Implications of the Economic Recession on Leeds City Region Housing Delivery

A Report to Leeds City Region

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Implications of the Economic Recession on Leeds City Region Housing Delivery

Summary

The UK is now officially in recession, and while the scale and duration is unclear, the latest analysis suggests it will be of a similar order of magnitude to the 1990s recession or possibly worse. At the same time, national and international action by Government could reduce the severity of the recession, although insufficient time has elapsed to judge the success of recent policy initiatives.

In the 1990s recession, the City Region and the Yorkshire and Humber Region lost some 6% of its employment, unemployment rose significantly for a sustained period, the numbers of businesses declined. A similar pattern is emerging in this recession, with a greater emphasis on service based employment.

The historical analysis of private sector house building indicates a significant reduction in activity for several years during and after an economic recession, followed by a long period before numbers return to pre-recession levels (up to 12 years in the case of the 1980s and 1990s recessions). The decline in housing completions in the 1990s in Yorkshire was partly alleviated by a high level of social house building at circa 3,000 per annum at the time (compared to 500 per annum in recent years).

The long recovery time of the housing market after an economic recession is similar to the recovery time for employment. While York and Leeds recovered quickly from the 1990s recession, the majority of the City Region and region took eight to ten years for employment to return to 1991 levels.

Completions increased substantially since 2000 and the City Region exceeded the RSS net target of 9,060 between 2004 and 2008. The revised target of 13,915 net completions, which was applied from April 2008 onwards was not met in the first year and the latest available information suggests that the shortfall in 2008/09 will be followed by a substantial shortfall in 2009/10 (given the reduction in new starts); it is not possible to predict when completion numbers will return to the scale of 2007/08.

There are a number of factors at work which will result in the City Region being unable to meet its RSS numbers in the foreseeable future – (i) the availability of investment finance for developers, (ii) the new restrictions on mortgages, (iii) the general uncertainty over house prices, (iv) an increasing nervousness about future employment prospects amongst prospective house buyers (v) fewer people in employment, reducing the numbers of first time buyers. Added to this, is the unknown loss of capacity within the development industry.

A further factor with longer term implications is the collapse of the apartment market. This high density model has played a major role in the recent increase in housing completions, accounting for 70%-80% of completions in some areas. It now appears to be substantially and possibly permanently damaged. There is a need to consider whether a new urban model is required, possibly based on an adapted apartment model (lower density, higher quality) to provide the scale of new housing required by the City Region. It is not obvious that the development industry in its current state is able to develop this model.

Current economic and housing market conditions make the current RSS target un-achievable in the foreseeable future, unless there is substantial intervention to change conditions on both the supply and demand side. On the supply side, the availability of finance for investors is crucial, as is the availability of sites and supporting infrastructure to accelerate new development. Of equal importance is the development of a new model to replace the apartment model which has dominated development is recent years.

On the demand side, the availability of mortgage finance is crucial, and this is likely to include a broader range of intermediate products, as well as more flexible tenures. Without substantial and radical intervention, it is likely that patterns of previous economic recessions will be repeated, with house completions returning to pre-recession over a very long period.

The analysis of the previous two recessions suggests that substantial stimulus from the public sector is required to avoid a prolonged trough with persistently low levels of completions over a sustained period. The combination of a credit crunch and a global economic recession increases the risk of a long housing slump (10-12 years to return to 2006/07 numbers, which were close to, but did not fully meet the RSS target number for 2008/09 onwards)

There remains a critical role over the next 18 months on both the supply and demand side for the Homes and Communities Agency and CLG to work with the city region partnership provide the support to allow the market to be kick started across the City Region, and prepare the City Region for the upturn when it occurs. The Growth Point support now becomes essential to accelerate housing delivery now and help prepare for market up turn in the designated areas, but other investment / intervention measures will be needed across City Region to do likewise. Other housing support also becomes more critical in terms of stimulating the market, addressing new market failures arising from the credit crunch and returning confidence to both developers and citizens.

The regional population and housing models, looking into potential demand suggest that there may be a need to increase annual net housing growth figures from around 22,000 in the current RSS (May 2008) to between 25,000 and 30,000 per annum in the period to 2026. This would increase the Leeds City Region target, on a pro rata basis to between 15,600 and 18,470 per annum.

There could also be value both in the meantime and the longer term to consider how the city region could collectively address housing provision and meet city region wider housing targets. This may include considering further growth potential when target levels are close to being met and relooking at distribution across the city region in a manner that takes more account of city region spatial priorities, market conditions and realistic delivery. This approach could be linked to a phased approach within LDFs, acknowledging local market conditions, and stepping up targets as local growth returns.

There is now considerable uncertainty with regard to population growth and household formation rates. The economic recession is likely to reduce the number of economic migrants in the region as employment opportunities decline, and lower levels of employment and the effect of the credit crunch will reduce new household formation, particularly with regard to younger people. As important, the ability of the development industry and financial sector to deliver a high number of completions year on year is now open to question. A prudent approach would suggest reconsidering forecasts in 12-18 months time, when the effects of the recession are clearer.

Introduction

This paper examines the potential impact of the current economic recession on the long term housing delivery in the long term, of the Leeds City Region. Housing targets, set regionally were raised substantially in the early part of 2008, and within six months the UK entered the first economic recession since the early 1990s. It is likely that some of the assumptions underpinning at least the early years of regional housing plans need to be re-examined. This report focuses on the supply side and in particular the deliver of high numbers of housing completions during an economic recession.

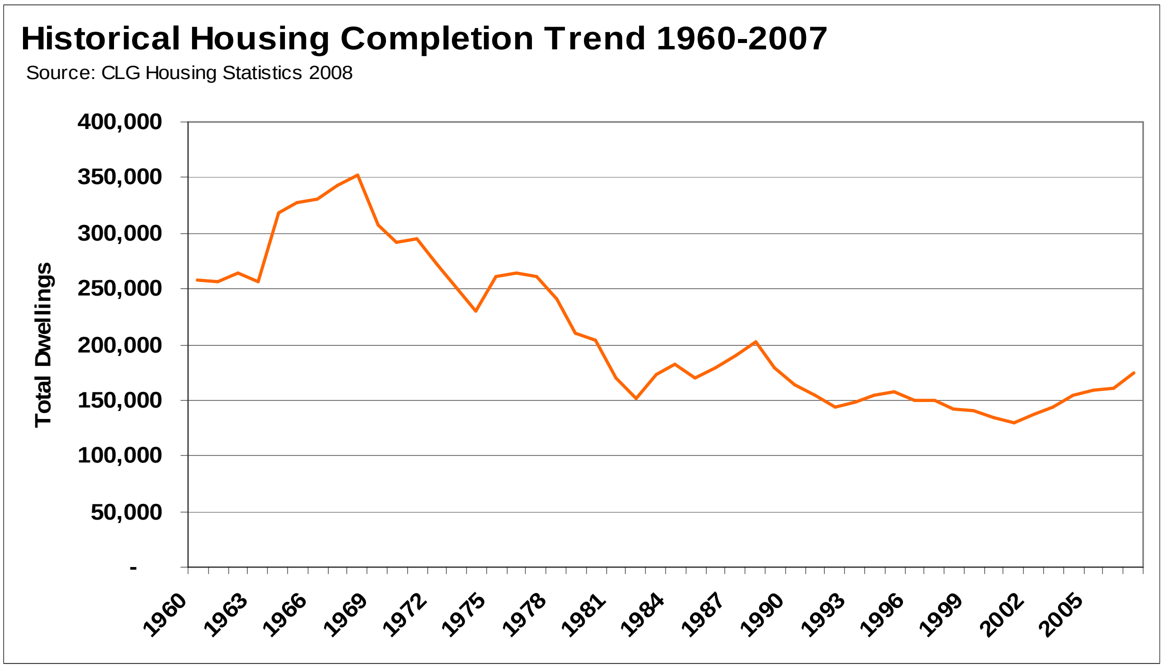
Recent housing targets have been set in a context of significant employment growth across the country, and notably in the major conurbations. These have been based on over ten years of economic growth, accompanied by high levels of economic migration, which has led to the production of a series of revised population and household forecasts which take into account demographic and social changes.

