

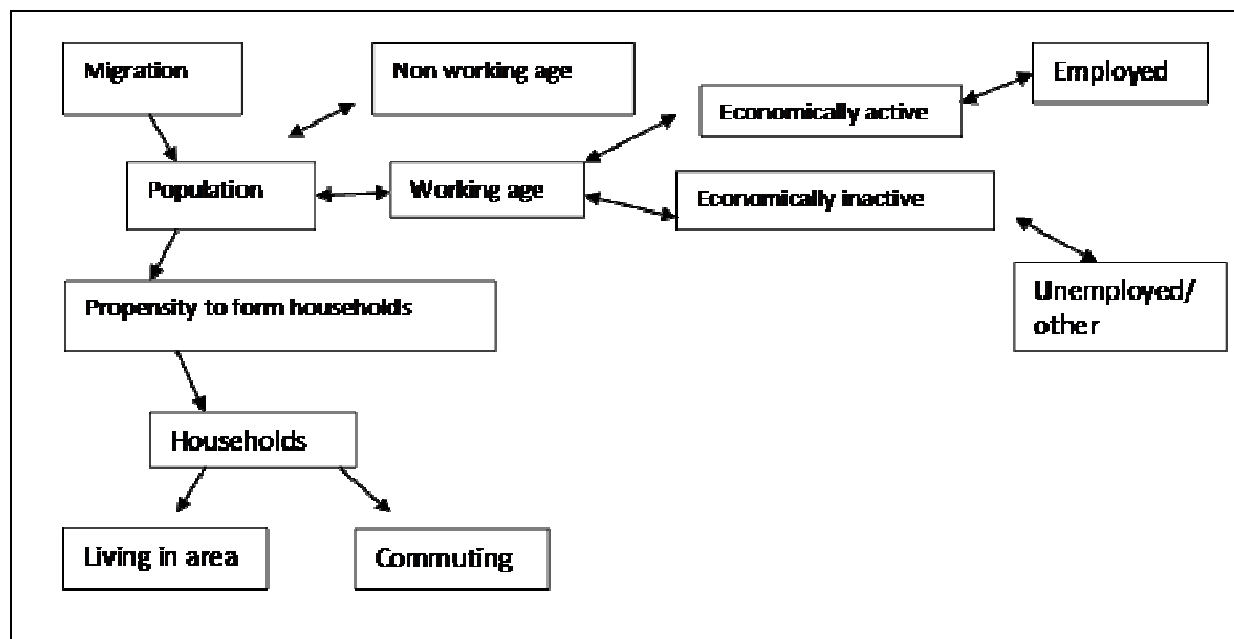
5 The future housing market

Introduction

- 5.1 This chapter looks at future housing market trends including the implications or influences of population and household projections and economic forecasts.
- 5.2 Figure 5.1 shows a range of factors which can influence the overall level of housing demand. These include demographic factors such as the total population and its age structure, migration, economic factors including overall employment and economic activity rates, the changing propensity to form households, and the extent of commuting as a means of transferring demand from one area to another. In this chapter, we examine forecasts of population change, migration and economic forecasts in detail to develop a series of alternative scenarios of future household growth for the region and for each of the housing market areas.
- 5.3 The cost of housing will also clearly have an impact on demand, especially on the propensity to form separate households from a given population. If housing is available at relatively low cost, some households may consume a greater quantity or quality of housing, or own more than one home, and more people might live alone rather than as part of another household (for example young people living with parents or groups of friends). The increased level of investment in housing (as distinct from purchase by owner occupiers) adds considerably to the complexity of household decisions in this area.
- 5.4 The development of a model of the impact of housing costs on demand is beyond the scope of this assessment, although this effect is implicit in the assumptions made below on the propensity to form households. The model developed here does include the capacity to vary assumptions about changes in house prices and incomes to test their impact on affordable need.
- 5.5 The National Housing and Planning Advice Unit (NHPAU) has developed a model of this type and the Unit has given advice to the government on the range of housing supply to be tested by Regional

Planning authorities, drawing on its results³⁹. NHPAU's advice on the range of future housing provision in the North West is compared with our results later in this chapter.

Figure 5.1 Factors influencing housing demand



Population and household projections

5.6 ONS produces projections of future population. The most recent forecasts available at the time the estimates of household formation in this chapter (and the requirements for affordable and market housing in Chapter 6) were produced, were the revised 2004-based sub-national population projections. These were also used by CLG to derive household forecasts (see below) so the two sets of forecasts are consistent. In July 2008, 2006-based sub-national population projections were published by ONS, but as CLG household forecasts based on these new population forecasts have not yet been published, this report continues to refer to the 2004-based population forecasts. ONS population forecasts are trend-based, in that they assume that past trends in the economy and demographic factors will continue unchanged in the future. In addition, ONS projections are constrained to national projections so that projections for the housing market areas within the region fit within the regional and national population projections.

³⁹Meeting the housing requirements of an aspiring and growing nation: taking the medium and long-term view Advice to the Minister about the housing supply range to be tested by Regional Planning Authorities NHPAU June 2008, available at <http://www.communities.gov.uk/documents/507390/pdf/863376.pdf>

- 5.7 On the basis of ONS sub-national population projections, CLG produces sub-national household projections, which are revised periodically to take into account revised population projections. The most recent household projections were published in February 2008 and are based on the revised 2004 based sub-national population projections. Household projections are again based on past trends and predicted national changes in factors like household formation rates in total and by type.
- 5.8 Both sets of projections are available to 2029, but to be consistent with the timetable for the RSS review the results have been extrapolated on a trend basis to 2032 for this work. The tables on population and household forecasts below show figures for 2029 and 2032 to demonstrate the impact of extrapolation.

Population projections

- 5.9 The total population of the North West is projected to increase from 6,863,000 in 2006 to 7,366,000 in 2032, a rise of 7% (Table 5.1).
- 5.10 The age structure is projected to become markedly older over the next two decades. All age groups below 60 are projected to decrease in proportional - and in many cases in absolute - terms. The only exception is the 25-29 group, which fuelled by in migration should show a slight increase. All of the older age groups are projected to increase substantially. The number of people aged over 85 is anticipated to almost double between 2006 and 2032, reflecting increasing life expectancy. As a proportion of the population, people aged 65 or over are projected to increase from 16% in 2006 to 22% in 2032. In absolute terms their numbers will increase by 528,800, a greater figure than the whole of the region's population growth over the 2006 to 2032 period (503,000). This clearly has major implications not just for service provision and potentially for the nature of housing demand, but also for the region's economy, as the working age population (taken as all those aged 16-64) will decline from 65 to 60%, unless increased proportions of those aged 65 or more remain in the labour force.

Table 5.1 Projected population by age group, North West 2006-2032

Age group	Population (000s)							% by age group	
	2006	2011	2016	2021	2026	2029	2032	2006	2032
0-4	390.2	389.3	393.6	397.9	392.4	386.2	388.5	5.7	5.3

5-9	398.7	394.4	393.6	398.1	402.6	400.5	402.9	5.8	5.5
10-14	440.2	401.5	397.6	397.0	401.5	405.5	407.9	6.4	5.5
15-19	470.9	442.0	404.3	400.9	400.7	402.1	404.5	6.9	5.5
20-24	462.6	490.8	463.9	428.2	426.1	430.5	433.0	6.7	5.9
25-29	404.8	466.8	494.6	470.1	436.5	425.7	428.2	5.9	5.8
30-34	426.5	410.8	469.5	497.5	474.2	454.8	457.5	6.2	6.2
35-39	509.3	432.2	416.3	473.5	502.0	495.5	498.4	7.4	6.8
40-44	527.4	512	435.9	420.3	476.7	501.1	504.1	7.7	6.8
45-49	472.8	524.6	509.8	434.8	419.7	457.3	460.0	6.9	6.2
50-54	423.0	465.0	516.4	502.3	429.0	396.1	398.4	6.2	5.4
55-59	454.9	410.8	452.3	503.2	490.1	455.7	458.4	6.6	6.2
60-64	370.7	434.4	393.5	434.2	484.2	481.7	484.6	5.4	6.6
65-69	318.7	347.4	409.2	372.1	411.9	445.8	448.4	4.6	6.1
70-74	273.0	289.3	318.6	377.0	345.0	362.6	364.7	4.0	5
75-79	223.6	230.6	250.3	279.1	332.1	306.9	308.7	3.3	4.2
80-84	162.6	167.8	180.3	201.1	227.8	268.1	269.7	2.4	3.7
85+	133.2	148.9	166.3	190.6	223.7	246.9	248.4	1.9	3.4
All ages	6863.0	6958.5	7065.7	7178	7276.2	7323.0	7366.4	100.0	100

