Report to:

Elmbridge Borough Council

Supplementary Housing Affordability Assessment

Final Report

March 2024

jg Consulting
Quality Specialist Research

Contents

Summary

Background

1. Elmbridge Borough Council submitted its Local Plan for Examination in August 2023. As part of this the Council considers that exceptional circumstances have not been evidenced such that the Green Belt boundary should be changed to accommodate additional housing. Part of the reasoning is the consideration that increasing the supply of housing will not improve affordability and that in part affordability levels in the Borough are due to other factors (such as proximity to London and the attractiveness of the area).

2. This study investigates some of the points raised by the Council through the Local Plan, including commenting on the rationale for Government seeking to provide 300,000 homes per annum and the relevance of the Standard Method given more recent demographic data.

3. The current Standard Method for Elmbridge shows a housing need for 650 dwellings per annum – with a higher figure of 930 if the need is not capped at 40% above household growth, the higher figure reflects a house price to income affordability ratio of 20.04 (i.e. median house prices are around twenty times median incomes).

4. Analysis shows a high affordability ratio in Elmbridge and that this ratio has been increasing over time, this is however not unique to the Borough. Further analysis of house prices, incomes and changes to the dwelling stock suggest that:

   a) The delivery of housing does not have any impact on house prices. All areas see similar increases in house prices, despite seeing different level of delivery; and
   b) The issue of affordability is arguably more influenced by incomes than house prices. Whilst affordability appears to have worsened to a greater degree in Elmbridge, house price trends are similar across areas. Therefore it seems as if it is income levels influencing affordability rather than house prices.

National Context

5. It is considered that the Government has not provided any justification for the 300,000 homes per annum target. A logical analysis which broadly follows the method used in previous research by Glen Bramley would suggest that the need is closer to 210,000 per annum. To provide enough population to fill 300,000 homes would require a substantial increase in international migration.

6. Whilst it is accepted under general economic theory that an increase in supply would lower prices it is considered that for housing such a link is very limited. This would suggest that an increase in supply to reduce prices is almost certainly not a logical approach.

7. It is difficult to find any source which genuinely shows that increasing housing supply has any real impact on prices (despite this being a Government view). There are however relevant articles noting the lack of any real link between the two (supply and prices). One notable source is the Bank of England who in a blog in September 2019[1] state:

'We find that the rise in real house prices since 2000 can be explained almost entirely by lower interest rates. Increasing scarcity of housing, evidenced by real rental prices and their expected growth, has played a negligible role at the national level'

8. Analysis shows a clear newbuild premium, meaning that delivering more homes would actually increase house prices. The mix of housing delivered is also an important factor when looking at affordability.

Local Perspective

9. Data at a smaller-area level (i.e. for Elmbridge) confirms much of the analysis undertaken at a national level. Key findings include:

- Following the method used by Bramley (which seems to be the main source for the 300,000 homes a year figure nationally) points to a housing need in Elmbridge of around 350 dwellings per annum;
- There is no clear relationship between changes to house prices and the number of homes delivered. Indeed, going back the last 20-years shows those years with the highest and lowest levels of delivery both saw roughly the same change in prices;
- As with other parts of the Country there is a clear newbuild premium in Elmbridge which points to increasing supply actually having the potential to boost rather than reduce house prices; and
- The mix of newbuild homes over the past few years has been very different to the mix of housing in the existing stock (a high proportion of flats). This does point to recent optimisation of densities within the existing urban area.

Overall Summary

10. This project has looked at a range of issues related to affordability and the relationship between house prices and housing supply. The key conclusions can be summarised as:

- There is no evidence of a need for 300,000 dwellings per annum nationally. Using up-to-date information would put the need at closer to 210,000 (and about 350 dwellings per annum for Elmbridge);
- There is no relationship between the delivery of new homes and house prices, either nationally or for Elmbridge and therefore there is no good reason to pursuing a strategy of delivering more homes to improve affordability; and

[1] https://bankunderground.co.uk/2019/09/06/houses-are-assets-not-goods-taking-the-theory-to-the-uk-data/#more-5400

1. Background

Introduction

1.1 Elmbridge Borough Council submitted its draft Local Plan for Examination in August 2023.

1.2 The growth strategy that the Council is pursuing is one that does not meet its local housing need figure (as set by the Standard Method). Instead, a housing requirement which takes into account local circumstances and strikes a balance between providing new homes and protecting the natural environment is proposed.

1.3 As part of this, the Council has determined that exceptional circumstances have not been clearly evidenced and justified to amend the Green Belt to help meet residual housing need (around 30% of the Standard Method figure).

1.4 Responses from developers, agents and landowners within the Borough consider that exceptional circumstances do exist to amend the boundary of the Green Belt and all point to Elmbridge's affordability issues as part of the justification for doing so.

1.5 The Council acknowledges that affordability is an issue within the Borough. However, as set out in the Council's Topic Paper[2]: How the Spatial Strategy was formed (June 2022), its position is that:

a) Affordability levels in Elmbridge are partly a consequence of the proximity to London, good communications to central London and the attractiveness of the Elmbridge's towns and open spaces, including the continual strength of the Green Belt. These factors are unlikely to change. In-migration pressures especially from London will continue with the result that house prices will likely continue to rise and so will, the Council believes, unaffordability levels; and
b) The Government has incorrectly assumed within the Standard Method that delivering more homes within the borough will improve affordability.

