

THE CREDIT CRUNCH, RECESSION AND THE NORTH: WHAT'S HAPPENING, WHAT'S WORKING, WHAT'S NEXT?

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6 questions

1. Where were we in 2009?
2. How story unfolded nationally & in North?
3. What impact on North?
4. What's the mood in North?
5. What people doing - what's working?
6. Balance sheet - what's next for North?

Mood music 1 year on

- Both better and worse
- North hit hardest
- Half way up the hill
- 'So far, hard but not disastrous.'
- Public sector recession to choke potential private sector recovery?
- Private want public sector support

Must Recognise

Northern ask - and offer

- Achievements North past decade
- Potential economic regeneration
- Risks cut commitment, expenditure intervention too soon
- Not waste investment & potential
- But need economic regeneration strategy & investment plan

1. WHERE WERE WE IN 2009?

Who Most Affected?

- Better some places & projects
- But serious all over
- Flight quality – projects, partners, places
- Residential very difficult
- Mixed use, retail, offices, industrial less bad – so far!

Projects Most Affected

- Started probably finish if not may not
- Mixed use led by residential
- Residential less prosperous places
- Developer financially stretched
- Area over supplied

Projects Less Affected

- Financially strong developers
- Projects money in place pre crunch
- Pre-lets
- Area not over provided
- RSL projects
- Public sector projects

Places Affected

- Nowhere immune - not homogenous
- Marginal places, projects, people worse
- Sooner, deeper, longer
- London & SE development better protected - so far
- But service jobs vulnerable future

Places Affected

- North and Midlands tougher
- Big cities - better protected where more robust economy
- One horse towns – most vulnerable
- Public sector employment may help
- Local authorities capital receipts
- Hidden social consequences growing

Future Risks

- Pipeline critical
- Loss momentum, confidence, investment, capacity, skills
- Projects mothballed or abandoned
- Pressure reduce quality
- Reduce renegotiate Section 106
- Mixed communities or segregation?
- Upturn critical

What Principles

- Long not short term commitment
- Protect marginal places, projects people
- Brave leadership difficult times
- Financial innovation
- Work more partnership
- Increase flexibility planning system
- Keep wheels turning
- Commit to quality
- Retain capacity & skills
- Prepare for upturn

2. HOW STORY UNFOLDED – NATIONALLY AND IN NORTH

How Story Unfolded Since?

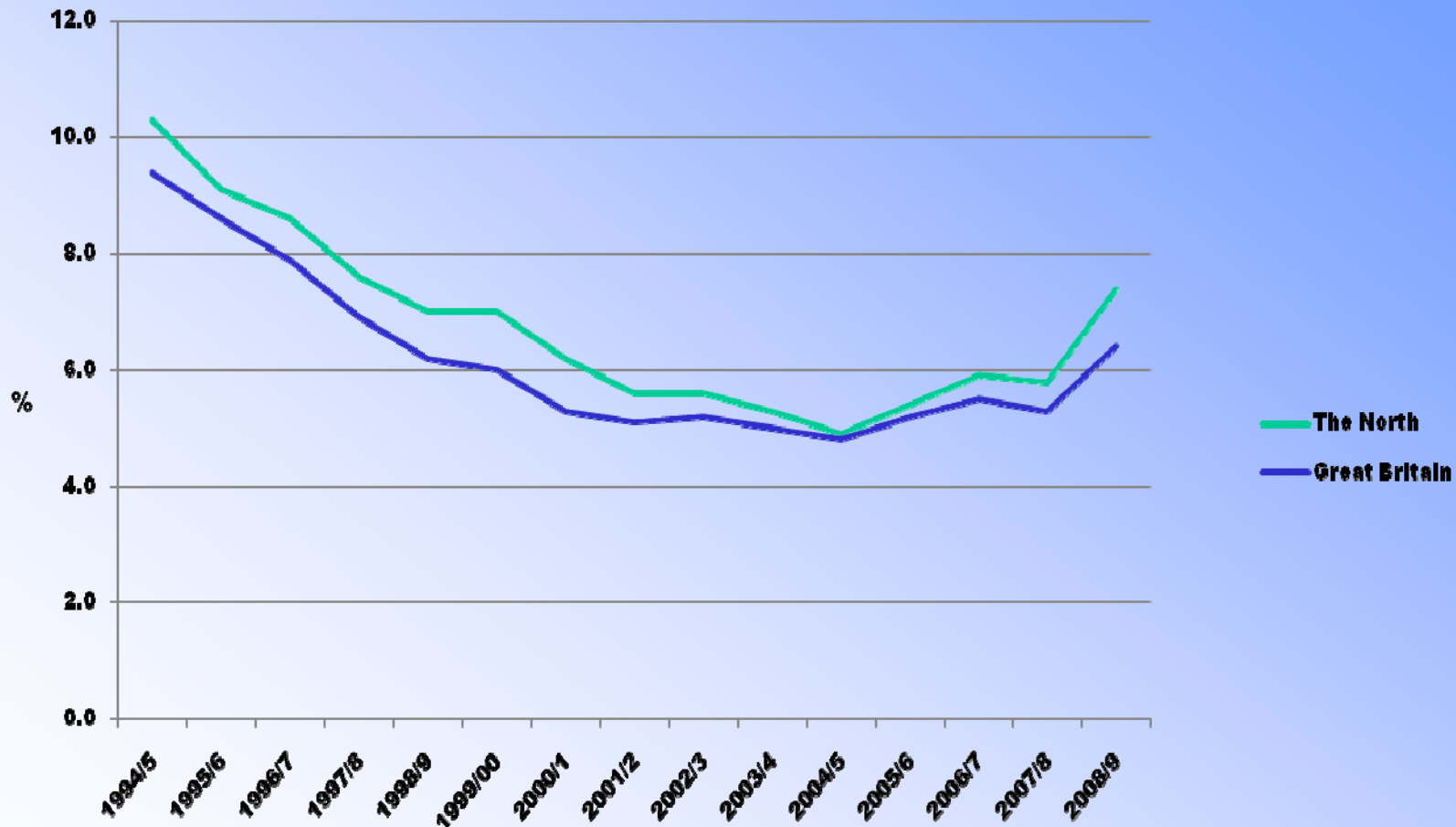
- What happening national economy?
- What impact public finances?
- What impact regeneration?
- What impact North?

