

Matter 3: Housing Need

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3.1 Martin Grant Homes and Harcourt Developments Ltd submitted representations in response to consultation on the South Cambs Submission Local Plan (SCLP) in October 2013. As part of these representations, MGH/Harcourt raised issues relating to the level of housing proposed in the SCLP and particularly that it is not consistent with the NPPF objective in paragraph 47 i.e. to *'boost significantly the supply of housing...'*. The wider case of MGH/Harcourt in relation to land north of Cambourne does not rely upon an increase in housing numbers in the Local Plan. Nevertheless, it is necessary for the SCLP to properly reflect the OAN for housing and we therefore address the relevant questions below.

a. *Do the figures of 14,000 new homes (Cambridge City) and 19,000 new homes (South Cambridgeshire) reflect a robust assessment of the full needs for market and affordable housing, as required by the Framework (paragraphs 47 and 159)?*

b. *Is the methodology used consistent with the advice in Planning Practice Guidance? (Where technical matters are in dispute, the Inspector will expect the Councils and relevant representors to provide a statement of common ground so as to narrow and/or clarify areas of agreement and dispute. This will enable the examination hearings to focus on the implications of such matters rather than the underlying technical data.)*

3.2 The level of new homes proposed in the SCLP does reflect a robust assessment of full needs for market and affordable housing. The report that the SCLP relies upon as an assessment of housing need is *'Population, Housing and Employment Forecasts: Technical Report'* (Doc. Ref: RD/Strat/080). As a starting point, we do not consider that the methodology used in this Technical Report complies with the requirements of the NPPF. The NPPF requires at paragraph 47 for an evidence base to be prepared *'to ensure that their Local Plan meets the full 'objectively assessed needs of market and affordable housing'*. In contrast to this approach, the Technical Report acknowledges its limitations in paragraph 2.14, where it states:

'Rather than forecasting housing need, this model predicts the likely population for a given dwelling stock, ... While the official statistics provide the starting point for our understanding of our local population, our use of local data not only adds to our understanding, but also allows us to challenge the official statistics.' (our emphasis)

3.3 It is clear therefore that the outcomes from the Technical Report in large part are a reflection of existing projections of housing stock. The population statistics identified in the report are therefore effectively a self-fulfilling prophecy derived from the council's own assessment of the likely delivery of housing stock in the local authority area.

3.4 We are aware that other parties have made similar comments on the methodology deployed in the Technical Report. Among those representations is a report prepared by GL Hearn (on behalf of landowner clients and St Johns College) entitled *'Review of Housing Requirements: Cambridge & South Cambridgeshire'* (September 2013). The conclusion of the GL Hearn report is that the appropriate OAN for housing in South Cambridgeshire is some 21,500 homes over the plan period i.e. 1075 per annum. This compares with the SCLP figure of 19,000 units, which equates to 950 dwellings per annum. Having reviewed the GL Hearn document, we concur broadly with its main findings.

3.5 In order to further substantiate the findings of the GL Hearn report, Savills Research has been commissioned to prepare a report that looks at a number of market signals in the Cambridge / South Cambridgeshire sub area to determine the extent to which they add weight to the case. The Savills Research Report is attached as Appendix 1.

3.6 The Savills Research analysis of 3 key market indicators: house price growth, housing affordability and development land prices, shows that there has been demand substantially in excess of supply in the study area. The analysis therefore provides additional, more robust evidence of market signals in Cambridge and South Cambridgeshire. The evidence substantiates the GL Hearn conclusion that household formation is very likely to have been suppressed in the two districts. There is therefore capacity to boost significantly the supply of housing, in excess of the demographic projections, and at least meet the housing numbers required to support planned levels of economic growth as identified by GL Hearn. On the basis of this analysis, and for the reasons explained in Appendix 1, an increase in the housing requirement for the Local Plan period in South Cambridgeshire is necessary to a figure of at least 21,500 dwellings.