Source: ONS 2004-based sub-national population projections

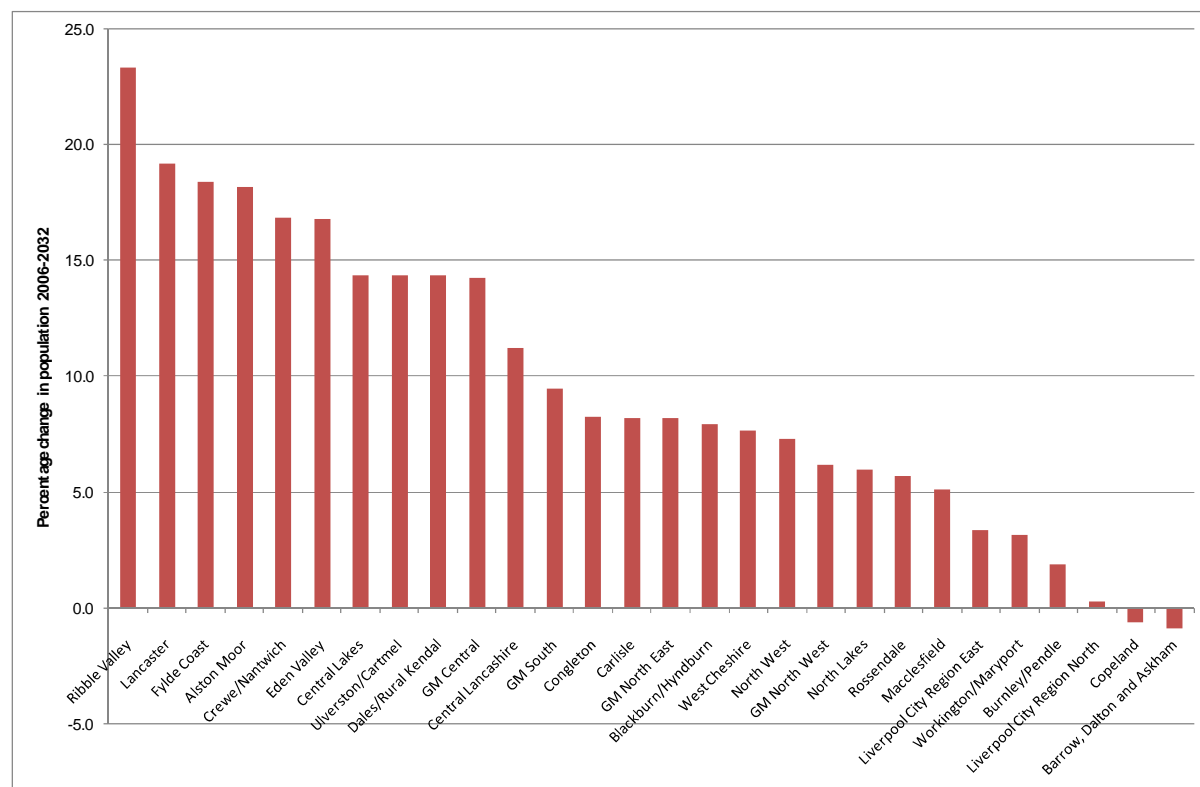
5.11 There are considerable differences in the trajectory of projected overall population growth at housing market level and in the age composition of the population. Figure 5.2 shows the projected percentage growth in population over the 2006-2032 period by housing market area. The striking feature is the very wide range of future growth levels demonstrated.⁴⁰

5.12 Two areas, Barrow, Dalton and Askham and Copeland, are projected to lose population over the 2006-2032 period, but by only 0.8% and 0.6% respectively. At the other end of the spectrum, Ribble Valley is anticipated to grow by 23% with two other areas in North Lancashire - Lancaster (19%) and Fylde Coast (18%) - also registering very high rates of growth. By and large, the Cumbria, Greater Manchester and Cheshire housing market areas (North Lakes, Greater Manchester North Western, and Macclesfield are the exceptions) are projected to grow most rapidly, whilst West Cumbria, Pennine Lancashire and Merseyside (including West Cheshire) have lower growth rates. It should be remembered that the projections are based on past trends and do not take account, for example, of growth area proposals, or of programmes such as housing market renewal which have not yet had time to impact on population movement. However they do reflect the recent migration led upturn in Manchester. The more favourable

⁴⁰ The chart shows percentage rather than numerical changes in population, in order to discount the effect of the size of each housing market area. Alston Moor, for example, has a high percentage increase but a very small level of growth in numerical terms.

growth picture in the North West is clearly not reflected evenly across the region.

Figure 5.2 Projected trend based percentage change in population 2006-2032 by housing market area



Source: Apportioned ONS 2004-based sub-national population projections. See Appendix 4 Table HMA31

5.13 Looking at projected changes in population by age group from 2006 to 2032 for each housing market area, for children, only Greater Manchester Central, Lancaster, Ribble Valley, Fylde Coast, Greater Manchester Southern, Central Lancashire and Blackburn/Hyndburn are projected to gain population in the 0-14 age group between 2006 and 2032. Blackburn/Hyndburn had the highest proportion of children (0-14) in 2006 (22%) and although this share is projected to decline to 20% by 2032, this remains the highest proportion of children of any housing market area.

5.14 In terms of 15-29 year olds, the only housing market areas projected to gain population over the 2006-2032 period are Ribble Valley, Fylde Coast, Crewe/Nantwich, Eden Valley, Alston Moor, Lancaster and Blackburn/Hyndburn. Most of these are high overall growth areas, and for Blackburn/Hyndburn this represents the 'ageing' of the current high

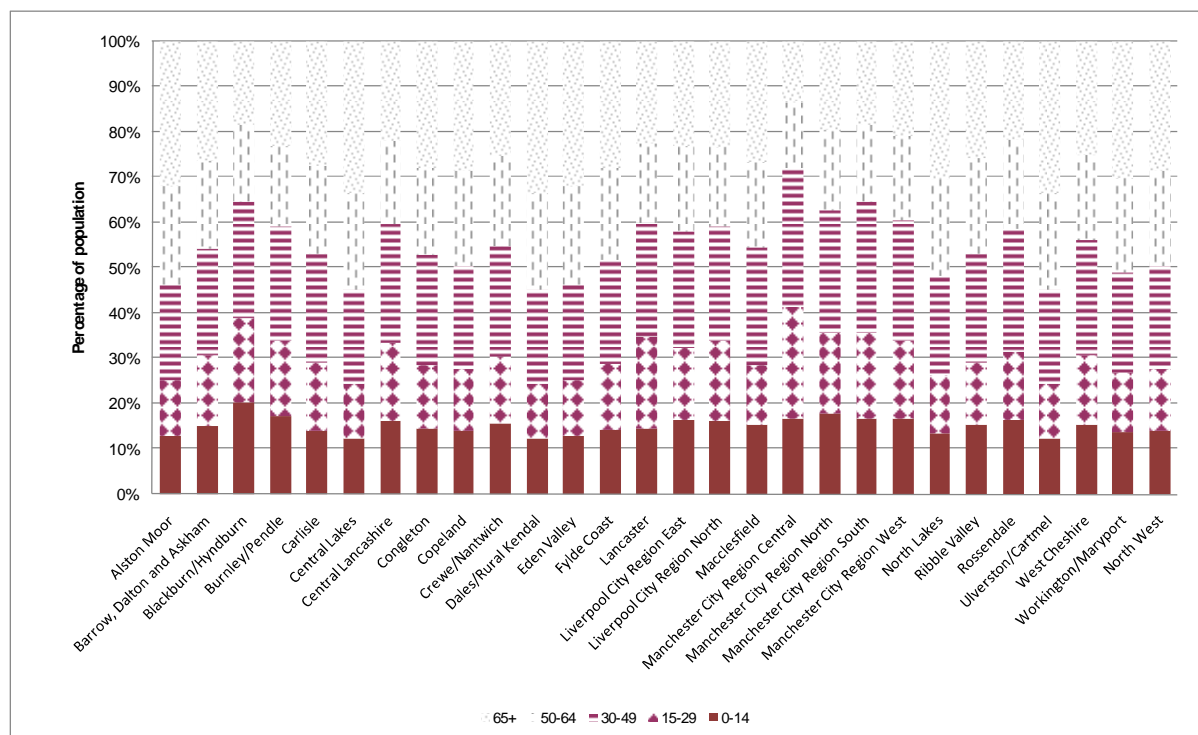
child population. Some housing market areas are projected to experience a very sharp fall in the proportion of younger people. Workington/Maryport, Barrow, Dalton and Askham, Burnley/Pendle, Liverpool City Region North and Copeland are all projected to lose more than 10% of people in this age group which is of great importance in economic terms.