1.6 Regarding point 2, the Council has referenced the work undertaken for the former Department for Communities and Local Government (DCLG) by the University of Reading[3] which concluded:

'it may be difficult, or impossible, to achieve affordability targets at sub-regional levels. This is because local authorities, for example, may be close substitutes in terms of location for many households, so that increasing construction in a small number of areas generates strong population inflows, offsetting any improvement in affordability' (Meen, 2011, page 17).

1.7 The Council also notes that the University of Reading work highlights that even at a regional level, increases in construction produce only modest improvements in affordability and would need to be long-lasting. For an increase in housing supply to reduce prices, there would thus need to be a large uplift in supply rates across London and the South-East.

[2] https://consult.elmbridge.gov.uk/gf2.ti/f/1205954/137173413.1/PDF/-/Topic%20Paper%201%20-%20How%20the%20Spatial%20Strategy%20was%20formed%20paper%20-%20June%202022.pdf

[3] See A long-run model of housing affordability, by Geoffrey Mean, University of Reading, School of Economics, published by the Department for Communities and Local Government, 2011. ISBN: 978 1 4098 3174 7

1.8 The Topic Paper therefore states that the Council is not convinced that building some 2,918 homes within the Green Belt over the latter phases of the plan-period will have any material effect on reducing either the average house price in the Borough or the unaffordability levels.

This Study

1.9 This study seeks to investigate in further detail some of the points already made by the Council regarding house-building and affordability. Specifically the research seeks to:

- Provide commentary on the Government's ambition of providing 300,000 homes per annum including, the evidence of the need for this scale of housing; whether it is considered achievable and if not, what are the consequences of not providing this level of homes;

- Explain the complexity of housing markets outlining that house prices / affordability is not determined so much by a simple demand and supply calculation, but by other factors including location and finance (including incomes); and

- Set out the 'new build premium' in Elmbridge and whether this is proportionately higher than the average in the Home Counties. If higher, provide an explanation as to why this is the case.

National Policy Context

1.10 The sub-sections below set out an overview of the key national planning policy and guidance in relation to housing need before moving on to look at proposed changes where these are relevant to this study.

National Planning Policy Framework (July 2021)

1.11 The latest version of the National Planning Policy Framework (NPPF) was published by Government on 20th July 2021. Paragraph 7 in the NPPF states that the purpose of planning is to contribute to the achievement of sustainable development. It sets out that planning policies and decisions should play an active role in guiding development towards sustainable solutions, but in doing so should take local circumstances into account, to reflect the character, needs and opportunities of each area.

1.12 The development plan must include strategic policies to address Council's priorities for the development and use of land in its area. Plans should apply a presumption in favour of sustainable development and for plan-making, this means that the plan should positively seek opportunities to meet the development needs of their area and be sufficiently flexible to adapt to rapid change and strategic policies should, as a minimum, provide for objectively assessed needs for housing and other uses, as well as any needs that cannot be met within neighbouring authorities, where it is sustainable to do so.

1.13 Paragraph 11 reiterates that *"strategic policies should, as a minimum, provide for objectively assessed needs for housing and other uses, as well as any needs that cannot be met within neighbouring area, unless…the application of policies in this Framework that protect areas or assets of particular importance provides a strong reason for restricting the overall scale, type or distribution of development in the plan area".* For the purpose of paragraph 11, footnote 7 lists those policies referred to in the Framework (rather than those in development plans) that protect areas or assets of particular importance. This includes the Green Belt.

1.14 In order to support the Government's objective of significantly boosting the supply of homes, Paragraph 60 in the NPPF states it is important that a sufficient amount and variety of land can come forward where it is needed, that the needs of groups with specific housing requirements are addressed and that land with permission is developed without unnecessary delay.

1.15 Paragraph 61 sets out that in order to determine the minimum number of homes needed, strategic policies should be informed by a local housing need assessment, conducted using the standard method in national planning guidance – unless exceptional circumstances justify an alternative approach which also reflects current and future demographic trends and market signals.

1.16 Paragraph 62 goes on to set out that within this context, the size, type and tenure of housing needed for different groups in the community should be assessed and reflected in planning policies including, but not limited to, those who require affordable housing, families with children, older people, students, people with disabilities, people who rent their homes and people wishing to commission or build their own homes.

1.17 Paragraphs 63 – 65 address affordable housing provision. They set out that where an affordable housing need is identified, planning policies should specify the type of affordable housing required and expect it to be met on-site unless off-site provision or a financial contribution in lieu can be robustly justified, or the agreed approach contributes to the objectives of creating mixed and balanced communities.

Planning Practice Guidance

1.18 Government's Planning Practice Guidance (PPG) includes several sections which are relevant to the assessment of housing need. Guidance on Housing and economic needs assessments explains that housing need is "an unconstrained assessment of the number of homes needed in an area" and should be undertaken separately from assessing land availability, establishing a housing requirement figure and preparing policies to address this such as site allocations.

