



Housing market renewal and private sector developers



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1. Introduction

This study was designed to examine:

- the characteristics of developers involved in the HMR programme
- the scale, focus and phasing of development programmes in pathfinder areas
- the institutional arrangements or partnerships set up to plan, deliver and monitor the programme
- funding mechanisms used to support HMR schemes and the extent of private sector leverage involved
- measures of risk assessment employed by developers HMR teams or other stakeholders

This study was carried out in 2007 and consisted of face-to-face or telephone discussions with officers from each of the pathfinder teams, and further interviews with other stakeholders (including developers) in three case study areas. This was supported by analysis of background documentation, including Pathfinder's Scheme Updates¹ and the scrutiny reports produced by the Audit Commission, as well as specific information about individual schemes provided by pathfinder teams. This provided information about aspirations and plans for new development in HMR areas three years into the programme. It confirmed that pathfinders are at different stages in engaging with developers. Some pathfinders, such as Manchester Salford and NewHeartlands, are more advanced in building on existing links with large developers with experience of urban regeneration – others are having to start with a clean slate and develop relationships from scratch.

The nature of the relationship between the HMR pathfinders, the constituent local authorities and developers is critical to the overall success of the programme. The role of the pathfinders in this process has perhaps not yet received the attention it merits, but it is often about 'laying the groundwork' so that previously reluctant or tentative developers will see new opportunities for investment and schemes in areas that had previously been considered too problematic. As the scheme update for Urban Living HMR put it:

"... the Pathfinder needs to create a more controlled environment for investment, to ensure appropriate trade-offs between sites which may be less attractive to the private sector, but equally important in housing market terms."

The Audit Commission's 2005 Scrutiny Report on HMR pathfinders emphasised the importance of engaging with developers and suggested that some pathfinders needed to do more to link sites and projects, lever in private investment and engage effectively with developers. While some pathfinders had started building partnerships, had selected a lead developer and embarked on a long term programme in one or

¹ Scheme updates were prepared by each pathfinder and set out an updated vision of the housing markets they were aiming to achieve, the steps they would take to deliver them and the means by which they will monitor their progress.

more of their development framework areas, others were still at a preliminary stage in drawing in developers and defining sites for developments.

The Audit Commission report found that the level of pathfinder involvement with the private sector depended in part on the level and type of renewal required in the area and on the different stages of development reached. The overall aim of the programme is to support interventions through public sector funds (including HMR funding) in the early stages and gradually to phase out the level of public sector financial support in the long-term as the programme develops and market conditions and prospects revive. The Audit Commission report also suggested that pathfinders needed to be more active in supplementing earmarked funding with capital receipts from land sales, and in achieving alignment with their own proposals for the next phase of the HMR programme with other programmes and interventions. A few pathfinder scheme updates were criticised for being too optimistic in their estimates of the scale of private investment that could be attracted into the future programme of market renewal.

This research report provides an opportunity to update on the progress made by pathfinders over the past two years in working with developers.

2. Involving private developers in the HMR programme

The methods and incentives used by pathfinders to lever in developer interest and investment stem from two primary motivations, which might be termed the 'opportunistic' and the 'pro-active'. In the first case the type of market in which the pathfinder was based, the impact of other regeneration initiatives and the ongoing engagement of developers has smoothed the way for their involvement. In areas such as Manchester, the overall climate for development was viewed positively and business partners were beginning to look for new sites and new investment opportunities outside the city centre core. This meant that the pathfinder was able to swim with the tide in attracting additional private sector investment, although targeting was needed for specific schemes in the HMR. The presence of companies in the locality with experience of large scale regeneration (such as Countryside Properties in Manchester) was also important, as their previous experience had allayed concerns about whether value could be secured in scheme completion. Developer activity also has a more indirect impact, in changing public perceptions about the future of neighbourhoods that had previously been marked by market fragility.

