than others. But economically and financially marginal places, projects and people are most vulnerable in the flight to quality and the avoidance of risk. To he that hath shall be given.

Are there any silver linings?

The credit crunch brings some marginal benefits for regeneration, but they do not outweigh the costs. It allows review of some of the housing policies that were being undertaken in cities, especially city-centre apartments. It will allow a focus upon long-term place making, rather than house building. It will allow the public sector to buy land cheaper, if, of course, they have the resources. It will allow and encourage the public sector to enter longer-term relationships with committed long-term developers. It will allow the public sector to provide the necessary physical and community infrastructure that would underpin sustainable regeneration. But these benefits are medium term, whereas the costs are immediate.

What are the future risks?

There is a risk that projects will be mothballed or abandoned. There is a risk that there will be pressure to reduce standards. There is a risk that the section 106 system of agreements between planners and developers will not deliver in future the levels of social housing it did in the past. There are risks that if the public sector and registered social landlords buy up too much unsold private housing and put social tenants in them they might be reinventing the socially segregated estates that most places have spent a decade trying to eliminate, in effect creating slums for tomorrow.

However, all partners are agreed that the real risk is for the future. There is great concern that the pipeline will dry up so that products will not be coming on to the market in two or three years' time. There are real fears about the loss of momentum, confidence, investment, skills and capacity. If the tap is turned off now, there are fears that it will take a long time to deliver products once the economy does revive. And many experienced people have already been – and are continuing to be – lost from the industry. The regeneration industry can ill afford that loss of capacity.

What should we do? Some key principles and priorities

The development and economic downturn will get worse before it improves. The pressures upon all partners in the regeneration industry will become more not less intense. But these will be the same pressures to which they are already exposed. Given that the pressures are more intense, it is important that the principles of behaving are clear and understood. They are clear, if obvious, principles. It is crucial that partners:

- recognise that regeneration is a long-term challenge, which needs long- rather than short-term commitment;
- protect marginal places, projects and people in difficult times;
- provide brave leadership and a steady hand in difficult times;
- provide financial innovation;
- work even more in partnership;
- increase flexibility, especially in the planning system;
- keep the regeneration wheels turning and maintain momentum wherever possible;
- commit to quality wherever possible;
- do everything possible now to prepare for the upturn;
- retain existing regeneration capacity and skills wherever possible; and
- accept the crucial significance of public action and resources in reducing the risks to regeneration.

It is crucial that all partners do what they can to maintain momentum. It is important to prepare for that upturn, whenever it comes. At difficult times, it is important to remember that regeneration is a long-run game. Projects and principles that were good one year ago are good today and tomorrow. The government should demonstrate that it is committed to long-term regeneration. It is important that in future it does not abandon regeneration areas and projects on the grounds that they have had their turn, they have had their money, or they are too difficult. There are real fears among regeneration partners that the public sector might be tempted to cherry pick easier projects in easier places in future – going to greenfield and edge-of-city locations. That should be resisted. The private-sector partners, in particular, are looking for commitment from government so that they can stay with regeneration.

The evidence of the past decade, in the good times, was that developers and investment will go to places where:

- there is a clear long-term plan for the place;
- the private sector is valued;
- there is real commitment to partnership;
- there is committed local leadership; and
- there is local efficiency, innovation and flexibility.

There are many examples of this. Those principles will become even more important in future.

Many communities that have experienced difficult times for many years have been badly hit by the downturn. It is crucial that everything possible is done to protect the plans that were made for those communities. Many regeneration agencies are concerned about breaking moral commitments to communities if they cannot deliver agreed projects. More generally, in these difficult days, the private sector has become risk-averse and will be more rather than less reluctant in future to commit to projects. It has also shown that it is the public sector that is keeping much of the regeneration activities going in this country.

It is crucial that public-sector resources and projects continue if the regeneration tap is not to be turned off. It is critical that resources that are already committed to regeneration until 2011 should be reviewed to see whether they can be front-loaded. Equally, it is important that the wider public programmes, which are not regarded as regeneration, should be more closely aligned with regeneration aims and ambitions in future. The resources going into the building of schools, clinics and hospitals should, wherever

possible, complement not contradict regeneration programmes. At present, this does not always happen.

Different financial models: public investment, risk and tax increment financing

The financial model that underpinned regeneration during the past decade is now fractured, if not broken. The banks and investors that paid for it in the past are unlikely to do so in the same way in future. This means that financial partnerships between the public and private sectors and the use of public resources in those partnerships will become a more fruitful way forward.

The principle must be that the public sector increasingly takes a share in investment and development and takes a return from uplift in future. A number of public-sector organisations have been developing these initiatives. Local authorities, regional development agencies and the Homes & Communities Agency should be exploring how they can act on these principles more in future.

The public sector should become more of an investor in long-term regeneration, sharing the risk and sharing the rewards and recycling them for future projects. The evidence is that long-term development projects and partners are managing to keep going currently. Tax increment financing, or the core cities version of accelerated development zones, although complex, have much to recommend them. The Budget announced they would be explored further – they should be.

Different fiscal models? Taxes on empty buildings

The new tax on empty properties poses a key challenge for regeneration. In marginal areas, the new tax is the straw that breaks the camel's back and makes developers less likely to go ahead with already marginal schemes. In some cases, this has led to developers knocking down properties rather than paying the taxes. This is hardly a sustainable approach to regeneration, which also limits supply when the market gets going again. The tax is not only paid by developers, but also by business owners of buildings who may have reduced the scale of their operation, or even by public-sector organisations that may own such property, like regional development agencies. Government should try to see whether the tax can be amended in certain regeneration areas to encourage future investment.

Different housing models?

Housing has been badly affected by the housing crisis and will continue to be so in future. The housing business model that underpinned the boom of the 1990s will not work in the next business cycle. Even before the crisis there were real concerns about the overprovision of city-centre apartments and the absence of family homes and the infrastructure that

makes them viable. The financial crisis underlines the weaknesses of that model.

Equally, there are questions to be raised about the real level of home ownership that is desirable and possible in the future, and the balance of building homes for sale as opposed to social renting. There is clearly a demand for rented market accommodation in many places. But the crunch has highlighted the weaknesses of a system that depends upon the individual landlord rental model. We need a financial system that encourages major institutional investors to become involved in the long-term provision of private rented housing, which would give the flexibility of the current system but with better standards.

More generally, place making rather than house building should be the future goal of policy. This has implications for the provision of infrastructure in places. It has implications for the numbers of houses that it will be possible and desirable to build in future. It has implications for the targets that are set for public agencies in future. There is considerable anxiety in the regeneration industry that the current housing and regeneration targets will not be achievable in regeneration areas in future and that resources will flow to other areas where the targets can be more easily achieved. To avoid cherry picking and abandoning regeneration areas, those targets should be looked at in the light of those concerns to determine whether they will encourage sustainable regeneration in future.

Different economic models?

The past decade has been a good decade for English cities. They have undergone a substantial renaissance underpinned by a successful national economy and buoyant public spending. But those circumstances will not be found in the next decade. Equally, the sectors of the economy that underpinned their renaissance in that cycle may not be the most appropriate for the next cycle. The drivers of much of the renaissance were retail, leisure, residential and financial services. These are primarily consumption or service sector activities, which may not be as robust in the coming years. Places will need to look to higher-value-added production activities based upon innovation and learning, or more sustainable sectors that feed into the national and global low-carbon sustainability agenda.

Chapter 2

Delivering the "Single Conversation"

Sir Bob Kerslake, Chief Executive of the Homes & Communities Agency

Delivering the "Single Conversation"

The Homes & Communities Agency is the national housing and regeneration agency for England and was formed on 1 December 2008. With an annual investment budget of more than £5 billion, it brings together the functions and staff of the former English Partnerships, the investment functions of the Housing Corporation, and the Academy for Sustainable Communities (now the HCA Academy), along with major delivery programmes of the Department for Communities & Local Government.

Our role is to create the opportunity for people to live in high-quality, sustainable places, providing funding for affordable housing, bringing land back into productive use and improving quality of life by raising the standards of the physical and social environment. The Homes & Communities Agency was created by the Housing & Regeneration Act 2008 to:

- improve the supply and quality of housing in England;
- secure the regeneration or development of land or infrastructure in England;
- support in other ways the creation, regeneration or development of communities in England or their continued well-being; and
- contribute to the achievement of sustainable development and good design in England, with a view to meeting the needs of people living in England.

However, the agency is greater than the sum of its parts, with substantially broader goals and an aspirational vision that reflects the rationale behind its creation: for people, a home they can afford and a place where they want to live; for places, fulfilling needs, aspirations and ambitions.

Perhaps our unique selling point is that we are able to take a national view to help our partners deliver their local visions. We can provide funding across a range of programmes intended to "fit the place" and, through our business model – the "Single Conversation" – are able to help partners take a more joined-up approach to satisfy the needs and aspirations of their communities.[1]

Our goals are: to contribute to the delivery of housing growth; to secure the delivery of new affordable housing and ensure existing social rented stock is made decent; to accelerate the regeneration of underperforming areas and the renewal of deteriorating estates; to ensure high standards of design; and to embed sustainability, with a legacy of skills, knowledge and capacity.

1 Homes & Communities Agency *Single Conversation: A Better Way to Achieve Positive Outcomes for People & Places* (2009)

It is the third of these goals – regeneration – that I wish to concentrate on while considering how the Single Conversation model can help bring about change.

The challenge

Since the conception of the Homes & Communities Agency and its launch on 1 December 2008, the economic landscape has shifted considerably, providing significant challenges to the realisation of our goals. These challenges are set to continue, with the downturn expected to last into 2010. We can expect further job losses and insolvencies in the construction sector, with potential negative consequences for industry capacity, and continuing difficulties for developers and house builders accessing funding and for potential purchasers in accessing mortgages, along with further financial restructuring of the housing and regeneration sector.

We should bear in mind that regeneration is concerned with transforming whole areas, not just small sites, and delivers a broad set of outcomes over the longer term (more than do single-asset projects such as pure housing schemes) but depends on value accumulation over the life of the project. Regeneration schemes often have an expensive up-front "anchor" element and rely heavily on cross-subsidy of social and housing elements from retail, commercial and leisure elements. They are complex and can typically involve brownfield remediation, demolition, refurbishment of listed buildings and the creation of new social facilities. Furthermore, mixed-use urban regeneration will often occur in areas of relatively low value and hence will generally need significant long-term investment or intervention (both capital and resource) from the public sector.

Land- and property-led interventions alone will not secure this change. Multi-agency support will be needed on a range of economic, social and environmental issues, depending on the particular place, to effect the wide range of outcomes needed. To ensure sustained change, careful stakeholder management and long-term stewardship of assets are important parts of the mix. To add to this complexity, to be successful requires a wide skills set, with each project requiring a package of actions tailored to local circumstances, as the Egan review[2] rightly said.

Fundamental to this downturn is the loss of liquidity. All, from house purchasers to developers and house builders, are simply unable adequately to access finance, with the result that activity is coming to a near halt.

Being partially funded from capital receipts from investment in earlier years, our property

2 Egan, J *Skills for Sustainable Communities*, the Egan review (ODPM, 2004)

and regeneration programme – which covers a range of housing, mixed-use and commercial investments – has been affected more than areas of the business focused more around grant than equity investment. Receipts have reduced from £328 million in 2007/08 to £147 million in 2008/09, and we are expecting only around £81 million in 2009/10.

If the experience of the early 1990s is anything to go by, activity levels could take five years to recover fully. Some housing commentators predict a degree of recovery around the year end, but those in the commercial sector see that taking at least another year. The loss of capacity in the industry has already been severe.

Maintaining and boosting programme momentum

The Homes & Communities Agency has introduced a package of measures in its first six months, looking at both the demand and supply sides of the market, which we can offer to our partners, while developing new ideas and proposals – some of which are set out below.

The pre-Budget report of November 2008 brought forward £775 million of capital funding for 2008/09 and 2009/10 for housing and regeneration investment. We have made significant progress in working alongside regional development agencies to support the most critical regeneration schemes with the most potential to transform their communities. We wrote to all key investment partners in December 2008 setting out our willingness to engage in a series of tailored conversations to explore supporting conversion of some existing unsold private stock into social or intermediate rent or rent-to-buy homes; progressing existing schemes that are on hold; and developing a programme of new activity.

It is neither possible nor desirable to support every regeneration project in the current economic environment. Market conditions have led to some regeneration schemes slowing down or stalling, however, limiting their potential to transform lives in deprived areas. In addition to £100 million from the regional development agencies, the Homes & Communities Agency is bringing forward a further £80 million for stalled schemes likely to deliver the most significant regeneration benefits. The selected projects will receive assistance under a number of common themes, including: reduction of up-front costs and risks; retention of developer capacity; re-profiling and phasing of partnership regeneration; and gap and equity funding.

With targeting, including selecting those areas most affected by the economic downturn, progress is now being made with, for example:

- Park Hill, Sheffield – Partnership regeneration of the grade II listed building is to provide 1,000 new homes. Early investment of funds will allow acceleration of phase one. A start on site of the initial wrapping works was expected in early summer 2009.

