


Housing Markets
Preparing for change

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impact IMPROVEMENT THROUGH ACTION

HOUSING CORPORATION

Executive Summary

AIMS

This is a study of local housing markets in six towns and villages in west Cumbria and the Lake District National Park. The purpose of the study is:

1 To develop and test a new model for assessing the strengths and weaknesses of local housing markets and determining which interventions will be most helpful. This is intended to be of use to strategic bodies, planners, housing authorities and housing providers elsewhere in the UK.

2 To inform and guide regional, sub-regional and local housing strategies, by:
- modelling future trends in local housing markets, including their impact on other, neighbouring markets;
- identifying specific risks and specific opportunities for intervention in each local market.

3 To develop priorities for intervention within each housing market, designed to make the best use of available investment/resources; and to maintain prosperous, stable and sustainable communities, in accordance with the aims of the Government's Communities Plan.

WHAT THE STUDY PROVIDES

This study offers a flexible step by step approach to housing and planning strategies. A detailed analysis of the six local housing markets provides the basis for:

- *classification of housing markets*: we identified three types of market, each with specific challenges, risks and opportunities. These market types exist elsewhere in the UK.
- *identification of key market drivers*: drivers are the social and economic factors which determine how local housing markets behave.
- *risk assessment and scenario planning*: we model the likely impact of future social and economic change on our case study housing markets and the dynamic interaction between them.
- *restructuring housing markets*: we select interventions appropriate to each market, and provide some principles for success.

We believe that the value of our approach is not confined to west and central Cumbria. The model can be applied to markets with similar characteristics elsewhere in the UK. The process is transparent and explicit, designed to engage stakeholders, and ensure 'buy in' to the resulting action plans.

WORK UNDERTAKEN

Work was undertaken in the following stages:

- *the selection of case study settlements;*
- *mapping the housing stock in each settlement by tenure, size and type*;
- *creating housing market profiles* covering:
  - supply of housing by type and tenure, using 2001 Census data, information from social landlords, our own mapping exercise, and Land Registry sales data;
  - demand for housing across all tenures, based on information from estate agents and social landlords, and CORE data on new housing association lettings;
  - socio-economic factors, compiled from the 2001 Census and indices of deprivation.
- *scenario planning*: we identified the broad social and economic trends which might affect each settlement over the next fifteen to twenty years, and rated them in terms of probability and impact on the housing market;
- *identifying interventions:* we drew up a list of possible interventions and indicated which interventions were most appropriate for each housing market;
- *prioritising interventions* by housing market type, and for each of the case study settlements.

FINDINGS

Housing market types

By comparing housing market profiles for the six settlements, we were able to identify three clear types of housing market with distinct patterns:

- integrated high value markets, represented by Keswick, Lorton and Cockermouth;
- integrated low value markets, represented by Egremont and Workington;
- fragmented markets, represented by Frizington.

Each market type had specific strengths and weaknesses, specific social characteristics, and specific risks and opportunities.

High value integrated markets tend to be found in market towns and villages in attractive rural and semi-rural settings. They may also exist within larger urban areas. There is a range of different types of home within the settlement, and no single house type or tenure dominates. The rungs on the housing ladder start high, but the ladder is relatively complete. However, the cost of entry into owner-occupation – the first rung – is beyond what most people on local wages can afford. There is nothing to bridge the gap between social renting and the very high cost of buying a first home. In some markets, local people have difficulty moving up a housing ladder, because the next step on the rung is too expensive.

Where planning restrictions limit new development (typically, settlements within National Parks, such as Keswick and Lorton), there is an absolute shortage of properties on the market. Intense competition between highly-paid commuters and those in search of a second, holiday, or retirement home forces up prices. Outside National Parks, high value integrated markets (for example Cockermouth) tend to have good road links to other centres of employment, and may provide some new high value homes. Demand comes mainly from commuters seeking a high quality of life in a rural or semi-rural environment, who are increasingly willing to travel between regions, or nationally.

