WARWICK LOCAL PLAN PROPOSED MODIFICATIONS
REPRESENTATIONS ON MATTER 2: OVERALL PROVISION OF HOUSING
ON BEHALF OF BARWOOD DEVELOPMENT SECURITIES LTD

August 2016

Introduction

1 PBA has been asked briefly to review the evidence it had previously submitted to the Warwick Examination in Public on behalf of Barwood Development Securities Ltd. This is in response to new evidence recently made available by CLG. Also to address the Matters and Issues identified by the Inspector.

2 Although CLG have released new data it is our understanding that the Council has not updated its OAN evidence. The *Updated Assessment of Housing Need: Coventry-Warwickshire HMA,* published in September 2015, remains the most recent evidence.

3 In this context PBA would like to draw the Inspector's attention to two key issues, on which new evidence has emerged since the Council's evidence was published. We begin in the next section with a discussion of the 2014-based CLG household projections. In the following section we go on to look at new affordability data, also published by CLG. Finally we respond to the Inspector's questions on the Coventry-Warwickshire Memorandum of Understanding. At the start of each question we set out the questions to which our analysis responds, taken from the Inspector's Matters and Issues.

Household projections

5. Now that the 2014 based population projections and 2014 based household projections are available should they be used to review the figures? How do they differ from previous projections and what effect would this have?

4 The new CLG 2014-based household projection ('CLG 2014'), which is derived from the ONS 2014-based sub-national population projection ('SNPP 2014'), shows a similar number of new households in the HMA to the previous projections, CLG 2012. But the distribution has shifted between districts; so the 2014 projection shows higher numbers in Coventry and lower in the Warwickshire districts, including Warwick (See Table 1 below).

Table 1 2012-based and 2014-based household projections compared

Change p.a. 2011-31	CLG 2012 projections		CLG 2014 projections	
	Households	**Dwellings**	**Households**	**Dwellings**
Coventry	1,879	1,936	2,263	2,331
North Warwickshire	160	165	138	142
Nuneaton & Bedworth	432	445	345	355
Rugby	449	463	423	436
Stratford-on-Avon	452	465	399	411
Warwick	573	590	451	465
Total	**3,946**	**4,064**	**4,019**	**4,139**

Source: CLG

5 The new projection could be taken as validation of the Council's proposed housing target, which is based on the 2015 *Updated Assessment,* which in turn is based on the CLG 2012 projection. It could be argued that there is no need to update that earlier assessment, because in the light of the new projection it appears generous. But this interpretation would be wrong, because the new projection is not a true reflection of housing demand and need. Rather, it rolls forward the severe planning constraints that constrained housing supply in Warwick over the base period whose trends the projection rolls forward. Therefore, in line with the PPG the projection should be adjusted upward.

6 In our previous representations, we noted that the long running policy of housing restraint in Warwick had suppressed housing delivery in the base period whose trends the projections rolled forward. As noted in the PPG, the projections are trend based; they project forward previous trends in population and household formation, which in turn reflected the quantum of housing provided in the past. So in areas where housing development has been supply-constrained; plans lacking or moratoria imposed, the starting projection may need adjusting. Housing need (or demand) that would have moved into Warwick in the trend period was unable to do so; depressing future rounds of projection.

7 Paragraph 015 (Reference ID: 2a-015-20140306) of the PPG notes these limitations and states that:

'The household projections are trend based, i.e. they provide the household levels and structures that would result if the assumptions based on previous demographic trends in the population and rates of household formation were to be realised in practice.'

8 Where there is evidence that 'need' is not captured in the past trend period, the starting projection may need adjusting. Paragraph 015 further goes on to state that:

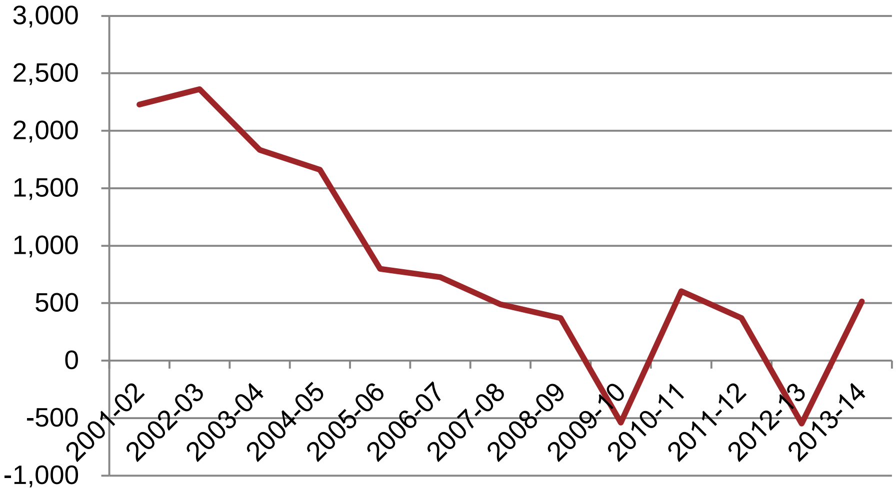
'The household projection-based estimate of housing need may require adjustment to reflect factors affecting local demography and household formation rates which are not captured in past trend.'

9 In previous representations we demonstrated that earlier official projections did require such adjustment, because in the reference periods on which they were based housing development in Warwick was severely supply-constrained due to restrictive planning policies

and lack of land allocations. This applies both to the 2011-based interim projections that informed the Council's previous housing assessment and the 2012-based projections that informed the September 2015 update of that assessment.

10 One indicator of that constraint is net migration into Warwick, which fell sharply throughout the first decade of the millennium, from an annual inflow of some 2,200 persons per year in 2001-02 to an outflow of 540 in 2009-10. In the years since 2010 migration has remained at this new low level, fluctuation roughly between -500 and +500 (Figure 1).

Figure 1 Net migration, Warwick



Source: Updated Assessment of Housing Need.

11 The base period of the official demographic projections is the five years prior to the based date. Thus the new CLG projection carries forward trends from 2009-14. As can be seen from the chart above, average migration in this period was lower than the base period of the CLG 2012 projection, which was 2007-12. This no doubt explains why the 2014 projection shows fewer new households than the 2012 version. The reason is not lower demand and need for housing, but more severe planning constraints that have prevented that demand and need from being met.

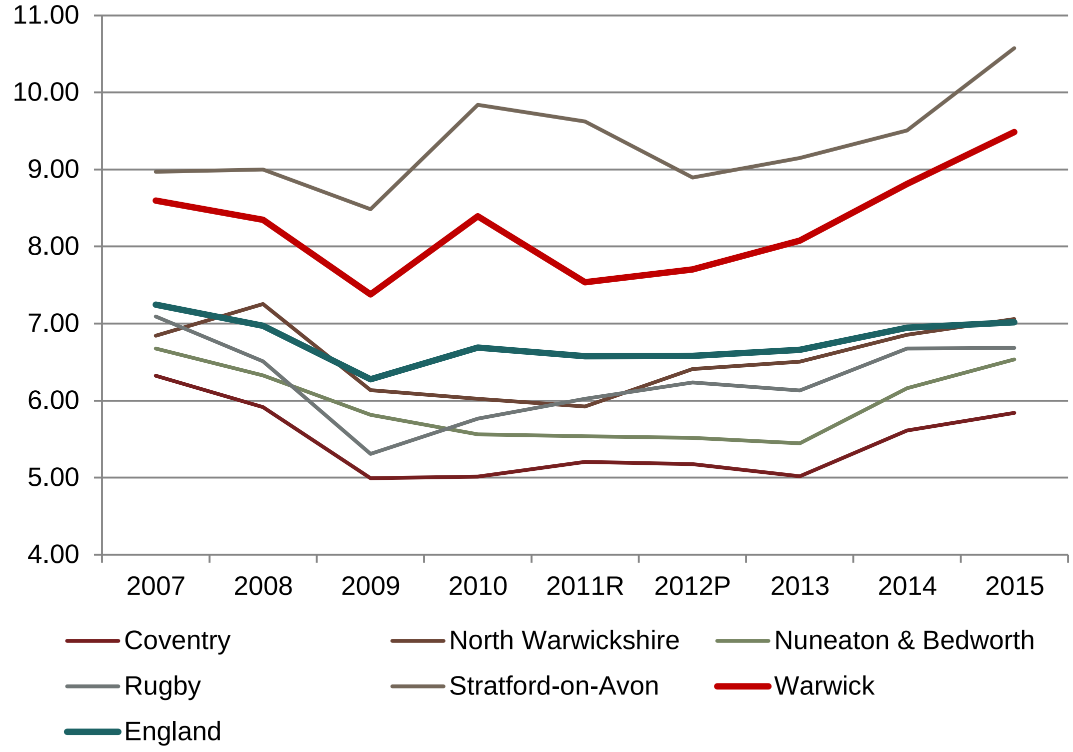
12 In line with the PPG, therefore, the Council should re-examine its demographic starting point with a view to increasing need in Warwick to reflect past constraints which have 'tainted' the projection trend period.