- 5.15 Only Greater Manchester Central, Lancaster, Greater Manchester Southern, Ribble Valley, Greater Manchester North Eastern, Fylde Coast and Central Lancashire are projected to gain people in the 30-49 age group, whilst the proportion of this group in Alston Moor, Eden Valley, Barrow, Dalton and Askham, North Lakes, Workington/Maryport and Copeland is projected to fall by more than 10%. The loss of people in the 30-49 age group is therefore particularly significant in Cumbria. This is the age group when people are most likely to raise children and also when economic potential increases significantly.
- 5.16 The picture is reversed for the 50-64 age group, with all but four housing market areas expected to gain population. The numbers in this group increase by more than 10% in Ribble Valley, Greater Manchester Central, Crewe/Nantwich, Fylde Coast, Lancaster, Eden Valley, Alston Moor, Greater Manchester Southern, Blackburn/Hyndburn, and Central Lancashire. The only areas expected to experience a fall in this age group are Liverpool City Region North, Burnley/Pendle, Macclesfield and Barrow, Dalton and Askham, which are all amongst the areas with least overall growth or actual decline in population.
- 5.17 Perhaps not surprisingly, there are no housing market areas which experience a decline in the number of people aged 65 or more, and the lowest percentage increase is 20% in Greater Manchester Central. Eight housing market areas - Eden Valley, Alston Moor, Ribble Valley, Crewe/Nantwich, Dales/Rural Kendal, Central Lakes, Ulverston/Cartmel and Congleton - are projected to see growth of 75% or more in the number of people aged 65 or more and a further eight (including Barrow, Dalton and Askham where there is overall population decline) are projected to see growth of over 50%. Across the region, projected population growth is thus dominated by the over 50s.
- 5.18 Figure 5.3 summarises the impact of this ageing process on the projected profile of population by age for each housing market area in

2032. Greater Manchester Central stands out with a *relatively* young population (of people under 50), reflecting its role as a reception centre for in migrants and a centre for higher and further education. Blackburn/Hyndburn, and the other three Greater Manchester housing market areas are also projected to have more than 60% of their population aged under 50.

- 5.19 Lancaster, Central Lancashire, Liverpool City Region North, Burnley/Pendle, Rossendale, Liverpool City Region East, West Cheshire and Crewe Nantwich have 55-60% of people aged under 50.
- 5.20 Copeland, Workington/Maryport, North Lakes, Alston Moor, Eden Valley, Central Lakes, Ulverston/Cartmel and Dales/Rural Kendal are all areas expected to have at least 50% of their population over 50 in 2032. These are the areas where population ageing (assisted by retirement migration) has had the most significant impact. Fylde Coast also has a very high projected proportion of people aged 50 or more in 2032, suggesting that coastal areas also attract retirement migration.

Figure 5.3 Projected age composition of population 2032 by housing market area



Source: Apportioned ONS 2004-based sub-national population projections. See Appendix 4 Table HMA31

Migration

5.21 The projections set out above include assumptions about levels of natural change and migration. Table 5.2 below shows the breakdown of population projections for the North West into these components. The projections assume a fairly constant level of net in migration (on average 12,400 per annum). Natural change is expected to increase until 2019 and decline to zero by 2032, averaging about 6,700 per annum. Net international migration forms the largest element of in migration (65%) but internal migration is also significant. Over the whole period 2006-2032, net migration amounts to about 315,000 people.

Table 5.2 Components of population change 2006-2032, North West region

Population	000s						
	2006	2008	2014	2019	2024	2029	2032
Total population	6871.1	6907.9	7027.6	7140.5	7247.0	7331.2	7366.0
Natural Change	7.9	8.1	11.1	11.2	7.2	1.2	0.0
All Migration net	12.0	10.1	10.5	11.7	12.9	13.5	14.0
Net internal migration	1.4	1.5	2.0	3.1	4.4	5.0	5.5
Net international migration	10.6	8.5	8.5	8.5	8.5	8.5	8.5
Internal migration into area	91.3	92.7	94.7	94.6	94.8	95.3	95.5
Internal migration out of area	89.9	91.2	92.7	91.5	90.4	90.3	90.0
International migration into area	59.3	56.5	56.5	56.5	56.5	56.5	56.5
International migration out of area	48.7	48.0	48.0	48.0	48.0	48.0	48.0

Source: ONS 2004-based sub-national population projections

Household projections

- 5.22 Table 5.3 shows projected changes in household numbers and types for the North West region as a whole.
- 5.23 Whilst the population of the region is predicted to increase by 7% between 2006 and 2032, the number of households is expected to rise by 21%, primarily as a result of the continuing tendency towards smaller households. This is an increase of 618,000 households or 23,776 households per annum. The biggest projected percentage increase is in cohabiting couples, but the biggest numeric increase is in single person households, which accounts for 77% of the projected growth in households across the region between 2006 and 2032. The consequence is a continuing fall in average household size, from 2.3 in 2006 to 2.0 in 2032.

Table 5.3 Household projections 2006-2032, North West

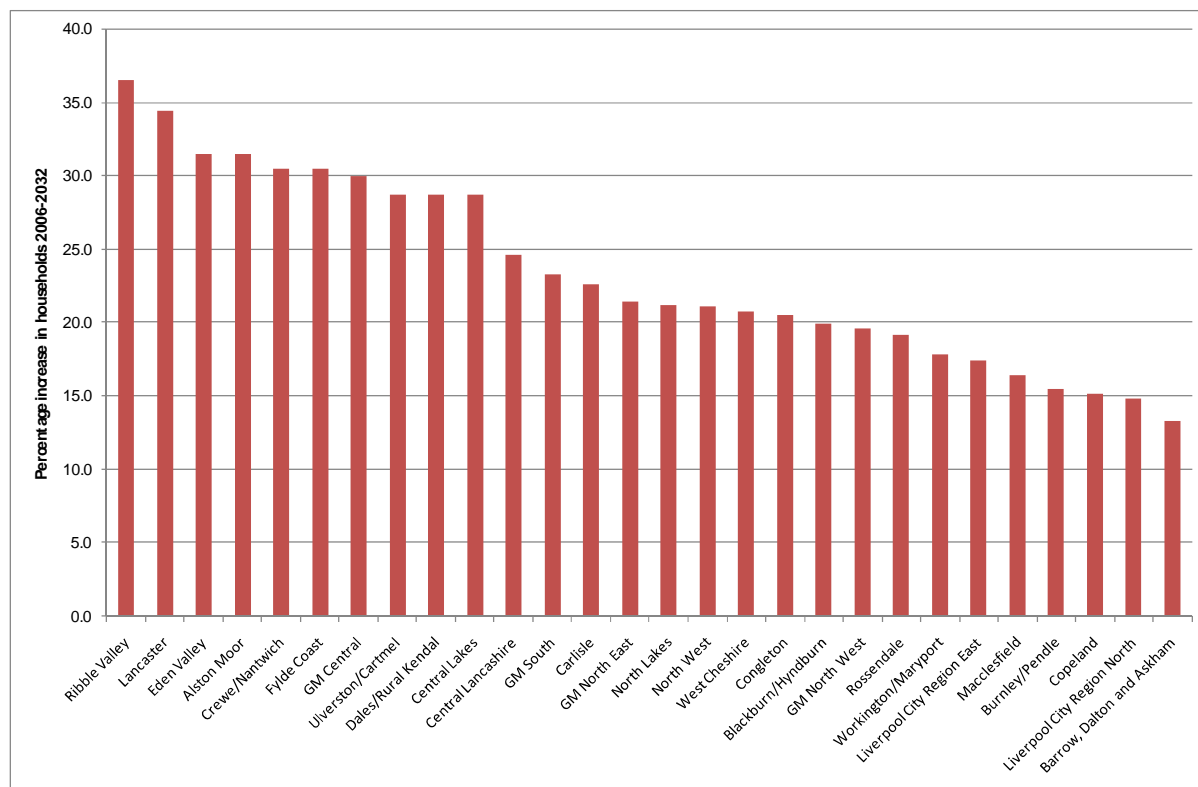
	000s							% increase
	2006	2011	2016	2021	2026	2029	2032	
Married couple	1251	1211	1185	1167	1147	1134	1151	-8
Cohabiting couple	278	328	367	394	416	429	435	57
Lone parent	266	280	288	294	298	298	303	14
Other multi-person	190	199	210	219	226	232	235	24
One person	957	1056	1165	1271	1365	1414	1435	50
All households	2940	3074	3215	3345	3453	3506	3558	21
Private hhd population	6748	6841	6945	7052	7143	7184	7227	7
Average household size	2.295	2.225	2.160	2.109	2.069	2.049	2.030	-12
Concealed married couples	4	4	4	4	4	4	4	-20
Concealed cohabiting couples	5	6	6	7	7	7	7	46
Concealed lone parents	8	6	5	4	3	3	3	-66

Source: CLG 2004-based sub national household projections, revised February 2008. See Appendix 4 Table HMA37

5.24 Figure 5.4 shows the projected percentage change in households between 2006 and 2023 by housing market area⁴¹. The largest proportional increase in households is expected in Eden Valley (nearly 40%), and the smallest in Barrow, Dalton and Askham (around 5%). As with population projections, it should be stressed that these estimates are trend based, and take no account of changes likely to result from future policy initiatives. In many cases (for example Alston Moor, Ribble Valley, Barrow, Dalton and Askham and Burnley/Pendle) rankings in terms of projected household change mirror rankings in terms of population change (Figure 5.5). In other cases the rate of household formation is significantly higher than population growth would suggest (Carlisle, North Lakes, Workington/Maryport, Copeland); or lower (Lancaster, Crewe/Nantwich, Greater Manchester Southern). This is either a result of the population structure impacting on household formation, or an anticipated catching up in terms of the propensity to form smaller households.