- Fruit Market, Hull – On this mixed-use regeneration of a 4ha area led by Hull Forward, early investment is funding public realm works and site assembly and demolition. This is expected to be agreed in early summer 2009, with the work anticipated to start on site in the autumn.

- North Solihull – Delivery of the 15-year Regenerating North Solihull programme is to be carried out through the North Solihull Partnership, a formal partnership consisting of the borough council, private-sector partners and registered social landlords. Homes & Communities Agency investment will contribute to land acquisition, tower block demolition and construction of a primary school. We are working towards letting the contract for a start on site this summer (2009) for the primary school.

In May 2009, we launched the *Kickstart* package[3] of support for stalled housing sites, while other measures totalling more than £600 million of additional funding for the Homes & Communities Agency were announced in the Budget. *Kickstart* has a target of delivering 9,000 housing completions by March 2011 and the whole package is expected to create up to 10,000 new homes and up to 30,000 jobs in construction.

Kickstart is intended to unlock stalled high-quality, mixed-tenure developments. The package includes up-front investment support (equity, loans or gap funding) for infrastructure and development costs, complemented by support for affordable housing and HomeBuy Direct.

While priority will be given to schemes delivering an optimum number of homes at best value for money, delivering good-quality homes remains an important aim for the Homes & Communities Agency and will be a consideration throughout the selection process. The agency does not wish to invest in schemes of poor design quality, and those schemes expecting to achieve Building for Life Silver or Gold ratings will score more highly.

We are working with institutional investors in the longer term to back a new model for stimulating the private rented sector, in line with the Rugg review recommendations on that sector.[4] To date, achieving scale has been one of the main barriers to attracting

3 Homes & Communities Agency *Kickstart* (2009)
4 Rugg, J and Rhodes, D *The Private Rented Sector: Its Contribution & Potential*, the Rugg review (Centre for Housing Policy at York University, 2009)

institutional investors into the housing sector. But we believe there is an opportunity to offer a pipeline of projects, which could result in a positive outcome for all stakeholders. A market-driven proposition could be attractive to investors, with projected rental yields and the state of the current market suggesting that the time is right.

There is a clear need for all partners to maintain close scrutiny on how this whole package of support is phased and delivered over the next two years and in meeting as many of our key regeneration priorities as possible. Flexibility will be key to delivery.

The Single Conversation – embedding a "place-focused" model of working

Having explained how we have been able to rephase and refocus our immediate investment planning – in line with current Homes & Communities Agency corporate and regional business plans, for instance – it is the Single Conversation that will enable us to deliver our place-focused goals over the medium term.

Now being introduced on a phased basis, the Single Conversation is the agency's central business model. It is the process of dialogue with a local authority, or a group of local authorities where this works better, and partners from the public, private, housing association and voluntary sectors. The conversation will draw on the long-term, comprehensive priorities set out in local authorities' sustainable community strategies, and will join up decision making across the range of housing and regeneration activities and investment programmes.

The process of the Single Conversation will lead to the creation of the key documents of local investment plans and local investment agreements, which will set out the contribution, in terms of both investment and other support, that we will make with other partners to help deliver the changes for areas.

The key benefit is the ability to tailor investment strategies to the needs and local ambitions of places, rather than to develop them on the basis of "one size fits all". By developing mutually shared and agreed priorities, we can use linked funding from a variety of public and private sources to get maximum impact, as well as obtaining maximum leverage for the best value for money for overall investment. Local flexibility will allow housing growth, regeneration and renewal to be delivered in ways that work effectively in different local contexts, while at the same time contributing to meeting regional and national targets.

While these are under way in many areas, we cannot work with all local authorities immediately and at once. In time, however, we will be speaking to all authorities individually or in groups.

As the aim is to come to agreements that will cover the range of investment needed, we expect different stakeholders to be involved at different stages. In many cases, the regional development agency will be involved, as it is responsible for economic development, and the regional learning and skills council, where training for employment is an important element. Likewise, the Highways Agency and health bodies will have key roles to play. And we expect the engagement of local stakeholders, including both residents and businesses, to be led by the local authority.

Post subnational review – the regeneration framework

I expect the regeneration framework document *Transforming Places, Changing Lives*,[5] published in May 2009, to help enormously in making the process work, providing an overarching strategic context for regeneration activity.

Through the period of the subnational review of regeneration and development,[6] and latterly through the framework consultation, the Homes & Communities Agency and its predecessor bodies worked with the DCLG to ensure that the definition of regeneration was addressed. We now have a clear definition, as follows:

Reversing economic, social, and physical decline in areas where market forces will not do this without support from government and highlighting the need to reprioritise regeneration investment where there are opportunities for transforming the economic prospects of areas with lower economic performance.

The framework aligns with our Single Conversation in affirming that regeneration must be more tightly focused on improving economic outcomes and tackling worklessness. It must be driven from the right level – and give partners the responsibility and flexibility to deliver improvements – and it must be targeted to help those communities most in need, in terms of poverty, deprivation or sustained unemployment. Successful regeneration will be judged in terms of improving economic performance, creating the right conditions for business growth and creating places where people want to live.

A new model?

As discussed, the accepted regeneration model has been severely undermined by current financial and economic conditions. Even where development lending is available in principle, the cost remains relatively high because of the perceived risk. In some cases, public-sector gap funding and investment allocated to the developer could either cover

5 Department for Communities & Local Government *Transforming Places, Changing Lives: Taking Forward the Regeneration Framework* (2009)
6 Department for Communities & Local Government *Review of Sub-national Economic Development & Regeneration* (2008)

this finance hurdle and the lead-in cost period, thus allowing schemes to continue, or could provide funding should sales values not be achieved. More recently, packages providing a combination of development investment and National Affording Housing Programme funding to support "point of sale" transactions are being put together to support strategic projects.

In some major regeneration areas, especially where the development partner has gone out of business altogether, functions previously carried out by the private sector will need to be taken over by public agencies. Many regeneration developers are in severe financial difficulties, and those that have not already withdrawn are looking for contracting work from the public sector rather than undertaking risk-based development. Public agencies may carry out this activity themselves, or appoint developers as contractors, which would preserve continuity and retain skills and jobs. On the skills issue, we believe there is a big opportunity for the HCA Academy to play a major role.

Coming out of the downturn, I expect the public/private-sector balance will alter, bringing a longer-term relationship and generally a more active public-sector involvement (masterplanning, infrastructure planning and provision), with an increased reliance on up-front public-sector investment to reduce scheme risk and create the conditions for growth and private-sector involvement. Such a model will also put more responsibility on local authorities and local strategic partnerships to provide leadership and integration at the local level, with expert support being provided by bodies such as the Homes & Communities Agency and regional development agencies to help build capacity. How the public sector will share in the gains over the longer term from its investment will be a key question.

Looking more widely, government is now examining new opportunities for innovative financing mechanisms to support locally driven investment in growth and regeneration. Interested local authorities and city regions are assessing the scope for accelerating development by allowing investment in infrastructure to be financed from the increased property tax base that could be enabled by the existence of improved infrastructure.

Our conversations are already under way with the Greater Manchester and Leeds city-region pilots, as well as being party to multi-area agreements, where proposals will include new joint investment boards with the Homes & Communities Agency, regional development agencies and other partners to co-ordinate and align investment at city-region level. We have made known our wish to be involved in developing some of the thinking on accelerated development zones and similar models.

Falling land prices have the potential to make a useful contribution to addressing the housing shortage and enabling development activity to continue throughout the economic downturn. Land has no or little value in the current market – only hope value. Public bodies (including local authorities and housing associations) should not seek to realise values that have not yet been created – they should invest their land and take a share in the completed developments. They should become patient investors. The Homes & Communities Agency can help them to become this sort of investor and we will be looking at innovative ways to develop further the surplus public-sector land programme through the Single Conversation.

We have run workshops with a range of people and organisations from across the sectors in the regeneration field examining the potential for new regeneration models in the recession. We are taking that thinking into a discrete piece of work we are carrying out with the DCLG on how a new regeneration model might look.

Conclusion

The difficulties and challenges that the downturn poses also provide the Homes & Communities Agency with a unique opportunity to fully utilise the broad spectrum of resources at its disposal to positively influence the housing and regeneration sector.

We are already working with local authorities and other local stakeholders on developing shared plans and, where necessary, building delivery capacity through existing funding programmes. We are now well placed to make use of increasing opportunities for flexing programmes to deliver through strategic, integrated investment programmes, which is something we are discussing with government. Such a single funding pot would offer real flexibility in investment decisions over the medium to longer term, and the new powers of local authorities expressed through their local area agreements, multi-area agreements at subregional level and the new city-region pilots will all be key to developing local solutions to local conditions.

Through the Single Conversation, we are seeking to have in place a locally developed set of priorities through local investment agreements by 2011.

The messages I am receiving from a range of stakeholders on our first six months are positive. We are responding to the serious challenges and I look forward to ensuring that – sooner rather than later – we fit all our funding programmes and assistance to the place, rather than the place to the funding, in making better places to meet people's needs, aspirations and ambitions.

Chapter 3

Funding housing-led growth

John Carleton, Corporate Finance Advisory Director at PricewaterhouseCoopers

Funding housing-led growth

Hopefully, we are beyond any denial about the depth of the recession we are now in. Consequently, our response needs to be a decisive one to ensure that we emerge in better shape than when we went in. For those involved in housing and regeneration this requires a real understanding around what has fundamentally happened and adapting quickly and positively to new and very different realities.

A new approach

The range of private-sector entities – house builders, mixed-use developers and housing associations – will survive this challenge but, as and when they emerge, they will need to be very different in their approach and scope and some may not return to regeneration at all.

For housing associations, the effects of the recession are just one of a number of drivers that they need to understand and respond to as they position themselves in a new era.

For many years, housing associations have been at the sharp end of "housing-led regeneration". The major developing associations have delivered, either alone or in conjunction with partners, a range of affordable housing solutions in regeneration areas, and often to a much higher spec and standard than housing delivered through other methods of provision.

In addition, the same housing associations, along with many others that do not develop, have worked and continue to work in the most difficult and deprived neighbourhoods, leading, encouraging and mobilising "bottom-up" community and neighbourhood regeneration in order to make "places" better and more sustainable for those who live there and who, in many cases, do not have the same freedom of choice in where they live that others of us take for granted.

However, the environment in which housing organisations operate has been evolving for some time, with seemingly little response or acknowledgement from many in the sector. While the onset and outcome of the recession will act as a catalyst in the change process, the inevitability of change has been with us for a number of years as the focus has moved to one of delivering "sustainable communities" with quality of "place" at its heart, rather than housing alone.

The very term "housing-led" regeneration is, in itself, debatable. All regeneration surely is or should be economy-led and is as much (if not more) about opportunity than need.

For regeneration to be successful, the focus must be on realising the economic opportunity for an area – if our interventions are based upon need alone, then it is questionable whether sustainability will ever be achieved.

However, it is important not to underplay the contribution that value uplift through section 106 infrastructure agreements has made to urban development (not least in terms of social housing). Housing-led regeneration centred on creating mixed communities also adds value by attracting people with higher disposable incomes.

It follows then that in order to convert this "opportunity", regeneration must focus on the whole "place" of which the housing offer is just a part. However, if our intervention focuses on housing alone, then sustainable regeneration is likely to fail – largely for the same reasons that probably led to the area needing to be regenerated in the first place – a poor-quality housing offer in an area is often a manifestation of a much deeper and wider economic problem in the area.

To be successful, "place making" needs to integrate transport infrastructure – to connect the people who will live there to employment. It needs good provision of schools and accessibility to health and retail facilities, and it needs the quality of the public realm that wraps around and permeates through the place to be attractive, in order to make people want to live in that place.

The housing associations that really understand the "place agenda" have been repositioning themselves for a number of years and are now well positioned to be partners of choice for many local authorities, as house builders/developers as well as place makers. Those that do not may find their future prospects less promising.

Drivers of change

While the change in the operating environment has not exactly been a "burning platform", there are a number of changes that may now see the transition accelerate.

First is the effect of the credit crunch in at least restoring some sanity around the cost that housing associations should pay for their capital/debt. Margins of below 50 basis points were unsustainable, given the nature of the risks and the financial structure of housing associations. Such margins were more a product of the seemingly never-ending availability of liquidity than a serious assessment of credit risk.

Moreover, the range of margin from the best to the worst was very (too) narrow. A reversion to margins in a much wider range of, say, 100–350 basis points is, intuitively, about right

in terms of the risk-adjusted cost of funding, and that wider price range enables a true differentiation between those organisations that have good-quality assets and cash flow, broad and deep management teams, a challenging and robust governance structure and strong risk management processes and those that have not!

Second is the end of the Housing Corporation and the rise of its successor bodies, the Homes & Communities Agency and the Tenant Services Authority. The housing association sector has enjoyed a love/hate relationship with the Housing Corporation for many years, probably as a result of its dual role as both investor in affordable housing and regulator to the sector. However, the joined-at-the-hip nature of this relationship has meant that, in accessing public funding for affordable housing (social housing grant or SHG), until recently housing associations have only ever had to compete with each other for this precious resource.