Market signals

7. How have market signals and affordable housing needs been taken into account? Is this justified?

13 In July 2016 CLG released new data on affordability, which is the ratio of lower-quartile house prices lower-quartile earnings (Figure 2). A high ratio suggests that the cheapest dwellings are comparatively unaffordable for people on lower incomes.

Figure 2 Affordability ratio: lower-quartile house prices divided by lower-quartile workplace earnings



Source: CLG, Table 576 and Table 576 Discontinued

14 The new data confirm that affordability in Warwick is much worse than the national average and much worse than all other districts in the HMA except Stratford. In addition they show that the gap between Warwick and these comparator areas has widened markedly in recent years. By 2015 the ratio of lower quartile house prices to lower quartile incomes for Warwick was 9.5, while for England it was 7.0 and for Coventry 5.8. These market signals provide further evidence that, as discussed in the last section, housing growth in Warwick has been severely supply-constrained. Again, the policy implication is that the trend-based demographic projections for the district understate housing need and should be adjusted upwards.

15 The 2015 update study, which underpins the submitted plan, proposes no market signal uplift for Warwick, despite adverse worsening market signals. In our representations to the previous plan examination, reproduced in the Appendix below, we demonstrated that the study's recommended market signals uplifts, in fact took no account of market signals. According to the study, the only two districts in the HMA where market signals pointed to housing undersupply should either no uplift (Warwick) of an insignificant one (Stratford).

16 The new evidence strengthens our earlier conclusions on this matter. The new affordability data add the wealth of earlier evidence that housing supply in Warwick has been severely under-supplied. The Council should re-examine the evidence with a view to applying a substantial market signal uplift to the official demographic projections.

Memorandum of Understanding (MoU)

10. How will unmet needs from Coventry be met? What is the basis for calculating the distribution of unmet needs to other authorities and is this justified?

11. Does the Memorandum of Understanding (MOU) between authorities effectively deal with this issue? What does this commit authorities to and is this sufficient? How does this relate to existing and emerging plans?

17 The Memorandum of Understanding (MoU) between the Warwickshire authorities and Coventry City Council sets out the distribution of housing across each of the HMA authorities and is specifically intended to accommodate Coventry's unmet need.

18 The MoU draws up an indicative split of the OAN for each district. The Council acknowledges that more weight given to the meeting the housing need for the HMA as a whole despite a fall in its household projections (but not its OAN) in the latest data release.

19 However it is important to note that while this shortfall is described as 'Coventry's unmet need' for the reasons discussed above this may be inaccurate. Many of these are households, who given the opportunity in the base period whose trends the official projections carry forward, would have moved to Warwick. Overall need is also likely to be too low, because the Council's needs assessment does not take account of market signals. This means that the starting point for the redistribution to Warwick is too low and the overall total being distributed by the MoU too low.

20 It also suggests that, when trying to identify new supply in Warwick district, the Council should not seek to accommodate this need in only a few sites around the Coventry boundary. This does not reflect where the demand for housing is highest and development most viable. Focusing housing growth too heavily on Coventry, in the mistaken belief that this is where the demand is coming from, may result in an incorrect spatial distribution of growth in the new plan.

