

Business Investment and Housing – Making the connections

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The Centre for Housing Research at the University of St Andrews jointly organised with the Scottish Government a seminar on business investment and housing at Victoria Quay, Edinburgh, in April 2013. This seminar was part of a research project about the consequences of the mortgage crisis on small businesses conducted by Dr Darja Reuschke and Prof Duncan MacLennan and funded by the Regional Studies Association. Based on analysis of existing datasets and interviews with financial institutions, UK government departments, the Scottish Government, local governments in Scotland including Business Gateway and business organisations, this research has found that funding for small businesses based on housing assets has decreased since the mortgage and housing market crisis in 2007/8, and that enterprise and housing issues are largely disconnected both in policy and practice at national, regional and local levels (Reuschke and MacLennan, 2013). This seminar was therefore designed to bring representatives from enterprise and housing policy and practice together to discuss how to fashion new policies and co-operation across different sectors.

Speakers and participants were invited from relevant organisations in Scotland including the Business Directorate and the Housing and Regeneration Division in the Scottish Government, business policy in local governments including Business Gateway, West of Scotland Loan Fund Ltd and DSL Business Finance. In addition, three representatives from enterprise and housing practice both in Scotland and the UK: Cube Housing Association, Federation of Small Businesses Scotland and UK Business Incubation, were asked to summarise the seminar from their organisational perspective (see attachments 1 and 2 for seminar programme and speaker's biographies).

The Issue

How to ease burdens for business start-ups and promote business investment has been a major concern of policy and research across Western countries for some time, with renewed emphasis since the financial crisis in 2007/08. A lot of research and policy thinking in economic development focusses on large firms and inward investment, but small businesses represent 99% of UK enterprise. In 2013, 95.4% of all UK businesses had fewer than 10 employees (BIS, 2013). According to Business Demography statistics of the Department for Business, Innovation and Skills (BIS), since the beginning of the financial crisis in 2008 the number of private enterprises in the UK has grown by 12.6% (BIS, 2012). Thus now, more than ever, small businesses offer considerable potential for growth and recovery.

In recent decades there has been a new awareness of housing market outcomes in general, and price and wealth changes in particular, can impact employment and cyclical stability (Smith and Searle, 2010). However housing wealth changes impacts may affect not just household consumption but also decisions about savings and levels and forms of investment. Housing systems and institutions can have a significant impact on firm formation and small businesses. High house prices and high level of early owner-occupation in the UK have arguably absorbed wealth that may have otherwise been invested in small businesses. The financial commitments of having a mortgage may deter individuals from taking on the risks of starting a business venture. On the other hand, personal housing equity has been largely used in the UK to help finance small businesses.

As well as housing tenure, location, dwelling size and type have a strong bearing on individuals' ability to run a business from home. It is estimated that at least half of all small and medium-sized enterprises in the UK are home-based (Mason, 2011). Home-based businesses (HBB) form a type of small and medium-sized enterprises (SMEs) that are under-

researched despite their economic significance, growth prospects and clear connection to place and neighbourhoods (Mason et al., 2012).

Access to finance for SMEs has been recognised as a major issue in the recovery of the UK economy. Lending to UK businesses has continuously decreased since 2008 with a further contraction by around £4.5 billion between March and May 2013 (BoE, 2013). Reasons for this seem to be a mixture of credit rationing and demand deficiency (ibid.). The contraction of bank lending has particularly hit small businesses as they do not have direct access to capital markets. Interest rates on loans are also much higher for small businesses than for larger businesses (ibid., p. 8). Likewise, secured mortgage lending (remortgaging and house purchase) has dropped dramatically since 2008. Before the financial crisis, many small business owners used mortgage refinancing to fund their businesses mostly because it was easier to go to the mortgage lender than to another bank and a mortgage loan was cheaper than a business loan.¹ However, high street banks have massively limited mortgage lending to business owners and the self-employed. The lack of funding through housing assets will therefore exacerbate the access to finance problem of small businesses.

¹ This information is drawn from an own survey conducted between February and April 2013. We asked 70 business owners in Scotland about funding of their businesses. Interviewees were recruited through Business Gateway, City Councils and Scotland-based business organisations and networks. Of all participants in the survey, 11.4% have used their home for acquiring money for business purposes. This is in line with an analysis of the Family Resources Survey 2005/6. According to this, 10.9% of remortgager households in which one person runs a business used refinancing of their mortgage for business purposes (Reuschke and MacLennan, 2013). Mortgage-based funding was mainly used to buy land or buildings for production and/or offices and to start the business.