Now, as the Homes & Communities Agency evolves, it sees its principal partner and stakeholder as local government. It defines its role in terms of working closely alongside and through local authorities to help them develop and subsequently deliver their vision for "place making".

This positions developing housing associations in the future as one of a number of downstream delivery partner options, with a very important (and potentially bigger and broader) role, but without exclusive access to public funding and in direct competition with house builders, developers and such like, which will also be able to bid directly to the Homes & Communities Agency on equal terms for the same funds. Indeed, some may not have the experience, or risk appetite, to bid to lead on a major place-shaping development and may see their role as a supporting partner to deliver or receive the affordable housing element of a larger masterplanned project.

Third, as the Tenant Services Authority develops and seeks to implement its new regulatory framework, it will move to a position of challenging housing associations in respect of the quality of service delivery to their tenants. The authority's approach in seeking to raise the bar on front-line service delivery may, almost inevitably, involve housing associations needing to consider shifting more resources to the front line. Are boards and management teams not going to examine the "opportunity costs" of maintaining a project bidding and development capability when winning development contracts (and associated public funding) becomes much more risky and less predictable than it was?

The fourth driver of change is the possibility of a different government around the corner – one that is committed to a new agenda around housing and regeneration, which could

create an environment that housing associations perceive as opportunity or threat, depending upon how prepared they are to respond and change themselves.

The final factor is a much more certain one. Whichever flavour of government is in office after the next general election, the level of public funding available for housing and regeneration will be scaled back dramatically. Britain will be carrying close to £140 billion in public-sector debt for the foreseeable future, resulting in a much lower budget available (50% lower than currently) for capital investment from 2011 onwards. This will inevitably mean that fewer capital resources will be available for investment in housing and regeneration projects.

The future for housing and regeneration

So, where does all this leave the delivery of housing and regeneration and those who look to deliver it – housing associations, house builders and the mixed-use development community?

The volume house builders will return, but they are likely to be more cautious and to focus on smaller-scale and more certain and straightforward developments. Some may seek to develop new business models whereby they take a longer-term interest in the "communities" they develop, with much greater focus on the quality and variety of product and greater emphasis on the "place" – understanding and developing what customers and communities want, rather than giving them what they can have.

The mixed-use regeneration developer may have a less predictable future. Many are thinly capitalised and have depended upon a business model that involves huge planning gain from difficult (negative-value) sites, high levels of gearing with public (gap) funding underpinning the risk. Most such developments have been predicated on substantial cross-subsidy from the residential element to deliver infrastructure.

The irony is, however, that many from this community really do appreciate the concept of creating places rather than just building houses.

So, what of housing associations? Where does this leave them? Is this a huge threat to the world they have known as landlords, or a massive window of opportunity? The answer, to those that have been positioning themselves as place makers as opposed to just house builders and landlords, is obvious – this has to be a great opportunity.

The opportunity presents itself for some housing associations, in what has been for a long time a largely homogeneous group, to develop a real differentiated business model. The

challenge will be to seek to form new partnerships, perhaps with other housing associations – as rationalisation in the sector escalates – as well as with local authorities, house builders, developers and funders. Such partnerships have, at their core, a long-term view and a business model to deliver long-term value growth (partly because there is no short-term value growth).

These partnerships will focus on the shaping and delivery of "places" and have a key aim of deconcentrating poverty, deprivation and residualisation. The residential offer produced needs to be different. It must create new products that fill in the tenure gap from social rented housing to full home ownership. The potential development of an institutionally funded private rented sector offers a huge opportunity for diversification for the more capable. Reduced availability of public funding means it has to be delivered as investment, not grant, with a view to it being recycled as and when it can be refinanced. As investment, it also needs to share risk across the public and private partners.

Maybe there is even the opportunity to consider fully releasing the potential of the housing association sector – the write-off of all existing SHG to free up housing associations' balance sheets (around £39 billion) – given that this is already a "sunken investment" from the public sector's perspective. Subsequently, we could do away with capital subsidy directly to housing altogether (while maintaining gap/equity funding for place making) and allow housing associations to charge variable (market) rents for their properties, ensuring affordability for those most needing it is maintained by increasing the subsidy to the individual so that they can exercise true choice.

Maybe that would open up the market for delivering tenant services, as the Tenant Services Authority has an ambition to do over the medium and longer term, and encourage a properly competitive market for tenants, which would drive up the quality of services delivered to them. Concurrently, this would enable housing associations to fully exploit and utilise their financial strength alongside their skills in making neighbourhoods work, with an overall outcome of creating better places for people to live, work and enjoy.

Chapter 4

Joining it all up

Alison Newton, Partner and Head of Regeneration at McGrigors, and Nakato Kiwana, Senior Associate of the Regeneration Team at McGrigors

Joining it all up

London's King's Cross and the new home of Eurostar at St Pancras, Birmingham's Bull Ring, Salford Quays, the new home of the BBC and the Olympic Park are all regeneration projects that have transformed (and in the case of the Olympic Park will transform) the local area and its community. They have achieved this only because they have included all of the following:

- new homes have been built;
- transport links have been improved; and
- retail, leisure and business destinations have been created.

The common result of these factors is that visitor traffic has increased to the regenerated areas, the local economy has been boosted and employment opportunities maximised. The common feature is that all these projects took time – some may say an inordinate amount of time.

Whatever your standpoint, these projects demonstrate that you have to take a long-term view on regeneration and that regeneration is both a journey and a destination, with central government, the Homes & Communities Agency, local authorities, the private sector, funders and the local community all playing their various parts as ticket collectors and train drivers along the route.

Regeneration needs many different elements, including land, the provision of infrastructure, leadership and funding, which are akin to pieces of a jigsaw puzzle. A vision and masterplan are required to put all the pieces of this jigsaw puzzle together to create a successful regeneration. This means that the stakeholders have to work in unison with one another, in what can often be a lengthy regeneration process, to ultimately achieve the successful transformation of an area and its community.

As with any jigsaw puzzle, each piece of the puzzle is essential to the success of the regeneration scheme, and it is the funding part of the jigsaw puzzle that has been all but wiped out by the current economic situation.

The impact of the credit crunch on regeneration projects

The last few years have seen a period of relatively low interest rates. While this state of affairs continued, the private sector could obtain funding on the open market on the basis of loan-to-value ratios of 80% and better. The funding for regeneration projects has increasingly been based on rising land prices and has been residential-led.

The benign economic environment meant that private developers were also willing to undertake riskier and more marginal regeneration projects.

The credit crunch has resulted in significantly less money being lent, with significantly less risk, at significantly higher rates, and at significantly lower levels. This has put unprecedented pressure on the regeneration sector's ability to complete current projects, far less bring forward new projects.

Funding for regeneration projects has been affected by the following factors (to name but a few):

- lack of funding for development;
- continuing and sustained decline in land values;
- downward revision of open market valuations for on-going regeneration projects;
- lack of mortgage availability for purchasers of residential units, causing anticipated demand for speculative residential units to fall sharply; and
- lack of appetite for risk.

Valuers are being asked by funders to make valuations on regeneration schemes based on today's values, alongside projected valuations for three and six months' time on the same schemes. Today's cautious valuations means that the projected open market values in the development appraisals drawn up a few years ago bear no resemblance to the current open market values of the regeneration schemes.

The lack of funding, falls in land values, and the downward revision of open market valuations have combined to affect the viability, shape, size and nature of current regeneration projects. A number of projects are being mothballed until the financial climate is deemed to be more conducive. Some proposed regeneration projects are under review and a number have been abandoned as the proposed schemes are no longer viable in today's straitened financial environment.

The greatest concern should be that even where liquidity returns to the financial market, and even where values steady and rise, there may still be no appetite from general funders for the long-term approach and level of risk associated with large, mixed-use regeneration projects. The lack of funding has meant that the part played by local authorities and public-sector parties has changed dramatically and crucially.

The funders' attitude to financing what are perceived as "risky schemes" takes on a particular significance when viewed in the context of funding up-front infrastructure.

Infrastructure is a crucial piece of the jigsaw puzzle that is regeneration. Without the scheme, there would be no infrastructure, and of course without the infrastructure there can be no scheme – a classic chicken and egg scenario.

The timing of payment for upfront infrastructure works has always been sensitive, even in more favourable economic times. If a private developer is to fund the up-front infrastructure costs, then these costs are to be borne at the beginning of a regeneration project, before the developer has realised any profit in the form of sales. The up-front infrastructure costs cannot be recouped by the private developer until many years down the road, when it has sold or let the regeneration project.

The time lag in recouping these costs has made an already tricky balancing act in accessing available funds in a depressed funding market even trickier for private-sector developers and a real stumbling block to unlocking regeneration sites.

The public sector predominantly takes a longer-term view on its investments than would a private-sector developer, and the public sector has access to funding on more favourable terms. Therefore, the public sector can take on the costs of funding the up-front infrastructure in order to unlock the regeneration site and keep the regeneration process moving.

The issue of funding emphasises the fact that regeneration is a long-term project and that players in the sector have to take a long-term view and approach any regeneration project on this basis. It seems inevitable that the future of regeneration will be linked to the creation of specialist, focused, informed and sophisticated funding bodies, probably created with a specific social agenda and a limited profit motive.

What are the alternatives?

The current regeneration model cannot deal with the exceptional conditions affecting the sector now. The circumstances demand a new approach and a willingness to be innovative. So what measures need to be taken to kick start stalled regeneration projects and to ensure that the pipeline of projects does not dry up?

- It is clear that, in the current economic climate, commercial lenders are risk-averse and are either unable to lend due to capital constraints or unwilling to be major funders of new regeneration projects. A new lender of "first resort" has to step forward and take on the mantle in respect of funding such costs. The Homes & Communities Agency has stated that it is prepared to look at funding the up-front infrastructure costs in order to unlock sites, kick start or revive the regeneration process.

- Other public-sector bodies, in the form of local authorities and the NHS, will also have to take on this role.

- Local authorities could exercise their borrowing powers more. A step change is required. Figures from the Department for Communities & Local Government show that a third of local authority capital expenditure was financed by central government grants. Central government will have to step in and fund more regeneration directly.

- The public sector will increasingly have to fund a greater proportion of the up-front regeneration costs for the foreseeable future in order to keep the regeneration momentum going. The public sector is now seen as a lender of "first resort", rather than just another player in the regeneration sector.

- The credit crunch has also affected the model of the legal vehicles used to deliver regeneration schemes. In the past, regeneration has been carried out using a variety of public-private partnership delivery models, such as local asset-backed vehicles and joint-venture vehicles, and based on rising land values. The current view is that the market has not yet bottomed out and land values still have some way to fall. A recovery in land values is not anticipated in the near future. As the delivery model was based on rising land values, we are now re-examining and adapting these models to reflect the real world.

It is clear that the public sector has a part to play at every stage of the regeneration process, from site assembly, obtaining planning permission, and compulsory purchase orders, through to construction and use of the completed regeneration scheme to its full potential. Put simply, the public sector, uniquely, can reduce risk, take out cost and speed up the process.

The EU dimension

The increased role played by the public sector in the regeneration process as both developer and funder is not without its pitfalls. Where a public-sector organisation is involved as a party to a regeneration project, regard must be had to the EU rules on public procurement. These rules alone can derail a regeneration scheme, if breached.

Although contracts for the acquisition of land, including existing buildings and the sale of land, are expressly excluded from the rules relating to procurement, the rules may apply to a regeneration project, where a local authority enters into a development agreement to carry out the regeneration scheme.

Put simplistically, the EU procurement rules may apply to a contract for a commercially

led urban regeneration scheme. If such work is provided for in an agreement, which is intended to achieve an authority's regeneration objectives, that work may be construed as "a contract for works" and therefore subject to the EU procurement rules.

This is regarded generally by the development sector as an anathema and by the public sector as discouraging, since if the EU procurement rules apply then such a contract for works must be advertised in accordance with the EU procurement rules. Failure to advertise, where the EU procurement rules apply, can impact severely on the regeneration scheme. All work would have to be stopped and the contract for the work re-advertised, and as a result it could be awarded to a third party and not to the original developer. This fear factor is adding another layer of delay, controversy and opaqueness where what is clearly needed is speed, clarity and transparency.

Less obviously, but equally importantly whenever public money is being invested or spent in circumstances where the beneficiary is non-public, state-aid issues may arise. The rules on state aid are complex and each case should be examined individually at the outset (actually before the outset) to ensure compliance with EU rules.

Where do we go from here?
All the players in the regeneration sector have been affected by the credit crunch, whether it is through lower capital receipts on the disposal of land or a lack of funding available for the private-sector developer.

Unless the public sector takes on a greater and more strategic and critical role in facilitating, funding and carrying out regeneration projects, those projects will either not go ahead or proceed very slowly. Regeneration of town centres and former industrial sites is critical to the local economy. If the regeneration of these sites does not go ahead, it will have a negative effect on the locality and its economy.