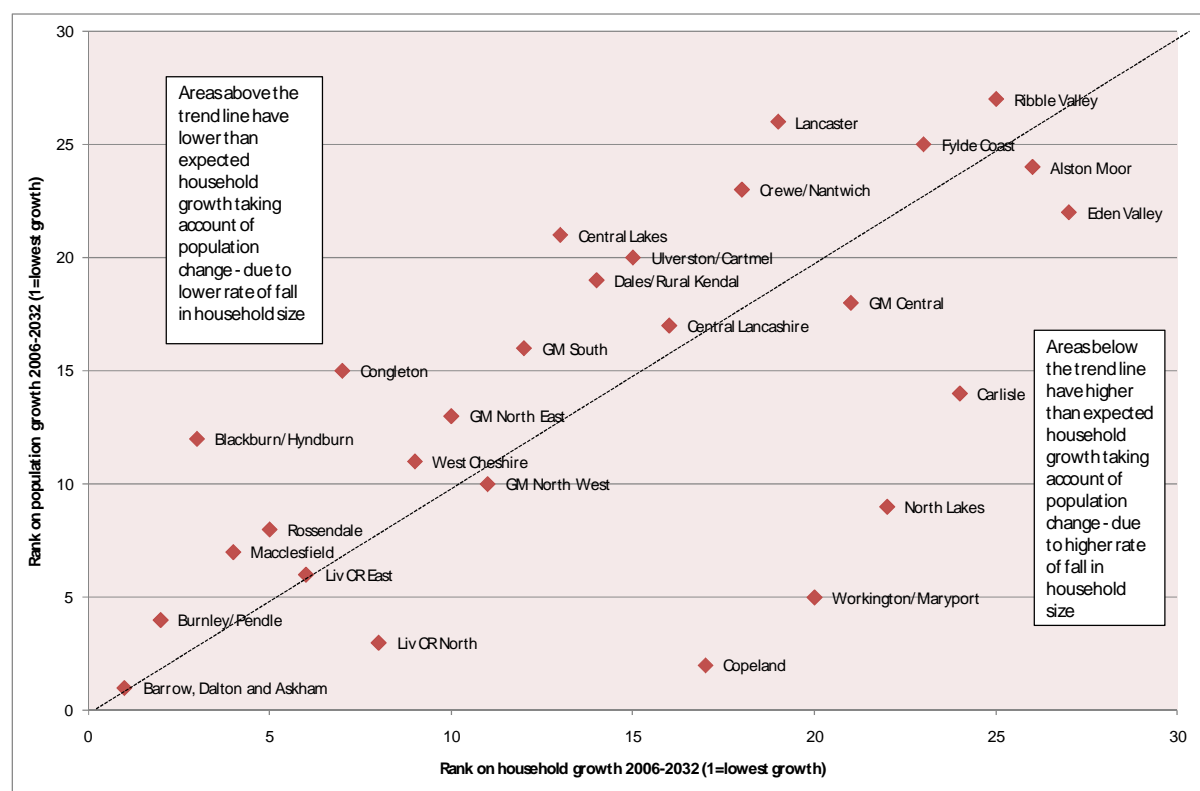
⁴¹ The chart shows percentage rather than numerical changes in population, in order to discount the effect of the size of each housing market area. Alston Moor, for example, has a high percentage increase but a very small level of growth in numerical terms.

Figure 5.4 Percentage increase in households by housing market area, 2006-2032



Source: Apportioned CLG 2004-based sub national household projections, revised February 2008

Figure 5.5 Comparison of rates of change of population and households 2006-2032



Source: Apportioned CLG 2004-based sub national household projections, revised February 2008

- 5.25 In terms of household type, the projected decline in married couple households (from 43% of households in 2006 to 32% by 2032 across the region) shows little variation between housing market areas. There is also relatively little variation in the projected increase in cohabiting couple households, with Rossendale the highest (14%), and Copeland and Workington/Maryport the lowest (10%).
- 5.26 There are more substantial variations across the region in the projected proportion of lone parent households. Central Lakes and Dales/Rural Kendal are projected to have the lowest proportions (3%), and Greater Manchester Central (14%) and Liverpool City Region North (11%) the highest.
- 5.27 The proportion of single person households is projected to increase across the region from 33% in 2006 to 40% in 2032. Greater Manchester Central (43%) and Liverpool City Region North (42%) have the highest projected 2032 figures, and Ribble Valley (35%) and Congleton (35%) the lowest.
- 5.28 Table 5.4 below compares the annual average level of projected household formation over the 2006-2032 period with the level of

provision in draft RSS. The overall level of projected household growth for the region is very close to planned RSS housing provision as set out in emerging draft RSS⁴² (although current RSS extends to 2021 not 2032). There is a high level of correspondence at housing market area level, with 16 out of 27 housing market areas having provision within 100 units of household growth. The main areas of under-provision (RSS allocation less than household growth) are Fylde Coast, Greater Manchester North Eastern, Lancaster, Ribble Valley, Greater Manchester Southern, Burnley/Pendle, and Crewe/Nantwich. The main areas of over-provision (planned RSS allocation more than projected household growth) are Greater Manchester Central, Liverpool City Region North, West Cheshire and Greater Manchester North Western. These differences can of course arise because of specific policies of development restraint or growth, or constraints on land supply.

⁴² At the time of writing this had reached consultation on the Proposed Changes to Draft Regional Spatial Strategy published in March 2008.

Table 5.4 Comparison of annual average projected household growth from CLG 2004-based household projections with draft RSS provision

	Household growth	RSS provision	Difference
North West	23804	23114	690
Alston Moor	12	10	2
Barrow, Dalton and Askham	160	150	10
Blackburn/Hyndburn	685	678	7
Burnley/Pendle	446	320	126
Carlisle	447	483	-36
Central Lakes	117	94	23
Central Lancashire	1360	1341	19
Congleton	308	300	8
Copeland	179	240	-61
Crewe/Nantwich	574	450	124
Dales/Rural Kendal	286	213	74
Eden Valley	230	199	31
Fylde Coast	1752	956	796
Lancaster	810	400	410
Liverpool City Region East	1374	1450	-76
Liverpool City Region North	3166	3700	-534
Macclesfield	415	400	15
GM Central	1649	2409	-760
GM North East	2359	1727	632
GM South	2522	2350	172
GM North West	2898	3137	-239
North Lakes	95	117	-22
Ribble Valley	342	161	181
Rossendale	208	222	-14
Ulverston/Cartmel	112	113	-1
West Cheshire	1108	1317	-209
Workington/Maryport	187	177	10

Source: Apportioned Draft RSS, Apportioned CLG 2004-based sub national household projections, revised February 2008. Note that the annual average level of household growth in Draft RSS (column 3 above) relates to the period 2003-2021, whilst that derived from CLG household projections relates to the period 2006-2029 (further projected forward for the purposes of this study to 2032). The comparison made here is thus of annual average rates of planned and projected growth, not total amounts of growth.

Scenarios of future dwelling requirements

A. Demographic trends scenario

5.29 The picture of future housing demand provided by ONS/CLG trend forecasts is one of a number of possible scenarios. The forecasts form the basis for a **Demographic Trends** scenario summarised in Table 5.5 below. The scenario projects the formation of an additional 619,000 households over the period 2006-2032, an average rate of 23,804 households per annum

B. Higher migration scenario

5.30 The ageing of the population under the Demographic Trends scenario means that despite the projected population growth of 502,000 from 2006-2032, the population of working age will barely increase at all during this period. If the economy of the North West continues to grow, this requires that a much higher proportion of the working age population should be in employment than at present. To meet the demand for employment projected for 2032 by the Experian model (see Table 5.5 below) would require 82% of the working age population to be in employment in 2032 compared to 77% in 2006. Another alternative is that the ageing population would create increased demand for labour which would be met by increased inward migration. The **Higher migration** scenario illustrates the scale of net in migration to the region (from internal and international sources combined) which is required to sustain employment at or about the level currently forecast by the Experian model. This requires an increase in migration from 12,100 per annum to just over 23,400 over the 2006-2032 period, leading to additional population growth of 294,628. The Higher migration scenario assumes that migrants have the same propensity to form households as the existing population. The regional population under this scenario is about 4% higher than that in the 2004-based ONS projections. Not surprisingly, this increases the number of households which would form over the 2006-2032 period significantly. The scenario projects the formation of an additional 761,000 households over the period 2006-2032, an average rate of 29,279 households per annum.

Economic projections

5.31 The previous chapter demonstrated the inter-relationship between demographic and economic trends and the importance of taking both into account when looking ahead at the future trajectory of housing markets in the North West. This report now considers three economic scenarios.

