

# Cambridge City and South Cambridgeshire Local Plan Examination

## Matter 3: Housing need

On behalf of Countryside Properties (UK) Ltd (ID. 21303)

October 2014

Prepared by

Savills (UK) Limited

*Unex House*

*132-134 Hills Road*

*Cambridge*

*CB2 8PA*

CAPL/254017/A6



- a. Do the figures of 14,000 new homes (Cambridge City) and 19,000 new homes (South Cambridgeshire) reflect a robust assessment of the full needs for market and affordable housing, as required by the Framework (paragraphs 47 and 159)?
- b. Is the methodology used consistent with the advice in Planning Practice Guidance?

1. We consider that the plan is unsound in its assessment of, and approach to, housing needs and in relation to its strategy for the location of residential development. The plan does not respond to the evidence base and will not meet the objectives of the NPPF nor the local plans themselves.

***Projections of past rate***

2. The assessment of housing “need” is based on the projections which in themselves are simply a reflection of past planning policies. Because Cambridge’s planning policies have sought to restrict housing growth, house prices have risen. Cambridge residents have been forced to move to villages and market towns in the Ouse Valley and Fens. The projections of so-called “need” are not a reflection of Cambridge’s real needs, but simply a reflection of development restraint policies, which based on a view that constraints are more important than meeting housing needs. An approach which is clearly at odds with the NPPF.
3. The projection methodology is also flawed. Paragraph 2.1.4 of the *Population, Housing and Employment Forecasts Technical Report* states

*“CCC’s own population forecasts...are methodologically different from the official ONS projections. The starting point for the latest CCC forecasts is the 2001 Census, which provides a 2001 dwelling stock figure, to which is added the number of dwellings completed each year to 2010, and the number of dwellings forecast for completion each year from 2011, from the district housing trajectories. From the number of dwellings forecast for each district, CCC’s forecasting model forecasts the population of each district, a forecast which is consistent with the district’s housing trajectory. Rather than forecasting housing need, this model predicts the likely population for a given dwelling stock...”*

4. The projections therefore are based on the under delivery of new homes against planning targets. The East of England Plan required the delivery of 1,175 homes a year. Actual completions from 2001 to 2011 were 7,663, against a requirement for 11,750 – a shortfall of 4,087. Accordingly, the projections are based on having under delivered. Households who needs should have been met by 2011 are thus excluded from projections of future needs given those homes weren’t delivered.
5. Paragraph: 035 Reference ID: 3-035-20140306 of the NPPG states that local planning authorities should aim to deal with any undersupply within the first 5 years of the plan period where possible. Given the strength of the Cambridge economy and that the councils’ methodology does not account for this unmet need, we consider that this past under delivery should be added to the current plan requirements and delivered within the five years from adoption of the plan.
6. The forecasts also take the councils’ trajectory as a means for forecasting population growth. Such an approach means that the council’s own assessment of delivery is taken as being the objectively assessed need. That is clearly not what the NPPF requires.

***The scale of affordable housing need***

7. South Cambridgeshire’s affordable housing need is almost 12,000. This means that would leave just 7,000 dwellings to meet market needs. In view of the economic strength of the sub-region, and the fact that the strategy sets out to support economic growth, such a level of development is unlikely to be sufficient to sustain economic performance. Such limited market provision is also likely to worsen affordability as more people seek fewer homes and drive prices upwards, inevitably forcing more people into affordable housing need.

8. Chapter 13 of the SHMA projects the number of affordable homes needed for the next five years and beyond. Table 2 (13.2.5.1) shows that for Cambridge City, current annual affordable housing need plus new annually arising need less annual supply results in a total net need of 2,140 dwellings, compared to a proposed plan level of only 700 dwellings annually.
9. The City local Plan sets out an intention to address the current unmet need within the first five years. That equates to requiring 1,548 per year. When added to the newly arising net need of 592 homes per year, 10,700 affordable homes are required in the first five years of the plan to meet needs.
10. If one assumes that the backlog of need is eliminated and therefore provision only needs to be made for newly arising affordable need, 592 homes per year would be required according to figure 3 of the SHMA. That results in a need for 8,880 new homes. In total 19,580 affordable homes are required within the plan period in Cambridge City to meet affordable needs.