Past success in large-scale regeneration was a clear incentive for developers concerned about risk, and thus one respondent from East Lancashire referred to the pioneering roles of NewHeartlands and Manchester Salford Pathfinders in drawing developer interest to the HMR programme overall and in exemplifying value for money and good practice that others could follow and learn from. The high national profile of the HMR programme was seen as a reassuring and powerful force in drawing developer interest to otherwise unattractive areas. The prospect of continued public sector funding, insulating against undue risk, had a marked impact on developer interest, as one respondent noted:

"... the very fact that HMR as an initiative was launched the way it was launched, it gets attention anyway from developers ... you get developers just ringing up on spec." (Pathfinder officer)

In other cases the nature of the HMR programme blended with the ethos of the developer concerned, and was an incentive to become involved, as with a major RSL working on a major scheme in the Bridging NewcastleGateshead area.

"... because we're not a dividend organisation it means the profits that we are actually generating in development we reinvest back into neighbourhoods, either our existing neighbourhoods or to develop new ones. So the sort of mixed tenure urban regeneration to be honest is the kind of thing and the kind of areas that we have worked in for many years ... it is the kind of schemes that we are most familiar with." (Registered social landlord officer).

In terms of more pro-active measures, all pathfinders had made efforts to attract developer engagement with the HMR programme. This ranged from very structured

action, such as zoning area development framework areas² and prioritising developers before the tendering process, to more informal approaches such as meetings and holding publicity events. The skills, background and approach of the local authority and pathfinder officers involved was also an influence on the way the process was unfolding – in one case, the development manager worked very pragmatically by getting a specific developer on board, in order to ‘get the ball rolling’ in an area which had witnessed little previous residential investment in the past twenty or thirty years.

Others worked more systematically to draw in developers. Urban Living, for example, created a developer partner framework agreement which provides a sound context and starting point for the development process. This stage is followed by the creation of a business plan for each of the areas under development and then zoning development sites. The zoning of areas gives developers more freedom to operate and was cited as an important factor in overcoming potential reluctance to become involved in the HMR programme. The development of partnering arrangements is seen as a key element in maximising long-term support for the programme and in getting developers engaged in the more strategic planning for the future of the areas undergoing redevelopment.

“They (local authorities) had entered into developer partnership arrangements within certain zones, so basically the Housing Market Renewal area was carved up into zones ... so they knew that they weren’t competing directly with other HMR developers in the same area. So there was a one-to-one relationship – they were allowed from the start, or they were encouraged, in fact they were told, they had to be involved in the master planning process as well.” (Pathfinder officer)

The more informal approaches included meeting to inform developers about the pathfinder ethos, and the forward programme, and through publicity events.

“... we’ve gone out and we’ve held developer events to publicise what we’re doing – we’ve promoted the kind of planning, and we’re at the moment engaged in doing regeneration frameworks for the various [projects].” (Pathfinder officer)

In one pathfinder the developers with experience of working with each of the four constituent local authorities were brought together to widen the pool of potential bidders. Manchester Salford Pathfinder has attempted to attract interest from those developers searching for sites in the city centre, hoping they will move on to adjacent areas, as has already happened in East Manchester and parts of Salford.

“We’ve never really seen ourselves as a low demand Pathfinder ... the builders and developers ... they’re interested – they’re interested in the long haul as well – not just interested in doing bits and pieces – wanting to build up relationships and if you put on top of that reactions that someone likes the houses and you’ve also got that confidence in terms of being able to deliver and build from the City Centre, from the Commonwealth Games ... so a lot of houses has been

² An area development framework (ADF) is a strategic development plan for geographic areas, usually comprised of a number of adjacent neighbourhoods.

put in by others rather than the Pathfinder, but what (we) are trying to do is maximise the benefit of that.” (Pathfinder officer)

The Gateway Pathfinder took a different path as they wanted to fast track the programme, due to a delayed start. In November 2005 Gateway launched a lead developer partner competition for west and east Hull. Cost consultants and project managers were engaged for this process. Gateway then identified a larger site for development about 30 acres in size and asked developers to match their plans to the case study site, as one officer explained:

“The real issue for us in terms of leverage and catalytic effect is that we want to build 32,000 new homes in the conurbation core, and the land that we’ve made available with HMR funding you’d probably get 7,000 or something like that on that land. What we’re going to do, by doing it, is encourage people to use that unutilised land that’s around so we’re trying to bring developers in, so the lead is there.”

In another pathfinder area, a lead developer had been appointed for different zones in the HMR area. This had brought benefits in terms of programme continuity and enhancing the developers’ awareness of community concerns that cut across the boundaries of different schemes.

