New Community North of Fareham Housing Market Assessment: Summary Report

Prepared by DTZ and Wessex Economics on behalf of
Fareham Borough Council
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About this Report

Fareham Borough Council is in the process of preparing a development plan for the New Community North of Fareham (NCNF). The NCNF will entail provision of around 6,500 homes, workplaces, schools, open spaces, shops and local community services.

The NCNF plan will set out what the new community north of Fareham will be like. It will include planning policies as well as a concept master plan setting out the broad type, location, amount and character of the development.

This study is part of a range of studies that set out evidence that will inform the development of the NCNF plan. The NCNF Housing Market Assessment is intended to answer a set of questions such as:

- Where will those who move to live in the NCNF come from? What proportion will be local (residents of FBC, or the South Hampshire area)? What proportion will come from further afield and where will that be?
- What type of people/households will be buying or renting homes at the NCNF? That is, what will be the age and household characteristics of those who move into the NCNF?
- How can the market for new build housing be expected to develop over the next decade (and longer) and how will this shape the pace and type of development?
- What does this mean for the anticipated development trajectory for the NCNF? And what are the implications for the type of community that FBC should be planning to see developed?

Broadly the purposes of the Housing Market Assessment are:

- to anticipate how the market will influence the pace and type of development
- to anticipate what type of community would emerge were those market forces to be the sole influence on the pattern of development
- to consider if this is the best sort of community in terms of long term social sustainability and market appeal
- to consider what role FBC has as the planning authority to shape the development of the NCNF by influencing the tenure, size and type of new homes, and related facilities
- to consider how FBC can work with the scheme promoters in terms of branding the NCNF, which itself should reflect the type of place that the developers and the Council NCNF aspire to create.

The work presented here will help ensure that FBC can demonstrate that it has fulfilled the requirements of Paragraph 50 of the National Planning Policy Framework. This states that:

> *'to deliver a wide choice of high quality homes, widen opportunities for home ownership and create sustainable, inclusive and mixed communities, local planning authorities should.....(first bullet of 3) .... plan for a mix of housing based on current and future demographic trends, market trends and the needs of different groups in the community (such as, but not limited to, families with children, older people, people with disabilities, service families and people wishing to build their own homes)'.*

The report summarises the findings of the Housing Market Assessment. More detailed analysis is contained in four working papers which are presented as Appendices to this report. These cover the following topics:

- **Appendix 1: The Housing Market 2013 to 2028:** The working paper sets out an assessment of national factors that will influence the development of the housing market over the next 15 years, including national government policy and funding, which will have a major bearing on the pattern of development at the NCNF.
- **Appendix 2: The Target Markets for NCNF**: This working paper analyses where those who take up residence in the NCNF are likely to come from, be they owner occupiers or renters; and discusses what will influence the geographic pattern of demand.
- **Appendix 3: The Demographic Drivers of Demand:** This working paper examines the future pattern of demographic change in South Hampshire, in terms of population and household growth and the composition of growth; and the relationship of household size and the type and size of home occupied.
- **Appendix 4: The Influence of Development Economics:** This working paper considers how decisions about the tenure mix of new homes, the size and type mix of market housing, and the phasing of development will affect viability and the likely pace of development of new homes.

This report addresses in turn the four questions identified above and then makes a number of observations regarding policies that should be incorporated into the Plan for the NCNF.

Where will those who become residents of the NCNF come from?

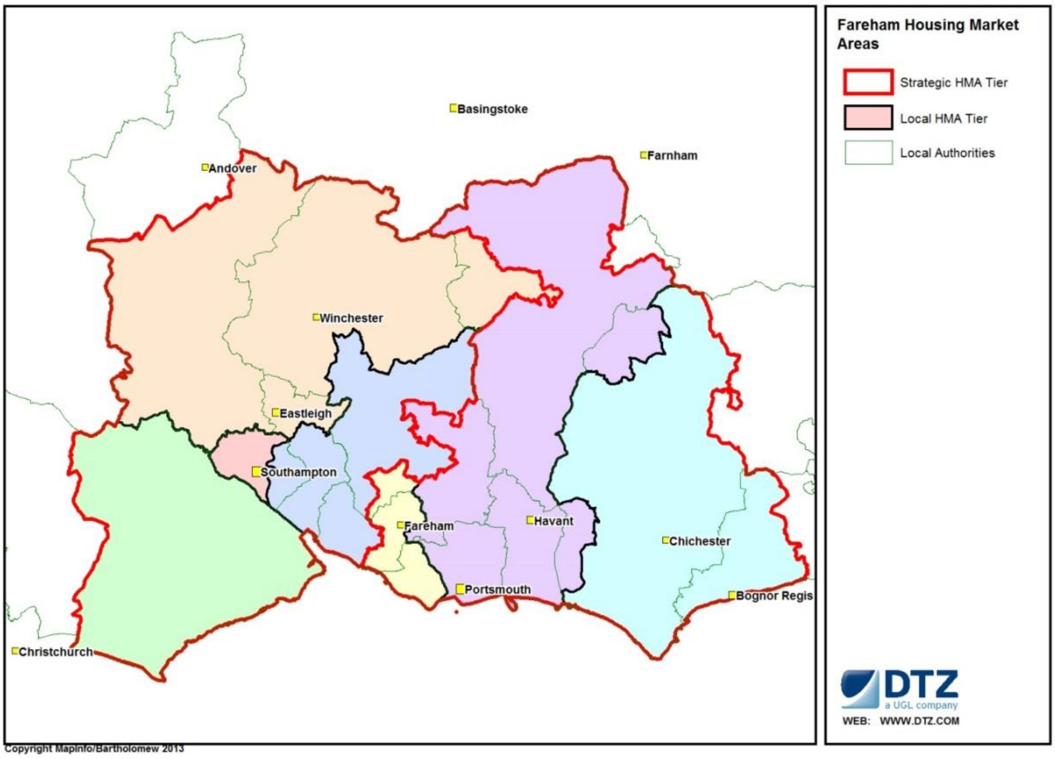
The majority (60% - 70%) of *purchasers of new homes* in a development such as the NCNF are likely to come from within the two housing market areas that cover all of south and central Hampshire (see Figure 1). The remainder are likely to come from further afield. There is evidence that longer distant migrants are more likely to buy or rent in new developments because it is easier to buy a new home, than an existing home that involves a chain of buyers.

The number of buyers of new homes in the NCNF that are currently Fareham residents may be quite modest (say 20%-30%). This reflects the fact that only a minority of home buyers consider buying a new property; only about 1 in 7 house purchases involves a new home. It also reflects the fact that the NCNF will have good access to the jobs throughout the M27 corridor.

However the proportion of *new residents* who will come from Fareham can be expected to be higher than the number of those who buy new homes in the development. Those who rent homes in the new development, be they market tenants or affordable housing tenants are more likely to be local residents than those who buy property (whether these are people buying property for their own occupation or as landlords).

The precise proportion of Fareham residents who move into the NCNF will also depend on policies for allocation of affordable housing, particularly whether priority is given to housing people from FBC's Housing Register, or if an allowance is made for housing those in need from neighbouring authorities; and the proportion and type of new homes which are bought for investment purposes and rented out.

Figure 1: Upper Tier and Local Housing Market Areas (2001 Census Data)



What sort of people will the residents of the NCNF be?

There is little publicly available information on the profile of new home buyers, since such information and insight is of considerable commercial value to housebuilders and others. Information on the profile of new home buyers has therefore to be gleaned from a number of disparate sources including the characteristics of home buyers as a whole, and analysis of data on the characteristics of those living in new settlements.

It should also be noted, that the type of residents will be influenced by the size, type and particularly the tenure mix of the new development. The proportion of affordable housing provided and the mix of affordable rented property and intermediate for sale property has a particularly important bearing on the income and the age profile of residents. So too does the proportion of new homes that are bought by investors and rented out; or which are built specifically for market rental purposes.

The larger number of affordable homes that are built, the larger the number of lower income households living in the NCNF will be; people in their late 20s and 30s are well represented among the buyers of intermediate property. The number of private renters is not easily predicted, because this depends on how many people buy property in the NCNF as an investment. However, to the extent that some properties are rented this is likely to boost representation of 20 and 30 year olds in employment.

Key points that DTZ would distil from the analysis of the characteristics of those who live in large scale new developments, which provides an indication of who will come to live in the NCNF are set out below.

The NCNF is likely to attract to the market homes mostly those who are in work, and work in South Hampshire. It may attract a reasonable number of people who work from home and levels of homeworking will very likely continue to increase over time. Work undertaken on the economic strategy for the NCNF suggests that it would be reasonable to assume that by 2050 around 22% of those who in work in the NCNF will work at or from home. The NCNF is not likely to attract as many long distance commuters as new developments located in the M3 and the A3(M) road and rail corridors.

The NCNF is less likely to attract those who work in settlements up the M3 and the A3(M) road and rail corridors, because for those who use a car to get to work this would entail journeying east or west to access the A3(M) or M3; and for those travelling by rail, because of the additional rail journey time and cost from Fareham to settlements in these corridors when compared with living closer to either corridor. New developments at West Waterlooville, at Hedge End and in Winchester (Barton Farm) will be better able to capture those markets, though pricing can be an influence on where people choose to live in relation to their place of work.

New developments tend to attract significant numbers of households moving in from further afield, primarily those who move to take up new jobs (or getting round to moving closer to their existing jobs). The absence of a property chain makes a new home purchase easier for those who are new to an area. The number of longer distance in-movers will also be boosted if a significant number of new homes are either bought by investors for renting, or if market rented property is designed into the development, since rental property is particularly likely to accommodate people moving to an area in well paid employment.

In terms of homes for sale, the core target market for new housebuilding in the current market is at family households, being those already with housing equity, and able to access additional mortgage facilities to trade up. This probably implies a target age group of those 35-50, comprising couple households with dual incomes, some with children and some without. This market is currently dominated by those looking for larger properties – 3, 4 and 5 bed properties.

As and when it becomes easier for potential first time buyers to access mortgages, developers are likely to increase output for this segment of the market. At the moment this segment of the market is quite dependent on government backed schemes like FirstBuy and HomeBuy. The average age of first time buyers (FTBs) is now around 29 in the UK (not as commonly reported 38), but if the large group of those in the 20s and 30s who currently rent start to be able to enter the home ownership market, the average age of FTBs could rise significantly.

The new Help to Buy scheme announced in the March 2013 Budget could significantly boost mortgage lending and transactions. However the scheme as announced is time limited and would, under current proposals, be drawing to an end by the time new development at the

NCNF starts. But if the scheme proves a success, it might be replicated or continued by the post 2015 Government.

Affordable housing tenants are likely to come from the local area, and those who access affordable housing depend onthe allocation policies of the relevant local authorities, as set out in their Tenancy Strategies. Those buying shared ownership are in many ways similar to the first time buyers of the past with those in their 20s accounting for around two thirds (63%) of intermediate housing buyers in Fareham, those in their 30s for a further quarter (25%) and only 10% from older age groups.

There is clearly a symbiotic relationship between the type of homes provided in a new development and who lives there. Developers aim to provide housing for core groups that constitute the buyers of new homes, and different developers target different groups, as well as seeking to differentiate individual developments from competitor developments. Thus what is developed reflects current patterns of market demand, and can change over time.

At the same time local authorities responsible for planning seek to ensure that an appropriate mix of housing is provided in terms of the type and size of new homes. Evidence presented in Appendix 3 indicates that small homes tend to be occupied by small households; but that larger market homes are occupied by both larger (family households) and smaller (couple or even single person) households, since in the market sector the size of home you live in is more a function of income than household size.

Therefore local authorities do not have control on who buys and who lives in market homes. In particular it is important to note that the extent to which investors buy properties which are then let for market rent, has an important bearing on who lives in a new development. Private renters are less likely to have children and less likely to be long term residents of a particular development, though this may change as renting becomes more embedded in the culture.

One unknown is how far, with the growth in the number of older people, an increasing number of new market developments will be targeted at an older age group. At the moment housebuilders developments in particular locations which will appeal to older people are targeted at the older demographic group (say over 55s), while not in any way being restricted to those older age groups. Since this target market is likely to be well housed already, they may be reluctant to move onto large developments with an extended build out period.

However the analysis presented in Appendix 3 shows that on current demographic projections the population of older people in the core PUSH area is likely to grow very significantly over the next 25 years, while the numbers of people in the 40-60 age bracket will fall. Probably the majority of older people will wish to stay in the existing home. They will not wish to move home unless financial circumstances mean they need to downsize; or they cannot longer cope with staying in their existing home because of ill-health or infirmity.

However, a combination of older people from South Hampshire wanting to move into a new home that is easier to manage, and retirement led migration, could mean that older age groups become a significant source of demand for new homes over the next 25 years. The housebuilding sector can be expected to respond to any evidence that this is a new market for their products, by adapting what they build and their marketing messages to meet the requirements of these potential buyers.

It is also reasonable to expect that there will be increasing demand for specialist older persons housing provision. Many different models of provision are being promoted by private developers including retirement communities and extra-care facilities. The government will also play an important role in the way that specialist housing for older people comes forward through the funding arrangements for care. An assessment of the quantitative requirement for specialist housing provision for older people is set out in Appendix 3.

DTZ recommend that allowance be made in the land budget for one large extra-care scheme of say 120 units (say 150 persons) or two schemes of 60 units. This level of provision reflects the fact that large sites for new specialist provision will be hard to come, but also that it would be desirable to spread provision around the Borough, rather than concentrate it in one location.

It is important to bear in mind that the NCNF will be built out over at least 25 years. As with other new developments that have taken place over many years, the prolonged period of build out helps ensure a mix of people at different life stages. This is this because, while buyers of new homes may have a high proportion of people at a particular life stage, those who moved into the first phases of development will age, and movements in and out of the development will create a mix of people.

The market for new build housing and the pace of development

The past 5 years have served to remind everyone, lest they had forgotten, that the housing market is cyclical; that bust follows boom, but markets do recover. The past 5 years have also served to remind us all of us of the close link between the economy and the housing market.

The market for new build housing has recovered somewhat from the substantial decline in house prices in the 2008-09, with a recovery of house prices and a modest recovery in confidence. Most of the major housebuilders have returned to profitability, though many smaller housebuilders have gone out of business. However the overall volume of housing starts completions remains low.

The prospects for housebuilding over the next decade and longer depend on five fundamental and inter-related drivers that will determine the characteristics of the UK housing market:

- Economic growth
- The credit and lending environment
- Household incomes and employment
- Population and household growth
- Government policy

Appendix 1 describes how these factors have shaped the housing market during the upswing in the market from 1996 to 2007, and then in the downturn and modest recovery. While any forward projection of past trends is fraught with difficulty, some general directions can be discerned in society, in government and housing trends.

It is helpful to remember that the great majority of the housing stock that will exist in 2033 has already been built; and the majority of the population of the UK who will be alive in 2033 are alive today. It is possible to calibrate the scale of change that might happen by 2033 by reflecting on what the housing market was like in 1993, 20 years ago. It was not so hugely different to that of today.

Government Policy

Government policy is one of the more predictable elements of the future. For the past 15 years governments have generally been keen to boost housing supply; and they have failed to do so to a level commensurate with the anticipated and actual increase in households. Without a radical change in approach to landownership issues, DTZ and Wessex Economics anticipate that there will not be a fundamental change in aspiration, or in ability, to deliver.

The current government has set out its strategy for deficit reduction, and is likely to continue to pursue this strategy to the anticipated date of the next election in 2015. Any government elected in 2015 is likely to continue the course of constraint on public sector expenditure embarked on by the current government.

The mix of taxation and spending might change somewhat, but there will be no return to the continued expansion of the share of the economy accounted for by the public sector and rising public sector employment that characterised the 10 years to 2010. It is hard to imagine that any government will not seek to prioritise expenditure on the NHS and education.

The conclusion DTZ and Wessex Economics reach is that public sector funding for affordable housing is likely to largely disappear in the next spending review period. The cut might be less severe under another government but the budget is still likely to be significantly less than in the current spending review period.

It is likely that there will be further headline grabbing initiatives giving the appearance of government support for new affordable housing. But when every £1 million spent only delivers 50 units at an average subsidy of £20,000 per home, even apparently large sums of money do not in reality go very far.

Additional housing for low income groups will in future therefore have to be provided without subsidy – except possibly with the subsidy of cheap land provided by the public sector. DTZ and Wessex Economics anticipate therefore increasingly those in housing need will be housing in market rented property.

We will see Registered Providers becoming broadly based landlords owning a portfolio of properties from pure market rented properties housing those who pay their rent in full without subsidy, those paying market rents with support from Housing Benefit/Universal Credit, to those with affordable and social rent tenancies where an element of rental subsidy is inbuilt in the rents charged.

DTZ and Wessex Economics doubt that any government will significantly reverse the reforms to the benefit system being implemented by the current government, because they would have to identify where else budgets can be cut, or how to raise taxation. Any government is going to have to face the cost of rising pension costs and care for older people as the number of older people increases, and this will constrain any government in what it can do in the rest of its expenditure programme.

Government policy in terms of funding for affordable housing is not going therefore to support an expansion of housebuilding from current low levels. What will continue however, if financial engineering that uses off balance sheet methods to support housebuilding through measures that reduce the cost of borrowing to build or buy a home.

The Economy

The comments set out above regarding government policy are based on the assumptions that the economy grows on the basis of the latest forecasts presented by the Office for Budget Responsibility. The risks in relation to these forecasts are on the downside, that growth will be less than forecast. To the extent that economic growth is less than currently forecast, the decisions to be made by government on spending and tax are that much more challenging.

Is there the likelihood of any government or grouping of governments deciding to pursue a fundamentally different strategy if economic growth in the UK or in Europe as a whole fails to recover? It is hard to see how any country in Europe could go it alone, but it is plausible that governments will not continue to pursue policies that fail to deliver growth forever. But co-ordination of policy would be challenging and hence it will take some years for agreement on collective action.

Therefore the economic scenarios that one needs to consider are probably:

- The plan put in place by the current government works – with recovery of a reasonable level of growth by 2015, helping to start to reduce public sector net debt by 2018, though this gives little scope for significant easing up on public expenditure constraint.
- An EU wide New Deal is put in place – probably not before 2020 – as a response to continued sluggish growth across the EU. Quite what shape and membership the EU might have then is debatable but the UK, in or out of the EU, would participate.
- The UK and Europe adapt as Japan has done to a permanently slower rate of growth, with a new set of expectations about what government provides and what families and individuals provide for themselves.
- Governments chose to reduce debt burdens, through accepting or promoting a higher level of inflation, and eroding the costs of non-inflation linked liabilities in terms of pensions and benefits.

Credit and Lending

The process of de-leveraging in the European banking system has been slow, and still has a way to go. At the same time regulation is being introduced which will require financial institutions to go beyond what they would wish to do in terms of constraining leverage ratios. Many European banks have risks in terms of exposure to sovereign debt – the bonds of national governments in which the banks are domiciled.

Discussing the banking system may seem very far away from housing issues in a particular corner of the UK, but these matters affect the availability and cost of mortgages, and these will affect the pattern of demand for housing in every part of the British Isles. DTZ and Wessex Economics expect there to be no return to the easy access mortgages of the five years to 2007. Indeed regulation alone will ensure that this is not the case.

Overall mortgage lending volumes will recover in the UK from their current levels, but not to their peak in real terms until the 2020s – and probably not until the middle of that decade. The new Help to Buy scheme announced in the March 2013 Budget, will boost mortgage lending from the beginning of 2014, though not all lending will be additionally.

Ironically as the availability of mortgages recovers, the cost of mortgages will increase, because mortgage interest rates are only being kept low by central bank policies and easy access to cheap retail savings.

Here then is a reason why the private rented sector is likely to continue to grow in the coming years, though the pace of growth may slow, as those who would in the past have been able to buy a home, get older and have time to accumulate deposits and move onto higher salaries. Inheritance will also play an increasingly important part in helping people to access home ownership, as those who became home owners in the 1970s, 1980s and 1990s die.

Population and Household Growth

The latest ONS Population Projections for England anticipate that the population of England will grow from 52.2 million in 2010 to 60.4 million in 2030, a 15% increase over 20 years. The latest set of household projections for England (2008-based) anticipate the number of households in England will growth from 21.7 million in 2008 to 27.5 million in 2033, an increase of 5.8 million (27%) or 232,000 households pa.

These projected increases are totally out of balance (and have been for a number of years) with the annual net additions to housing numbers from all sources as recorded by government. The 2011 Census show that CLG figures do not fully capture the real increase in housing supply, which has been achieved by extensive sub-division of existing properties, not all of it with planning permission.

But with the level of household growth anticipated, and the fact that addition to the housing supply has averaged no more than 150,000 homes over the past decade, it is useful to ask whether the household growth projected will be realised or not. There are a number of ways in which forecast household growth may be curbed:

- The cost of housing will increase, and this will lead to lower levels of household formation, with more adults continuing to live with family.
- Housing will be used more intensively, particular in terms of sharing by unrelated individuals..
- Housing costs may deter immigration or the government may achieve its objective of reducing net immigration significantly, EU charters notwithstanding

- Emigration may increase as younger British nationals decide to move overseas where housing is less expensive and job prospects better than in the UK
- Foreign nationals resident in the UK may decide to return home or emigrate to a different country.

Already the 2011 Census has shown that average household size has not fallen between 2001 and 2011. Falling average household size has been assumed in all CLG household projections since 2001. The numbers of 20 and 30 year olds living with parents has also increased dramatically.

Key Implications for Housing

The trends outlined above lead DTZ and Wessex Economics to anticipate the following in terms of the housing market for the period to 2033

- No major collapse in house prices in southern England, because of pressure of demand and above average economic performance and historic wealth
- Continuation of comparatively low housing transactions in the period to 2020, deterred by constrained mortgage availability, lack of buyer confidence and cost of moving
- Continued growth of the Private Rented Sector (PRS), with increasing numbers of those in need housed in the PRS
- Investment in PRS new build funded by institutional investors becomes mainstream by 2025, and PRS growth is supported by continued levels of private individual/ family investment
- Registered providers become multi-functional landlords catering for many different sorts of tenants, market and subsidised
- Levels of new housebuilding continue to persistently undershoot projections of household growth by at least 50,000 homes pa in England
- Stable or even rising average household size, as family members share accommodation at different life stages
- A higher proportion of household incomes accounted for by housing costs as rents and prices rise in response to shortage and scope for economising on space is reduced
- The possibility that the cost of housing becomes a deterrent to immigration and an encouragement to emigration.