The existing models for funding and for carrying out regeneration projects are unable to meet the challenges of the new landscape. New measures will have to be implemented in order to meet these challenges. Regeneration benefits the whole community and the entire UK. Therefore, a nationwide holistic approach is required. You cannot approach regeneration in a piecemeal fashion on a project-by-project basis. Any regeneration policies will have to be applied nationwide in order to be effective.

Only central government has the resources to do this. Now is the time to examine new and workable ways of delivering sustainable regeneration projects with public-private partnership on this basis.

The momentum that regeneration projects created in previous decades is in danger of being halted as a result of the current economic climate. If that were to happen, we would face a sustained period of stalled regeneration and years of lost opportunity for people, places and the community. It is worth remembering that it was the likes of the Toxteth riots that gave rise to the late 20th-century approach to regeneration. Should we wait for a similar catalyst in the early 21st century?

We cannot allow this to happen.

Chapter 5

Transforming places

Michael Ward, Chief Executive of the British Urban Regeneration Association

Transforming places

A number of previously distinct policy streams have gradually converged under the banner of "regeneration". A non-exhaustive list of these would include:

- house building;
- economic development;
- action to redress regional economic imbalances;
- action to address urban deprivation;
- the remediation of derelict land;
- the improvement of the public realm; and
- investment in new cultural provision.

This is quite a broad canvas for a single word. To quote Lewis Carroll's *Alice Through the Looking Glass*:

"When I use a word," Humpty Dumpty said in a rather scornful tone, "it means just what I choose it to mean – neither more nor less."

"The question is," said Alice, "whether you can make words mean so many different things."

"The question is," said Humpty Dumpty, "which is to be master – that's all."

For these are all legitimate areas for government activity: all areas characterised to a greater or lesser extent by market failure. But they are not the same: policies that are designed to make an impact on one will not necessarily affect another. Their spatial characteristics are quite different.

At the same time, there is also a narrow view of regeneration: it has, in some discussions, come to be shorthand for "property development supported by public funds in order to achieve some wider public benefit".

Neither of these approaches is satisfactory. Fortunately, the recent government regeneration framework[1] is helpful. This suggests a definition of regeneration:

1 Department for Communities & Local Government *Transforming Places, Changing Lives: Taking Forward the Regeneration Framework* (2009)

A set of activities that reverse economic, social and physical decline in areas where market forces will not do this without support from government.

This situates regeneration firmly in its economic, social and physical context. It makes it clear that the purpose of the activity is to address these problems – rather than just to procure physical development.

The definition focuses on the role of government – but not all regeneration is reliant on government support. Strong communities are more often a precondition for effective regeneration than an outcome of it. Government has rightly stressed the importance of enabling community organisations to hold and develop assets on behalf of their areas, and the Development Trusts Association has pioneered asset transfer as a means to empowerment.

The national regeneration framework is an outcome of the subnational review of economic development – itself one of six major initiatives in this field by the present government:

- the establishment of the regional development agencies;
- the Urban Task Force and white paper;
- the Social Exclusion Unit's policy action teams;
- the Lyons review of local government;
- the subnational review; and
- the creation of the Homes & Communities Agency.

Each of these unlocked great creativity and originality, and aroused expectations of significant policy change. The regional development agencies produced the first regional economic strategies; the Urban Task Force focused, above all, on design and public realm; the policy action teams, looking in detail at conditions in the most disadvantaged neighbourhoods, led to the inception of the New Deal for Communities programmes; the Lyons report put place shaping at the heart of the future agenda for local government. And now the Homes & Communities Agency, in its early months, has done a great job in saving some of the regeneration schemes that would otherwise have been unable to proceed.

There has been a 12-year ferment of innovation and change. But at the end of that period, the policy community faces radically changed circumstances. Market-led, property-based development has come to a standstill. House building – social, affordable or owner-occupied – has shrunk to the lowest levels on record. Mixed-use regeneration has stopped. There must at least be a risk that the historic drive to improve the living conditions and life chances of the poor is coming to a halt. And the dominant recent approach to

regeneration – expecting developers to pay for physical and social infrastructure from the gains on development in a rising market – seems to have no future.

This is not a situation for which the policies and structures of the past 12 years were designed. But the deep-seated economic and social problems will not go away. Britain's disadvantaged communities will need support and protection in this slump – first, because their position will become worse if help is not provided and, second, because of the risk of social unrest if the poor are simply allowed to become poorer. In a period of sharp cuts in public expenditure, programmes aimed at helping the poorest places out of poverty will need an increasing share of a shrinking pot of funds.

What does government need to do?

First, call a moratorium on institutional change. Creating or reshuffling institutions does not solve problems. Work with the institutional architecture we have got. The creation of the Homes & Communities Agency has established a powerful force for intervention in physical development – it should be given the chance to carry out its mandate.

Second, do not pretend you can do everything. All governments sometimes seem to behave as if they possess a magic dust called "regeneration", which they can sprinkle on any place to restore prosperity. It isn't true. In the good years, huge progress was made in the major English regional centres – but old, industrial towns, located where there was a source of raw materials or energy for the industries of 200 years ago, now located far from airports, mainline rail services, or higher education, have struggled and will continue to struggle. They cannot all be biotech clusters or knowledge economy hubs. And they certainly cannot all be vibrant, in another cliché of the regeneration industry.

Third, devolve. One of the most encouraging things to emerge from the subnational review has been a strong new consensus, across central and local government and between the political parties, in favour of an enhanced role for local authorities. Part of this is the new stress on the place-shaping role of local government. But real devolution would restore some fiscal autonomy to local government. Restoring the business rate to local control would force local authorities to re-engage more closely with their local business communities.

Fourth, be clear which objective a policy is intended to achieve. The Barker agenda will not go away. There is a housing shortage. It is at its most acute in London and the South East. It is there because, even after the last year, finance and business services jobs are critical for the country's economic future – and those jobs are concentrated in the South East. It is a proper field of activity for government policy – but it is not necessarily *regeneration*.

Increasing housing supply is neither *part of* an attack on deprivation, nor an alternative to it. It is simply something else government needs to do. The contrast, sometimes made by commentators, between building new homes in the Southern growth areas, and demolishing them in the – mostly Northern – housing market renewal areas, simply misses the point: build homes where there is high demand. The jobs that give rise to that demand are in and around the London financial services hub.

Fifth, do not throw out the environmental baby with the public expenditure bathwater. Far more needs to be done to integrate regeneration policies with the green agenda, including achieving targets on sustainable construction and energy efficiency.

"It's the economy, stupid"

General Motors has gone broke. Its European arm is being sold to a Canadian company. Chrysler has already gone into administration. General Motors (and therefore Opel, and therefore Vauxhall) have been on the brink for months. A shudder is going through rust-belt America. The economic landscape is changing, as major global companies go down. It was, after all, a former president of General Motors in the 1950s, "Engine Charlie" Wilson, who told the US Senate: "For years I thought what was good for our country was good for General Motors, and vice versa."

The key question facing civic leaders, not just in Britain but across the older industrialised countries, is this: how, as we move from a national to an international division of labour, will our citizens earn a living and prosper?

Communities whose position in a national economy was clear and well understood now have to reinvent themselves as global players. Places that used to be textile towns, or car makers – or financial centres – have to find new answers to the question of where the jobs will come from. For a generation, it has been a commonplace observation of economic geographers and business analysts that there is overcapacity in the world car industry (and an equally commonplace observation of environmentalists that we should not continue making cars on this scale). Now, suddenly, a generation of change is happening in a few short months.

But these changes affect real people in real places. Capital is internationally mobile. Companies are bought and sold. In a telling phrase, it was said in speculation ahead of the demise of van-maker LDV, based in Birmingham, that the response of any purchaser might have been a "lift and shift" operation: moving plant and machines lock, stock and barrel to a new location.

But car workers in Luton or Ellesmere Port or Detroit can no more relocate to make cars in India or China than they could suddenly metamorphose into investment bankers in Canary Wharf in the boom years. It is local communities, and their elected representatives, who are left to cope with the consequences of industrial change.

This is why place shaping must be central to the new role of local government. As Michael Lyons has written, communities and their councils will need to develop "a sense of where a place should be in five, 10, 20 and even 30 years' time". They need to be aware of long-term trends, and to develop a sense of how their local area can be best equipped to meet these new challenges. And they need strategies to respond to these changes.

Future strategies

There are no easy formulas or textbook solutions. The first requirement is good economic intelligence and analysis. Here, the new requirement for councils to carry out a local economic assessment is important. The Homes & Communities Agency will need to consider how to link its single conversation to these emerging analyses – crudely, how to build the homes of the future in the places where the jobs of the future will be, and how to invest in the physical fabric of communities facing major structural change.

Investment in learning will be key: for a location to compete effectively for the jobs of the future, it will need to be seen to provide high levels of achievement within the school system, good vocational skills, and a strong higher education offer. Knowledge-based jobs do not necessarily come to places with business parks: they come to places with good universities and good communications.

In the early days of British regional and industrial policy, after the Second World War, government could take statutory powers to control the location of industry. A firm needed an Industrial Development Certificate to build a factory in London or the South East; building materials were rationed, so that only factories or social housing could be built anywhere.

But those tools are no longer available to government: they could only work in an economy of national companies, producing for a national market, and employing a national workforce. Now that companies can choose where in the world to locate a plant, or source a component, no national government can exercise such control.

Future strategies must therefore concentrate on human capital, and on creating attractive, accessible places. And physical regeneration must be linked to a clear vision of an area's potential.

So the message to government is this:

- Do not let up on policies to address need and deprivation. If you stop investing in Britain's poorest places, your reward will be strife and unrest.

- But do not confuse this with the need to increase the supply of housing. Keep building in the areas of high demand.

- Make sure that the councils and communities with which you work have a clear, realistic vision of where the new jobs will be.

Chapter 6

Investing in the green recovery

Dr Nicholas Falk, Founder Director of URBED (Urban & Economic Development)

Investing in the green recovery

The 2009 Budget heralded the prospects for city regions and for introducing "innovative financing mechanisms to support locally driven investment in growth and regeneration". This paper summarises arguments for enabling county councils and unitary authorities to raise finance to achieve new (and "greener") housing and local economic development in the right places through infrastructure bonds and "quality deals". It builds on my pamphlet *Funding Sustainable Communities*, which reviews the options,[1] and on recent research projects into US and European experience with infrastructure funding and regeneration.[2]

It also makes use of on-going work for Cambridgeshire Horizons to develop and test out innovative approaches to implementing the Quality Charter for Growth. In particular, a case study and leadership masterclass on the Vathorst Development Company provides an excellent model for how to finance smarter growth – meaning development that is matched to transport infrastructure – and work towards the idea of "green recovery" that came out of the G20 summit in London.[3]

Why joined-up investment is crucial

With very limited resources available for investment, it is more vital than ever to use them wisely. The evidence set out in Richard Wilkinson's new book *The Spirit Level* shows clear correlations between inequality and various indices of social malaise or well-being, such as healthier and happier children.[4] The UK is clearly lagging behind the social democratic countries of Northern Europe, such as the Netherlands, when it comes to social equality and environmental sustainability, as well as economic performance. The contrasts are visible in the way that older industrial areas, such as in South Rotterdam, have been regenerated around new metro stations, tram lines and educational facilities, or new urban extensions in Amersfoort near Utrecht have been built around balanced communities at some three times the rate of British equivalents.

Therefore we need to ask why, given massive neighbourhood renewal programmes, the establishment of regional development agencies, and a new planning system, the UK is not very adept at linking development and infrastructure? Why do people in so many poorer areas feel excluded from the benefits of the growth that has taken place over the

1 Falk, N (ed) *Funding Sustainable Communities: Smart Growth & Intelligent Local Finance* (Town & Country Planning Association, 2004)
2 Cadell, C, Falk, N and King, F *Regeneration in European Cities: Making Connections* (Joseph Rowntree Foundation, 2008)
3 For the charter and supporting documents, see: www.urbed.co.uk or www.cambridgeshirehorizons.co.uk/qualitycharter; PRP Architects, URBED and Design for Homes *Beyond Ecotowns: Applying the Lessons from Europe* (2008) and its appendix on the Vathorst Development Company (www.urbed.co.uk)
4 Wilkinson, R and Pickett, K *The Spirit Level* (Allen Lane, 2009)

past decade? Indeed, we could ask why the precedents set in places such as Letchworth and the garden city movement, or places such as Metroland and some of the "new towns", have not been followed up?

Since the rise of the Victorian industrial cities, Britain has sought to run everything from London. Since the time of the Thatcher government, the autonomy of local authorities has been savagely cut back. Instead, the City of London and the property market have been relied on to allocate resources and reward effort. Yet centralisation no longer works in a world where technological change and global competition makes quick local responses vital, as the rapid growth of Chinese cities illustrates.[5] Nor should a market that swings so erratically be allowed to shape people's life chances. In a recession-rekindling local initiative, pride of place is going to be vital. It is also essential to make the most of any clusters of economic advantage, such as in the Cambridge subregion.