“I think that’s most we can say so far, the developers seem happy with the way we’ve appointed them zones – that’s worked well for us we think it’s speeded the programme up, strengthened CPO and you know the communities are happy as well. So that sounds a very rosy picture doesn’t it but at the moment that’s how it feels. There are good relations between us and the developers and between the developers and the local authorities.” (Pathfinder officer)

The overall picture is of a growing maturity in the relationship between developers and pathfinders, especially in the way that programmes have been packaged more effectively to attract developer involvement.

3. Developer responses to the HMR programme

For those pathfinders at an earlier stage in developing long-term relationships with major developers, the lead taken by the 'big city' pathfinders could be used as a selling point. Interviews with developers in the three case study areas revealed that the companies were looking primarily at the size, type and context of development schemes rather than whether it fell within the HMR area or not. Their interest had been stimulated by other factors such as the recent housing market boom, especially in the lower value sector, government policies favouring brownfield developments and the links between housing investment and economic development. The key factor remained the commercial viability of the site, as judged in terms of its location and potential. One developer had become involved as a way of reinforcing its prominent role in terms of affordable housing provision, although the social elements of the proposed schemes, and the emphasis on community engagement through the process, were seen as further advantages of working with the pathfinder in question.

"I think the HMR programme probably gives developers a greater level of comfort those that they work with to know that, in terms of holistic regeneration and getting things to stack up financially, they are able to have an input into that, and certainly for us it gives us greater comfort in terms of working with our development partners because where we would have to re-provide ... particularly for existing owner occupiers, there is a greater level of security ... we can plan for that." (Developer)

The relatively relaxed view of risk taken by developers interviewed probably reflected the fact that they were fairly large companies with extensive portfolios across the country and also the relatively buoyant state of the market at the time:

"So I think there is market interest from developers to work in these areas, because I think, the difference is, sometimes these kind of regeneration areas, you go in where angels fear to tread: you know, they have got fantastic development potential, but whether it was land assembly or tight constraints, contamination, demolition and re-housing, there are complexities to actually get into a site and start building ... I think the Pathfinders have been very effective because they have been able to put that money into ... things like site assembly." (Developer)

"Yes there is a risk factor in taking on these projects and particularly in an area like ..., where there has been various private housing built over the last decade and there is significant signs of decline in the existing stock. So, yes there was a big risk. What attracted us was the potential size of the scheme: if it had been a small scheme of 40 units or 70 units in total we probably wouldn't have considered that a justifiable risk. It was the size of the scheme that gave us confidence that we could change the market perception of that area by ... our commitment." (Developer)

A couple of developers interviewed felt that pathfinders could play a crucial role in helping to change perceptions about the wider neighbourhoods in which the schemes were based – this was a role that went beyond the contribution developers themselves could make, even if they also had to give greater priority to community engagement and promotional activity. One developer stated that the pace of progress had been affected by what was perceived as undue caution in issuing compulsory purchase orders (CPOs) due to negative community responses:

“... it’s getting the smaller cogs to turn the bigger wheel. I mean some are as simple as a planning application, you’ll get one opinion from the planner, one opinion from the urban designer and one opinion from the ... none of them will be totally honest, they are all worried about their own little (world) ... and you have to work hard to get the compromise, to get a deliverable product at the end and this is why the whole planning process is slow.”

Several pathfinder officers also referred to the time limited nature of HMR funding as a constraint on their ability to undertake large scale CPOs.

4. Sites and schemes in HMR areas

The type of land preferred by developers is directly related to what is available in the wider market, as one pathfinder officer noted:

"... in [our area], we are putting together a development framework and have been very clear that virtually all the developable land for housing ... will be brownfield: there's a few greenfield pockets around ... but pretty much every opportunity [is brownfield] so developers have become attuned to the fact that if they're going to develop in (the city), it's going to be brownfield." (Pathfinder officer)

Pathfinder respondents also noted that preferred scale and type of scheme depended on the size of the developers in question.

"... well it's new build really – practically all the development work that our developer partners are doing is around new build – there are some enveloping schemes but smaller contractors are being used to do that – the developers ... big house builders like ... and so on, it is new build that is attractive to them."

In the context of the HMR programme, smaller developers tended to bid for brownfield sites, where they were better able to compete, with larger developers going for both brownfield and greenfield developments.