The Region is now considering the need to further revise upwards the housing targets as a result of advice which suggest that household growth will be higher than previously forecast.

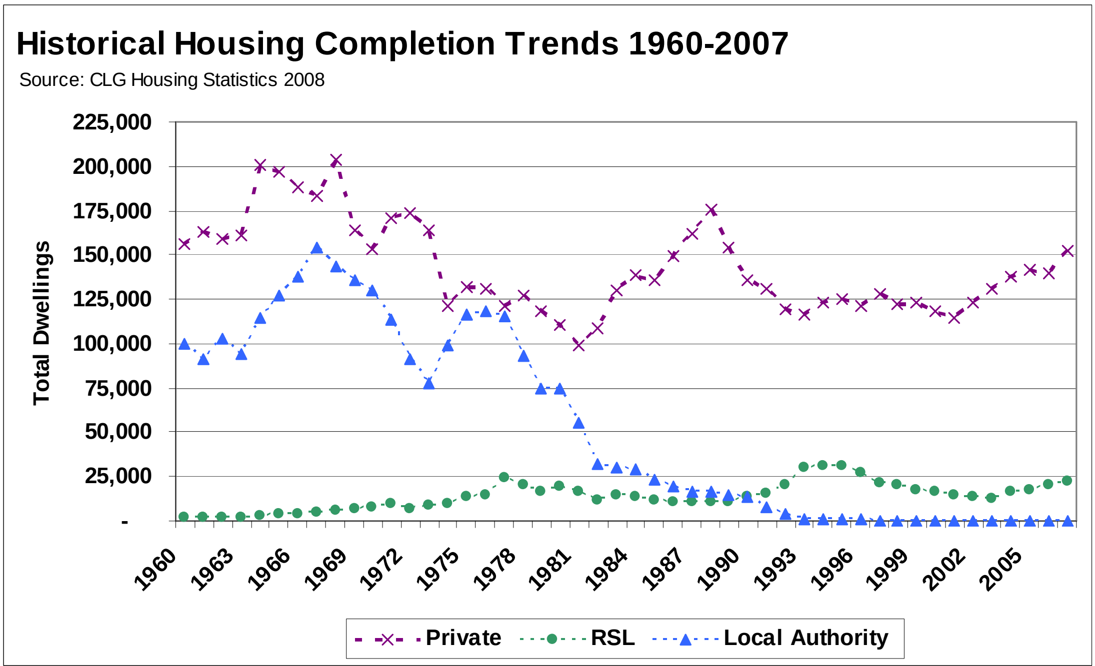
While housing plan numbers have been set over a long time period, it is not apparent that a full recession has been modelled into any of the recent scenarios. A review of the last recession has highlighted the long recovery period before employment levels return to pre-recession levels. In the case of many parts of Yorkshire, it took ten years and more for some local economies to return to 1991 employment levels. It is likely that a significant period of economic under-performance will again impact on household growth and housing completions following this current recession.

Housing Completions in a Historical Context

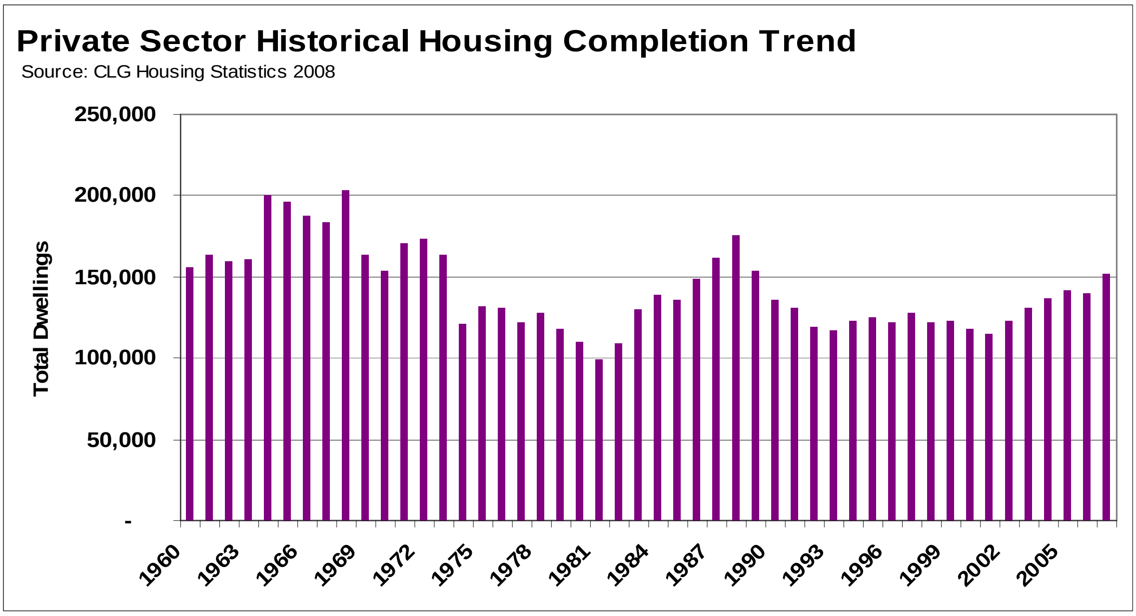
In England, new housing completions have been below agreed targets for some considerable time. As an issue this has been examined on a number of occasions, most notably through the Barker Review. The chart below highlights the issue at a national level, with completions since 1980 only occasionally above 200,000 per annum, following a sustained period of completions in excess of 250,000 per year through the 1960s and 1970s i.e. forty years ago.



The importance of social house building to a high number of completions is illustrated below. The relatively high number in the 1960s and 1970s (off-set by high numbers of demolitions) was sustained by two factors – major Council house building programmes and a high density model (deck access, maisonettes and tower blocks). The demise of Council housing has only partly been off-set by RSL new build, and the overall effect of reduced social housing was to significantly reduce new build numbers to levels which were persistently below national housing targets.



There has been considerable variation in the number of private sector housing completions over the past 50 years, with numbers peaking in the 1960s (a time when the number of people able to access mortgages was low when compared to the 1990s). **A feature of private sector housing is the sharp falls in periods of economic recession**, notable in the 1970s and again in the early 1990s, and the extended periods needed to increase numbers back to previous peak levels – typically 15 years.