Answer

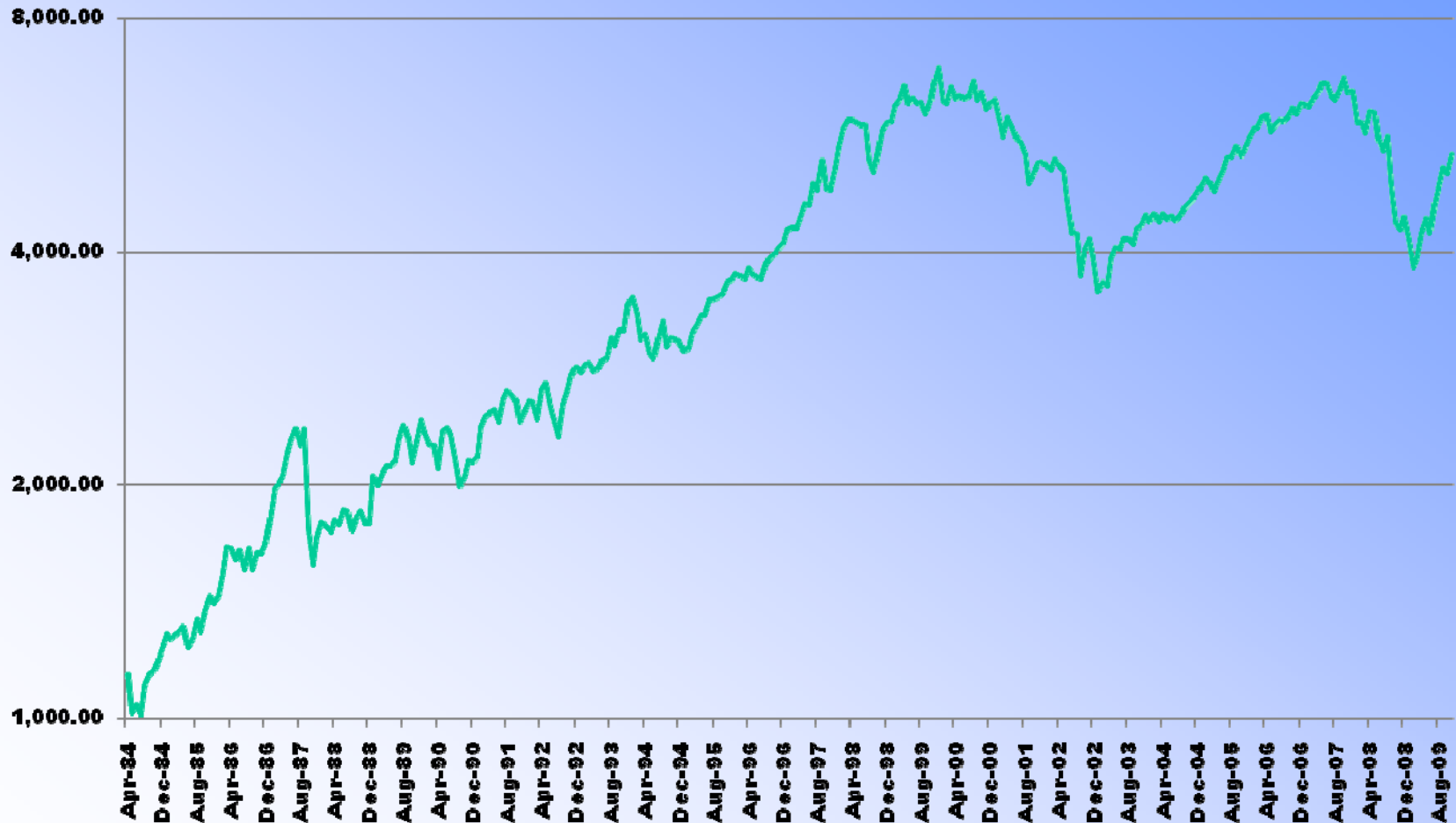
- Difficult and worsening

National Economy & Public Finances

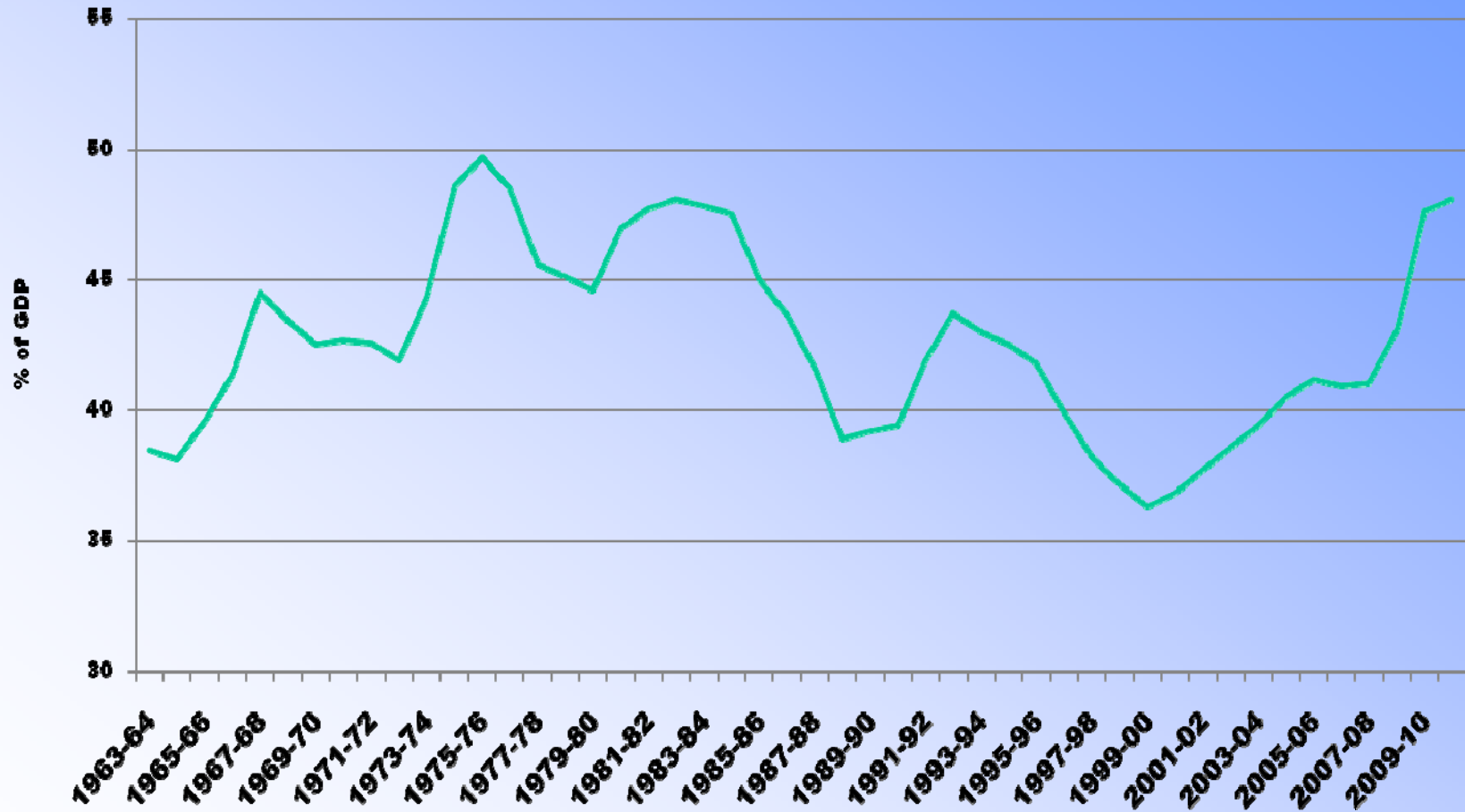
Unemployment Rate 1994-09



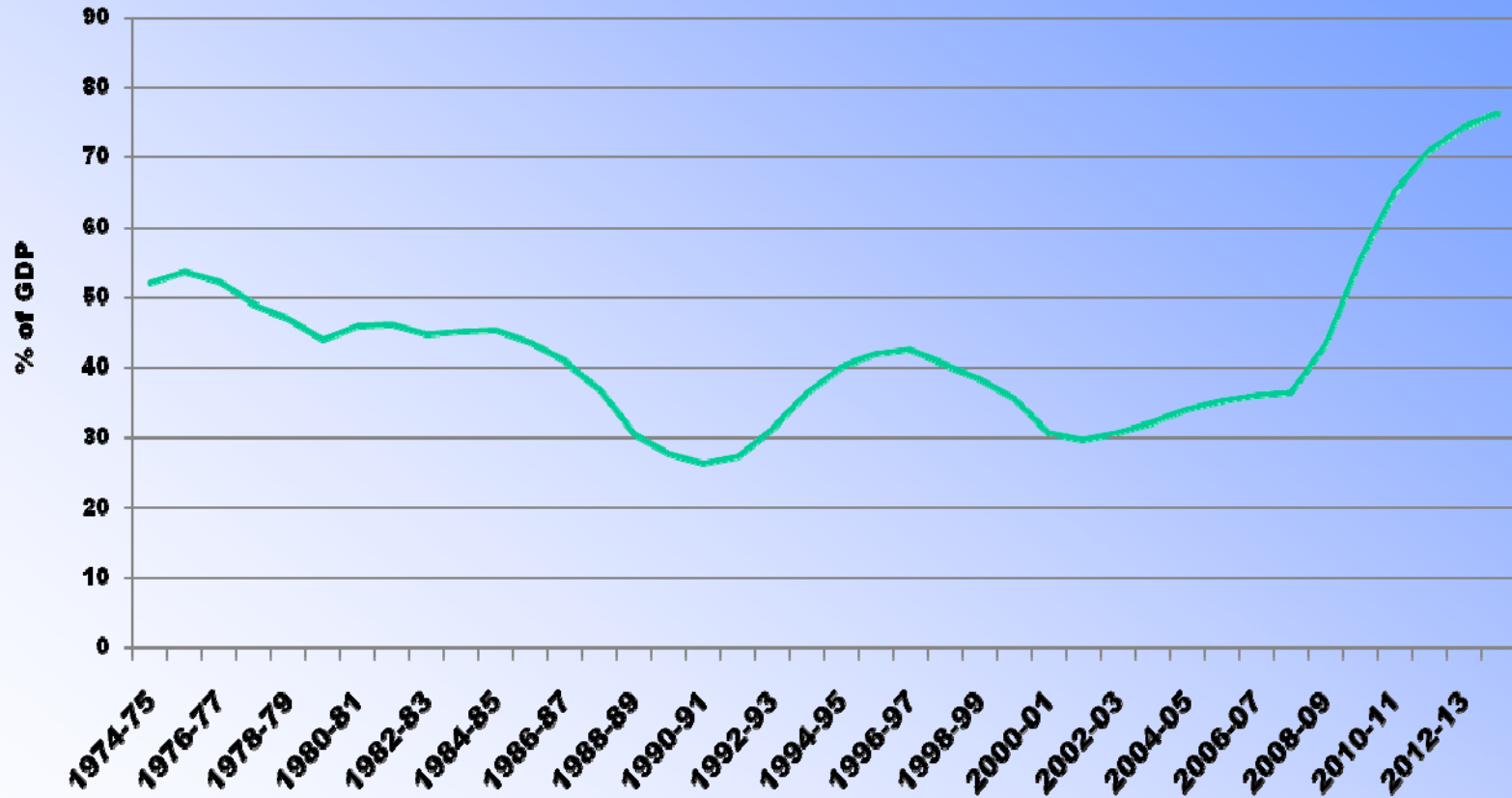
Stock Market Volatility, Fragility 1984-09



