Coventry Sub-Regional Housing Study

Addendum

October 2014

COVENTRY SUB-REGIONAL HOUSING STUDY

ADDENDUM

Project Ref:	23657/A5/MR
Status:	Final Draft
Issue/Rev:	01
Date:	31/10/2014
Prepared by:	MR
Checked by:	JD/DH
Authorised by:	JD/DH

Barton Willmore LLP
The Observatory
Southfleet Road
Ebbsfleet
Dartford
DA10 0DF

Tel: (01322) 374660   Ref: 23657/A5/MR/
Fax: (01322) 374661   Date: 31 October 2014
E-mail: research@bartonwillmore.co.uk

CONTENTS

1.0   INTRODUCTION

1.1   This addendum has been prepared by Barton Willmore on behalf of a consortium of developers with land interests across the West Midlands. The consortium includes (in alphabetical order):

- Barratt & David Wilson Homes
- Bloor Homes Midlands
- Bovis Homes
- Crest Strategic Projects
- Richborough Estates
- Taylor Wimpey
- William Davis

1.2   In September 2014, GL Hearn/Justin Gardner Consulting (JGC) published an annex to their November 2013 Coventry & Warwickshire Joint Strategic Housing Market Assessment (SHMA), which primarily focuses on updating its assessment of housing need to incorporate the ONS 2012-based Sub-National Population projections.

1.3   The purpose of this addendum is to demonstrate the key similarities and differences between the November 2013 SHMA, the September 2014 Annex and the June 2014 Coventry Sub-Regional Housing Study produced by Barton Willmore on behalf of the consortium named above (and circulated to all LPAs within the HMA in June/July 2014). It is hoped that this comparison will help to focus the debate on housing numbers for the HMA.

1.4   It is important to note that this addendum is concerned with OAN for the full HMA only. We believe that this is necessary given that Coventry may be unable to meet its own needs in full. Once an OAN for the HMA has been determined, authority-level figures can be determined taking into account any redistribution that may be required.

1.5   This addendum is structured as follows:

- Section 2: Summary of Barton Willmore Housing Needs Assessment to Date
- Section 3: Summary of GL Hearn September 2014 SHMA Annex
- Section 4: Comparison of GL Hearn and Barton Willmore approaches
- Section 5: Conclusions

2.0   SUMMARY OF BARTON WILLMORE SUB-REGIONAL STUDY

2.1   This section briefly summarises the housing needs assessment set out in Barton Willmore's June 2014 Coventry and Warwickshire Sub-Regional Housing Study (SRHS).

2.2   The study was prepared on behalf of a consortium of house builders and developers with interests in the Coventry and Warwickshire sub-region, which was taken to comprise the following local authorities:

- Coventry
- North Warwickshire
- Nuneaton and Bedworth
- Rugby
- Stratford-on-Avon
- Warwick

2.3   The sub-region was confirmed to represent a robust Housing Market Area following independent analysis of commuting and migration data. This HMA definition also aligns with the Coventry and Warwickshire Joint SHMA.

2.4   The primary purpose of the SRHS was to provide an alternative to the GL Hearn/JGC SHMA, which was considered to under-represent the full extent of the need for housing in Coventry and Warwickshire.

Demographic-led Modelling

2.5   The most recent 2011-based CLG household projections estimate that 4,067 households per annum will form over the period 2011-21, a similar figure to the preceding two household projection series (2008-based and 2006-based) at HMA level. However, as these projections only cover part of the plan period, further demographic-led modelling was carried out.

2.6   Firstly, a scenario based on the most recent Sub-National Population Projections (SNPP) from the ONS (2012-based) was modelled. This involved translating the projected population growth (averaging 7,165 per annum) from the 2012-based SNPP into an equivalent number of households. This was achieved by applying headship rate assumptions from the CLG 'interim' 2011-based Household Projections for 2011-2021, with a full return to the headship rates from the 2008-based CLG Household Projections by the end of the plan period. The

result, which included an adjustment for vacant, second and shared homes, indicated a need for **4,461 net additional dwellings per annum over the plan period**.

2.7   However, it was considered that the ONS 2012-based SNPP significantly underestimated international migration at the national level. As a result, a further scenario was tested using the same headship rate assumptions described above, but with a 10 year trend in net migration (as observed in the ONS Mid-Year Population Estimates for 2002-2013) incorporated into the model. The result indicated a need for **4,983 net additional dwellings over the plan period**.

Economic-led Modelling

2.8   A comparison was carried out between the labour force capacity arising from the two demographic-led scenarios described above and independent employment forecasts from Experian Economics (62,920 jobs over the plan period) and Cambridge Econometrics (as reported in the Coventry and Warwickshire LEP SEP – 94,500 jobs over the plan period). Both scenarios would supply sufficient labour capacity compared against the Experian forecast, but both would fail to supply sufficient capacity compared against the Cambridge forecast. As such, it was considered additional economic-led modelling was required.