High value integrated markets tend to have good local schools, and relatively low levels of social deprivation. Local services benefit from the spending power of better-off households, and reflect their tastes. This reinforces the attraction of these settlements, and they tend to become even more prosperous and exclusive over time.

Low value integrated markets have large numbers of homes at the bottom end of the housing ladder, and a severe shortage, or absence, of high value homes. They are characterised by large social housing estates, and large numbers of pre-1919 terraced homes, often provided for workers in dominant local industries. The erosion of the old manufacturing base, the trend for those who can afford it to move into owner-occupation, and the availability of low-cost homes to buy have led to a collapse in demand for social housing. The social profile of areas dominated by housing association and council-owned homes shows high concentrations of deprivation. Certain pockets experience high turnover and a high incidence of social problems. The profile of existing social housing tenants, including many of those who have bought their former council or housing association home, appears to be ageing. This suggests that vacancy rates will increase further over the next fifteen years.

Low value integrated markets may have positive features, such as an historic town centre, and easy access to high-quality landscape. But the lack of attractive, high value housing, and the dominance of grim municipal social housing estates prevent them from capitalising on their strengths.

Fragmented markets tend to be settlements with an industrial history close to high-quality rural areas, and within commuting distance of major towns. They have large numbers of very low value homes, usually small terraced houses built originally for workers in local industries; and a high proportion of social housing. The housing ladder lacks middle rungs, but there are some high value 'executive' style homes, often segregated from the terraced and social housing. The older terraced homes may be occupied by older people, who are unable to invest in them, or rented privately by younger, mobile households employed in local towns; increasingly, they are providing a desirable first rung on the property ladder. The social profile of fragmented markets is similarly divided. High levels of deprivation in social housing co-exist with the prosperity of executive estates. As in low value integrated markets, the availability of cheap terraced housing has recently attracted individual small investors into the buy to let market.

Housing market drivers

The way the housing market behaves in any particular settlement depends on the dynamic interaction between the following, which we have termed *housing market drivers:*

- The characteristics of the settlement, and a range of social and economic factors, which are sensitive to change, in accordance with national, regional and local trends. We identify these under the heading *'Key factors and sensitivities'*.
- The types of households wishing to live there, and their housing needs and aspirations. We summarise these under *'Sources of demand'*.

We recognise that there is a hierarchy of housing markets within the country: *the national housing market, the regional housing market, sub-regional housing markets, and local housing markets within settlements, where stepping into*

Generic housing market drivers

Source of demand	*Key factors/sensitivities*
Local Households working in lower-paid jobs in local businesses Those with family and community ties Older, long-term residents, possibly in social housing	***Influenced by*** Housing market factors – for example, available housing, demand and expectations Local economic factors – for example, employment and wage levels
Regional Higher-paid regional commuters Households moving out of urban centres for lifestyle reasons Buy to let investors	***Influenced by*** Regional economic factors Settlement characteristics Geography Transport and infrastructure Social factors – schools, health Environment and location Housing market factors
National Job-movers (key workers; higher-paid managerial and professional workers; down-shifters) Higher-paid national commuters Second home buyers Buy to let investors Households seeking a retirement home	***Influenced by*** National economic factors Settlement characteristics Environment and location Housing market factors

the next street maybe sufficient to move into a very different housing market. We describe the characteristics of local markets within each settlement profile. Our housing market drivers model the influence of national, regional and sub-regional markets upon these local markets.

High value markets are mainly – though not exclusively – influenced by national and regional factors. In low value and fragmented markets local factors are more important, and this tends to expose them to greater risks.

Generic housing market drivers are summarised in the table on the previous page. Based on this template, detailed drivers can be identified for each local market. For example, 'housing market factors' for Workington would include the availability of large numbers of relatively low-cost terraced houses.