Funding of Small Businesses

‘Relationship’ banking and ‘personal’ banking were discussed in the seminar as new models to tackle the current lack of funding to small businesses. Eunice Lancaster, the General Manager of DSL Business Finance – a social enterprise lender that lends across Scotland – presented their approach of personal banking to assess funding applications. Both personal and business characteristics are taken into account in loan decisions: CV, personal presentation, experience in the sector, business sector, business history, strategy, etc..

Financial securities are now more than ever needed for successful loan or overdraft applications. Small businesses and start-ups must be willing to realise any security. There has been a shift in security provision in the post-crisis period from personal property towards business property particularly in SMEs that are run as partnerships, business securities and deposits amongst sole proprietors and personal guarantee and other personal assets amongst limited companies. This is linked with the state of the housing market. In 2011, one third of all SMEs in the UK still used personal property of the owner or director for securing a commercial loan (Reuschke and Maclellan, 2013). In the case of the DSL Business Finance, home property is discounted to 70% of the value. This explains why in practice often more than one security is used.

Small business owners often mingle their personal assets with business assets. It was discussed that more flexible finance models are needed to deal with this practice in order to more appropriately match the reality of a lot of small businesses, in particular home-based businesses. New banking models from Norway, Finland and Sweden (Holvi and Svenska Handelsbanken respectively) were identified as examples for pushing flexible banking through overcoming strict separation of business accounts and personal accounts that traditional high street banks have created. In the UK, Building Societies will be well-placed

to develop more flexible models of lending to small business owners thanks to their tradition of local linkages and ‘relationship banking’.

Access to finance for small businesses could also be improved through peer-to-peer funding and crowd funding; the latter is defined as ‘donations’ in exchange for certain ‘rewards’ instead of shares in the business. For example, the candle maker collects donations for his/her production and delivers candles in exchange. Crowd funding is established in the creative industries with its history of donations to artists but has significant potential in other industries too.

Home-based businesses and Incubation

Two presentations dealt with the implications of home-based businesses for policy. In pre-industrial times, home working was the most prevalent type of working. Industrialisation and Fordism caused a separation of home and paid work. Due to deindustrialisation and the rise of knowledge economies home working has seen a resurgence. HBBs, however, have largely been overlooked in economic development strategies at national, regional and local level. Professor Colin Mason, University of Glasgow, argued that the rising importance of HBBs has implications for housing policy, enterprise policy and planning. Housing policy needs to think about how HBBs’ housing choices influence housing markets and obstacles for HBBs that arise from housing type and tenure (e.g. attitude of social housing providers). Enterprise policy needs to provide business support designed for HBBs. Planning needs to overcome the regulations designed for a time when work and home were physically separated (e.g. council tax, by-laws, insurance).

The lack of clarity in regulations regarding running a business from home was criticised in the subsequent discussion. This encourages HBBs to ‘stay below the radar’. It is, however, often not the fear of public officials but rather the fear of neighbours’ reactions that led to the decision of HBBs to remain hidden from view. In practice, policy departments other than BIS could communicate through their social media that HBBs are allowed and that there is no need for HBBs to remain clandestine. BIS (2012b) has published a home-based business guide that could be used by other (governmental) organisations to encourage entrepreneurial people to set-up their own business from home.

In England, with the abolition in April 2011 of Regional Development Agencies (RDAs) the national Business Link (BL) service, which they operated, was also abandoned. There is no longer a state-sponsored business support network on the ground in local areas. The concern here is that these changes may mean that HBBs are not receiving affordable start-up and development assistance.

Jim Galloway, Head of Enterprise and Innovation in the City of Edinburgh Council, presented different types of incubation enterprise policies which had been put into practice in Edinburgh in recent years including building flats with integrated workshops and the establishment of incubation centres with flexible desk space for the creative industries. He stressed the need for enterprise policy in Edinburgh to go beyond this project planning and to promote the creation of a physical base for the creative industries and foster networking in this sector.

Connecting Enterprise Policy and Housing Policy

Roddy Macdonald, Head of the Innovation, Investment and Industries Division in the Scottish Government Business Directorate, presented results from the Business in Scotland Survey 2012 according to which the number of private sector enterprises has risen and almost all the rise is due to small enterprises (0-49 employees). Thus he concluded that the time is right to promote entrepreneurship and innovation further. As regards the promotion of entrepreneurship, it was discussed that both ‘keeping’ entrepreneurs in Scotland and ‘getting them back’ will be a challenge for business policy in Scotland. Housing and infrastructure may be important aspects for developing such strategies.