Conclusion

21 The new 2014-based CLG household projections show lower household growth than the 2012-based projections, on which the submitted plan is based. The reason is not that housing need is lower than previously thought. Rather, the projections have gone down because in the base period whose trends they roll forward housing supply in Warwick was severely suppressed by planning constraints. This was true of earlier projections but it applies even more strongly to the 2014 projection. Therefore the projections understate housing need and should be adjusted upwards.

22 Further evidence of undersupply is provided by the latest CLG data on housing affordability. The new figures strengthen our findings in earlier evidence, that there is pressing case for a substantial market signals uplift to the demographic projections.

APPENDIX
PREVIOUS REPRESENTATIONS

WARWICK LOCAL PLAN PROPOSED MODIFICATIONS FEBRUARY 2016
REPRESENTATION ON POLICY DS6: LEVEL OF HOUSING GROWTH
ON BEHALF OF BARWOOD

April 2016

The proposed housing target

1 Policy DS6 of the Proposed Modifications provides for a minimum of 16,776 new homes in the plan period 2011-29, equal to 932 dwellings per annum (dpa). As explained in supporting text (The requirement aligns with updated evidence in the *Updated Assessment of Housing Need*[1], together with the *Coventry and Warwickshire Memorandum of Understanding for Housing Requirements*. It is made up of two elements:

- 600 dpa to cover Warwick's objectively assessed need;
- 332 dpa to accommodate need from Coventry, which is unable to meet its needs within its administrative area.

2 The second element is welcome and soundly based, being derived from joint working between the authorities in the Coventry-Warwickshire housing market area (HMA), as set out in the Memorandum of Understanding. But the first element understates the objectively assessed need of Warwick district. This is because it does not take proper account of market signals, as required by national planning guidance. We demonstrate this below.

Market signals

3 The figure of 600 dpa is derived directly from the latest official demographic projection, which is the CLG 2012-based household projection (CLG 2012). It is correct to use this figure as a starting point, although it should be kept under review, bearing in mind that new official projections are due later this year. But in our opinion the official projection should be adjusted upwards in the light of market signals and past underprovision. The National Planning Practice Guidance (PPG) 015 advises:

4 *'The household projection-based estimate of housing need may require adjustment to reflect factors affecting local demography and household formation rates which are not captured in past trends. For example, formation rates may have been suppressed historically by under-supply and worsening affordability of housing. The assessment will therefore need to reflect the consequences of past under delivery of housing. As household projections do not reflect unmet housing need, local planning authorities should take a view based on available evidence of the extent to which household formation rates are or have been constrained by supply.*'

5 At paragraphs 019-020 the PPG provides a list of market signals, or indicators, that should be used to identify this undersupply and worsening affordability. The list comprises land prices (on which, however, no relevant data are available), house prices and rents,

[1] GL Hearn, *Updated Assessment of Housing Need: Coventry-Warwickshire HMA*, September 2015

affordability, overcrowding and concealed families (which means couples and families with children who live as part of other people's households). It adds that additional indicators may also be used.

6 The 2015 *Updated Assessment of Housing Need* considers market signals in Chapter 5. It findings include the following:

i Warwick has the second highest median house prices in the HMA, after Stratford. Both districts, contrary to the other districts of the HMA, have prices above England & Wales (2014 data).

ii This applies to each house type (detached, semi-detached, terraced, flats) as well as all houses.

iii Warwick, along with Stratford, has seen faster growth in house prices than the rest of the HMA and England & Wales.

iv In relation to market rents, again Stratford followed by Warwick show the highest median figures in the HMA and the only the only ones which are about the England benchmark.

v Warwick and Stratford are also the only districts that '*have shown notable growth'* in rents, above the national average since 2011 (earlier figures are not available).

vi Similarly in regard to affordability Stratford and Warwick have the worst ratios in the HMA, at 8.89 and 7.82 respectively, against 4.77-6.12 in the remaining HMA districts and 6.45 in England (affordability is the ratio of lower-quartile house price to lower-quartile earnings, so a high number denotes low affordability).

7 With regard to the HMA as a whole, the SHMA's analysis of market signals concludes that there is no justification for a 'substantial adjustment' to the demographic projections.