APPENDIX 1: Cambridge & South Cambridgeshire Housing Requirements: Market Signals

A.1 Cambridge City Council and South Cambridgeshire District Council (SCDC) have both published their respective Proposed Submission Local Plans for consultation. GL Hearn have prepared a report considering the degree to which the level of housing provision proposed by the two Councils meets the National Planning Policy Framework (NPPF) requirements to meet full objectively assessed housing need within the housing market area. The conclusion of this report is that the Councils' evidence "cannot be considered consistent with the NPPF."²

A.2 This Appendix provides evidence on market signals in addition to those in the GL Hearn report, supporting the conclusion that household formation in this area has been suppressed over the last decade and that there is need for additional provision of new homes over and above the demographic projections, in order to avoid further suppression of household formation. Analysis of house prices, house price to earnings ratios and development land prices is given below.

A.3 On the basis of the market signals, GL Hearn provides an amended demographic projection of housing need (PROJ B). However, the description of PROJ B would be best referred to as one in which there is reduced household formation constraint, rather than one in which there is improving affordability. For the latter to be true, housing supply would need to be in excess of PROJ B; i.e. it should provide for more than demographic growth.

A.4 GL Hearn concludes that an objective assessment of housing need should fall between their PROJ B (Updated demographic projection, with improving affordability) and PROJ C (Projection to support planned economic growth). This would mean that the planned levels of economic growth could not be achieved without increased levels of in-commuting. If the planned levels of economic growth are to be supported by housing delivery, the full amount of housing required to support this level of growth would need to be delivered.

Market Signals

A.5 As stated by GL Hearn, the NPPF sets out that in considering policies for development in Local Plans, authorities should take full account of market economic signals (paragraph 158). The following analysis provides additional evidence that there has been a significant shortfall of housing supply relative to demand in Cambridge and South Cambridgeshire.

A.6 This confirms and strengthens GL Hearn's finding that the market signals in these two Local Authorities indicate that household formation is likely to have been suppressed over the last decade.

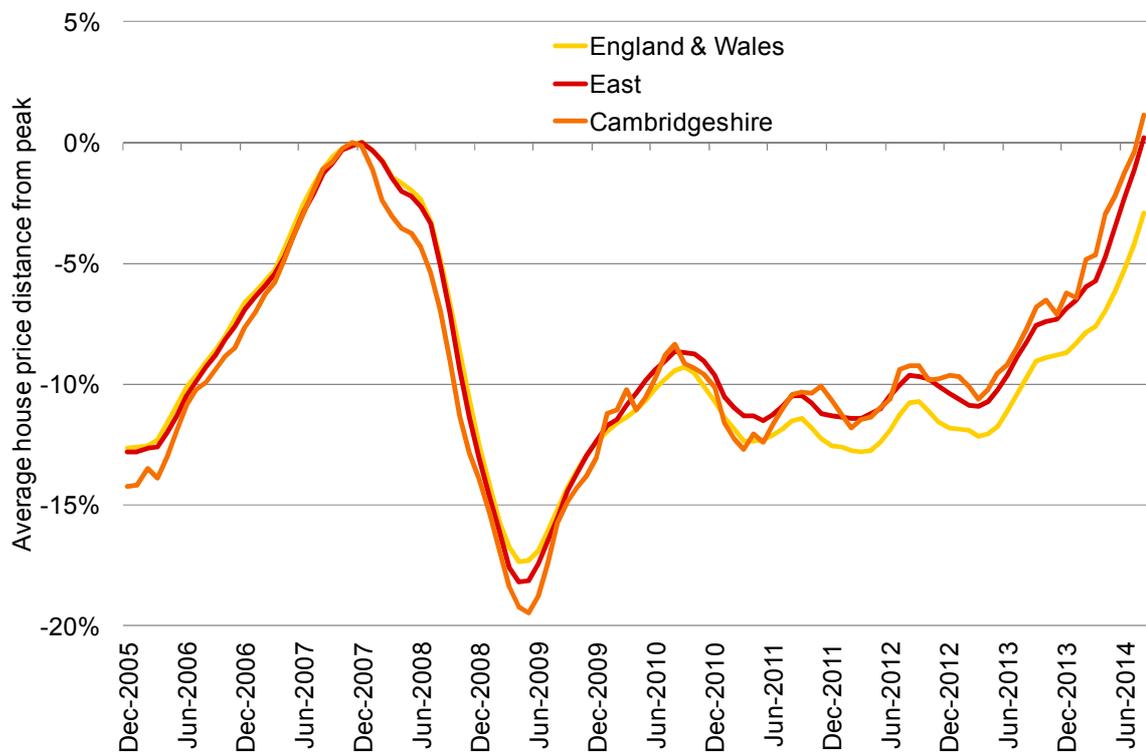
House Prices

A.7 In their report, GL Hearn used Nationwide's House Price Index as supporting evidence to indicate that average house prices in Cambridge were twice the East Anglia average in Q4 2012. The Q3 2014 update of these figures shows a widening of the gap between Cambridge and East Anglia, with the Nationwide House Price Index indicating that average house prices in both regions have increased to £423,904 and £194,680 respectively. This equates to a £87,237 rise in the average Cambridge House price since Q4 2012.