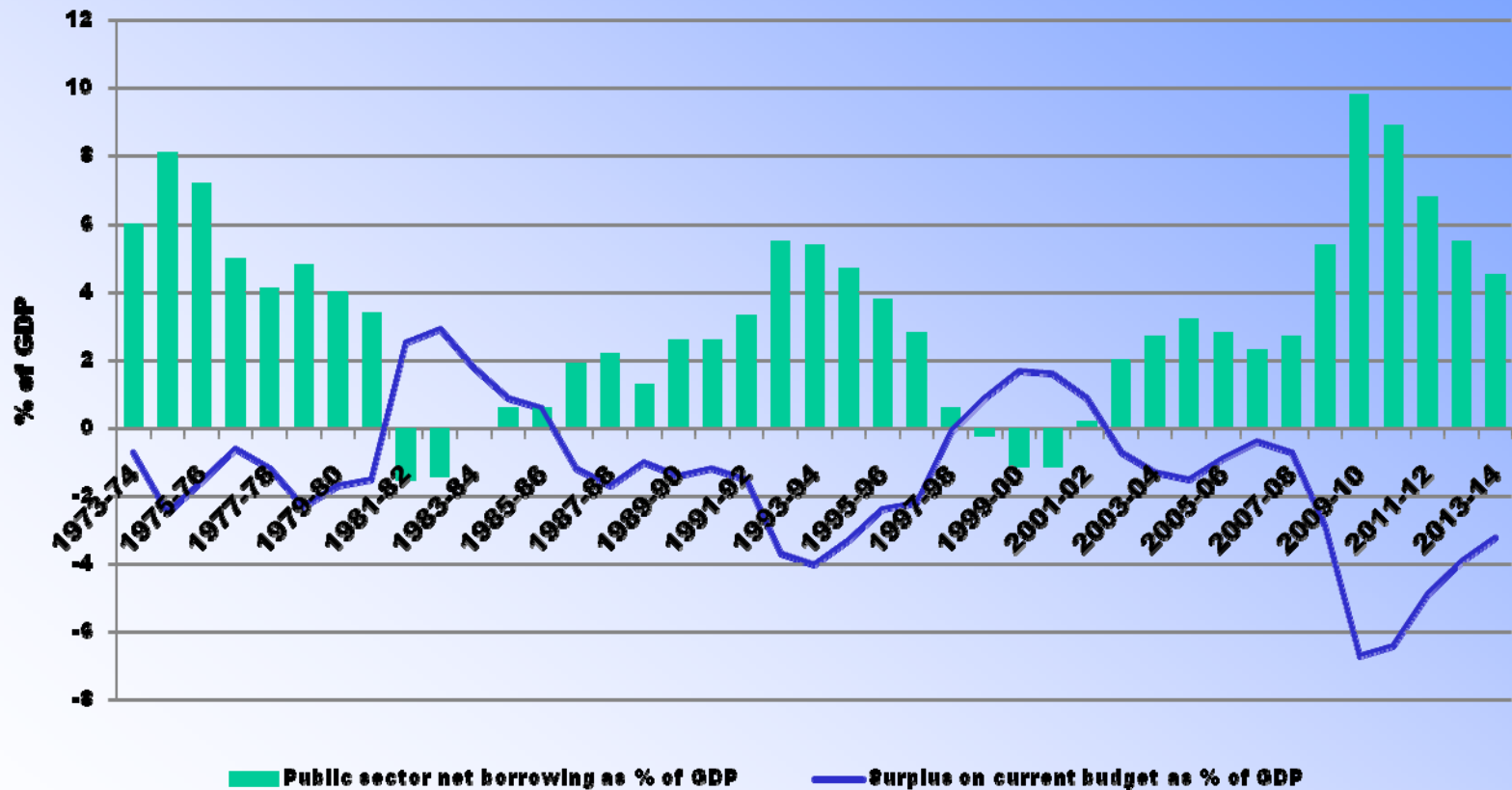
Public Spend % GDP 1963-2010



Public Sector Debt % GDP 1974-2012

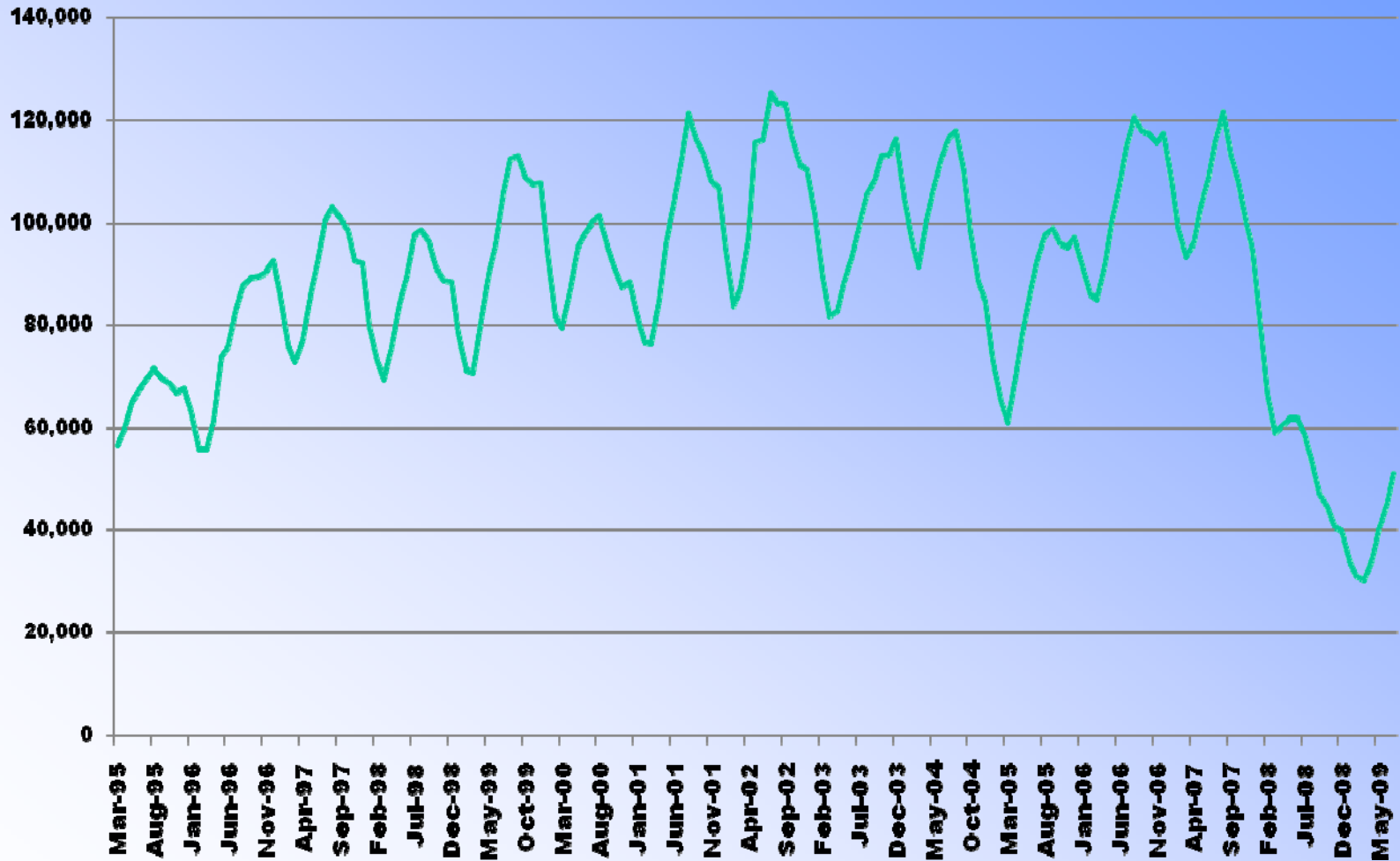


Budget Balances % GDP 1973-2014

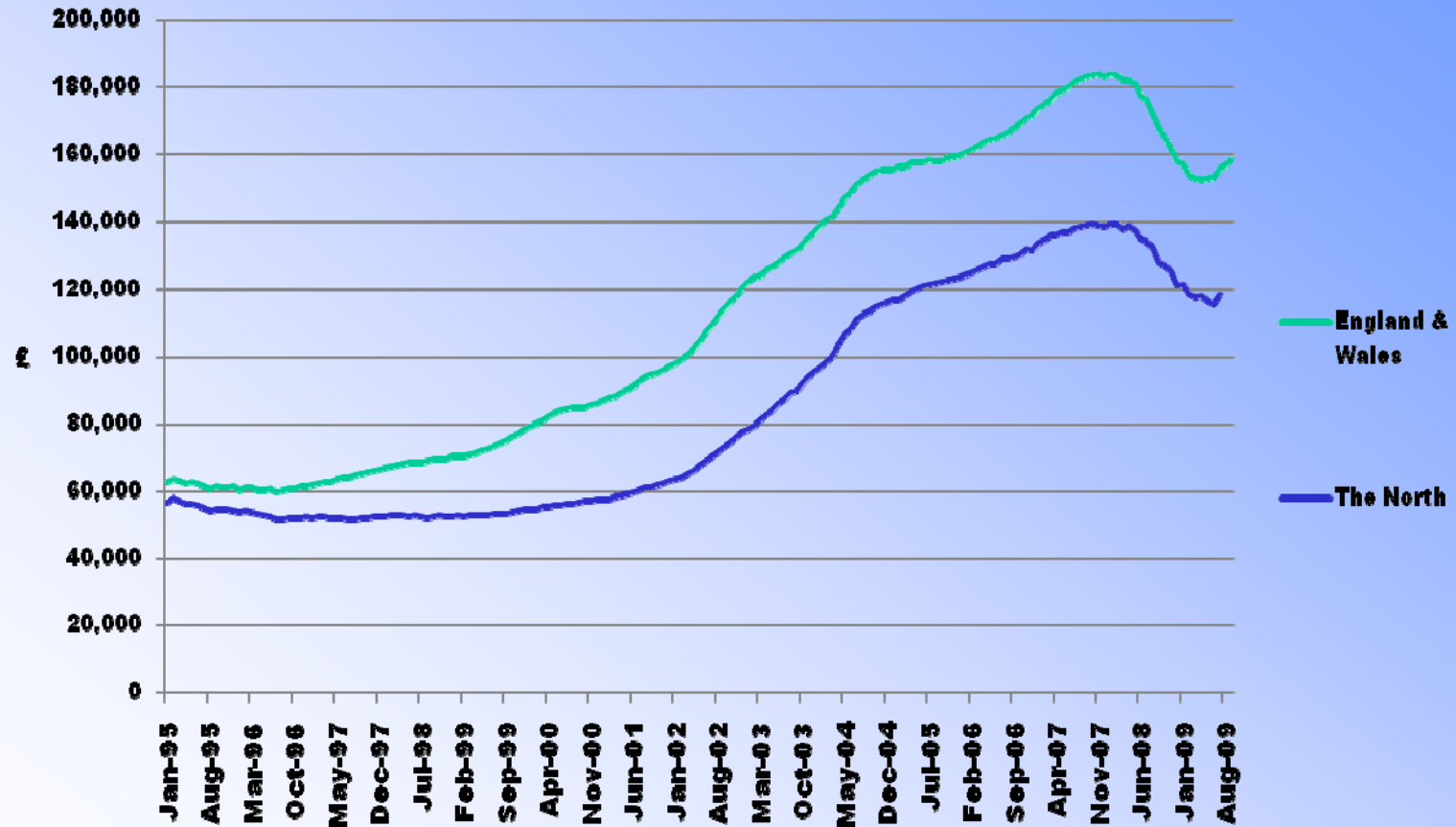


Impact on Regeneration

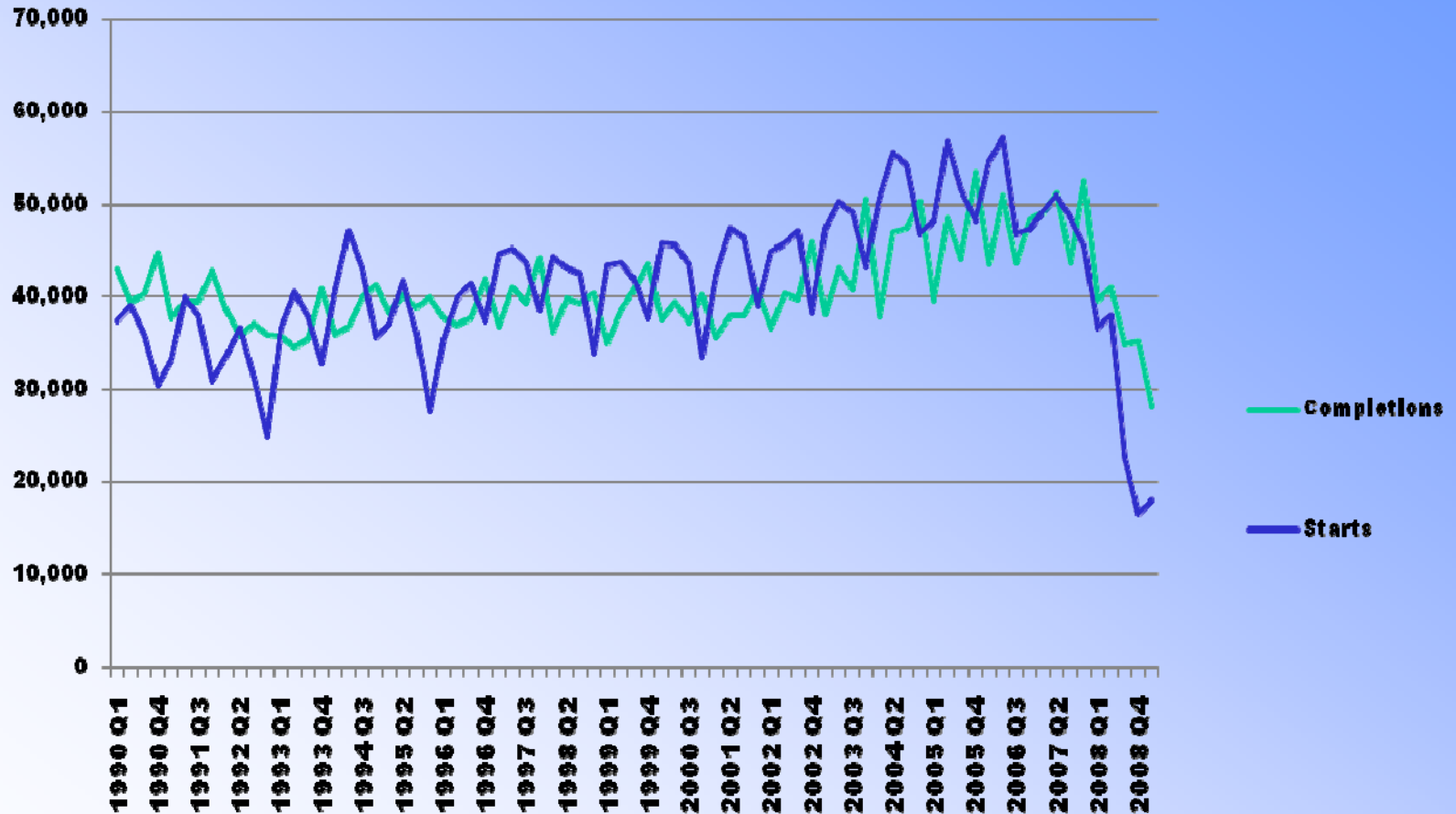
