

8 Conclusions

Introduction

- 8.1 This report has examined recent trends in housing markets across the North West region, identified the key drivers of change in markets, and looked ahead at likely developments in market trends in the future. It has produced estimates of the overall requirement for housing in the region over the period up to 2032, and the requirements for affordable and market housing. The report has looked at the type and tenure of housing requirements, and at the required size breakdown of the new housing stock. It has also considered the more detailed requirements of a range of specific housing groups.
- 8.2 These Regional Strategic Housing Market Assessments have been produced by closely following guidance for the production of strategic housing market assessments⁶⁶. This study has demonstrated that by and large there is a comprehensive and consistent set of data available across the region to support robust housing market assessments and to meet each of the core outputs set out in official guidance. This includes data sets available from national sources (such as ONS population projections and neighbourhood statistics, CLG household projections and deprivation data), regional sources (economic forecasts, housing flows data), local authority returns (HSSA data) and specialist sources (HM Land Registry and CACI Paycheck). These have been utilised not just to present a detailed view of past market change but also to provide forecasts of future household growth and affordable and market housing requirements.
- 8.4 However, it is vital to recognise that the assessments produced in this report are intended to inform the Regional Spatial Strategy and the Regional Housing Strategy at a strategic level and that a finer grained analysis of more local housing market patterns will require access to local data, both primary (from local household surveys) and secondary (from local authority Council Tax or housing records). The assessments here provide a regionally consistent framework within which these more detailed local assessments can sit.
- 8.5 The conclusions of this report are set out in detail at the end of each chapter and will not be repeated here. This final chapter looks more

⁶⁶ Communities and Local Government (2007) *Strategic Housing Market Assessments: Practice Guidance (Version 2)*, August 2007.

generally at the pattern of markets across the region and at the key differences between them, at the key long term drivers of housing market change in the region, and at wider prospects for housing market change across the region in the shorter term at a time when there seems to be the prospect of a significant change in the recent trajectory of the housing market not just in the North West but across the whole country.

Housing markets in the North West

- 8.6 No two housing market areas in the North West are the same and the differences between them are complex, but it is possible to develop a categorisation of areas across the region. The regional strategic housing market assessments show a region which, despite increases in dwelling prices, contains a range of markets with both areas of very high demand and areas with weaker demand and continuing uncertainties about future prospects at a time of falling prices.
- 8.7 There are well established differences between the more affluent areas of Cumbria/North Lancashire/Cheshire and the other sub-regions which, although they may contain some 'hotspots' are predominantly lower-value. There are no real signs that the underlying factors which have brought these differences about are weakening or changing fundamentally outside the two conurbation cores. These factors include drivers *pushing* migration out from the larger centres and factors *pulling* people to more rural areas. It is the most affluent who are moving out. Economic uncertainties, and notably the price of oil, could yet have a major impact on these patterns of movement.
- 8.8 There are five main zones within the region which share some common characteristics as follows:
1. Generally, the housing market areas to the south of Manchester and Liverpool have the following characteristics:
 - They have a high proportion of couples (as distinct from single people), and a relatively low proportion of people aged 15-29.
 - They have had consistently strong demand for housing and household growth even at a time in the 1980s and early 1990s when the urban cores were experiencing virtually no household growth.
 - They have high average incomes, with the exception of Crewe.

- There are high proportions of semi detached and detached houses.
- They have high house prices, relatively high levels of owner occupation, and low levels of renting.
- They are ethnically homogenous, with a high proportion of white residents.

Crewe within the Crewe/Nantwich housing market area is the least typical within this group, having a higher proportion of lower value housing.

2. The core cities of Liverpool and Manchester defined by:
 - a long history of population loss and limited household growth, until the recent renaissance,
 - recent increases in demand from students, in migrants and young professionals,
 - high levels of inward and outward movement which are not present elsewhere in the region,
 - extreme poverty and deprivation but also some areas of affluence,
 - high levels of renting, both social and private,
 - an increase in city centre residential development linked to the growth of financial services and more flexible employment markets for young professionals,
 - higher value markets located to the south, reflecting economic development trends and the proximity of universities, rail connections and airports.

Manchester differs from Liverpool in having a higher projected level of household growth amongst black and minority ethnic communities.

3. The area to the north of central/inner Manchester – the Greater Manchester North Eastern housing market area, Rossendale, Burnley/Pendle and Blackburn/Hyndburn (and perhaps parts of the Greater Manchester North Western housing market area), are characterised by
 - low GVA, high levels of economic inactivity and low wages.
 - growing BME populations
 - net out migration, especially of younger people.
 - relatively high vacancy rates.
 - lower prices than the areas in and to the south of Manchester city centre.

4. Central Lancashire and Ribble Valley are:
 - more similar to the area to the south of Liverpool and Manchester, but generally less affluent. Ribble Valley is the most affluent, and has a variety of linkages, including to Preston, Blackburn, Pennine Lancashire and Yorkshire.