A.8 The Nationwide city level figures are not mix adjusted and can therefore be distorted by any abnormal transactions that take place in a quarter. However, the following analyses of mix adjusted house price indices published by HM Land Registry and constructed by Savills Research from HM Land Registry data support the GL Hearn conclusion that there is a widening gap between house prices in Cambridge/ South Cambridgeshire and other markets in East Anglia.

A.9 Analysis of HM Land Registry data (Figure 1) shows that the average house price in the Cambridgeshire market (the whole county) has recovered in line with the East of England and has exceeded its previous peak in 2007. However, Cambridgeshire is a very diverse housing market, with average house prices varying from an average of £152,000 in Fenland to £384,000 in Cambridge (12 months to July 2014).

Figure 1 – Average house price distance from 2007 peak

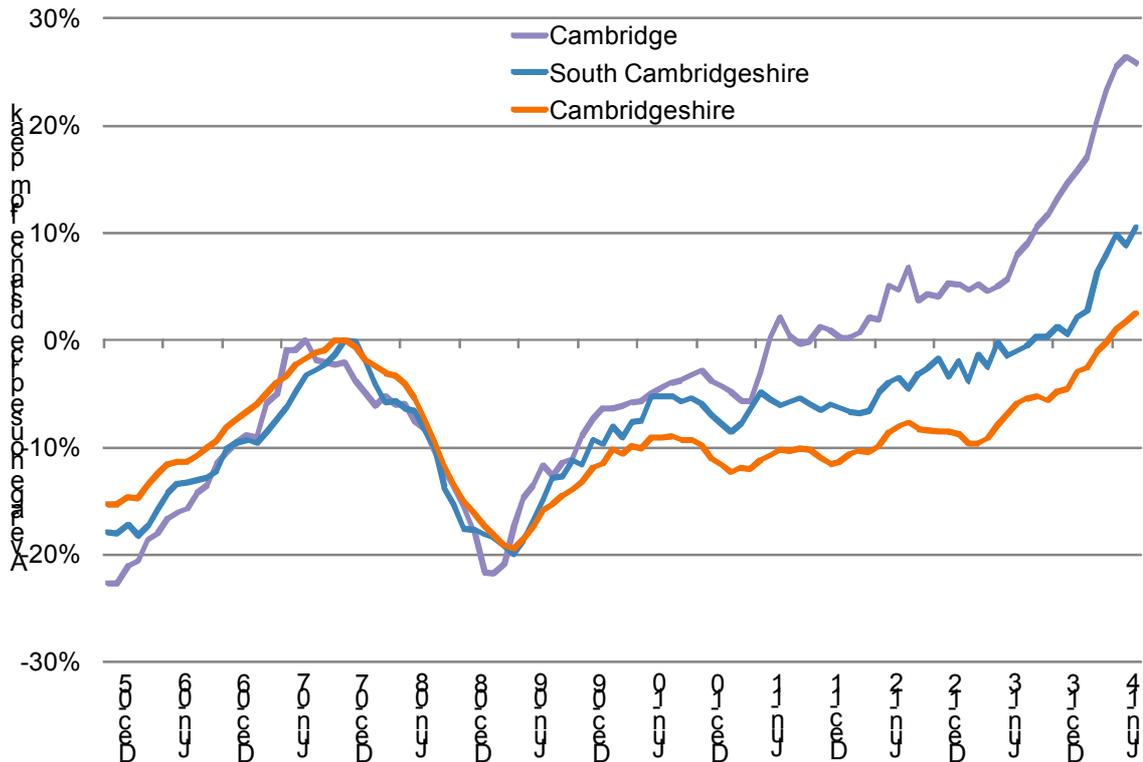


Source: HM Land Registry, July 2014

A.10 We have constructed house price indices for Cambridge and South Cambridgeshire to compare against the published HM Land Registry index for Cambridgeshire (see Appendix 1A for details of methodology). These show that house prices in South Cambridgeshire and particularly in Cambridge have strongly outperformed the Cambridgeshire county average. This indicates that supply has been especially short relative to demand in these Local Authorities, which is likely to have severely hindered household formation.