By predicting what changes – social, economic, or environmental – are likely, it is possible to develop new, or amended drivers, and to model how local housing markets may behave in future. We use this technique to identify future risks and opportunities for each of the case study settlements.

HOUSING MARKET SUMMARY: KEY ISSUES

Sustainable communities and the housing markets: the link

A key finding is the role played by the location, history and built form of the settlement. This determines how successfully a particular settlement will adapt to changes in the local economy, lifestyle factors, and patterns of housing demand and housing expectations. In the main report, we compare the prosperity of modern Cockermouth with the depressed state of Egremont, and show how this can be explained by geographical location and the history of post-war development in the two towns.

The nature of the housing stock in a low value or fragmented market settlement can lock negative factors, those which hold back regeneration and positive change, into place. From this, our conclusion is a simple one: in order to make some communities sustainable, it is necessary to change the nature of the housing stock.

Relationships between markets

Our study confirms that changes in one local market have an impact on other, neighbouring ones.

In a strong, or strongly-rising national housing market, existing high value *local markets* are first to respond. Rising prices in the most sought-after areas will tend to displace demand to neighbouring low value and fragmented settlements. In Cumbria, this has taken the form of a ripple moving first from the Lake District National Park to the south of the county, and then spreading east and west.

The tendency for high house prices in one area to force up values in another, neighbouring market is well known. Households priced out of their preferred market seek the nearest equivalent elsewhere. Some compromise is involved, but the type of homes available, the neighbourhood, local schools and services, transport links and travel to work time must not be too far from the ideal. Thus, Workington, with improving secondary schools and a regenerated town centre, is currently more acceptable than Egremont to those in search of a lower-value home.

It is sometimes argued that good local schools are a pre-condition for attracting better-off households to a particular area. We would argue that the *housing market* plays an important part in the early stages of school improvement (as defined by the rather narrow terms of the league tables). There are several local examples in Cumbria where housing market factors – for example, the development of executive-style new homes in rural villages and market towns – have shifted the balance of the school population in favour of children from higher socio-economic groups, who tend to perform better in exams. Once this trend is established, it is self-sustaining, and the successful school becomes a housing market driver in its own right.

Our housing survey shows that older people play an important role in the market. The wealth created by house price inflation allows them to move from high value areas, often outside the county, to attractive settlements where housing is less expensive, whilst releasing equity. They can also use their equity to buy second or holiday homes or – anecdotal evidence suggests – to assist their children to purchase their first home.

A guiding principle behind our interventions has been to make moves between markets easier, where there are clear benefits from doing so. For example, providing higher-value homes in Workington can relieve pressure, and reduce house price inflation, in the overheated markets of Keswick and Cockermouth. It also assists the regeneration of Workington.

Balancing communities

Restructuring housing markets has social and economic benefits. As prosperous and aspiring households are drawn to the more attractive settlements (such as Cockermouth), social disadvantage concentrates in neighbouring, less favoured areas. In the desirable, high value areas, the growing population brings increased demand for public services. Correspondingly, less popular areas experience a decline in population, prompting public spending on service closure, making remaining services less cost-effective. Thus, allowing one market to grow at the expense of another effectively doubles the cost to the public purse.

Judicious intervention in housing markets can tackle the harmful social and environmental effects of concentrating deprivation in particular local areas. It can prevent high value areas becoming so exclusive that households on modest local wages can no longer afford to live there. It can ensure that public funds are used efficiently to maintain high service standards, where they already exist; and where services perform poorly, they can often be improved by stabilising population numbers, and by changing the socio-economic profile.

Social housing

The oversupply of social rented housing in low value and fragmented markets emerged as a crucial issue. Large municipal estates concentrate social deprivation, depress the urban environment, and deter better-off households from moving into the settlement. Oversupply allows 'churning' in the social housing market, with up to 40% of vacancies filled by existing tenants.[1] More astute tenants switch landlords, attracted by improvement programmes and community action schemes. The homes they vacate may be re-let to less stable tenants – often young one-person households, for whom tenancy support systems are inadequate. They become a source of social problems, and failing tenancies add to the problems of high turnover. Often, these homes, in their turn, become the target of improvement programmes. In this way, a continuous cycle of investment and re-investment in social housing estates is established.