***Market signals***

11. Having undertaken projection modelling (albeit flawed), the NPPF draft planning practice guidance makes it clear that there is a need to consider and reflect market signals.
12. We attach a note from Savills Research on market signals (Appendix 1). In that note Savills Research has updated the information used by GL Hearn from Nationwide's House Price Index. That information indicated that average house prices in Cambridge were twice the East Anglia average in Q4 2012. The Q3 2014 update of these figures shows a widening of the gap between Cambridge and East Anglia, with the Nationwide House Price Index indicating that average house prices in both regions have increased to £423,904 and £194,680 respectively. This equates to a £87,237 rise in the average Cambridge House price since Q4 2012.
13. Figure 1 in Appendix 1 shows that house prices in Cambridgeshire as a whole have recovered in line with the market for the East of England as a whole. However, Cambridgeshire is a very diverse housing market, with average house prices varying from an average of £152,000 in Fenland to £384,000 in Cambridge (12 months to July 2014).
14. Figure 2 demonstrates how significantly house prices in Cambridge City and South Cambridgeshire outperform the rest of the County. This indicates that supply has been outstripped by demand which is likely to have severely hindered household formation.
15. Figure 3 compares lower quartile house prices to earnings. In 2013, the ratio for Cambridge has reached 10.3 compared to 8.8 in South Cambridgeshire and 6.9 across Cambridgeshire as a whole. The national average is 6.5. Considering these figures in the context of previous years shows that ratio for both Cambridge and South Cambridgeshire has been diverging from the Cambridgeshire average since 2010. Whilst affordability improved in Cambridgeshire as a whole between 2012 and 2013, it worsened in both Cambridge and South Cambridgeshire. When factoring in Figure 2, this indicates that affordability has deteriorated still further in Cambridge and South Cambridgeshire during 2014, relative to the Cambridgeshire and national averages. In South Cambridgeshire and particularly in Cambridge, the supply of housing has been low relative to demand. A consequence of this is likely to have been suppressed household formation.
16. Savills land Index also shows that land values have outperformed the wider East of England region. At Q3 2014 greenfield land in Cambridge was only 5% below its 2007 peak level compared to a gap of 30% below the 2007 level in the East of England as a whole. Urban development land in Cambridge was also closer to peak in Q3 2014 than the regional average - 34% below peak levels compared to 49% below peak levels in the East of England as a whole. The level of demand for residential development land relative to its supply in Cambridge significantly exceeds the levels in the surrounding region.
17. There is clear market evidence that supports higher growth levels in both plans.

### **Conclusions**

18. The plans fail the following soundness tests:

- positively prepared – not based on a robust assessment of objectively assessed needs for development;
- justified – not the most appropriate strategy, when considered against the reasonable alternatives, as do not meet affordable housing needs nor under delivery from previous plans;
- consistent with national policy – the plans will not enable the delivery of sustainable development in accordance with the policies in the NPPF because the plans fail to tackle affordable housing needs and affordability will be worse at the end of the of the plan period than the start.

19. Neither local plan will meet the needs for new homes. The assessment of need is flawed and does not accord with the PPG. In particular, the plans fail to respond to market signals, and as a result house and land prices in Cambridge City and South Cambridgeshire will continue to rise, pricing people out of the market and forcing more people into needing affordable housing, placing a greater burden of the public finances and reducing the funding available for other forms of infrastructure.

## **APPENDIX 1: Cambridge & South Cambridgeshire Housing Requirements: Market Signals**

A.1 Cambridge City Council and South Cambridgeshire District Council (SCDC) have both published their respective Proposed Submission Local Plans for consultation. GL Hearn have prepared a report considering the degree to which the level of housing provision proposed by the two Councils meets the National Planning Policy Framework (NPPF) requirements to meet full objectively assessed housing need within the housing market area. The conclusion of this report is that the Councils' evidence "cannot be considered consistent with the NPPF."<sup>1</sup>

A.2 This Appendix provides evidence on market signals in addition to those in the GL Hearn report, supporting the conclusion that household formation in this area has been suppressed over the last decade and that there is need for additional provision of new homes over and above the demographic projections, in order to avoid further suppression of household formation. Analysis of house prices, house price to earnings ratios and development land prices is given below.