2.9   In order to supply sufficient labour capacity to meet the level of demand indicated by the Experian forecast (taking into account commuting patterns), the population would need to grow by just 5,612 per annum, which translates into a need for **3,900 dwellings per annum**.

2.10   In order to meet the Cambridge forecast, however (again taking commuting into account), the population would need to grow by 8,590 per annum – around 1,425 per annum higher than the ONS 2012-based SNPP. This translates into a need for **5,075 dwellings per annum** over the plan period. In the context of an active, ambitious Local Enterprise Partnership operating in this area with plans for growth in high value sectors, a projection of this magnitude was not considered unreasonable.

Market Signals

2.11   The PPG is clear (at ID: 2a-019 and 020) that where market signals (such as house prices, affordability and overcrowding) indicate an imbalance between the supply of and demand for housing, plan makers should look to increase supply.

2.12   Although by many indicators the HMA was found to be broadly in line with national average, it was clear that affordability in particular had worsened significantly since the late 1990s. There were also significant numbers of concealed households, particularly in the under 25 and 25-34 age groups. As such, it was considered that the supply of housing would need to be boosted significantly in order to improve affordability and widen access to the private housing market.

2.13   In considering what might represent a reasonable boost to supply, the difference between the Cambridge Econometrics-based Employment-led forecast (5,075 dwellings per annum) and historic delivery rates (2,293 dwellings per annum, 2006/7 to 2012/13) was calculated. This higher scenario was found to represent a 133% increase over historic delivery rates. In the context of the Barker Review (which recommended an 86% increase in build rates nationally to improve the housing market, from a 2003 base) and research from the Home Builders Federation (which found that build rates may now need to increase by 176% due to low build rates since the publication of the Barker review), this appeared to be a reasonable uplift.

Full Objectively-assessed Housing Need

2.14   In summary, the Barton Willmore June 2014 Coventry and Warwickshire SRHS determined that the full, objectively assessed housing needs for the HMA stood at approximately 5,100 dwellings per annum. This also triangulates broadly with the demographic-led scenario based on projecting forward the 10-year trend in net migration.

2.15   This OAN would:

- •   Accommodate the housing need number implied by the latest demographic evidence;
- •   Meet projected job demand; and
- •   On reasonable assumptions, improve affordability.

2.16   This OAN represents an increase of 1,350 dwellings per annum compared with the recommended OAN figure of 3,750 dwellings per annum set out in the GL Hearn/JGC November 2013 SHMA.

3.0 SUMMARY OF GL HEARN SEPTEMBER 2014 SHMA ANNEX

3.1   The September 2014 Annex to the Coventry and Warwickshire SHMA was published to take account of new demographic evidence (specifically the ONS 2012-based Sub-National Population Projections) and respond to the publication of the Planning Practice Guidance in its non-beta form. The Annex also provides further sensitivity tests relating to household formation rates (HFRs). In many respects, this brings GL Hearn/JGC's assessment closer in line with our June 2014 assessment.

3.2   This section briefly summarises the methodology applied in the Annex and highlights areas where the updated analysis differs significantly to the original November 2013 SHMA.

Implications of the ONS 2012-based SNPP

3.3   The Annex provides a new demographic-led scenario which takes account of the ONS 2012-based SNPP, effectively replacing the 'PROJ 1A' scenario from the SHMA which used an adjusted version of the ONS 2011-based 'interim' SNPP to determine housing need for the full plan period.

3.4   In carrying out this new demographic modelling exercise, the Annex provides a discussion of Unattributable Population Change – population change that could not be accounted for by ONS in its demographic equation. In the intervening period between the publication of the SHMA and the publication of the 2012-based SNPP, there was significant debate among those interested in demographic projections with regards to UPC, specifically whether or not it could be considered to be equated to additional net migration or another factor entirely. The approach of the SHMA meant that UPC was included in the original assessment. However, it was decided by ONS that UPC should not be included in the 2012-based SNPP, and as a result, is excluded from both the GL Hearn/JGC Annex and the Barton Willmore SRHS. This accounts for some of the difference in population growth assumptions between the studies.

3.5   The baseline result of the new ONS 2012-based SNPP scenario indicates a need for 3,906 net additional dwellings per annum over the plan period. However, this is adjusted upwards to **4,004 dwellings per annum** once headship rates are adjusted to reflect a 'part return to trend' (see discussion on headship rates below). This represents an increase of 254 dwellings per annum over and above the 'PROJ 1A – Midpoint Headship Rates' scenario from the SHMA, largely due to a slightly higher baseline population growth rate assumed and an updated approach taken towards headship rates.