"... what we wouldn't do is bid against the volume house builders on a greenfield site where they are going to put in their standard house types, the very small unit types. We just can't compete. You know, they build themselves whereas we work with external contractors, so the cost base is a lot more efficient and they would consistently blow us out the water in terms of land value." (Smaller developer)

Similarly in terms of types of development, larger companies already have a target portfolio, as one of the respondents described:

"OK we have two elements of core business really. One is (as) a refurbishment organisation, so clearly we look for any refurbishment and predominantly ... decent homes stuff of late, so with the business we were historically 70/30, so 70% of our work was done through refurbishment and 30% percent was new build."

The majority of developers interviewed in the case studies were involved in refurbishment, partly reflecting the priorities of the HMR pathfinders in the early stages of their programmes. One developer stated that in terms of cost and value for money both types of development worked out evenly, as any additional costs for engineering technology or remedial works were made up for in land value.

“There is always this sort of debate between ‘green’ and ‘brown’, from our prospective a private developer prospective, there is no difference ... whether it’s ‘green’ or ‘brown’ is of no consequence to us, what we focus on is the location and the type of units that we perceive as the demand in that area. So it’s market-driven, it is not driven by land conditions ... and do we think there is a market in that area?”

5. Local authority engagement with developers

The interviews with pathfinder officers revealed that some local authorities had been successful in drawing down private sector funding to the area before HMR, while others witnessed a significant rise in developer interest following the advent of the programme.

“I think the HMR programme probably gives developers a greater level of comfort. Those that they work with to know that, in terms of holistic regeneration and getting things to stack up financially, that they are able to have an input into that, and certainly for us it gives us greater comfort in terms of working with our development partners because where we would have to re-provide ... particularly for existing owner occupiers, there is a greater level of ... that we can plan for that.” (Local authority officer involved in HMR)

The existence of significant development work by local authorities in advance of HMR has, in most cases, led to successful partnership working and an exchange of knowledge and expertise between pathfinder officers and local organisations involved in regeneration. In one pathfinder, local authorities are leading the development process with funding support and strategic guidance from the pathfinder team. In other cases the existing practices of local organisations created a competitive drive for the pathfinder to establish itself in regeneration programmes and, in so doing, introduce a more socially and environmentally focused approach into schemes.

“... here you have two local authorities who have a track record of almost winning every regeneration programme ever offered by central government, and they have good success rate at delivering those. You’ve got the city region, you’ve got talk about multi area agreements, you’ve got a whole platter of things like NDC, and local stuff as well funded by the local authorities. It’s not as if this is the only game in town: hence this time of innovation is crucial.” (Pathfinder officer)

Pathfinder areas that cover more than one local authority have to deal with different processes and agendas and, in some instances, confront a ‘silo mentality’ that slows the development process. As one respondent put it:

“The other thing that we have which works in our favour ... is the fact there is only one intervention area in our Pathfinder. So (we are) very focused on [name of area], we don’t get distracted by the fact that the local council might have a different process or whatever.”

There were several examples of good practice in partnership working, with the pathfinders becoming involved with high profile schemes to utilise funding most effectively.

“We have planned a developer agreement now and we have got most of the funding in place so it funds a lot of the enabling work has been paid for by (Pathfinder) and then they will also be putting in some gap funding. English Heritage are providing about half of the (funding) for specific concrete work we hope, although that has only just been submitted, English Partnership are putting in about £14.5 million, again gap funding, and the Housing Corporation are putting in about £10 million to provide 200 units to rent and 40 for shared ownership.” (Local authority officer)

In the case of some pathfinders, local authority officers see them as a supplement for organisations and schemes that are already happening. In other cases, the pathfinder acts as a catalyst and the main source of funding for new development. As well as additional funding, it has brought a higher profile to housing projects, and encouraged more innovative approaches.

“Historically there was no interest ... Now clearly the Pathfinders have enabled us to bring forward more radical clearance options which have increased the size of [development] sites and the sites that are on the market. Equally it's offered more of a support packet to residents and given us more innovative solutions to re-housing, and we provide and support the development process. Now that certainly had a part in my opinion has attracted developers and to be fair I wouldn't say it is the sole reason ... certainly the market in Manchester has changed significantly and Salford, I'm sure, has benefited as part of that.” (Local authority officer)

On the whole respondents from local authorities spoke positively about the influence of pathfinders in pushing development forward, though often this reinforced ongoing relationships that they had with developers.