A.3 On the basis of the market signals, GL Hearn provides an amended demographic projection of housing need (PROJ B). However, the description of PROJ B would be best referred to as one in which there is reduced household formation constraint, rather than one in which there is improving affordability. For the latter to be true, housing supply would need to be in excess of PROJ B; i.e. it should provide for more than demographic growth.

A.4 GL Hearn concludes that an objective assessment of housing need should fall between their PROJ B (Updated demographic projection, with improving affordability) and PROJ C (Projection to support planned economic growth). This would mean that the planned levels of economic growth could not be achieved without increased levels of in-commuting. If the planned levels of economic growth are to be supported by housing delivery, the full amount of housing required to support this level of growth would need to be delivered.

### **Market Signals**

A.5 As stated by GL Hearn, the NPPF sets out that in considering policies for development in Local Plans, authorities should take full account of market economic signals (paragraph 158). The following analysis provides additional evidence that there has been a significant shortfall of housing supply relative to demand in Cambridge and South Cambridgeshire.

A.6 This confirms and strengthens GL Hearn's finding that the market signals in these two Local Authorities indicate that household formation is likely to have been suppressed over the last decade.

### *House Prices*

A.7 In their report, GL Hearn used Nationwide's House Price Index as supporting evidence to indicate that average house prices in Cambridge were twice the East Anglia average in Q4 2012. The Q3 2014 update of these figures shows a widening of the gap between Cambridge and East Anglia, with the Nationwide House Price Index indicating that average house prices in both regions have increased to £423,904 and £194,680 respectively. This equates to a £87,237 rise in the average Cambridge House price since Q4 2012.

A.8 The Nationwide city level figures are not mix adjusted and can therefore be distorted by any abnormal transactions that take place in a quarter. However, the following analyses of mix adjusted

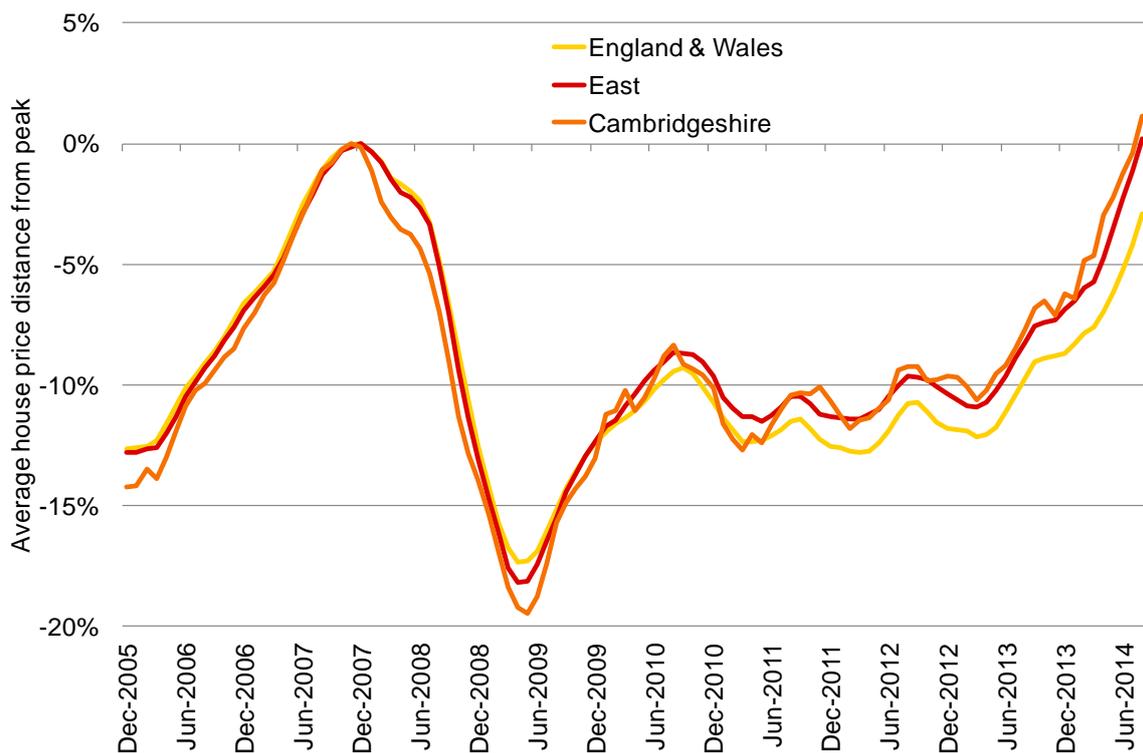
---

<sup>1</sup> "Review of Housing Requirements: Cambridge & South Cambridgeshire", GL Hearn, September 2013