While recent levels of house building have been higher than for some time, this has been a recent and short lived phenomenon. It has been achieved through a liberal lending regime (for both developer and borrowers) and high levels of apartment development.

The Economic Recession

The UK is now in an economic recession, the first since the early 1990's. This brings to an end a period of sustained growth. The current issue for policy makers is the severity and duration of the recession. The change in economic prospects has been quite sudden, and comes after many Local Authorities and City Regions have set out ambitious targets for economic and housing growth. The purpose of this short piece of work is to assess the implications for Leeds City Region's housing delivery.

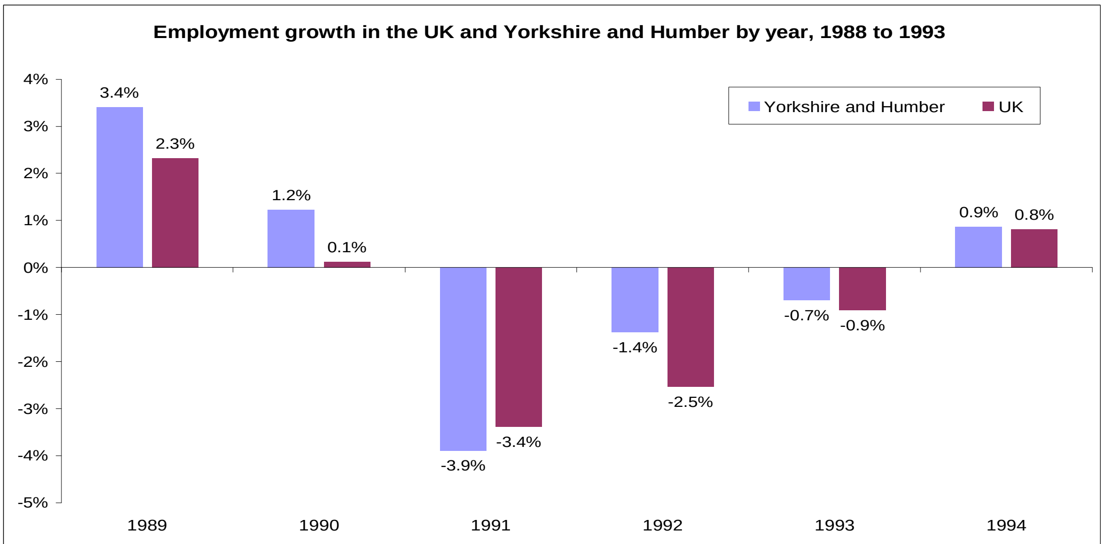
Economic conditions have deteriorated rapidly worldwide and the causes and effects have been global in nature:

- Financial difficulties in the United States sub prime housing market, and much of this high risk debt had been sold on to other banks and financial institutions in other countries;
- The collapse of banking and financial institutions affecting stock markets, with a subsequent market collapse affecting those seeking investment finance and mortgages, resulting in a collapse of the residential development and housing markets;
- The rapid deterioration in consumer confidence, with a reduction in demand affecting every type of sector, including services (professional services, retail and leisure) and manufacturing; and
- A global reduction in growth, with the major European economies and the United States in recession, and major industrial economies, such as China, reducing growth forecasts as businesses close and unemployment rises.

The UK Government, along with other Governments, has put together a stimulus package aimed at increasing bank lending to companies and individuals and is developing other initiatives to reduce the duration of the recession. While these initiatives will have some effect, all of the latest intelligence suggests a continuing deterioration of conditions throughout 2009, and the debate is focussing on the duration of the recession – whether it will be of a similar order of magnitude to the 1990s recession, or worse.

Economic Recession Scenarios for Yorkshire and the Leeds City Region

The 1990s recession resulted in a 6% reduction in employment in Yorkshire, spread over a three year period, although some local economies were affected for a longer period. The recession had its most severe impact on manufacturing employment, and those economies with a large industrial base were the most affected.



Source: Yorkshire Forward's Chief Economist Unit/Experian Business Strategies, September 2008

Recent work for the Yorkshire Cities group looked at the effects of the economic recession on major towns and cities in the region, and the resilience of local economies. This work has been adapted to look at the implications for the Leeds City Region.

The table below sets out the scale of the employment loss in each part of the City Region, and the speed with which employment numbers returned to pre-recession highs. With the exception of Leeds and York, the majority of areas took ten years to return to their highest employment levels.

1990s Recession: Employment Loss and Recovery Times

	Peak Employment	Post Recession Low	Employment Loss	%age Loss	Post recession recovery
Leeds	326,488 1990	313,452 1992	-13,036	-4.0%	1995
York	77,610 1990	72,683 1993	-4,927	-6.3%	1995
Wakefield	122,624 1990	114,395 1996	-8,229	-6.0%	2002
Kirklees	146,736 1989	134,025 1992	-12,711	-8.7%	2006
Bradford	180,144 1988	171,547 1993	-5,597	-4.0%	2007
Calderdale	83,818 1989	76,958 1993	-6,860	-8.2%	2007
Barnsley	72,878	68,136	-4,742	-6.0%	N/A

	1990	1994			
Craven	20,743 1990	20,271 1991	-472	-2.0%	1994
Harrogate	60,809 1990	57,423 1991	-3,386	-5.0%	1996
Selby	30,503 1990	24,262 1996	-6,241	-20.0%	2002
Note: The data suggests that employment in Bradford increased dramatically (to over 189,000) in 1989-1990. However, looking at the long term trend, this period seems to be exceptional. Instead, 1988 has been taken as the high point of employment in Bradford. Using the 1989/90 figure, the employment decline was over 17,000 or 9% and employment has still not recovered to pre-recession levels.					
Note: The data suggests that employment in Barnsley has not recovered to the pre-recession best of 72,878					

The employment losses were accompanied by a large number of businesses ceasing to trade - the total number of businesses actually declined – and a rapid and significant increase in unemployment. These trends have already emerged in the current recession.