5. The Cumbria housing market areas are dual housing markets servicing local needs but also regional and even national demands to varying degrees. Local moves are primarily by local people who tend to be on lower incomes. Other characteristics of markets in this area include:
 - generally weak local economies expressed through low incomes, except for those people not dependent on the local labour market for resources.
 - an ageing population, fuelled by out migration of younger people (caused by the lack of higher education institutions, graduate employment opportunities, and affordable housing) and continuing in migration of older retirees/people seeking a high quality lifestyle.
 - high proportions of second and holiday homes, reducing the size of the effectively available housing stock.
 - large social housing waiting lists, and high proportions of concealed households, brought about not only by high demand from those on low incomes but by a very limited supply.
 - a significant degree of difference between the core and the periphery of the sub-region. The central area has a function based around tourism and retirement migration. The western coastal strip from Barrow, Dalton and Askham to Carlisle is struggling to establish a new economic function following the decline of older mining and manufacturing industries, and contains some areas of intense deprivation. The eastern periphery has high demand from tourism and in migration, but also a significant agricultural sector.

Longer term drivers of change

Demographic factors

- 8.9 Four main long term drivers of housing market change were identified in Chapter 5 as key influences on the future housing market in the North

West over the period to 2032. These were demographic change, economic change, investment in housing, and the policy context.

- 8.10 ONS/CLG projections suggest an average annual requirement of 24,662 dwellings per annum in the North West over the 2006-2032 period, although rates in the period up to 2016 are significantly higher, peaking at over 29,000 per annum in the 2011-2016 period. This suggests that a much higher level of dwelling provision will be needed than that provided for in the current and emerging Regional Spatial Strategy. A high proportion of the overall household growth in the region in recent years, on which this trend forecast is based, has been through net international in migration. The future trajectory of net migration is therefore the main factor which will determine the future level of housing demand.
- 8.11 The majority of future household growth is expected to be in the form of 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, but also implies that the costs of housing need to be lower if a higher proportion is to be accessed by households with a single income.
- 8.12 The forecasts also 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. But population ageing has another impact too - it will generate the demand for in migration to provide the required labour force to support the regional economy.
- 8.13 Having stressed the importance of these drivers of demographic growth, it is necessary to sound a note of caution. The limitations of data sources on recent patterns of migration in particular mean that official population and household projections have struggled to reflect a fast-changing picture. There are still key uncertainties relating to recent and future demographic change as it impact on housing markets:
- To what extent will processes of population and household growth continue in the future – including in the medium as well as the long term – especially as a result of increasing economic uncertainties?

- What kinds of housing demand have emerged and will in future emerge as a result of international in migration? Is this demand short or long term? What proportion of migrants will stay on in the UK for an extended period rather than returning to their countries of origin or moving elsewhere to countries where the economic potential is greater?
- Is the majority of demand for minimum cost/standard accommodation? Is it for privately rented, social rented or owner occupied housing? Where is demand located?

8.14 Ultimately these questions can only be resolved by frequent monitoring and revisions to projection and policies, and by research to develop a better understanding of the changing nature of demand. However they pose some major risks, notably the potential for over-provision.

Economic factors

8.15 Future economic change is the second major driver of housing demand in the longer term. For economic growth 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. That requirement should be reduced, but cannot be fully eliminated, by improvements to activity rates amongst the indigenous population of the region. Assuming a higher rate of migration to meet the demands of the regional economy could increase the dwelling requirement to an average annual rate of 30,331 with a peak of over 33,000 in the 2011-2016 period (Higher migration scenario (B)). The likely outcome will fall somewhere between these two figures, and will be dependent not just on improvements to activity rates but also on the overall long term trajectory of the regional economy.

Investment in the housing market

8.16 The introduction of investors to the UK 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 some continuance of investor interest in housing. The impact of this on the market will be to make it harder for

those on lower incomes to secure entry to the home ownership sector. For some, entry will be at a later age (a trend which is already apparent nationally) and for others, there is the prospect of a longer period in the private rented or social rented sectors. Some will prefer private renting but others, seeking greater security of tenure, will opt for social rented housing or intermediate housing. This suggests that the demand for affordable housing will remain high for an extended period.

The policy context

- 8.17 The estimates of overall housing, affordable and market requirements developed here represent a range based at its lower end on the projection of current trends and at its upper end on a sustained high level of inward migration in response to the demands of a growing regional economy. The figures do not take into account issues of land supply, infrastructure implications, environmental capacity or the wide range of policy drivers which can influence the overall amount and more importantly the distribution of housing provision. We have emphasised strongly in this report and would repeat the warning that these estimates must not be read as definitive figures which can be translated directly into RSS policy. They must be considered alongside a detailed consideration of the full range of constraints on development and policy objectives such as those relating to the regeneration of local areas and housing markets or the focussing of new growth in the most appropriate locations.
- 8.18 Government policies give high priority to action to address the worsening problems of affordability in the housing market in the last five years. These problems arise from inadequate supply set in the context of both increased net international migration, and stronger than average natural population growth than has been the case for many years. Growth in the overall number of households has also been strongly driven by a continuing increase in the number of single person or smaller households. The Government's response has been to set a national target for new housing provision and to initiate regional level reviews of RSS to identify the best locations for additional growth. Other measures such as the growth points initiative have also sought to identify the best locations for significant new housing provision.
- 8.19 There can be little doubt that this policy initiative will have a significant impact on levels of provision for housing in the region in coming years, but despite this, some uncertainties remain. It is not clear that a