House Sales UK



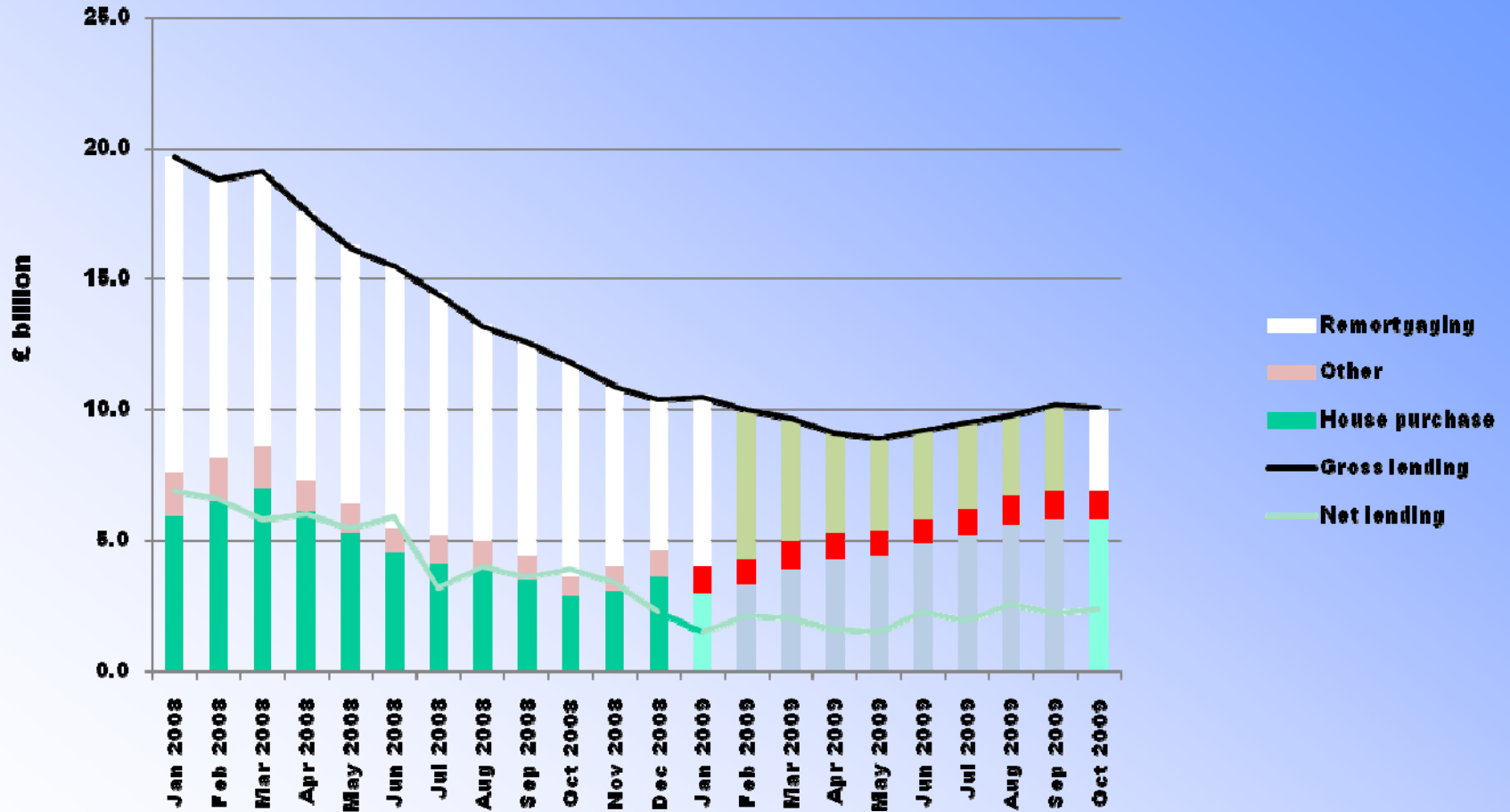
House Prices 1995-09



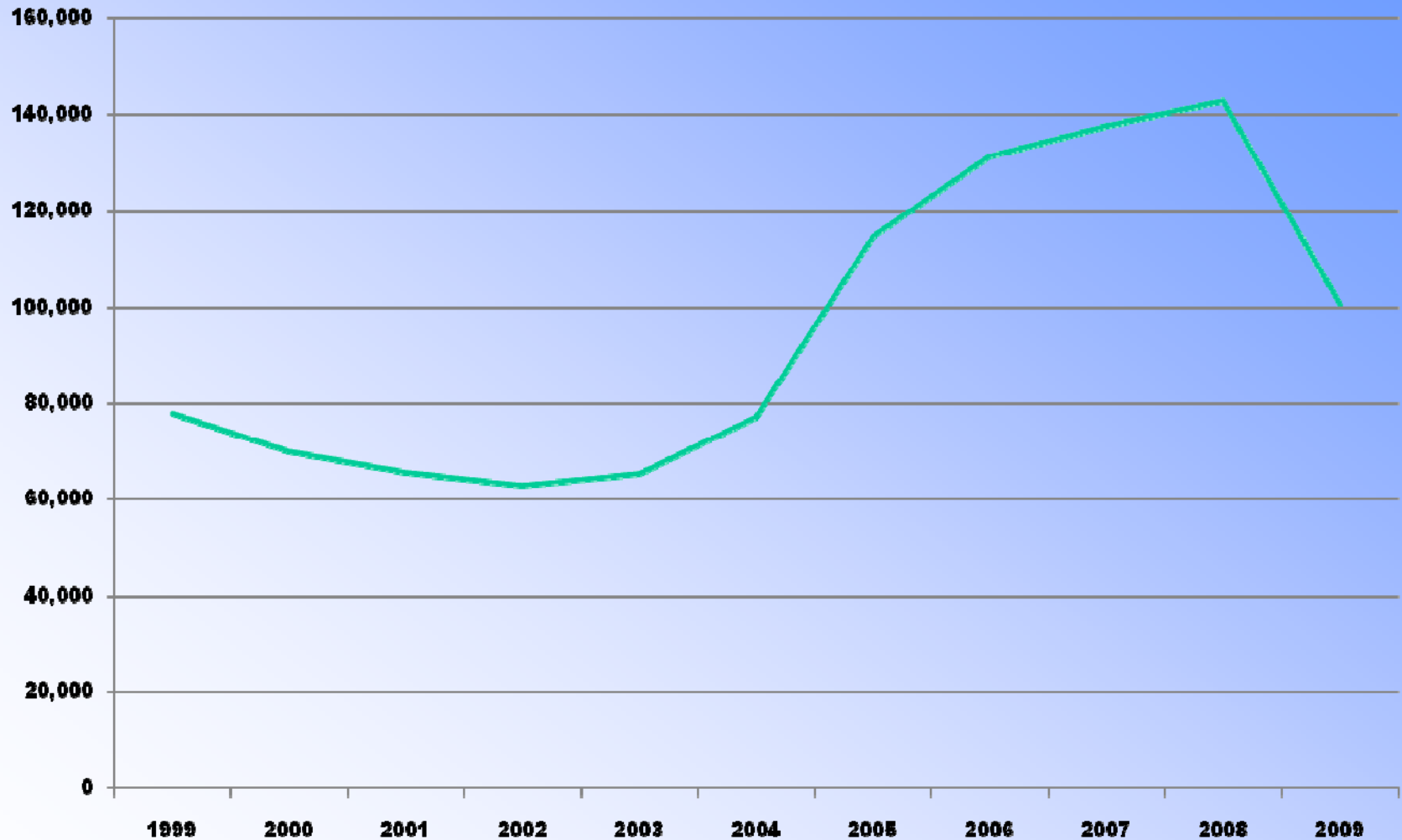
House Starts Completions 1990-08



Mortgage Lending 2008-9

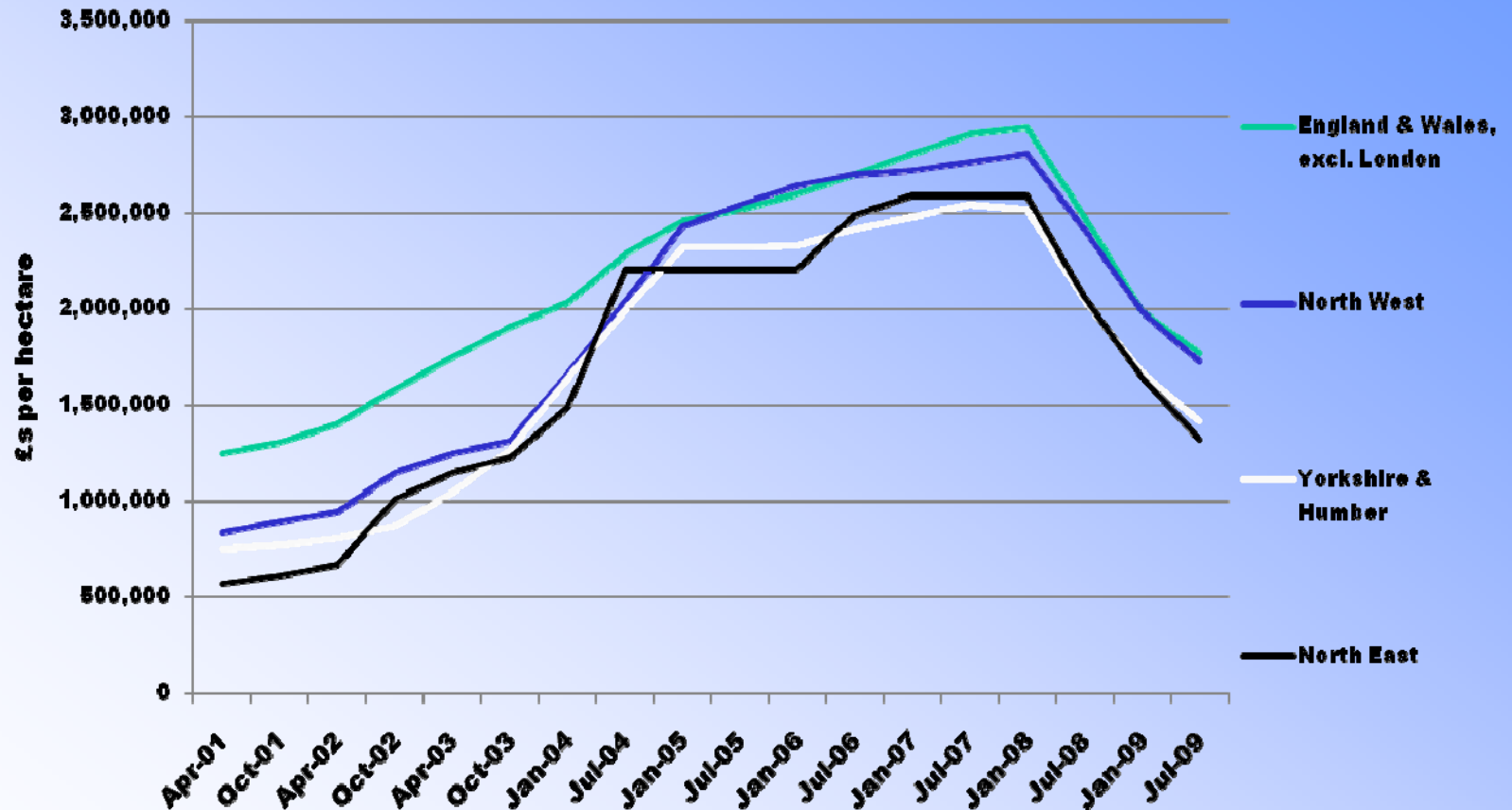


Mortgage Possession Claims