Modeling Recession Scenarios

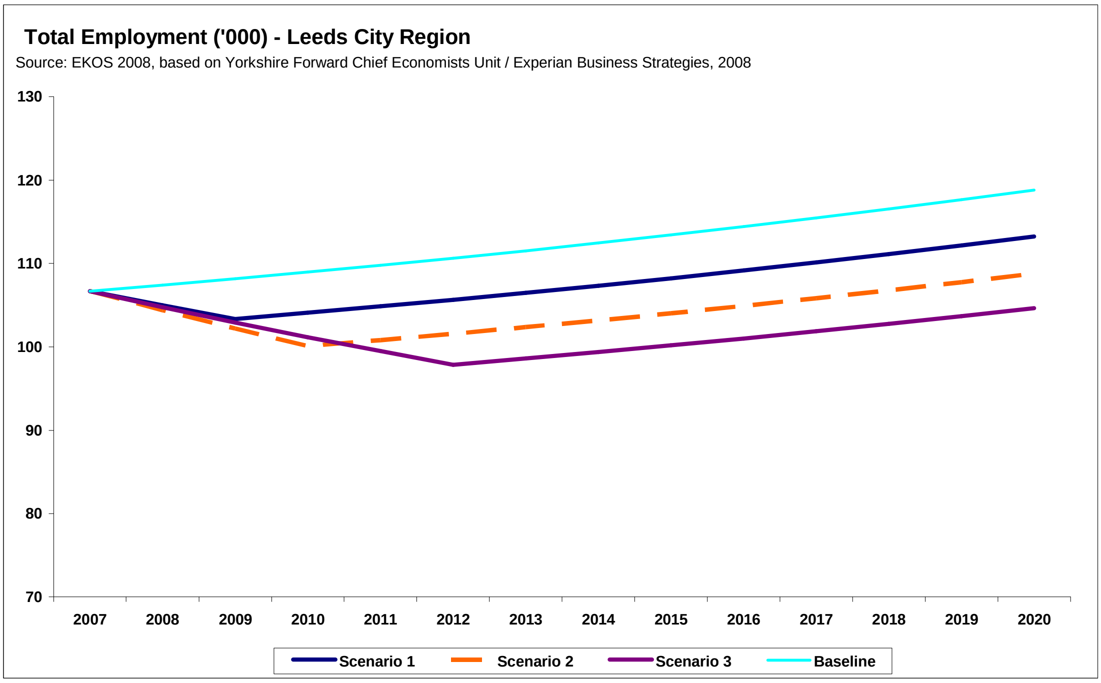
The recent work for Yorkshire Cities modeled two scenarios. These were:

- **Scenario One:** assumes that a pronounced recession will occur, during which total UK employment falls by six per cent over a three year period - this is similar to the 1990s recession; and

- **Scenario Two:** assumes a severe recession, during which total UK employment falls by eight per cent over a five year period - this is very severe and would suggest a long term world wide recession.

The second scenario was reviewed in terms of when employment would recover to pre-recession levels. In the majority of cases, unless there were exceptional levels of employment recovery, the majority of Local Authority areas would return to pre-recession employment levels in 2020 or thereafter. Whilst some commentators believe that such a scenario is now credible, a recession of this magnitude and duration is a minority opinion at present.

The chart below illustrates the outcome when a 1990s scale recession is modeled for the City Region, and a range of recovery trajectories applied. Using three recovery forecasts, including one based on a high rate of employment growth, the City Region is expected to recover to pre-recession employment levels by 2014/15 at the earliest and in some scenarios not until 2016 and 2017.



In the 1990s recession, where the financial and business service sectors were less affected, Leeds and York recovered quickly in terms of initial employment growth. It is not clear if this will apply to the current recession, given the impact on the service sector in the initial stages of this recession.

Re-Assessing the Forecasts

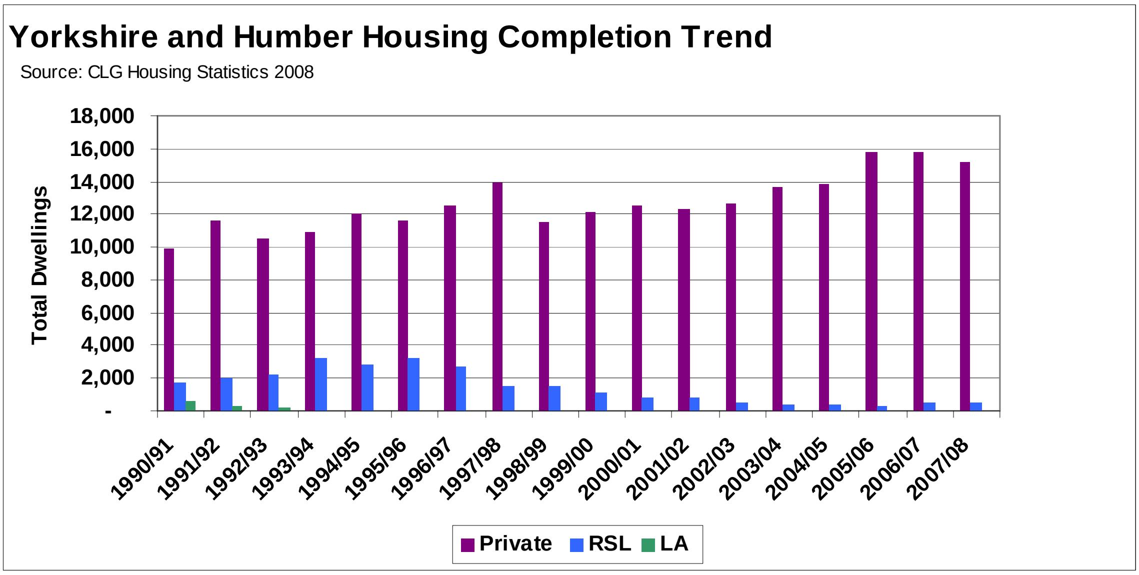
The current recession is creating a new set of economic conditions, with implications for employment, population and household forecasts. The potential implications for household growth and housing targets include:

- The economic recession is exacerbating the difficulties facing house builders, reducing their capacity and willingness to return to high volumes of new house building;
- Uncertainty over future employment prospects, along with the reduced confidence in the housing market, with more restrictive lending practices, will reduce the demand from new house buyers;
- Lower levels of employment, particularly graduate employment, will reduce new household formation as individuals stay in shared accommodation for longer;
- Lower levels of employment amongst young people, and a restricted supply of social housing, will reduce new household formation;
- The overall number of economic migrants from within the EU will reduce as a result of a combination of fewer employment opportunities and a lower exchange rate, with many returning to their home countries and fewer new arrivals;
- The pressure to reduce non-EU migrant labour increases as agencies seek to provide new opportunities for indigenous people losing jobs, many of whom will be highly skilled.

The combined effect of the recession will be to reduce growth in household numbers, although the underlying factors affecting demand, such as an increase in the number of single person households, will remain.

Delivering New Housing: The Yorkshire and Humber Plan – May 2008

As with other regions, housing completions in Yorkshire declined from the 1988/89 high as economic conditions deteriorated into a full scale recession in the 1990s. In the early part of the decade, social house building made a very important contribution to housing completions (circa 3,000 per annum). Since 2000, housing completion numbers have increased substantially in the region, although numbers remain significantly below the new housing targets (22,260).



The RSS figures proposed for 2008 onwards reflect the higher levels of growth that were experienced since 2001 (household growth between 2001 and 2004 was around 18,000 per year according to the RSS). It was anticipated at the time of publication of the May 2008 Plan that these trends would continue over the next 15-20 years, with a net additional annual target of 22,260 housing units for the region and 13,915 for the Leeds City Region (14,895 gross per annum). The projected annual housing requirements are detailed below. The RSS targets provide for an annual addition of 13,915 homes within the Leeds City Region, with Leeds and Bradford accounting for 50% of the target.

Annual Build Rate pa : Revised RSS Target May 2008		
Leeds City Region Local Authority	**2008-2026 Indicative gross build rate**	**2008-2026 net additions to the dwelling stock**
Barnsley	1,135	1,015
Bradford	2,740	2,700
Calderdale	750	670
Craven	250	250
Harrogate	410	390
Kirklees	1,790	1,700
Leeds	4,740	4,300
Selby	450	440
Wakefield	1,750	1,600
York	880	850
Leeds City Region Total	**14,895**	**13,915**
Regional Total	**24,440**	**22,260**

Source: Yorkshire and Humber RSS, May 2008, Section 12 - Housing

Completions increased substantially since 2000 and the City Region exceeded the RSS net target of 9,060 between 2004 and 2008. The revised target of 13,915 net completions, which applied from April 2008 onwards was not met in the first year and the latest available information suggests that the shortfall in 2008/09 will be followed by a substantial shortfall in 2009/10 (given the reduction in new starts); it is not possible to predict when completion numbers will return to the scale of 2007/08.