In summary the economic environment is likely to remain challenging for many years yet in the UK, due in no small measure due to on-going challenges in the Eurozone. The aftermath of the banking crisis with banks needing to rebuild their capital base, combined with tighter regulation mean that the credit environment will remain tough. Public funding for housing will remain tightly constrained.

The implication is that the overall environment for development of new homes will remain constrained for to the end of the current decade, unless there is a radical shift in government policy, probably focused on greater government borrowing for housing construction and addressing land ownership issues. Such a major departure in policy would itself take many years to implement and to have a substantial impact on the volume of new housing delivered.

The Trajectory for the NCNF

FBC have asked DTZ to comment on the trajectory for the NCNF – a term which refers to the number of homes completed each year until the development is finally completed. The trajectory is in practice a function of two key components:

- When does the development start? That is, what is the first year in which new homes are completed
- How many homes are completed year by year thereafter, until the development is fully built out?

FBC are assuming that the first completions will be delivered in 2016/17. DTZ have taken 2016/17 as the first year in which new homes are completed, but does not have insight into the timetable for conclusion of all planning matters, nor of how the landowners anticipate that they will get development underway.

Work is being undertaken independently of this study for FBC on viability issues. The initial Affordable Housing Viability Study undertaken by DTZ in 2012, identified that development of the site is seriously challenged, unless infrastructure costs, or planning obligations can be reduced, or further sources of external funding are secured, but work is on-going to ensure a deliverable proposal.

Analysis by DTZ indicates that peak completions on a major development site is around 300 homes pa, and there will be a build up before this level can be achieved, and a run down towards the end of the development programme. Much also depends on what competing sites there are in the locality.

If 300 homes were built each year from Year 1, a development of 6,500 new homes would take 22 years to build. As noted above peak output will not be achieved in the early years and will wind down towards the end of the development process. It is also likely that there will be years when the housing market goes flat and the peak output is not achieved.

Indeed given the cyclical nature of the housing market, assuming sales and development volumes recover from their current subdued level, it is reasonable to expect another downturn in the housing market within the next 20 years, which would reduce output. Anticipated changes in government funding for affordable housing are also working against high levels of completions.

On the assumption that the NCNF will entail development of 6,500 new homes, it is hard to envisage that the development would take less than 25 years to deliver this number of homes under current housing finance arrangements. A 25 year delivery plan would imply delivering *every year* an average of 260 new homes.

Given the time taken to build up the volume of sales, and the difficulty of maintaining this level year by year, and probably a peak output of 300 homes pa, DTZ would take the view that it would be realistic to plan for a 30 year delivery plan. Much does depend on the level of completion from other sites in South Hampshire, but also on the economy and financial markets.

Figure 2 shows an indicative year by year trajectory using the assumption that 2016/17 is the first year of delivery. Figure 3 shows the cumulative trajectory.

The one dimension that could boost future completion rates is new forms of financing housing are unlocked in the future. The most likely options are institutional funding for market rent developments, and more speculatively Council's using prudential borrowing to support development for lower income groups. Self-build and self-procured housing might enhance delivery but the scale of demand for such provision is unknowable.

Figure 2: DTZ Indicative Annual Housing Trajectory (assumed year of initial delivery of 2016/17)

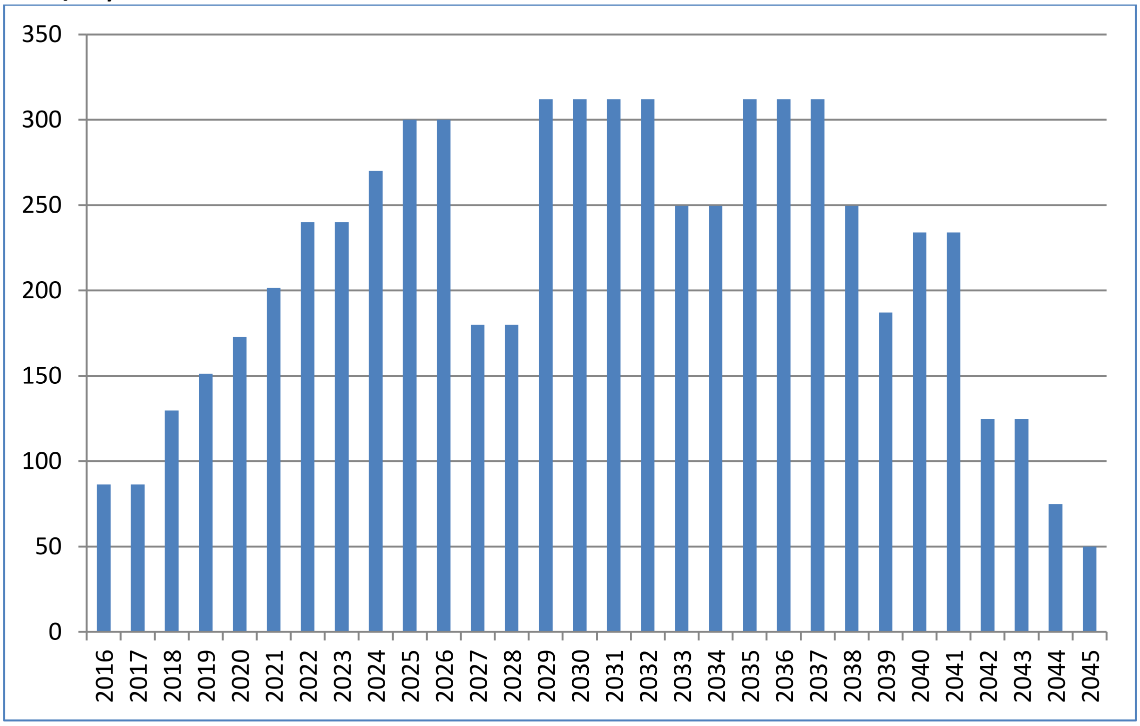
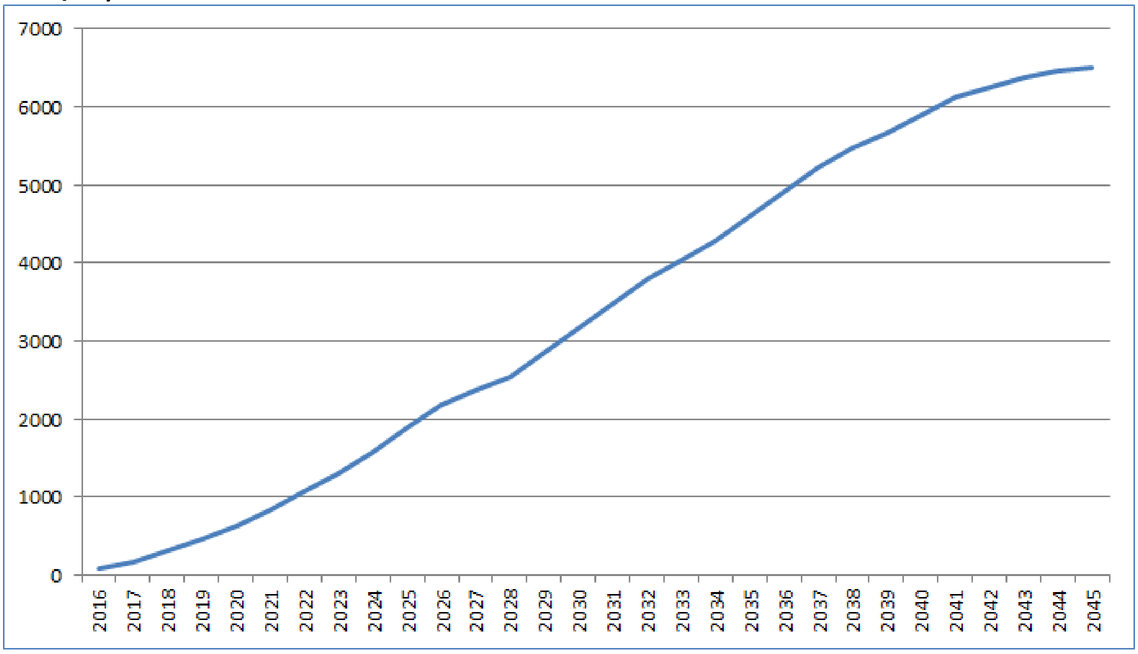


Figure 2: DTZ Indicative Cumulative Housing Trajectory (assumed year of initial delivery of 2016/17)



Planning Policy, Viability and Delivery Timescales

The trajectory for development presented in Figure 2 assumes that the initial phases of development can be shown to be viable in the sense that they provide an adequate return for the development and the landowners. Unless agreement can be reached with the landowners (there being no developers yet in place) the development will not proceed.

The early findings on the viability of development contained in DTZ's Affordable Housing Viability Study for the NCNF, and more recent work by GVA, indicate that it is vital that every aspect of the proposals for the NCNF to be examined in terms of its impact on viability, and whether approaches can be found to reduce costs, enhance revenues, or to adjust the timing of receipts relative to outgoings, in order to improve viability.

There is also a need to explore opportunities for external funding of some elements of the infrastructure required to develop the scheme. Government has provided increasing amounts of funding to help bring forward housing development through interventions such as the Growing Places Fund and Local Infrastructure Fund. These interventions are typically based on repayable grant, loans or equity investment.

FBC have commissioned work to explore the availability of external sources of funding that could be used to help enhance the viability of the overall development, either by direct funding of certain items of infrastructure or forward funding, and hence improving the cash flow profile of the development.

Appendix 4 discusses a number of other ways in which FBC can seek to ensure that the initial phases of development are viable. Given that values and costs will be determined largely in the market place for a given housing product, the main ways that FBC can enhance viability in the absence of external funding are:

- reducing development obligations particularly in terms of infrastructure requirements
- examining whether infrastructure can be provided at a later date than previously assumed
- seeking to bring forward in time opportunities for delivery that are revenue positive
- avoiding imposing standards that impose additional costs on the development
- avoiding imposing conditions that dilute value
- reducing affordable housing obligations

Reducing affordable housing obligations is listed last, since DTZ has assumed it is probably the means of improving viability that FBC is least keen to pursue.

In the light of the viability issues initially identified, FBC need to undertake a very rigorous exercise to identify those items of infrastructure that are absolutely essential to the development; and to rank all other infrastructure requirements in priority order, taking account of cost; the degree to which the infrastructure is value enhancing; when the infrastructure would have to be provided; and the Council's assessment of the perceived importance of that item to delivering its objectives.

In parallel with this, a similarly rigorous exercise should be undertaken to examine when each item of infrastructure costs has to be delivered, in full or in part, and the scope for early approval of some initial development. The more that certain items of infrastructure cost can be delayed, and the more that revenue generating development can be pulled forward before cost is incurred, the more viability is enhanced.

Given uncertainty over revenues and costs, the Council should be looking to put in place a process for phase by phase review of viability; and within this DTZ would recommend that there is some flexibility over the precise size and type mix of homes delivered in each phase, so that the developers can respond to shifts in market demand. Much will change in terms of market demand over the anticipated 25 to 30 years of the scheme's implementation.

FBC is well aware that the application of multiple and often conflicting standards can impose costs on the developer and hence affect viability, and has sought to ensure that the scheme is not overburdened with additional standards to those required by law. The Government has appointed a working group to simplify the many standards applied to housing development, and FBC have indicated that they will be keen to ensure any simplification that emerges is applied to the NCNF.

With the abolition of PPG3 Housing, there is no longer a requirement on planning authorities to plan for mixed and balanced communities, though this remains a desirable objective. The requirement for provision of affordable housing ensures a mix of households with different incomes and backgrounds; and in any major development housebuilders will aim to build a mix of different sizes and types of homes to make efficient use of land and maximise sales rates.

Provision of a mix of size and type of market homes will help ensure the development of a mixed community, and DTZ would not recommend imposition tightly drawn requirements in terms of the size and type mix of market homes, since this is likely to affect viability. Developers should be able to respond to market demand as they build out each phase of development, and adjust mix, within the overall design parameters which set the number of homes to be built, densities and building heights etc.

DTZ is aware that FBC is considering placing a requirement on the development that a proportion of all homes be provided as market rent homes in a purpose built development funded by an institutional investor; and that Government guidance encourages local authorities to make provision for self-build/self-procured development.

At the current point in time the development and financial models for both these forms of development are not well established; there are in effect no proven models of such provision which would provide a benchmark for determining development values. But on initial indications, both will dilute value compared to provision of market housing and hence adversely affect the viability assessment. Probably neither would contribute much to affordable housing provision as currently defined (though market rent housing probably houses the same sort of households as shared ownership housing).

On the other hand, these models may start to emerge over the next 15 years. Given that the NCNF is expected to be built out over at least a 25 year period starting in 2016/17 it is important that FBC considers how these forms of delivery can be facilitated – or even piloted at the NCNF. The attraction of including provision for these forms of development is that they introduce a different stream of demand and alternative funding that could allow the overall volume of annual completions to be boosted above that which could be achieved through the traditional market sale route of housebuilders.

Appendices

New Community North of Fareham Housing Market Assessment: Working Paper 1: The UK Housing Market 1993-2033

Prepared by DTZ and Wessex Economics on behalf of
Fareham Borough Council
March 2013

Introduction

This is the first of 6 working papers that will collectively form the Housing Market Assessment for the New Community North of Fareham (NCNF), commissioned by Fareham Borough Council, as it works towards the preparation of the Development Plan for the NCNF.

There are six working papers in preparation as follows:

- **WP1: The Housing Market 2013 to 2028:** National influences on the housing market over the next 15 years, including national government policy and funding
- **WP2: The Target Markets for NCNF**: where are the buyers or renters of new homes at the NCNF likely to come from, and what will influence the geographic pattern of demand?
- **WP3The Demographic Drivers of Demand:** how will patterns of demand be shaped by the changing demographic profile of the local and regional population and trends in household income?
- **WP4: Implications for Patterns of Demand for NCNF:** how will national, regional and local trends play out in terms of demand for different housing tenures, types and sizes of properties?
- **WP5: The Influence of Development Economics:** how will the cash flow requirements, phasing, and sources of funding for development influence the build out of the NCNF?
- **WP6: Conclusions and Policy Implications:** The anticipated trajectory for the development, and how FBC can seek to shape the development of the NCNF through policy

About this Working Paper

This working paper examines the national influences on the housing market over the next 15 years including national government policy and funding. The working paper sets out the national context, drawing upon national and regional (South East England) statistics, looking back at change over the past 20 years, and looking forward over the next 15 years.

This national perspective is important since demand for housing nationally is a function of the performance of the national economy (which impacts household incomes), and demographic change; and the mortgage market, which is much influenced by national policy and global financial factors and government policy.

The national context sets the basic market context in which development of the NCNF will take place and will have an important bearing on demand for different types of homes, and the nature of housing need and how this can be met. Regional and sub-regional and purely local factors will be overlaid on the national housing market context.

This working paper examines:

- Trends in the housing market over the past 20 years focusing on house prices, mortgage lending, transaction volumes, affordability and new building
- How these trends relate to past economic performance in terms of growth, employment and household income;
- Anticipated demographic change, including growth in population and households, and change in household structure and tenure

- Developments in the funding and financing of new housing development, specifically credit conditions, cost of development finance, mortgage lending, and government finance.

The Evolution of the Housing Market 1993 to 2013

The housing market is cyclical; that is, it is characterised by boom and bust. Figure 1 shows the pattern of real house price growth since 1982 (real house prices exclude the influence of inflation). The chart shows how real house prices peaked in 1989, fell dramatically in the early 1990s, and continued to decline until 1996. What followed was a dramatic increase in real house prices through to a new peak in 2007.

Real house prices fell sharply between 2007 and 2009, and despite a small recovery in 2009-10 have subsequently continued to drift downwards in real terms. Over the entire period 1982 to end 2012 real house prices have increased by around 2.8% pa. Thus prices, excluding the effect of generalised inflation (RPI), have increased dramatically over the past 30 years.

In part the growth in real house prices reflects improvements in the quality of the housing stock. The typical home of 2013 is of a much better standard on average than the home of 1982, with central heating now almost universal, along with better bathrooms, kitchens, better insulation and probably better space standards, due largely to extensions, loft conversions etc.

But in the long boom in house prices in the period 1996 to 2006 housing has become less affordable. Figure 2 shows mortgage payments as percentage of mean take home pay. This is a better measure of affordability than the simple ration of lower quartile house prices to low quartile earnings widely used by the CLG, though it is of course determined by both earnings and interest rates.

Figure 2 shows how affordability improved dramatically between the peak of the housing market in 1989 and 1996. It is important to remember that the late 1980s were a period of exceptionally high inflation and interest rates; for a period of time interest rates were in double figures (over 10%). Affordability improved as prices (real and nominal) fell ***and*** interest rates fell.

But from 1986 affordability worsened through to the peak of the housing market cycle in 2007. Given the low interest rate environment of the late 1990s and 2000s, this was driven by sharply rising house prices and from 2001 by slowing in the growth of household earnings (see Figure 2).

Since 2008 affordability as measured by the relationship of earnings to mortgage payments improved sharply as house prices fell sharply in 2008-09; and since 2009 has remained fairly stable. The Bank of England has maintained interest rates at very low levels, despite limited growth in real earnings.

However as shown in Figure 3 the ratio of house prices to earnings remains significantly above the long term average even following the correction in this ratio after 2008. Much tighter credit conditions now exist than prior to 2007 and this is reflected in much lower volumes of mortgage lending (see Figure 4) – which continue to run at around half of the pre-2007 levels.

The practical outworking of much tighter credit and lending environment is that since 2008, mortgage lenders have required much larger deposits of first time buyers wishing to take out a mortgage. Deposit requirements have been as high as 20% for the best mortgage deals, but have moderated somewhat over the past year. Government has also introduced a number of schemes to assist first time buyers to purchase new homes (NewBuy and FirstBuy)

Much larger deposits continued to be required (eg 10% is still very normal) by lenders. The practical effect is that this excludes many younger people from accessing home ownership. The tighter credit environment is reflected in much lower volumes of overall mortgage lending in the UK. Mortgage lending continues to run at around half of the levels of 2000-07 in terms of both value and volume (see Figure 4a and 4b).

Low levels of mortgage lending are a function of both supply and demand. On the supply side, the dislocation of the wholesale funding market for mortgages, which depended greatly on selling packages of Residential Mortgage Backed Securities (RMBS), has not recovered significantly[1]. Lenders are now more cautious with many retail and wholesale lenders wishing to reduce their exposure to property based lending.

At the same time, with real earnings under pressure in recent years, and less confidence (outside of London) regarding future house price growth, there is less demand from potential borrowers. This is reflected in many fewer people moving home, (see Figure 5 for the volume of housing transactions) and more young people choosing, or being forced to live in the private rented property.

These changes have been reflected in changing tenure patterns. At both the national level and in the South East of England the proportion of households who are private tenants has increased. In England the proportion of all households that rent from a private landlord has increased from 10% in 1999 to 17% in 2010 at the same time the proportion of home owners has fallen slightly, while the proportion of social tenants has also fallen slightly.

Another consequence of reduced mortgage lending, and more caution on behalf of buyers is that demand for new market homes has fallen. The housebuilding sector went through a traumatic time in the period immediately after the credit crunch in 2008 as prices fell, land values collapsed, and credit lines were severely cut back, and the output of new homes fell dramatically (see Figure 7).

The consequence is that many small and medium housebuilders have gone out of business. The largest housebuilders have survived but all have reduced the volume of new homes being built, and shifted production away from flats to family homes (apart from in the London market). Housing starts and completions remain substantially below pre-2007 levels (see Figure 7), and show no signs of recovery to the levels achieved in the 5 years to 2007.

[1] Mis-selling of mortgages in the USA, which were then bundled into RMBS, were one of the key factors that led to the financial crisis

The Drivers of the Future Housing Market

There are five fundamental and inter-related drivers that will determine the characteristics of the housing market in the coming 20 years:

- Economic growth
- The credit and lending environment
- Household incomes and employment
- Population and household growth
- Government policy

Economic Growth

Over the past 5 years the UK economy has had its longest period of weak economic growth since the Great Depression of the 1930s. More than ever there is uncertainty about the future course of economic growth in the UK, not least because of the uncertain growth prospects of the rest of the EU which is the UK's leading trading partner. Real GDP is still below the level recorded in 2007 (see Figure 8).

There is now general acceptance that the UK will not bounce back to the recover the lost growth of the past five years. The debate is whether the UK economy will return to the trend rate of growth of the period 1993-2007, or that the average rate of growth for the coming 20 years will be lower than the trend rate of growth in the period 1993-2007, as has been in the case in the Japanese economy following its financial crisis in 1991.

Most economic forecasts (for example Oxford Economics – see Figure 8) assume that economic growth will return to its long term average, not least because there is no basis to calibrate a different future using econometric models. However all the mainstream economic forecasters have had to progressively revise their forecasts of growth down over the last 5 years, as growth has proved elusive.

In terms of planning policy it is wise to plan for 'a return to normality'; but also to think through the implications of changed economic environment, where economic growth is lower, and hence earnings and household income growth is lower than would otherwise be expected. Policy makers are then prepared for both outcomes.

DTZ and Wessex Economics on balance, take the view that so much has changed in recent years compared to the prevailing economic environment of 1993-2007, that UK growth over the next 20 years is going to be lower than in 1993-2007. There seems to be evidence that it takes a long time for major economies to recover from major financial crises; and much is changing in terms of global competition.

The Credit Environment

At present, despite government and central bank intervention that is keeping interest rates at very low levels by historic standards, lending is at a low level. The new regulatory environment for banks and other financial institutions being put in place by governments in the developed nations of the world is forcing financial institutions to reduce their lending – the process known as de-leveraging.