The failure to upgrade our infrastructure can also be blamed on what energy expert Professor David MacKay calls the "Punch and Judy" show of government. There is a misguided faith in markets to provide the infrastructure on which both economic growth and our future quality of life depend.[6] The Anglo-Saxon model of decision making, which the American political scientist Charles Lindblom called "muddling through", contrasts with the more methodical and consensual approach of the Dutch or the Scandinavians. "Stop Go" does not create a good climate for long-term investment in power stations or secondary schools, for example, or measures to tackle congestion, whatever government is in power.

The British system fails because decisions on most investment are taken in central silos, so that the synergy from linking development and investment can never be secured. Centralisation favours "grand projects", such as aircraft carriers and Millennium Domes. It discourages local responsibility and tackling more immediate issues, such as the state of the pavements or the local bus station. The collapse of the Soviet Union provides a warning spectre of the dangers of overcentralisation. Such a system can neither join up investment, nor overcome local resistance to building new homes. It cannot persuade people to leave their cars behind or cut their energy consumption. It cannot raise productivity or skills levels, or make the most of areas that have a comparative economic advantage internationally, such as York or Cambridge. In short, it is no longer fit for purpose.

5 See, for example: Morley, I *Tristam Hunt, Building Jerusalem: The Rise & Fall of the Victorian City* (2008), which makes a similar argument; or the work on clusters that Professor Michael Porter has promoted (and that Gordon Brown was impressed with)
6 MacKay, D *Sustainable Energy – Without the Hot Air* (UIT Cambridge, 2009)

The issue is not just about trust in government, but about the wider question of how resources are raised and spent on public infrastructure, both physical and social. The UK has one of the most centralised taxation systems in the world (even though the absolute levels are not particularly high). The inquiry by Sir Michael Lyons, which was supposed to have delivered solutions to local government finance, produced little of lasting impact other than the controversial power to levy a 2p rate. Against all the arguments for devolution, the conventional wisdom prevailed. The government believed it was better to keep taxes down, bring the receipts to the centre, and let the brightest men (and women) in the Treasury decide how they should be allocated.

Why changes are needed now

The current development system for housing and regeneration was failing even before the credit crunch eroded confidence in the banking system. For years, British house-building rates have lagged far behind their Continental counterparts. The quality of recent housing has been criticised as mean, with too many small flats and too few family homes.[7] The lead the UK had in building "garden cities" and the new towns was lost. Some see the volume house-building system as broken, perhaps beyond repair.[8]

However, the real challenge is not just refloating the housing market, crucial as that is, but joining up development with investment in infrastructure.[9] Infrastructure actually costs more than housing to construct. Developer contributions pay for less than a quarter of related costs, even when a "roof tax" or community infrastructure levy is in place. Section 106 agreements are cumbersome, time consuming and often ineffectual. Public investment, already low by European standards, is forecast to fall to half its current level.

The market system, which is fine for distributing goods and services with a short life, fails in four main ways when it comes to infrastructure:

1. It does not provide anything like the level of investment needed for economic growth in the areas of the country best placed to grow. As a result, it is much harder to secure the benefits from "clusters" of economic activity. Success stories, such as the Cambridge phenomenon, operate on a much smaller scale than their competitors because housing is so expensive.

7 See, for example, the housing audits produced by the Commission for Architecture & the Built Environment.
8 A review of some of the failings is set out in *Town & Country Planning*'s special edition of April 2009 along with examples of how some local authorities are taking the initiative to build better housing.
9 See: URBED's report *Beyond Ecotowns: The Economics Issues*, produced as an appendix to *Beyond Ecotowns* (2008) (www.urbed.co.uk)

2. As a result of low growth in the real economy (and simply creating lots of low-paid jobs for workers in shops or call centres does not produce sustainable growth), it is harder to achieve the social goals of engaging the wider population in a common cause, thus upgrading skills and aspirations, and narrowing disparities.

3. With private control over most of the investment decisions (despite a complex regulatory system), savings from better management are outweighed by higher funding costs, as shareholders, investors and an army of consultants all need to be paid.

4. There is consequently a major deficit to be funded in order to secure major long-term projects, such as railway improvements or power stations, which will benefit all, let alone address the more fundamental problems of climate change.

What is needed for green recovery

The idea of green recovery promoted at the G20 summit in London is to use the slack created by a downturn to invest in measures that will make the planet as a whole more sustainable, and cut the depletion of natural resources. The slack in the building industry can also be used as a counter-cyclical measure, thus reducing unemployment and spending on social security payments. Politicians say they would like to see Britain taking a lead in reducing carbon emissions and generating "green jobs", but progress has been pitifully slow.

The new town of Northstowe in Cambridge has been 15 years in the planning; most of the land is owned by the public sector, but there is still no agreement on when work will start. Efforts to reduce carbon emissions through new developments (such as the ill-fated eco-towns) would do better if they were located where adequate transport and utility capacity exists or is planned. Green recovery could be used to bring different communities together and achieve innovation (as the idea of "transition towns" is already doing in places like Stroud). Clearly, a return to urban riots would invalidate many of the benefits that might come from well-planned urban regeneration. So too would the rise of extremist political parties.

Green recovery depends, above all, on joining up investment. The welcome news in the recent Budget[10] that accelerated development zones and some form of tax increment financing are to be given serious consideration is a step towards real devolution of powers. The Homes & Communities Agency has launched its "Single Conversation", which could lead on to "co-investment" and "quality deals". Sustainable development does not

10 See: para 4.49

have to cost the earth, and local government could be revitalised by playing a more proactive role in place shaping.[11]

Funds raised for investment represent confidence in the longer term. Such measures, properly explained, would enjoy widespread support. The young want to save the planet; while the old would like to see their savings invested in measures that produce a stable and inflation-proof return. By raising funds locally, and investing them in longer-term measures, the rate of saving (and investment) could be increased to match the levels of our European rivals. This could be done without actually having to raise taxes, as long as the power to raise local taxes is there as a backstop. It would also safeguard pension and insurance funds. In turn, instead of most of the spending apparently going to administrators and regulators, or expensive professionals (as with the Private Finance Initiative) it would pay for locally visible building works.

Green recovery could be used to upgrade business parks, build urban extensions, modernise transport interchanges, or to save energy through combined heat and power systems, the increased use of renewables and much better levels of insulation. The recession could also be the time for greening our existing town and city centres, making them more sustainable by bringing redundant sites into good use. It could also be the opportunity to rebuild bridges with Europe, and tap funding from the European Investment Bank.

How we can learn from Northern Europe

Recent developments in Northern Europe (basically the Scandinavian countries, the Netherlands and much of Germany) provide inspiration for how to achieve a better quality of life and well-being. As study tours have found, they build more and better family homes and neighbourhoods without the side-effects of excessive house price inflation or spatial polarisation.[12]

The reasons are set out in a recent research study for the Joseph Rowntree Foundation, which compared three recognised success stories in Lille/Roubaix in North Eastern France, Rotterdam and the Kop van Zuid area in the Dutch Randstadt, and the former shipyards of Gothenburg, Sweden's second city, with their English equivalents.[13] The key differences are local stakeholders working together in partnership over many years through a process that is much less adversarial and wasteful, and which incentivises local authorities to secure sustainable economic growth. There is also much more continuity in terms of key

11 For an analysis of the land issue, see: Housing Forum *Land for Homes* (2009), published in March 2009 as part of the forum's annual conference

12 See, for example: Hall, P and Falk, N "Why Not Here" in *Town & Country Planning*, January 2009

13 Cadell, Falk and King, op cit

people sticking with the job for several decades.

The same is true of building new housing, particularly in the Netherlands but also in Sweden and Germany. The Dutch increased their housing stock by 7.6% between 1996 and 2006 through the VINEX housing programme. While the institutional arrangements differ, local authorities tend to take the lead. Faster building (and occupation rates) produces a better return on investment, and allows lower profit margins, as most of the risks have been removed. Co-investment (where different agencies combine their funds behind an integrated plan) avoids having to rely on private developers. A larger number of builders competing to sell or rent houses at any one time produces better results and makes housing more affordable. The public gets real value for money, not just endless inquiries and rounds of consultation.

The infrastructure that made this possible has been funded in a number of ways, but basically city regions are expected to be self-supporting over the longer term. Thus, Lille financed its £700 million metro and tram upgrades in part through agreeing a supplement on the payroll tax within the conurbation, which is made up of over 80 *communes*. In Gothenburg, as in Rotterdam, the regeneration of the former industrial shipyards was financed through the municipality acquiring and masterplanning the land, and then using sales to developers and occupiers to recover the initial investment. The most transferable examples of all are to be found in the Netherlands, as the example of the growth of Amersfoort illustrates.

Vathorst Development Company

A good example of how a public-private partnership can work was provided in a leadership masterclass given in Cambridge by the former chair and current joint chief executive of the Vathorst Development Company (OBV) in Amersfoort, the Netherlands. OBV is a 50:50 joint venture between the local authority and a consortium of private landowners and developers.

The company's budget for the development of 11,000 homes, a shopping centre and a business park amounts to €772 million, of which half goes into infrastructure and the public realm. This was funded through several short- and long-term loans to the local authority from the Dutch Municipal Bank totalling €250 million, repayable over 15 years at an interest rate of 5%. (Euros are currently almost equivalent to pounds though a year ago they were worth 30% less.)

The 500 hectares of former agricultural land was acquired for €192 million (significantly less than in the UK). OBV then invests €384 million in infrastructure and the public realm.

The investment is repaid by realising €590 million from the sale of housing plots, and €150m for offices and amenities.

The contrast with the UK can be seen from the fact that each housing plot realises around €50,000 (or around 28% of the value of the completed house), and the land itself was acquired at €380,000 per hectare or €175,000 an acre. The deal works because land values are realistic, and the public-private partnership is able to borrow at much less cost than a private company, and takes many of the risks out of development.

Continental cities have of course benefited from access to low-cost finance for infrastructure, greater investment in public transport systems, a generally higher level of taxes and lower levels of home ownership. By concentrating on smarter growth – investment in places with access to jobs and services – cities have accelerated their rates of growth and, in cases such as Lille, Rotterdam and Gothenburg, built themselves out of decline. Significantly, since powers were devolved to French cities some four decades ago, growth rates there have exceeded those of Paris. The improvements to the quality of life in cities as diverse as Bordeaux, Lille, and Montpelier outstrip what has been achieved in Birmingham, Leeds and Manchester, impressive as they have been. There has also been sustained growth in new industrial sectors.

Conclusions

The European model enables investment in development to match infrastructure, both existing and planned, which helps create a fairer society. City councils have been motivated to work together and with other stakeholders for the long-term good of their communities, not just in response to a government policy or target, or to please ministers who come and go. They stand on their own feet, rather than behaving as beggars. A contractual system like the French *contrat de villes* helps turn visions into reality and delivers growth faster. A property valuation and public-private partnership system, such as the Dutch use, favours investment rather than speculation and hoarding, and creates more balanced and sustainable communities.

It would therefore be a tragedy if public investment were to be cut back without providing an alternative at the vital subregional level. While the core cities have been making the running in arguing for devolved powers, they are not the only "engines of growth". An equally strong case can be made for enabling smaller and historic places, such as the university towns of York or Cambridge, to grow to their full potential.[14]

14 See, for example: PricewaterhouseCoopers *Unlocking City Growth* (Core Cities Group, 2008)

Local infrastructure bonds that raise between £10 million and £50 million would enable communities at a subregional or county level to tackle common threats, invest in local priorities, and package together available grants. They could overcome local resistance to new housing by offering some incentives. Co-investment in "green recovery" needs to be matched with penalties to encourage public agencies to reach a "quality deal", rather than hoarding their land (which a tax on land values in designated growth areas could achieve).

The Conservative Party talks about devolution in its policy paper *Control Shift*, with proposals for 14 elected mayors in the larger cities, matching six years of council tax receipts on new homes, and the idea of bonds coupled with the abolition of most of the regional machinery. However, without giving local authorities more freedom in raising finance, and the incentives to collaborate with their neighbours, the forces of inertia will far outweigh those for growth. Hence, as part of the fundamental review of government that is bound to happen, it is absolutely crucial that we keep sight of the need to build sustainable urban neighbourhoods, and to encourage local authorities to enter into joint ventures on the Dutch model.[15] There also needs to be the freedom to raise capital to overcome the social and physical infrastructure constraints in growth areas, along with flexibility over local taxation to underpin loans.

The likely rewards are well worth the costs. Public money is much better spent on investment than on unemployment benefits, and on reducing risks rather than more regulation. "Co-investment" would multiply the benefits of public expenditure many times by leveraging up subsequent private investment. In a recession, this would not be inflationary, but would release productive energy that has so far gone untapped.[16] It would be a small but positive step towards "one-planet living". As one of Barack Obama's chiefs of staff, Rahm Emanuel, is quoted as saying, "Never allow a crisis to go to waste. They are opportunities to do big things."