house price indices published by HM Land Registry and constructed by Savills Research from HM Land Registry data support the GL Hearn conclusion that there is a widening gap between house prices in Cambridge/ South Cambridgeshire and other markets in East Anglia.

A.9 Analysis of HM Land Registry data (Figure 1) shows that the average house price in the Cambridgeshire market (the whole county) has recovered in line with the East of England and has exceeded its previous peak in 2007. However, Cambridgeshire is a very diverse housing market, with average house prices varying from an average of £152,000 in Fenland to £384,000 in Cambridge (12 months to July 2014).

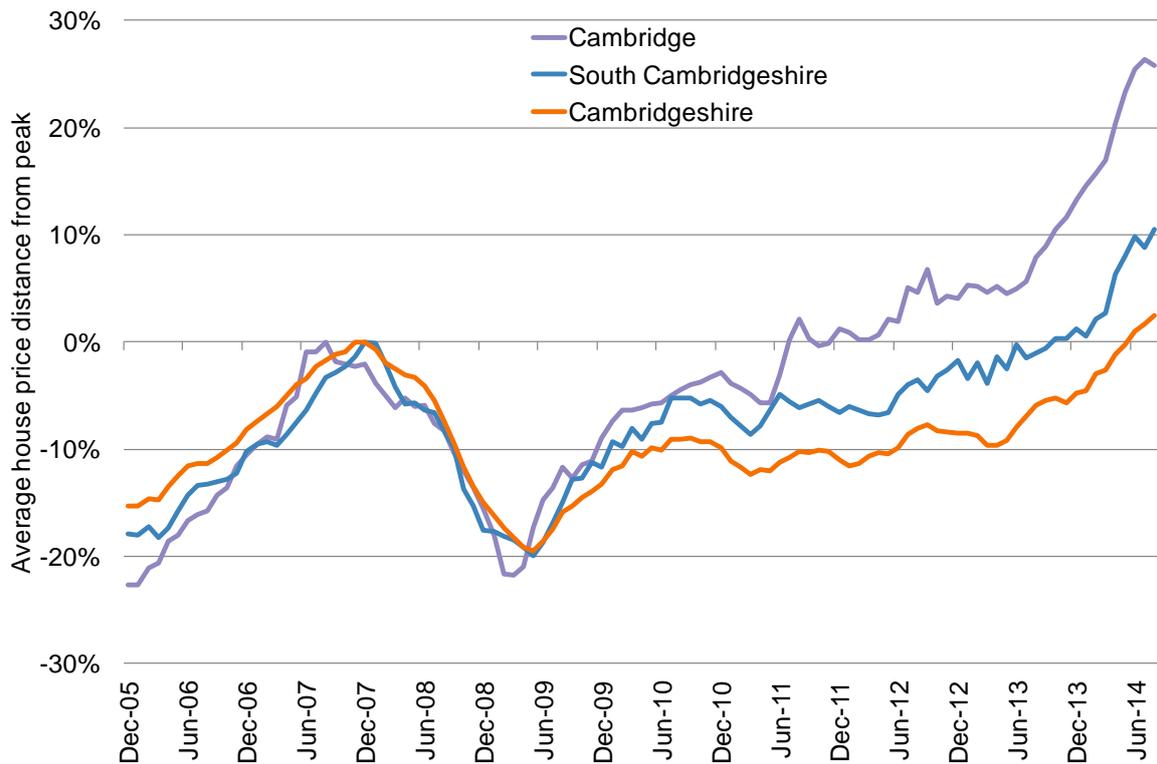
**Figure 1 – Average house price distance from 2007 peak**



*Source: HM Land Registry, July 2014*

A.10 We have constructed house price indices for Cambridge and South Cambridgeshire to compare against the published HM Land Registry index for Cambridgeshire (see Appendix 1A for details of methodology). These show that house prices in South Cambridgeshire and particularly in Cambridge have strongly outperformed the Cambridgeshire county average. This indicates that supply has been especially short relative to demand in these Local Authorities, which is likely to have severely hindered household formation.