1.19 The PPG explains that policy-making authorities are expected to follow the Standard Method for assessing housing need and that the method is designed to identify the minimum number of homes expected to be planned for, addressing both projected household growth and historical under-supply.

1.20 The guidance does however note that the use of the standard method for strategic policy making purposes is not mandatory but that alternative methods should only be used in exceptional circumstances and will be tested at examination. Where an authority uses an approach leading to a lower housing need figure than that identified using the standard method, the strategic policy-making authority will need to demonstrate, using robust evidence, that the figure is based on realistic assumptions of demographic growth and that there are exceptional local circumstances that justify deviating from the standard method. This will be tested at examination. The PPG also notes that any method which relies on using household projections more recently published than the 2014-based household projections will not be considered to be following the standard method.

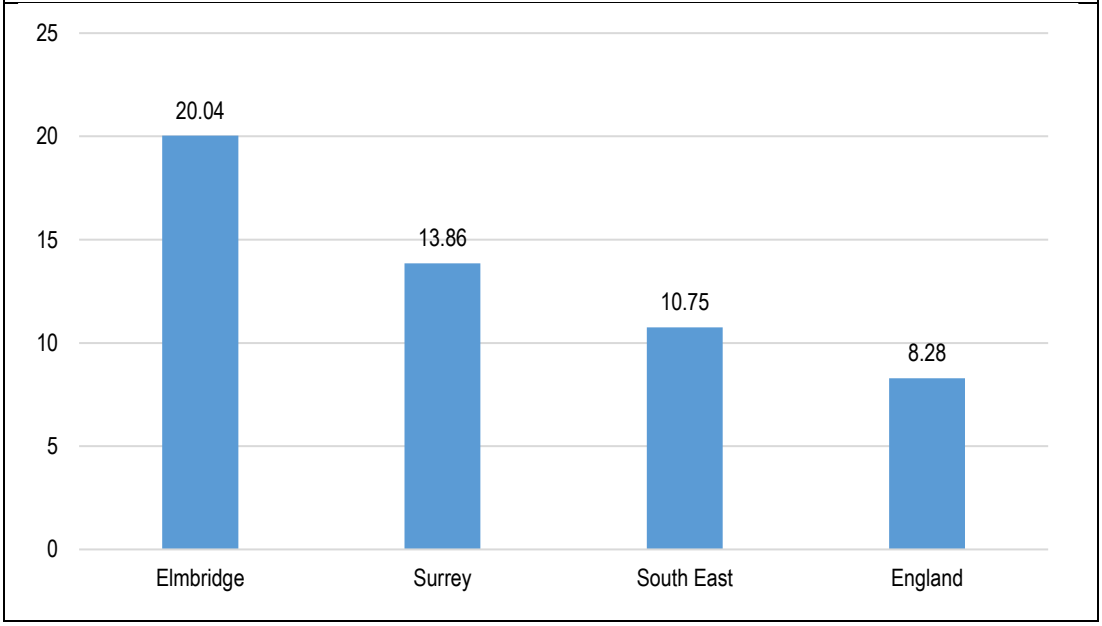
1.21 The guidance is therefore quite clear: there is an expectation that the 2014-based sub-national household projections (SNHP) should be used but that an alternative approach can be used. When using an alternative approach, it is necessary to take account of demographic growth and market signals, but this cannot include using more recent versions of published SNHP.

Initial Analysis – Relative Affordability of Housing in Elmbridge

1.22 The analysis below looks at a range of published statistics for Elmbridge in terms of affordability (based on a house price to income affordability ratio). This helps to provide some context for the affordability situation in the Borough.

1.23 Using the Government's usual measure of affordability (a median house price to workplace income ratio) it is clear that Elmbridge is a less affordable location than many others. As can be seen in the figure below, the latest published ratio (for 2021) is nearly double that for England and also being notably higher than equivalent figures for Surrey and the South East.