Business Gateway and local authorities are important stakeholders to provide face-to-face advice and funding support for start-ups and small businesses in Scotland. Compared to England where face-to-face services for start-ups were abandoned, the Scottish Government has maintained this public sector business support. Another crucial aspect of current support provided by the Scottish Government lies in the education sector (universities, colleges and schools). Here the aim is to incorporate entrepreneurial thinking and knowledge in curricular and to bring young people in contact with entrepreneurs. This links to the notion that Scotland lacks role models of successful entrepreneurship.

Andy Park, Head of Housing and Regeneration Analysis and the Centre for Housing Market Analysis within the Scottish Government, presented the Scottish Government’s vision for housing to 2020 (Homes Fit for the 21st Century). This strategy paper recognises that new steps are required to change the way we invest and make use of existing housing, the way we think about housing and the way people are supported in their housing choices. One key target of this strategy is to promote communities to be economically, physically and socially sustainable. Park sees herein the strongest link between housing policy and the economy.

What Can Social Housing Providers Do?

One issue is how entrepreneurship and HBBs can be supported in social housing; most social housing providers no longer prohibit running a business from home but permission to do so is still required. The East Lothian Housing Association is an example of fostering entrepreneurship amongst social housing tenants through the provision of work-hubs. Cube Housing in collaboration with the Glasgow Housing Association provide start-up grants for their 'best' tenants. In 2013, 15 grants of £1,000 have been provided to tenants to set-up their own business (e.g. hairdressing). It will be important to establish such projects particularly in deprived neighbourhoods in order to encourage entrepreneurship in areas where it has been least evident.

Future Perspectives

The lively discussion that followed proved that there is an urgent need to overcome silo policies and develop new integrated policies in order to establish new models of business funding and business incubation, and find new ways to promote business growth. HBBs appear to be essential components of both national policies to increase start-up rates and local policies to foster local economies (DCLG and BIS, 2011, HM Treasury and BIS, 2010; HM Treasury, 2008).

The new ESRC Seminar Series 'Entrepreneurship in Homes and Neighbourhoods' will serve as a platform for expanding and exploring knowledge exchange in this area. Please go to the seminar website www.st-andrews.ac.uk/homebusiness for further information on upcoming seminars. The PowerPoint presentations from the policy seminar in April will be made available on this website.

Acknowledgement

Andy Park and Oscar Guinea, Housing and Regeneration Analysis and the Centre for Housing Market Analysis within the Scottish Government, made it possible to hold this seminar at the Scottish Government in Edinburgh. We are highly grateful for their organisation support and great interest in our research and knowledge exchange ideas. The seminar was also funded through an early career grant to Darja Reuschke by the Regional Studies Association. We would also like to thank all participants and speakers for their contribution to a fruitful and insightful discussion.

References

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BIS (2012a): Business Population Estimates for the UK and Regions 2012. Statistical Release. BIS: Sheffield.

BIS (2012b): The Home Business Guide. A Guide to Starting and Growing a Business from Home. BIS: London <https://www.gov.uk/government/publications/the-home-business-guide>

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Mason C. 2011. Home-Based Business: challenging their Cinderella status. *Small Enterprise Research* 17 (2): 112-123.

Reuschke D. and Maclennan D. (2013) Housing assets and small business investment: exploring links for theory and policy. *Regional Studies*, DOI: 10.1080/00343404.2013.845293

Smith, S. J. and Searle, B. A. (2010). *The Blackwell Companion to the Economics of Housing. The Housing Wealth of Nations*. Blackwell: Oxford.

More useful links, reports and articles:

Demos Report on Entrepreneurship:

<http://www.demos.co.uk/publications/everyonesbusiness>

FSB report on micro-businesses:

http://www.fsb.org.uk/policy/rpu/scotland/assets/publi_spec_micro2012.pdf

Small Business Survey Scotland 2012 (report and questionnaire):

<http://www.scotland.gov.uk/Topics/Economy/ASBS>

Attachment

Attachment 1: Seminar Programme



SEMINAR

Business investment and housing - connections and policy implications

Conference Room 4, Scottish Government, Victoria Quay, Edinburgh EH6 6QQ
Friday 26th April, 10am - 5 pm

Entrepreneurship and small firms have important roles in facilitating economic growth. Homes are important for many entrepreneurial activities. It is estimated that at least half of all small and medium-sized enterprises in the UK are home-based. Mortgages and housing assets are critical elements in the savings portfolios and collateral of most potential entrepreneurs, and homes are often used as a security for commercial loans. These links between business investment and entrepreneurship with housing are focus of this seminar. What is the role of housing assets within the overall investment portfolios of business owners, and what does that mean for business support services? What are current approaches to foster entrepreneurial activities and innovation in Scotland? How could entrepreneurship be linked with housing and community policies?



