

Meeting:	BNG Board
Date:	18 September 2008
Contact:	Anne Mulroy
Board Action:	For Discussion
Sensitivity:	Public

Subject: Item 7 – BNG 2008-11 Market Conditions and the Investment Programme

Link to BNG Vision and Objectives:

The paper considers maintaining of the Vision and Objectives in current market conditions.

Recommendation:

Board consider the report as an update on the current market situation and adjustments to the programme.

Executive Summary:

This report outlines the current issues facing BNG with regard to the credit crunch and their implications for the investment programme.

Implications	
Financial:	} The impact of the current market conditions on BNG programme delivery could be to undermine the Vision and Objectives of the programme.
Equality:	
Sustainability:	
Freedom of Information:	
Report Status:	Public

Risk:			
Risk Map Element	Brief description of any material risks, including of not proceeding.	Impact	Probability
Strategic:	Continuous monitoring of the market and response to developers and lenders is essential to manage the risk to 2008/11 programme.		
Financial:			
Development:			
Operational:		H	
Reputational:			

Report to: BNG Board

Subject: Item 7 – BNG 2008-11 Market Conditions and the Investment Programme

1. Purpose of this Report

This report outlines the current issues facing BNG with regard to the Credit Crunch and their implications for the Investment Programme.

2. Introduction

BNG's overall vision for the Pathfinder area is still the same – to create great places to live through providing better housing options that support the development of mixed income and tenure communities.

We are looking at how to keep major schemes moving/starting; this is involving discussion at a strategic, NewcastleGateshead level as well as on a site by site basis. Together with the Local Authorities, Housing Corporation, ALMOs, lenders and developers we aim to identify solutions for our priority sites. Our research on 'Practical Solutions to Improving Housing Options and Affordability' is central to coming up with some answers, that we can then consider for different sites and circumstances – initial thoughts include rent to buy, rent to deposit, equity deposits as well as tenure diversification within existing estates through Improve for Sale, which although to date has been on a small scale, has proved popular with residents from all ethnicities.

The outcome is likely to be a focus on ensuring the delivery of new homes/housing options and tenure diversification in our priority areas/sites and the possible postponement of sites which are less strategically significant until the market is more confident. Rather than full re-negotiation, there is likely to be joint-working to still deliver new homes in places like Walker, but perhaps take advantage of the opportunity to provide new products that meet peoples' needs and pockets. Other key sites such as the Scotswood Expo and Gateshead sites which are to be pulled together in a Special Purpose Vehicle, are still being/to be agreed – the former being part of Newcastle's pilot Local Housing Company and where BNG will act as an investor, rather than issuer of grant, thus looking to the longer term and helping to deal with fluctuations in the market.

There is a real challenge for BNG and its partners to avoid unsustainable and knee jerk reactions to the current situation, retain the focus on places and adapt the programme to ensure that the vision can be delivered in the longer term. Some compromise is inevitable but the long term outcome for our places will need to be maintained.

3. Current Issues

We are currently working with our partners to maintain our understanding of a rapidly changing situation and to understand the impact this has on activity. There are two different levels; firstly our places, how can we continue in the short and medium term. Secondly, people – people need assistance in accessing affordable housing and we

need to maintain trust with our communities. We are continuing to work with developers and lenders to understand their issues and experience of the current market, both within BNG and the wider market. Together with our Local Authorities we have reviewed each of our current new build schemes and are reviewing with developers the best way to continue development on sites and develop options which maintain the mix of tenure options and still enable individuals to access the property market.

It appears that developers are still seeing an underlying demand for new homes and individuals are still reserving properties but they, or someone in their chain are unable to secure a mortgage.

- This is a particular issue for first time buyers who are needing to find up to 25% of the value of the home as a deposit – even in relatively affordable areas in BNG, this requires £10,000.
- In some of our schemes about one third of interested applicants have failed to secure a mortgage.

Developers are themselves coming up with products to help sell their stock – this includes shared equity with no rental element and 10 years to buy the outstanding shares.

- This results in Shared Ownership products presenting poor value for money and this sector is particularly affected.
- However, in HMR areas, rather than these homes be switched to social rent (when we already have 73% social rent in that area), alternatives such as rent to buy, or rent to deposit etc would provide better alternatives, securing more mixed income communities ahead of a corresponding shift in tenure.