Figure 1.1: Affordability Ratios (2021) – Elmbridge and other areas

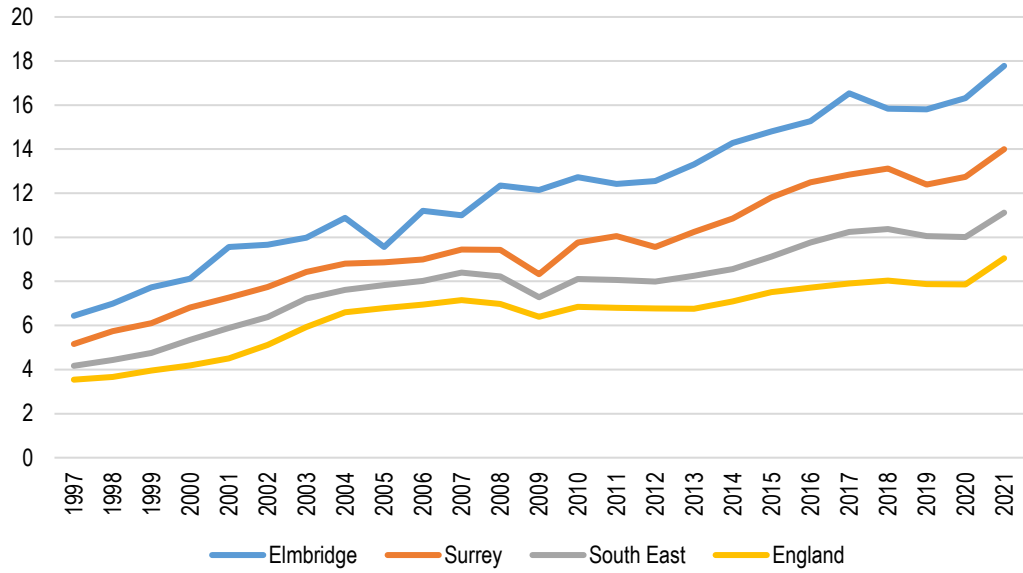


Source: ONS

1.24 It is however important to also consider the extent to which it has changed in the past with the figure below showing a trend back to 1997. From this it is clear that affordability has worsened on this measure but that the situation is not unique to Elmbridge.

1.25 One feature from the figure below is a sharp rise in affordability for the most recent year (2021) which looks to have been driven as much by a reduction in income estimates as house prices. For Elmbridge, between 2020 and 2021 the ONS data points to a 4% increase in prices, and a 5% decline in incomes. This does point to this measure of affordability as not wholly being related to house prices.

Figure 1.2: Affordability Ratios (1997-2021) – Elmbridge and other areas



Source: ONS

1.26 It is clearly the Government's view that increasing the supply of homes will reduce house prices and later in this report we look in some detail at the relationship between housebuilding and house prices. Initially below is an assessment of house price change, affordability and changes to the dwelling stock. A 10-year period from 2011-21 is used.

1.27 The table below shows affordability over the decade to 2021 for Elmbridge and a range of other areas. This does show a greater increase in the affordability ratio in Elmbridge than other locations, but this is not substantially higher than seen either across Surrey or the South East. The increase in the ratio across England is however lower than these locations.

Figure 1.3: Change in Affordability Ratio (2011-21)

	2011	2021	Change	% change
Elmbridge	12.42	17.78	5.36	43%
Surrey	10.06	14.00	3.94	39%
South East	8.07	11.12	3.05	38%
England	6.80	9.05	2.25	33%

Source: ONS

1.28 In terms of house price change the analysis in the table below shows all areas see very similar increases in prices (all around 60% over the decade).

Figure 1.4: Change in median house price (2011-21)				
	2011	2021	Change	% change
Elmbridge	£385,000	£620,000	£235,000	61%
Surrey	£299,950	£490,000	£190,050	63%
South East	£224,950	£365,000	£140,050	62%
England	£180,000	£285,000	£105,000	58%

Source: ONS

1.29 The table below shows the other part of affordability (incomes) – these being based on median gross annual workplace-based earnings for full-time workers. In this case the data estimates a smaller increase in incomes in Elmbridge than other locations and clearly shows it is changes to income levels influencing relative changes to affordability, rather than house prices.

Figure 1.5: Change in median incomes (2011-21)				
	2011	2021	Change	% change
Elmbridge	£31,004	£34,867	£3,863	12.5%
Surrey	£29,825	£34,999	£5,174	17.3%
South East	£27,881	£32,810	£4,929	17.7%
England	£26,488	£31,480	£4,992	18.8%

Source: ONS

1.30 Finally, the table below shows changes to the dwelling stock in these areas over the decade to 2021. This shows a lower level of delivery in Elmbridge than any other location, with the dwelling stock having increased by just over 5%, compared with 7% in Surrey and 9% across the South East.

Figure 1.6: Change in dwelling stock (2011-21)				
	2011	2021	Change	% change
Elmbridge	55,731	58,548	2,817	5.1%
Surrey	473,154	505,654	32,500	6.9%
South East	3,694,388	4,023,442	329,054	8.9%
England	22,976,066	24,873,321	1,897,255	8.3%

Source: Live table 125

1.31 Overall, this analysis points to:

a) The delivery of housing does not have any impact on house prices. All areas see similar increases in house prices, despite seeing different level of delivery; and
b) The issue of affordability is arguably more influenced by incomes than house prices. Whilst affordability appears to have worsened to a greater degree in Elmbridge, house price trends are similar across areas. Therefore, it seems as if it is income levels influencing affordability rather than house prices.

Summary

1.32 Elmbridge Borough Council submitted its draft Local Plan for Examination in August 2023. As part of this the Council considers that exceptional circumstances have not been evidenced such that the Green Belt boundary should be changed to accommodate additional housing. Part of the reasoning is the consideration that increasing the supply of housing will not improve affordability and that in part affordability levels in the Borough are due to other factors (such as proximity to London and the attractiveness of the area).

1.33 This study investigates some of the points raised by the Council through the Local Plan, including commenting on the rationale for Government seeking to provide 300,000 homes per annum.