The cost of managing oversupply and slow decline in social housing is often greater, in the long term, than tackling oversupply head-on, through clearance. Further, we consider that without significant clearance and redevelopment of social housing estates, the differential between the high value housing markets of central Cumbria and the low value markets further west will increase. In the long term, the low value markets will decline, whilst the high value areas become increasingly unaffordable. Without the spending power of better-off households, regeneration in low value areas may falter, whilst the opportunity to relieve pressure in overheated high value markets is lost.

The ageing profile of tenants and residents

A particular concern is the ageing profile of social housing residents – both tenants, and those (up to 50% on some estates) who have exercised the Right to Buy. This applies particularly to the low value and fragmented markets of the west coast towns and villages. Over the next fifteen years, we predict that turnover in social rented housing will increase significantly. The problems of over-supply, which are at present only beginning to surface in towns such as Egremont, will become acute. At the same time, the private market will be flooded with ex-Right to Buy homes. Given their general unpopularity, these are unlikely to find buyers in low value and fragmented markets, other, perhaps, than unscrupulous private landlords.

This opens the prospect of abandonment, a rising incidence of social problems, and market collapse. It supports the case for radical action on social housing estates in west coast towns.

Whilst the population is ageing, the popularity of social housing designated for older people is in sharp decline, aggravating problems of over-supply. Today's older people have a strong preference – confirmed by research – for remaining in their existing home, perhaps with help from domiciliary care, and/or aids and adaptations. Public policy and funding streams support this choice.

Within the overall surplus of social housing, certain types of older people's housing, particularly bedsits and one-bedroom accommodation, fail to meet modern expectations, and are at the end of their useful life.

The study also found concentrations of older households in terraced housing in the low value and fragmented markets. They may need help to carry out essential repairs, or to obtain adaptations.

Balancing housing markets

The end point of this research is a set of interventions (*what needs to be done*) designed to restructure each housing market and achieve a better balance. Our study suggests strongly that there is no single definition of 'balance' which suits all housing markets. Each market type requires a different approach.

In general terms, an efficient, balanced housing market will have these characteristics:

- People on a range of incomes can find a suitable home. The social mix will to some extent depend on the local economy and travel to work patterns, but a broad range of house types in well-graduated price bands ensures a viable community.
- Those who need to live in a location, rather than choose to live there, are not unduly disadvantaged.
- The housing stock does not concentrate deprivation in particular areas and particular house types.
- Settlements with low value and fragmented markets may have the potential to attract above-average earners, and should provide some housing which those households are likely to buy, including high value homes. There is clear evidence that the spending power of higher earners has a positive effect on local services and schools.
- People in work on average local incomes should be able to afford to buy, or at least have an equity share, at the lower end of the market.
- Growing families in small homes at the lower end of the market should have some opportunity to trade up to a larger home which is still affordable to them.

RESTRUCTURING HOUSING MARKETS: PRIORITIES FOR INTERVENTION

The interventions we propose are designed to use a limited amount of public money to kick-start housing market restructuring on the assumption that the private sector will then continue the process. Having said this, we have consistently matched our interventions to the overall needs of the market, preferring solutions which are sustainable in the long term to those which are merely cheap or quick fix.

We have identified five priorities for the case study settlements. These priorities are matched to the requirements of integrated high value, integrated low value, and fragmented markets, as well as being a response to specific local risks and opportunities. *They should be equally applicable to other areas in the county, and other regions with a similar mix of housing markets.*

Priority 1: reduction of social housing, especially on municipal estates, through the clearance of surplus or obsolete property types in unpopular areas.