strategy of improving affordability by boosting overall housing supply will be effective, and if it is, are there other costs associated with this which might undermine the benefits? Investment capital might respond to the increase in supply as actively as first time buyers potentially exacerbating the problem of affordability? There could be adverse impacts on regeneration programmes if it is necessary to develop green field or peripheral sites to create a step change in supply, or if higher levels of provision lead to higher void levels in the weaker markets. These are important policy issues to be considered in the development of the Regional Spatial Strategy.

Affordable housing requirements

- 8.20 A further key element of Government policy aims to generate more affordable housing in order to improve access to home ownership. The housing market assessments in this report show the seriousness of affordability problems. This has already led to regional and local pressures to secure higher levels of affordable housing in new developments, and to target limited public sector resources more closely on addressing affordability problems.
- 8.21 But in the current weaker market the potential for meeting affordable housing through planning agreements is bound to reduce, and even in the future, there are practical limits to the potential for meeting affordable housing requirements in this way. There are also other demands on house builders such as the implementation of the Code for Sustainable Homes and Lifetime Homes standards. Other approaches may be required, including the direct provision of social rented housing in the areas where its supply is lowest, and of particular relevance in the North West, measures to make the existing lower cost housing stock more attractive, and to improve the quality of service provided by the private rented sector.

Transforming housing markets

- 8.22 The housing market assessments suggest that improvements to existing housing markets remain a key task for housing policy in much of the region. In many areas, there is an ageing and often unattractive or monotonous housing stock, in neighbourhoods which need investment to assist them in recovering from past economic decline. Many areas need investment to overcome concentrations of poverty and deprivation to sustain their communities and reverse long standing pressures for decentralisation to suburban and rural areas. In the long

term this is the only way to address affordability problems across the board, and to respond to shortages in overall supply in a way which is sustainable.

Short term trends in the housing market

8.23 The main impact of rising prices in the last five years is that even in areas of *relatively* low prices, housing is much less affordable now than it was in the early 2000s. But a clear trend of falling prices is now established, and once lack of confidence sets in, it is difficult to reverse. There is every prospect of an extended period, perhaps two to three years, of falling or static prices, and this should bring about some improvements in affordability.

8.24 Many factors contributed to the strength of the housing market in recent years, and it is not practical to quantify their impact separately, but they include:

- An improved demographic picture across most of the north of England, with net in migration (driven mainly by economy-related migration from abroad) even in areas with long established population decline.
- A highly positive economic growth picture in some areas, driven particularly by the city regions, but with benefits sometimes more widely spread across the region.
- Some general 'catching up' in price levels towards a notional long term equilibrium relationship with incomes.
- A large influx of investor capital into the housing market, driven by high short term rates of return and by adverse developments in rates of return obtainable elsewhere.
- The development of vehicles and mechanisms to encourage investment, including larger scale apartment provision by developers.
- Ready availability of finance for house purchase with weaker assessments of asset value and borrower credit-worthiness.
- Restoration of confidence in low demand areas as a result of market renewal initiatives.

8.25 Recent developments in the world and UK economies and financial systems have now undermined many, if not all, of these positive indicators. This supports the view that the UK housing market, including markets in the North West, will experience a period of falling or static prices and low turnover, driven by a lack of confidence and in the

short term at least by the inability of first time buyers to gain access to mortgage finance caused by the 'credit crunch'.

- 8.26 This will almost certainly have a serious impact on new housing completions. At worst it is possible to envisage a scenario of falling prices and sharply reduced demand, leading to a significant crisis in the development industry.
- 8.27 Some of these developments are short rather than longer term factors, although their duration is hard to predict. Informed opinion suggests that the availability of credit for house purchase will not improve quickly⁶⁷. In addition the demand for finance will be a further constraint. House builders and developers may find it difficult to re-establish capacity as a result of reductions in staffing and the consequent loss of skills. Ultimately, progress in the wider economy is most likely to determine the scale and duration of any housing market recession.
- 8.28 Finally, it is also difficult to predict the impact of economic uncertainty on individual housing market areas. From one perspective it is likely that the impact on the areas with the weakest and least stable housing markets could be particularly significant, and these could be the areas which see the impact of the 'credit crunch' and falling prices hit first. Although housing market areas with more stable markets will also feel the impacts these may be less critical in terms of the stability of the overall housing market. They will be more able to 'ride out' a short term decline.

⁶⁷ See Sir James Crosby's July 2008 report Mortgage Finance: interim analysis, which examines the causes of the 'credit crunch' and options for improving the function of mortgage finance markets, available at http://www.hm-treasury.gov.uk/documents/financial_services/mortgages/fin_mort_crosby.cfm.