1.34 The current Standard Method for Elmbridge shows a housing need for 650 dwellings per annum – with a higher figure of 930 if the need is not capped at 40% above household growth, the higher figure reflects a house price to income affordability ratio of 20.04 (i.e. median house prices are around twenty times median incomes).

1.35 Analysis shows a high affordability ratio in Elmbridge and that this ratio has been increasing over time, this is however not unique to the Borough. Further analysis of house prices, incomes and changes to the dwelling stock suggest that:

a) The delivery of housing does not have any impact on house prices. All areas see similar increases in house prices, despite seeing different level of delivery; and
b) The issue of affordability is arguably more influenced by incomes than house prices. Whilst affordability appears to have worsened to a greater degree in Elmbridge, house price trends are similar across areas. Therefore it seems as if it is income levels influencing affordability rather than house prices.

2. National Context

Introduction

2.1 The first issue considered in this report is to look at national data and initially ask where the 300,000 homes per annum figure comes from? Whilst it is a stated target of the Government it has never been clearly articulated as to whether this figure is reasonable. The section moves on to look at other aspects of the Government's position and analyses data under the following headings:

- Is 300,000 Homes a Year the Right number?;
- Where will people come from to fill 300,000 homes?;
- Will building more homes improve affordability?;
- Newbuild Premium and the Mix of Homes; and
- Can the Market deliver 300,000 homes.

Is 300,000 Homes a Year the Right Number?

2.2 In July 2020 it was reported[4] that the 300,000 target "was based on a number of studies that had been done over a number of years" including the 2004 Review of Housing Supply, by Kate Barker, which estimated a need for 243,000 a year—and work by KPMG and Shelter, in 2015, which estimated a minimum requirement of 250,000 homes per year.

2.3 It was further suggested that work by Professor Bramley[5] concluded that, over a 15-year time frame, new housebuilding in England would need to be around 340,000 per year. This latter reference seems to be the only one where a figure of at least 300,000 is reached. Indeed, a parliamentary research briefing of February 2022 (Tackling the under-supply of housing[6]) again notes the Bramley report (it is the only source cited) – see page 5.

2.4 It is worth briefly reviewing the Bramley work and the table below shows how the figure of 340,000 was derived.

[4] https://publications.parliament.uk/pa/cm5801/cmselect/cmcomloc/173/17308.htm
[5] https://www.crisis.org.uk/media/239700/crisis_housing_supply_requirements_across_great_britain_2018.pdf
[6] https://researchbriefings.files.parliament.uk/documents/CBP-7671/CBP-7671.pdf

Figure 2.1: Estimated Annual Housing Need by Glen Bramley in 2018

Table 2.3 Enhancements to Household Projection Numbers as basis for Static Housing Requirements Projection, England 2016-2031 (Number per annum)

England	Top down Inputs
Household projection	216,284
Additional suppressed household formation	68,884
Demolitions to reflect baseline (10k) plus estate renewal/conditions (20k)	32,000
Need to increase ave vacancy rate (+1.5%pt) to enable more movement	22,000
Recommended new completions (inc net conv/CoU) number	339,169

Source: Housing Supply Requirements Across Great Britain (2018) – Glen Bramley

Updating the Government's Evidence?

2.5 We can take Bramley's method and apply more up-to-date information, in terms of household projections and evidence of supressed household formation. Data below looks at a 15-year period from 2022-37. We would also note that 32,000 of the 339,000 is essentially replacement dwellings (which would need to be removed from the need as local authorities would plan for net not gross completions). It is also questionable why Bramley considers that vacancy rates should increase, when actually reducing vacant homes is generally regarded as a good thing. That said it is accepted that some vacancy allowance in new stock can be considered.

2.6 On this basis it is initially considered that Bramley's analysis when looked at properly shows a need for around 285,000 homes each year (216,000+69,000 from table above). Other than these two issues (demolitions and vacant homes), the method used by Bramley is broadly accepted.

2.7 We can update this using 2018-based household projections as shown in the table below. This works through the various stages and to this we have added an allowance for the communal population[7], which is essentially based on considering the increase in projected numbers in communal establishments and considering that they might be housed in dwellings. Overall, the analysis shows a need for around 210,000 dwellings per annum. Whilst it might be reasonable to include a contingency allowance, even a figure of 10%-15% would only give a 'need' for 230-240,000 dwellings per annum.

2.8 It should also be noted this analysis is based on 2018-based projections as these are the latest household projections at the time of writing. ONS has however published 2020-based population projections which show lower future projected population growth than in the 2018-based version. It is arguable therefore that the use of any updated projections would show a lower need again.

[7] The communal establishment (CE) population (also known as the institutional population) includes all people not living in private households. CEs provide managed residential accommodation, for example, nursing homes, student halls of residence, military barracks and prisons.