C. Economic Forecasting Panel Long Term Forecast

5.32 An overview of prospects for the regional economy is provided by the North West Regional Economic Forecasting Panel (EF Panel), established by the North West Development Agency to prepare and publish long-term forecasts looking forward over a period of twenty years. These are revised on an annual basis. Initial drafts of this report

drew on the March 2007 forecast, but the May 2008 forecast has recently become available⁴³.

- 5.33 The 2008 long-term forecast for the next twenty years expects the Northwest economy to grow on average by 0.4 percentage points per annum less than the national economy. If the national economy were to grow at 2.5% per annum, the North West economy will grow at 2.1% per annum. As a result, the gap in GVA per resident between the Northwest and the UK (already 12.5% in 2006) will widen further in the future.
- 5.34 The last decade has seen substantial changes in the region's economy. From 2000 to 2005, the growth gap between GVA in the region and the UK narrowed. This was influenced by a period of very rapid employment growth in the region, which has now fallen back. Many of these jobs stemmed from increases in public spending which have now levelled off and others stemmed from the out-sourcing of jobs in financial and business services from higher cost places in the South. Net in migration over this period appears to have been closely related to this exceptional period of growth in job opportunities.
- 5.35 While the participation of men in the workforce has remained low, an increase in the participation of women to reach national average levels also contributed to employment growth. But while more people are actively contributing to the region's economy, GVA per job has been falling relative to the UK since 2000.
- 5.36 Ten years ago the Northwest had significantly more employees in manufacturing. The loss of manufacturing jobs has been faster in the North West than the UK, and this trend may continue, although at a slower rate, as an increasing proportion of manufacturing is concentrated in higher skilled and more specialist sectors. There have been compensating increases in public service sector jobs and a very significant increase in private sector jobs. Significant numbers of back office and ancillary service jobs have been created in the Northwest, some of which have moved out of higher cost locations elsewhere, but higher level service jobs, especially those relating to national and international clients, are increasingly concentrated in and around London, and this continues to attract a high proportion of higher skilled or better qualified young people from the North West. As a result,

⁴³ See North West Regional Economic Forecasting Panel (2008) *State of the Northwest Economy: Long-term Forecasts May 2007*, available from the North West Regional Intelligence Unit at www.nwriu.co.uk.

productivity in nearly all service sectors in the region is below that in the UK and productivity in all service sectors, public and private, has fallen relative to the UK in recent years.

- 5.37 The forecast for the future therefore requires a judgement as to how these trends will continue. The EF Panel's report concludes that job growth in the region is likely to slow relative to the UK. On the basis of the most recent ONS population projections, and assuming a further increase in women's participation rate and a gradual improvement in rates for men, jobs growth in the North West is expected to run at 0.1 percentage points per annum below that in the UK. Levels of qualifications and training in the region will continue to rise relative to the UK, but from a relatively low base, but other supply side influences such as population ageing are likely to have a neutral or negative impact on productivity.
- 5.38 Within the region, the Panel notes that growth in the Northwest has been increasingly concentrated in a corridor stretching from Liverpool through Halton and Warrington, and the south of Greater Manchester, to the Pennines. Nationally, growth has likewise been centred in and around the bigger cities. Manchester, and in particular the south of the city region and areas in the growth corridor linked to it, has the best growth potential of any city region outside London's sphere of influence, but service providers are expected to supply mainly local and regional rather than national or international markets.
- 5.39 The EF Panel's forecast of employment in the region extends to 2027 when employment in the region is forecast to reach 3.70 million. This has been extrapolated to 2032 on a trend basis. Employment in the region is forecast to increase from 3.40 million in 2006 to 3.79 million in 2032, an increase of 390,000 jobs.
- 5.40 In order to assess the implications of this forecast for population and household change, assumptions are required in relation to:
- *The relationship between forecast employment and the population living within the region who are employed.* The EF Panel report does not provide this data so an estimate of 96% has been derived from the 2001 Census. This means that 4% of people employed in the North West in 2032 will live outside the region. The higher the proportion, the higher the number of households living in the region in 2032.

- *The proportion of the working age population who are working.* This is assumed to be 75%, a figure derived from the Experian Model (see below). The higher the proportion, the lower the number of households living in the region in 2032.
- *The proportion of the population of working age.* This is assumed to be 65%, a figure derived from the Experian Model (see below). The higher the proportion, the lower the number of households living in the region in 2032.
- *The average household size.* This is beyond the scope of the forecast and the rate derived from CLG household forecasts has been used. The higher the average, the lower the number of households living in the region.

5.41 On this basis, the Panel forecasts indicate that there will be an increase of about 810,000 households in the region from 2006 to 2032, an increase of 31,249 per annum. This is the **Panel long term** scenario.

5.42 Data is not available from this forecast at sub-regional or local level, but data at housing market area level have been produced by apportioning total employment pro rata to employment in 2001. The results are shown in Table 5.5 below.

D. 2008 Experian Initial Baseline forecast

5.43 NWDA has made initial results available from a baseline forecast using the Experian Model prepared in early 2008. The model only provides results to 2016 and these have therefore been projected forward on a straight line trend basis to 2032. In addition, data is not yet available at sub-regional or local level and data at housing market area level have been produced by apportioning total employment pro rata to employment in 2001. Hence the figures presented in this report may be subject to change as the outputs of the model are refined. Total employment in 2032 is estimated to be 3.61 million, around 180,000 less than under the EF Panel forecast. This reduces the population and household estimates for 2032 compared to the EF Panel long term scenario.

5.44 The assumptions used in this forecast are as follows:

- The proportion of the employed population living within the region is estimated from the 2001 Census and is 96%.
- The proportion of the working age population who are working is derived from the Experian Model and is 75%.

- The proportion of the population of working age is derived from the Experian Model and is 65%.
- The average household size. Again this is beyond the scope of the forecast and the rate derived from CLG household forecasts has been used. The higher the average, the lower the number of households living in the region.

5.45 On this basis, the Experian Initial Baseline forecasts indicate that there will be an increase of about 688,000 households in the region from 2006 to 2032, an increase of 24,320 per annum. This is the **Regional economic forecast** scenario. Data is not available from this forecast at sub-regional or local level, but data at housing market area level have been produced by apportioning total employment pro rata to employment in 2001. The results are shown in Table 5.5 below.

E. Sub-regional economic forecast

5.46 A third source of data on future employment are the various sub-regional and local employment forecasts produced across the region. From a review of these forecasts, sub-regional employment growth rates over the 2006-2032 period were derived and applied to 2006 baseline employment data. In each sub-region, the most optimistic scenario was selected⁴⁴.

5.47 The assumptions used in this forecast are as follows:

- Total employment in 2032 is 3.87 million, around 260,000 more than under the Regional economic forecast scenario. This increases the population and household estimates for 2032.
- The proportion of the employed population living within the region is derived from the 2001 Census (96% in line with scenarios C and D).

⁴⁴ The information available on future economic growth varied between sub-regions and required different approaches to derive the data for this scenario. In most cases, the most optimistic sub-regional estimates of future rates of growth in employment were applied to baseline employment data to derive future employment levels and the level of implied household growth was estimated as in all the Scenarios from assumptions about activity rates and average household size. In Greater Manchester, the Greater Manchester Forecasting Model generates not only employment forecasts but also associated population and household projections. However for consistency across the region, forecasts of household growth in Greater Manchester were derived from GMFM employment data using the same assumptions about activity rates and average household size as those used for other sub-regions.

- The proportion of the working age population is not available in most of the sub-regional forecasts. The figure of 75% used in the Regional economic forecast scenario has been applied.
- The proportion of the population of working age cannot be derived from most of the sub-regional forecasts. The figure of 65% used in the Regional economic forecast scenario has been applied.
- The average household size cannot be derived from most of the sub-regional forecasts. The figure used in the Regional economic forecast scenario has been applied.

5.48 This **Sub-regional economic forecast** scenario indicates that there will be an increase of about 927,000 households in the region from 2006 to 2032, an increase of 34,148 households per annum. As this scenario provides the highest estimate of future jobs in the region it is not surprising that the level of household formation is also very high.

5.49 Data is available from this forecast at sub-regional or local level and this has been used at housing market area level to produce household formation estimates. The results are shown in Table 5.5 below.

F. Assumptions relating to working age population

5.50 One further variation has been applied to the Regional Economic Forecast scenario (Scenario D) by varying the proportion of the working age population which is working. The **Increased economic activity** scenario increases the proportion of the working age population who are in employment by one percentage point to 76%. This reduces the level of household formation to 22,456 per annum, because more jobs are taken up by the existing population and the need for in migration to fill these jobs is eliminated. Increased economic activity levels would be achieved if more people within the existing working age population were to become employed as a result, for example, of policies to improve qualifications and skills, and were able to out compete migrants and hence reduce in migration. All other assumptions remain the same.