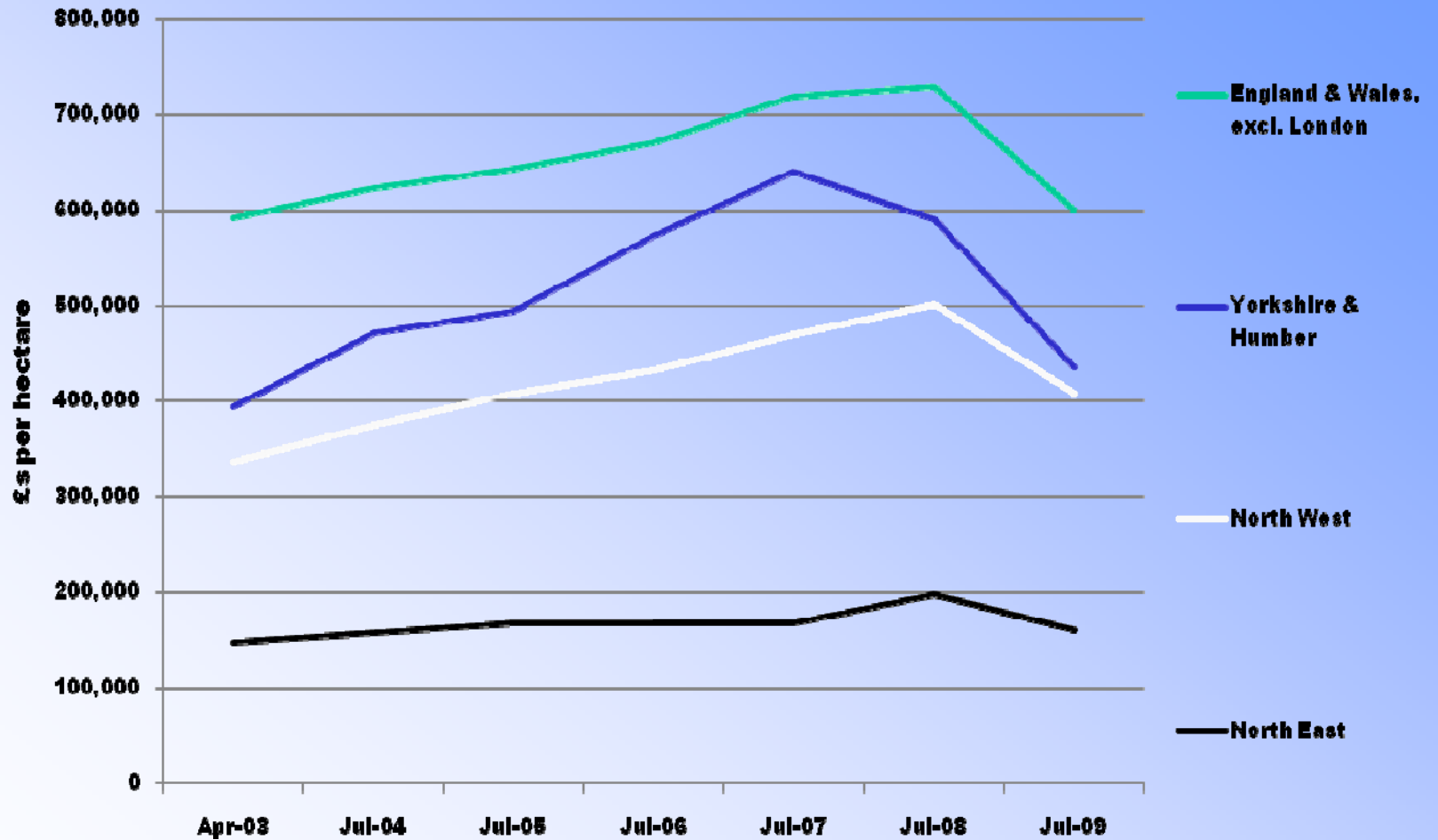


Impact North

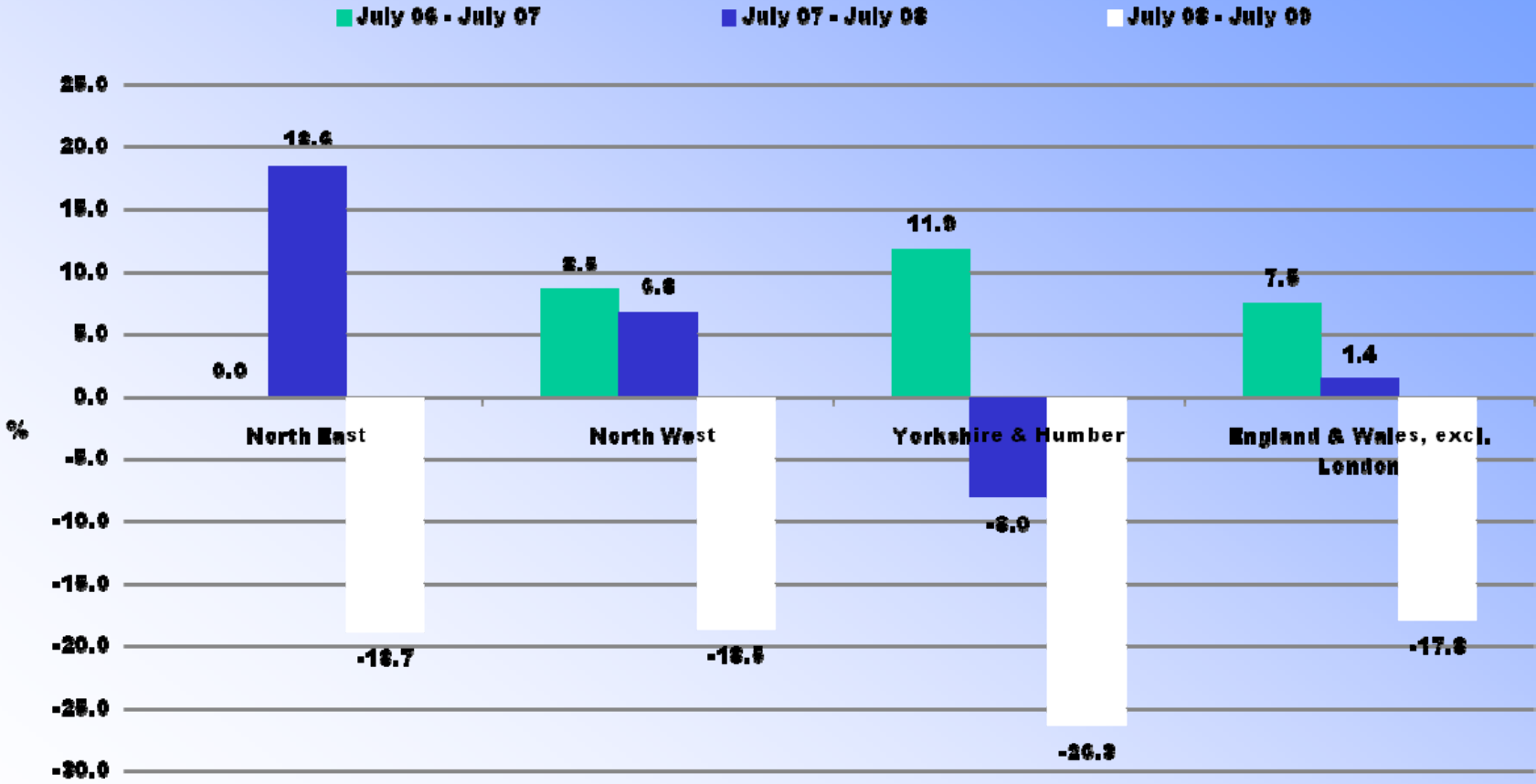
Price Residential Land



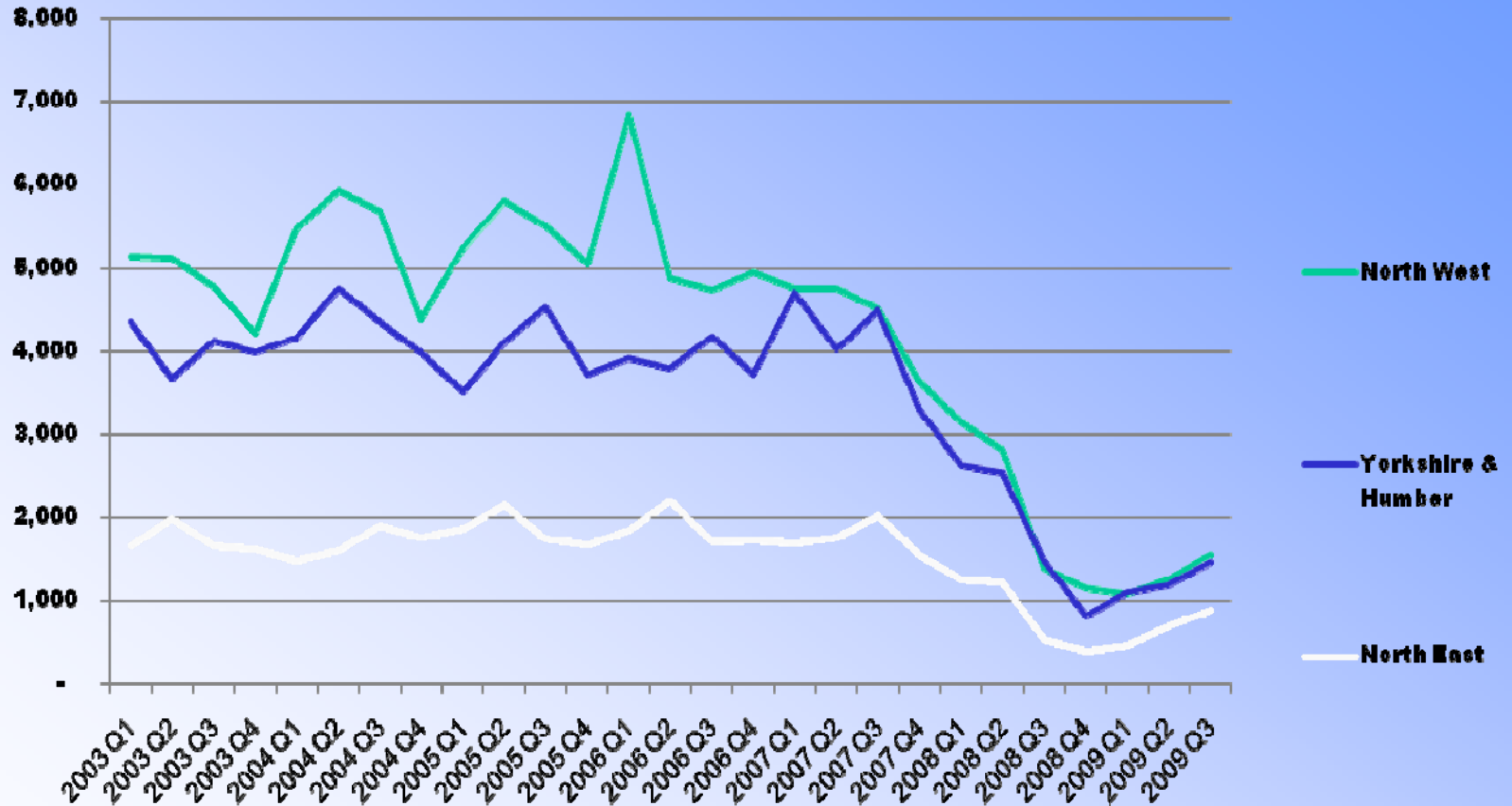
Price Industrial Land 2003-09



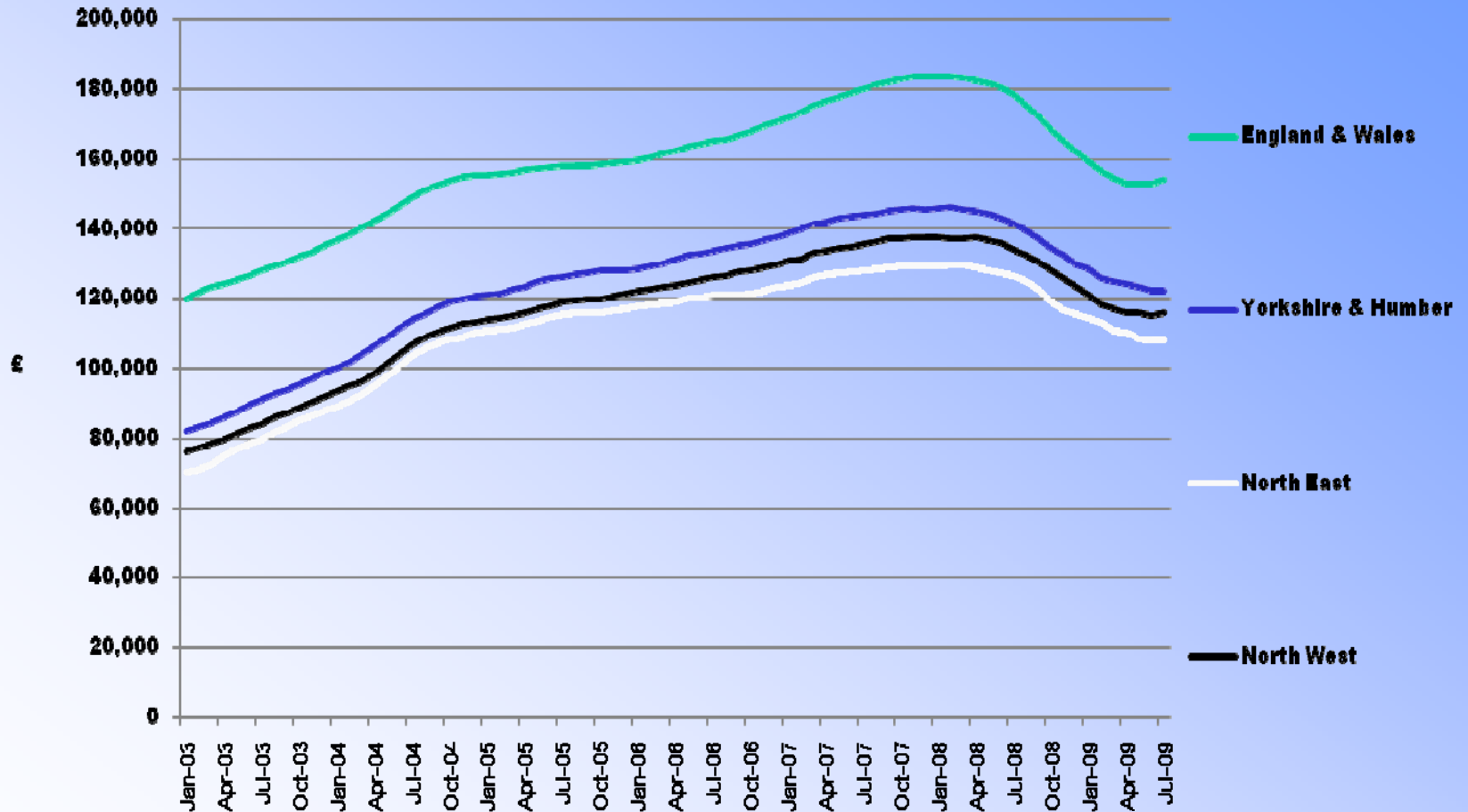
% Change Industrial Land Prices 2006-09