Figure 2.2: Updated Estimate of National Housing Need linking to Bramley methodology (figures per annum)		
	Dwellings	Rounded
Household projection (1)	153,794	154,000
Additional supressed household formation (2)	41,161	41,000
Vacancy allowance (3)	5,849	6,000
Allowance for communal population (4)	6,015	6,000
Total Need for additional dwellings	206,819	207,000

Source: Derived from ONS 2018-based household projections

NOTES:

(1) Household projection based on household growth per annum in the 2022-37 period
(2) Supressed household formation recognises that the younger population (aged up to 44) have seen a degree of suppression in forming households. Method takes formation rates back to 2001 levels
(3) A 3% vacancy allowance has been applied (a fairly standard approach)
(4) Institutional based on per annum increase of about 10,800 and an average household size of 1.8 (figure taken from Housing Delivery Test Measurement Rule Book).

2.9 On this basis it seems as if the actual need from the current and projected households is likely to be for around 210,000 homes rather than the 300,000 although it should be noted that part of this calculation is for supressed household formation (which is arguably a backlog of need) and were the analysis above to seek to meet this backlog over say 5-years then the need calculated would actually rise to closer to 300,000. On this basis it is arguable that 300,000 homes per annum is reasonable, but only as a short-term target. Given that authorities are expected to plan for at least 15-years in advance the 210,000 figure above is more reasonable.

Where will people come from to fill 300,000 homes?

2.10 One other issue relating to the 300,000 target is a simple question of 'where will the people come from to fill these homes?' As can be seen from the calculations, we have already included a substantial figure for dealing with supressed households formation and therefore the only obvious way to fill these homes would be to increase the population, and at a national level this would mean more international migration.

2.11 The 2018-based national population projections for England project net international migration of around 213,500 people in 2020-21 and a long-term average of 173,000 per annum from 2024-25 onwards. These are the figures that feed into the estimate of a need for around 210,000 homes per annum. If 300,000 homes are provided and all of these are filled then net international migration would need to increase substantially, probably to an average of around 350,000-400,000 per annum (every year for 15 years). Given that current political will seems to be to reduce rather than increase migration, it does not seem logical to be planning on this basis.

Will Building more Homes Improve Affordability?

2.12 One reason the government is seeking to build so many homes is the simple supply/demand view that increasing supply will improve affordability (essentially reduce house prices), this can be seen from quotes from the White Paper presented above '*The result of long-term and persisting undersupply is that housing is becoming increasingly expensive'*. Whilst this is based on clear economic supply/demand logic, it is not clear that house prices are that sensitive to supply – house prices seem to be more influenced by macro-economic factors, such as the state of the economy and mortgage availability.

2.13 We can investigate the relationship between completions (net additional dwellings) and changes to house prices using published data from MHCLG and ONS (from Land Registry). The table below shows the number of net additional dwellings each year from 2000-1 along with the median price of housing. The final column shows the year-on-year change in prices.

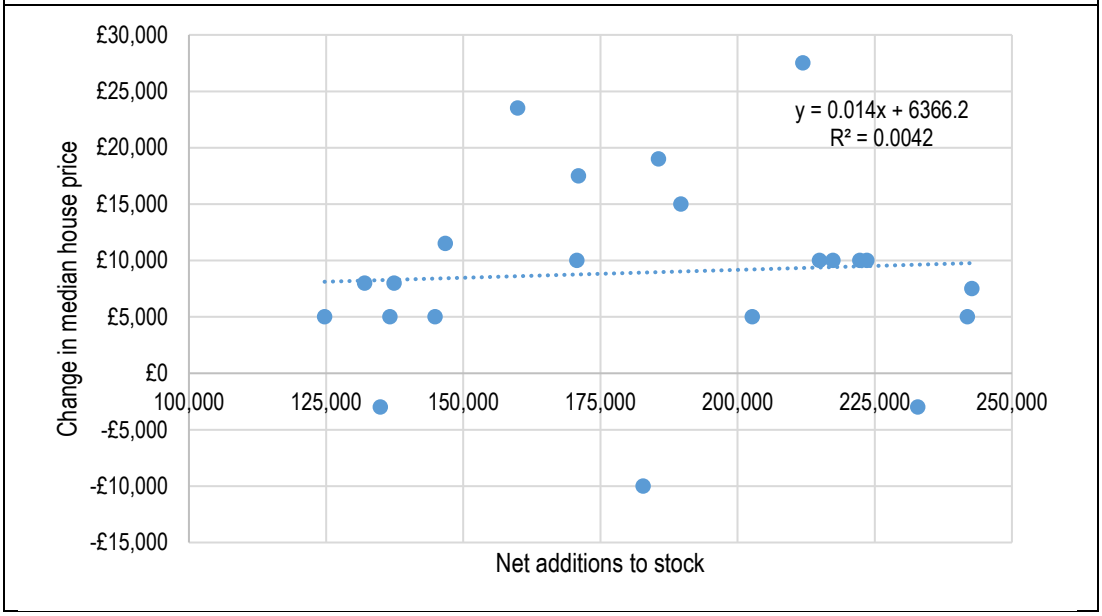
Figure 2.3: Net Additional Dwellings and Median House Prices in England (2000-01 to 2021-22)

