

Report to Hignett Family Trust

# HOUSING REQUIREMENTS IN BATH AND NORTH EAST SOMERSET

**Final Report**

Savills Research  
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## EXECUTIVE SUMMARY

This report is a review of the market signals that are relevant to the objective assessment of housing need in Bath and North East Somerset, drawing conclusions on how these signals should be interpreted in the assessment process.

One of the core planning principles in the NPPF is that planning should “proactively drive and support sustainable economic development to deliver the homes, business and industrial units, infrastructure and thriving local places that the country needs”.

It is widely acknowledged that the household projections published by the Department for Communities and Local Government are the starting point for assessment of the country’s housing need, with the most recent interim 2011-based projection indicating the annual formation of 221,000 additional households across the whole of England.

The draft NPPG on assessment of housing need indicates that household projections should be the starting point for assessment of housing need. The 2011-based projection of 221,000 households per annum represents an average expansion of England’s housing stock of 0.96% per annum. The most recently published 2012-based population projections, which are for the population of England to increase at a rate of 0.71% per annum, are consistent with the 2008-based projections. Both sets of household projections are based on a continued fall in headship rates, driven by changing demographics and not constrained by low levels of housing supply.

Subsequent work by Holmans shows that the headship rates within the interim 2011-based projections are constrained by the state of the housing market since 2007. Taking account of the economic and market downturn, he concludes that England’s housing stock should expand at an average of 1.04% per annum to meet housing need over the 20 years to 2031.

Both the NPPF and the draft NPPG state that the objective assessment of housing need should take account of market signals. In B&NES it is clear that:

- Affordability of housing is significantly worse than the national and regional averages, with a ratio of lower quartile house prices to lower quartile incomes of 8.8 in 2012, compared with a national average of 6.6. Affordability deteriorated relative to national and regional averages during the 2002-2007 period, when the level of new housing supply in B&NES was very low, equivalent to an average expansion of housing stock of just 0.3% per annum.
- House price growth has been significantly above average in B&NES, with the average house price having recovered to 3% less than the 2007 peak in September 2013, compared with a South West average of a 10% gap and a South East average of a 4% gap.
- The stock of homes in long term vacancy in B&NES was lower than national and regional averages, at 0.6% of housing stock in 2012, compared with a South West average of 0.9% and a South East average of 0.8%.
- The market signals show that there is significantly above average level of demand and need for additional housing in B&NES.

The market signals indicate that housing need is above average in B&NES, that is, in excess of the national average of an additional 1.0% of housing stock per annum. Market signals for the whole of the South West of England also indicate that housing need across the region is higher than the national average.

The draft NPPG is clear that plan makers should not apply constraints (such as the availability of land) to the overall assessment of need, but that such constraints should be applied when setting policies to meet that need.

Expansion of the housing stock of B&NES by 1.04% per annum equates to 794 additional dwellings per annum. Therefore, when considering the range of estimates of need that emanate from adjusted household projections, the assessment should give greatest weight to assessments in excess of 794 additional dwellings per annum.

## 1 INTRODUCTION

This report answers one of the questions posed by the Inspector of the Bath and North East Somerset Core Strategy Examination for the hearing to be held on 10<sup>th</sup> and 11<sup>th</sup> December 2013. The question, numbered 3.21, is as follows:

“How has the Council’s SHMA/housing requirement taken *full account of relevant market and economic signals* (NPPF paragraph 158)?

- What factors are relevant here?
- Does the objective assessment of need/housing requirement require further adjustment to reflect such signals?”

One of the core planning principles in the NPPF is that planning should “proactively drive and support sustainable economic development to deliver the homes, business and industrial units, infrastructure and thriving local places that the country needs”.

Whilst the original SHMA did analyse some market metrics (sales turnover and affordability), it is not clear how or whether these were used to adjust the demographic projections to arrive at the figures for housing need. The National Planning Practice Guidance (NPPG) reinforces the NPPF, stating that the “housing number suggested by household projections [...] should be adjusted to reflect appropriate market signals”.

This report assesses a wider range of market signals, focusing on those identified by the NPPG, and comments on how these should be interpreted to assess the housing requirement for Bath and North East Somerset.