The 'tradition' of saving for a deposit has weakened over the last 10 years or so; with so much credit available and student loans, the generation coming through that would have been owners in the past, are not used to saving – we need to develop housing options for this group that may not qualify for, or want to rent a home from a social landlord.

Linked to this, is an increasing private rented sector – this needs to be managed more formally than at present – and prices are rising substantially, perhaps resulting in a need for more intermediate rental options.

As well as first time buyers, marginal existing owners are also at risk in the current market, although discussions with lenders locally suggest that possessions and the need for mortgage rescue is at much lower levels than in the 1990s, the Councils/ALMOs have had a significant number of Right to Buy purchasers approach them to buy back their home.

Discussions with the major lenders on their position have been held by Newcastle City Council and work has been done to analyse with different lenders two case studies within the BNG area and the reactions of these lenders to their future or continued funding of mortgage products on these schemes. In general lenders in the current climate are risk averse and potentially see some of BNG schemes as risky.

3. Opportunities

There are a number of investment opportunities that the current economic climate presents for the BNG investment programme, on the basis of maintaining our current spatial and strategic focus:

Opportunity	Upside	Downside
Accelerate spend already in programme from future years	Reduces pressure on future years allocations and maintains strategic focus on agreed priorities	Does not assist the market in continuing new build activity
Accelerated site assembly	Gives greater control when market returns	Does not assist the market in continuing new build activity
Enhanced site assembly	Gives greater certainty when market returns	Does not assist the market in continuing new build activity
More refurbishment activity	Will deliver an agreed priority	Subject to capacity and does not assist the market in continuing new build activity
Increased innovation projects	Raises BNG profile and standards	Need to maintain programme 'balance'
Diversification of existing social stock through conversion	Delivers strategic priorities	Dependant on appetite of social and RSL partners
Face lifting of 'stopped' new build sites	Maintains confidence and prevents blight	Does not deliver any core outputs

Sustaining New Build Development

Opportunity	Upside	Downside
Invest in strategic commission areas outside the current investment plan	Provides new build numbers	Not a spatial priority in 2008-11 business plan
Develop Equity Deposit Product	Allows first time buyers to enter home ownership on BNG developments	May take time to develop and needs considering alongside Housing options Research.

These opportunities have been considered by the Appraisal Panel and adjustments to the programme have been made to increase the level of overprogramming to a more appropriate level to manage risk in the current conditions and maintain the momentum of the programme.

In particular increased investment in Walker Riverside to bring forward demolitions and enhance site preparation works, increased investment in Land Assembly at Bensham and Saltwell and site works at Loadman Street, Elswick to produce a readily developable site.

Project Appraisal Panel also agreed amendments to the appraisal process to give increased confidence to partners on specific projects for the programme 2008/11 (subject to gateway reviews) to give certainty over the three year period and speed up local delivery of projects to ensure targets are met.

4. **Wider Issues**

In addition to managing with our partners the local effects of the downturn and maintaining our programme, the Pathfinders have also contributed to the research of Professor Michael Parkinson on the impact of the credit crunch on regeneration. This report was commissioned by John Healey at the Treasury and will be completed by the end of October.

At a meeting with Professor Parkinson on 11 September the main messages which Pathfinder Directors sought to include in the report were:-

- the need for strong leadership and confidence by the Government and other public agencies
- Pathfinders as a ready-made vehicle for driving the Government / HCA agenda out of the credit crunch, particularly where the essential links between the economy and housing had been made
- the need to protect and enhance previous investment
- don't panic! - there should be no unsustainable 'easy wins' (e.g. RSL purchases, unjustified gap funding, etc)
- credit crunch as an opportunity (e.g. to assemble sites ready for future development when the upturn arrives)

5. **Conclusions**

We are continuing to develop responses to the current economic downturn at a local level:

- together with the Local Authorities to identify issues and opportunities, consulting with a whole range of partners;
- keeping our investment programme under review and adjusting the programme to continue to achieve targets and maintain our longer term vision;
- contributing to current thinking and research at a local and national level.