	Net additional dwellings	Median price	Change in price
2000	-	£75,500	-
2000-01	132,000	£83,500	£8,000
2001-02	146,704	£95,000	£11,500
2002-03	159,875	£118,500	£23,500
2003-04	170,969	£136,000	£17,500
2004-05	185,553	£155,000	£19,000
2005-06	202,653	£160,000	£5,000
2006-07	214,936	£170,000	£10,000
2007-08	223,534	£180,000	£10,000
2008-09	182,767	£170,000	-£10,000
2009-10	144,870	£175,000	£5,000
2010-11	137,394	£183,000	£8,000
2011-12	134,896	£180,000	-£3,000
2012-13	124,722	£185,000	£5,000
2013-14	136,605	£190,000	£5,000
2014-15	170,693	£200,000	£10,000
2015-16	189,645	£215,000	£15,000
2016-17	217,345	£225,000	£10,000
2017-18	222,281	£235,000	£10,000
2018-19	241,877	£240,000	£5,000
2019-20	242,702	£247,500	£7,500
2020-21	211,865	£275,000	£27,500
2021-22	232,816	£272,000	-£3,000

Source: MHCLG Live Table 118 and ONS small area house price statistics

2.14 This data has then been plotted on a graph below along with a linear trend line and relevant equation. From this it can be observed that there is really no relationship between completions and price changes (arguably more completions sees prices rise although the R^2 number is so low that no conclusion of that nature could be drawn)[8].

Figure 2.4: Relationship between Net Additional Dwellings and Median House Price Changes in England (2000-01 to 2021-22)



Source: MHCLG Live Table 118 and ONS small area house price statistics

Newbuild Premium and the Mix of Homes

2.15 A further issue that does not seem to have been given much thought is the fact that newbuild homes tend to have a price premium over second-hand properties and therefore providing many more newbuilds will potentially increase average house prices rather than reduce them.

2.16 The analysis below shows the average (median) price for existing and newbuild dwellings across all regions and England. This shows nationally that newbuild homes are on average 24% more expensive than second-hand properties with all regions seeing a premium.

2.17 On this basis, building more homes for sale is unlikely to reduce average prices, more likely to go the other way and therefore make the affordability ratio worse.

[8] R^2, also called coefficient of determination, is a statistical calculation that measures the degree of interrelation and dependence between two variables. It is a formula that determines how much a variable's behaviour can explain the behaviour of another variable. So, if the R^2 of a model is 0.50 (50%), then approximately half of the observed variation can be explained by the model's inputs. In the figure below the R^2 is just 1% suggesting there is virtually no link between the variables studied (house price rises and dwelling completions in this example).

Figure 2.5: Median Price of Existing and Newly-built Homes (data for year ending June 2022)			
	Existing homes	Newly-built homes	Premium
North East	£140,000	£259,950	86%
North West	£180,000	£251,995	40%
Yorkshire and The Humber	£175,250	£249,995	43%
East Midlands	£215,000	£279,950	30%
West Midlands	£215,000	£297,250	38%
East of England	£310,000	£359,850	16%
London	£504,500	£579,840	15%
South East	£350,000	£380,000	9%
South West	£278,000	£305,000	10%
England	£258,000	£320,000	24%

Source: ONS small area house price statistics

2.18 One further issue, not considered in any great detail here, is the impact the mix of new housing can have on prices. In particular, detached homes are notably more expensive than other built-forms and so provision of more detached homes relative to the existing stock would be expected to increase prices. The table below shows the proportion of new and existing household sales that were detached properties by region (and nationally). This shows in all areas apart from London (where detached sales are very small in number) the proportion of detached newbuild homes is substantially above the second-hand market. This will clearly have an impact on average prices and would be unlikely to improve affordability.

Figure 2.6: Proportion of Existing and Newly-built Homes that are Detached (data for year ending June 2022)		
	Existing homes	Newly-built homes
North East	17%	66%
North West	17%	38%
Yorkshire and The Humber	20%	44%
East Midlands	33%	58%
West Midlands	23%	46%
East of England	28%	45%
London	6%	0%
South East	25%	33%
South West	27%	34%
England	27%	57%

Source: ONS small area house price statistics

Can the Market Deliver 300,000 homes?

2.19 There must also be some doubts about the ability of the housebuilding industry to provide 300,000 homes each year, particularly every year for the next say fifteen years. As shown in net additional dwellings data above, this figure has not been reached at any point over the last 20-years and even more recent years (which have seen higher completions) show a maximum of 243,000 dwellings.

2.20 The latest year for which data is available on completions (2021-22) showed a total of 233,000 net completions and the table below considers where this supply has come from. The bulk (210,000) from newbuild but with 10,000 under permitted development rights. It is unclear if this level of PDR would continue into the future and therefore to reach 300,000 there would need to be a substantial increase in new build – indeed the number of completions under PDR has fallen from a high of 19,000 in 2016-17.