## 2 HOUSEHOLD PROJECTIONS AND THE NATIONAL REQUIREMENT FOR NEW HOMES

It is widely acknowledged that the household projections published by the Department for Communities and Local Government are the starting point for assessment of the country’s housing need. The draft NPPG states that “household projections published by the Department for Communities and Local Government should provide the starting point estimate of overall housing need.” This analysis starts by assessing housing requirements at a national level, examine the market case for different levels of housing demand in different regions of England and apply this approach to Bath and North East Somerset.

### 2.1 National level household projections

The 2008-based household projections were for an average annual increase in the number of households in England of 245,000. The 2011 Census found that there were 375,000 fewer households in 2011 than had been indicated by the 2008-based household projections.

The interim 2011-based household projections changed the England average increase in households to 221,000 per annum. We are aware that the 2011-based household projections were produced before revised mid year population estimates had been prepared for the period from 2002 and 2010, in the light of new information from the 2011 Census. They therefore rely on information which has since been changed by later analysis of Census data.

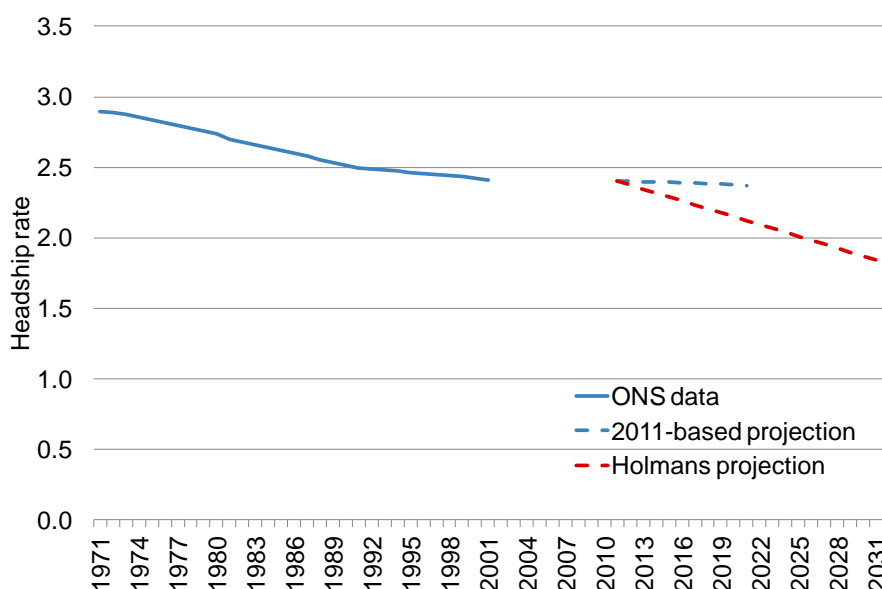
Work by Alan Holmans for the Town and Country Planning Association<sup>1</sup> takes these factors into account and shows that there are two key factors which explain the shortfall between the 2008-based projection for 2011 and the actual numbers recorded by the Census:

- Firstly, that large numbers of recent immigrants have lower household formation rates than the population as a whole. This effect will not be reversed.
- Secondly, that the state of the housing market prevented the formation of new households and this effect is likely to be gradually reversed.

Taking account of these factors, Holmans concludes that “over 240,000 additional homes will be required each year to meet newly arising demand and need.”

Both the ONS 2011-based projections and Holmans work assumes a headship rate that continues to decline, although on different trajectories. When assessing housing need in Bath and North East Somerset, this continuing trend towards smaller households (and lower headship rates) should be considered as a key factor.

**Figure 1 – Headship rates**



Source: ONS, TCPA

<sup>1</sup> “New estimates of housing demand and need in England, 2011 to 2031”, Alan Holmans, Town and Country Planning Association, Tomorrow Series Paper 16

The most recently published 2012-based population projections, at 0.71% per annum, are consistent with the 2008-based projections. Both sets of household projections are based on a continued fall in headship rates, driven by changing demographics and not constrained by low levels of housing supply. The Holmans work shows that the headship rates within the interim 2011-based projections are constrained by the state of the housing market since 2007.

Data from the Department for Communities and Local Government (DCLG) show that there were 23,111,000 dwellings in England as at 1<sup>st</sup> April 2012.

The required increase in households as a proportion of dwelling stock is therefore:

- 1.06% per annum, according to the 2008-based household projections;
- 0.96% per annum, according to the interim 2011-based household projections.
- 1.04% per annum, according to Holman’s conclusions.