Financial institutions are also seeking to repair their balance sheets having incurred major losses on lending. Lending secured on property (particularly commercial property and development) has been a major source of bad debt, so many financial institutions are seeking to reduce their exposure to property. This means that borrowing to fund development is more difficult to access and more expensive.

At the same time larger businesses are being deterred from investing by economic uncertainty, and many are accumulating cash reserves. As a result of both the desire and the need to borrow is falling. Similarly households are generally seeking to reduce borrowings in the face an uncertain economic environment. Neither of these rational responses helps boost growth.

In addition tighter lending criteria, in part self-imposed, in part being imposed by the new regulatory environment, is reducing the appetite of banks and other lenders to lend to businesses and individuals in the OECD nations. Rapid growth in other parts of the world is opening up major new opportunities for investment so available investment funds are being diverted to those parts of the world with strong growth prospects.

How does this affect the housing market? It looks likely that mortgage lending will remain well below the average level of 1997-2007 at least until 2020, constrained by new tighter regulation of mortgage lending, reduced access to cheap wholesale funding, greater prudence by lenders, and a reluctance to borrow up to the hilt by borrowers.

The same considerations are likely to affect the cost of capital for new housing development. As noted above, many major lenders are still seeking to reduce their exposure to real estate lending. Developers are therefore likely to continue to face higher costs for development finance that in the five years to 2007. This will act as a constraint on new housing development.

There are two positive trends. First with returns on interest bearing deposits and bonds, and uncertain returns on equity, capital is likely to continue to flow into residential property from individual investors. Lending to buy-to-let landlords is, in common with mortgage lending, is much reduced compared to the years up to 2007, particularly in relation to new build homes.

But the current housing market is characterised by significant numbers of cash buyers. A significant proportion of cash buyers are likely to be those with capital who are choosing to invest in residential property. This is attractive compared to other investments if it yields 3-4% and the prospect of longer term capital growth.

The second major development is the announcement of the 'Help to Buy' scheme in the March 2013 Budget. This report has been finalised in the week the announcement was made so a full assessment of the likely impact of the scheme has not been possible. The headline announcement is that the scheme will provide a mortgage guarantee for anyone buying an existing or new property up to a cap of £600,000, but the details of eligibility are still to be worked out.

HM Treasury estimate that the £12 bn of guarantees will support up to £130 bn of mortgage lending and support upto 190,000 mortgages pa. The scheme is intended to ensure that even those able to raise only a 5% deposit will be able to buy. If this was wholly additional lending it would expand mortgage lending volumes by almost 30%, but there will be an element of the lending that will not be additional.

DTZ's initial view is that the scheme will expand mortgage availability but there will be a significant degree of non-additionality; that is mortgage lenders will substitute a guaranteed loan for one that was not guaranteed; and that a number of people who would have accessed mortgages at any rate will take advantage of the scheme. The biggest concern is that the scheme will lead to house price increases and hence work against long term affordability.

Household Incomes, Employment

Housing affordability is a function essentially of household incomes compared to cost of housing as measured by rents, or by mortgage costs (which are themselves a function of interest rates, house prices and the equity that a household can invest when buying a property). The levels of employment and unemployment and what is happening to earnings are the major factors determining household incomes.

Notwithstanding considerable reductions in public sector employment, overall employment levels in the UK have recovered significantly since 2008. Unemployment has not reached the levels expected by many, and experienced in many EU nations. However much of the growth in employment has been associated with part time jobs, and a significant growth in self-employment among those over 50. Thus economists conclude that productivity has fallen, and with a decline in productivity overall earnings per head must be falling for many. This will have had an impact on household incomes.

The most recent ONS data for earnings for the UK indicate that indeed, while earnings for full time employees have been rising, real earnings have been falling. In the 5 years since April 2007, prices have risen by 18% while average earnings have gone up by 10%. This will affect affordability of housing.

However between 2007 (June to August) and 2012 (June to August) the number of people in full-time employment in the UK fell by 355,000, while the number of people in part-time employment increased by 724,000. This shift in patterns of employment will be changing the earnings profile of households and hence impinge on housing affordability.

There is also a long term trend of polarisation in incomes that is hidden when only average (mean) earnings or incomes are quoted. Over time the richest 10% of the population have captured a larger share of overall income, while all other groups have seen a decline in their share of national income. This polarisation has probably accelerated in recent years (see Figure 9).

Population and Household Growth

The population of England and the South East of England has growth very significantly over the period 2001-2011. The population of England had increased by 3.6 million on the estimate of 49.5 million people in 2001, an increase of 7.2 per cent. This was the largest growth in population numbers in a 10-year period since the first census in 1801.

This growth was not anticipated. A book published in 2000 by the Office of Science and Technology, Britain in 2000, by Professor Richard Scase states *'in the first decade of the 21st Century, population will increase very little. Britain's population, like that of many European countries, will be static, possibly in decline'.*

This prediction is a health reminder of how easy it is to misread the future. The combination of significant levels of in-migration, combined with the above average birth rates of those who have come to live in the UK, has led to a significant increase in the population. In recent years, probably linked to economic difficulties in southern Europe, emigration has also fallen significantly.

It is now anticipated that international in-migration may continue, but it is perfectly conceivable, particularly if the economy of the UK stagnates, that the UK might see increased emigration and much reduced immigration. Generally it is currently perceived that Britain's policy of freedom of movement within the EU will remain, but a great deal can happen in 20 years

The number of households in England increased by 7.9% and in the South East by 8.2% between 2001 and 2011. In the South East of England there were around 268,000 more households than in 2001. The 2011 Census has shown that average household size in 2011 was the same as in 2001. This is contrary to expectations.

CLG household projections during the decade to 2011 have anticipated further declines in household size, following the long trend; and this can be expected to be reflected in due course in fresh CLG household projections based on the Census data. A significant factor in this is a 20% rise in the number of 20-34 year olds living with parents between 1997 and 2011. The rise in birth rates will also have contributed to this change.

However for the most part the pattern of change in population and households is as expected, with growth in the number of older people and households containing older people; an increase in single person households and shared households, but with family households still comprising the largest component.

Government Policy

Government policy impinges on the housing market in many different ways. The government's economic policies shape the economy. The government's policy on regulating the financial sector affects mortgage lending. Both of these issues have been discussed above. Three additional aspects of government policy are important to mention here.

- Housing policy, particular as regards affordable housing
- Welfare Reform
- Planning and infrastructure

In terms of **housing policy**, the government has reduced the funding for affordable housing in the current spending review period by around 60% in annual terms compared to the previous CSR, but aims to deliver roughly the same number of new affordable homes. This implies roughly a 50% reduction in subsidy per unit.

This is being achieved by introduction of the new affordable rent tenure, where rents above those charged on social housing will be charged. There is a raft of other policy measures, reform of the HRA, tenancy strategies etc, the ability of local authorities to discharge their duties to house homeless people in the private rented sector.

These reforms are generally reshaping the pattern of housing provision for low income groups.

At the same time the Government's is pursuing major **reform of the welfare system**, both to reduce the overall amount spent on benefits, but also with the aim of increase incentives to work. This agenda is likely to have significant impacts on the pattern of housing occupation by lower income groups historically reliant on housing benefit, who will in future receive assistance through the Universal Credit system.

Key changes that are likely to affect the pattern of occupation of lower income groups are:

- The power given to local authorities to discharge their duty to homeless people by providing suitable accommodation in the private rented sector
- Reduction in the benefit that tenants can claim if they are deemed to have a surplus bedroom in the home they rent
- Housing benefit in future will only cover the costs of a single room in a shared house for single adults under the age of 35, rather than independent accommodation
- Caps on the overall benefit that any family can claim and changes to Housing Benefit caps designed to put downward pressure on rents and to reduce the costs of Housing Benefit

The government is also seeking to use **planning policy** to enable the building of an increased number of new homes. In support of this government is also seeking to make surplus public sector land available for development. The government has also supported the introduction of the Community Infrastructure Levy to help provide infrastructure. But at the same time capital expenditure on strategic infrastructure has been reduced, as has funding for local government.

Future Scenarios for the UK Housing Market 2013-33

How will these various drivers of the housing market play out over the next 20 years at the national level? Any forward projection of past trends is fraught with difficulty, not least because major international events may have major impacts on the UK economy, and hence on society and policy. Take one simple example. Can one say with total confidence that the UK will still part of the EU in 2025, or precisely what the EU will be in 2025?

Despite caveats, some general directions can be discerned in society, in government and housing trends. It is also helpful to remember that the great majority of the housing stock that will exist in 2033 has already been built; and the majority of the population of the UK who will be alive in 2033 are alive today. It is possible to calibrate the scale of change that might happen by 2033 by reflecting on what the housing market was like in 1993, 20 years ago. It was not so hugely different to that of today.

Government Policy

It is perhaps ironic, given that politicians like to think they control events, to state that government policy is one of the more predictable elements of the future. For the past 15 years governments have generally been keen to boost housing supply; and they have failed to do so to a level commensurate with the anticipated and actual increase in households. Without a radical change in approach to landownership issues, DTZ and Wessex Economics anticipate that there will not be a fundamental change in aspiration, or in ability to deliver.

The current government has set out its strategy for deficit reduction, and is likely to continue to pursue this strategy to the anticipated date of the next election in 2015. The government's objective is now to ensure that debt will start falling as a proportion of GDP by 2016/17 and to eliminate the structural current deficit by 2017/18, the date having been progressively pushed back as growth has failed to materialise and hence tax revenues have fallen short of expectations. A reasonable expectation is that the Government does not stand more than a 60/40 chance of achieving its objective by these dates.

Any government elected in 2015 is likely to continue the course of constraint on public sector expenditure embarked on by the current government. The mix of taxation and spending might change somewhat, but there will be no return to the continued expansion of the share of the economy accounted for by the public sector and rising public sector employment that characterised the 10 years to 2010

It is hard to imagine that any government will not seek to prioritise expenditure on the NHS and education. The Chancellor has already started work on the next spending review. Analysis by the Financial Times on HM Treasury data indicates that the CLG Communities budget is the central government budget is the central government budget that will suffer the largest cut over the period 2010-2017 – an overall cut of around 70%.

The conclusion DTZ and Wessex Economics reach is that public sector funding for affordable housing is likely to largely disappear in the next spending review period. The cut might be less severe under another government but the budget is still likely to be significantly less than in the current spending review period. Additional housing for low income groups will in future therefore have to be provided without subsidy – except possibly with the subsidy of cheap land provided by the public sector.

DTZ and Wessex Economics anticipate therefore increasingly those in housing need will be housing in market rented property. We will see Registered Providers becoming broadly based landlords owning a portfolio of properties from pure market rented properties housing those who pay their rent in full without subsidy, those paying market rents with support from Housing Benefit/Universal Credit, to those with affordable and social rent tenancies where an element of rental subsidy is inbuilt in the rents charged.

DTZ and Wessex Economics doubt that any government will significantly reverse the reforms to the benefit system being implemented by the current government, because they would have to identify where else budgets can be cut, or how to raise taxation. Any government is going to have to face the cost of rising pension costs and care for older people as the number of older people increases, and this will constrain any government in what it can do in the rest of its expenditure programme.

The Economy

DTZ and Wessex Economics believe that all of the above applies on the assumptions that the economy grows on the basis of the latest forecasts presented by the Office for Budget Responsibility. The risks in relation to these forecasts are on the downside, that growth will be less than forecast (as has been the case with every central government and mainstream private sector forecast for the last 4 years). To the extent that economic growth is less than currently forecast, the decisions to be made by government on spending and tax are that much more challenging.

Is there the likelihood of any government or grouping of governments deciding to pursue a fundamentally different strategy if economic growth in the UK or in Europe as a whole fails to recover? It is hard to see how any country in Europe could go it alone, but it is plausible that governments will not continue to pursue policies that fail to deliver growth forever. But co-ordination of policy would be challenging and hence it will take some years for agreement on collective action.

Therefore the economic scenarios that one needs to consider are probably:

- The plan put in place by the current government works – with recovery of a reasonable level of growth by 2015, helping to reduce the deficit in line with targets by 2017, though this gives little scope for significant easing up on public expenditure constraint.
- An EU wide New Deal is put in place – probably not before 2020 – as a response to continued sluggish growth across the EU. Quite what shape and membership the EU might have then is debatable but the UK, in or out of the EU, would participate.
- The UK and Europe adapt as Japan has done to a permanently slower rate of growth, with a new set of expectations about what government provides and what families and individuals provide for themselves.
- Governments chose to reduce debt burdens, through accepting or promoting a higher level of inflation, and eroding the costs of non-inflation linked liabilities in terms of pensions and benefits.

Credit and Lending

The process of de-leveraging in the European banking system has been slow, and still has a way to go. At the same time regulation is being introduced which will require financial institutions to go beyond what they would wish to do in terms of constraining leverage ratios, and the ability to use the financial base of, for example, retail banks to support investment bank activities. Much of the European banking has risks in terms of exposure to sovereign debt – the bonds of national governments in which the banks are domiciled.

Discussing the banking system may seem very far away from housing issues in a particular corner of the UK, but these matters affect the availability and cost of mortgages, and these will affect the pattern of demand for housing in every part of the British Isles. DTZ and Wessex Economics expect there to be no return to the easy access mortgages of the five years to 2007. Indeed regulation alone will ensure that this is not the case.

The Help to Buy scheme will boost overall mortgage lending volumes in the UK from their current levels, but DTZ's initial assessment is that they will not do so to the extent the government anticipates due to other constraints on mortgage lending. Mortgage lending volumes will not recover to their peak in real terms until the 2020s – and probably not until the middle of that decade. Ironically as the availability of mortgages recovers, the cost of mortgages may increase, because mortgage interest rates are only being kept low by central bank policies and easy access to cheap retail savings.

Here then is another reason why the private rented sector is likely to continue to grow in the coming years, though the pace of growth may slow, as those who would in the past have been able to buy a home, get older and have time to accumulate deposits and move onto higher salaries. Inheritance will also play an increasingly important part in helping people to access home ownership, as those who became home owners in the 1970s, 1980s and 1990s die.

Population and Household Growth

The latest set of ONS Population Projections for England anticipated that the population of England will grow from 52.2 million in 2010 to 60.4 million in 2030, a 15% increase over 20 years. The latest set of household projections for England (2008-based) anticipate the number of households in England will growth from 21.7 million in 2008 to 27.5 million in 2033, an increase of 5.8 million (27%) or 232,000 households pa.

These projected increase are totally out of balance (and have been for a number of years) with the annual net additions to housing numbers from all sources as recorded by government. Only in 5 years of the period 2000/01 to 2010/11 have net additions to housing in England as recorded by CLG exceeded 150,000 units, and in 2010/11 only 121,200 dwellings were added to supply.

It is only reasonable to suppose that the CLG figures do not fully capture the real increase in housing supply. But with the level of household growth anticipated, and the fact that addition to the housing supply has averaged no more than 150,000 homes over the past decade, it is useful to ask whether the household growth projected will be realised or not.

There are a number of ways in which forecast household growth may be curbed:

- The cost of housing will increase, and this will lead to lower levels of household formation, with more adults continuing to live with family. This trend is already in evidence
- Housing will be used more intensively, particular in terms of sharing by unrelated individuals. Again this pattern can be observed
- Housing costs may deter immigration or the government may achieve its objective of reducing net immigration significantly, EU charters notwithstanding
- Emigration may increase as younger British nationals decide to move overseas where housing is less expensive and job prospects better than in the UK
- Foreign nationals resident in the UK may decide to return home or to emigrate to a different country.

Already the 2011 Census has shown that average household size has not fallen between 2001 and 2011. Falling average household size has been assumed in all CLG household projections since 2001.

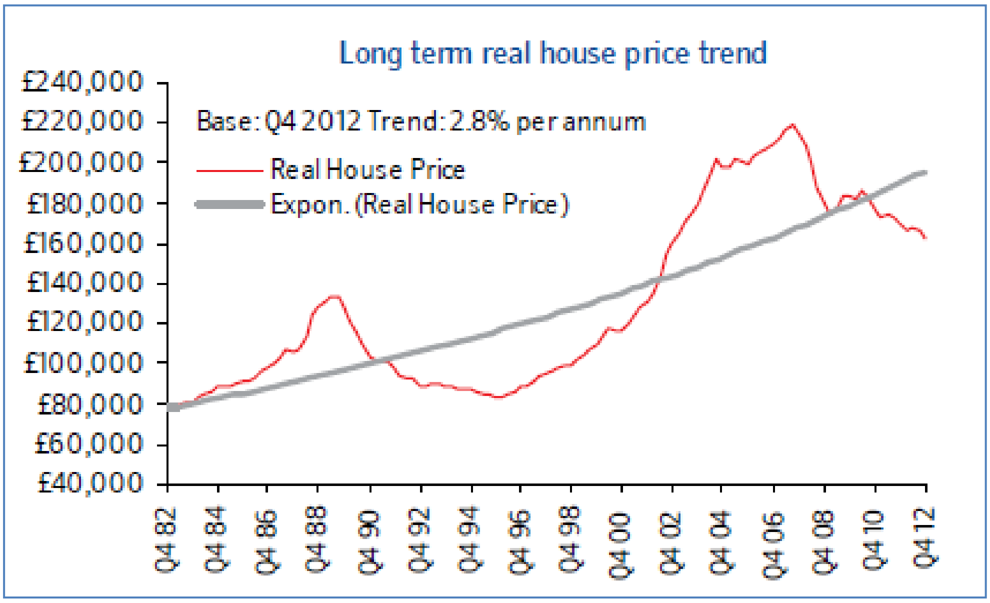
Key Implications for Housing

The trends outlined above lead DTZ and Wessex Economics to anticipate the following in terms of the housing market for the period to 2033

- No major collapse in house prices in southern England, because of pressure of demand and above average economic performance and historic wealth

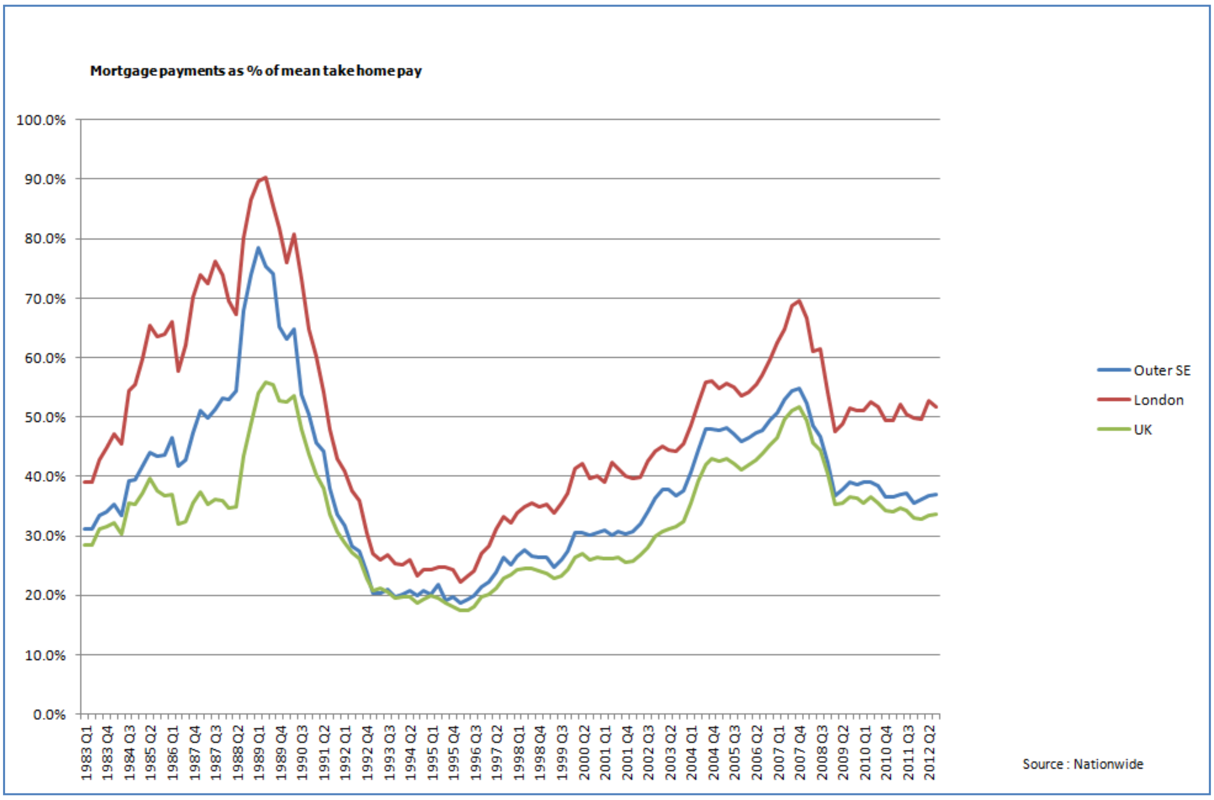
- The Help to Buy scheme will boost housing transactions but they will remain comparatively low in the period to 2021 deterred by constrained mortgage availability, lack of buyer confidence and cost of moving
- Continued growth of the Private Rented Sector, with increasing numbers of those in need housed in the PRS
- Investment in the PRS new build with institutional funding become mainstream, and PRS growth supported by continued levels of private individual/family investment
- Registered providers become multi-functional landlords catering for many different sorts of tenants, market and subsidised
- Levels of new housebuilding continuing to persistently undershoot projections of household growth by at least 50,000 homes pa in England
- Stable or even rising average household size, as family members share accommodation at different life stages
- A higher proportion of household incomes accounted for by housing costs as rents and prices rise in response to shortage and scope for economising on space is reduced
- The possibility that the cost of housing becomes a deterrent to immigration and an encouragement to emigration.