15 The principles are set out in: Rudlin, D and Falk, N *Sustainable Urban Neighbourhoods: Building the 21st Century Home* (Architectural Press, 2009)

16 See, for example, the Housing Forum's submission to the All Party Urban Development Group for a fuller analysis of how a different approach would work, and complement the current spatial planning system through "place-shaping co-investment partnerships".

Chapter 7

Holding the bar on quality in the recession

Richard Simmons, Chief Executive of the Commission for Architecture & the Built Environment

Holding the bar on quality in the recession

One person's recession is another person's normal. Many people that I worked with on regeneration in east London in the 1980s and 1990s could not obtain credit because their businesses were risky, in risky markets, in risky locations. Developments could not make the same returns as the ones up west, and so did not become funded. Credit often came, if it came at all, from dodgy people with brutal ways of extorting exorbitant interest. Much of the East End has come a long way since then, thanks to regeneration investment.

My point is that people in regeneration have, to all intents and purposes, been working in a permanent, localised recession for most of their careers. The communities that they serve routinely face conditions that are now likely to become widespread. If anyone has anything to teach us about securing quality in tough financial times, they do.

The best regeneration practitioners can teach us all how to turn economics on its head. That is what they do every day, while more fortunate locations enjoy the fruits of being where the market wants to put its money.

Quality at risk – who cares?

We know that standards might fall as austerity becomes the name of the game. A recent study for the Northwest Regional Development Agency and Places Matter!,[1] part of the Commission for Architecture & the Built Environment's Quality of Place Network, "found evidence that the recession is threatening specification and design quality". Does this matter? After all, in June 2008 the Department for Communities & Local Government said that the emphasis for its regeneration funds would shift towards "economic challenges", rather than "bricks and mortar".[2] Should we care about what places are like when we try to regenerate them?

We live in a globalised economy. Successful people and firms have many choices about where to locate. Locational and behavioural economists have understood for a long time that, as geographical ties are loosened, those with choice look at quality of place and quality of life when they decide whose economy will benefit from their expertise and spending power. Nothing about the recession is likely to change these fundamentals in the medium term. Responses to climate change might put a brake on personal mobility but new technologies will enable remote working in ways we have only just begun to imagine. People will have even more opportunity to pick places that appeal.

1 Amion Consulting and Taylor Young Associates *The Economic Value of Good Design 2009* (Northwest Regional Development Agency/Places Matter!, 2009)
2 http://www.communities.gov.uk/news/corporate/896049

Government economists seem to have a blind spot about the spatial dimensions of economic competitiveness. Economic theory has always struggled to accommodate the non-uniform nature of place within paradigms that expect resources to be capable of rapid substitution across uniform, level landscapes as markets strive towards perfection. In the real world, we all have many reasons for choosing to live and work where we do. Usually, we look for the nicest, safest place we can afford, close to people similar to us, where our children can receive a decent education, from which we can get to work and to the shops reasonably easily, and where we can enjoy our leisure time.

This is reflected in the property market but it is not a linear or purely rational reflection. It is lumpy and uneven because what places are like has a huge impact on whether people want to be there. Once they are there, what behavioural economists describe as the endowment effect kicks in. We value what we have far more than what we don't. Attraction and attachment to places is something we all recognise at an emotional level; but our human responses do not figure in the equations of economists. Although quality of place has a definite effect on the market, it cannot always be isolated and measured easily. Not everything that counts can be counted.

Even so, quality of place is increasingly important to economic success. We need to recognise this as a permanent economic and cultural shift. Once it was acceptable to associate muck with brass. Not any more.

Ten steps to holding the quality bar

If quality is essential but threatened by the downturn, can we learn anything from the people who have spent their careers in a permanent recession? I believe they have 10 lessons for us, as we aim to get out of the downturn with our quality of life intact. I would expect the reader to say, "Okay, give me one good example"; so I have. None is perfect. Most will be struggling to handle the credit crunch, but all have laid firm foundations to enable their aspirations for quality to last through the peaks and troughs of economic cycles. The 10 lessons are:

1. Recognise and promote unique assets

The built environment is a foundation asset of the economy. Often, the value of physical capital – landscape, built heritage, local character, parks, new buildings – is devalued by lack of investment and neglect, or seen through a lens of local loss of confidence that does not value what it should. It does not have to be that way.

One good example: The East Lancashire housing market renewal pathfinder decided to evaluate its assets, rather than focusing on problems. The result was the rediscovery of

"Pennine Lancashire" through a strategy to create value from "a breathtakingly beautiful region of industrial modern people; a natural adventure playground". With an identity to be proud of, I expect the strategy to weather the economic storm because it recognises that the place will still be attractive when the recession ends.[3]

2. Find your talent

Places that have lost their economic *raison d'être* need a new one. But it needs to be one that belongs to its people and its place, not one borrowed from someone else or sold to it by an investor who will not put down local roots.

One good example: Leicester wanted to grow its creative economy. Rather than targeting a national museum or theatre company, it began by converting an old bus garage into the Leicester Creative Business Depot. Fostering the talents of local artists and creative firms led to investment in restaurants, new homes and businesses. It has been followed by new arts spaces, shops and a cinema. Leicester's approach was smart and sustainable because it was grounded in local talent.[4]

3. Invest for the long term

A good investment lasts and should grow if nurtured. In the built environment, we need to invest for the long term. It is more sustainable, creates assets that people grow to love and avoids the costs of bad design.

One good example: The London Olympic Park should come to be seen as a model for how to plan for the long term. Its contents have been honed to offer good-quality design with economy. It is being planned with inclusion and sustainability at its heart. Above all, the Olympic events are seen only as the starting point. Planning for transition and legacy will be at a level of sophistication seldom seen in this country. The plans should be able to stand the test of economic cycles.[5]

4. Cut out blockages

We can no longer afford slow, costly planning before getting productive development started. We need new ways to clear the blockages that slow down investment and add to costs that eat into quality.

One good example: Adamstown near Dublin is not strictly a regeneration project. It is an attractive new medium-density suburb. To speed up development and give investors

3 www.penninelancashire.com
4 http://www.leicester.gov.uk/your-council--services/lc/arts-services/lcb-depot
5 http://www.london2012.com/plans/olympic-park/index.php

certainty, South Dublin County Council used new planning powers. Learning much from CABE (so they tell us) it put in place a masterplan, standards and design codes to ensure quality. Comply with them and you get planning permission. There is no right of appeal. Decisions are quick. The scheme has been slowed by the recession but when it is over, Adamstown will be first out of the blocks.[6]

5. Keep local wealth local

We often underestimate the wealth that can be found locally. Local investment means interested and committed investors. Wealth created locally for local investors is more likely to stay invested locally in things that people believe add to their quality of life.

One good example: Examples from rural regeneration are just as important as urban. The Wensleydale Railway is the first to reopen as a community railway to further economic regeneration, rather than as a heritage line. Around £1.2 million was raised from local shareholders. It is already bringing benefits to the communities that invested, along with much local pride.[7]

6. Challenge the status quo and change the terms of trade

How often have estate agents told us that we cannot buck the market? About as often as we have had to do so to make regeneration happen. This is linked to quality because we are often told that only the lowest common denominator will work, or that only something that will destroy the places we love could succeed. Successful regeneration redefines the market, and that is what we need right now.

One good example: Coin Street Community Builders provides one of the most inspiring examples of turning the market on its head. The accepted wisdom was that of the agents – no one would want to live on London's South Bank. Homes should give way to offices. What we see today is a thriving community where homes and commerce mix. The key word is "community". They pick the mix and it works.[8]

7. Let the community in

It is surprising to find that some politicians still do not appreciate the value of bringing the community into the governance of regeneration. My own experience (through Dalston City Challenge) was that local business and community board members stood up for quality because they did not want second best for their customers and families. We need this local social capital to drive regeneration in a world where impersonal global

6 http://www.adamstown.ie/
7 http://www.wensleydalerailway.com/
8 http://www.coinstreet.org/

businesses dominate and do not care much for the places where they operate.

One good example: The high quality of regeneration in Castleford is familiar from Kevin McCloud's Channel 4 documentary *The Big Town Plan*. I asked one of the local participants how she found working with internationally famous architects. She said it was fine once she realised that they had to do what she, as client, wanted. QED.[9]

8. Make a statement

To persuade developers and investors to believe that you mean it when you demand quality, it is essential to put your mouth where your mind is. It may be through policies, master-plans, design competitions, partnership deals or by a physical stake in the ground. Being willing to say "Yes" only has an impact if you have also explained when you will say "No".

One good example: Gateshead is a well-known example of making it known that what went before will not set the tone for what follows. It is hardly necessary to say much more, because the Angel of the North, the Millennium Bridge, the Sage and the Baltic say it loud and clear: "We deserve only the best."[10]

9. Get creative

Quality comes from creativity. Creativity thrives when times are tough and new ways of doing things have to emerge. Getting creative means bringing in the brightest people and being open to the unexpected. True creativity does not settle for mediocre.

One good example: Urban Splash's Chimney Pot Park in Salford is a brilliant example of creativity. People do not want to live in houses with streets as their front doormat. No one wants to knock down perfectly good property. The solution was to turn the houses round so the front became the back. The problem was solved by adding some design flair.[11]

10. Think bigger and bolder

Places that set ambitious goals and doggedly pursue them without settling for less gain the respect of investors, get themselves on the map and rebuild the confidence of their communities. As they face the recession, they do so with the confidence that they can get through it and carry on along the trajectory they have set. Examples could come from any of the core cities. I have picked one that may once have seemed crazy, but wasn't.

9 http://www.channel4.com/4homes/on-tv/kevin-s-big-town-plan/
10 www.gateshead.gov.uk
11 http://www.urbansplash.co.uk/chimneypotpark/

One good example: An old joke tells how a pollster asked Liverpudlians, "Which is England's second city?" "London, of course," came the reply. Liverpool ONE shows how that level of self-confidence and ambition, allied to a developer's belief that investing in quality produces long-term gain, can literally transform a place and lay the foundations for prosperity beyond short-term dives in economic fortunes. Liverpool City Council may not have been an immediately obvious partner for Grosvenor but their joint efforts knit the elements of Liverpool city centre together and have given the city a great new heart.[12]

Conclusion

Professor Michael Parkinson's report on the impact of recession on regeneration[13] calls on us not to abandon our ambition or the quality of what we build. I could not agree more. What is interesting about all my 10 examples is that they look obvious with hindsight. Yet almost all of them were either conceived in the face of conditions of local recession, loss of confidence and economic purpose or experienced those forces during their development.

It was the imagination, resilience and creativity of the people who believed in them that carried them through. That is what makes them worthy examples of what we need to continue to protect quality now. If we learn the lessons, we can avoid the dumbing down that the Places Matter! study spotted on the horizon. The good news is that the same survey found that quality does not necessarily cost more and that agents recognise that it adds value. If the agents believe in it, so should we all.

12 http://www.liverpool-one.com/website/
13 Parkinson, M *The Credit Crunch & Regeneration: Impact & Implications* (Department for Communities & Local Government, 2009)

Chapter 8

Regenerating cities

Catherine Glossop, Analyst at the Centre for Cities

Regenerating cities

This chapter takes a forward look at the impact of the recession on the physical regeneration of cities – in spatial, fiscal and policy terms. It argues that we need to change our spatial focus from larger, Northern city centres, which have traditionally gleaned the lion's share of regeneration funds, and target the urban periphery and smaller cities that are suffering the most from the recession and long-term restructuring.

Private-sector investment can no longer expect significant returns from investment in deprived areas, or the same scale of public finance – both of which have been key to supporting regeneration in more marginal locations. If cities are to lead the UK to recovery, and those hardest hit are to share in that growth, the next government will have some difficult choices to make about where to prioritise scarce funds. Whatever choices are made, and wherever investment is prioritised, we must learn from the past. All physical development will need to be less isolated from wider economic policy. Cities will need greater flexibility to pool resources, and tools that will help them rebalance the terms in the private sector's favour.

Cities in recession

As *Cities Outlook 2009* revealed, the impacts of the recession have played out differently in different cities.[1] The performance of the core cities has been mixed. Birmingham has seen one of the largest percentage point rises nationally in its unemployment benefit claimant count rate (2.6%), and Bristol has seen one of the lowest (on the national average at 1.9%). It has been smaller cities, such as Swindon (3.6%), Hull (3.3%) and Sunderland (3%), that have fared the worst.

This recession will have long-term implications. During the previous three recessions, employment has taken approximately eight years to return to its peak – and this recession may prove to be more severe, given its origins in the financial crisis. According to Oxford Economics, more than half of all core cities are *not* expected to return to their prior employment peaks over the forecast horizon (up until 2018).[2] For more deprived cities, such as Hull and Sunderland, the economic outlook could be bleaker still.

It is not only employment that is suffering, but also the physical fabric of our cities. As Professor Michael Parkinson's recent report showed, it has been the more marginal cities in the North and the Midlands where physical regeneration has been hit the

1 Centre for Cities *Cities Outlook 2009* (2009)
2 Oxford Economics *City Forecasts 2009* (2009)

hardest.[3] Returns to property investment in regeneration areas have proved more vulnerable to the market downturn relative to other types of investment property.[4] But it is precisely these areas that need the new investment the most – to upgrade infrastructure, improve the physical environment and help create new jobs.