Figure 2 – Local Authority level average house price distance from 2007 peak



Source: Savills using HM Land Registry data to August 2014

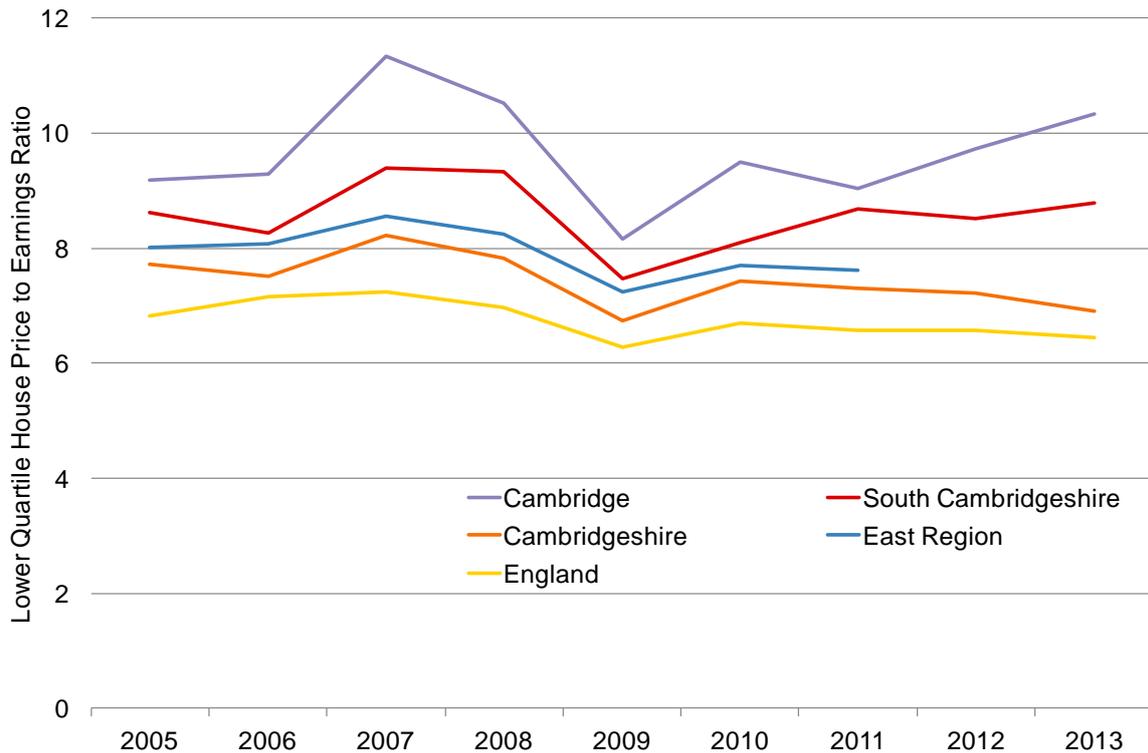
*Ratio of House Price to Earnings*

A.11 GL Hearn highlighted that Cambridge is one of the least affordable areas to live in the region, a point they supported through 2012 lower quartile house price to earnings ratio evidence, in line with the recommendation of the National Planning Practice Guidance (NPPG).

A.12 This data has now been updated to include 2013, with the ratio in Cambridge reaching 10.3 compared to 8.8 in South Cambridgeshire and 6.9 across Cambridgeshire as a whole. The national average is 6.5. Looking at these figures in the context of previous years shows that ratio for both Cambridge and South Cambridgeshire has been diverging from the Cambridgeshire average since 2010. Whilst affordability improved in Cambridgeshire as a whole between 2012 and 2013, it worsened in both Cambridge and South Cambridgeshire.

A.13 Looking at this alongside Figure 2 indicates that affordability has deteriorated still further in Cambridge and South Cambridgeshire during 2014, relative to the Cambridgeshire and national averages. This indicates that in South Cambridgeshire and particularly in Cambridge, the supply of housing has been low relative to demand. A consequence of this is likely to have been suppressed household formation.