Updated Economic-led Assessment

3.6   In addition to providing new demographic-led modelling, the Annex also provides additional economic-led modelling based on employment forecasts from Cambridge Econometrics (supplied by Warwickshire County Council). These forecasts indicate employment growth of 90,500 over the plan period compared with the 94,500 set out in the CWLEP SEP; the reasons for this difference are unclear from the information provided. The scenario based on the Cambridge forecast (modelled using the 'part return to trend' headship rates) indicates a need for **4,546 dwellings per annum** over the plan period.

3.7   In addition to this, the economic-led scenario based on an Experian Economic forecast from June 2013 contained within the SHMA has been updated to take account of the new 'part return to trend' headship rates. This results in a need for **3,646 dwellings per annum** – a slight decrease compared with the scenario provided in the SHMA.

Household Formation Rates

3.8   The Annex applies two different headship rate assumptions to both the demographic-led and economic-led scenarios.

3.9   The first, 'Part Return to Trend', is the more constrained of the two. The Annex acknowledges that the CLG 'interim' 2011-based household projections include an element of suppressed household formation due to the economic downturn – effectively projecting forward an assumption that households will be larger than they would be under 'normal' (i.e. non-recessionary) circumstances.

3.10   The 'Part Return to Trend' scenarios therefore assume that household formation rates will fall somewhere between the rates of the 2011-based and 2008-based household projections. This approach differs to the one applied in the SHMA (where a midpoint between the 2008- and 2011-based rates was taken) and the one applied by Barton Willmore in the June 2014 SRHS (where the 2011-based rates are applied until 2021, after which rates gradually make a full return to 2008-based rates by 2031).

3.11   The second, 'Improved Household Formation Rates of those aged 25-34' (shortened to 'Full Return 25-34' for the purpose of this addendum), is a response to the particular problem of suppressed household formation in the 25-34 age group, and is justified in part on market signals grounds.

3.12   The 'Full Return 25-34' scenarios assume that headship rates in the 25-34 age group will gradually make a full return to the levels from the 2008-based Household Projections over the entire plan period 2011-31.   For other age groups, the 'Part Return to Trend' methodology is applied.

3.13   The results of the 'Full Return 25-34' scenarios are as follows:

- ONS 2012-based SNPP: 4,373 dwellings per annum (369 above 'part return to trend')
- Experian Economic-led: 3,950 dwellings per annum (304 above 'part return to trend')
- Cambridge Economic-led: 5,046 dwellings per annum (500 above 'part return to trend')

Full Objectively-assessed Housing Need

3.14   The GL Hearn/JGC Annex concludes that 4,000 dwellings per annum should be considered as the minimum level of supply that can be considered OAN.   This, according to the authors, would support basic demographic-led housing need with an allowance made for a partial return to 2008-based headship rates.   This scenario would also be sufficient to meet the Experian Economics employment forecast, but would fall significantly short of accommodating the Cambridge Econometrics forecast and would not help to address issues of suppressed household formation.   **Although this represents an increase over the November 2013 SHMA, we do not consider 4,000 dwellings per annum to be sufficient to meet the full, objectively assessed needs for housing in Coventry and Warwickshire.**

3.15   The scenarios incorporating a full return to the 2008-based headship rates in the 25-34 age group provide a reasonable response to the issue of constrained household formation, and in many respects bring the GL Hearn/JGC assessment broadly in line with our own assessment.

3.16   However, the Annex concludes that this higher end of the range is 'unlikely', based on the author's view that household formation will not return to the levels shown in the 2008-based household projections.   We disagree. By failing to plan positively for an outcome that we would consider plausible in the context of an improving economy and an active LEP (with plans for growth in high value sectors) and a Government seeking to boost significantly the supply of housing[1], the Coventry and Warwickshire authorities run the risk of facilitating a self-fulfilling prophecy; planning for insufficient housing will ultimately lead to a failure to meet economic growth forecasts, as the population will not grow sufficiently to meet the demand for labour.

---

[1] See Paragraph 47 of the NPPF

4.0   COMPARISON OF APPROACHES

4.1   The previous two sections have set out the key aspects of the Barton Willmore and the two GL Hearn/JGC studies.

4.2   Although all three studies make different assumptions at various stages of the assessment process, there are clear parallels between the 'Full Return 25-34' scenarios of the GL Hearn/JGC Annex (September 2014) and the outputs from Barton Willmore's June 2014 SRHS.

4.3   To aid comparison, the approaches taken by the studies have been set out in thematic tables.

4.4   Table 4.1 (overleaf) compares the approaches of the November 2013 and September 2014 studies from GL Hearn/JGC and Barton Willmore's June 2014 SRHS regarding demographic-led assessments of housing need.