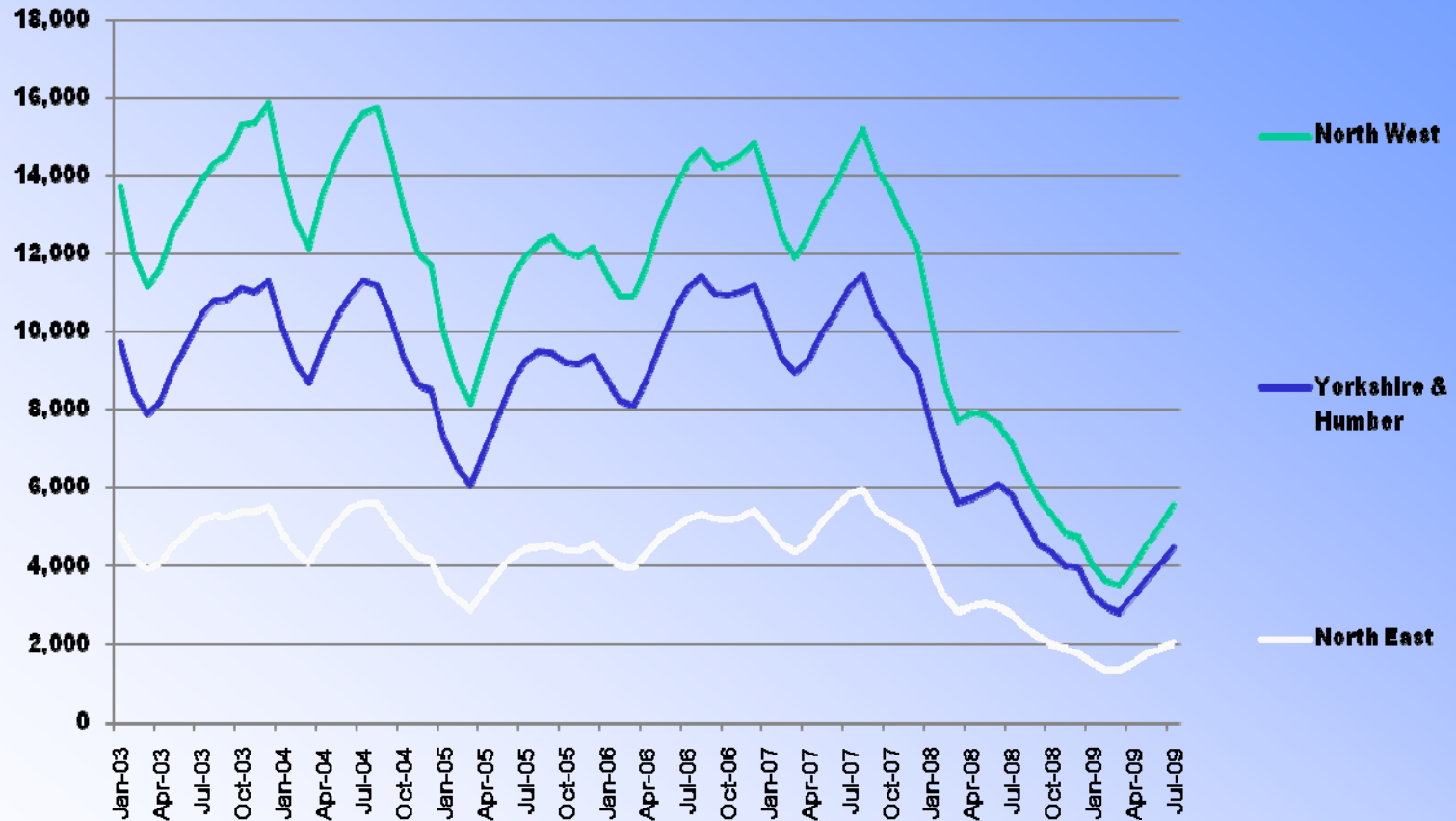
Private Sector Housing Starts



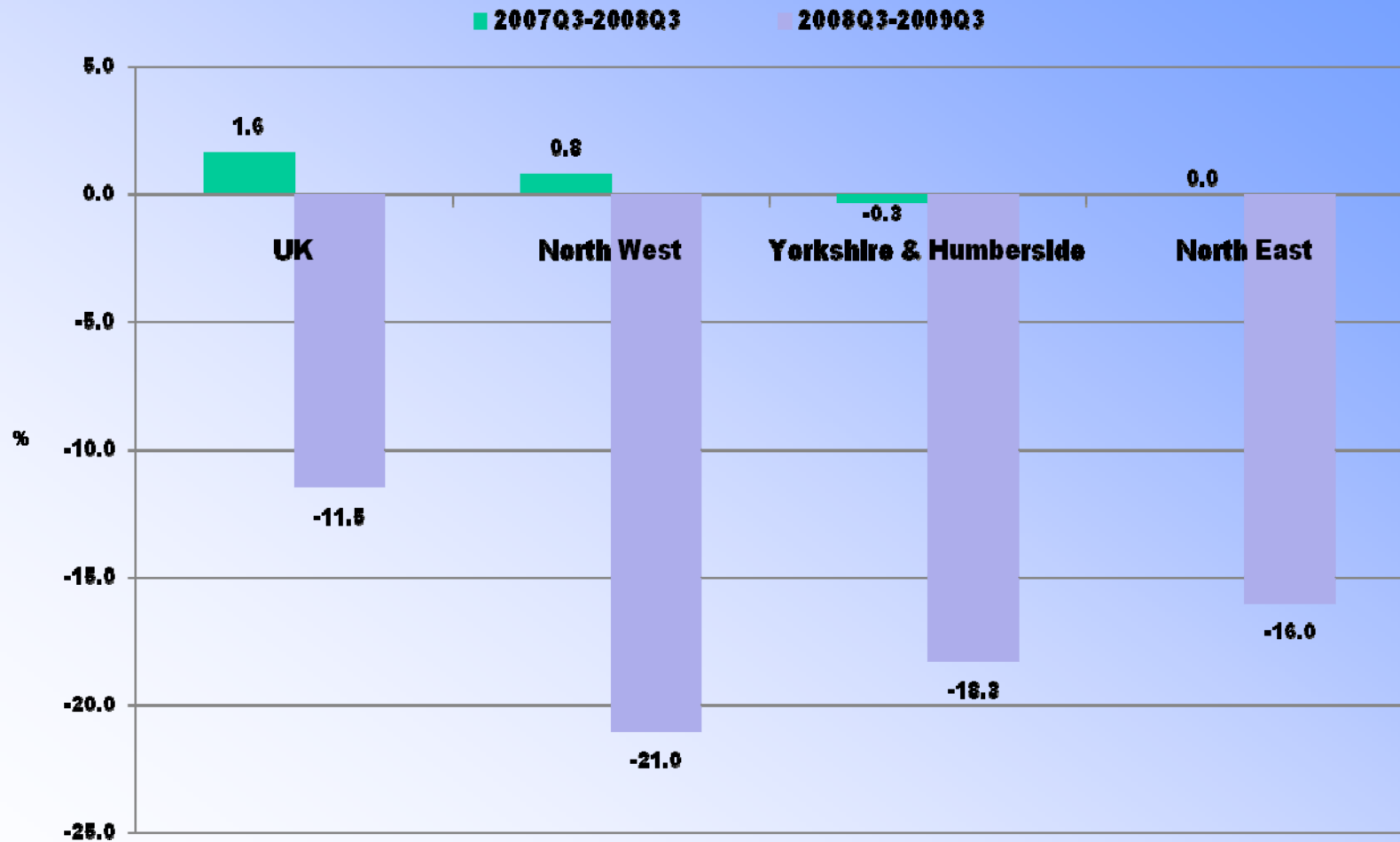
House Prices



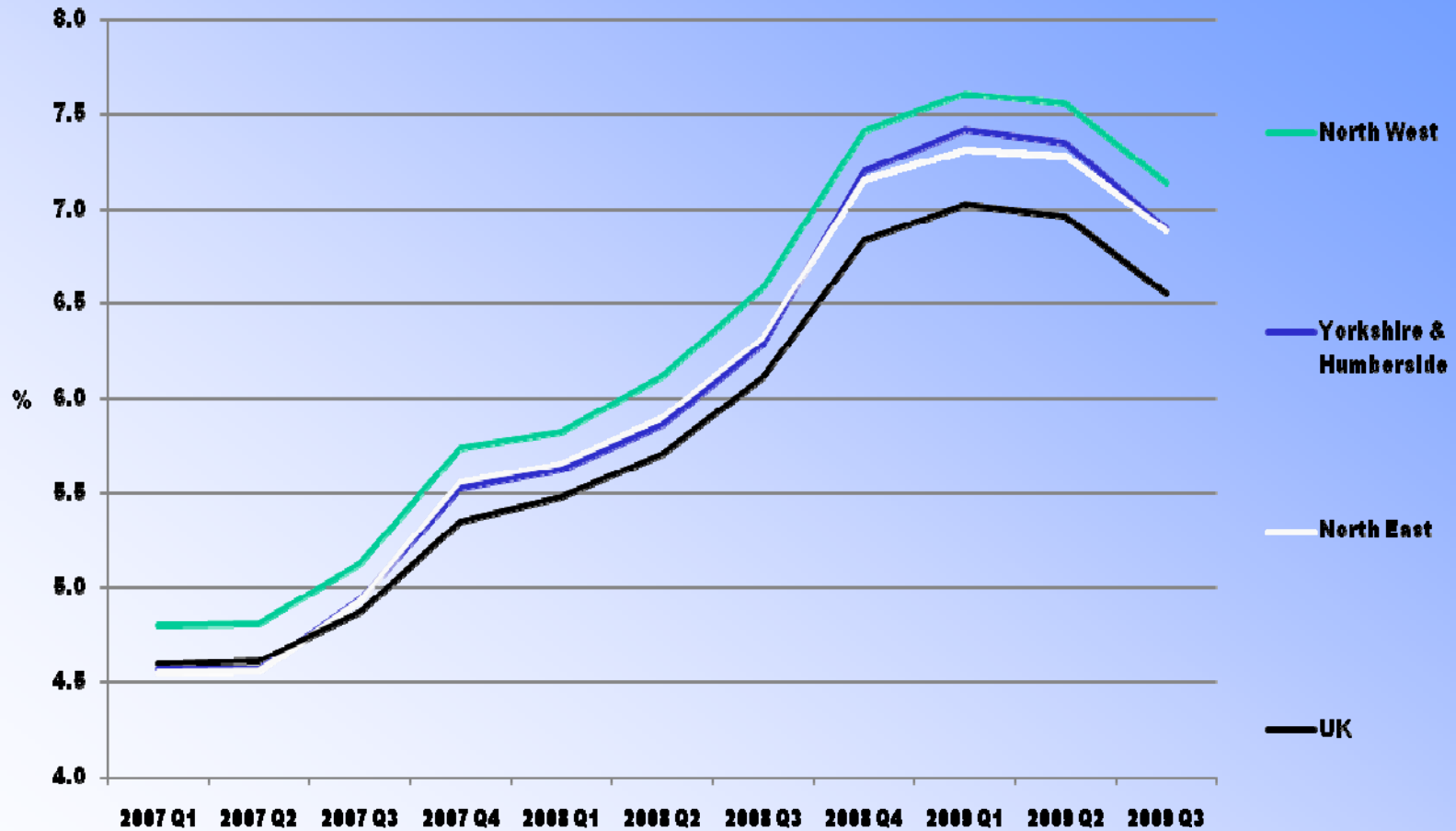
House Sales



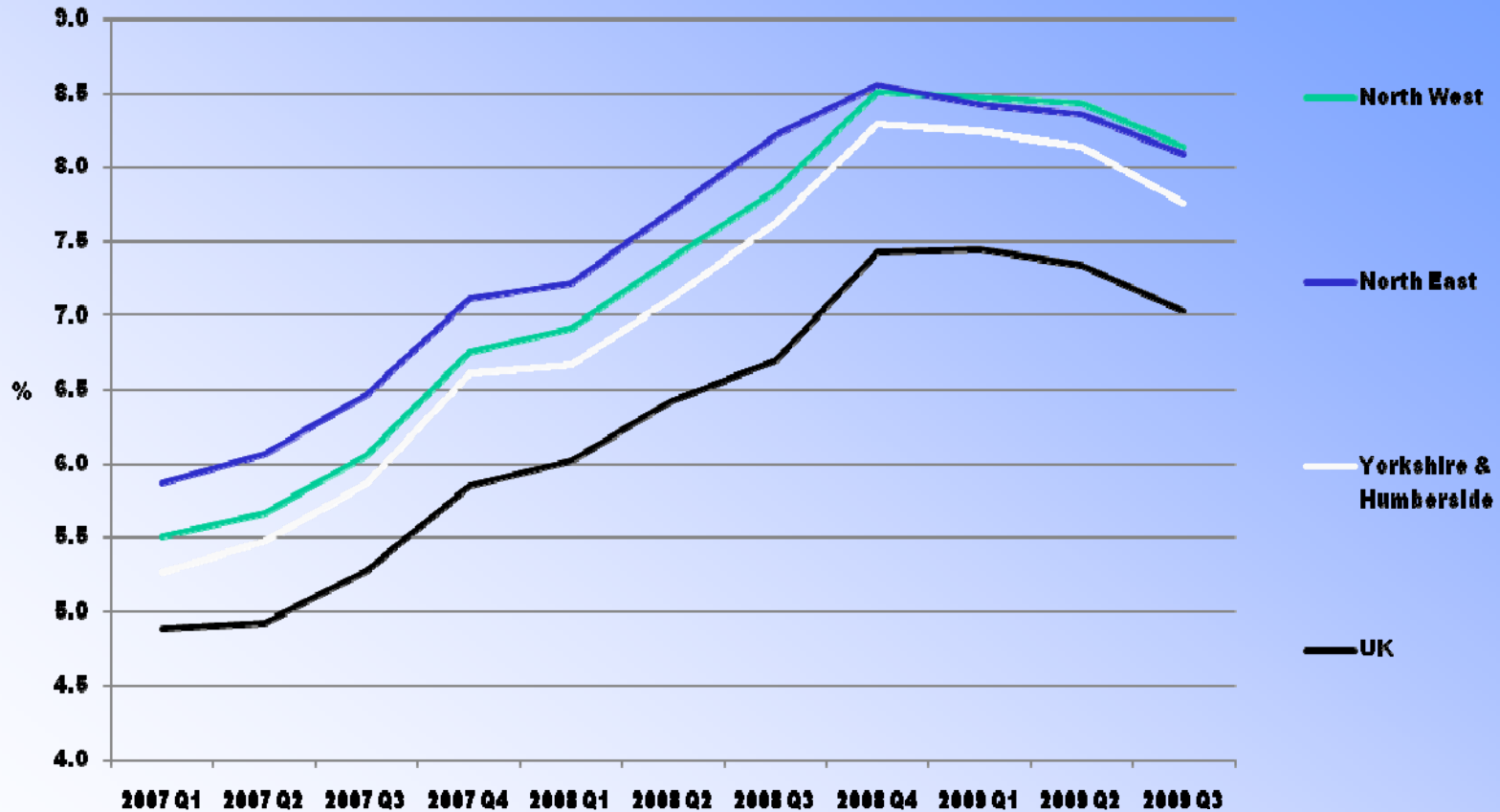
Retail Prime Rents 2007-09



Retail Prime Yields 2007-09