Figure 1: Real House Price Growth 1982-2012



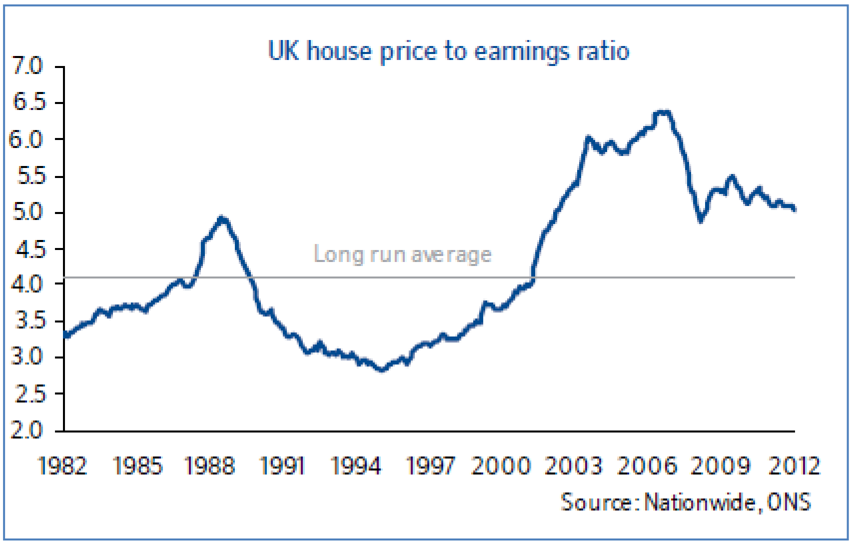
Source: Nationwide

Figure 2: Mortgage Payments as a % of Take Home Pay



Source: Nationwide

Figure 3: UK House Price to Earnings Ratio



Source: Nationwide, ONS

Figure 4a: UK Mortgage Lending by Value in £m

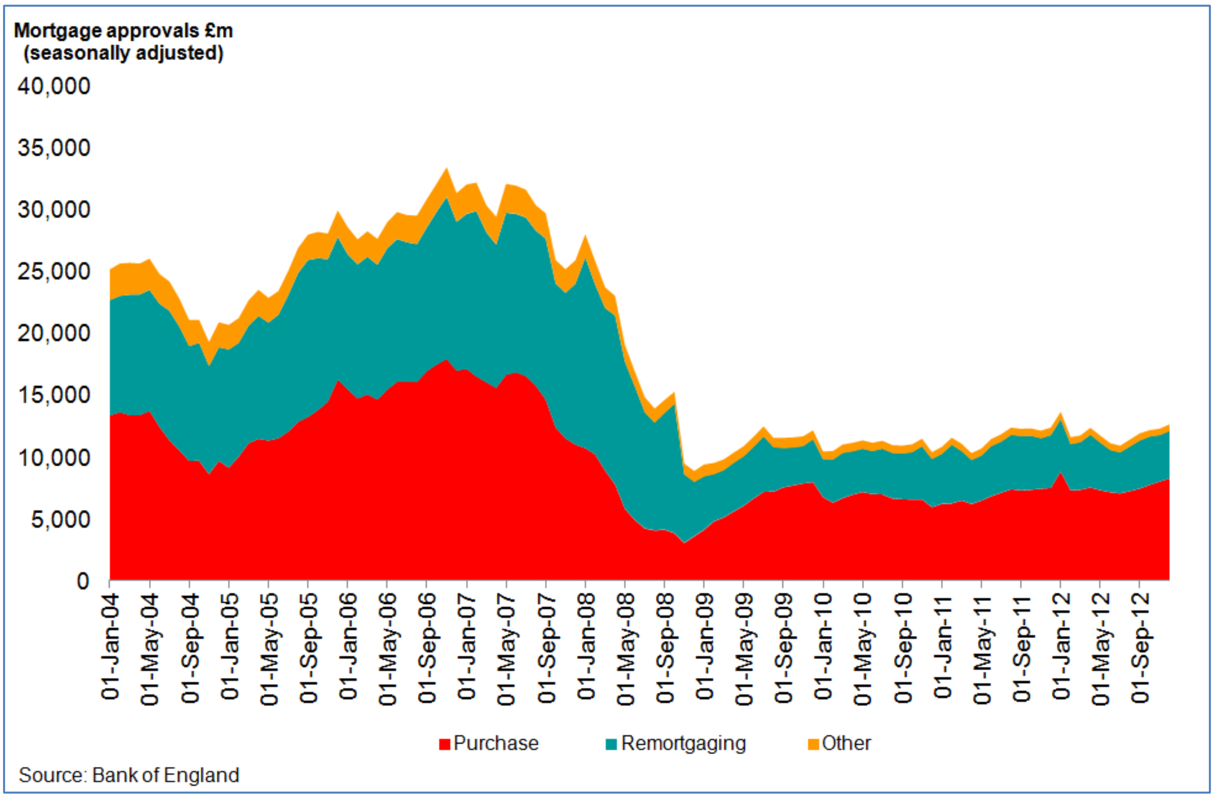


Figure 4b: UK Mortgage Lending by Volume

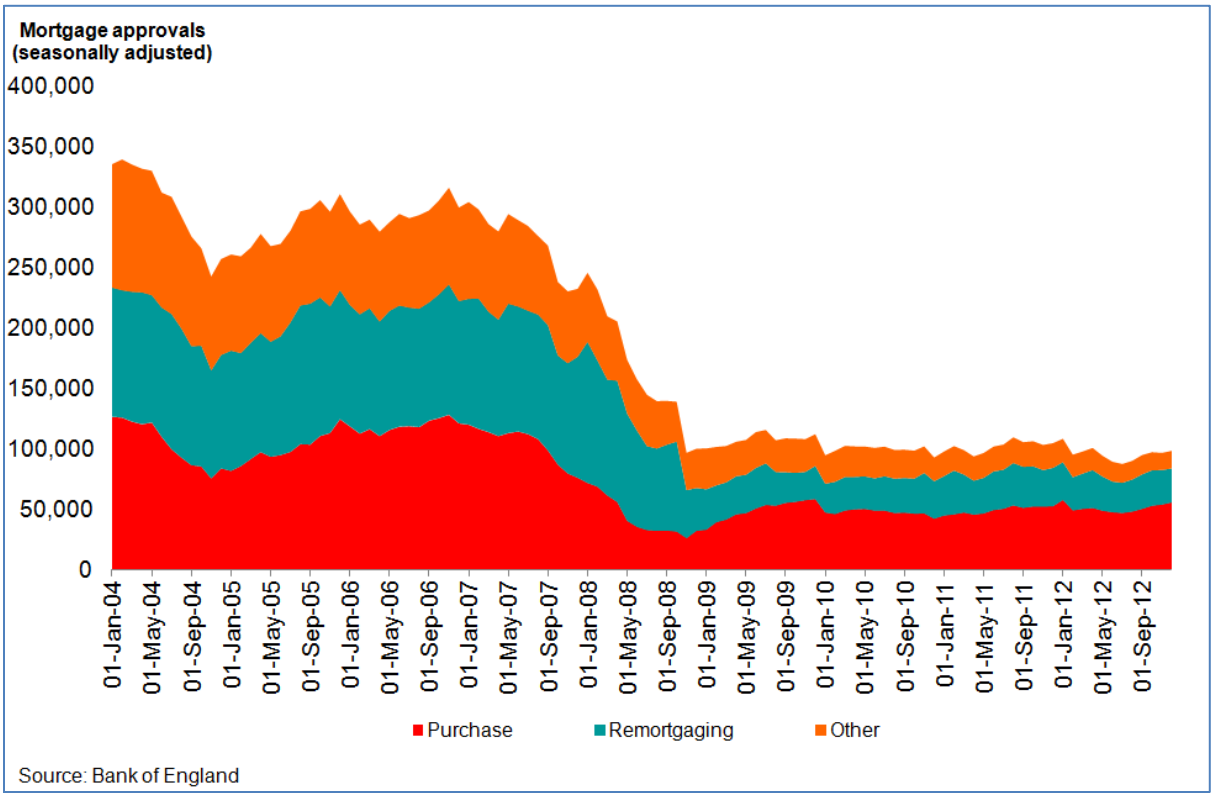


Figure 5: England and Wales Housing Transactions Index 1997-2012

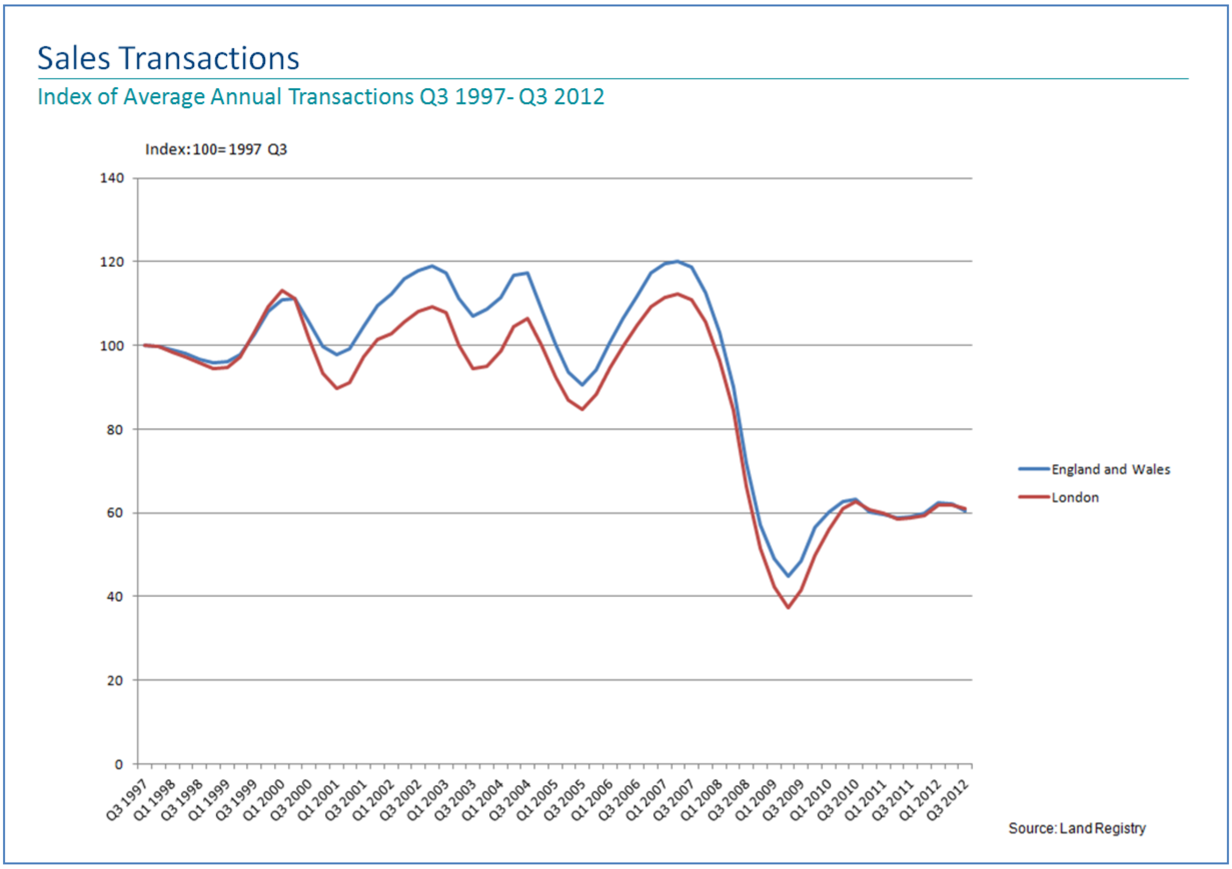


Figure 6: Number of Households by Tenure 1981-2010

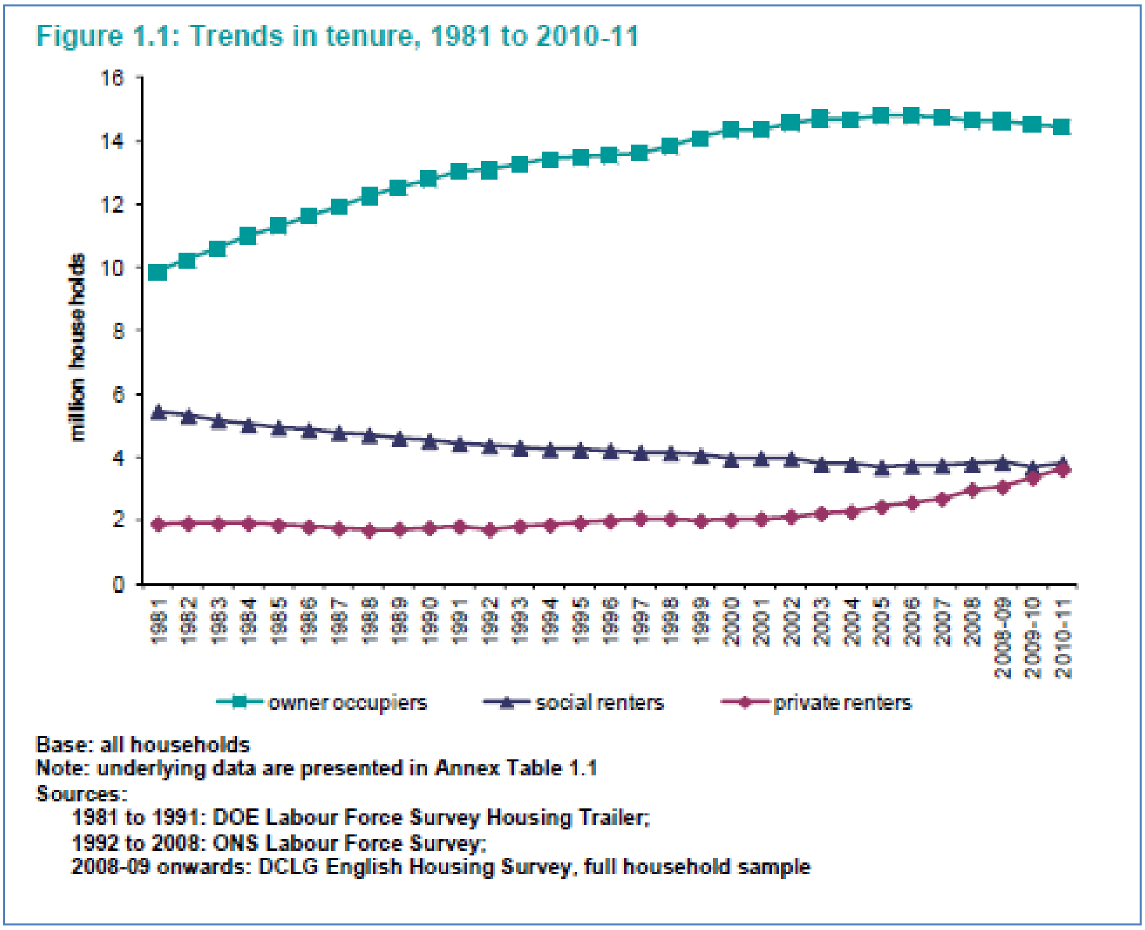
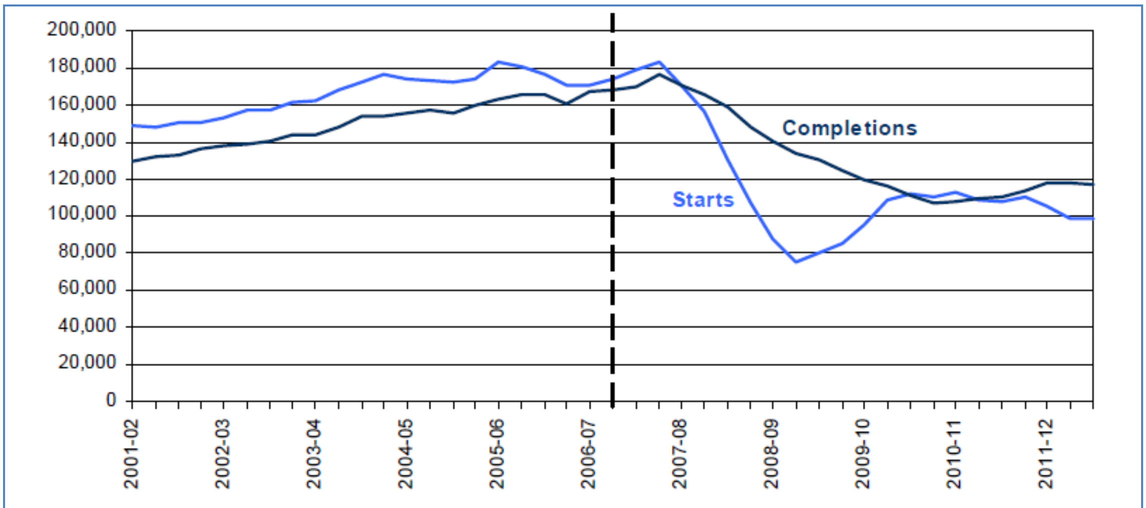


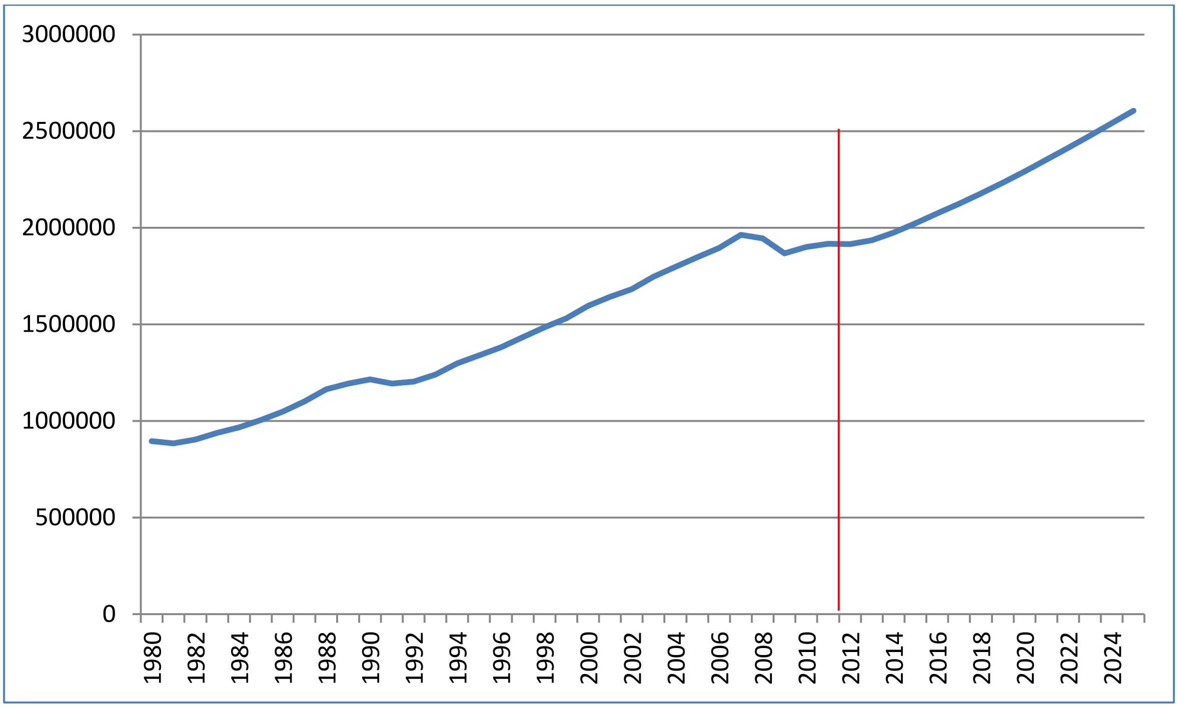
Figure 7: Housing Completions and Starts in England 2001-2012, 12 month rolling average



The chart includes data from independent approved inspectors from 2007-08 as marked by the vertical dashed line. Note that, because the graph shows rolling totals, the three quarters immediately following the dashed line will be a combination of quarters that do include approved inspector data and quarters that do not.

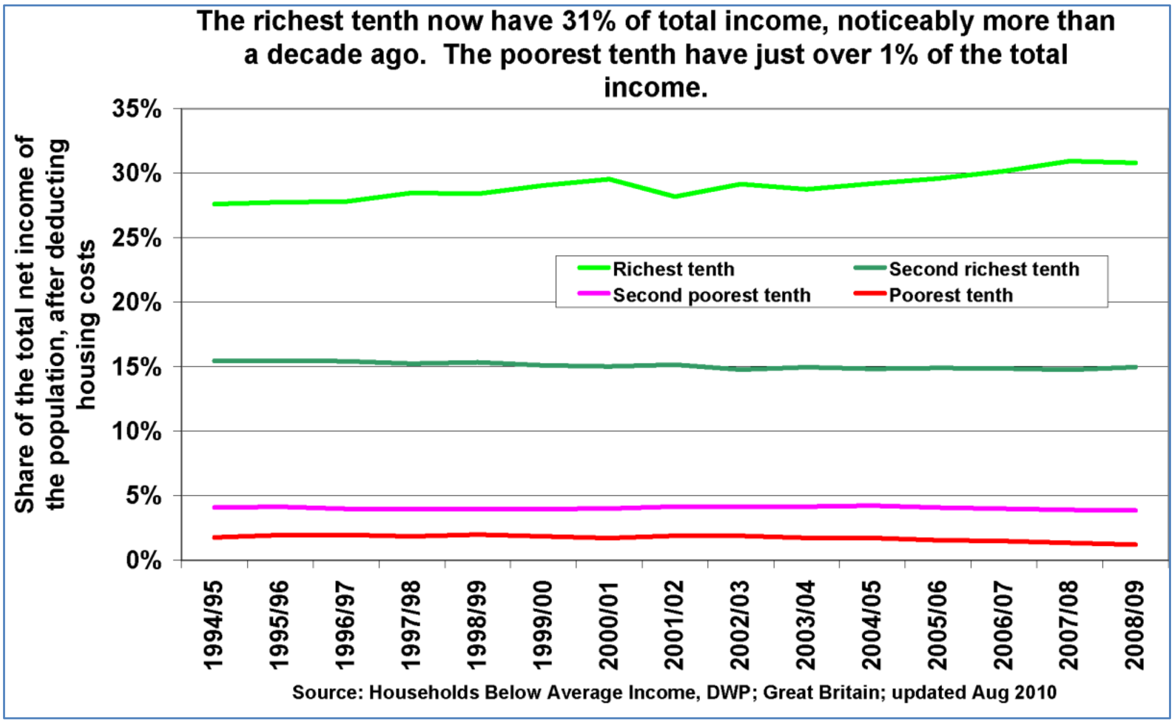
Source: CLG, DTZ

Figure 8: UK Real GDP Actual and Forecast 1980-24 in euros, constant 2005 prices



Source: Oxford Economic

Figure 9: Share of Total National Income by Top and Lowest Deciles



New Community North of Fareham Housing Market Assessment: Appendix 2: The Target Markets for the NCNF

Prepared by DTZ and Wessex Economics on behalf of
Fareham Borough Council
March 2013

About this Working Paper

This working paper aims to answer the question *'where will those who live in the NCNF come from?'* and also in part address the question of what type of people/households will buy or rent homes at the NCNF. This is an important consideration in determining the size and type of new homes that should be provided at NCNF.