The changing face of regeneration

The recession has created a great deal of uncertainty. What is clear is that the next wave of regeneration will be different from that of the past decade – which was financed on the back of cheap credit, rapidly rising land values and high-density residential development, with demand for commercial and residential development driven by rapid employment expansion.

Regeneration has been a key part of making cities more "liveable" – helping to stem population decline, increase investor confidence and attract new businesses. But let us not forget the empty high-rise apartments and plethora of "cultural quarters". Mistakes have been made – largely where investment has been divorced from economic fundamentals and driven by short-term returns.

In the future, lenders, investors and developers alike will be more cautious. Credit markets are unlikely to return to pre-2007 levels – and will be predicated by lower loan-to-value ratios, higher margins, and shorter loan payback periods. As our city economies come out of the recession, both capital and employment growth will be slow, and the proportion of the public purse dedicated to regeneration will decline.

In the next wave of regeneration, we will see less speculative development and fewer shiny, new city centres – and necessarily so. With limited funds, regeneration will need to prioritise the places *and people* that need the capital investment and the jobs the most – such as the periphery of larger cities, and smaller cities that have suffered the most from the recession. The conundrum is that the more difficult regeneration areas carry higher levels of risk, and will be the least likely to secure private-sector finance. The need for public-sector subsidy – both for infrastructure and development – is increasing at a time when the availability of public-sector capital funding, and the attractiveness of these schemes, is falling.

As the 2009 Budget made clear, total public-sector capital investment is due to fall from £44 billion in 2009 to £22 billion by 2013/14. Given the size of the budget deficit, and the

3 Parkinson, M et al *The Credit Crunch & Regeneration: Impact & Implications* (Department for Communities & Local Government, 2009)
4 According to Investment Property Database (2008)

over-optimistic growth projections upon which the Budget was based, even this sizeable reduction may be understated.

What is clear is that the Homes & Communities Agency – the government's housing and regeneration arm – cannot escape significant cuts in the next spending review (for 2011/12 to 2013/14). Also, the agency will come under scrutiny when a new government is elected in 2010. There will also be less money for infrastructure – which will have a significant impact on the viability of future regeneration schemes, particularly in more marginal locations.

The challenge facing the next government

If we want those cities that are really suffering from the economic shock, and from long-term structural decline, to take part in future growth, the next government will have some difficult choices to make. There are active debates around managing decline, and whether scarce capital investment should prioritise places closer to economic success or those facing the highest levels of deprivation. These tensions are made all the more apparent by the recession and our future fiscal position.

Whatever decisions are made, and wherever investment is prioritised, all new development will need to be more carefully planned to ensure that it has a positive economic impact. Where physical regeneration does take place, this will need to be used as a catalyst to wider *economic* regeneration – more closely linked to economic policies, such as employment and training, than it has been in the past. Cities and city regions will need to revise their housing and regeneration strategies to reflect this renewed emphasis on economic outcomes and work to reprioritise and co-ordinate investment.

With limited funds, greater flexibility will be fundamental to help cities pool funding and ensure resources are not spread too thinly. The Manchester and Leeds city-region pilots provide a ready-made opportunity, but smaller cities also need the freedom to respond to the challenges of a new economic climate. Similar principles apply to the Homes & Communities Agency, whose entire budget to date has been siloed – limiting its reach when flexibility has been needed the most.

Cities also need incentives for development and regeneration – a system that allows them to share in some of the longer-term financial benefits and not just bear the brunt of the short-term costs (such as increased pressure on dilapidated infrastructure). Inspiration can be drawn from European countries, such as Germany and Switzerland, where planning systems and local tax-raising powers encourage cities to regenerate and develop their land to attract workers and businesses.

The Conservatives have made a head start on this, calling for a localised planning regime, and for councils to keep the full increase in council tax from new housing development and the increase in business rates from new commercial development for six years. These proposals will need to be developed further in the regeneration green paper due this summer – not least to address the time-limited nature of these incentives if they are to have any real impact.

It's not all broken

There has been too much talk of existing regeneration models – such as local asset-backed vehicles (LABVs) and public-private partnerships (PPPs) – being broken beyond repair. While models predicated on rapid capital growth have clear limitations, the underlying principles of partnership working – in particular to share skills, expertise and risk – still stand firm. The objective is not to discard existing models, but to help them evolve to fit the changing economic landscape, and to bring new ones to the table.

The financial premise underlying physical regeneration will need to change – from short-term profits to steady long-term income. The impact of the recession on private-sector confidence and financial capacity should increase the appetite for joint ventures. This, and the move away from regeneration schemes overwhelmingly funded by national grants, will require local authorities to be more "entrepreneurial" and to take on more risk. The Homes & Communities Agency will have an important role to play in enabling cities to step up and take on the role of developer in their own right.

Other tools, such as supplementary business rates, may not have traction now, but will be a useful option for cities in the longer term. Nevertheless, even taking tools such as section 106, the forthcoming community infrastructure levy, and supplementary business rates together will be insufficient to provide the level of financing needed in the future.

New tools, such as accelerated development zones and local bond financing, could help to plug the gap. These tools have the proven capacity to help fund the enabling infrastructure (from the ensuing increase in the property tax base, as applied in numerous US states), which can significantly alter the economic viability of marginal sites and catalyse wider regeneration. Fundamentally, accelerated development zones are a way of joining up the initial costs of regeneration with the long-term benefits. Encouragingly, the Budget announced the government's intention to "assess the scope" of similar tools, and the Opposition has shown growing interest.

Regenerating cities: take 2

In the next wave of regeneration, we will see less speculative development and shiny, new

city centres. Physical regeneration will need to be targeted in places and on people that need the capital investment and the jobs the most, and be less isolated from economic fundamentals than in the past.

In fiscal terms, this will take place in a tight national spending environment – meaning that local flexibility will be all the more important if cities are to pool resources and link physical regeneration to wider economic policy. Politically, all major parties will need to come up with workable mechanisms to forward-fund infrastructure and enable development in more marginal areas. Both Labour and the Conservatives have expressed an interest in experimenting with different funding models. These will need to be locally adapted to meet the needs of different cities – but all will need to help rebalance the terms in the private sector's favour.

The Centre for Cities is the secretariat for the All Party Urban Development Group. The group is currently assessing the viability of existing regeneration financing models and the challenges involved in introducing alternatives, such as accelerated development zones. The final report will be published on 30 June 2009.

Chapter 9

Property development and renewal

Liz Peace CBE, Chief Executive of the British Property Federation

Property development and renewal

Great strides have been made in recent years in regenerating many of our towns and cities. However, the model by which this has been achieved, heavily underpinned by rising land values and the easy availability of credit, has now been swept away (at least in the medium term) by an economic recession and financial crisis that have prompted the severest downturn in both the house-building and commercial property sectors for decades.

Against this background, there is a need for new policies both to sustain the regeneration sector in the current crisis and to pave the way for recovery. New, flexible models for regeneration are required. In developing such models, the property industry must draw on the lessons of past successes and failures to produce a sustainable structure for regeneration.

Although times are challenging, we must not be tempted to lower our standards. High-quality development that improves the built environment and fosters mixed and balanced communities remains the right policy objective.

This essay sets out five broad policy areas that need reform. These are as follows:

- Revisiting the application of the public procurement laws on regeneration and development schemes
- Enabling the creation of tax increment financing (TIF) districts
- Using public-sector powers to support regeneration
- Expanding equity sharing and public-sector guarantees to attract private finance
- Promoting and harnessing the role of the private rented housing sector

Revisiting the application of the public procurement laws on regeneration and development schemes

It is often difficult for the public sector to find private-sector partners willing to participate in regeneration schemes: a problem that is being exacerbated by current economic conditions and compounded by a costly and often disproportionate procurement process. In short, higher costs mean fewer bids.

Many regeneration schemes are being delayed or scrapped because of the overzealous interpretation of EU procurement rules. The competitive dialogue system introduced in 2007 is a prime example. Many risk-averse authorities feel compelled to go down this route when it is neither appropriate nor necessary and without the resources and understanding of how to do it effectively. With mounting evidence of schemes being delayed

or cancelled, the procurement process must become more proportionate and less wasteful.

Perhaps the most damaging example of overzealous interpretation of EU procurement rules has been the use – or in some cases misuse – of a decision by the European Court of Justice – the *Roanne* case (*Jean Auroux and Others v Commune de Roanne*).

Before *Roanne*, it had been generally understood that the normal EU procurement requirements did not apply to public-private development partnerships or development regulated by town planning law. However, the *Roanne* case has cast doubt on whether development agreements entered into by the public sector without a formal financial tendering process are lawful. While *Roanne* is a single case relating to specific circumstances, it has made many local authorities so nervous about procurement procedures for development agreements that they are insisting on the use of tendering processes in circumstances where it is unnecessary.

The publication of authoritative guidance by central government, on which local authorities would be prepared to rely, would help to reduce the problems caused by the *Roanne* case. However, a concerted effort is required to reduce the cost of the procurement process, which would attract more investors and help stimulate interest in regeneration schemes.

Enabling the creation of tax increment financing districts

Funding the infrastructure needed to support major regeneration projects has been a long-standing concern, but is even more of a hurdle in the current economic climate. The British Property Federation, along with other organisations, has been leading the way in calling for the tax increment financing or TIF concept to be piloted in the UK. Therefore we are pleased that the 2009 Budget announced that government would assess the scope for introducing the concept into the UK, possibly through a series of pilot schemes.

TIF works on the principle that new development is unlikely to happen without new or improved infrastructure, but once new development has taken place there will be an increase in the level of property taxation in the area. Within a designated TIF district, this increased taxation (the "tax increment") is captured and used to repay the financing costs of up-front borrowing or bond issuance which has been used to forward-fund the infrastructure.

The key criteria for allowing the creation of a TIF district are that it supports a project that promotes regeneration and that the project would be unviable without the use of TIF.

For local authorities, the advantage of TIF is that it can raise money for redevelopment

without having to deplete general revenues or accept funding from central government with strings attached; moreover, the government will enjoy higher property tax revenues when the bonds are retired. Developers see it as a way for the local authority to make a commitment to redevelopment through the provision of infrastructure, which in more prosperous times might have been funded through developer contributions. Private investors would have a tax-exempt bond that generates tax-free returns, while residents and home owners may see it as a way of funding redevelopment from taxes collected in the redevelopment district itself, without raising their taxes. Furthermore, property owners in the district may see their property values rise after the development occurs.

The rapid spread of the TIF approach in the US demonstrates that it is widely seen as an effective tool with a proven track record. It is now time to examine how it could work in the UK.

Using public-sector powers to support regeneration

Public-sector bodies have the ability to ease the path for developers involved in regeneration projects in all sorts of ways. In the future, much greater use will need to be made of public-sector powers to maximise regeneration opportunities.

Maximising the regenerative impact of government building programmes

The government has many multibillion-pound public building programmes that could have much greater regenerative effects within communities than they do now. The co-location of several community facilities offers particular opportunities for creating added value. In the past, public-sector projects have been undertaken in silos. For example, a school might be built next door to a redundant hospital or land owned by a housing association. Schools offer particular advantages as “regenerators” and the Building Schools for the Future programme, for instance, should seek to act as a focal point for regeneration within an area.

Private developers should be able to harness government funds for major infrastructure projects, such as schools and hospitals. They would do this by adding private-sector resources and finance to create regeneration projects, where appropriate, on a local authority-wide basis, which can deliver health and education facilities, homes, offices and leisure facilities. This is currently a missed opportunity; both central and local government should be looking to unlock the potential of public assets and the surrounding land by using real estate-backed finance.

De-risking schemes: maximising the potential of sites

Greater emphasis must be placed on councils and public-sector bodies “de-risking”

regeneration projects by dealing with major factors that may be in their control. They could go even further in creating "oven-ready" schemes through some of the interventions discussed below.

- Disposal of public land – The public sector needs to adopt a more strategic approach to the disposal of land assets, rather than giving priority to immediate financial return. Local authorities are able to make disposals at less than the open market value where such disposals will improve the economic, social and/or environmental well-being of the area. This power could significantly benefit regeneration but is only being applied in a small number of cases, often because of a lack of awareness that this power exists or inexperience in applying it.

- Site assembly – Site assembly is an integral part of most regeneration schemes. It involves significant time, cost and risk, particularly where ownership is fragmented. The use, or threat, of compulsory purchase orders (CPOs) can sometimes be the only way to assemble sites that hold the key to the regeneration of an area. Both public bodies and local authorities have CPO powers, but few have experience in using them, as the use of CPOs has declined. Consequently, most authorities lack the expertise to deal with CPO procedures. One means of overcoming this problem would be the creation of regional centres of CPO expertise on which local authorities could draw. A further deterrent to the use of CPOs by local authorities is the financial risk. However, developers are often prepared to help overcome this problem through a "back-to-back" agreement under which they agree to take on financial liabilities for a CPO in return for an assurance that the council has the skills, capacity and political will to see the CPO through to completion. The wider use of such arrangements should be encouraged.