Summary of scenario results

- 5.51 Table 5.5 below summarises the results of these scenarios for the North West and for housing market areas. The Demographic trend forecast produces a net increase in households of 23,804 per annum, the second lowest of the six scenarios. This includes assumed net in migration of 12,400 per annum.
- 5.52 The Higher migration scenario produces a net increase of 29,279 households per annum, 5,471 more than the Demographic trend scenario. Clearly, a number of alternative assumptions could be made about the future course of migration in the region depending on future economic trends and on migration policy. However from an economic perspective, the Demographic trend scenario is problematic, because the ageing of the region's population causes a sharp fall in the working age population. Unless there were to be a substantial increase in activity rates (through higher employment rates amongst younger people and older people remaining in the workforce in greater numbers), this scenario does not provide a sufficiently large workforce to meet the lowest of the three employment projections considered in other scenarios. The Higher migration scenario illustrates the potential scale of migration required to deliver the required workforce – an additional 11,332 people per annum on top of the migration assumed in the Demographic trend scenario.
- 5.53 In practice, a combination of increased migration and increased levels of economic activity amongst the existing population may be the most likely outcome, producing a level of household growth between the extremes under the two scenarios.
- 5.54 In addition, three economic scenarios look at alternative levels of employment and derive household numbers from these on the basis of similar assumptions about the proportion of people of working age in the population and the proportion of working age people in employment. The North West Economic Forecasting Panel's most recent long term forecast (May 2008) envisages 3.79 million jobs in the region in 2032. This produces an estimated 31,249 net new households per annum, 7,445 more than the Demographic trend scenario. The level of migration required is about 15,250 per annum more than under the Demographic trend scenario, as it requires a higher level of migration, or rather envisages that more migrants would be attracted by the increased employment opportunities.

- 5.55 The North West Regional Development Agency also provided economic forecasts derived from the Experian Model. Applied to the North West as a whole, the model produced a forecast which translates to about 3.6 million jobs by 2032. This scenario produces an estimated 24,320 net new households per annum, about 516 more than the Demographic trend scenario. The level of migration required to support it is only about 1,000 more than under the Demographic trend scenario.
- 5.56 The third economic forecast takes account of sub-regional aspirations in employment. Although the extent to which sub-regions have up to date forecasts available varies, this scenario builds up total employment from relatively optimistic assumptions about growth at sub-regional level. The total level of forecast employment in 2032 is 3.87 million, over 250,000 more than the Experian Model forecast. Not surprisingly, this scenario produces the highest estimate of net new household formation – 34,148 per annum or 10,344 above the Demographic trend forecast. The level of migration required to support this increase is over 21,500 per annum above the rate of migration assumed in the Demographic trend scenario, or about 33,000 per annum in total. This scenario has been built up for the purposes of this study from a diverse range of sources, themselves based on differing methodologies, to provide an illustration of the impact of optimistic growth levels across the region. It does not apply a standard level of growth to all sub-regions, as what is regarded at sub-regional level as 'optimistic' varies substantially, and is not intended as a realistic forecast of potential employment growth, but merely as an illustration of the scale of household growth which might apply if all sub-regional aspirations were to be achieved. In practice, it is unlikely that all sub-regional aspirations would be met simultaneously, and indeed high growth in one sub-region might well occur at the expense of growth in another.
- 5.57 The lowest estimate of net new household formation is produced by the Increased economic activity scenario, which is intended to illustrate the reduction in household numbers, for a given level of employment, if a higher proportion of the indigenous population is successful in securing employment, thereby discouraging in migration. A one percentage point improvement in the proportion of working age people in employment reduces the number of households created by about 1,800, if all other variables are as used in the Regional

employment forecast scenario. The impact on other scenarios would be similar.

- 5.58 Overall, the range of net new household formation produced by these forecasts is between 22,456 and 34,148 per annum.

Discounted scenarios

- 5.59 The Increased economic activity scenario, which gives an annual figure for household growth which is below the dwelling requirement that is currently emerging through the RSS process, has been discounted as unrealistic. In the light of the Government agenda set out in the Housing Green Paper it would be inappropriate to work through this scenario any further on the grounds that it does not achieve the level of growth which the Government is seeking.
- 5.60 The Sub-regional employment forecast scenario which forms the upper point in this range was intended to illustrate the aggregate impact of the most optimistic employment forecasts for each sub-region. This has also been discounted as a realistic scenario. A scenario which takes the most optimistic employment forecasts in each sub-region will be inherently unrealistic given that the achievement of a high level of growth in one sub-region will probably have a negative impact on the ability of other sub-regions to achieve their aspirations. The results produced are clearly out of line with the other scenarios. The scenario also produces results which are above the upper end of the range for the North West⁴⁵ indicated by the National Housing and Planning Advice Unit in their 2008 advice to the Government on the housing supply range to be tested by Regional Planning Authorities⁴⁶.

Chosen scenarios

- 5.61 For the region as a whole, the Regional Employment Forecast scenario (Scenario D), which is based on the most detailed economic data, lies roughly midway between the Demographic trend and Higher

⁴⁵ Note that NHPAU's advice is given in terms of dwellings, whereas the scenarios discussed here provide estimates of household formation. To be directly comparable with NHPAU estimates, an additions need to be made to household growth under this scenario to allow for vacancies in the stock. This would place the scenario even further above the upper end of the NPHAU range.

⁴⁶ The NPHAU advice is discussed further in paragraphs 5.68-5.71. NHPAU's advice can be found in *Meeting the housing requirements of an aspiring and growing nation: taking the medium and long-term view: Advice to the Minister about the housing supply range to be tested by Regional Planning Authorities* NHPAU June 2008, available at <http://www.communities.gov.uk/documents/507390/pdf/863376.pdf>.

migration scenarios. This gives considerable confidence at regional level in the robustness of these three scenarios.

- 5.62 The Regional Employment Forecast scenario (Scenario D) itself cannot be used with confidence at housing market area level *at this stage*, as it is based on apportioned regional level data rather than sub-regional or local forecasts. The regional employment scenario may also be subject to change as a result of ongoing discussions on employment forecasts between sub-regional partners. At the current time it is not considered appropriate to take this scenario forward.
- 5.63 The Economic Forecasting Panel long term forecast scenario for 2007 also fell within the range encompassed by the Demographic trend and Higher migration scenarios, but the May 2008 forecast which recently became available falls outside the range, as a result of an increased forecast level of employment in 2027, which has been extrapolated to 2032. As with the Regional employment scenario, this cannot be used at housing market area level, so this scenario will also be discounted as a basis for estimates of household formation.
- 5.64 Accordingly, the Demographic trend and Higher migration scenarios provide our preferred estimates of the range of future household formation in the North West up to 2032 at housing market area level.

Table 5.5 Summary of household formation under alternative scenarios

	Net additional household formation					
	A. Demographic trend	B. Higher migration	C. Panel long term forecast	D. Regional employment forecast	E. Sub-regional employment forecast	F. Increased economic activity
North West	23,804	29,279	31,249	24,320	34,148	22,456
Alston Moor	12	14	13	11	6	11
Barrow, Dalton and Askham	160	214	183	117	-3	68
Blackburn/Hyndburn	685	850	923	714	750	586
Burnley/Pendle	446	578	748	575	605	446
Carlisle	447	545	467	350	136	312
Central Lakes	95	112	97	76	39	74
Central Lancashire	1,360	1,636	2,711	2,317	2,384	2,102
Congleton	308	380	637	535	568	475
Copeland	179	234	220	153	32	122
Crewe/Nantwich	574	672	590	472	510	451
Dales/Rural Kendal	272	321	277	219	112	199
Eden Valley	230	269	255	207	122	205
Fylde Coast	1,752	2,052	897	579	633	518
Lancaster	810	937	323	195	217	255
Liverpool City Region East	1,374	1,746	2,665	2,160	2,322	1,819
Liverpool City Region North	3,166	4,149	4,202	2,979	3,189	2,099
Macclesfield	415	533	975	808	861	663
GM Central	1,649	1,936	-315	1,175	4,104	883
GM North East	2,359	2,893	3,504	2,811	3,647	2,391
GM South	2,522	3,057	4,939	4,185	7,794	3,839
GM North West	2,898	3,604	4,092	3,191	5,093	2,609
North Lakes	95	116	80	55	9	46
Ribble Valley	342	393	328	267	277	276
Rossendale	208	260	348	279	291	239
Ulverston/Cartmel	148	175	148	116	58	103
West Cheshire	1,108	1,366	2,052	1,699	1,812	1,490
Workington/Maryport	187	237	276	212	97	176

Source: Affordability model. Estimates of household formation at housing market level under Scenarios C and D were produced by apportioning total forecast regional employment under each scenario to housing market areas on the basis of their shares of employment in 2006. Assumptions about economic activity rates were applied to derive the population supported by these employment levels, and assumptions on household size were used to derive household numbers, as described in the text above. For Scenario E, forecast sub-regional employment was apportioned to housing market areas on the basis of their shares of sub-regional employment in 2006, except in Greater Manchester, where forecasts of employment at local authority level were apportioned to housing market areas on the same basis as other indicators (see Appendix 3).