Figure 3 – Lower quartile house price to earnings ratio



Source: DCLG

#### Development Land Prices

A.14 The Savills Land Index, which shows the value of greenfield and urban residential development land which has received planning permission, indicates that Cambridge's land values have outperformed the wider East of England region. Greenfield land in Cambridge was only 5% below its 2007 peak level in Q3 2014 compared to a gap of 30% below the 2007 level in the East of England as a whole. Urban development land in Cambridge was also closer to peak in Q3 2014 than the regional average: 34% below peak levels compared to 49% below peak levels in the East of England as a whole.

A.15 This shows that the level of demand for residential development land relative to its supply in Cambridge significantly exceeds the levels in the surrounding region.

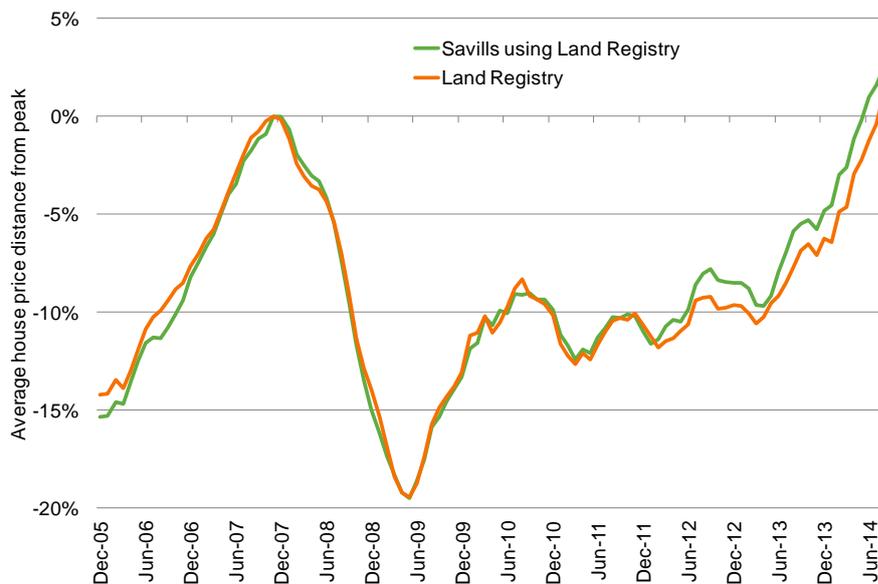
**APPENDIX 1A**

1A.1 HM Land Registry does not publish mix adjusted house price indices at a more local level than Cambridgeshire. However, we have constructed indices for Cambridgeshire, Cambridge and South Cambridgeshire using the same repeat sales methodology used by HM Land Registry.

1A.2 A repeat sales index uses pairs of transactions of the same property to calculate the growth in price between two points in time. This is done for all property transactions recorded by HM Land Registry in a particular area where two sales of the same property can be matched and an index showing the change in average house price is produced.

1A.3 The result for Cambridgeshire is shown in Figure 4, with the reason for the difference being that the Land Registry applies an adjustment to their raw repeat sales index to account for an assumed level of improvement carried out to properties during a period of ownership. The Savills repeat sales index has no adjustment, leading to a divergence between the result of the two index methods of 1.3% over the period since November 2007. All of the Savills indices shown in Figure 2 have been produced using the same method, so they can be compared on a 'like for like' basis.

**Figure 4 – Comparison of repeat sales indices for Cambridgeshire**



Source: HM Land Registry and Savills using HM Land Registry

**Important Note**

In accordance with our normal practice, we would state that this report is for general informative purposes only and does not constitute a formal valuation, appraisal or recommendation. It is only for the use of the persons to whom it is addressed and no responsibility can be accepted to any third party for the whole or any part of its contents. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent, which will not be unreasonably withheld.

Our findings are based on the assumptions given. As is customary with market studies, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals.

Whilst every effort has been made to ensure that the data contained in it is correct, no responsibility can be taken for omissions or erroneous data provided by a third party or due to information being unavailable or inaccessible during the research period. The estimates and conclusions contained in this report have been conscientiously prepared in the light of our experience in the property market and information that we were able to collect, but their accuracy is in no way guaranteed.