Therefore, assuming these assessments of housing need at a national level are correct, the increase in the number of households in all local authority districts should be an average of around 1.0% of stock per annum.

## 2.2 Regional level household projections

There is substantial regional variation in the household projections, with the highest growth in London and the east. The 2011-based household projection for the South West is lower than the national average at 0.9% of stock per annum, significantly reduced from the 2008-based projection, when it was at 1.2% per annum, higher than the national average.

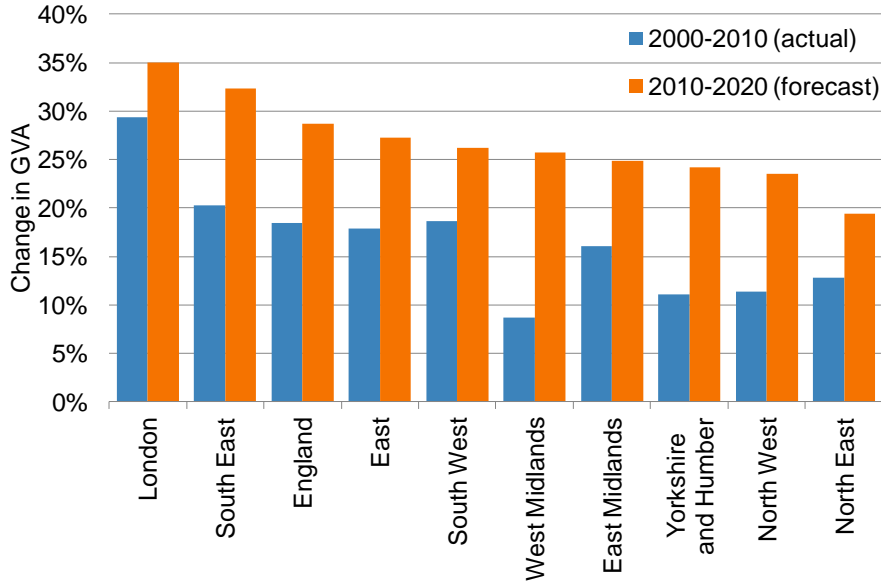
**Table 1 – Regional household projections**

|                    | Household projections, per annum |            | Household projections, per annum, as % stock |            |
|--------------------|----------------------------------|------------|--|------------|
|                    | 2011-based                       | 2008-based | 2011-based                                   | 2008-based |
| London             | 52,571                           | 37,898     | 1.6%   | 1.1%       |
| East               | 28,087                           | 33,878     | 1.1%   | 1.3%       |
| South East         | 38,399                           | 41,081     | 1.0%   | 1.1%       |
| East Midlands      | 18,837                           | 22,958     | 1.0%   | 1.2%       |
| South West         | 21,553                           | 28,584     | 0.9%   | 1.2%       |
| Yorkshire & Humber | 18,107                           | 28,662     | 0.8%   | 1.2%       |
| West Midlands      | 17,759                           | 19,436     | 0.7%   | 0.8%       |
| North East         | 7,668                            | 9,229      | 0.6%   | 0.8%       |
| North West         | 17,545                           | 23,717     | 0.6%   | 0.8%       |

Source: DCLG

This is reflected in the historic economic performance and forecasts. Economic growth, as measured by Gross Value Added (GVA), was stronger in southern regions of England between 2001 and 2010 and is forecast to be strongest in the same regions between 2010 and 2020.