Households and dwellings

- 5.65 There is an important distinction to be made between household and dwelling requirements. The scenarios outlined above provide household figures based on population, employment and household formation rates. However for a housing market to function effectively there must always be a proportion of vacant property (transactional vacancies) which allows for normal levels of household movement within the market.
- 5.66 Hence the estimates of household growth above do not equate to the number of new dwellings required, as allowance also needs to be made for vacant dwellings and dwellings occupied as second homes. A uniform assumption to provide for a 3% vacancy level in the dwelling stock has been applied to each housing market area to allow for vacancies in the stock to be constructed to meet the requirements of new households up to 2032 (this remains constant throughout the period). Seeking a 3% vacancy level is in line with the target set out in the emerging Regional Spatial Strategy, and is also recognised to be the minimum level at which the housing market can function.⁴⁷.
- 5.67 In addition, a local factor to allow for second homes, which is specific to each housing market area, has been added. This is derived from 2001 Census data as this provides the most up to date source of information available across the whole region. Again this remains constant in the projections of dwelling requirements. Table 5.6 below shows levels of household formation, allowances for vacancies and second homes, and the resulting overall dwelling requirement for each housing market area for the Demographic trend and Higher migration scenarios.

NPHAU Advice

- 5.68 NPHAU advice sets out two figures for average annual net additions to stock in the North West. For reference these are also shown in Table 5.6. The *bottom of the range* figure is informed by official household projections, 2007 net additions to stock and government targets for the supply of new homes, and represents an annual average net addition to stock of 26,600 dwellings from 2008-2026.

⁴⁷ Policy L3: Existing Housing Stock and Housing Renewal in the Secretary of State's Proposed Changes to the Draft Regional Spatial Strategy submitted by the North West Regional Assembly, March 2008, Government Office North West

- 5.69 Advice on the *upper end of the range* is based on NPHAU's demographic analysis of supply backlog and the results of affordability modelling. NPHAU indicate that the figure is not to be viewed as a maximum and Regional Planning Authorities may wish to test higher figures. The annual average net addition to stock at the upper end of the range for the North West is 29,500 dwellings over the period 2008-2026. For both the bottom and upper end of the supply range, NHPAU provide additional figures on the required annual rate of supply in 2016 and total net additions by 2016 and 2020. These reflect the need for regions to build up provision over time to achieve the *average levels* of provision set out above.
- 5.70 NHPAU's advice on the bottom of the proposed housing supply range falls below the midpoint of the range of provision created by the Demographic Trend and Higher migration scenarios. NHPAU's advice on the upper end of the proposed housing supply range falls slightly below the upper end of the range. This provides further confidence in the robustness of the scenarios chosen.

Table 5.6 Overall household and dwelling requirements

	Households		Percentage		Dwelling requirement	
	A. Demographic trend	B. Higher migration	Vacancies	Second homes	A. Demographic trend	B. Higher migration
NHPAU advice					26,600	29,500
North West	23,804	29,279	3.09	0.44	24,662	30,331
Alston Moor	12	14	3.09	6.17	13	15
Barrow, Dalton and Askham	160	214	3.09	0.49	166	222
Blackburn/Hyndburn	685	850	3.09	0.11	707	877
Burnley/Pendle	446	578	3.09	0.18	460	597
Carlisle	447	545	3.09	0.69	464	565
Central Lakes	95	112	3.09	7.71	105	124
Central Lancashire	1,360	1,636	3.09	0.11	1,404	1,689
Congleton	308	380	3.09	0.20	318	393
Copeland	179	234	3.09	1.44	187	244
Crewe/Nantwich	574	672	3.09	0.18	592	694
Dales/Rural Kendal	272	321	3.09	7.71	301	356
Eden Valley	230	269	3.09	6.21	252	294
Fylde Coast	1,752	2,052	3.09	0.58	1,816	2,127
Lancaster	810	937	3.09	0.60	840	972
Liverpool City Region East	1,374	1,746	3.09	0.11	1,418	1,802
Liverpool City Region North	3,166	4,149	3.09	0.18	3,270	4,285
Macclesfield	415	533	3.09	0.42	430	551
GM Central	1,649	1,936	3.09	0.27	1,705	2,001
GM North East	2,359	2,893	3.09	0.11	2,435	2,986
GM South	2,522	3,057	3.09	0.17	2,605	3,157
GM North West	2,898	3,604	3.09	0.08	2,990	3,719
North Lakes	95	116	3.09	3.78	101	124
Ribble Valley	342	393	3.09	0.69	355	408
Rossendale	208	260	3.09	0.17	215	268
Ulverston/Cartmel	148	175	3.09	7.71	164	194
West Cheshire	1,108	1,366	3.09	0.30	1,146	1,412
Workington/Maryport	187	237	3.09	3.00	199	251

Source: Affordability model. Note: figures may not sum exactly due to rounding. The factor applied to household formation to determine dwelling requirements is 3.09%, in order to provide an allowance of 3% vacancies in the dwelling stock.

Phasing of household growth and dwelling requirements

5.71 Tables 5.5 and 5.6 above express the rate of household growth and the level of dwelling requirements on an annual average basis, but in practice the rate of household growth over the period 2006 to 2032 is

not projected to be even, so the level of dwelling requirements will also vary. Looking at the Demographic trend scenario, Table 5.7 shows the variation in annual dwelling requirements over successive five year periods from 2006-2026 and for the six year period 2026-2032. The variation in the level of dwelling requirements is based entirely on variation in the rate of household formation as forecast by CLG.

5.72 Taking the North West as a whole, the average dwelling requirement under the Demographic trend scenario is 24,662 per annum, but the equivalent figure is 27,789 for the period 2006-2011, 29,157 for 2011-2016, and 26,860 for 2016-2021. After this the rate falls quite sharply to 22,365 for 2021-2026 and to 18,394 for 2026-2032. So growth is strongly concentrated in the early part of the projection period, with two thirds of forecast growth in the period up to 2021, when the level of uncertainty over the accuracy of the forecast is probably less. These variations make it important to consider the profile of growth in more detail.

Table 5.7 Demographic trend scenario (A) – phasing of dwelling requirements by housing market area

	Annual change over period					
	Number of dwellings required per annum					
	2006-2011	2011-2016	2016-2021	2021-2026	2026-2032	2006-2032
North West	27,789	29,157	26,860	22,365	18,394	24,662
Alston Moor	15	16	15	13	7	13
Barrow, Dalton and Askham	166	207	166	104	183	166
Blackburn/Hyndburn	743	826	784	660	553	707
Burnley/Pendle	475	516	496	372	445	460
Carlisle	535	560	498	428	327	464
Central Lakes	119	127	123	106	61	105
Central Lancashire	1,651	1,693	1,548	1,300	924	1,404
Congleton	351	372	351	289	242	318
Copeland	209	209	188	146	185	187
Crewe/Nantwich	682	723	682	599	329	592
Dales/Rural Kendal	339	363	351	304	175	301
Eden Valley	291	309	291	255	137	252
Fylde Coast	2,074	2,177	2,136	1,845	1,010	1,816
Lancaster	1,078	1,037	913	830	426	840
Liverpool City Region East	1,610	1,672	1,507	1,094	1,244	1,418
Liverpool City Region North	3,615	3,656	3,222	2,561	3,292	3,270
Macclesfield	393	476	476	414	395	430
GM Central	2,248	2,087	1,806	1,572	961	1,705
GM North East	2,640	2,876	2,711	2,287	1,789	2,435
GM South	2,920	3,099	2,864	2,511	1,792	2,605
GM North West	3,218	3,563	3,273	2,654	2,366	2,990

	Annual change over period					
	Number of dwellings required per annum					
	2006-2011	2011-2016	2016-2021	2021-2026	2026-2032	2006-2032
North Lakes	106	118	115	96	75	101
Ribble Valley	436	436	415	353	172	355
Rossendale	227	268	227	186	173	215
Ulverston/Cartmel	185	198	191	166	96	164
West Cheshire	1,261	1,344	1,282	1,034	865	1,146
Workington/Maryport	197	225	225	183	171	199

Source: Affordability model

- 5.74 Looking at individual housing market areas, the picture is relatively similar for all housing market areas across the region, with the annual rate of increase peaking in the 2011-2016 period and declining thereafter. The main exceptions are Barrow, Dalton and Askham, where the proportion of household growth concentrated in the 2011-2016 period is much higher, and Macclesfield, where 2006-2011 growth is low and the peak extends from 2011-2021. Table 5.8 shows the phasing of dwelling requirements under the Higher migration scenario. This follows a similar pattern, but with a higher level of household formation.
- 5.75 Any phasing considered through the Regional Spatial Strategy process will take account of other factors, including land supply issues, but these figures can provide an initial starting point for discussion.