However the size and type of new homes and the character of the development will also influence who chooses to live within the NCNF. Moreover at any point in time, there may be greater or less demand for certain types of new homes and the profitability of different types of development and the developers will want to respond to shifts in demand and profitability.

This working paper examines:

- The extent of the housing market area in which NCNF is located
- Patterns of home moving and buying
- Who lives in new homes?
- Who buys new homes?
- Key points for the NCNF

In undertaking this analysis DTZ has drawn upon national and local research and analysis. We would highlight that there is little hard evidence on the characteristics of new home buyers. This is because, while housebuilders have good information on those who buy new homes, it is in their commercial interests to keep it confidential. However some evidence can be gleaned from the characteristics of those who live in large newly built communities.

Housing Market Areas

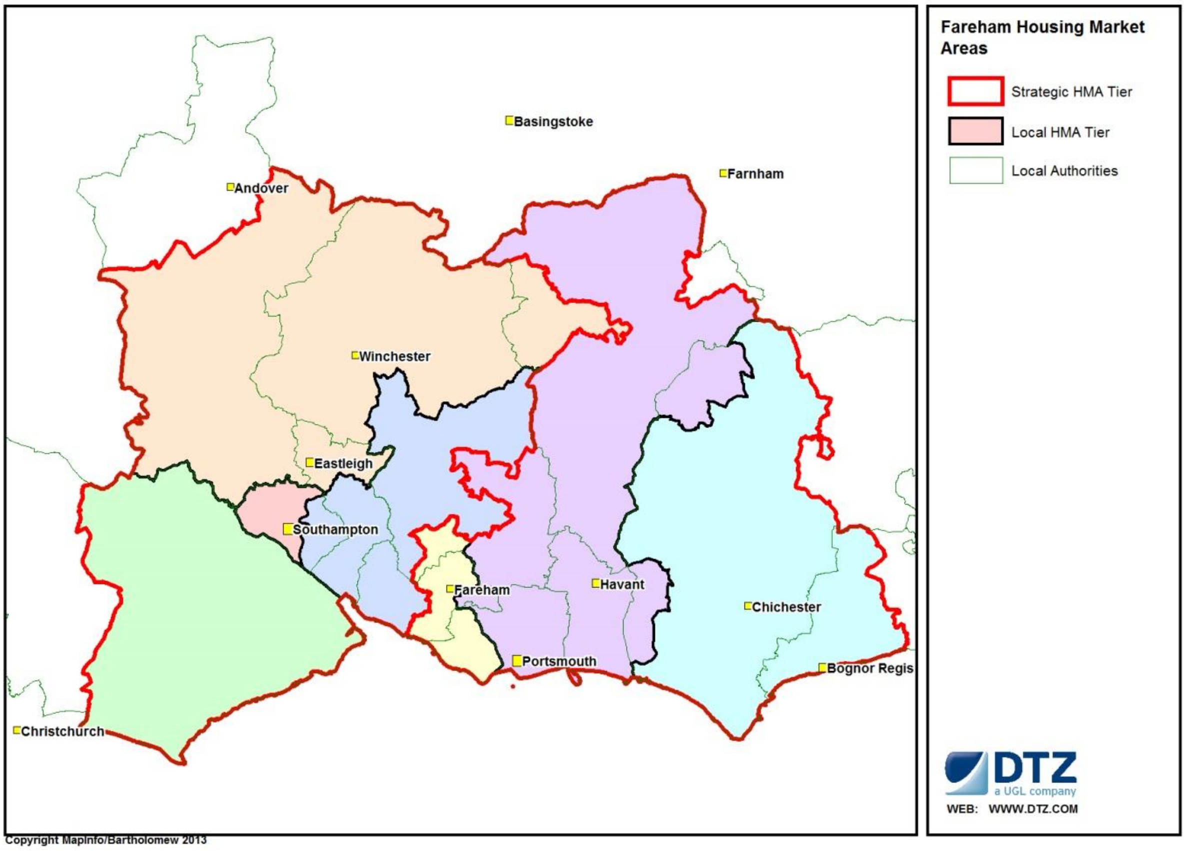
A major study was commissioned by the former National Planning and Housing Advisory Unit to map Housing Market Areas on a consistent basis across the whole of the UK. The work was undertaken by the Centre for Urban and Regional Development at Newcastle University, who have been responsible for mapping Travel to Work area from the 2001 Census.[1]

CURDS identify two upper tier Housing Market Areas covering south and much of central Hampshire: the Portsmouth HMA which includes Fareham, along with Portsmouth, Gosport and East Hampshire; and the Southampton HMA which includes Southampton, Eastleigh, Winchester and Test Valley authorities (though the boundaries are actually ward based).

Although Fareham local housing market is contained within the Portsmouth Strategic Housing Market Area, Figure 1 shows that parts of the Borough fall into the Southampton Strategic Housing Market Area. The Borough effectively straddles the border, which means that it will be less self-contained than other parts of the Strategic HMA.

[1] For all relevant reports and data sets of the CURDS work for NHPAU see http://www.ncl.ac.uk/curds/research/defining/NHPAU.htm

Figure 1: Upper Tier and Local Housing Market Areas (2001 Census Data)



This upper tier HMA has 77.5% self-containment in terms of commuting patterns (on the basis of 2001 Census data). Put another way over three quarters of all journeys to work in each of the upper tier HMAs are within the same HMA. The Local HMAs are areas that contain at least 50% of all household moves within the same area. Figure 1 shows the extent of the HMAs covering Fareham Borough.

These areas represent the most logical framework for defining housing market areas across the country as a whole. For a number of reasons it is reasonable to expect that the majority of those who come to live in the NCNF will be already resident in these two HMAs; and that in practice new residents will be drawn primarily from the southern parts of both the Portsmouth and the Southampton upper tier HMAs.

The reasons why this is so is because:

- The NCNF is located quite close to the border with the Southampton upper tier HMA
- The NCNF will have very good access to the M27, so it will be easy for residents to travel to east or west in the A27 corridor
- Those who specifically wish to buy a new home generally have a smaller choice of locations, and may therefore be more likely to move somewhat further than other buyers

It is also worth noting that integration between the Portsmouth and Southampton travel to work areas may have increased since 2001, the most recent date for which detailed commuting and migration data is currently available[2]. It might even be the case that this has happened to the extent that they have become a single TTWA, although in all probability the 'two pole' nature of the area will still be very evident.

The first, and tentative, conclusion based on the pattern of housing markets is that the majority (say at least 50%) of residents of the NCNF are likely to be local in terms of currently living from within a 15 mile radius of the NCNF, with probably at least 60-70% from the two existing housing market areas covering south and central Hampshire.

Migration Patterns

A more detailed picture of patterns of migration, which by definition entails moving home, is available from ONS data on internal (England and Wales), national (Scotland and Northern Ireland) and international migration. DTZ has analysed data available for the year to June 2011. Figure 2, shows the population flows for the 20 local authority areas in England and Wales that are the source of the largest inflows to Fareham.

Figure 2 shows, unsurprisingly, that the major population inflows to and outflows from Fareham are from adjacent local authorities in the southern, more urban parts, of both the Portsmouth and Southampton Housing Market Areas. The only more distant authorities which enter the 'top 20 sources of in-migrants' are Plymouth and Cornwall (probably a result of naval connections), and Birmingham and Cardiff.

It is worth noting that moves to and from London are relatively modest compared to local moves. In the year to June 2011 260 people moved to Fareham from London, while 290 moved to London, a net loss of 30 people to London as a whole.

In overall terms within Fareham Borough in the Year to June 2011, 5,300 people moved into the Borough and 4,700 moved out, giving rise to a net gain from population movements in England and Wales of 600 people. The population of Fareham is around 112,000 so there is a turnover of something a little less than 5% in the population of the Borough each year.

The top 20 local authorities of origin of in-migrants listed above account for about two thirds of all the in-migration to Fareham and also two thirds of overall out-migration. This indicates that overall in and out migration do not demonstrate a very different pattern. The places that out-migrants move to are generally the same as those from which in-migrants come.

It is interesting also to note the pattern of migration by age group. The ONS statistics are rounded to the nearest 100, but the pattern from 2011 is that Fareham gains population in the 25-44 and 0-15 age group, which indicates that Fareham is particularly attractive to families with school age children. There is also net in-migration of those aged over 65, suggesting that Fareham is attractive to those of retirement age.

[2] Dates for release of detailed flow data for travel to work and migration data from the 2011 Census are not yet available

Figure 2: Top 20 Local Authorities from which In-Migrants to Fareham Come (Year to June 2011)

LA	Inflow	Outflow	Net Inflow
Gosport	720	660	60
Portsmouth UA	710	500	210
Winchester	420	430	-10
Southampton UA	390	280	110
Eastleigh	360	290	70
Havant	200	180	20
East Hampshire	80	70	10
New Forest	80	80	0
Chichester	60	60	0
Bournemouth UA	60	70	-10
Wiltshire UA	50	60	-10
Isle of Wight UA	40	50	-10
Basingstoke and Deane	40	50	-10
Test Valley	40	50	-10
Plymouth UA	40	50	-10
Cornwall UA	40	50	-10
Cardiff	40	50	-10
Birmingham	30	20	10
Brighton and Hove UA	30	40	-10
Hart	30	0	30

Source: ONS

However the Borough loses people in the 16-24 age group, probably an indication of the movement out of students and young people who gravitate towards the bigger urban centres. There is also net out-migration of people aged 45-64. This may reflect the movement of the older working age group out to more rural locations, enabled by rising incomes, or longer distance relocations.

Figure 3: Migration Flows by Age to/from Fareham Borough in year to June 2011

	Inflow	Outflow	Net Inflow
0-15	800	700	100
16-24	1,300	1500	-200
25-44	1,900	1600	300
45-64	500	700	-200
65+	500	300	200
All Ages	5,300	4700	600

Source: ONS

Additional information on home movers is available from the Hampshire, Portsmouth and Southampton Home Movers Survey 2010. Key points emerging from the survey, bearing in mind the respondents were drawn from throughout Hampshire, Portsmouth and Southampton are set out below, with the figures for all movers first and those for owner occupiers in brackets.:

- 53% of all movers moved within the same District (50% of owner occupiers)
- 19% moved from elsewhere in Hampshire (23% of owner occupiers)
- 9% moved from an adjacent county (ie Sussex, Surrey, Berkshire, Wiltshire, Dorset) (11% of owner occupiers)

- 2% from the rest of the South East (1% of owner occupiers)
- 3% from Greater London (probably with a bias to the North East of the County) (4% of owner occupiers
- 9% from the rest of the UK (9% of owner occupiers)
- 4% from outside the UK (2% of owner occupiers)

Patterns of Moving Home and Buying New Homes

It is important to appreciate that buying a new home is a minority activity. According to Land Registry data there have been around 700,000 housing transactions pa in England and Wales in recent years. Completions of new homes by private housebuilders have been at most 100,000 in recent years. Thus in the current climate only 1 in every 7 (c 14%) of housing purchases is likely to entail a new home.

Insights into the characteristics of those moving home can be drawn from the Hampshire, Portsmouth and Southampton Home Movers Survey published by Hampshire County Council in 2010, based on a survey of those who moved home in 2008-2009[3]. It is interesting that the proportion of respondents who state they were the first occupant of a home is 13%, almost identical to the rough estimate of new home purchases as a % of national housing transactions.

Of the total of all movers (not just new homes buyers) in Hampshire, including Southampton and Portsmouth just over half are now owner-occupiers (53%), and a quarter rent privately (26%) with the balance largely accounted for by social tenants (17%), with a small number of shared owners (2%) or tied tenants (1%).

The proportion of movers in Fareham who are owner occupiers is higher than the average for Hampshire authorities, and it has a similar number of movers who are private tenants. Moves into other tenures in Fareham, notably into affordable housing, is less than many of the other Hampshire authorities. This suggests little movement in the social housing sector but an active market for home ownership and private renting in Fareham.

Across Hampshire as a whole roughly similar proportion of home moves are into flats, detached, semi-detached and terraced homes. This is in contrast to the findings of the 2002 Survey where 40% of movers were taking up occupation of a detached dwelling and 20% moved into flats (26%). This may well reflect the growth of the Private Rented sector where people move regularly, and hence a stronger representation of the property types that are rented – flats and terraced houses.

In Fareham the proportion of home movers moving into detached houses is below average, perhaps indicating a relative shortage of stock; while the proportion moving into semi-detached homes is above average, perhaps an indication of a relatively large stock of this dwelling type.

Across Hampshire roughly similar proportions of movers move into 3 or 4 bedroom properties (50%) as move into 1 and 2 bed properties (47%), though in Fareham there is a bias to moves to 3 bed properties, and a relatively small proportion of moves to 4 bed properties, and very little to one bed properties. This pattern probably reflects the nature of the housing stock in Fareham and is

[3] http://www3.hants.gov.uk/home_movers_survey_report-2.pdf

consistent with the pattern of moves to semi-detached homes (which are more likely to be 3 bed properties).

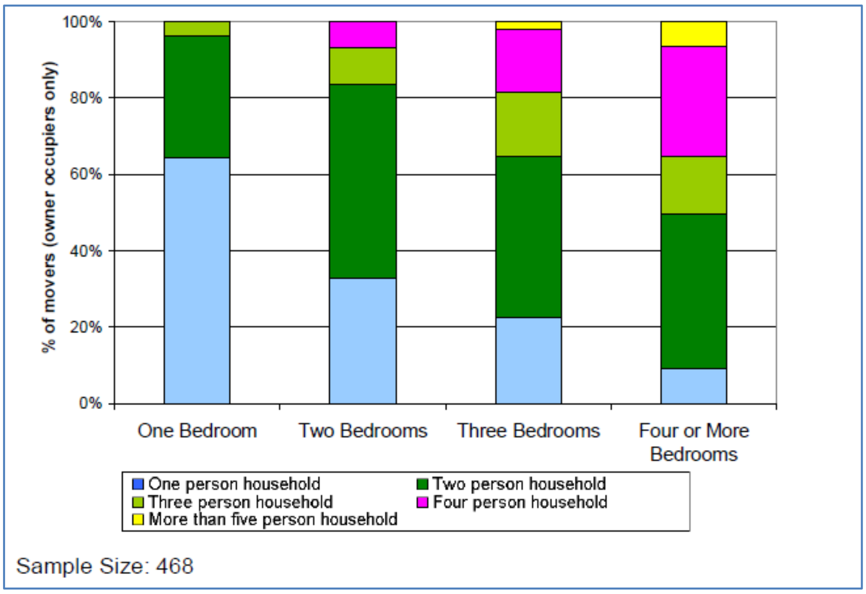
There is a correlation between size of the moving household and the size of dwelling they move into. This is unsurprising since many moves are driven by a need for more space. Thus around 70% of all moves into one bed properties are by single person households; and around three quarters of two bed homes are taken up by one (28%) or two person (48%) household movers.

But in common with national and regional data one finds that many larger properties are occupied by smaller households. Thus 45% of four or more bedroom houses into which people have moved recently are occupied by single person or couple households and another 18% by three person households. 56% of three bed homes which people move into are lived in by one or two person households.

This pattern of occupation (often referred to as under-occupation) is associated particularly with the owner occupied sector, since tenants are unlikely to under-occupy when they move into new homes either because of the cost or because housing allocation systems only given them the size of dwelling they require at that moment in time.

This is evident in Figure 4. Half of all four bed properties into which owner occupiers moved in 2008/09 were lived in either by a single person (9%) or by a couple (41%). Over 60% of three bed properties where the occupant is an owner occupier is either a single person or a couple (two person household).

Figure 4: Owner Occupiers: Household Size and Property Size

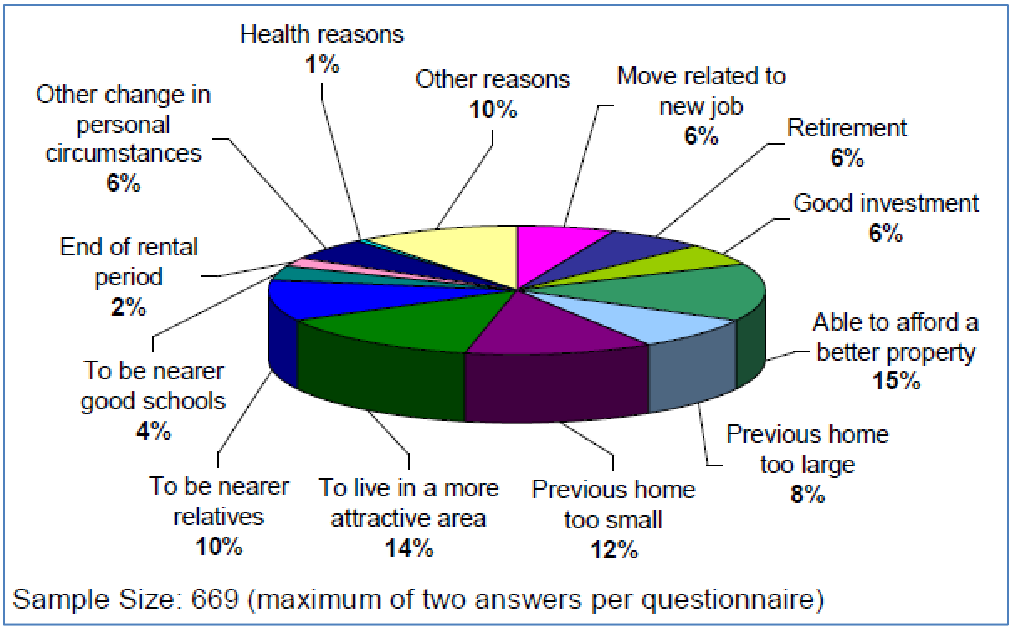


Source: Home Movers Survey, Hampshire County Council

By implication the percentages of owner occupiers who can *afford* to and *choose to* occupy a new home that is larger than they need at the time they move in is substantial. This is important to bear in mind in planning the provision of market housing at the NCNF. Many larger (3 bed plus) homes will be bought by smaller (2 or 3 person) households. This is likely to comprise both households who know that their family is likely to grow, and those who can afford to buy a larger property than they need and value the extra space.

The reasons why people (of all tenures) move home are very varied, with no single overriding reason given for moving. However owner occupiers are most likely to move because they can afford a larger home or to move to a more attractive area (see Figure 5)

Figure 5: Owner Occupier Reasons for Moving Home



Source: Home Movers Survey, Hampshire County Council

There is evidence of a close link between where people move to live and their place of work. Thus the home movers survey identifies that:

- 48% of movers who work, do so in the same district as the home which they moved to
- A further 31% work somewhere else in Hampshire
- 14% work in adjacent counties
- 5% work in Greater London
- 1% work in the rest of the UK
- 1% work outside of the UK

The percentage of movers in Fareham that work in Hampshire but not in Fareham is much higher than average (54%). This would indicate that Fareham is a residential location with significant levels of out commuting.

Who lives in New Communities?

The analysis presented above has considered the characteristics of those who move home. However only around 13% of these are moving into a new home. Research suggests that only 1 in every four homebuyer would even consider buying a new home.[4] There is the distinct possibility therefore that

[4] Future Homes Commission, RIBA, 2012

the profile of those who live in large scale new residential developments are different to the population at large.

In some new communities specific work has been undertaken to identify the characteristics of new residents. DTZ has identified one such survey for Cambourne, some 11 miles due west of Cambridge.[5] The first homes at Cambourne were occupied in 1999, and the Community Survey was completed in 2006 when around 2,000 new homes had been completed and the community had a population of around 5,000 people.

Key findings from the survey, which present clues as to the possible profile of residents of the NCNF are as follows:

- The resident profile will in part be determined by the size and type of new homes built. Cambourne has a high proportion of larger homes, with the great majority of properties being houses rather than flats (see Figure 6). 70% of the homes at Cambourne have at least 3 bedrooms.

- Owner occupiers account for 77% of households, private renters 5%, social housing tenants 15%, and intermediate tenures 3%. Since the level of affordable housing provision is largely determined by policy, it is the profile of those who are owner occupiers and private renters that is of particular interest.

- More than half (58%) of the new residents formerly lived in Cambridgeshire, and 17% formerly lived in the rest of East of England, 22% moved from another part of the UK, and 4% came from abroad. Compared to the pattern of home movers in Hampshire, those moving to Cambourne are much more likely to have made a long distance move.

- This difference between the findings of the Hampshire Home Movers Survey and the Cambourne Survey will be due partly due to stronger representation of social and private tenants in the Hampshire Survey, both of whom are more likely to make short moves. But it very likely also reflects the fact that homeowners making long distance moves are more likely to buy into new developments.

- Thus 50% of owner occupiers and 62% of those renting privately moving to Cambourne moved from outside of Cambridgeshire. The high figure of those in private renting who have moved a relatively long distance suggests that if private rented property is available in a new development, this is likely to attract long distance migrants, many of whom may rent initially and then look to buy once they get to know the area. 18% of private renters living in Cambourne formerly lived outside the UK.

- The major reasons those living in Cambourne wanted to leave their former home are; the desire to move to a larger or smaller home (30% of respondents); moving to be closer to a job or take up a new job (24%); wanting to set up one's own home (24%); unhappiness with the

[5] http://www.cambridgeshire.gov.uk/NR/rdonlyres/FEFB45BC-5CC4-459C-85D6-226285501035/0/CAMBOURNESURVEYREPORT310107webversion.pdf

location or aspects of the previous home (17%); unhappy with the quality of life/environment (16%); and to be nearer to family and friends (13%).