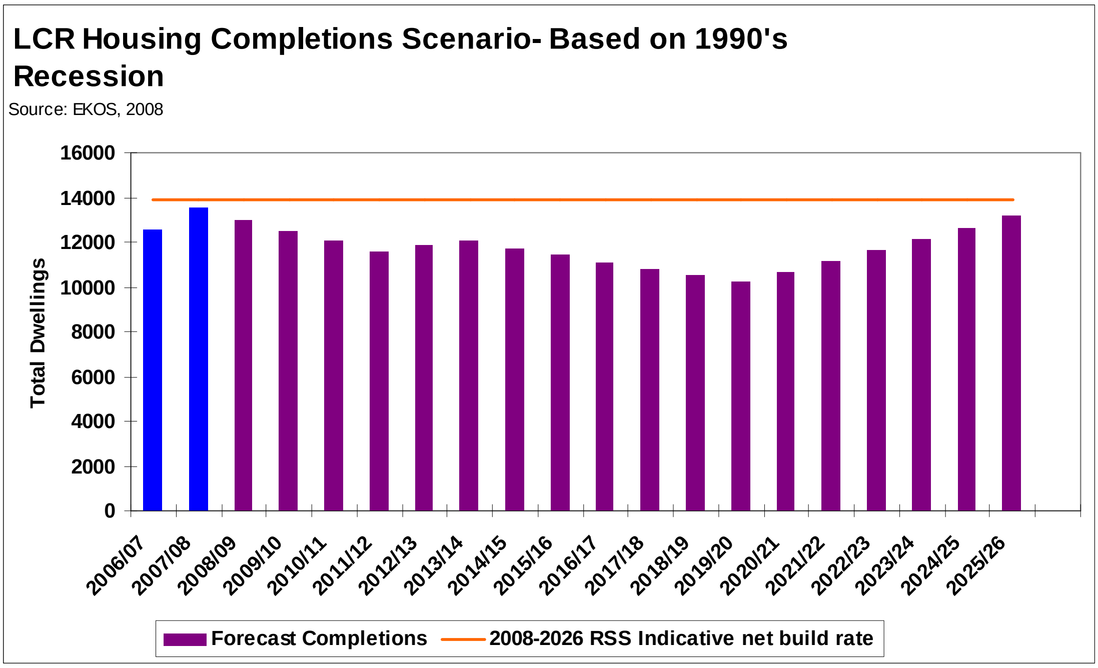
Leeds City Region: Local Authority Net Completions

Local Authority	2004/05	2005/06	2006/07	2007/08	2008/09	RSS (Net 04-08)	RSS (Net 08-26)
Barnsley	1,331	934	944	1,154	678	840	1,015
Bradford	1,361	1,369	1,578	2,156	1,143	1560	2,700
Calderdale	807	1,121	1,306	1,247	302	500	670
Kirklees	1379	1,074	2,267	2,281		1060	1,700
Leeds	2,633	3,436	3,327	3,576	1,975	2260	4,300
Wakefield	989	1,036	1,024	1,520	678	1170	1,600
Craven	203	154	188	140	274	250	250
Harrogate	390	409	317	361	157	390	390
Selby	451	620	843	568		390	440
York	1,160	906	798	523	182*	640	850
LCR Total	**10,704**	**11,059**	**12,592**	**13,526**	**5,389**	**9,060**	**13,915**

Sources: Yorkshire and Humber Assembly, 2008 figures for 2008/09 have been provided by Local Authorities and are indicative based on best available information.
* Estimate of York Gross Completions – best available information subject to site visits which are likely to increase number

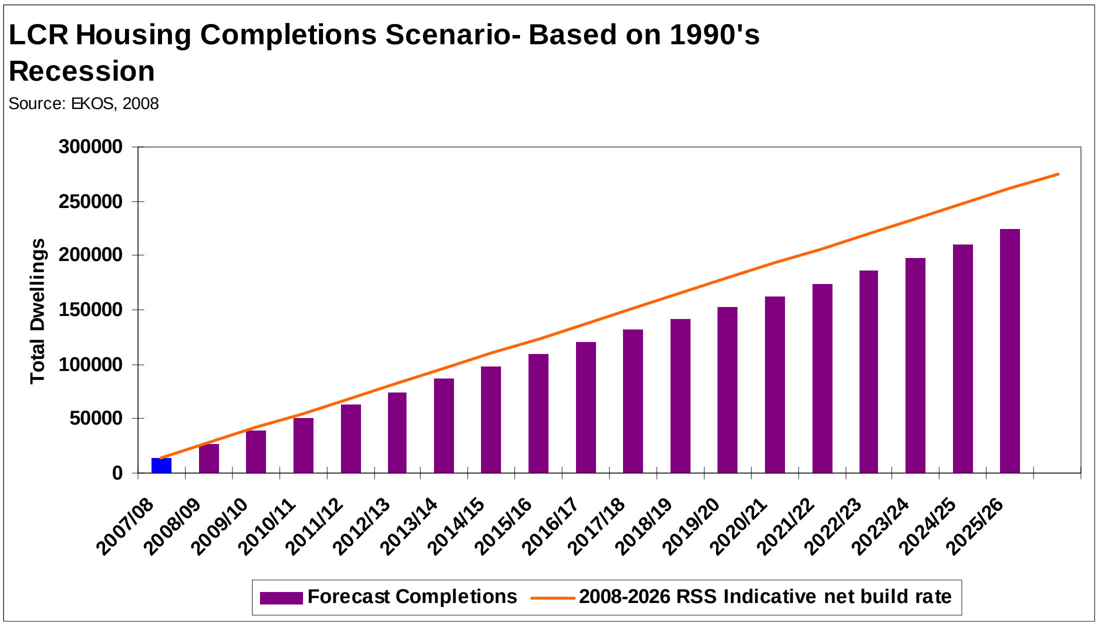
Scenario 1: Housing Completions follow same pattern as in the 1990s Recession

The chart below applies the reduction in (net) housing completions of the 1990s recession to the Leeds City Region. During the 1990s recession, house completions fell by 30% from the most recent peak year (1989), and then began a slow recovery in numbers, with number beginning to accelerate from a **prolonged trough** from 2000 onwards. The analysis suggests a persistent shortfall for at least the next six years. This prolonged trough is similar to the housing market effects of the previous recession.