1: Information from CORE data for case study settlements

Provision of middle to higher-value properties, using, wherever possible, brownfield sites created through clearance.

Priority 2: provision of affordable owner-occupation in high value housing markets.

Priority 3: provision of suitable property and support packages for one-person households.

Priority 4: creation of a Home Improvement Trust or similar to assist in the repair of private sector homes.

Priority 5: redevelopment, clearance or re-use of obsolete property designated for older people.

We use examples from the case study settlements to explain how these five priorities might be tackled, and to set out the advantages and disadvantages of each.

Our interventions for each market type are underpinned by certain principles. These are set out below.

Principles of intervention: low value and fragmented markets

Areas should be selected according to the following criteria:

- There is high turnover, high vacancy rates, high numbers of unsold properties on the market, or evidence of abandonment, and residents are dissatisfied with their neighbourhood or property.
- They can be tackled easily, because they are self-contained, and the intervention will have positive impact on the surrounding areas and the settlement as a whole.
- There is potential for re-development or alternative use, possibly realising a capital receipt.

In addition:

- Larger clearance sites are preferable to small scale brownfield sites or greenfield sites.
- Planning briefs for residential sites should seek to supply missing rungs on the housing ladder by specifying property types which are in scarce supply. Allowing homes of a type and value readily available in the settlement, or close by, may undermine existing, viable markets.

Principles of intervention: high value housing markets

- Land and buildings should be developed solely for affordable home ownership. Wherever possible, brownfield sites should be used first, followed by greenfield sites, all within the settlement boundary.
- Development should be mainly two-, three- and four-bedroom houses and two- and three-bedroom bungalows. These are more flexible than flats, and more viable in the long term.
- Any remaining gaps in the social rented housing market should be filled, where necessary.

RECOMMENDATIONS

Our recommendations are presented in two sections. Section one considers how the model we have developed might be applied to other housing markets in other regions of the UK. Section two suggests ways in which improved working by, and between, planners, housing providers and strategic bodies could make housing market restructuring easier, quicker, and more effective.

APPLYING THE MODEL

Relevance to other markets

Housing markets matching the three types identified in this report occur across the UK. Whilst our six case studies are separate towns and villages in a largely rural area, similar markets can also be found within large conurbations. Stepping into the next street in an urban area may be sufficient to move from one local market to another. Most local people carry an intuitive mental map of the different housing markets in their town or city, and a casual visitor only has to glance in the windows of a few estate agents to arrive at the same understanding.

Joint working and effective action

The stages of this research project – *mapping housing type and tenure; assessing supply and demand; classifying housing markets; identifying drivers; scenario planning and risk assessment; developing interventions* – are a blueprint which organisations responsible for housing and planning strategy can use. All joint projects are made easier by a common system, which is well understood by those involved. Housing strategies are no exception. We offer a model leading from data-collection, through analysis, to action. Its adoption gives scope for involving a wide range of stakeholders, and makes communication between partners easy.

The model is flexible, and responsive to change. The scenario planning section shows how changes in housing market drivers can be identified, and their impact on the housing market assessed. This helps to ensure that future interventions in the housing market directly address the most likely set of circumstances – by counteracting specific risks, by tackling specific challenges, or by taking advantage of specific opportunities. Only in this way can those responsible plan successful interventions in the housing market, supported by the necessary public finance.

RESTRUCTURING HOUSING MARKETS: ACHIEVING SUCCESS

Strategic responsibilities

A single agency with wide ranging strategic and funding powers should co-ordinate housing market restructuring.