- The reasons for moving to Cambourne are; design/appearance of the property/development (39%); appeal of living in a village (37%); price compared to other villages (25%); to be nearer to job or a new job (20%); easier to buy a new build property – no chain etc (19%); to be nearer friends/family (14%); to move into school catchment area (12%).

- Interestingly 24% of residents were private rented tenants before moving to Cambourne, while only 9% of residents are Cambourne are private tenants. 18% of owner occupiers were previously private rented tenants, as were 66% of intermediate housing occupiers. Thus in this development, people who had been private tenants have been able to become owner occupiers.

- As many as 40% of residents of Cambourne anticipated moving out of their existing home in less than 3 years (though it is important to bear in mind they may have already lived there for up to around 6 years in the case of the first residents). 17% anticipate staying put for 3-5 years, another 17% for between 5 and 10 years, and 13% for more than 10 years.

- In terms of household composition, two thirds (66%) of households have 2 adults, and 52% of households have children (58% have no children). Average household size is 2.55 – which is quite low given that 70% of the homes have 3 or more bedrooms. Both owner occupied and social rented housing have larger household sizes than private rented and intermediate homes.

- Figure 7 shows the age profile of residents, and clearly highlights the dominance of people age 30-44 and children under 16, which is indicative of the large proportion of family households, with school age children. Around 60% of all the children in Cambourne live in 4 bed houses, with very few living in one or two bed homes (see Figure 8).

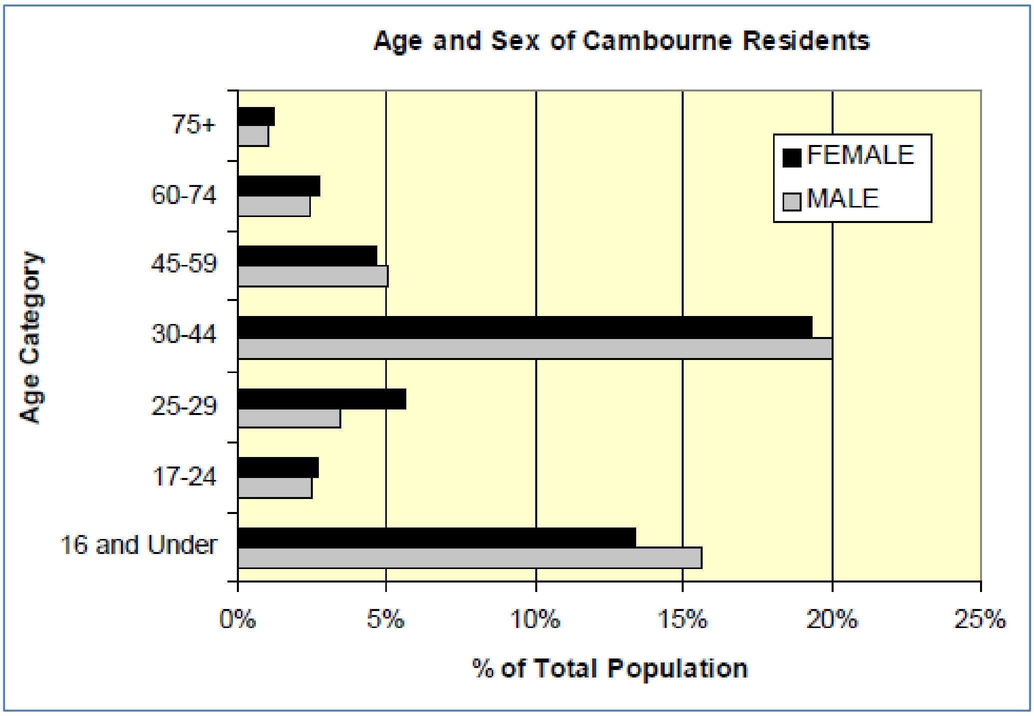
- Around 39% of owner occupied homes with children have at least one surplus bedroom (on the basis of one bedroom for adults, and one bedroom per child). In intermediate and private dwellings 6% and 12% of households have a surplus bedroom. 36% of couple households without children and 23% of singles live in a four bedroom house.

- 78% of adults living in Cambourne are in work full time or part time, 9% are retired and 2% are seeking work, 2% students, and 8% looking after home/family, and 1% permanently sick. Half of all those in work travel 10-20km to work, the distance to Cambridge from Cambourne, with about 20% working closer to home. 71% of residents work in managerial, professional and technical occupations with a further 17% accounted for by skilled trades and administrative/secretarial occupations.

Figure 6: Size and Type of Property at Cambourne, Cambridge, 2006

No. of Bedrooms	%	Dwelling Type	%
1	7	Flat	11
2	23	Terraced	32
3	33	Semi-Detached	19
4	25	Detached	35
5+	12	Other	3
	100		100

Figure 7: Age Structure of Cambourne, Cambridge, 2006



Current Profile of House Buyers

It is also relevant to consider who is currently active in the housing buying market – though data is available only for all buyers, not just the buyers of new homes. Historically home owners buying property with a mortgage account have accounted for a very high share of home purchases. But in 2012, they only accounted for 57% of all sales, split between existing owners who already have a mortgage fairly and first time buyers (22%).

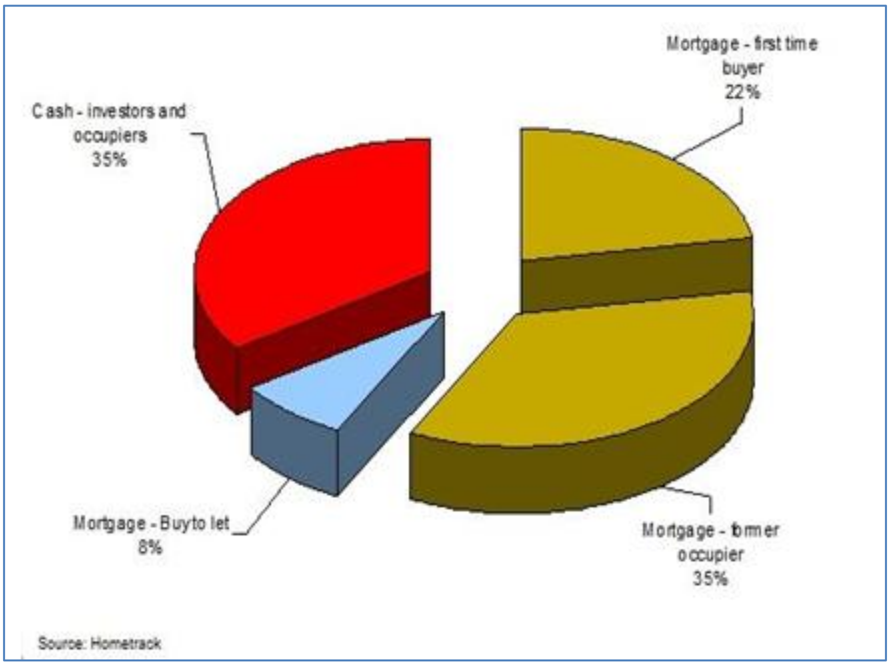
Data from Hometrack show that Buy to Let purchasers who take out a mortgage continue to account for an important, though modest part of the total homes bought (8%). However where there is a dramatic change compared to 10 years ago, is that a third of the market is now accounted for by cash buyers. In 2007 only 22% of purchases were by buyers who did not have mortgage.

Cash buyers have come to account for a larger share of all home buyers as the number of first time buyers have fallen, as younger households have difficulty accessing mortgages; and as existing home owners have stayed put due to the high cost of moving home, and weaker demand has made selling less easy.

Little is known about the profile of cash buyers, but they will comprise a mix of domestic owner occupiers, and both domestic and overseas investors, though overseas investors are likely to be concentrated in London. Domestic investors may be increasingly investing in property as alternative investments are perceived to offer poor returns.

Hometrack state that they believe that there are as many cash investors as those taking out buy-to-let mortgages. If so then investors/landlords account for about 16% of the market. Given the known concentration of private rented property nationally, this investment is likely to be flowing largely into London, and big cities, especially those with universities

Figure 8: Profile of Home Buyers (All Properties), 2012



Key Points

There is little publicly available information on the profile of new home buyers, since such information and insight is of considerable commercial value to housebuilders and others. Information on the profile of new home buyers has therefore to be gleaned from a number of disparate sources including the characteristics of home buyers as a whole, and analysis of data on the characteristics of those living in new settlements.

Key points that DTZ would distil from the analysis presented above are as follows:

- The majority (60% - 70%) of purchasers of new homes in a development such as the NCNF are likely to come from within the two housing market areas that cover all of south and central Hampshire; the number that currently live in Fareham maybe quite modest (say 20%-30%), because only a minority of home buyers consider buying a new property, and because the NCNF will have good access to the jobs throughout the M27 corridor.

- The NCNF is less likely to attract those who work in settlements up the M3 and the A3(M) road and rail corridors, because each would entail journeying east or west to access the A3(M) or M3, and because of the additional rail journey time and cost from Fareham to settlements in these corridors when compared with living closer to either corridor. New developments at West Waterlooville, at Hedge End and in Winchester (Barton Farm) will better able to capture those markets, though pricing might be an influence on where people choose to live in relation to their place of work.

- New developments are likely to attract significant numbers of households moving in from further afield, primarily those who move to take up new jobs (or getting round to moving closer to their existing jobs). The absence of a property chain makes a new home purchase easier for those who are new to an area. The number of longer distance in-movers will also be boosted if a significant number of new homes are either bought by investors for renting, or if market rented property is designed into the development, since rental property is particularly likely to accommodate people moving to an area in well paid employment.

- In terms of homes for sale, the core target market for new housebuilding in the current market is at family households, being those already with housing equity, and able to access additional mortgage facilities to trade up. This probably implies a target age group of those 35-50, comprising couple households with dual incomes, some with children and some without. This market is dominated by those looking for larger properties – 3, 4 and 5 bed properties.

- As and when it becomes easier for potential first time buyers to access mortgages, developers are likely to increase output for this segment of the market. At the moment this segment of the market is quite dependent on government backed schemes like FirstBuy and HomeBuy. The average age of first time buyers is now around 29 in the UK (not as commonly reported 38), but if the large group of those in their 30s who currently rent start to be able to enter the home ownership market, the average age of FTBs could rise significantly.

- Affordable housing tenants are likely to come from the local area, and those who access affordable housing is a function of the allocation policies of the relevant local authorities, as set out in their Tenancy Strategies. Those buying shared ownership are in many ways similar to the first time buyers of the past with a predominance of those in their late 20s and 30s, but extending into older age groups.

There is clearly a symbiotic relationship between the type of homes provided in a new development and who lives there. Developers aim to provide housing for core groups that constitute the buyers of new homes, and different developers target different groups, as well as seeking to differentiate individual developments from competitor developments. Thus what is developed reflects current patterns of market demand, and can change over time.

At the same time local authorities responsible for planning seek to ensure that an appropriate mix of housing is provided in terms of the type and size of new homes. This working paper indicates that small homes tend to be occupied by small households; but that larger market homes are occupied by both larger (family households) and smaller (couple or even single person) households, since in the market sector the size of home you live in is more a function of income than household size.

Therefore local authorities do not have control on who buys and who lives in market homes. In particular it is important to note that the extent to which investors buy properties that they then let for market rent, has an important bearing on who lives in a new development. Private renters are less likely to have children and less likely on balance to be long term residents (though this may change as renting becomes more embedded in the culture).

One unknown is how far, with the growth in the number of older people, an increasing number of new market developments will be targeted at an older age group. At the moment the pattern appears to be of targeting developments in particular locations which will appeal to older people are targeted at the older demographic group (say over 55s), while not in any way being restricted to those older age groups. Since this target market is likely to be well housed already, they may be reluctant to move onto large developments with an extended build out period.

New Community North of Fareham Housing Market Assessment: Appendix 3: Demographic Drivers of Demand

Prepared by DTZ and Wessex Economics on behalf of
Fareham Borough Council
March 2013

About this Working Paper

This working paper considers the demographic drivers that will affect future patterns of housing demand and need in Fareham and South Hampshire as a whole. In particular the Working Paper:

- Analyses how the population of Fareham and the core PUSH area is expected to increase over the period to 2025, and the changing age profile of the population
- Discusses whether the trends identified in ONS population projections, which assume the continuation of past trends, will hold true in the future
- Examines anticipated growth in household numbers and the type of households that will form in the future
- Discusses whether CLG household projections will change once revised in the light of the Census data and the likely direction of change
- Analyses the profile of the housing stock in Fareham and the core PUSH area in terms of dwelling type
- Examines the relationship between household size and dwelling size, considering evidence of over-crowding and under-occupation.

Throughout the focus of analysis is not narrowly on Fareham because it is clear that the NCNF will attract people from throughout the southern part of both the Portsmouth and the Southampton Housing Market Areas as identified in Working Paper 2; and recognising the logic of South Hampshire being a single urban area with the two cities, Portsmouth and Southampton, being the two poles at either end of the M27 corridor. Therefore data is shown for the core PUSH area comprising the authorities of Portsmouth, Havant, Gosport, Fareham, Eastleigh, and Southampton.

Existing Population and Projected Growth

The existing population of Fareham Borough in 2012 was around 114,000 people, and that of the PUSH area around 890,000. Figure 1 shows the total population of Fareham and the Core PUSH area broken down by age group in 2012 and the projected population in 2035 (based on the 2010 ONS Sub-National Population Projections)[1].

It should be noted that, while previous estimates of the population of Fareham have been confirmed in the Census (population is slightly less than previously estimated), the population of the PUSH area is some 13,000 higher than estimated in the 2010 SNP projections. However this is not likely to have greatly affected the broad distribution of the population by age group nor the big picture changes of expected change over the period to 2035.

Figure 2 shows the absolute increase (or decrease) over the period 2012-35 by age group for Fareham Borough and the Core PUSH area; and the percentage change by each age group and overall over the same period, benchmarked against the projected percentage change in Hampshire and the South East of England.

[1] There is a more recent ONS publication of Sub National Population Projections that are recalibrated using the 2011 Census data. However these projections only extend to 2021, and so DTZ has used to 2010 projections which are extended to 2035, since the NCNF is likely to be built through to and beyond 2035.

Figure 1: 2012 and Projected 2035 Population for Fareham Borough and PUSH by Age

Total Population in '000				
	Fareham		PUSH	
	2012	2035	2012	2035
0-9	12	12	100	100
10-19	13	14	100	112
20-29	13	13	152	159
30-39	12	13	109	111
40-49	17	16	117	112
50-59	16	14	104	98
60-69	15	16	91	100
70-79	10	16	60	92
80+	7	16	45	84
All ages	114	130	878	967
2011 ONS SNP	113		891	

Source: ONS 2010 based Sub National Population Projections

There are a number of points to take particular note of in Figure 2:

- The population of the core PUSH area is projected to grow by around 90,000 people in the 23 year period 2012-2035, and that of Fareham by 15,200 people. This represents a projected 13% increase in the population of Fareham and a 10% increase in the population of the core PUSH area.

- Despite overall population growth, the numbers of people in the 40-59 age bracket is projected to fall in both Fareham and PUSH and this is mirrored in similar falls in the number of people in this age bracket in Hampshire and the South East as a whole. The population in this age bracket is due to fall by around 2,000 in Fareham and 11,500 in the core PUSH area.

- The number of people aged over 70 is projected to increase dramatically. In both Fareham and the PUSH area the increase in this age group accounts for the great majority in the increase in population of the two areas. In the core PUSH there is also a very significant anticipated growth in the numbers of 10-19 year olds.

It is advisable to treat long term projections with a degree of scepticism. They project forward past trends, and often the trends of a particular decade can be different to that of a previous decade. In 2000 the Government Office of Science and Technology published a report on Britain in 2010, which stated that the population of England and Wales would not have grown by 2010. In fact the population of England and Wales grew by 3.7 million between 2001 and 2011.

However the rise in the numbers of people aged over 70 is pretty certain to happen, unless there is large scale emigration, or a pattern of selective migration out of South Hampshire or there is a reversal in the steady lengthening of life expectancy. The implications for housing are interesting. Those who will be aged over 70 in 2035 are currently aged at least 48.

Figure 2: Population Change ('000) and % Change 2012-35

	Change in '000 2012-35		% Change 2012-35			
	Fareham	PUSH	Fareham	PUSH	Hants	South East
0-9	0.3	0.5	2.6%	0.5%	-1.1%	1.3%
10-19	0.9	11.9	6.9%	11.9%	7.0%	12.7%
20-29	0.4	6.6	3.1%	4.3%	3.1%	6.3%
30-39	1.5	2.3	12.9%	2.1%	2.1%	3.0%
40-49	-1.3	-5.3	-7.6%	-4.5%	-8.5%	-2.6%
50-59	-1.6	-6.2	-10.3%	-6.0%	-6.6%	3.6%
60-69	1.1	9.2	7.4%	10.2%	11.8%	19.6%
70-79	5.7	31.7	56.4%	52.5%	61.6%	60.3%
80+	8.2	38.6	112.3%	85.8%	115.4%	99.9%
All ages	15.2	89.3	13.3%	10.2%	12.0%	14.8%

Source: ONS 2010 based Sub National Population Projections

A large proportion of this population, be they in the owner occupied sector or the social housing sector, is likely to be well housed. In the owner occupied sector this group will have reasonably substantial equity in their home if they bought their homes in their 30s. They will have purchased their home during the latter part of the 1990s, and early 2000s, and so have benefitted from the increase in house prices since the mid 1990s.

A big question for developers and planners is whether this relatively wealthy population will look to buy new homes? Hitherto there has been evidence of quite significant numbers of people relocating as they reach retirement age, but relatively modest numbers obviously down-sizing, and still fewer down-sizing into specialist new build accommodation. The retirement housing sector remains quite modest, albeit growing.

Hitherto the 70+ generation have generally wanted to and had the means to stay in their home. There seems to be quite a strong desire to remain in the family home, and the community which many people have lived for a long time. The most likely driver for a substantial growth in the market for smaller new homes would be if older people find their incomes increasingly squeezed by relatively poor pension provision as the numbers of people who are reliant on money purchase pension provision rather than final salary pensions increase. Inflation could easily erode the value of non-index linked pensions. Either or both of these effects could result in many people seeking to release equity tied up in their home.

Even if this happens, it is debatable whether older people will seek out housing in new developments and become buyers of new homes. It is possible, but in DTZ's view this would require a change in the marketing strategy of mainstream housebuilders. But that change might come as the numbers of people in the 40s, currently declines, this being a core market segment for family homes; and the rising generation is more used to renting, and has had less opportunity to get onto the home ownership ladder in their 20s and 30s.

Existing Households and Projected Growth

There were some 46,600 households in Fareham and 369,000 households in the core PUSH area in 2011.

The most recent published projections of future household growth are the CLG 2008 based household projections. Fresh household projections utilising data from the 2011 Census have yet to be published, but there are indications that the 2008 based projections may have over-estimated levels of household formation for the core PUSH area. The CLG 2008-based projections forecast, that the core PUSH area would have 381,000 in 2013. DTZ estimate that the CLG projections indicate that there would be 373,000 households in 2011.

Some caution must therefore be attached to the use of the 2008 based household projections to anticipate the future scale of household growth and the pattern of household growth. However the projections provide the best quantitative indication of change at the present time. It should be borne in mind however that the country has experienced the longest period of below average economic growth since the 1930s, and this could produce quite profound societal change. Projection of trends from a period of buoyant growth may not be a perfect guide to the future.

Figure 3 show the estimated number of households at 2008 and 2033 for Fareham and the core PUSH area. The CLG household projections anticipate an increase in households in Fareham of 9,000 over the period 1998 to 2033, and of 95,000 in the core PUSH area. It is the growth of single person households that accounts for the majority of the increase in household numbers, with modest growth anticipated in the numbers of couple households with or without children.

Figure 3: Projected Household Growth in Fareham and the Core PUSH Area

'000 of Households	Fareham		Core PUSH	
	2008	2033	2008	2033
One Person	13	20	122	191
Couple & no other adult	25	28	153	168
Couple and one or more adult	4	3	32	23
Lone parent with or without other adult	3	4	28	45
Other	2	1	27	30
Total	47	56	362	457

Source: CLG 2008 based Household Projections

Figure 4 shows the projected growth in different type of households between 2012 and 2035. These 2008 based projection suggest that in South Hampshire there will be a very substantial growth in absolute and percentage terms in single person households, and a more modest growth in couple households (with and without children)

Figure 4: Absolute and Percentage Increase in Households in Fareham and the Core PUSH Area

Household growth 2008-33 in '000 and %	Fareham		Core PUSH		Hants		South East	
	000	%	000	%	000	%	000	%
One Person	7	54%	69	57%	94	61%	642	58%
Couple & no other adult	3	12%	15	10%	50	18%	298	18%
Couple and one or more adult	-1	-25%	-9	-28%	-18	-38%	-89	-29%
Lone parent with or without other adult	1	33%	17	61%	18	56%	143	63%
Other	-1	-50%	3	11%	-4	-17%	-8	-4%
Total	9	19%	95	26%	140	26%	986	28%

Source: CLG 2008 based Household Projections, DTZ

DTZ would recommend that these projections be treated with some caution; they are projections (ie what will happen if past trends continue), not forecasts; and the do not take into account the findings of the 2011 Census, some of which indicate a reversal of past trends. For example, the Census has picked up on:

- Growth in the number of households with a couple and more than one adult. This reflects the increasing tendency of adult children to stay in the family home, because of housing costs, and difficulty in accessing mortgages.

- An increase in multi-person households as increasing numbers of households in the rented sector are made up of unrelated adults sharing accommodation, again driven by rising housing costs and difficulty in accessing mortgages.
- Anecdotally there is also some evidence that couples who would have split up are continuing to live in the same home, because of the cost of living independently; and that couples who might not have chosen to live together previously are co-habiting to economise on housing costs.
- These influences have shown that in many areas average household size has not fallen since 2001 as all current household projections assume, but has stayed unchanged (or fell and then increased again in the latter half of the 2001-11 decade).