“[Developers are] ... really keen to get involved in the Pathfinder [but] it's not just Pathfinder ... they are very keen to get involved in the local authority panel because there are exciting things happening in [the area] at this time, so it would be unfair to attribute all that just to the Pathfinder. But I have probably got a personal impression that the housing association are more interested in being involved (now) ...” (Local authority officer)

6. Engagement with the community and community responses

Interviews with pathfinder officers indicated that processes of community engagement were high on the agenda. The need to take social and community concerns into account as part of the HMR process has been reinforced by those cases where the negative reaction of some members of the community to plans for remodelling and demolition and redevelopment have attracted attention. The local authorities working with pathfinders have also been concerned to ensure that the trust of local communities can be gained for HMR interventions. Community support is seen as a vital element in securing social, economic and environmental benefits for the programme.

“... ultimately it’s about the impact that we have within communities, working for communities, you know they are going to be the ultimate losers, not me and any of the builders ...” (Pathfinder officer)

Community perceptions of the HMR programme are considered to have been largely positive, sometimes at variance with the tenor of local media coverage. While there have often been short-term tensions, effective community engagement has tended to reduce the risk of resentment building up over time. HMR pathfinder officers have learned, sometimes the hard way, that communication with communities over plans and future strategies needs to be given priority, so that proposals do not get swamped by rumour and hearsay.

Most pathfinders have developed structures that take community needs into account on an operational and delivery level. This has been supplemented by partnership working with community centred organisations and introducing more robust strategic frameworks for masterplans. One pathfinder respondent pointed to the advantages of working alongside existing organisations with strong community ties and had worked with the local New Deal for Community (NDC) Partnership as a key intermediary and source of information. The NDC Partnership had incorporated community consultation and the pathfinder had learnt from this experience in engaging with community needs and aspirations for other areas.

Credible community engagement has been made an essential criterion for developers in bidding for new schemes. Developers have had to put forward a social as well as an economic rationale for developments, as one explained.

“Well as part of the brief for [the site] ... and the other sites that are falling out of the developer panel movement, there is a strong requirement for community engagement. We as a company have a strong ethos towards community engagement, community education and community employment, so they are part of our policy anyway. So we welcome the desires of [the Pathfinder] to do

this engagement with communities, and I believe that is one of the key drivers (for change).” (Developer)

Some pathfinders had introduced community members to the decision making process, which had generally had a positive influence on the outcome. However, one respondent noted that problems had sometimes arisen as community representatives lack the background knowledge and expertise required for making decisions about the quality of proposed private sector developments. While community opinions needed to be taken into account, the next and most difficult step is fitting this input into the more strategic and economic factors affecting the development and ensuring that the ultimate decision lay with the pathfinder team.

Some pathfinders had taken community members elsewhere to observe good practice:

“... they were actually involved in going round and looking at good design and practice elsewhere – so they went to Holland, they went to Northern Ireland, Scotland to see good practice and design, said what had wanted and what they didn’t want etc and worked with developers. And the local managers responsible for taking that forward was ... included in the consultation in conjunction with the housing staff.” (Pathfinder officer)

One pathfinder had selected a community-centred developer as the leader for a large project in the area which greatly improved consultation processes by making it a matter of course, rather than an exceptional, or indeed a merely token, gesture:

“Everything we do has been driven by the community. Sometimes we have over-consulted, and I think that is a risk, but you do tend to get apathy and people just want to see something happen – but (we do this) at every stage from the initial master plan through both the area development frameworks going through last year, the area action plans. Now, as we are looking at each neighbourhood ... what we class as a place making process where we actually, not looking at designs of building and so on, but we work with the community and professionals to get a feel for the sort of character of areas and what their aspirations are: so, very, very intensive. Sometimes, like I say, we have not necessarily consulted on the right things and sometimes people get a bit stressed about being consulted.” (Developer)

One respondent felt that the funding of the programme had acted to constrain more pro-active forms of community development that might accompany HMR interventions.