Table 5.8 Higher migration scenario(B) – phasing of dwelling requirements by housing market area

	Annual change over period					
	Number of dwellings required per annum					
	2006-2011	2011-2016	2016-2021	2021-2026	2026-2032	2006-2032
North West	34,217	36,017	33,132	27,456	22,417	30,331
Alston Moor	17	18	17	15	12	15
Barrow	264	330	264	165	110	222
Blackburn/Hyndbn	913	1,014	963	811	718	877
Burnley/Pendle	674	732	703	527	391	597
Carlisle	637	668	593	510	443	565
Central Lakes	132	141	136	118	99	124
Central Lancashire	1,930	1,978	1,809	1,520	1,287	1,689
Congleton	445	471	445	367	262	393
Copeland	302	302	272	212	151	244
Crewe/Nantwich	753	799	753	662	533	694
Dales/Rural Kendal	378	404	391	338	282	356
Eden Valley	318	338	318	278	232	294
Fylde Coast	2,253	2,366	2,321	2,005	1,765	2,127
Lancaster	1,152	1,108	975	886	776	972
Liverpool City						
Region East	2,208	2,293	2,066	1,500	1,085	1,802
Liverpool City	5,255	5,315	4,684	3,723	2,752	4,285

	Annual change over period					
	Number of dwellings required per annum					
	2006-2011	2011-2016	2016-2021	2021-2026	2026-2032	2006-2032
Region North						
Macclesfield	519	628	628	546	455	551
GM Central	2,493	2,314	2,002	1,743	1,545	2,001
GM North East	3,173	3,457	3,259	2,749	2,406	2,986
GM South	3,420	3,629	3,354	2,940	2,562	3,157
GM North West	4,089	4,527	4,160	3,372	2,658	3,719
North Lakes	130	145	141	118	94	124
Ribble Valley	460	460	438	372	328	408
Rossendale	284	336	284	232	215	268
Ulverston/Cartmel	206	220	213	185	154	194
West Cheshire	1,589	1,693	1,615	1,302	955	1,412
Workington/Marypt	258	295	295	239	184	251

Source: Affordability model

Speculative investment

- 5.76 Over the last three decades, the cost of housing has risen at a faster rate than average personal incomes. The increased participation of women in the labour force has enabled household incomes to rise more rapidly than personal incomes. This impact has been tempered, and will be in the future by the increase in people living alone, either permanently or for short periods between relationships. More recently, however, the advent of investors to the housing market may have contributed to price rises in the North West by breaking the link between typical first time buyer incomes and prices at the lower end of the market. Investors are constrained by the availability of finance if they require it, and by estimated returns, rather than by income. Although direct evidence is difficult to come by, it seems likely that investment has contributed to the way in which recent price rises have far outstripped increases in first time buyer incomes⁴⁸.
- 5.77 This introduces a further degree of complexity in looking ahead at markets. Small investors have played the major role in creating increased investment in housing and a large part of the resources available for investment have come from housing, whether directly through borrowing against accumulated equity or indirectly through inheritance based largely on housing wealth. Views vary as to whether small investors will continue to favour housing in the future, but there are strong grounds for anticipating a continuance of investor interest in

⁴⁸ See NHPAU Research Findings Number 1: *Buy-to-let mortgage lending and the impact on UK house prices*, available at <http://www.communities.gov.uk/housing/housingsupply/nhpau/publications/buytoletfindings/>

housing at a significant level. Changes in the returns to be achieved from other investment sectors, and shorter term changes such as the recent revisions to capital gains tax regulations, may impact on levels of investment. However the overall popularity of housing as an investment is likely to remain high because of dissatisfaction with alternatives such as pension vehicles, the stock market, endowment savings and more recently even some loss of confidence in banks/building societies. The broader demographic context of increased migration is likely to continue to provide a favourable context too. Investors in housing are in the favourable position of creating the demand for their own product when they outbid first time buyers who are then obliged to rent from them. In the longer term, higher price levels compared with first time buyer incomes may lead to a polarisation of the housing market, underlain by a polarisation in wealth, between those with the resources to own one or more houses and those who are unable to buy. This will create a continuing demand for rented housing, including social rented housing, and may bring about a long term reduction in the proportion of households who are owners.

- 5.78 The implication of this is that tenure change patterns including investment in housing need to be monitored carefully in the future.

The policy context

- 5.79 In addition to these demographic and economic changes, the policy context described in Chapter 3 will be a key influence on future housing markets in the North West, especially at housing market area level. The market will have a major influence on the rate and the type of development which takes place over this period, but the context will be set by RSS and by Local Development Frameworks which put RSS policies into practice. In addition to this, there are six approved New Growth Points in the North West⁴⁹ and a range of initiatives for the regeneration of declining neighbourhoods and wider areas, including the Housing Market Renewal Pathfinder programme and related regional initiatives on housing markets. The Growth Points represent a 20% uplift on the emerging RSS figure of 23,111. In total this brings the annual average new housing provision for the region as a whole to 26,383. The additional dwellings are to be delivered between 2008 and

⁴⁹ For details see *Second Round Growth Points: partnerships for growth* available from CLG at <http://www.communities.gov.uk/publications/housing/partnershipsforgrowth>

2016/17, which would have implications for the phasing presented in Tables 5.7 and 5.8.

Conclusions

5.80 Four drivers of housing market change have been identified as key influences on the future housing market in the North West over the period to 2032. These are demographic change, economic change, investment in housing, and the policy context.

- ONS/CLG projections suggest average household growth of 23,804 per annum in the North West over the 2006-2032 period.
- 77% of future household growth is in single person households. This has implications for the type and size of housing required in the future, with a potential requirement for more small units.
- Forecasts show that the population of the region will age substantially over the next two decades. This clearly has major implications for service provision including requirements for specialised housing, adaptations and other forms of assistance to enable more dependent older people to live independently, and again demand for smaller units. It is also likely to generate the demand for in migration to provide the required labour force to support the regional economy.
- There are a range of long term economic forecasts for the region and considerable uncertainty in the short term about economic prospects, but if economic growth is to be supported by adequate housing provision (both in terms of quantity and quality), the region will need to provide sufficient new dwellings to meet the needs of in migrants. This need will be reduced, but not eliminated, by any improvements to activity rates in the indigenous population of the region. Depending on the level of forecast employment growth, the net annual increase in households could range between 22,456 and 34,148. The upper figure derived from the Sub regional employment forecast scenario is a very optimistic one based on the maximum projected level of growth in all the sub-regions. It is not realistic to consider this scenario in the policy making process because it is inherently inconsistent. The lower figure derived from the Increased economic activity scenario produces a lower household growth rate than the dwelling requirement currently emerging through the RSS process and has also been discounted as unrealistic.

- The Demographic trend and Higher migration scenarios define the range of future annual average household growth as falling between 23,804 and 29,279 households per annum. The two remaining economic scenarios (setting aside the Sub regional employment forecast scenario as being too optimistic in terms of future employment growth) cannot be used for housing market areas as they do not break down employment forecasts to this level. The Regional employment forecast scenario (Scenario D) falls close to the mid-point of this range, giving confidence in the robustness of these estimates at regional level.
- NHPAU's advice on the bottom of the proposed housing supply range falls well within the midpoint of the range of provision created by the Demographic Trend and Higher migration scenarios. NHPAU's advice on the upper end of the proposed housing supply range falls slightly below the upper end of the range. This provides further confidence in the robustness of the scenarios chosen.
- Our preferred estimates of the range of growth for each housing market area and for the region as a whole are therefore derived from the Demographic trend and Higher migration scenarios.
- The range of estimated annual average dwelling requirements has been derived by adding an allowance for vacancies and second homes to estimated annual average household formation. The results are shown in Table 5.6. The annual average dwelling requirements are net of clearance replacement. The allowances for vacancy and second homes remain constant over the period 2006–2032.
- Household growth over the 2006-2032 period is not projected to be even. For the region as a whole and for most housing market areas, household growth is significantly 'front-loaded', starting at a relatively high level in 2006-2011, peaking in the 2011-2016 period and declining thereafter. As a result, the level of housing required is also front-loaded.
- The recent introduction of investors to the housing market has been one of the factors which has enabled prices to rise far more rapidly than household incomes. Small investors can outbid first time buyers as their resources are not directly tied to incomes. At the same time they create the demand for their own product by

outbidding first time buyers who are then obliged to rent. Views vary as to whether small investors will continue to favour housing in the future, but there are strong grounds for anticipating a continuance of investor interest in housing.

- 5.81 The estimates of overall housing requirements represent demand across all tenures. The figures do not take into account issues of financial viability, land supply, infrastructure implications, environmental capacity or policy drivers, and as such must not be read as definitive figures which can be translated directly into RSS policy. They should also be considered alongside figures emerging from sub-regional and local assessments which will include a more detailed consideration of local issues and circumstances, particularly where these assessments have been recently carried out and use a methodology which is in accordance with current CLG good practice guidance.
- 5.82 Official guidance requires that demand should be broken down between the demand for market and the demand for affordable housing. Chapter 6 now considers this issue.