Programme

- 10:00 AM **Introduction**
Duncan MacLennan (University of St Andrews)
- 10:15 AM **Housing assets and business investment: Project results**
Darja Reuschke (University of St Andrews)
- 11:00 AM **Home-based businesses - economic significance and policy-relevance**
Colin Mason (University of Glasgow)
- Coffee break*
- 12:00 PM **Local authority approaches to supporting and encouraging entrepreneurs**
Jim Galloway (Edinburgh City Council)
- Lunch*
- 1:45 PM **A more entrepreneurial and innovative Scotland**
Roddy Macdonald (Scottish Government, Innovation, Investment and Industries)
- 2:30 PM **Housing and community policies in Scotland: challenges and potentials for investment**
Andy Park (Scottish Government, Housing and Regeneration)
- Coffee break*
- 3:30 PM **Lending to businesses and personal assets**
Eunice Lancaster (DSL Business Finance)
- 4:00 PM **Rapporteur discussion and concluding remarks**
Peter Harman (UK Business Incubation Ltd)
Susan Love (Federation of Small Businesses Scotland)
Lynn McCulloch (Cube Housing Association)
- 5:00 PM Close of day

Attachment 2: Biographies of Speakers and Rapporteurs

Jim Galloway, City of Edinburgh Council

Head of Enterprise and Innovation, the City of Edinburgh Council, City Development Department, Economic Development Service.

Jim was raised in an entrepreneurial environment. His family have run a successful small business in Fife for over 65 years. He has worked in Economic Development for over 25 years, the last thirteen in Edinburgh where he leads on the development of business support services and innovation programmes. These include Business Gateway, inspiring open innovation, knowledge transfer and commercialisation, support for key sectors including Creative & Cultural Industries, Renewable Energy and Financial Services.

Jim also has a broad range of experience in employability and spent a year on secondment to the Department of Work and Pensions in Westminster working to a Ministerial Action Plan leading a UK wide programme to encourage better partnership working between Local Authorities and Jobcentre Plus.

Appointments: Chair, Scottish Local Authority Economic Development Group, Vice-Chair, Business Gateway Scotland Management Group, Director, East of Scotland Investment Fund Ltd, Member, Scottish Government's Finance Sector Jobs Taskforce.

Peter Harman, UK Business Incubation Ltd

As Chief Executive of UK Business Incubation (UKBI), Peter has worked in innovation and entrepreneurship through best practice business incubation throughout the UK and Europe as well as in Central Asia, Oman, India, the US, Saudi Arabia, the Caribbean, Sri Lanka (including, for example, for the World Bank, the European Commission and a number of national governments including Mexico, St Lucia, Saudi Arabia) and has established a wide range of high-caliber international contacts and networks.

Peter has, in the past, worked in the Bank of England as well as in Leadership and Management Development on behalf of the UK Government. In recent years, Peter has had extensive experience of delivering consultancy and project work for international, national and regional policies makers in emerging and developed economies.

He has informed regional, national and international business incubation strategies and policies as well as Monitoring Evaluation and Impact Assessments as well as leading on the development of the UK's national best practice and accreditation system. He has practical experience of managing a business incubation environment in the UK.

Eunice Lancaster, DSL Finance

Eunice is the General Manager of DSL – Business Finance. DSL is the only social enterprise lender in Scotland to lend to both social enterprises and private companies. DSL is also the only social enterprise lender in Scotland able to use the Enterprise Finance Guarantee enabling businesses without security to borrow. Eunice's career has predominately been in non-profit finance, including managing the Strathclyde Credit Union Development Agency; Operating HNC training programmes for Credit Union volunteers and workers, and raising finance through grants and borrowing to lend to businesses. Managing DSL involves raising finance to lend, managing loan book and debt levels, raising new sources of loan guarantee and capital and managing and assessing loan and grant funds and managing funds on behalf of others including The Royal British Legion and Scottish Government.