- Masterplanning – A masterplan sets out the vision for the area, addressing issues such as the location of social, economic, cultural and residential activity and where to locate necessary infrastructure and public transport. If done in consultation with the community, developer and other relevant interest groups, a masterplan can bring a shared sense of purpose to a project. Councils should take proactive steps to masterplan for significant regeneration schemes in their locality and, where relevant, encourage developers to be closely involved in this process to ensure that such plans are viable.

- Provision of infrastructure – As discussed in relation to TIFs, the provision of infrastructure is often the key to unlocking difficult regeneration schemes. However, developers will no longer be able to fund infrastructure to the extent that they have

been doing over the past 10-15 years. If regeneration schemes are to progress, local authorities will have to adopt a flexible approach in negotiating section 106 agreements and will also have to deliver more of the infrastructure for regeneration schemes themselves in order to attract private-sector investment.

- Decontamination of land – The cost of decontamination can be prohibitive for the private sector, especially on large regeneration schemes. Councils could achieve swifter regeneration of a site by undertaking the remediation work themselves, or assisting the developer in this process. More generally, the government could offer more extensive and user-friendly tax incentives for the development of brownfield land, beyond those consulted on in 2007.

Expanding equity sharing and public-sector guarantees to attract private finance

Traditionally, when developments have been procured by the public sector, this has been done by means of development agreements, possibly combined with an overage arrangement. These agreements have historically represented a relatively low-risk means of procuring development services, and have also capped the potential rewards to the public sector. In today's climate, we need to look at a broader range of mechanisms for delivering development, through which the risks and rewards of developments are clearly identified and more appropriately shared between the public and the private sector.

Joint ventures between the public and the private sector are going to become increasingly important as a means of achieving a better spread of risk/reward. They can take many forms. For example, it could be a loose arrangement whereby the local authority could contribute its land at little or no cost, and then share in the longer-term upside as the development is delivered and land values recover. Alternatively, there could be more formal joint ventures where the local authority transfers the ownership of its land and assets into a joint venture (such as a local asset-backed vehicle), with the developer managing the planning process and developing a number of the consented sites, and the remaining consented sites being sold on to other parties.

Government, local authorities and developers should be looking at all such options for maintaining development pipelines, and using publicly owned assets, covenants and balance sheets to leverage in additional private-sector funding for regeneration. Perhaps the creation of a central team within the Homes & Communities Agency, similar to the Advisory Team for Large Applications (ATLAS), could provide the necessary support, advice and encouragement.

JESSICA finance

One source of finance that could be used much more widely is the Joint European Support for Sustainable Investment in City Areas (JESSICA) scheme, possibly in combination with locally established regional infrastructure funds. JESSICA is an initiative, promoted by the European Commission, under which managing authorities (in the UK, this role has been delegated to the regional development agencies) can opt to receive a proportion of their European Regional Development Fund allocations to invest in a revolving locally established urban development fund, as opposed to using them for one-off grant investment.

JESSICA funding can be used as equity, loans and/or guarantees, and must be supplemented by matched funding, which can be contributed by way of cash or land assets.

Promoting and harnessing the role of the private rented sector

By most estimates, this year will see the lowest level of new housing completions since the post-war period. Reinvigorating a declining house-building industry through the promotion of the private rented sector could help to solve the UK's housing shortage and help kick start regeneration.

To its credit, the Homes & Communities Agency has been considering how institutional investment in the private rented sector could be increased. Clearly, any investment model for the private rented sector must be sustainable and must focus on securing long-term investment with sufficient scale. Modelling work carried out by the British Property Federation has shown that greater institutional investment in housing can be hindered by the profile of risk and returns. However, today's market conditions provide the best opportunity to grow institutional investment in this area, and the government could offer a considerable helping hand by making two key changes: reforming stamp duty land tax rules and facilitating the emergence of residential REITs (real estate investment trusts).

Changes to stamp duty land tax

Currently, unconnected purchases of individual properties are taxed at the marginal rate for the price at which they are purchased (which may be 0%, 1%, 3% or 4% depending on the purchase price), but bulk purchases are taxed at the rate applicable to the aggregate price, which will almost invariably be 4%. That position represents a structural disincentive against larger-scale investment in residential property. If bulk purchases of residential property were taxed at the marginal rate applicable to each unit, the playing field between individual purchasers and those seeking to make larger-scale investments would be levelled out.

Residential REITs

Residential REITs are, so far, probably the greatest missed opportunity for the UK REIT sector. The value of UK residential property is between £3 trillion and £4 trillion, with some 30% of this being rented, and 13% of the total being in the private rented sector. That represents a vast pool of assets in which residential REITs could invest, potentially transforming the private rented sector with greater institutional investment and more professional management.

With the right legal framework, it should be possible to overcome doubts about the yield from residential property. The enormous appetite of the public for exposure to residential property through direct investment is one reason for that; another is the secure, reliable and inflation-proof income that residential rents can offer to insurance and pension funds. However, there are detailed commercial and technical reasons why the REIT regime, introduced in 2007, does not readily accommodate residential property investment. The government needs to address these issues if it really wants to harness the regenerative benefits a strong private rented sector could bring.

Conclusion

Regeneration has all but stopped in the UK. The recession will not last for ever, but the economy will need to improve significantly before investment in regeneration schemes begins to return. The government should put in place measures that will encourage investment in regeneration, and remove barriers that deter it. Failing to act could have a damaging long-term effect on those parts of the country that desperately need the economic, social and community benefits that regeneration undoubtedly brings.

Chapter 10

Beyond the urban renaissance

Tom Bloxham MBE, Chairman of Urban Splash

Beyond the urban renaissance

The past 20 years have brought a phenomenal urban renaissance to Britain's cities. They have undergone great regeneration, developing and changing at a pace unprecedented since Victorian times. The benefits of this change are palpable for anybody visiting our great Northern cities, but now there is a real danger this renaissance will come to a shuddering halt and the huge strides that have been made will go into reverse. There are some lessons to be learnt from this and some hopes for the future.

Investing in quality architecture

When I came to Manchester in the 1980s to study at the university, I was struck by the huge number of empty, drab Victorian warehouses. They were lying empty, unloved and blackened by generations of soot. If they happened to be occupied, it was typically only on the ground floor, often next to level car parks which, on investigation, were usually bomb sites left like that since the Second World War.

As I started in business, I noticed a paradox; the property industry said those Victorian buildings, which were mostly of great architectural quality, would never let and were not suitable for "modern uses". In contrast, the small amount of new development occurring at the time was, to my mind, of poor architectural quality, expensive to lease and largely institutional. Owners only wanted to lease to established companies with good covenants.

I started in the property industry – not even knowing what a covenant was – by leasing or buying those old, unloved buildings and exposing the great Victorian features that lay hidden inside them. We leased them to young, entrepreneurial, creative companies; first as retail space at Afflecks Palace in Manchester and The Palace on Slater Street in Liverpool, later as workspace in buildings such as Ducie House in Manchester and finally as residential loft apartments, such as Concert Square in Liverpool and Smithfield Buildings and Sally's Yard in Manchester. This brought in a new generation of people, who wanted to live, work, eat, drink and have fun in city centres that had, until then, been empty beyond 6pm.

Forward-looking civic leaders added to the city-centre vibrancy. They made great use of the new lottery funding, investing in a series of great cultural buildings: theatres, concert halls and galleries. By the mid 1990s, large developers and house builders, seeking to follow the success of niche firms such as Urban Splash and Manhattan Loft Company, entered the market, where they saw money was to be made. House prices rose, and a financial model emerged of pre-selling apartments off-plan and securing development finance, with debt from banks on the strength of planning permission and pre-sales.

A mass of developers entered the race to refurbish every underused building and construct exciting new mixed-use developments on the former bomb-site car parks. The new residents who inhabited them brought great spending power into city centres. They paid council tax, and were often educated, articulate, active citizens. This encouraged councils to improve city-centre services and retailers to take advantage of a new breed of customer, who wanted all that the cities had to offer.

Developers provided, through the buy-to-let market, a much-needed supply of quality (for the most part) private rented accommodation. They improved derelict buildings and replaced unsightly bomb sites with gleaning new architecture; sometimes very good, occasionally bad or, all too often, mediocre. But, whatever the architecture, they succeeded in rebuilding city blocks, fuelling the construction industry and bringing people into the city centres.

Lending – and building – comes to a standstill

In August 2008, the party stopped. Just before this time there had been murmurs of the market overheating. Prices had, in fact, been stagnant for a couple of years, with increases in headline prices being matched by increases in incentives and discounts offered by developers. But the autumn of 2008 saw the collapse of Lehman Brothers, the banking crisis and an almost immediate stop in both development and mortgage lending (in August 2008 mortgage lending was down 97% year-on-year). Inter-bank lending stopped and every financial institution tried to call in as much debt as possible.

Individuals who, until then, had expectations of obtaining mortgages of 90%, 95% and even 100% of their properties now found it difficult to secure even 70% finance. Banks, which had previously been competing to lend us money, effectively closed up lending. By October 2008, even for sizable, very good commercial investment properties of, say, £50 million there were only four active lenders, only one of which was a household name. None were high-street banks and none would lend at more than 60-70% loan-to-value. No banks were lending on speculative residential developments.

Money does not make the world go round, but it does certainly keep the development industry going. In August 2008, the tap was literally turned off. The larger house builders all had to seek serious refinance, while smaller developers went into receivership after receivership. Individuals working in regeneration and the building trade, who only six months before had been in real short supply, began to lose their jobs.

So now, in 2009, where does this leave us? In many ways, nothing has changed. The values of good architecture, mixed uses, mixed tenure and sustainable development have

never been more to the fore. The effective use of public-private partnerships has never been more necessary and the demand for quality housing is as great as it has ever been. Individuals are now renting rather than buying, because they either are unable to get mortgages or anticipate that values have further to fall. I believe that what is needed now is new forms of finance.

It is no longer possible for local authorities to rely on private developers to subsidise regeneration through housing. No longer can new developments provide the locality with spin-off benefits through cross-subsidy section 106 agreements, nor can developers provide the required levels of affordable housing.

If we are to see regeneration continue, we need stronger partnerships between the public and private sectors. The need for the public sector to take the lead has been recognised by the government, and the new Homes & Communities Agency has the potential to lead on this. Schemes such as Park Hill in Sheffield – where we have just commenced work on the first phase of the grade II listed building's redevelopment – show that when the public sector is prepared to take the lead in a partnership even the most challenging regeneration project can proceed.

The current low land values and spare capacity in the development and construction industries provide a unique opportunity to try and help resolve the affordable housing shortage. In addition, giving a stimulus to the construction industry is a quick, easy and effective way to create employment, utilise skills and prevent the dole queues from growing.

Keeping regeneration going

Although the past 12 months have been an incredibly difficult period for the regeneration industry, I believe that the next few years will offer the best opportunities of my lifetime. In this next period, we can create a real difference and push the urban renaissance. At the moment, nothing stacks up in conventional development appraisals, so every scheme we do needs innovative thinking and innovative funding. We should be able to create some exceptionally interesting architecture and creative regeneration schemes in the next few years, but it will require a longer-term view on investment, and new forms of funding, with perhaps the public sector taking more equity stakes – sharing more of the reward as well as the risk – and working ever closer with good developers to create great neighbourhoods.

The past 20 years have seen the transformation of most of the major cities, but the job is far from over. The public sector and private companies must consider areas beyond the

core city centres; within half a mile of most city centres lie doughnuts of deprivation most of which have not changed at all. There are exceptions, though. Successful regeneration has occurred in patches, such as, to give three examples from Manchester: the old 1970s Cardroom Estate in East Manchester which is being transformed into New Islington, the old Victorian Langworthy Road terraced houses in Salford that have been reborn as Chimney Pot Park and are home to a thriving community, and the former Dalton Street 1960s tower blocks in Collyhurst, now known as 3Towers.

These schemes are the exception, not the norm, and there is a mass of social housing estates and Victorian terraces that still need to be transformed.

The urban renaissance, as well as not affecting the doughnuts around city cores, has also bypassed many smaller towns. There are, again, exceptions; schemes such as Longlands Mill in Stalybridge, Royal William Yard in Plymouth, the Midland Hotel in Morecambe and Lister Mills in Bradford show what can be achieved with catalytic schemes, giving confidence to run-down towns and smaller cities. However, without new forms of public-sector support it is difficult to see how these sorts of schemes are to be tackled and how these towns can regenerate themselves.

I believe that the regeneration industry is now at a crossroads. If we are not careful, our towns and cities will be allowed to go into decline. We will lose the momentum gained over the past 20 years. Skilled practitioners will lose their jobs and regeneration will be left only to the private sector – but the private sector will not have access to the finance or debt to develop, at least not in the locations where the renaissance is most needed.

Alternatively, we can grab the opportunities, we can take the benefit of low land values and of spare capacity in the regeneration, development and construction industries in order to work now in true partnership to continue the urban renaissance and create wonderful new places in our towns and cities.

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