4.5   Table 4.2 then compares approaches to economic-led assessments of housing need and adjustments to account for adverse market signals.

Table 4.1: Comparison of Demographic-led Modelling Approaches

PPG ID2a Para no:	Description	GL Hearn/JGC – Nov 2013*	GL Hearn/JGC – Sep 2014		BW – Jun 2014
		PROJ 1A (SNPP updated – Midpoint Headship Rates)	Part Return to Trends	Full Return 25-34	SNPP 2012
015, 016, 017 – Demographic evidence based trends	Population change assumptions 2011-2031	ONS 2011-based Interim SNPP adjusted using Pop. Estimates for England and Wales, Mid-2002 to Mid-2010 Revised	ONS 2012-based SNPP		2011 to 2012 = ONS MYE population change; 2012 to 2031 = SNPP 2012 population change
	Unattributable Population Change	Included	Excluded		Excluded
	Population change per annum	6,883	7,210		7,158
	Supressed household formation	Acknowledged, but predicts below-trend economic growth over plan period, which would result in full return to 2008-based Household Formation Rates (HFRs)	Acknowledged, tests 'part return to trend' and full return in 25-34 age group justified on market signals grounds		Acknowledged, with a full return to 2008-based HFRs by 2031 to compensate
	Headship rate after 2021	Mid-point between 2011 and 2008-based rates	Partial return to 2008-based rates across all age groups	Full return to 2008-based CLG HH Projections by 2031 in 25-34 age group, partial return in remainder	Full return to 2008-based rated in all age groups
	Household change per annum	3,638	3,884	4,242	4,319
	Household to dwellings conversion factor	3%	3%		3.3%
	Dwellings per annum	3,750	4,004	4,373	4,461
	Total dwelling change 2011-2031	75,000	80,080	87,460	89,220

Table 4.2: Comparison of Economic-led Modelling and Market Signals Approaches

PPG ID2a Para no:	Description	GL Hearn/JGC – Nov 2013*	GL Hearn/JGC – Sep 2014		BW – Jun 2014
		PROJ A (Jobs)	Part Return to Trends	Full Return 25-34	Experian/Cambridge Scenarios
018 – Employment Trends	Economic Forecasts Assessed	Experian (May 2013)	Experian (May 2013), Cambridge Econometrics (supplied by Warwickshire CC)		Experian (March 2014), Cambridge Econometrics (as reported in the CWLEP SEP)
	Employment change per annum	3,132	3,130 / 4,525		3,146 / 4,646
	Economic-led: Dwellings per annum	3,724	3,646 / 4,546	3,950 / 5,046	3,900 / 5,075
	Increase/Decrease vs. Demographic-led Dwellings per annum	Increase	Decrease (Experian) Increase (Cambridge)		Decrease (Experian) Increase (Cambridge)
019, 020 – Market Signals	Acknowledges adverse market signals?	Yes	Yes		Yes
	Adjustment/Compensation made	Assumed Mid-point headship rates in demographic-led scenario, triangulated (approximately) against mid-point of two economic-led scenarios	Provided modelling based on a full return to 2008-based headship rate in 25-34 age group		Considers full economic-led scenario based on Cambridge Econometrics forecast sufficient to help alleviate adverse market signals

5.0   CONCLUSION

5.1   This addendum has sought to demonstrate the key similarities and differences between objective assessments of housing need prepared by Barton Willmore (June 2014, on behalf of a consortium of developers, land owners and land promoters) and GL Hearn/JGC (a November 2013 SHMA and September 2014 Annex).

5.2   The GL Hearn Annex provided a number of significant updates, building on the SHMA's analysis by taking into account the ONS 2012-based SNPP, additional economic forecasts and an updated approach to household formation rates. In providing these updates, the authors have increased their 'minimum' figure for OAN to 4,000 dwellings per annum – an increase of 250 over the SHMA.

5.3   The Annex also provided scenarios which directly respond to the issue of suppressed household formation in the 25-34 age group. In doing so, the authors have provided figures which are comparable in both result and approach to those recommended by Barton Willmore in the SRHS. We believe that this adds weight to the argument that the local authorities of Coventry and Warwickshire need to plan for at least 5,100 dwellings per annum over the period 2011-31. Failing to do so, and pursuing a constrained figure (i.e. 4,000 dwellings per annum) would, based on two independent assessments, risk undermining economic growth and fail to address the suppressed household formation which has occurred due to the economic downturn. Furthermore, failing to significantly boost the supply of housing is contrary to both planning policy[2] and Government's desire to boost significantly the supply of housing[3].

---

[2] NPPF, Paragraph 47
[3] See, for example, 'Housing The Next Generation' speech by Nick Boles, January 2013