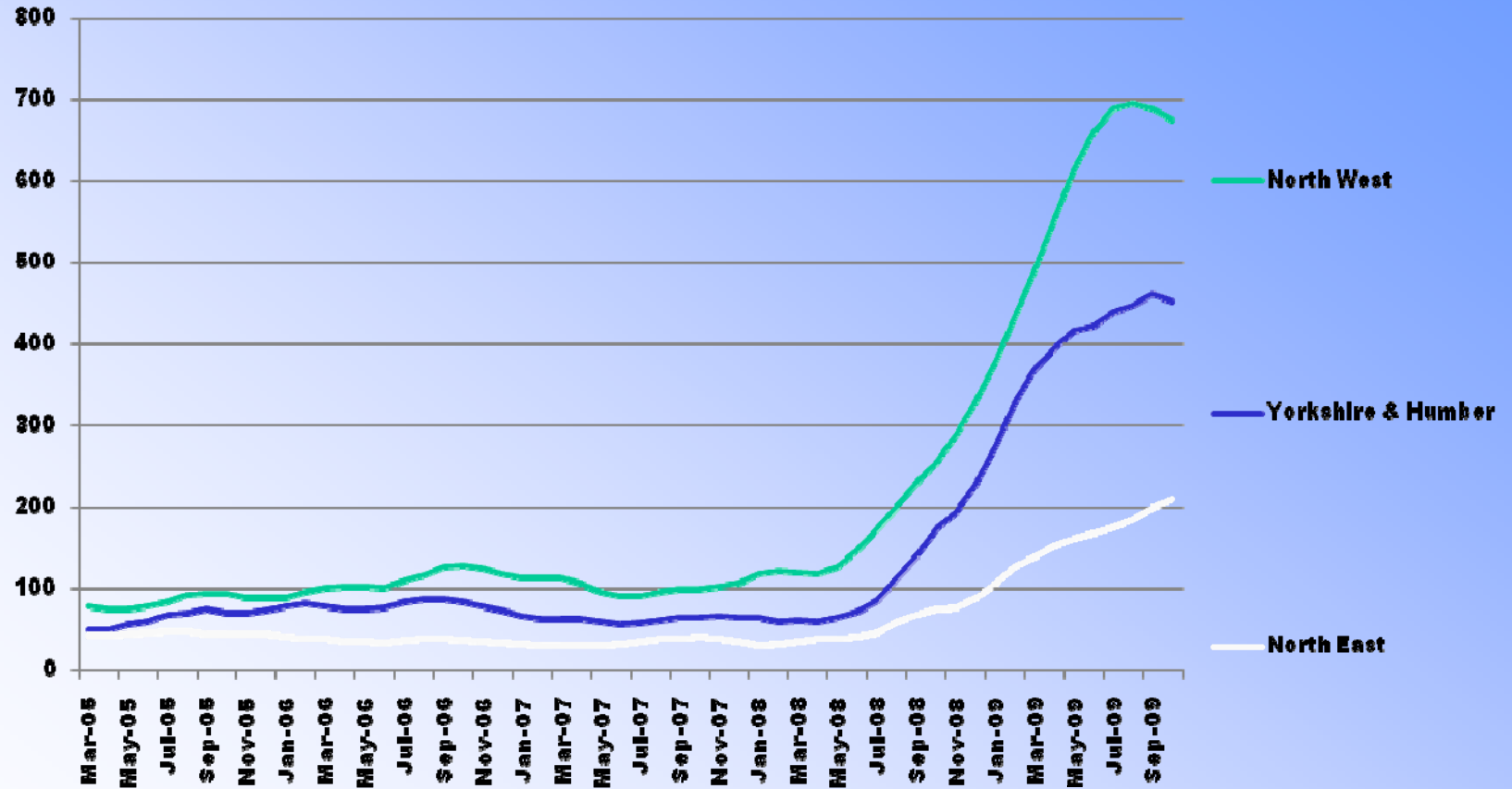
Office Prime Yields 2007-09



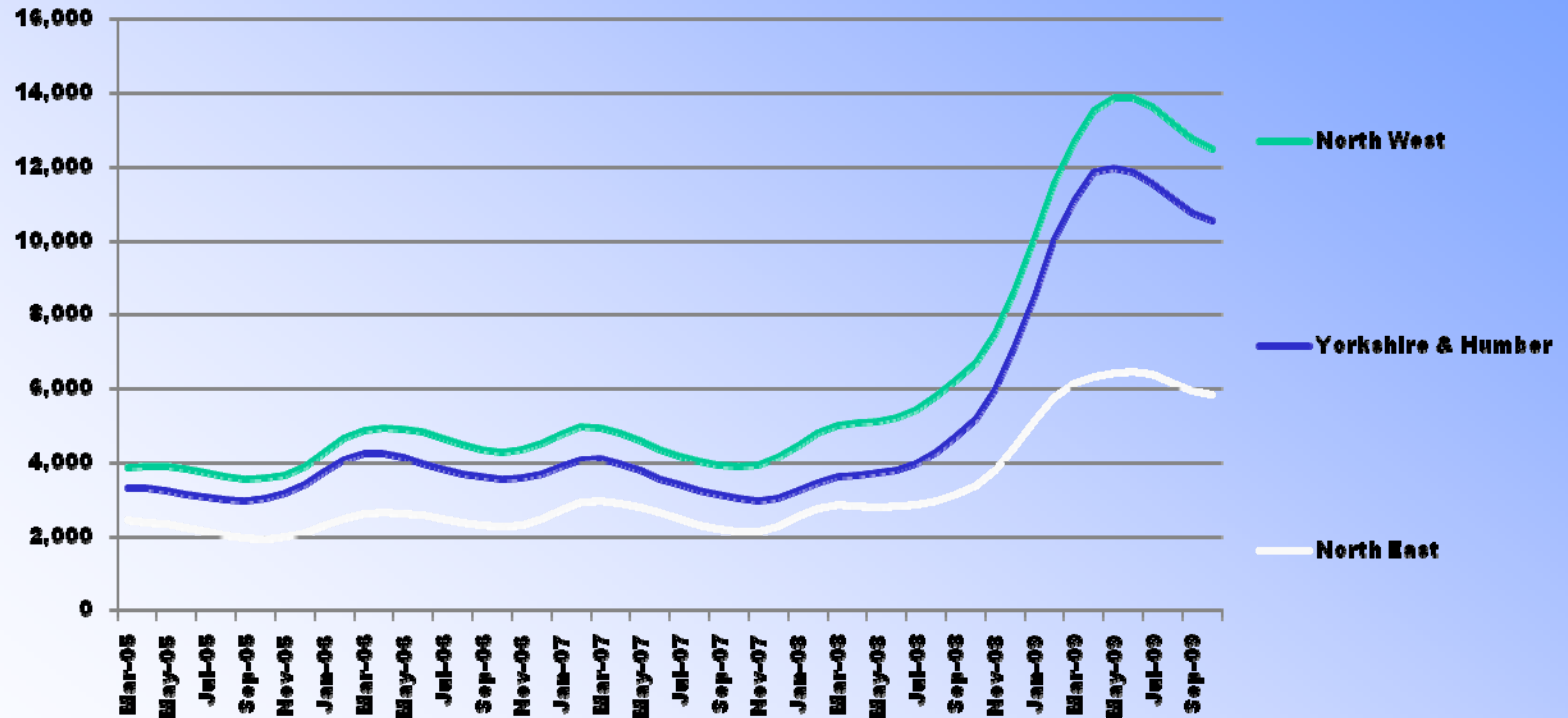
LA Planning Decisions



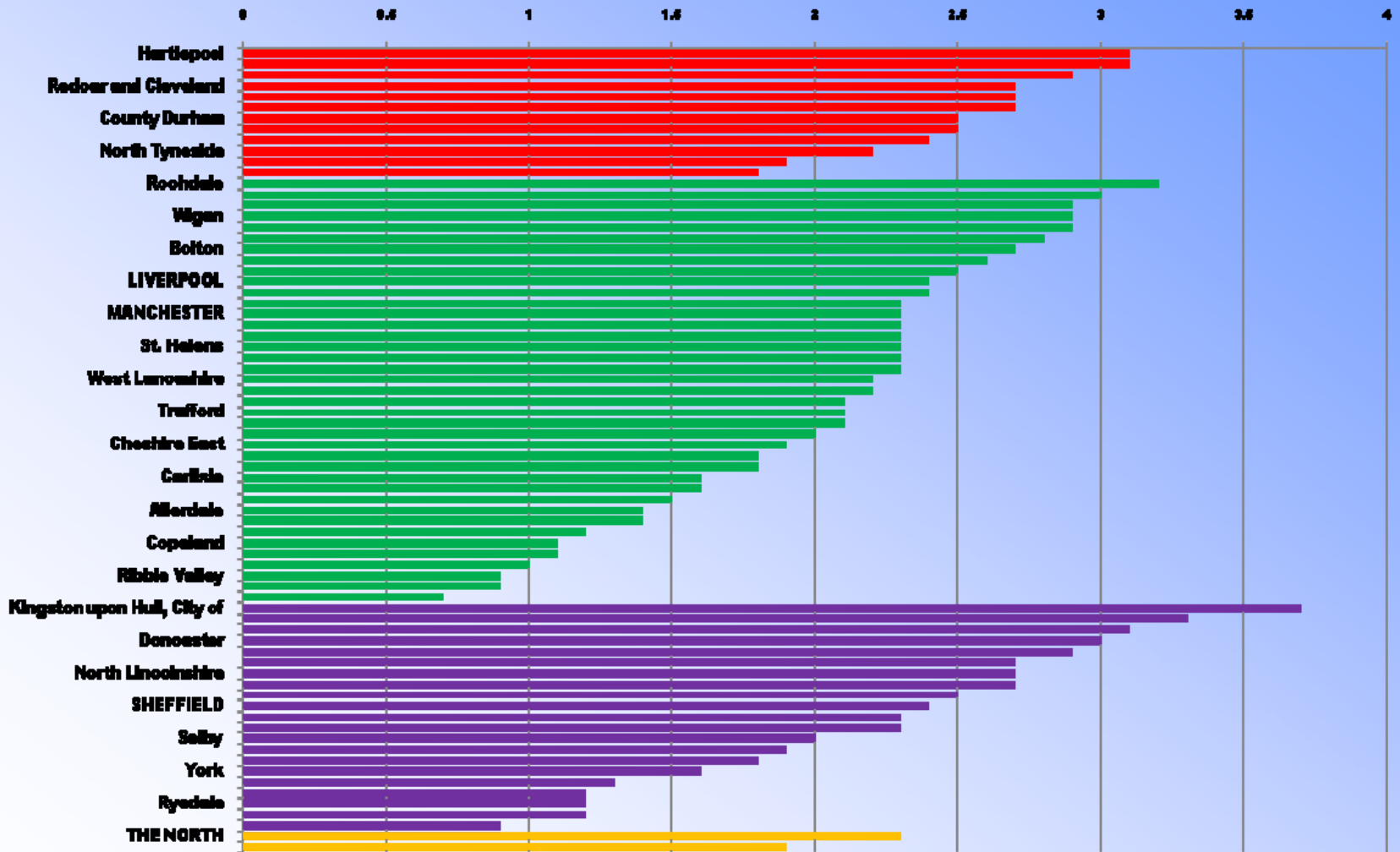
Unemployment Property Related



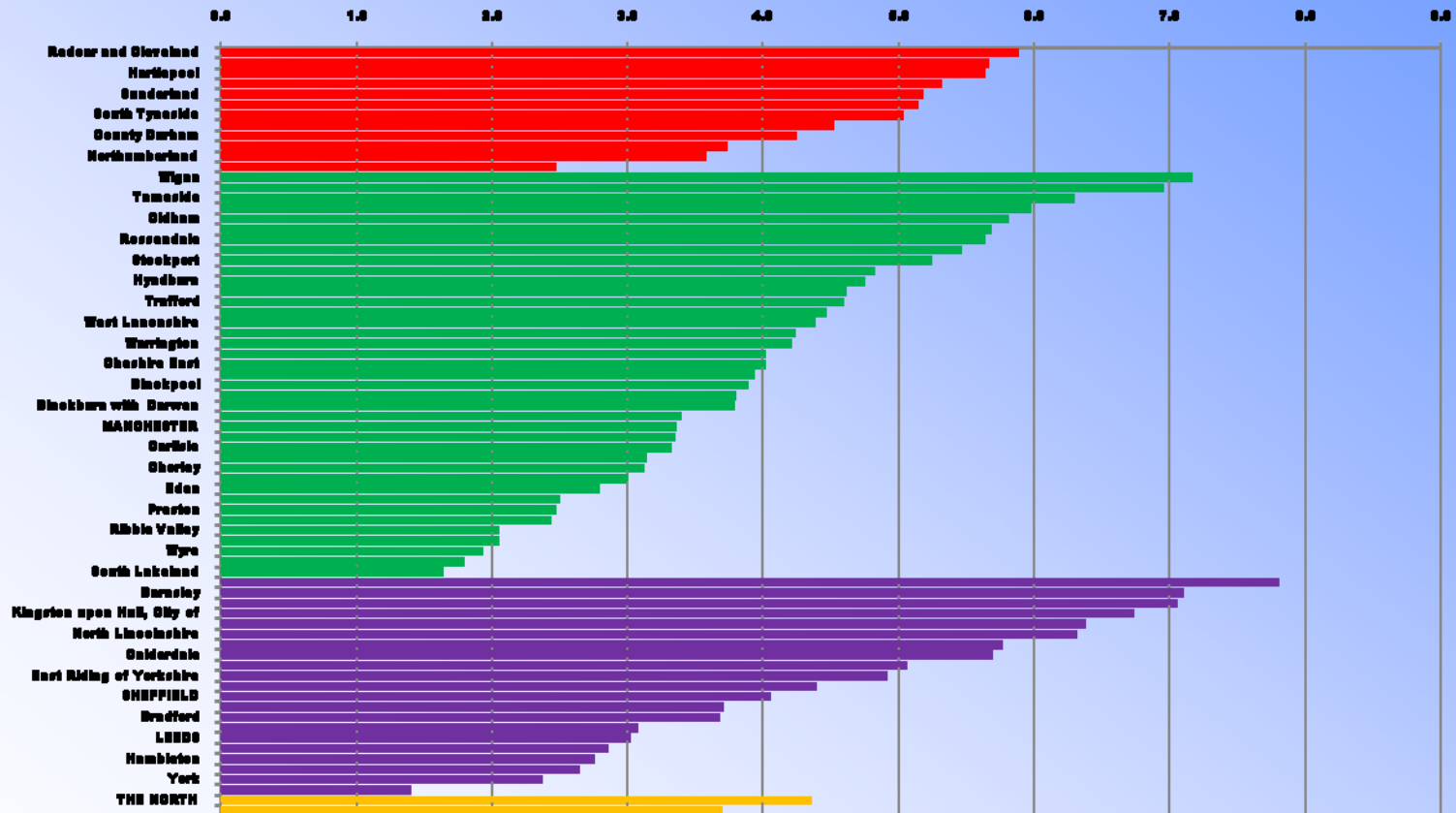
Unemployment Skilled Construction 2005-09