This is not to suggest that there will not be an increase in single person households since much of this increase is driven by older people living alone when their partners have died. But the growth in single person households may not be as significant as implied by the 2008 CLG Household projections.

It is also worth asking whether the shifts in household composition are desirable and produce good outcomes in terms of wellbeing. In particular two questions can be asked? Are people being forced to share housing when they would rather live independently? And does this matter? Some might say it has a bad effect on society, others that it is a rational response to the cost of housing.

Profile of the Housing Stock

In determining the size and type mix of new homes for the NCNF it is also relevant to consider what is known about the stock of dwellings in Fareham as a whole and in the core PUSH area. Thought needs to be given to whether there is any obvious bias in the existing housing stock, to smaller or larger dwellings; and whether, if there is, that matters.

Figure 5 shows the number of dwellings in the core PUSH area broken down by type of dwelling. There are marked differences in the type of dwellings in the different core PUSH authorities. Fareham has the highest percentage of detached and semi-detached houses, followed by Eastleigh; and Fareham correspondingly has the lowest proportion of terraced and flatted accommodation.

Unsurprisingly, the two cities, Portsmouth and Southampton have the highest proportions of purpose built and converted flats. Portsmouth and Gosport have the highest proportions of terraced housing.

Figure 5: Dwellings by Type by Local Authority and Core PUSH Area, 2011

Dwelling Type	Number of Dwellings	Percentage						
		Detached	Semi-Detached	Terraced	Purpse Built Flat	Converted or shared house	Flat in commercial building	Caravan/ mobile home
Fareham	47,941	36.0	31.8	19.0	11.3	0.8	0.7	0.4
Portsmouth UA	88,091	4.1	15.6	44.8	26.2	7.7	1.5	0.2
Southampton UA	100,596	13.2	25.7	21.1	33.1	5.7	1.1	0.1
Eastleigh	53,401	33.5	27.5	22.1	13.9	1.5	0.8	0.7
Gosport	36,677	13.2	26.2	36.3	21.1	1.7	1.3	0.3
Havant	52,781	28.4	28.3	23.9	16.7	1.2	1.1	0.3
Core PUSH	379,487	19.0	24.9	28.4	22.7	4.0	1.1	0.3
Hampshire	563,563	34.3	26.4	22.4	13.6	1.5	0.9	0.8
South East	3,694,388	28.0	27.6	22.4	16.1	4.0	1.1	0.7
England	22,976,066	22.3	30.7	24.5	16.7	4.3	1.1	0.4

Source: Census 2011

Overall the distribution of house types by local authority within the core PUSH area reflect historic patterns of development over the past two centuries, and how local authority boundaries are drawn. Fareham and Eastleigh have more suburban style development and hence a higher proportion of detached and semi-detached housing. Portsmouth, reflecting the pattern of Victorian development, has a lot of terraced housing.

If one thinks of South Hampshire as being a single urban area with a population of 890,000 then it is no surprise that the individual parts of this urban area have different proportions of different types of dwelling. It is perhaps more interesting to compare the core PUSH area to the broad pattern of the South East and England as whole.

Compared to the South East region, the core PUSH area has a significantly smaller proportion of detached and a somewhat smaller proportion of semi-detached homes; and more terraced and purpose built flats. However this pattern is what you would expect to see when the South East is a large area comprised of both urban areas and large numbers of smaller towns and rural areas.

The analysis by DTZ suggests that the PUSH area operates as two higher level Housing Market Areas, but in fact may have become more integrated since 2001 (the date of data used for the comprehensive mapping of housing market areas across the country) (see Working Paper 2). It is even more the case that new homes provide housing for people drawn from a wider area rather than purely locally.

In view of these considerations there is no overwhelming evidence that the homes at the NCNF should take a particular built form to meet a shortfall for a particular type of accommodation identified through the analysis of the existing stock. Rather the new homes for market sale or rent should be built in response to market demand and what is best in terms of development economics.

Household Size and Dwelling Size

The 2011 Census also provides insights into how housing is occupied. On average 2.4 people live in each household size in England, the South East, Hampshire (not including Portsmouth and Southampton).

In the PUSH area Fareham and Eastleigh, the two areas with the highest proportion of detached and semi-detached housing, the average numbers of persons per household match the regional and national average. The two cities and Havant and Gosport have smaller households on average (2.3 persons per households) which will reflect typically the greater predominance of smaller house types.

The same pattern of residents of Fareham and Eastleigh having the largest numbers of rooms/bedrooms per household and the other four core PUSH authorities having a lower number is also evident. In terms of households living in overcrowded conditions, Fareham has the lowest percentage, and the two cities stand out in having much higher proportion of households living in overcrowded conditions.[2]

[2] Occupancy rating provides a measure of whether a household's accommodation is overcrowded or under occupied. There are two measures of occupancy rating, one based on the number of rooms in a household's accommodation, and one based on the number of bedrooms. The ages of the household members and their relationships to each other are used to derive the number of rooms/bedrooms they require, based on a standard formula. The number of rooms/bedrooms required is subtracted from the number of rooms/bedrooms in the household's accommodation to obtain the occupancy rating. An occupancy rating of -1 implies that a household has one fewer room/bedroom than required, whereas +1 implies that they have one more room/bedroom than the standard requirement.

Figure 5: Dwellings by Type by Local Authority and Core PUSH Area, 2011

	Number of Dwellings	Occupancy rating (rooms) of -1 or less	Occupancy rating (bedrooms) of -1 or less	Average household size	Average number of rooms per household	Average number of bedrooms per household
Fareham	46,579	3.8	2.0	2.4	5.9	2.9
Portsmouth UA	85,473	10.9	5.2	2.3	5.1	2.6
Southampton UA	98,254	13.6	6.2	2.3	4.9	2.5
Eastleigh	52,177	5.0	2.6	2.4	5.6	2.8
Gosport	35,430	6.2	3.4	2.3	5.3	2.6
Havant	51,311	6.5	3.7	2.3	5.5	2.7
Core PUSH	369,224	8.8	4.3			
Hampshire	545,254	5.3	2.8	2.4	5.8	2.9
South East	3,555,463	7.5	3.8	2.4	5.6	2.8
England	22,063,368	8.7	4.8	2.4	5.4	2.7

Source: Census 2011

In policy terms it is important to address overcrowding. However overcrowding will generally be associated with low income households, and hence the remedy is to provide new homes of an appropriate size to allow overcrowded households to be rehoused. The precise size mix of new affordable homes to be provided will need to be reviewed regularly in response to analysis of the pattern of housing needs at a particular point in time, relative to availability of stock.

The counterpart of overcrowding is the fact that many households under occupy housing, because they can afford to, and people generally value more personal space. Thus the relationship between household size and type and dwelling size and type is not straightforward. The conventional logic that household size and dwelling size have a direct correlation is misleading.

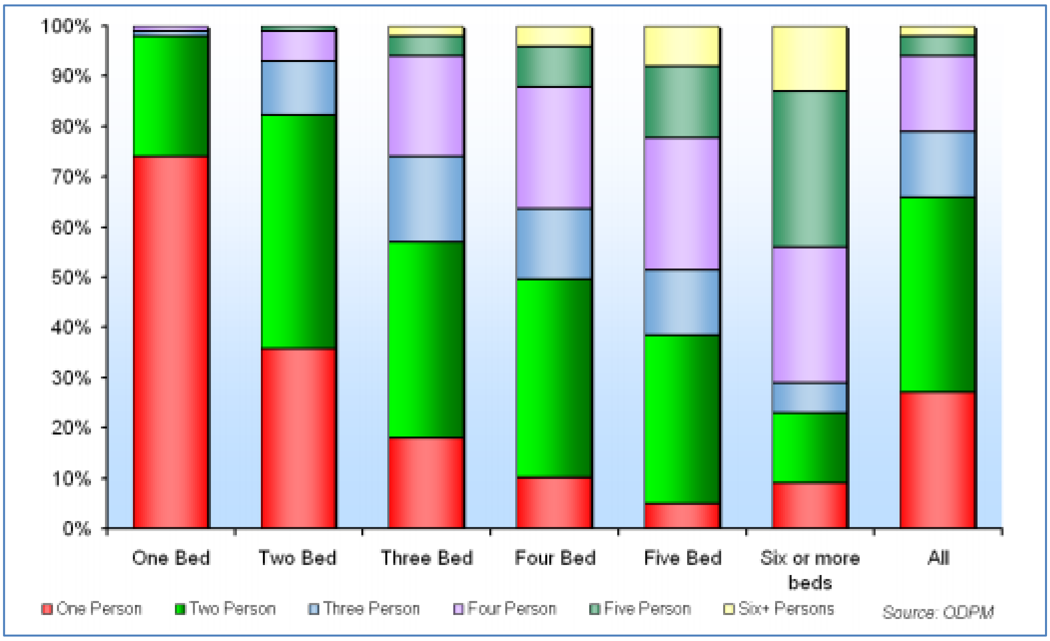
Research by Professor David King at Anglia University[3], for example highlights that dwellings with more than seven rooms are commonly bought and occupied by single or two-person households, and that these households comprise many of those living in such properties. According to this research, policy orientated towards building smaller properties for smaller households fails to understand the aspirations and needs of people today and in the future.

The complexity of the relationship between household size and dwelling size is illustrated in Figures 6 and 7. These show the relationship of household size and dwelling size in the South East of England. Figure 6 and 7 shows that while 1 and 2 bed dwellings are lived in almost exclusively by small households, significant numbers of larger properties accommodate one or two person households.

Thus two person households account for a greater proportion of dwellings with 6 or more bedrooms (14%) than six person households (13%). Two person households also occupy the largest proportion of four bed houses (39%).

[3] Dave King (2005) Room to Move? Household Formation, Tenure and Housing Consumption Berkshire Housing Market Assessment ,Final Report v1.0, February 2007

Figure 6: Occupation of Different Size Dwellings by Size of Household, 2004



Source: Survey of English Housing/ODPM

Figure 7: Occupation of Different Size Dwellings by Size of Household, 2004

	One Bed	Two Bed	Three Bed	Four Bed	Five Bed	Six or more beds	All
One Person	74	36	18	10	5	9	27
Two Person	24	47	39	39	33	14	39
Three Person	1	11	17	14	13	6	13
Four Person	1	6	20	24	26	27	15
Five Person	0	1	4	8	14	31	4
Six+ Persons	0	0	2	4	8	13	2
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Survey of English Housing/ODPM

Housing for Older People

Clearly the key demographic shift that has the greatest bearing on future provision of new housing is the anticipated increase in older people. It is reasonable to expect that medical technology will continue to advance in the next two decades, so it is perhaps debatable how far it is appropriate to assume that 'older people' should be defined in policy as those over 65. By the end of the next decade people aged 65 will not have reached the statutory retirement age.

However, whatever the effect of medical advances, and the ability of individuals or government to pay for it, it is the case that infirmity increases with age; and that therefore the implications of the increased numbers of those over, say 75, needs to be borne in mind in the planning of new homes. The NCNF provides a particular opportunity for new build specialist provision for older people; and it is important that consideration is given to the possibility that older people will in time constitute a significant proportion of residents.

Hampshire County Council published a full research study '*Housing Provision for Older People in Hampshire'* in November 2009 provides valuable insight and advice relevant to the development of policy for the SDA. Key points emerging from the study, which DTZ would endorse from findings of similar research it undertook in Kent, are:

- Increasing numbers of older people will be owner occupiers and a majority of people will want to stay in their existing home as long as they can cope
- Older people have a wide range of income levels, aspirations, and have differing levels of health, disability, and outlooks on life
- Thus there is no single housing solution to the housing and accommodation needs of older people, and the majority of both housing and care provision will be provided by the market
- The funding of care will continue to be through a mixture of government and personal funding, within the new framework set out by government.

Given that the response to meeting the housing and care needs of a growing older population will be met by private providers, with a high proportion of funding paid for in the first instance by older people themselves, how should this be reflected in the planning of the NCNF? In DTZ's view there are a number of policy responses

There should be planned provision for specialist older people's accommodation within the NCNF. The Hampshire County Council study '*Housing Provision for Older People in Hampshire'* identifies indicative requirements for older people's accommodation for each of the Boroughs in the county. Figure 8 shows existing provision in 2009 by type of accommodation and the estimated future requirement over the period 2009 to 2026.

Figure 7: Estimated Requirement for Specialist Housing Provision for Older People in Fareham, 2009-26

Fareham		Current provision	Increase or decrease	Resulting number of units	Provision per 1,000 of population 75+
Conventional sheltered housing for rent		388	43	431	50
Leasehold sheltered housing		710	-64	646	75
Enhance sheltered housing	For rent		86	86	10
	For sale		86	86	10
Extracare sheltered housing	For rent	40	68	108	12.5
	For sale		108	108	12.5
Housing based on provision for dementia			86	86	10
Registered care home - personal care		516	44	560	65
Registered care home - nursing care		436	-91	345	40

Source: Housing Provision for Older People in Hampshire, Appendix 7, Hampshire County Council, November 2009

Figure 7 shows that the greatest need for additional provision of specialist housing for older people in Fareham is in terms of extra-care sheltered units (an additional 176 units) and for enhanced sheltered housing (172 units). There will be opportunities to develop provision elsewhere in Fareham, but it is appropriate that significant level of planned provision is at the NCNF.

The overall increase in the number of specialist older people's accommodation in Fareham is 366 units. It might reasonably be assumed where demand is declining for certain types of older people's accommodation, then there will be re-provision in the same location with the types of older people accommodation now in demand. If this is the case then there is a need to find sites for around 210 additional units.

In view of this DTZ recommend that allowance be made in the land budget for one large extra-care scheme of say 120 units (say 150 persons) or two schemes of 60 units. This level of provision reflects the fact that large sites for new specialist provision will be hard to come, but also that it would be desirable to spread provision around the Borough, rather than concentrate it in one location.

This/these schemes would be logically located close to the District Centre in order to give residents easy access to services. One would not ideally want such a facility built until the District Centre was built. On the other hand demand from the extra-care (or other similar provision) could be a useful support to help establish the Centre at an earlier point in time than otherwise would be the case. Therefore development might possibly be expected to proceed in tandem.

Given the difficulty that providers may have in finding other sites large enough for specialist older persons accommodation, there could be merit in identifying a second site in later phases of the scheme.

DTZ would expect that if older people emerge as a significant source of market demand for new build older homes then housebuilders will adapt their product to meet the requirements of this group. At this stage it is unclear whether in fact older people would be attracted to a large new development that will be under construction for many years.

The more generic question is whether there should be an expectation that all new homes in the NCNF are built to Lifetime Homes Standards. If building to this standard is cost neutral then it is clearly worthwhile, but there is on-going debate between proponents of Lifetime Homes Standards and developers about whether it is cost neutral.

Lifetime Homes standards and other accessibility standards is one of the topics that the Local Housing Development Group (LDHG) set up by government that brings developers and local government and other organisations together is to examine. It would seem sensible that FBC develops policy in such a way that it can reflect the recommendations of the LDHG when they emerge.

Key Points

The population of the core PUSH area is projected to grow by 90,000 people over the period 2012-35 and the number of households by around 95,000 over the period 2012-33. It is this underlying dynamic which drives the requirement for substantial provision of new homes in the core PUSH area.

The key demographic trend is the anticipated growth in the number of older people, and the projected decline in the numbers in Fareham and the core PUSH area of those aged 40-60. With older people enjoying better health for longer, it is particularly the very substantial increase (+38,600 people) aged over 80 in the core PUSH area that potentially has implications for policy at the NCNF.

A very high proportion of the increase in the older population will go on living in the homes they currently occupy, the majority of which are already built. But it can be expected that over time housebuilders will need to adapt their product and sales pitch to appeal to an increasingly older set of house buyers, as the number of buyers in the 40-60 age bracket falls.

The masterplan for the site should include provision for specialist accommodation for older people. DTZ has not undertaken detailed assessment of what is required, but the most likely form of development at present would be an extra-care scheme of a large size (120 units) (maybe built in phases) or of two smaller scheme of c60 units each located close to the district centre.

With respect to a requirement for Lifetime Homes standards, this is a desirable objective, but its implications for costs and hence viability need to be understood. DTZ recommend that the Plan for the New Community sets out an expectation of homes meeting Lifetime Homes standards, but this will be reviewed in the light of the LHCG recommendations to government.

With respect to the size and type mix of homes to be provided at the NCNF, DTZ believes that the developers will be best able to judge the optimal size and type mix of market homes at any particular point in time. Over the duration of the development the market will change and this will lead the developers to tweak the mix and type of new market homes they wish to bring forward.

The Plan for the new community will however need to set the context within which the developers will work, in terms of the overall quantum of new homes to be provided, and the magnitude of new homes to be delivered in each phase of development. This framework which emerges from the urban design work should ensure the provision in each phase of a mix of size and types of home.

The development of the NCNF is, however, a long term enterprise. The trajectory for development developed by the Council anticipates development over a period of 25 years. Much will change in society and the world in 25 years (think back to what has changed since 1987 an era of no internet, no mobiles, the year after the Thatcher Government deregulated the City in the 'Big Bang'). Therefore there needs to be a process for regular review of the development plan for the NCNF.

In view of this, DTZ does not favour determining precise size and type mix of new homes to be provided at the NCNF. The market is better able to respond to shifts in demand than any strategic plan. Given that the size of household is poorly correlated to the size of dwelling in the owner occupied sector, provision of a mix of market housing will give rise to a mixture of different types of household.

With respect to affordable housing, FBC should seek to ensure it has the flexibility to influence the size mix of dwellings provided in each phase of development to address the priority needs in terms of housing need at any one point in time. This section has highlighted the number of households living in overcrowded households in the PUSH area, but overcrowding in only one aspect of housing need.

FBC would have more flexibility in securing precisely the type of affordable housing it requires at any particular point in time, were affordable housing policy to be based on a percentage of floorspace developed rather than units. This would also address the issue that with a units based policy, if a developer wishes to build more large units in response to market demand, then current policy would deliver smaller number of affordable units.

New Community North of Fareham Housing Market Assessment: Appendix 4: Viability and the Pattern of Housing Provision

Prepared by DTZ and Wessex Economics on behalf of
Fareham Borough Council
March 2013

About this Working Paper

The Housing Market Assessment for the NCNF is primarily concerned with advising on the size, type and tenure mix of development. Decisions made about the size, type and tenure mix potentially have an impact on viability. But many other factors also affect viability, so this working paper looks in a broad way at viability issues, before it specifically considers how policies on the size, type and tenure mix of new homes that might be specified in a planning permission might affect viability.

Another aspect of the brief for the HMA for the NCNF is to advise the Council on the anticipated trajectory for the development of the NCNF. Answering this question also requires a consideration of viability issues. Put simply viability is an important consideration in when the development is likely to start and the pace at which it is developed, though viability is not the sole determinant of the pace of build out the NCNF.

This working paper contains the following elements:

- a discussion of what are the key factors that influence timing and pace of development, with a focus on where decisions made by the Council may impinge on viability, and the relative significance of these compared to factors over which the Council have no control
- current knowledge of how the development stacks up financially drawing on the initial viability work undertaken by DTZ in 2012; as yet DTZ have not seen outputs of the GVA work on viability currently being undertaken
- discussion what the Council can do to enhance the viability of the development and presentation of an outline strategy under three headings: infrastructure costs; standards; and size, type and tenure mix of homes
- discussion of the anticipated housing trajectory for the development – and the high degree of uncertainty that must attach to this at the present time, because of uncertainty about the timing of the planning process, near term viability, and longer term market context.

Key points are presented at the end of the working paper.

The Fundamental Drivers of Development

In considering how fast the new development can be developed a series of questions need to be considered, not all of which are in the scope of this study. In particular there are two key questions that need to be asked in determining what the trajectory of development will be:

- When can it be expected that development (the building of new homes) can commence?
- How fast will the new homes and non-residential be built out?

Answering these questions calls for an assessment of four key components of the development process:

- How long it takes to put in place an agreed planning consent
- The pattern of demand for housing and other uses
- Viability in the sense that the development will deliver an adequate return to the developer
- Viability in the sense that the development provides sufficient incentive to the landowner to make the land available for development

How these four factors inter-relate has a major bearing on the timing of development and the pace of development. Development cannot start until planning permission is granted, though the grant of planning permission does not guarantee the start of development, which is dependent on the scheme is viable, which depends among other things on the volume of demand for new homes. The obligations placed on developers have an important bearing on development viability, and the size and type mix of new homes granted permission may constrain demand.

The pattern of demand for new market housing is the product of households' income, their desire to live in a new home rather than a second hand home, the appeal of the location of the NCNF and the type of community people anticipate it will be; and to a lesser extent household size. Household income is a better predictor of the type and location of market housing people occupy than household size. Generally those with greater income and wealth live in larger homes, regardless of household size.

However, the pattern of demand for housing and other uses is shaped by the planning system, in that the planning system rightly determines what uses are appropriate as part of a new development, on what scale and in what location. The planning system will generally produce a different pattern of development to that which would emerge in an unconstrained development market. Done well, this enhances market value, by creating the sort of place people want to live in, through quality of design, and provision of appropriate local services.

The planning system also aims to achieve certain societal objectives, because the market is not good at taking into account resources which are not priced (eg wildlife habitats, valued landscapes); and the outcome of individual decisions may produce a sub-optimal outcomes for everyone. It is worth remembering, however, that many urban areas built before the advent of planning are highly prized places to live, but equally, others have been demolished; and that there are planned developments that have failed to work, or worked well for a while, but are not now fit for purpose.

In the UK the new homes for sale are built by private companies that need to make a profit from development. New homes will therefore only get built if there is sufficient profit for those companies. The obligations placed on developers through the planning process, as regards funding infrastructure, and the statutory standards imposed through Building Regulations and planning conditions, affect the cost of development.

Demand for homes, as noted above is a function in part of household incomes. It is also critically dependent on the ability of potential house buyers to borrow long term finance at a reasonable interest rate to buy a new home. The availability and cost of mortgages depend on capital markets, and competition and regulation in the banking and building society sector. Government has a major influence on interest rates, as does the domestic and international availability of funds to lend.