This report does not advocate that the west coast of Cumbria be awarded Housing Market Pathfinder status. In other areas, the designation has proved a magnet for investment by property speculators, leading to a dramatic rise in property prices. This said, the area badly needs *a single agency with a strategic overview of housing markets, which would manage resources, and ensure that measured and appropriate interventions were delivered when and where needed.*

In the Housing Market Pathfinder Areas, this role is taken by the Pathfinder Board. Here, by contrast, each housing association works independently to its own business plan. In the most unpopular areas of estates, several housing associations own property within the same streets, effectively competing for tenants. Housing associations with marginal business plans and no money to demolish may find it easier to ignore oversupply, than tackle it. In any case, few landlords are prepared to demolish houses, until the problem is so acute that properties are abandoned and unlettable. *Only by establishing a single agency with powers similar to the Pathfinder Boards can these problems be overcome.*

Local Authorities should be encouraged and helped to use Compulsory Purchase powers where necessary.

In high value markets, negotiations with owners to acquire sites suitable for affordable housing are often protracted. Historically, some of the county's local authorities have been unwilling to test Compulsory Purchase procedures. *If legal and procedural assistance could be provided by either Government Office North West, North West Development Agency or English Partnerships, local authorities might be prepared to acquire land for affordable housing by this route.*

If, in addition, the Regional Housing Board were to develop a framework which urges local authorities to make full use of their CPO powers, this would help speed delivery still further.

Planners and planning policy

Local plans and local development frameworks should be tailored to specific market conditions.

Currently, local authorities tend to have one local plan containing planning policies for their area. This generally applies similar policies to each settlement. It may contain separate action plans for renewal areas etc. These Local Plans will shortly be superseded by Local Development Frameworks containing core policies, proposals and action plans.

The housing market classification developed in this report offers a way of *tailoring planning policies so that they address the specific conditions of different housing markets* within a local authority area. In other words, it allows planners to plan for what the local market actually needs.

Planners should provide development briefs which promote agreed plans for market restructuring.

Following on from this, planners should ensure that suitable development briefs are provided for housing sites. These should specify types of homes which are currently in scarce supply, in order to avoid attracting buyers away from existing, viable sectors of the market, such a terraced housing. For example, demand for terraced homes in Workington and Frizington might collapse if new, small homes at the lower end of the market were built in either location.

The timing of land release should support the aims of market restructuring.

Careful thought needs to be given to the timing of land release. For example, in low value areas, releasing greenfield sites in advance of cleared social housing sites would risk flooding the market, preventing or delaying considerably the plans for housing market restructuring.

Planners should be assertive in demanding high quality design from private developers.

In some cases, we have recommended new owner-occupied housing as a way of boosting regeneration and making settlements more appealing. However, the architectural quality of much recent speculative development in the county is uninspiring, relying on a corporate style of a kind to be found all over the UK. Unless planners are clear and assertive about high standards of design – either the thoughtful use of styles and materials sympathetic to the local context, or good, genuinely contemporary design – redevelopment will do little to enhance the appearance of towns and villages in the short term, and in the longer term, may simply re-create the problems it was intended to solve.

Planners should consider levying a charge for planning permission.

In low value markets where additional affordable housing is not required a planning charge would be more beneficial for the housing market than a quota of homes being provided on a development site. This charge could offset the cost of clearance in low value markets, or help provide affordable homes in higher-value markets.

Planning quotas should seek a high percentage requirement for affordable housing, where the market requires it.

In high value markets, this would help to meet the local need for affordable home ownership with a minimum of public funding. A minimum requirement of 50% would not be too high. There are examples of such percentages being exacted in high value markets elsewhere, such as York and Harrogate.

Sites in public ownership

Better co-operation is needed between public bodies to secure sites in public ownership for affordable housing.

In high value areas, sites may be owned by either Local Government, or Government Agencies, who appear not to be strategically attuned to the housing needs of the area. They frequently try to obtain the highest possible capital receipt from the sale of land. This may give a short term boost to the current year's budget for local services, but in the long term, it does nothing to help the housing market, and is not in the best interests of the community as a whole.

Land retention is one of the factors which helps to create and sustain an integrated high value housing market. If sites are to be secured, local officers of Government Agencies, planners, housing professionals and County Council officers need to act strategically, in co-operation with each other, and pragmatically.

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