**Figure 2 – GVA growth**



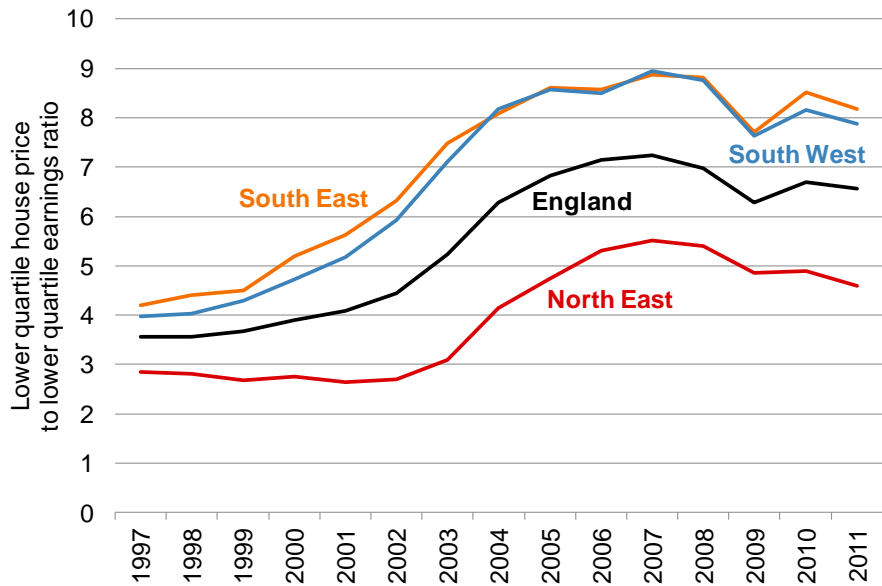
Source: Oxford Economics

**2.3 Regional market signals**

The NPPG states that the “housing need number suggested by household projections [...] should be adjusted to reflect appropriate market signals”. The charts below show analysis of the three most easily accessible market signals to assess whether there is regional variation in the level of demand.

The measure of affordability referred to by the NPPG is the lower quartile house prices to lower quartile earnings ratio, which is published by DCLG. This shows that demand is much greater in the south of the country than in the north; Figure 3 shows that affordability in the two most southerly regions of England is substantially worse than the England average and substantially worse compared to the North East.

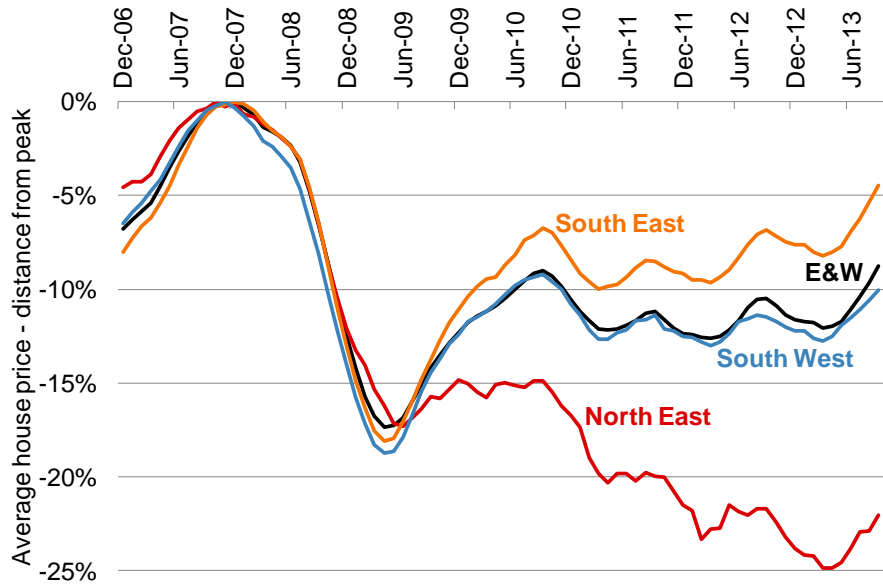
**Figure 3 – Affordability by region**



Source: DCLG

Since the economic downturn, there has been a wide divergence in the performance of average house prices, determined by the relative levels of demand in different areas. House prices have recovered relatively strongly in the south east, where prices were only 4% below their peak in September 2013. Conversely, house prices in the north east were 22% below peak. This is further evidence of greater demand for housing in the south compared to the north.