² “Review of Housing Requirements: Cambridge & South Cambridgeshire”, GL Hearn, September 2013

Figure 2 – Local Authority level average house price distance from 2007 peak



Source: Savills using HM Land Registry data to August 2014

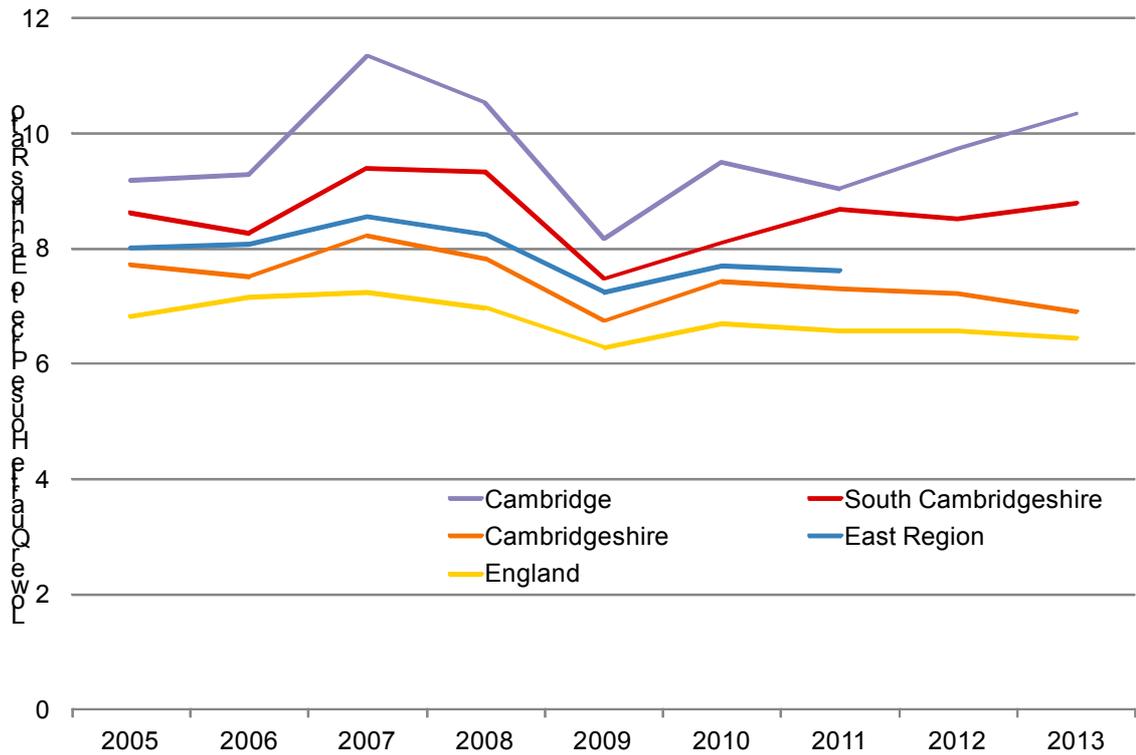
Ratio of House Price to Earnings

A.11 GL Hearn highlighted that Cambridge is one of the least affordable areas to live in the region, a point they supported through 2012 lower quartile house price to earnings ratio evidence, in line with the recommendation of the National Planning Practice Guidance (NPPG).

A.12 This data has now been updated to include 2013, with the ratio in Cambridge reaching 10.3 compared to 8.8 in South Cambridgeshire and 6.9 across Cambridgeshire as a whole. The national average is 6.5. Looking at these figures in the context of previous years shows that ratio for both Cambridge and South Cambridgeshire has been diverging from the Cambridgeshire average since 2010. Whilst affordability improved in Cambridgeshire as a whole between 2012 and 2013, it worsened in both Cambridge and South Cambridgeshire.