Note: Blue bars show actual net completions (data source: Yorkshire and Humber Assembly, 2008)

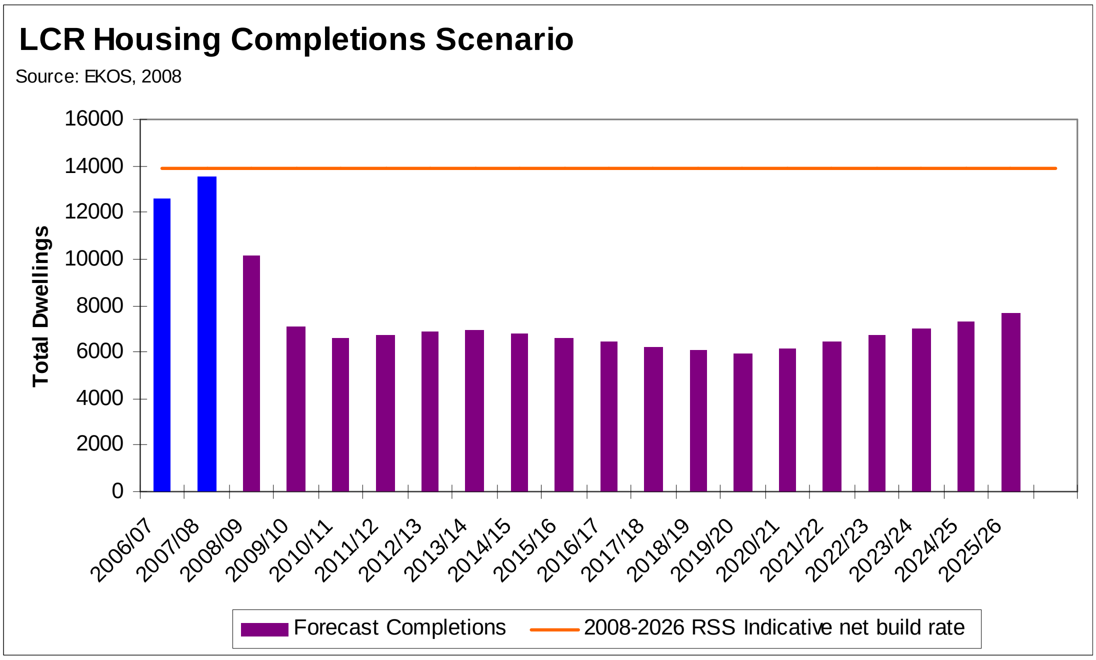
A lower level of net completions arising from the recession in this scenario would suggest a cumulative shortfall of over 37,000 by 2026.



Note: Blue bars show actual net completions (data source: Yorkshire and Humber Assembly, 2008)

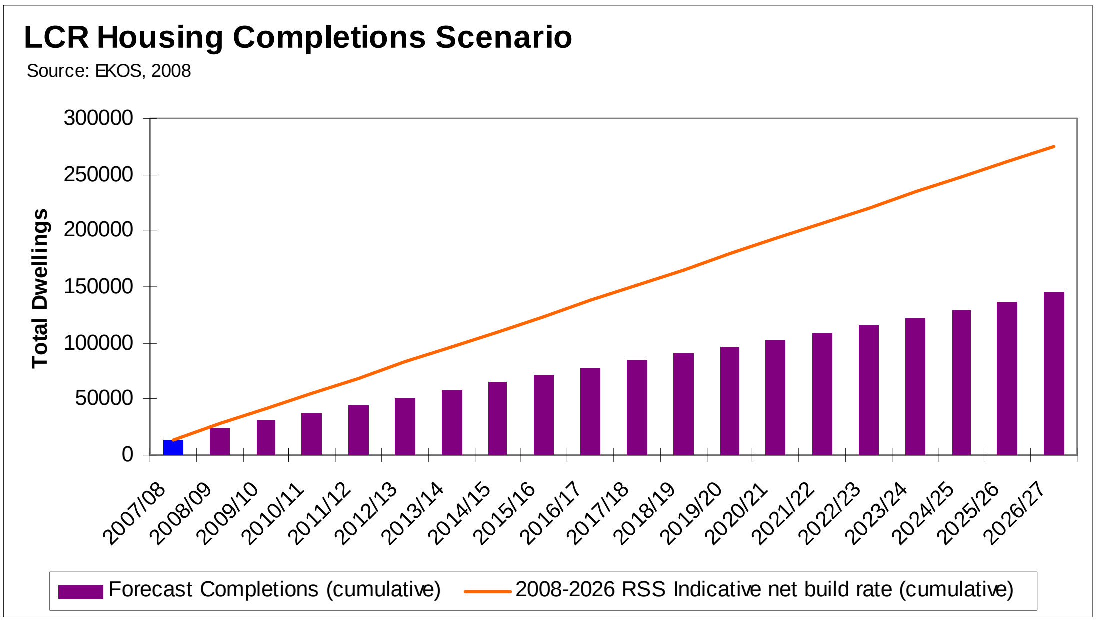
Scenario 2: 2008 Combined Credit Crunch/Economic Recession

Scenario Two is based on using the known and estimated fall in housing completions in the Leeds City Region in the specific circumstances of the current credit crunch and economic recession and then applying a recovery profile based on the 1990s recession. The analysis suggests a more severe decline in the number of housing completions (where high levels of social housing limited the decline in numbers in the initial period), as a result of the credit crunch and the collapse of the apartment market (which accounted for a high proportion of completions in recent years). This suggests that completions numbers could fall to as low as 7,000 in 2009/10.



Note: Blue bars show actual net completions (data source: Yorkshire and Humber Assembly, 2008)

An exceptionally lower level of completions in the initial phase of the recession in this scenario followed by a long and loose recovery would suggest a cumulative shortfall between 2008 and 2026 in excess of 130,000. This represents a virtual doomsday scenario, closer to a prolonged depression than a recession, and would only be likely if the development industry permanently lost significant capacity and mortgage restrictions made it impossible for new home buyers to enter the market. This remains an unlikely scenario.



Note: Blue bars show actual net completions (data source: Yorkshire and Humber Assembly, 2008)

In either scenario, limited public sector intervention and the lack of an urban model (social housing softened the effect of the last housing market downturn), could exacerbate and prolong current market circumstances. The Yorkshire and Humber Assembly is currently reviewing the Adopted RSS through the 2009 Update. The Update proposes a new set of projected figures which are the result of a range of evidence and debate that has been considered through the process of preparing the Plan and the latest evidence about household growth in the region including:

The Housing Challenge - The Yorkshire and Humber Plan – 2009 Update. Spatial Options

The Yorkshire and Humber Assembly is currently reviewing the Adopted RSS through the 2009 Update. The Update proposes a new set of projected figures which are the result of a range of evidence and debate that has been considered through the process of preparing the Plan and the latest evidence about household growth in the region including:

- Household projections (CLG 2003-based and 2004-based);
- The needs of the regional economy having regard to economic and job growth forecasts (from the Regional Econometric Model);
- Evidence about the availability of suitable land (including the regional audit of urban potential 2004);
- Evidence about the affordability of housing (including evidence from the Regional Housing Strategy);
- Evidence about low demand and vacancy rates;
- Levels of housing completions in recent years sourced from the Yorkshire and Humber Assembly and Local Authorities;
- The findings of the Sustainability Appraisal, Appropriate Assessment and other information about environmental capacity; and
- The likely impact on transport and other infrastructure.

The changing economic climate has had an impact on several of these underlying pieces of evidence. In particular, the most significant impact will be upon household projections, economic and job growth forecasts and levels of housing completions.