“I raised the point around the fact that you could see some really innovative thinking around ODPM money for Pathfinders and how that could connect to what they had to bring, and would they be able to fund, for example, capacity building and communities, would they be able to fund pre-recruitment training, would they be able to fund confidence building, bearing in mind who their client groups are. Because once you have got them up to a certain level, then it would be the role of the RDA and the LSPs to take that forward. The answer came back very strongly, no this is about housing, and we will not endorse anything else other than housing.” (Pathfinder officer)

On the whole community responses to pathfinder programmes were positive and there was a feeling that they had made their response heard through community involvement and consultation. One pathfinder respondent felt that perceptions of the HMR programme were changing so it was seen less as a tool purely for clearance and redevelopment and more as part of a broader delivery programme that also encompasses social and environmental aspects of regeneration and renewal. Engagement and communication between residents and officers at the delivery level of the programme had improved.

One pathfinder officer (MSP) stated that local residents have been extremely supportive of initiatives that they have been involved in and that this emphasised the importance of keeping people informed and included in the developments taking place in their area. This was cited by the respondent as a way of preventing possible tensions and protests. Another pathfinder respondent (NewHeartlands) outlined the long term benefits of involving the community in the development process. As bonds are forged with community groups and organisations involved in the development process, wider attitudes towards the HMR programme become more positive and supportive.

"I think in terms of the whole programme the fact that you've got five developers involved and then the same RSLs – you're dealing with the same people and there's that body of experience growing up – not with the same people – people you want – the same organisations and you know that the experience grows with those people involved and I think it does make a real difference." (Developer)

"I think in general it has been very positive because I think for the first time, residents feel that they are being engaged in the process. I think we all have to recognise that you will never please everyone, but I also think that the fact is that some of the issues that residents raise, particularly around new house building to do with things like, you know, the rooms are going to be smaller than their current properties, there are going to be tiny windows, there is going to be no decent communal space etc, etc ... and when you work through the programme with them and the master plan and you dismiss those myths about new developments. I think that has been very, very positive in terms of their response." (Local authority officer)

In some cases, consultation provided the lever for wider ranging interventions across a whole sphere of activity in the neighbourhood.

"Very favourable, certainly ... for us on this new build site that we have already held public exhibition, as an informative exhibition rather than an out-and-out consultation where people are able to influence things, I think it was very well attended. Some of the other things that are falling out of this process is engagement with social enterprise groups in the area for us to enable moves to employment, the support for other social enterprise groups (There are), other businesses who can maybe work on the back of this development so, whether it be a gardening service or state management service, or a landscaping service, then they could be part and parcel of the development. So that is very strong in the area, and from a company point of view it's something that we welcome." (Developer)

The main risk in intensive consultation over complex schemes is, inevitably, overstressing community capacity. The *extent* of involvement demanded in the HMR process is as important as its focus and timing.

“Well it varies, you might get, you will get the coming along initially and then some of the interest will wear off and they will think that it has all been decided it is all done. And then you have to tell them, well no now we are at feasibility stage we want you to keep on working with us and we want to have your views all the times, we are listening to what you are saying. But then of course people you know it’s, you know, the concept of consultation fatigue, we’ve been fighting that, because we think the communities were experiencing consultation fatigue before we even started ...” (Local authority officer)

7. Project funding

The development of a phased funding regime for the HMR programme and, in some cases, a delay in announcing future funding allocations was noted as a concern by all respondents in terms of its impact on their relationship with developers. This created, it was claimed, a lack of certainty about the future availability of public subsidy for 'riskier' schemes, and the government's commitment to the programme as a whole.

"... so it makes that planning much more problematic, having funding profiles that are flat lined, it only happens here, that makes it very difficult, so if you are talking about long-term relationships and confidence, you can put the best strategy down and the rest of it, you have to give a little bit more if you are going to commit. So that is a real tough challenge, I think ... that they are going to move to a 2/3 year programme." (Pathfinder officer)

HMR funds were also having to stretch further, as a result of rising acquisition costs following increases in property prices in many areas. Some pathfinders had received reassurance about the future funding for major compulsory purchase order (CPO) schemes, although in other cases CPOs had to be re-packaged because of funding pressures. Respondents were concerned about uncertainties continuing up to the point of the start of the next funding period. Despite this, most were confident about the government's long-term commitment to the HMR programme, not least in the light of increasing evidence about its positive physical impact in HMR areas:

"... because of the way we've acquired properties since 2002, across a broad area, I think politicians realise the implications of not supporting the programme would be absolutely dire." (Pathfinder officer)

While the funding profile has affected developer confidence in the early stages of the programme, once tangible 'success stories' emerge from refurbishment and redevelopment, this reluctance to be involved often ebbs away. One respondent suggested that this positive uplift of public funding was more marked where the chances of a self-sustaining market emerging were more remote:

"[Developers] know there are question marks about the housing market renewals – political commitment to that and so ... developers do feel they are taking risks and up to a point they can gamble on the fact that (name of town), without HMR or something like it, (town) would be a basket case and they therefore think that the political ramifications of dropping HMR would be so great that the Government would have to do something else – there may be an element of a gamble on their part." (Pathfinder officer)

One way that the pathfinders have responded to the change in funding allocation patterns is by being more selective and critical in allocation funding to targeted initiatives that will have most success. Partnership working is another response, both as a way of subsidising funding in a practical sense and in building developer confidence through pointing to successful projects working under pathfinder partners such as the local authorities, NDC Partnerships and other organisations.

One developer respondent voiced concerns about the HMR funding regime based on past experience with high risk ventures and a lack of assurance around future funding guarantees.

“As an example the site that we are currently doing on (scheme name). It’s 107 units, 25–30% affordable and it’s gap funded, it’s got to be phased because of the CPO’s but so we’ve got a phase of 68 units. [The Pathfinder] couldn’t commit to gap fund 68 units they can only gap fund 40, because we will have those 40 complete, or we should do before the end of March. We had to commit and there is over half a million pounds of risk, direct monetary risk to our group, we had to contractually commit to all those houses because we couldn’t do just 40 units on the site. If [the Pathfinder] gets no further money, we are out of pocket you know with the contractor. We’ve had to bite the bullet and do it, because otherwise nothing is going to happen until after the first of April next year, so that I think is a real focus for this short term output vs. long term outcome.”

The more optimistic outlook on the ratio of private to public sector funding expressed by pathfinder respondents is that the public sector support for HMR is higher during the early stages but will decrease over time as the areas for development are ‘pumped and primed’. Private sector funds will then be able to sustain area local development. Those pathfinders with the highest ratio of private sector leverage base this on the health of the wider market rather than HMR *per se*. Others are still waiting for the ‘ball to start rolling’. In one case a pathfinder officer estimated that a £100m gap between the level of public and private funding would be required for the programme up to 2010.

Matching private investment with public funds can be high risk if the public money is just not available from the pathfinder. One pathfinder (NewHeartlands) fell short of the private sector funding target figure last year, and as a result properties acquired in clearance areas are now not scheduled to be cleared until 2013 because of constraints in funding.

8. Future policies on land release

There were two main points to emerge from pathfinder officers in response to the impact of recent government policies (for example, through the Barker reviews³) on future land release. Respondents felt that the impact would vary according to the local political context, and the extent to which land banks had already been built up, the characteristics of the planning pipeline, and the consistency or variability in the approach of constituent local authorities to issues such as affordable housing:

"... only (local authority name) has an affordability policy which is not in the public domain but is due to go to members – 30% affordable housing in the Pathfinder and 100% outside. But one of the things we were talking about ... is having more consistent standards with local authorities in terms of Section 106 and affordability." (Pathfinder officers)

Respondents were also clear that market conditions, and the shifting relationship between patterns of supply and demand, were more important than policy documents such as the Barker Review or PPS3.

"... around the policy issues with developers, you get the impression. we also get it from [developers] as well, that there's that many blooming reviews been going on around housing, housing supply, affordable housing and the rest of it that developers are cheesed off with it – just want to get on and build ..." (Pathfinder officer)

One developer, however, echoed the views of others in suggesting that a change in policy on land release for new development would not have a great impact on a programme like HMR, because both types of development were potentially attractive in different ways and would be targeted by different developers for different reasons:

"... the Government obviously wants to encourage more house building and get to the 200,000 a year target or 220,000 depending on what paper you read, but I think an integral part of that is going to be the regeneration of certain areas. Although the land will be released, it is (still) a prime objective to regenerate some of the existing communities ... in major cities and major conurbations across the country, so yes more land is going to come out but I think a significant amount of that will still be in the regeneration areas." (Developer)

³ Barker (2004) *Review of Housing Supply. Delivery Stability: Securing our Future Housing Needs*. HMSO; Barker (2006) *Barker Review of Land Use Planning*. HMSO.