8 But the SHMA's market signals analysis does not draw conclusions on individual districts. In relation to Warwick (and also Stratford), given the findings discussed above one would expect the SHMA to apply a market signals uplift to the official projections, in line with the PPG. But the SHMA does not do this. Rather, it says that if there was undersupply in particular districts in the past this should be apparent from housing formation rates, particularly for younger households in their late 20s and early 30s (paragraphs 5.40 onwards). Accordingly definite conclusions on the balance of the market in each district must wait until Section 7, which brings together market signals and household formation rates:

'*5.42 … it would be reasonable to assume that a key impact of an improvement in affordability would be manifest in an increase (or recovery) in household formation rates for households in these age groups over time. Drawing together the evidence in this section, and in Section 6, we have sought in Section 7 to quantify what scale of increase in housing supply might be necessary to facilitate this improvement in household formation amongst younger households*.

9 Turning to Section 7 of the report, we find a calculation that measures how much household growth there would have to be, over and above the CLG 2012 projection, to return household formation rates for young adults (aged 25-34) to what they were in 2001 (Table 51). The SHMA chooses this date because it considers that 2001 marked the beginning of the 'housing crisis' – a long period, continuing to this day, in which housing affordability has been

getting worse and young adults have become more likely to stay in the parental home for longer or live in shared accommodation.

10 In relation to Warwick, this calculation finds that the household formation rates in the CLG 2012 projection are no worse on balance than the formation rates that prevailed in 2001 (see Table 53 of the SHMA). The SHMA (table 52) concludes that there is no justification for an uplift to the demographic projections 'to improve affordability'. In contrast all the other districts in the HMA do get an uplift of this kind. These uplifts bear no relationship to market signals:

- Stratford-on-Avon, where market signals suggest even greater undersupply than for Warwick, is given an insignificant uplift of just nine new dwellings per annum (dpa).
- The greatest uplifts are for North Warwickshire (27 dpa) and Coventry (21 dpa), where market signals suggest that supply has been much better in relation to demand.
- Only in North Warwickshire does this adjustment make a significant difference to the assessed housing need. In Coventry it is just 1% of the demographically projected need of 2,099 dpa.

11 In our view these conclusions are not robust, because they do not comply with national guidance. In line with the PPG, if market signals show that housing land has been undersupplied in the past demographic signals should be adjusted upwards. But the SHMA's recommended uplifts take no account of market signals; in fact the only two districts in the HMA where market signals point to undersupply get either no adjustment (Warwick) or an insignificant one (Stratford). Rather than market signals, the SHMA's 'improving affordability' adjustment is based on an comparison with formation rates at 2001.

12 There is nothing in the PPG to support this approach. Nor does it seem reasonable in its own right, because the choice of 2001 is arbitrary, and in any case household formation rates are a bad indicator of housing market balance; they depend on all kinds of factors unrelated to the housing market, such as the proportion of people who live in couples. Also formation rates are only one component of household growth (the change in household numbers). The SHMA takes no account of the fact that past undersupply would have suppressed migration, and hence population growth, as well as household formation.

13 For a more robust market signals adjustment we look to the precedent of Inspectors' findings in other areas. In Eastleigh and Uttlesford Inspectors advised an uplift of 10% in response to 'moderate' market signals. In Canterbury the Inspector recommended an uplift of 20-30% in response to strong evidence of undersupply, including very fast growth in house prices. In our judgment Warwick lies somewhere in between. Therefore we suggest that Warwick's market signals justify an uplift of 15% above the 'demographic starting point' of 600 dpa.

Summary

14 Our analysis above suggests that Warwick's market signals justify an uplift of 15% above the 'demographic starting point' of 600 dpa. This confirms the conclusions of our representations

on the previous version of the emerging plan[2]. It brings the district's objectively assessed housing need over the plan period to 690 dpa. Added to the agreed 'import' from Coventry of 332 dpa this means that Warwick's total requirement should be a minimum of 1,022 dpa.

[2] Warwick District Local Plan Examination, Matter 2 – Overall Provision for Housing, *Statement on behalf of Barwood Strategic Land II LLP,* Peter Brett Associates, April 2015