Susan Love, Federation of Small Businesses

Susan Love is the Policy Manager of the Federation of Small Businesses (FSB) in Scotland – the country's largest direct-member business organisation, representing around 20,000 members. FSB Scotland campaigns for an economic and social environment which allows small businesses to grow and prosper.

Susan has responsibility for the broad range of policy areas affecting small businesses and represents the FSB on a number of national working groups and committees, including the Regulatory Review Group.

Before taking up her post with the FSB in 2002, Susan worked for the former Presiding Officer of the Scottish Parliament, George Reid MSP. She also served as an elected member of Stirling Council for four years. These varied posts have given her a comprehensive knowledge of government at both local and national level as well as experience of both the public and private sectors. She has a particular interest in the better regulation agenda in Scotland and in the relationship between local authorities and the business community.

Roddy Macdonald, Scottish Government

Roddy Macdonald is Head of the Innovation, Investment and Industries Division in the Scottish Government Business Directorate. The Division deals with policy related to innovation, entrepreneurship and access to finance, as well as key sectors of the Scottish economy including life sciences, manufacturing and financial services. Prior to this Roddy was a Deputy Director in the Scottish Government's Built Environment Directorate dealing with planning and environmental assessment. Roddy has worked in a range of other policy areas in the Scottish Government covering local government finance, third sector, community regeneration, care services and education. Prior to joining the civil service in 1999 he worked in research and consultancy related to town planning and economic development in England and Scotland. He has a BSc and PhD in town planning. He was a Churchill Fellow in 2011, undertaking research into infrastructure funding in Canada and the USA.

Duncan Maclennan, CBE, University of St Andrews

Duncan is professor in economic geography and director of the Centre for Housing Research (CHR) at the University of St Andrews. Duncan researches the economics of cities, neighbourhoods and housing. He is a Fellow of the Royal Society of Edinburgh, a Fellow of the Academy of Social Scientists for the UK and was awarded the CBE for services to housing research in Britain. He currently advises the Prime Minister's Department in Australia and DCLG in London and serves on the Telehealthcare Strategy Development Board for Scotland.

Colin Mason, University of Glasgow

Colin is Professor of Entrepreneurship at the University of Glasgow. Before he joined the Adam Smith Business School in October 2012, he was professor at the Hunter Centre for Entrepreneurship, Strathclyde Business School, University of Strathclyde. Colin is a leading researcher in Entrepreneurship, Regional Economic Development, Entrepreneurial Finance, Business Angels, Venture Capital, Home-based businesses.

Lynn McCulloch, Cube Housing Association

Lynn is chief executive of the Cube Housing Association. Lynn has more than 25 years experience in the social rented sector, starting with 15 years in Glasgow City's Housing Department, including as Depute and District Housing Manager in the west and east of Glasgow. Until 2003, she was Director of Ferguslie Park Housing Association in the pioneering period for partnership and wider regeneration. As Head of Inspection with Communities Scotland until 2006, Lynn was responsible for the inspection of the housing and homelessness services of Registered Social Landlords and local authorities throughout Scotland. She is also a former Chairperson of the CIH in Scotland.

Andy Park, Scottish Government

Andy is a Senior Economist and Head of Housing and Regeneration Analysis and the Centre for Housing Market Analysis within the Scottish Government. Andy graduated from the University of Newcastle-Upon-Tyne in 1992. After completing an MSc in Economics at the University of Glasgow in 1994 as part of the Scottish Graduate Program in Economics he moved to the University of Edinburgh to undertake his doctoral thesis. Following a brief spell as an Assistant Economist at the Forestry Commission, Andy became a Research Fellow at the University of Edinburgh, working on an ESRC project on Civil Justice. Andy then joined the University of Strathclyde in 1999 as a Lecturer where he remained for 6 years before moving into the Government Economic Service in 2005. Before his current post in Housing, Regeneration and Welfare Directorate, Andy worked in Transport Scotland where he was responsible for updating Scottish Transport Appraisal Guidance and economic input to the Transport Model for Scotland as well as economic advice on transport infrastructure projects.

Darja Reuschke, University of St Andrews

Darja has over a decade's experience in academia, government, and consultancy. She is a lecturer in the School of Geography and Geosciences at the University of St Andrews. Her research explores the links between small businesses and entrepreneurship with housing and neighbourhoods and the complex interactions between worklife and homelife. She works mainly with secondary micro data and longitudinal data in particular. She has published her work on small business and self-employment in *Regional Studies* and *Environment and Planning A* and she co-edited *The Economies of Urban Diversity* (2013, Palgrave Macmillan).