The spatial options document has been released to respond to the challenge of meeting the region's need for new homes over the next two decades. The Yorkshire and Humber Plan is a long term strategy that guides where future development and investment should take place. The spatial options document is another consultation document produced to move the debate forward by asking questions about the scale of housing development for which the region should be planning and by setting out some specific options for where (in the long term) this might be accommodated.

One of the key questions raised in the update that will be addressed through the Spatial Options document is 'how many homes need to be built in the Region?' – looking to the longer-term, but also taking proper account of the potential shorter term impact of the current 'credit crunch'.

At the time the Yorkshire and Humber Plan was in preparation in 2005 it was thought that a gradual increase in house building should be planned for, to commence with 15,160 annual additional homes, rising to 19,120 after 2016. However, as approved by Government earlier this year, the plan now sets out the need for an annual average of 22,260 additional homes to be provided in the region between 2008 and 2026.

In relation to the Leeds City Region the plan proposes that increased provision of housing in West Yorkshire will encourage the wider success of the Leeds City Region whilst reduced numbers are proposed in North Yorkshire to a level that meets local needs and helps support development in towns (but also reflects the need to reduce in-migration to the area from the major cities that adjoin North Yorkshire).

The regional population and housing models, looking into potential demand suggest that there may be a need to increase annual net housing growth figures from around 22,000 in the current RSS (May 2008) to between 25,000 and 30,000 per annum in the period to 2026. This would increase the Leeds City Region target, on a pro rata basis to between 15,600 and 18,470 per annum.

The scale of change regionally, from 19,120 post 2016 set in 2005, to a possible 30,000 per annum set in 2009, suggests that careful consideration should be given before any additional increase in already ambitious targets is made.

A Critique of RSS Assumptions

NHPAU has issued its guidance to Regional Planning Bodies on the supply range for new housing to address the increasing un-affordability of market housing. The Yorkshire and Humber Plan (RSS to 2026) includes provision for 22,260 new homes per annum from 2008 to 2026. The Housing supply range in the advice from NHPAU is higher than that in the Plan, being between 23,800 to 26,400 average net household additions between 2008 to 2026. Experian have tested this advice from the NHPAU for the Y&H Assembly and Yorkshire Forward, following the same methodology used by ONS to produce their latest series of Household Projections.

Along with testing the NHPAU advice, Experian have produced a *trend based scenario* based upon household projections at the district level: these results in an additional 32,000 net household additions per year. An *economic growth based scenario* results in the addition of 30,500 households per year. Both scenarios are frontloaded as is the NHPAU projection. In absolute terms, for both scenarios, the increase is greatest in Leeds and the bordering districts of Bradford and Kirklees.

Concerns have been raised over the role that migration (specifically international) plays in the 2006 ONS Population Projections. Whilst it is acknowledged that the projection takes a longer term view and it is therefore necessary to account for significant population increase, this data is a trend based projection, which makes assumptions for future levels of births, deaths and migration based on observed levels mainly over the previous five years. They show what the population will be if recent trends continue.

A low migrant variant projection has been applied within the Experian report based upon ONS low migrant variation population projections by age and gender at the national level. Under this low migration scenario the change in households from 2008 to 2026 declines to 514.9 thousand in Yorkshire and Humber (576.7 thousand in trend based scenario).

Forecast For Household Growth

Leeds City Region Local Authority	Trend Based Scenario (2008 - 2026 change)	Trend & low migration variant household projections	Economic Growth Based Scenario (2008 -2026 change)
Barnsley	21.1	18.7	20.0
Bradford	59.4	53.4	56.9
Calderdale	23.5	21.0	22.4
Craven	7.2	6.6	6.9
Harrogate	22.1	20.2	21.2
Kirklees	36.1	31.6	34.1
Leeds	106.8	95.7	102.4
Selby	9.5	8.6	9.1
Wakefield	30.9	27.3	29.2
York	26.1	23.5	25.0
Leeds City Region Total	**342.7**	**306.6**	**327.2**
Regional Total	**576.7**	**514.9**	**549.2**

Source Experian, CLG

The variation in estimates highlights the concerns with regard to the population and household growth forecasts and the variations which can emerge when changes to key assumptions, are taken into account. These include:

- The trend based district level housing series from Experian is based on a combination of the sub-national estimates (2007) and population projections produced by ONS (2006 based). These figures were applied to household projections developed for this series of testing, and were based on the 2006 population projection figures using the 2004 household formation rate projection methodology. These forecasts do not appear to take account of the economic recession.

- The economic growth based scenario utilised the forecast methodology contained within the Yorkshire Forward Regional Econometric Model and applied the most recent ONS data sets including ONS 2006 national and sub-national population projections and 2007 mid-year estimates; again it is not apparent that the economic recession has been taken into account.

- Application of the ONS 2006 based data shows that the region has higher than average household growth between 2008 and 2026 with the number of households now projected to grow at 31,700 per annum to 2026 against 23,400 per annum in the 2004 based projections. This is a significant increase based upon data sets from a relatively short time frame, and given the on-set of the economic recession since they were produced, needs to be treated with some caution.

- Higher levels of international migration experienced over the last five years are not expected to continue. It is thought that in the current economic downturn these levels of migration will decrease. There is a risk that using recent population projections as a basis for calculating future household numbers may result in a distortion of data, and the Experian work shows the considerable difference to total numbers arising from adjusting the assumptions.

Migration

With regard to migration, an article published in the Guardian, November 2008 stated that according to the head of migration at the Institute for Public Policy Research there were already signs that immigration is starting to slow in 2008 and that as the recession takes pace the outflow of migrants may end up being higher than the inflow. The article states that figures confirm the sharp fall in the number of Poles and Slovaks coming to work in Britain in summer 2008. While 59,000 Poles and other East Europeans registered to work in Britain between July and September 2007, the number fell to 38,000 over the same period in 2008. This is the lowest level since Poland joined the EU in 2004.

This decline is matched among arrivals from the newest European Union states, Bulgaria and Romania. Only 6,515 registered to work in Britain this summer, compared with 9,470 in 2007. National insurance registrations for foreign nationals working in Britain in the first half of this year were also down by 13%.

For the Yorkshire and Humber region Experian refer to ONS projections suggesting net migration to Yorkshire and Humber is expected to fall from 0.6% in 2008 to 0.4% in 2026. Consequently as levels of migration decline, natural change is expected to play a larger role in driving future population growth in both the region and in the UK as a whole.

Average household size

Experian have provided an alternative household scenario based upon the fact that implicit within the household projection methodology is the assumption that average household size declines over the length of the forecast period for Yorkshire and Humber. The consequence of this assumption is that the rate of growth in households exceeds the rate of headcount population growth.

The scenario tests the implications of keeping household representative rates fixed at their 2007 levels for each age/gender/district cohort. It therefore shows the component of household growth that can be solely attributed to changing population. The argument for this scenario is that due to affordability constraints in the early half of this decade households did not realise their projected levels of decline in average size that is implicit in CLG data. Recent evidence from the labour force survey has also suggested that at the national level the rate of decline in average household size has levelled off.

