DEVELOPMENT DURING A RECESSION

OUTLINE

What is a recession?

- Economic definition: a temporary decline in economic activity.
- In the UK this can last from 6 months to 2 years.

What are the effects?

- The free market slows down as people and companies stop spending.
- Commercial floor space gets hard to shift leading to reduced rentals which in turn leads to a reduced land value.
- The private housing market slows down as buyers become reluctant to move.
- Prices drop, new property becomes uneconomic to build, and housing developers retreat from the market.
- Retail and industrial markets follow the pattern of commerce and housing.

Specific problems:

- Land values decline.
- Income declines as land does not fetch its estimated value.
- Land cannot be marketed and income dries up.
- Rental levels fall.
- Capital values fall.
- Interest rates can remain high.
- Central government funding begins to dry up as other projects compete for funds.
- Gearing and cash flow problems.
- New planning applications dry up but change of use applications increase as new markets are sought.
- Property remains empty reducing confidence.

Benefits:

- Lower land vales helps the public sector.
- Social housing becomes easier to find.
- Transport infrastructure is able to catch up with the rapid expansion that took place in the boom.

What does not change:

- Major contract spend eg. infrastructure, underground railway link to City.
- Maintenance activity.
- Training and other long-term social strategies.

Is the situation different from that faced at start-up?

- Many similarities exist in terms of the problems to be faced.
- The main difference is one of confidence and expectation.
- The effects can appear to be very disorderly.
- The development appears to lose its sense of direction and sense of certainty.
- Confidence is difficult to rebuilt, harder than the first time around.
- The team that dealt with the early problems is likely to have dispersed.
- The early strategies have been forgotten in the good times.
- Activity is possible in areas that have been redeveloped.
- There is much shorter lead time to get activity started once the market picks up.
- The most difficult situation to predict is the change that has taken place in the overall market at a result of the same pressures.

Strategies for dealing with a recession:

- Increase advertising and public relations (but the usual reaction is of pressure on spend and an overall reduction).
- Reduce overheads, reduce the number of offices.
- Reduce staff.
- Restructure the organization to attend to changed priorities.
- Put more emphasis on the social program and by implication increase public sector spend.
- Seek new markets eg. foreign investors.

Options for the future:

- Prepare the exit strategy.
- Complete existing areas.
- Take strategic decisions about areas not started.

Options include:

- Not developing the area.
- Selling the area to the private sector for it to complete.
- Create a partnership with the private sector to share development costs.
- Wait until the market improves, although this strategy is difficult to time s there will be pressure to carry out a 'fire sale'.
- Revise the plan.

Lessons:

- There is a need to be flexible without losing sight of overall objectives.
- Funding from public sources needs to be secure.
- Area development strategies need to be relatively self-contained.
- Incremental growth of transport infrastructure enables change to be accommodated.
- Primary infrastructure is a good long-term investment.
- Secondary infrastructure needs to be developed incrementally eg. estate roads can be in the wrong place and the wrong size for changed development scenarios.
- The structure of the organization must be flexible and able to respond to change.
- Individuals within the organization must be flexible and able to respond to change.