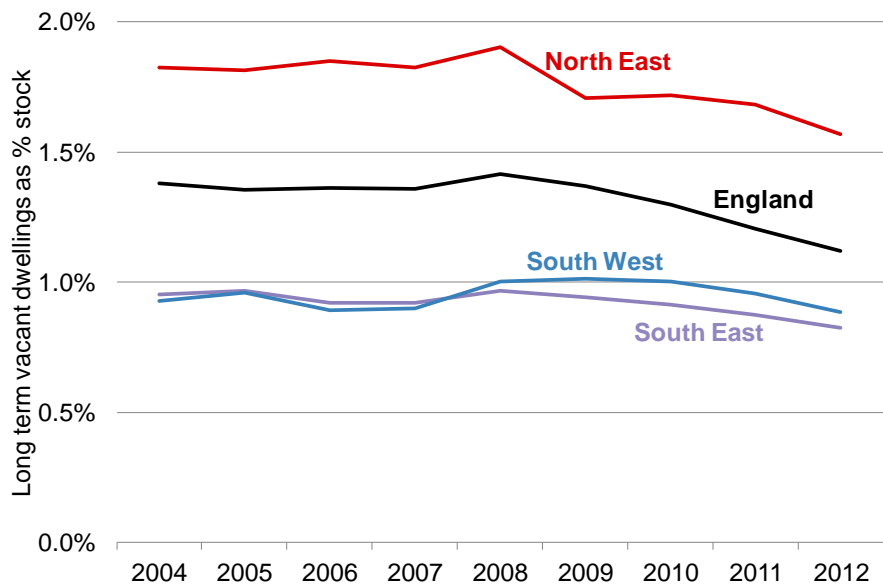
**Figure 4 – House price growth**



Source: HM Land Registry

The proportion of dwelling stock classified as long term vacant has been lower in southern regions compared to the national average and substantially lower compared to the north east. This indicates a greater degree of housing scarcity in the south.

**Figure 5 – Long term vacant dwellings**



Source: DCLG using Council Taxbase data

The 2011-based household projections suggest that housing need is lower as a percentage of stock in the South West compared to the England average. Two of the market signals analysed above indicate that demand for housing, relative to supply, in the South West is approximately in line with the South East and is substantially higher than the England average. In terms of house price growth, the South West is in line with the England and Wales average.

The implication of these analyses is that the average housing requirement in the South West of England is higher than the national average, so in excess of 1.0% of stock per annum.



### 3 HOUSING REQUIREMENT IN BATH AND NORTH EAST SOMERSET

The Council's note (SNES/48) concludes that the housing requirement in Bath and North East Somerset is 7,560 additional homes between 2011 and 2029 (420 per annum), not including accounting for historic undersupply.

In 2012, DCLG recorded 76,390 dwellings in Bath and North East Somerset. An increase of 420 new homes per annum is only an increase of 0.55% of stock, far lower than the national and regional level household projections indicate is required.

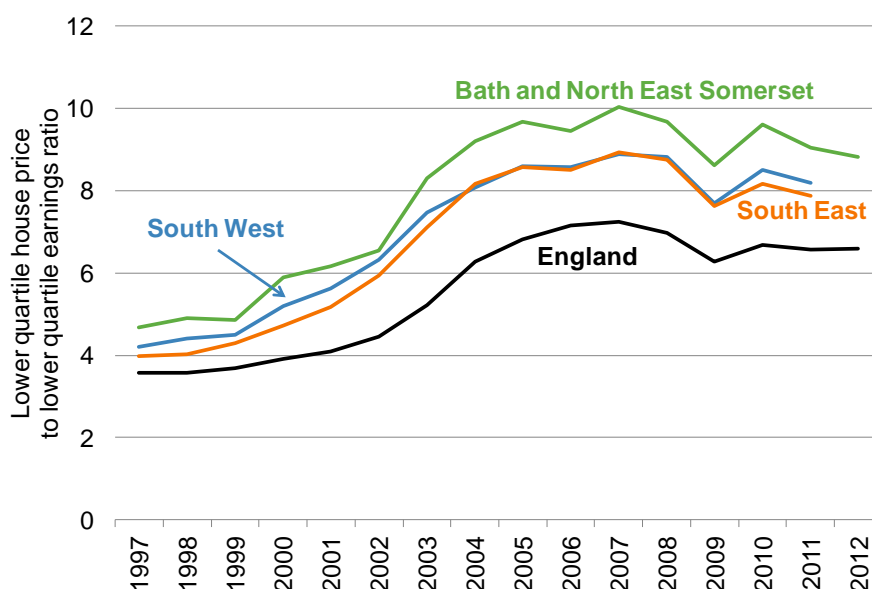
#### 3.1 Market Signals

This section analyses the market signals for Bath and North East Somerset, following the same approach taken in Section 2.3.

Affordability in Bath and North East Somerset is significantly worse than the national and regional averages, with a ratio of lower quartile house prices to lower quartile incomes of 8.8 in 2012, compared with a national average of 6.6.

Affordability deteriorated relative to national and regional averages during the 2002-2007 period, when the level of new housing supply in B&NES was very low, equivalent to an average expansion of housing stock of just 0.3% per annum (see Section 0).