Household representative rates

The result of keeping household representative rates fixed is a reduction in household growth from 32,040 per annum to 27,490 households (in the trend based scenario). This implies that population growth is driving 86% of household growth; declining average household size drives the remaining 14% of the change in household levels. Concerns have been raised regarding the heavy weighting towards population increase in driving household growth which as discussed earlier may be attributable to an increased migrant population.

The economic recession has introduced a further tension between supply and demand. ONS and other forecasts are based on long term trends with regard to demand, and in historical terms, the development industry has not always responded to demand by increasing supply. Added to this is the effect of the recession on the capacity of the development industry to build very high levels of new housing year on year. There is likely to be a mis-match between what needs to happen (the demand side) and what is likely to happen (the supply side).

Implications for the City Region’s Housing Delivery

The regional population and housing models suggest that there may be a need to increase annual net housing growth figures from around 22,000 in the current RSS (May 2008) to between 25,000 and 30,000 per annum in the period to 2026. This would increase the Leeds City Region target to between 15,600 and 18,470.

This level of increase, to levels of housing completions not seen for some 40 years, does not appear to take any account of the profound effects of the economic recession. The key conclusions from a review of previous recessions and the early evidence with regard to the current recession are:

- While the scale and duration of the economic recession is uncertain, previous downturns and the evidence available to date, suggests it will have an impact for a considerable part of the plan period, possibly for as long as ten years or more.
- It is difficult to provide a case for a convincing rationale that household and housing targets will not be affected by the economic recession, both in terms of supply and demand; adjusting immediate targets in a downward direction is now inevitable, and this includes economic and employment growth, unemployment, and housing.
- Increasing housing completions after an economic recession has, in the past, been a slow process and this will affect the ability of the Leeds City Region to catch up in later years of the plan period.
- Given that Yorkshire as a whole and the Leeds City Region have yet to reach the revised RSS annual completion numbers prior to the recession (when conditions were more favourable), it is difficult to present a credible case that numbers could/should be substantially revised upwards.
- The latest available evidence suggests a steep decline in completions. Numbers are likely to remain significantly below target for several years, and an important component of recent development, the apartment market, may not return for some time.
- Household formation rates are likely to be affected by increasing difficulties for young people in entering the housing market, as well as reduced levels of economic migration. These changes will have a major impact on household growth in the foreseeable future.
- It is likely that population and household growth forecasts will be revised downwards over the next twelve months. Given the potential variation in forecasts as a result of changes to assumptions, a major upward revision at this time would not be prudent.

Conclusions

The UK is now officially in recession, and while the scale and duration is unclear, the latest analysis suggests it will be of a similar order of magnitude to the 1990s recession or possibly worse. At the same time, national and international action by Government could reduce the severity of the recession, although insufficient time has elapsed to judge the success of recent policy initiatives.

In the 1990s recession, the City Region and region lost some 6% of its employment, unemployment rose significantly for a sustained period and the numbers of businesses declined. A similar pattern is emerging in this recession, with a greater emphasis on service based employment.

The historical analysis of private sector house building indicates a significant reduction in activity for several years during and after an economic recession, followed by a a long period before numbers return to pre-recession levels (up to 12 years in the case of the 1980s and 1990s recessions). The decline in housing completions in the 1990s in Yorkshire was partly alleviated by a high level of social house building at circa 3,000 per annum at the time (compared to 500 per annum in recent years).

The long recovery time of the housing market after an economic recession is similar to the recovery time for employment. While York and Leeds recovered quickly from the 1990s recession, the majority of the City Region and region took eight to ten years for employment to return to 1991 levels.

While the City Region has not yet met what is now the current RSS target, the number of housing completions has risen significantly since 2000 in the City Region, and four Authorities have been exceeding what is now the current RSS target numbers. There has been a substantial increase in a number of other Authorities, although a large proportion of the increase has been based on the high density apartment market, often on sites made available with some form of public sector support.

Early indications are that the fall in housing completions in this recession has been even more substantial than in previous recessions, with completions falling dramatically and a large fall in the number of new starts and planning applications. In the next few years housing completions will be substantially below the RSS target.

There are a number of factors at work which will result in the City Region being unable to meet its RSS numbers in the foreseeable future – (i) the availability of investment finance for developers, (ii) the new restrictions on mortgages, (iii) the general uncertainty over house prices, (iv) an increasing nervousness about future employment prospects amongst prospective house buyers (v) fewer people in employment, reducing the numbers of first time buyers. Added to this, is the unknown loss of capacity within the development industry.

A further factor with longer term implications is the collapse of the apartment market. This high density model has played a major role in the recent increase in housing completions, accounting for 70%-80% of completions in some areas. It now appears to be substantially and possibly permanently damaged. There is a need to consider whether a new 'urban model', possibly based on an adapted apartment model (lower density, higher quality) is required to provide the scale of new housing required by the City Region. It is not obvious that the development industry in its current state is able to develop this model

Current economic and housing market conditions make the current RSS target un-achievable in the foreseeable future, unless there is substantial intervention to change conditions on both the supply and demand side. On the supply side, the availability of finance for investors is crucial, as is the availability of sites and supporting infrastructure to accelerate new development.

On the demand side, the availability of mortgage finance is crucial, and this is likely to include a broader range of intermediate products, as well as more flexible tenures. Without substantial and radical intervention, it is likely that patterns of previous economic recessions will be repeated, with house completions only returning to pre-recession over a very long period.

The analysis of the previous recession suggests that substantial stimulus from the public sector is required to avoid a prolonged trough with persistently low levels of completions over a sustained period. The combination of a credit crunch and a global economic recession increases the risk of a long housing slump (10-12 years to return to 2006/07 numbers, which were close to, but did not fully meet the RSS target number for 2008/09 onwards).

There remains a critical role over the next 18 months on both the supply and demand side for the Homes and Communities Agency and CLG to work with the city region partnership provide the support to allow the market to be kick started across the City Region, and prepare the City Region for the upturn when it occurs. The Growth Point support now becomes essential to accelerate housing delivery now and help prepare for market up turn in the designated areas, but other investment / intervention measures will be needed across City Region to do likewise. Other housing support also becomes more critical in terms of stimulating the market, addressing new market failures arising from the credit crunch and returning confidence to both developers and citizens.

The regional population and housing models, looking at demand suggest that there may be a need to increase annual net housing growth figures from around 22,000 in the current RSS (May 2008) to between 25,000 and 30,000 per annum in the period to 2026. This would increase the Leeds City Region target, on a pro rata basis to between 15,600 and 18,470.

There is now considerable uncertainty with regard to population growth and household formation rates. The economic recession is likely to reduce the number of economic migrants in the region as employment opportunities decline, and lower levels of employment and the effect of the credit crunch will reduce new household formation, particularly with regard to younger people. As important, is the ability of the development industry and financial sector to deliver a high number of completions year on year, which is now open to question. A prudent approach would suggest reconsidering forecasts in 12-18 months time, when the effects of the recession are clearer.

There could also be value both in the meantime and the longer term to consider how the city region could collectively address housing provision and meet city region wider housing targets. This may include considering further growth potential when target levels are close to being met and relooking at distribution across the city region in a manner that takes more account of city region spatial priorities, market conditions and realistic delivery. This approach could be linked to a phased approach within LDFs, acknowledging local market conditions, and stepping up targets as local growth returns.