A.13 Looking at this alongside Figure 2 indicates that affordability has deteriorated still further in Cambridge and South Cambridgeshire during 2014, relative to the Cambridgeshire and national averages. This indicates that in South Cambridgeshire and particularly in Cambridge, the supply of housing has been low relative to demand. A consequence of this is likely to have been suppressed household formation.

Figure 3 – Lower quartile house price to earnings ratio



Source: DCLG

Development Land Prices

A.14 The Savills Land Index, which shows the value of greenfield and urban residential development land which has received planning permission, indicates that Cambridge’s land values have outperformed the wider East of England region. Greenfield land in Cambridge was only 5% below its 2007 peak level in Q3 2014 compared to a gap of 30% below the 2007 level in the East of England as a whole. Urban development land in Cambridge was also closer to peak in Q3 2014 than the regional average: 34% below peak levels compared to 49% below peak levels in the East of England as a whole.

A.15 This shows that the level of demand for residential development land relative to its supply in Cambridge significantly exceeds the levels in the surrounding region.

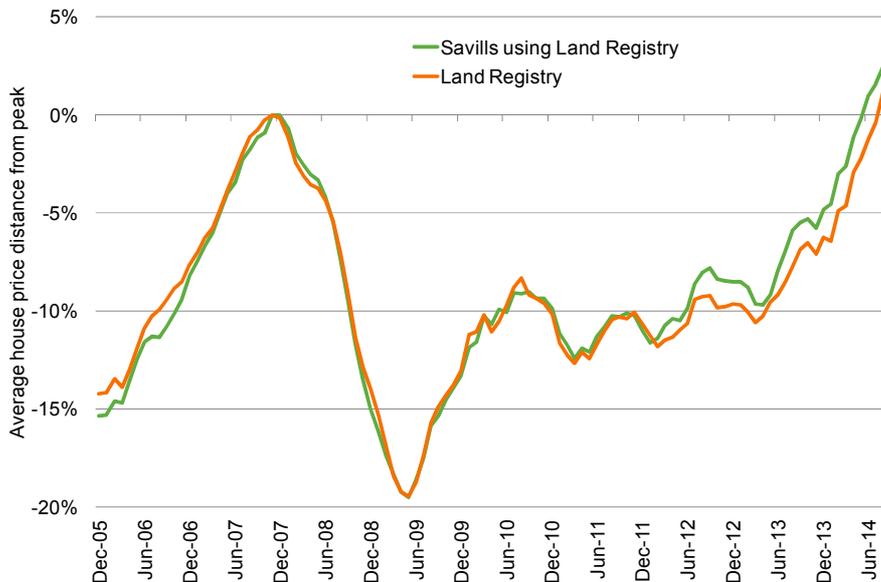
APPENDIX 1A

1A.1 HM Land Registry does not publish mix adjusted house price indices at a more local level than Cambridgeshire. However, we have constructed indices for Cambridgeshire, Cambridge and South Cambridgeshire using the same repeat sales methodology used by HM Land Registry.

1A.2 A repeat sales index uses pairs of transactions of the same property to calculate the growth in price between two points in time. This is done for all property transactions recorded by HM Land Registry in a particular area where two sales of the same property can be matched and an index showing the change in average house price is produced.

1A.3 The result for Cambridgeshire is shown in Figure 4, with the reason for the difference being that the Land Registry applies an adjustment to their raw repeat sales index to account for an assumed level of improvement carried out to properties during a period of ownership. The Savills repeat sales index has no adjustment, leading to a divergence between the result of the two index methods of 1.3% over the period since November 2007. All of the Savills indices shown in Figure 2 have been produced using the same method, so they can be compared on a 'like for like' basis.

Figure 4 – Comparison of repeat sales indices for Cambridgeshire



Source: HM Land Registry and Savills using HM Land Registry

Important Note

In accordance with our normal practice, we would state that this report is for general informative purposes only and does not constitute a formal valuation, appraisal or recommendation. It is only for the use of the persons to whom it is addressed and no responsibility can be accepted to any third party for the whole or any part of its contents. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document 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.

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. The estimates and conclusions contained in this report have been conscientiously prepared in the light of our experience in the property market and information that we were able to collect, but their accuracy is in no way guaranteed.