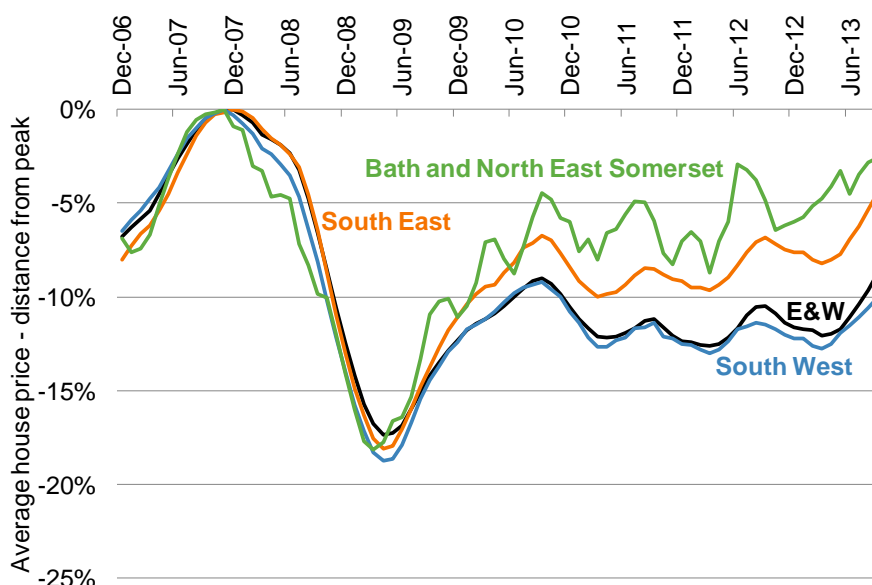
**Figure 6 – Affordability in Bath and North East Somerset**



Source: DCLG

House price growth in Bath and North East Somerset has been significantly above average, with the average house price having recovered to 3% less than the 2007 peak in September 2013, compared with a South West average of a 10% gap and a South East average of a 4% gap.

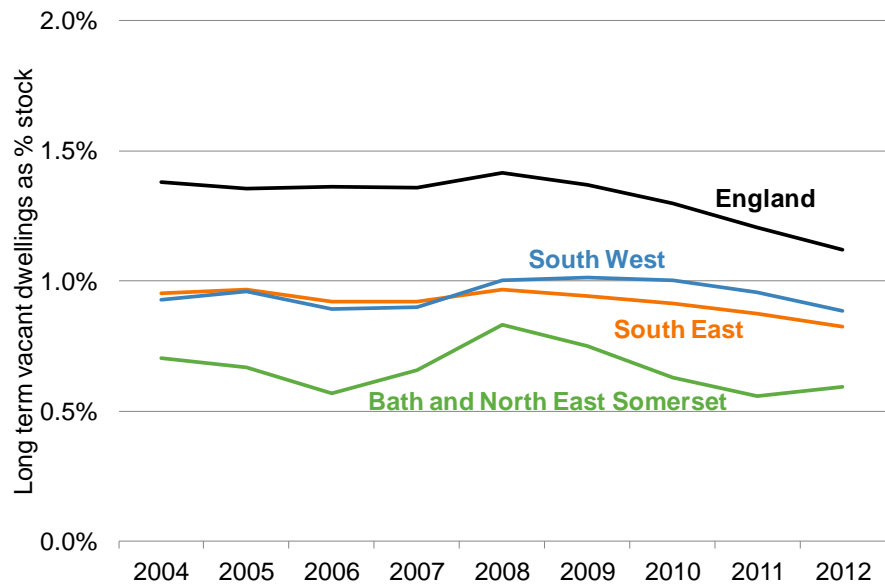
**Figure 7 – House price performance**



Source: HM Land Registry

The proportion of dwelling stock classified as long term vacant was lower than national and regional averages, at 0.6% of housing stock in 2012, compared with a South West average of 0.9% and a South East average of 0.8%.