Most housebuilders are also dependent on either equity funding or development funding (borrowing) to fund development cash flows. The profitability of development is thus influenced by the cost of borrowing faced by housebuilders. At the same time, housebuilders cannot automatically set sales values in the market to deliver profit, since these are constrained by values in the second hand market.

There are therefore many and varied influences on the ability of housebuilders and developers of other property to make a profit.

Lastly, development will only come forward if there is sufficient incentive for landowners to release land for development. Land will only be released if it generates a higher value as a result of development compared to its existing use, and covers the costs of promoting the land through the planning process. Different landowners will have different expectations of what their land is worth; some will want to realise value quickly, others may be willing to wait a long time to realise the value of their land.

However it is important to note that the market in development land is tightly constrained in the UK and especially in southern England. Local authorities tend not to allocate more land than is strictly required to meet anticipated growth in household numbers. Therefore owners of development land identified in strategic plans have expectations of land value formed by past transactions and can hold out for high values, because there is little risk of development coming forward elsewhere. Most owners of agricultural land identified for housing development are in no rush to sell.

Indications of Viability

The initial viability work undertaken by DTZ in 2012[1], showed that the proposed development of the NCNF was not viable on the basis of providing a policy compliant level of affordable housing and would even be wholly unviable[2] if affordable housing of only 20% of homes was provided. The scheme was judged to achieve minimal viability on the basis of providing no affordable housing[3]. The primary reason why the development was not viable was the inclusion of £307 million of infrastructure costs.

On-going work on the viability of the NCNF is being undertaken by GVA, but DTZ has not seen any results of this modelling yet. It is a reasonable assumption however that viability will continue to be challenging.

A recovery in the housing market which leads to a recovery in sales rates, and some element of increasing prices would improve viability. These depend on economic recovery, evidenced in rising incomes, a recovery in mortgage lending volumes, and a general increase in buyer and lender confidence. There is no immediate prospect of both of these happening in the next 3 years.

It is a reasonable assumption that decisions need to be made that will improve overall viability of the scheme in order to get development started. Once development is approved and building has started, viability can be reviewed periodically to ensure that the developers/landowners are making reasonable contributions to infrastructure costs etc; and that the mix of dwellings built phase by phase reflects demand and need at that point in time.

DTZ set out below the framework for a strategy to ensure the delivery starts as soon as practically possible and the build out is a fast as it can be. Both of these are important if the NCNF is to meet the requirements for new homes set out in the Fareham Core Strategy. If there is significant delay in

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[1] Affordable Housing Viability Assessment, November 2012
[2] DTZ define a scheme as wholly unviable if the development appraisal generates a negative land value
[3] Minimal viability was defined in the report, as a 100% uplift in agricultural land value from £20,000/ha to £40,000/ha

the start of development and a low level of delivery, then FBC may need to identify other housing sites that can deliver in the Core Strategy period.

A Strategy to Maximise the Contribution of the NCNF to Housing Delivery in the Core Strategy Period

Given that initial viability appraisals, including the work undertaken by DTZ, shows that the scheme is deeply challenged, a clearly defined strategy needs to be developed that refines the proposed scheme to ensure that it is viable. A suggested strategy is set out below, which points to the conclusion that there are other more fundamental factors that affect viability than the size, type and tenure of new homes; though the level and type of affordable housing provision has a major bearing on viability.

Infrastructure Costs

The initial viability work undertaken by DTZ shows the scheme would generate an adequate return for developers and a significant land value, with policy compliant affordable housing, were it not for the infrastructure costs associated with the scheme. Therefore the primary focus of work to render the scheme viable must focus on what level of infrastructure (physical and social) the scheme can bear.

There are in reality a number of questions that need to be asked regarding the requirement for infrastructure:

First, it is important to identify those items of infrastructure that are absolutely essential to the development. The criteria of *'essential'* must be tightly defined. Given the site is largely in agricultural use, access roads, water supply, electricity and gas, sewerage, telecoms etc are essential infrastructure. A developer could not sell homes built without such services. By this definition, for example, a school is not essential.

Second, all other non-essential infrastructure has to be ranked in priority order. Broadly this ranking should take into account of:

- the cost of different elements of the infrastructure
- the degree to which it is value enhancing (see below for a definition)
- when the infrastructure would have to be provided
- the Council's assessment of the perceived importance of that item of infrastructure to the overall achievement of its objectives

DTZ would expect value enhancing infrastructure, by which we mean infrastructure that will support either sales values or sales rates, should generally be prioritised over other infrastructure, since these are not pure cost to the scheme. To some degree their cost is offset by an uplift in values or increased sales rates. A new primary school, for example, might well be value enhancing in that the ability to send children to a local school (particularly if it establishes a good reputation) should help boost sales to families with primary age children or expecting to have such children in future.

The developers/land owners will be able to assist with this prioritisation, since they will have an assessment of the cost/benefit ration associated with different value enhancing infrastructure.

Third, an assessment should be made of what threshold levels **trigger** requirement for a particular item of infrastructure (essential or non-essential); and linked to that the overall **phasing** of expenditure for each item of expenditure. Put simply, the later in the development programme that infrastructure can be provided, the less its adverse impact on viability.

Thus, while it is important that the infrastructure required to ensure the overall development is sustainable is agreed upon in advance, the Council can do much to enhance viability by agreeing where the thresholds at which infrastructure requirements are triggered; while ensuring that there is sufficient incentive for the developer to proceed with the overall development.

Managing this process becomes much easier if the Council itself clearly brings some resource itself to help deliver the overall infrastructure required to produce an exemplary development. The Council can use its control over how Community Infrastructure Levy monies and New Homes Bonus revenues (if it still applies once new homes from the NCNF are coming forward) as part of its negotiation strategy.

There is also growing recognition in Government of the degree to which infrastructure requirements are making it difficult to start major new urban developments. For example in the Autumn Statement in December 2012, the Chancellor published the prospectus for a Local Infrastructure Fund. Through this fund the central government will invest in infrastructure by means of a loan or equity investment, in order to enable large housing developments to be implemented.

Standards

A similar approach needs to be made in considering any particular standards on the development. Work by the Local Housing Delivery Group[4] on the standards that are set at local level in relation to housing development, identify the additional complexity, and hence cost, that housebuilders face as a result of local determined standards. The LDHG report makes a number of recommendations, particularly arising out of the need to meet multiple standards that often have solutions that are in conflict.

The LHDG identified the 10 standards most commonly applied to new housing

- Code for Sustainable Homes
- HCA Design Quality Standards and Housing Quality Indicators
- Lifetime Homes and other accessibility requirements (for affordable housing)
- Building for Life (not intended for use as a standard, but now widely used as such)
- Secured by Design
- Energy/CO2/renewables target ('Merton Rule', etc)
- Public open space requirements
- Space standards
- Car parking standards
- London Housing Design Guide

The conclusion of the work of the LDHG is that application of a suite of standards can add to cost and hence affect viability. The LHDG report called for further work to develop simplified and harmonised

[4] A Review of Local Standards for New Homes, Local Housing Delivery Group, June 2012

standards in relation to four topic areas – accessibility, energy, security and water. The government has formed an industry-wide group to take forward this work.

Fareham Borough Council has been very conscious of the impact that standards can have on viability. The only requirements that FBC is seeking in terms of the LDGH list are that a proportion (yet to be determined) of homes are built to Lifetime Homes standards. There is also a requirement for open space at a level that is compliant with the EU protected conservation sites on the Solent.

Size, Type and Tenure Mix

Requirements placed through the planning process on the size and type of dwelling and the tenure mix of housing potentially has an impact on viability as well as infrastructure and standards requirements. Thus, in a context where the modelling suggest that viability of the new development is challenged, care must be taken that obligations imposed on the size, type and tenure of dwelling are well justified in terms of policy objectives.

There is clearly a strong policy justification for FBC to seek compliance with its affordable housing policy. The viability work undertaken by DTZ shows the substantial impact that compliance with these policies, but given the substantial requirement for affordable housing identified in the Housing Need Assessment, also undertaken by DTZ, accepting a lower level of affordable housing is probably one of the last things that FBC would wish to sacrifice in order to improve viability.

In view of this that DTZ advises FBC to exercise caution in seeking to impose set quotas for the size and type and tenure mix of market homes. It is important to realise that over the anticipated 15-20 year development programme of the NCNF, patterns of market demand will change, and in DTZ's view it is appropriate that the developers are able to respond to the shifts in patterns of market demand.

This can be illustrated by the market shifts over the period since the mid 1990s to the present day.

In the mid 1990s local authorities expressed great concern that the housebuilding industry was producing large number of what were then called executive homes, and very few smaller market homes. Then in the period 2000-07 there was a very marked swing that led to development of flats, to the extent that government and local authorities became concerned about the shortage of supply of family homes and oversupply of flats. Since the downturn in the economy and the housing market, housebuilders outside of London are building many fewer flats and more large family homes.

These shifts in the supply of different forms of housing demonstrate that the development industry seeks out the most profitable opportunities, which are a product of demand and costs, and the closely related issues of risk and access to development finance. The current pattern of supply reflects a number of considerations:

- The number of first time buyers has fallen dramatically because of the difficulty they face in accessing mortgages because of deposit requirements and tighter regulation. This has reduced the volume of demand for small properties, be they flats or small houses. The number of buy to let investors has fallen, and they have switched to buying existing homes rather than new homes in search of yield, since prospects of capital growth have fallen.

- At the same time, the mechanisms by which large flatted schemes were financed have largely come to an end; syndicated loans from major banks, plus significant levels of pre-sales to individual buy to let landlords or syndicates. The banks lost large sums lending on flatted developments and are generally seeking to reduce their exposure to property lending. The increased cost of development finance makes it difficult and risky to finance large developments of flats.
- The return to building houses reflects that the pace of building in a thin market can be adjusted to match sales (not possible with blocks of flats), thus protecting cash flow, and limiting the need to borrow at expensive rates; and recognises that the most active sector of the market is those trading up to larger properties, who have existing housing equity and good salaries and hence can access mortgages.

Over the course of the housing market cycle therefore housebuilders have varied the proportion of their output in response to market demand. The existence in many locations of a relatively large stock of recently built flats places a constraint on pricing of new flats; while the relative shortage of larger properties built in the period 2002-07 provides a support for pricing of new family homes in the current market.

It is important also to appreciate that on larger developments, housebuilders will build a mix of homes for commercial reasons and not just because their permission requires them to do so. Once a developer has committed to a development, particularly where they have committed significant upfront capital, they seek to build out rapidly, and more so now that capital is expensive.

So on large sites they will build in response to market demand, small units as well as large units, even if average sales values of small units are lower. Before the downturn in the market, many developers aimed to be building to a pyramid profile in terms of the types of market homes they built; the largest number were small entry level units, the smallest number were the larger family dwellings, with the numbers of mid-sized units in between.

In the current market more of the larger and mid-sized units are being built, with a smaller number of the small houses/flats being built; and sales of the small units being built are being supported quite strongly by the Government's NewBuy and HomeBuy schemes. The former is a mechanism by which buyers can buy with a minimum 5% deposit and an equity loan of up to 20% of market value, using a Government and housebuilder guarantee to indemnify the mortgage lender. The latter is a more conventional shared equity scheme.

Planning authorities need also to be aware that the existing housing stock is continually being flexed. Data is hard to come by, but large numbers of new small flats have been created over the past 15 years by sub-division of existing homes (eg 2 storey houses into two flats, or larger properties into multiple flats). At the same time very large numbers of 2, 3 or 4 bed houses have added an additional bedroom and often ground floor living space through extension and loft conversion, and are now 3, 4, or 5 bed houses.

Historically it has been the case that local authorities have had a policy regarding the tenure mix of affordable housing (typically the split between social/affordable rent and shared ownership/equity). But they have not been concerned, since they could not control it, about the mix of market sales to owner-occupiers and landlords. Hence market housing has been occupied by both owner-occupiers and market rent tenants, in varying proportions, very much dependent on location.

DTZ is aware that FBC is considering applying a policy that up to 10% of the NCNF homes to be provided as market rented. If FBC decided to adopt this policy it would be implemented through a condition or planning obligation to restrict sales to corporate or institutional landlords. This proposition was one of the recommendations of the report *'Review of Barriers to Institutional Investment in the Private Rented Sector'* by Sir Adrian Montague published in 2012.

By definition, if this objective can only be achieved by imposing a covenant or a planning obligation, this is a restraint on the ability of the developer to maximise value, and therefore will adversely affect viability, other things being equal. In the absence of any actual schemes fully developed for market rental without government subsidy, there is much uncertainty about the values such development would deliver to a landowner/developer.

However, all the work DTZ has done in modelling private rented proposals for the HCA and others indicates that to deliver a commercial return to investors, such developments cannot support provision of affordable housing, so FBC would probably have to accept affordable housing would not be provided in parallel with such market. Even with this exemption, there is no certainty such scheme deliver the same value to the landowner as homes for market sale.

While affordable housing probably cannot be provided in conjunction with market rent developments, it is worth noting that institutionally funded market rent developments are likely to house the same demographic and income group who take up intermediate housing. Indeed the majority of buyers of shared ownership or equity share homes are moving from being private rented tenants.

It is also worth noting that the built form that institutionally funded market rent developments are likely to take is blocks of c50-100 flats units, with predominantly two bed flats. The built form that will probably work best for such developments is something akin to modern student accommodation, where costs are kept down by offsite methods of construction.

Very similar considerations apply to the provision of land for self-build/self-procured housing. The development model of providing for self-procured/self build housing is not well established in the UK, so it is unknown what sort of value this would deliver to the landowner. It is therefore a source of risk and uncertainty and hence adversely affects the assessment of viability, because it cannot readily be forecast.

The strong likelihood is that provision of land for self build/self procured housing will deliver lower land value to the landowner than sale to a conventional developer. Overseas the development of self build/self procured housing is often associated with development on publicly owned land which is indicative that this is not something the market would chose to do. Sites have to be serviced in advance, with uncertain pace of take up and hence recovery of investment made in the site.

Build Rates

At the peak of the market in the years 2005-7 there was a general rule of thumb in the housebuilding sector that around 60 market homes would be built for each sales outlet each year.

With affordable housing on top of this, it implied generally no more than 90 homes were being built per sales outlet. This tallies broadly with the general expectation of the time of sales rates of one home per week.

On major development sites, it would be quite common to have more than one sales outlet, with different housebuilders (or different brands of the same housebuilder) selling homes, widening the market offer of the whole development site in terms of style and prices points of homes for sale. However, where multiple sales units were in operation, this expands the overall number of homes sold, but with diminishing returns. So build rates might be a maximum of 90 homes for a single outlet, 160 for two sales outlets and 210 homes for three sales outlets.

In the current market sales rates across the UK are around 2 per month, but will be better in the South East. The affordable housing viability study assumed private sales of around 3 per month, based on current benchmarks, representing 80 private sale pa. At 30% provision of affordable housing this represents total annual build rates of around 115 units pa.

DTZ has examined actually housing completions on a number of large scale development sites in the South East in recent years, both before and after the down turn.

- Kings Hill in Kent (Tonbridge and Malling) has been developed over the last 20 years as a mixed use new community. In the 3 years 2006/07/08 an average of 270 new homes were built each year. In the last 3 years 2009/10/11 it is estimated around 70 new homes have been built pa.
- Holborough Lakes is a large scale site being developed by Berkeley Homes in mid-Kent, with development starting in the mid 2000s. In the 3 years 2006/7/8 an average of just over 100 new homes were built each year. In the last 3 years 2009/10/11 it is estimated around 30 new homes have been built pa.
- At Cambourne in South Cambridgeshire, a largely greenfield site, located in the buoyant Cambridge market, around 350 to 400 housing completions pa were being achieved in the years before 2006 with the involvement of three large housebuilders and have fallen since. This represents the peak of the development cycle and probably the maximum development that could be achieved on any single site in a buoyant market.

DTZ are of the view on the basis of the above probably peak completions on a major development site is around 300 homes pa, and there will be a build up before this level can be achieved, and a run down towards the end of the development programme. Much also depends on what competing sites there are in the locality. Cambourne achieved higher levels of completions because of limited competition and a very buoyant economy in Cambridgeshire.

The one dimension that could boost future completion rates is new forms of financing housing are unlocked in the future. The most likely options are institutional funding for market rent developments, and more speculatively Council's using prudential borrowing to support development for lower income groups.

In summary, there are a number of key considerations in developing a housing trajectory:

- When does housing delivery start in practice? A realistic assessment has to be made of when planning permission for the development will be granted; and whether there are any easy wins in terms of sites that can be built out before the need to invest heavily in infrastructure.
- The evidence points indicates that it often takes time for a major new housing development to achieve peak output, so there is a build-up to peak output, a number of years of high output, though it is likely to vary year by year, with output starting to fall away as the major development sites are completed.
- However market conditions can significantly disrupt the steady pattern of delivery, as can major changes in government policy which change, for example the funding of affordable policy, or the imposition of higher costs (as with the Code for Sustainable Homes)
- On the assumption that the NCNF will entail development of 6,500 new homes, it is hard to envisage that the development would take less than 25 years to deliver this number of homes under current housing finance arrangements.
- A 25 year delivery plan would imply delivering *every year* an average of 263 new homes. Given the time taken to build up the volume of sales, and the difficulty of maintaining this level year by year, and a probably peak output of 300 homes pa, DTZ would take the view that it would be realistic to plan for a 30 year delivery plan.

Given the time taken to build up the volume of sales, and the difficulty of maintaining this level year by year, and a probably peak output of 300 homes pa, DTZ would take the view that it would be realistic to plan for a 30 year delivery plan. Much does depend on the level of completion from other sites in South Hampshire, but also on the economy and financial markets.

Assuming that the housing market recovers from its current fairly depressed state, it would be reasonable to expect another downturn in the housing market before 2040. The last housing market cycle (peak to peak) was from 1989 to 2007 a period of 19 years. If the next cycle is of similar duration it would indicated the next downturn would be in 2026. In view of the fact that the recovery phase is likely to be more protracted there might well not be another peak in the market until the 2030s, but another downturn would be expected before the site is fully built out.

Key Points

In view of the early findings on the viability of development contained in DTZ's Affordable Housing Viability Study for the NCNF, it is vital that every aspect of the proposals for the NCNF be examined in terms of its impact on viability, and whether approaches can be found to reduce costs, enhance revenues, or to adjust the timing of receipts relative to outgoings, in order to improve viability.

Values and costs will be determined largely in the market place for a given housing product. The main ways that FBC can enhance viability are therefore:

- reducing development obligations particularly in terms of infrastructure requirements
- examining whether infrastructure can be provided at a later date than previously assumed
- seeking to bring forward in time opportunities for delivery that are revenue positive
- avoid imposing standards that impose additional costs on the development
- avoid imposing conditions that dilute value
- reduce affordable housing obligations

Reducing affordable housing obligations is listed last, since DTZ has assumed it is probably the means of improving viability that FBC is least keen to pursue.

In the light of the viability issues initially identified, FBC need to undertake a very rigorous exercise to identify those items of infrastructure that are absolutely essential to the development; and to rank all other infrastructure requirements in priority order, taking account of cost; the degree to which the infrastructure is value enhancing; when the infrastructure would have to be provided; and the Council's assessment of the perceived importance of that item to delivering its objectives.

In parallel with this, a similarly rigorous exercise should be undertaken to examine when each item of infrastructure costs has to be delivered, in full or in part, and the scope for early approval of some initial development. The more that certain items of infrastructure cost can be delayed, and the more that revenue generating development can be pulled forward before cost is incurred, the more viability is enhanced.

Given uncertainty over revenues and costs, the Council should be looking to put in place a process for phase by phase review of viability; and within this DTZ would recommend that there is some flexibility over the precise size and type mix of homes delivered in each phase, so that the developers can respond to shifts in market demand. Much will change in terms of market demand over the anticipated 25 to 30 years of the scheme's implementation.

With the abolition of PPS3 Housing, there is no longer a requirement on planning authorities to plan for mixed and balanced communities, though this remains a desirable objective. The requirement for provision of affordable housing ensures a mix of households with different incomes and backgrounds; and in any major development housebuilders will aim to build a mix of different sizes and types of homes to make efficient use of land and maximise sales rates.

Provision of a mix of size and type of market homes will help ensure the development of a mixed community, and DTZ would not recommend imposition tightly drawn requirements in terms of the size and type mix of market homes, since this is likely to affect viability. Developers should be able to respond to market demand as they build out each phase of development, and adjust mix, within the overall design parameters which set the number of homes to be built, storey heights etc.

DTZ is aware that FBC is considering placing a requirement on the development that a proportion of all homes be provided as market rent homes in a purpose built development funded by an institutional investment; and that Government guidance encourages local authorities to make provision for self-build/self-procured development.

At the current point in time the development and financial models for both these forms of development are not well established; there are in effect no proven models of such provision which would provide a benchmark for determining development values. But on initial indications, both will dilute value compared to provision of market housing and hence adversely affect the viability assessment. Probably neither would contribute much to affordable housing provision as currently defined (though market rent housing probably houses the same sort of households as shared ownership housing).

On the other hand, these models may start to emerge over the next 25 years, and the attraction of including provision for these forms of development is that they introduce a different stream of demand and alternative funding that could allow the overall volume of annual completions to be boosted above that which could be achieved through the traditional market sale route of housebuilders.

With regard to the housing trajectory, DTZ's analysis would indicate, unless new streams of funding are introduced, the maximum number of new homes delivered from a major development site is likely to be 300 pa, and it would take time to build up to this maximum volume and it would tail off. This volume would also be hard to sustain year in year out even in the middle phases of development, with variations in the economy, mortgage costs, confidence etc. It is reasonable to plan for a peak and trough in the market in the timescale for delivery of the NCNF.

Given the time taken to build up the volume of sales, and the difficulty of maintaining this level year by year, and a probably peak output of 300 homes pa, DTZ would take the view that it would be realistic to plan for a 30 year delivery plan. Much does depend on the level of completion from other sites in South Hampshire, but also on the economy and financial markets. DTZ note that FBC have assumed that delivery can start on a modest scale in 2016/17.