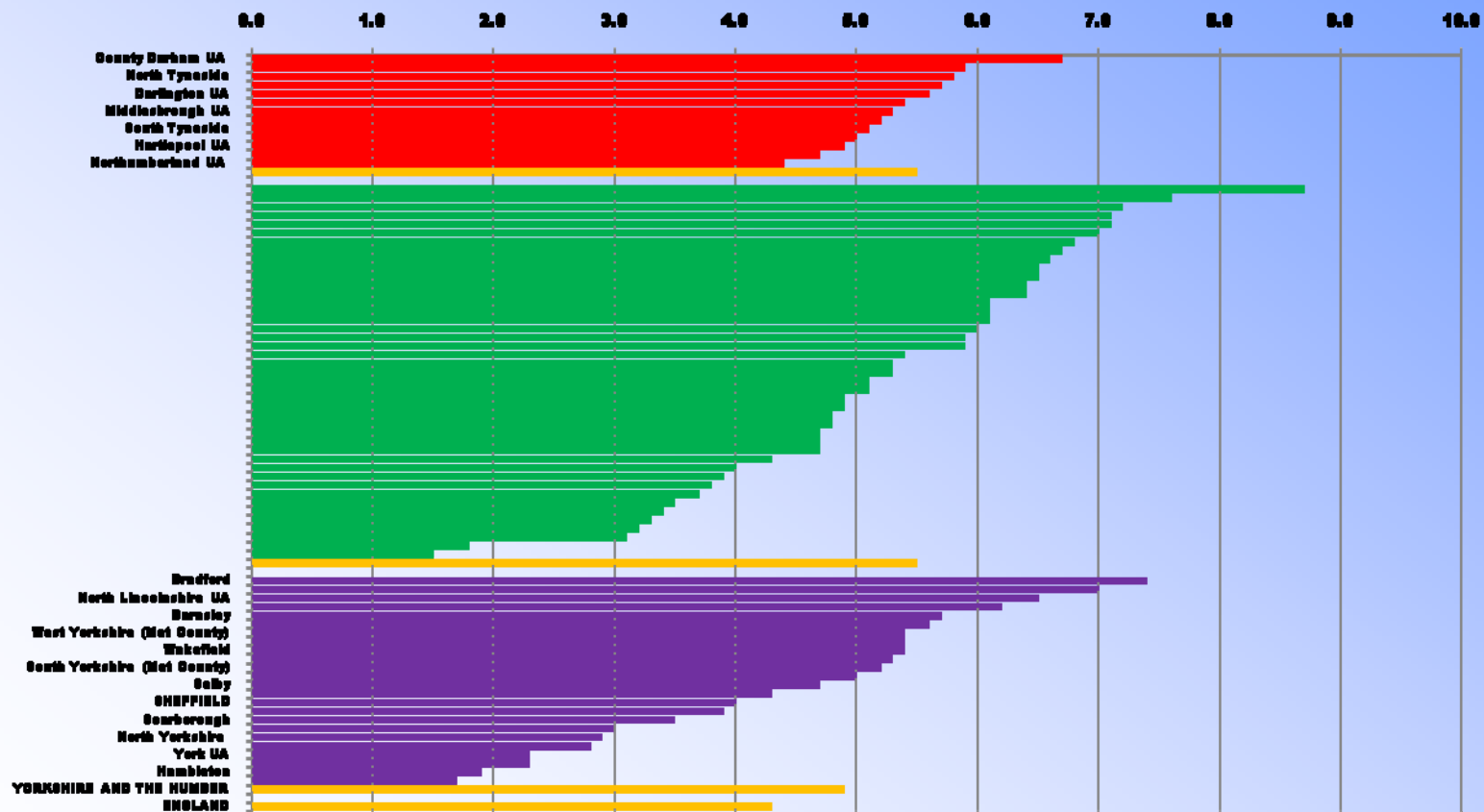
% Increase Unemployment



%Increase Youth Unemployment 2007-9



Mortgage Possession Claims 2008-09



3. WHAT IMPACT ON NORTH?

Headlines

- Worsened past year
- Liquidity & confidence gone
- Projects struggle for end users
- Impact many private-led projects
- Worries second dip public sector
- Pressure LA services income
- Social economic challenges worse

Which projects affected

- Housing biggest hit
- Apartment biggest casualty
- Banks withdrawing finance housing
- Sites on hold no credit
- Undeveloped sites mothballed
- Financially weak developers suffered
- Commercial sites vulnerable
- No spec development

What pattern?

- Variation within and between region
- Core cities hit
- But less than one horse towns
- Housing worse but others catching up
- Local authorities hit
- Communities struggling
- What future look like - all affected?

4. WHAT'S THE MOOD IN NORTH?

Core city leader

- *'It's been hard - but not disastrous'*
- *'It is better than I feared 12 months ago. But my real concern is whether the private sector can keep the place going when the public sector is cut. Our city like most others has a big public sector. It has not been growing but it is still a big bit of our economy. And it will be hit very badly by cuts.'*

Second Core City leader

- 'It is changing. Up to a year ago I was sure this was primarily a white collar industry recession. I knew there would be an impact on property markets but thought it would not be so bad for those in lower skilled jobs. Part of my optimism was based on the public sector. But that is disappearing. 12 local authorities in my region have a capital spend of £1.2 billion – never mind the rest of the public sector. That could be halved. There is bound to be a big rise in unemployment for manual workers after public sector cuts 2011-14.'*

- *'We are making a big effort to do renewable low carbon to compensate for the cuts in manual construction jobs that are inevitable. But it is a race against time. We are doing all we can. We are lending money to firms. We are underpinning market scheme mortgages. We are guaranteeing mortgages.'*

Third Core City leader

- *'It's not been as bad as perhaps as I feared. I don't get the despair of the 80s. I feared crime would double with young people losing jobs. I feared a nightmare. Many are still in work but there is a lot of pain. We have lost some big development schemes and some are on hold. Planning income is down and we have lost some planners. But it is bottoming out. Some developers are coming back to us. But we are lucky. I would hate to be a one horse town.'*

- *'I am worried about the public sector. The public sector recession has yet to hit us. Like many others we have plans to retrench next year. We are expecting next year and the year after to be extremely difficult. And it will be very difficult to keep the show on the road after that.'*

RDA Chief Executive

- *'Construction and regeneration have been the hardest hit of any single sector. I don't see an end for a very long time. There is a public sector squeeze. There is a black hole in regeneration. Unless something radical is done we are destined for 5 years of piecemeal and very small development.'*

Development model broken

- *'The basic model of the uplift in value in residential and commercial has gone. It is almost a perfect storm. Finance has dried up. Banks and investors have redlined certain sectors. The top team in a bank recently told me that investment in new retail development in the North will have to be cast iron and probably won't happen.'*

- *'We have no long term investment model. ADZs are all right but they do rely on growth and increased business rates. We need a pooled fund into which we can put lots of local authorities' pension's funds and attract long term private sector investment. We need to look more at local authority bonds. And simply we need a Northern Investment Bank.'*
- *'There is massive danger in the next phase. We could revert to social, environmental and physical silos. All good innovative things such as place making are being seen as non core. It is going to get much worse up here. In London people see good things happening. They do not see how bad it is up here.'*

Second RDA CE

- *'The construction sector has been slashed. Getting the private sector to invest is terribly difficult. End users will not sign up. People are staying where they are. Developers can't get money even if they had schemes. And there is the ticking time bomb of public sector capital budgets.'*

Third RDA CE

- *'The problem is institutional finance. Bankers can make 15% in the South. Why look at stuff in the North?'*
- *'Money will be much more difficult. We will have to prioritise. There is a risk that poorer places and people will be worse hit and the gap between places may increase. We must decide what do we want to do - competitiveness or cohesion? But also the next government must tell us what the priorities are between those two.'*

URC CE

- *'Things have changed terribly in the last 12 months. I don't know any developer bringing forward spec development. No one is lending. There is no money.'*

Senior national player

- *'We have seen a huge slowdown, if not a meltdown. The area of work which is absolutely fundamental to the North has juddered to a halt. The place making capacity part of this industry has gone off the cliff. It is a major challenge to government.'*
- *'We must reinject confidence and persuade political leadership to take a long term view. We need to get the Treasury persuaded of the benefits of regeneration. Treasury say there is no genuine new economic benefit or it is simply displacement.'*

Niche Developer

- *'It's been awful. Two things have gone - confidence and liquidity. Liquidity has hit regeneration the worst.*
- *Any new administration must make decisions quickly. We must not have inaction. They must decide what streams of work they want to support. Never mind the organisations - fund the best people.*

Volume house builder

- *'I have been through 3 recessions. The 1970s was deep but short. The early 90s was shallow but long. This is both deep and long. It will only get worse before it gets better with public sector cuts. It will be at best a year - and probably two - before we see the private sector back. Until that happens the private sector is looking for all the public sector help it can get.'*

5. WHAT PEOPLE DOING &WHAT'S WORKING?

Many Projects

- Not counsel of despair
- Not basket case, not begging bowl
- Many good things happening
- Many things continuing

But

- Levers limited
- Resources declining

But hard choices

Which

- projects continue in what form?
- which to mothball?
- which to abandon altogether?

Depends whether

- projects still worth pursuing
- original assumptions still apply
- can be rescued given resources leverage
- balance risks, rewards, opportunity costs scarce resources

Keeping wheels turning

Where

- still demonstrable demand
- Can substitute more for less viable
- risks & costs delay outweigh the benefits
- playing dynamic sectors economy

To

- capitalise earlier investment & groundwork
- take up planning consents
- maintain partners' commitment
- sustain wider community confidence

Golden Rules Coping Adversity

- Rigorous review of options
- Stimulating consumer demand
- Project prioritisation
- Rationalising funding and institutional arrangements
- Flexible use funding instruments

Golden rules coping adversity

- Re-configuring projects
- Packaging development opportunities
- Preparing future schemes upturn
- Public investment - short term loans, prudential borrowing, gap funding & underwriting, equity sharing

6. THE BALANCE SHEET AND WHAT'S NEXT

Headlines

- Remember how far North come before Lehman Brothers
- 10 years buoyant national economy public expenditure
- Although mixed picture
- Some things helping some not

What's Helping

Original principles still hold

- Long term challenge & commitment
- Protect marginal places, projects, people difficult times
- Leadership difficult times
- Financial innovation
- Work even more partnership

- More flexibility especially planning
- Keep wheels turning
- Commit to quality
- Prepare upturn
- Retain capacity and skills

Not helping

- Fears worse fiscal pressures come
- Long term needs short term responses
- Limited finance for the North
- Too many initiatives, too much confusion
- Creating silos or places?
- Straw camel's back - Empty Property Rates

Who does what better future?

- Partnerships, risks and rewards
- Less money, less clutter?
- Not throw baby out bath water
- Stick cross-cutting agendas
- Support quality, place making
- Winners and losers

- Bigger picture - how sustainable model
- After crunch not business as usual – finance, arrangements, economy
- Costed long term infrastructure investment strategy
- Long term investment model Northern bank
- Financial innovation ADZs
- Different economic sectors

Northern Ask

- Continuing Government commitment regeneration
- Continuing Government commitment to North
- Not disproportionate hit cuts – at least
- More powers, freedoms and flexibilities – if not more resources

Northern Offer

- Not begging bowl, black hole
- National interest not special interest
- Build on success, return on investment, economic regeneration

But

- Clarity choice places, sectors, skills
- What sort regeneration & economy in future?
- Economic place making & inclusion

Northern Offer

- Competitive and cohesive places
- Which economic sectors?
- Which places lead recovery?
- Maximise IRS contribution
- Debate now before cuts – with Government, within North