**Figure 8 – Vacant housing stock**



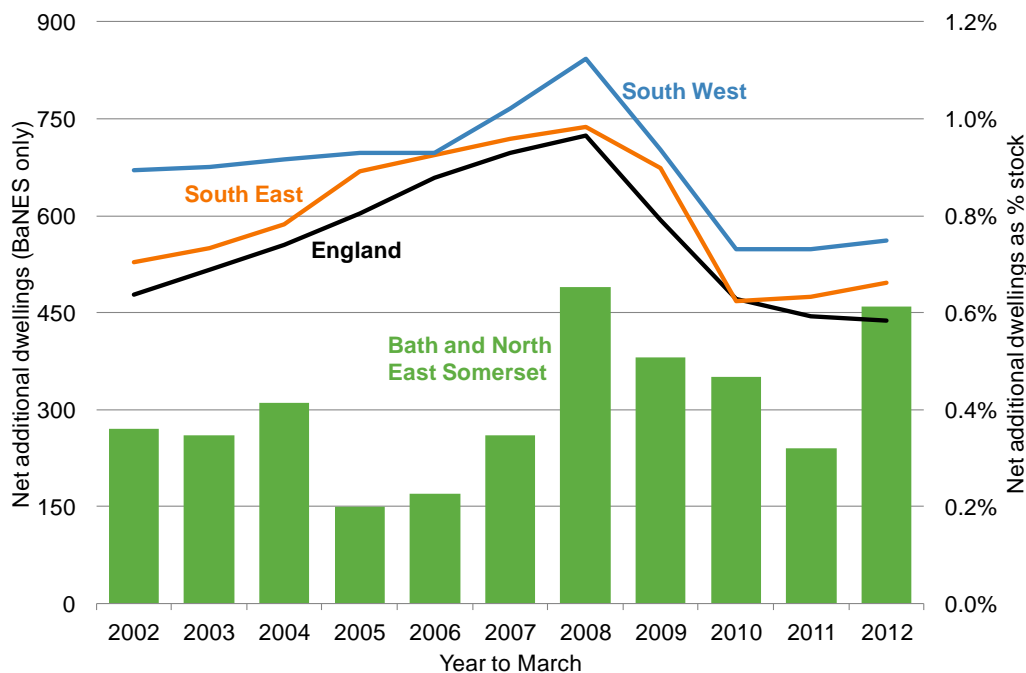
Source: DCLG

All three of the market signals analysed show that there is significantly above average level of demand and need for additional housing in Bath and North East Somerset. An increase of 1.04% of stock per annum, in line with Holman's assessment of housing need nationally (see Section 2.1), is equivalent to 794 new homes per annum. Our analysis of market signals indicates that this should be considered a minimum figure.

### 3.2 The effect of historic undersupply

The accuracy of local level household projections for Bath and North East Somerset is put in doubt by analysis of historic delivery. In Bath and North East Somerset, housing delivery has been very low compared to national and regional averages since the beginning of the last decade. This was particularly so at the beginning of this period, with delivery actually being higher during the downturn than before it.

Figure 9 – Historic housing supply



Source: DCLG

The very low level of historic supply will have suppressed population and household growth between the 2001 and 2011 Censuses. This will be part of the explanation of why the 2008-based estimate of population and households for Bath and North East Somerset in 2011, which is in part based on trends established from Censuses up to 2001, was higher than that actually recorded by the 2011 Census.

### 3.3 Conclusions

Both the NPPF and the draft NPPG state that the objective assessment of housing need should take account of market signals. In B&NES it is clear that:

- Affordability of housing is significantly worse than the national and regional averages, with a ratio of lower quartile house prices to lower quartile incomes of 8.8 in 2012, compared with a national average of 6.6. Affordability deteriorated relative to national and regional averages during the 2002-2007 period, when the level of new housing supply in B&NES was very low, equivalent to an average expansion of housing stock of just 0.3% per annum.
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The market signals indicate that housing need is above average in B&NES, that is, in excess of an additional 1.0% of housing stock per annum. The draft NPPG is clear that plan makers should not apply

constraints (such as the availability of land) to the overall assessment of need, but that such constraints should be applied when setting policies to meet that need.

Expansion of the housing stock of B&NES by 1.04% per annum equates to 794 additional dwellings per annum. Therefore, when considering the range of estimates of need that emanate from adjusted household projections, the assessment should give greatest weight to assessments in excess of 794 additional dwellings per annum.

#### **IMPORTANT NOTE**

Finally, in accordance with our normal practice, we would state that this report does not constitute a formal valuation or appraisal. It may not be used as a basis for any contract or prospectus without prior consent, which will not be unreasonably withheld.

Our findings are based on the assumptions given. As is customary with market studies, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals.

The estimates and conclusions contained in this report have been conscientiously prepared in the light of our experience in the property market. Whilst every effort has been made to ensure that the data contained in it is correct, no responsibility can be taken for omissions or erroneous data provided by a third party or due to information being unavailable or inaccessible during the research period.