9. Conclusion

Most respondents expressed disappointment about the initial pace of progress in meeting the objective of involving private sector developers closely in planning and delivery from the outset of the HMR programme. They were, however, now more optimistic that a more productive and long-term relationship was now developing.

“There are assumptions, we just haven’t realised them all, because as we said at the beginning we are a bit behind. You know if we were having this conversation in 12/18 months time I would hope to have said yes we can do some analysis around (links with developers) ... I think a lot of it will be around how that leverage will be re-deployed...” (Pathfinder officer)

There are two instances where pathfinders have failed to meet their original target to involve developers within the anticipated timescale. In one case, criticism from the Audit Commission – in its role as a ‘critical friend’ – caused a fundamental rethink of its forward plan. Valuable improvements have now been made and the pathfinder is on track to achieve the objectives set around the leverage of private sector funding for the programme. Another pathfinder (Gateway) was established at a later stage in terms of the need to revise its programme. While this was detrimental in the short term, it offered a possible advantage in the longer term because of the opportunity it presented to learn from all other pathfinders.

“... maybe over the long term it might actually be a benefit, because you are not saying ‘we need to spend money, we need to badge it up, we need the early wins’ ... and you are starting to create something that is right for the programme; maybe because we are designing from scratch, we are designing right ...” (Pathfinder officer)

Learning from other pathfinders was cited by others as a key to future improvement

“I look at it a bit like the Grand National really. You know, we’re not at the front but people are going over all these great big fences, some are falling off, why would they fall off, what we can learn from that, and then really have a look at the experiences of some of the developers will be the same as here as elsewhere, how well are they really investing in terms of not just the physical stuff, but the communities that are there. So I think that is the calmer thing, the advantage of coming second, you learn from other people.”

Despite these positive signs, many respondents expressed, in different ways, their concerns that the underlying objectives of pathfinders and local authorities, on one hand, and developers, on the other would inevitably be in tension, if not in overt conflict.

“I think there are issues between the developers and the local authorities and it’s mainly about planning and there re issue between the developers and the RSLs – the developers think the RSLs expect them to give them the world and they were going to profit and all that sort of things but I think that’s anywhere – I think it’s probably as good as it can be – those relationships are always

going to be quite fractious because people have got very different agendas.”
(Pathfinder officer)

While the involvement of developers in the HMR programme is essential to ensure the successful delivery of the programme, the extent to which they can be encouraged to lift their gaze from the immediate imperatives of profit and loss to wider social and environmental concerns is likely to vary. The key factors here are the experience (and self-confidence) of the pathfinder and its constituent local authorities in handling developers and leading them through the complex funding, legal and consultation maze of large scale remodelling schemes, and the tightness of the wider housing market. As a respondent from one of the pathfinders closer than many to a bullish housing market put it:

“I think it is about working with them, I think it is about pushing them, it’s accepting the fact that they are there, it is a commercial enterprise they have to make a profit and all the rest of it, but as long as you recognise that you just have got to make sure you stand firm and you don’t accept second best.”
(Pathfinder officer)

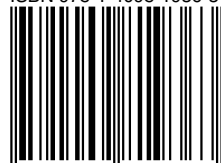
Others in less favourable circumstances felt less able to force developers down a particular path and relied more on hope than sanctions to influence their involvement in the ‘housing plus’ elements of HMR.

“I think [the private sector developers are] absolutely fundamental and we are trying to find ways of exploiting their interest as much as possible, not just in terms of physical build but in terms of making contributions to the social economic aspect side which is vital.” (Pathfinder officer)

While issues such as capacity, clarity over future funding, the development of a relationship of mutual trust, the direction of housing market trends and the local structure of the development industry are all important factors, the crucial determinant is likely to remain the range of options open to developers to work elsewhere, in more ‘straightforward’ contexts than HMR. Where these are restricted, and overall housing demand stays relatively strong, the freshly minted relationship between HMR teams and key developer partners is more likely to endure.

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