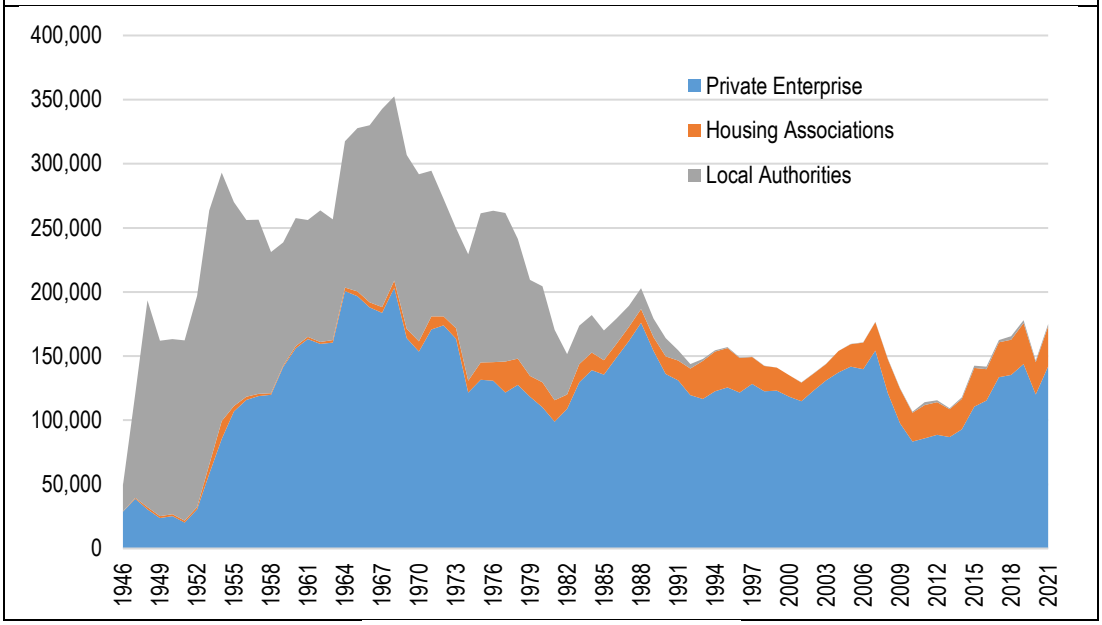
Figure 2.7: Components of net additional dwellings in England (2021-22)	
Component of supply	Number of dwellings
New build completions	210,071
Net conversions	4,873
Net change of use	22,774
Of which under permitted development rights - Total	*10,303*
Net other gains	778
Demolitions	-5,680
Net additional dwellings	232,816

Source: MHCLG Live Table 118

2.21 It is also worth considering more historical data about completions to test if 300,000 might be achievable. The figure below presents data from MHCLG (Live Table 244) which provides information about newbuild completions back to 1946. This shows that there have indeed been periods where in excess of 300,000 homes per annum have been provided (all years from 1964 to 1969). However, these are all years where there was significant public funding going into housing, the private output for these years barely reached 200,000 per annum.

2.22 This analysis would suggest in delivery terms, that a target of 300,000 homes each year might be possible, but only is there is substantial investment from the Government, in the absence of this it seems unlikely that this level of delivery could be reached or sustained.

Figure 2.8: Newbuild completions in England from 1946 to 2021



Source: MHCLG Live Table 244

What happens if 300,000 homes target is not reached?

2.23 Given the analysis above it seems unlikely that there is a need for 300,000 homes each year and furthermore it is difficult to see that such a level could be achieved (particularly over a prolonged period of time). Therefore, it is important to consider what might happen if local authorities are obliged to plan for 300,000+ homes but they are not delivered.

2.24 One consequence if authorities fall behind on land-supply is that it will be easier to obtain planning permission, potentially on sites that the Council did not want to see come forward at that point in time. Such sites would be likely to be those that are easier to deliver or more profitable and would potentially mean that other sites (for say redevelopment) would get left behind. It would also allow developers to 'land bank' and there is already significant evidence of unimplemented planning permissions. It is estimated that 40% of homes granted planning permission in England go unbuilt; equating to more than 380,000 homes between 2011 and 2019[9].

2.25 This points to a further barrier in achieving the 300,000 homes each year, in short if there is not the demand for the homes or the profits does not stack up then homes would not get built. It seems likely given the lack of evidence for a need for 300,000 homes that the development industry would only build the most profitable homes and would not even seek to achieve close to 300,000.

2.26 To be clear this is no criticism of developers but is a situation that would arise if Government seeks to provide more homes than are needed (particularly if the aim in providing homes is to reduce prices, which in turn would put developers off from providing).

[9] https://www.localgov.co.uk/Four-in-ten-homes-granted-planning-permission-go-unbuilt-research-shows/51029

2.27 Overall, if it turns out that the market cannot deliver 300,000 homes (or does not wish to) then the main potential problem is that homes will be built on the easiest/most profitable sites – this might lead to further lack of delivery in lower value areas (e.g. the North of England) but drive continued development if more affluent locations (including Elmbridge).

Summary

2.28 It is considered that the Government has not provided any justification for the 300,000 homes per annum target. A logical analysis which broadly follows the method used in previous research by Glen Bramley would suggest that the need is closer to 210,000 per annum. To provide enough population to fill 300,000 homes would require a substantial increase in international migration.

2.29 Whilst it is accepted under general economic theory that an increase in supply would lower prices it is considered that for housing such a link is very limited. This would suggest that an increase in supply to reduce prices is almost certainly not a logical approach.

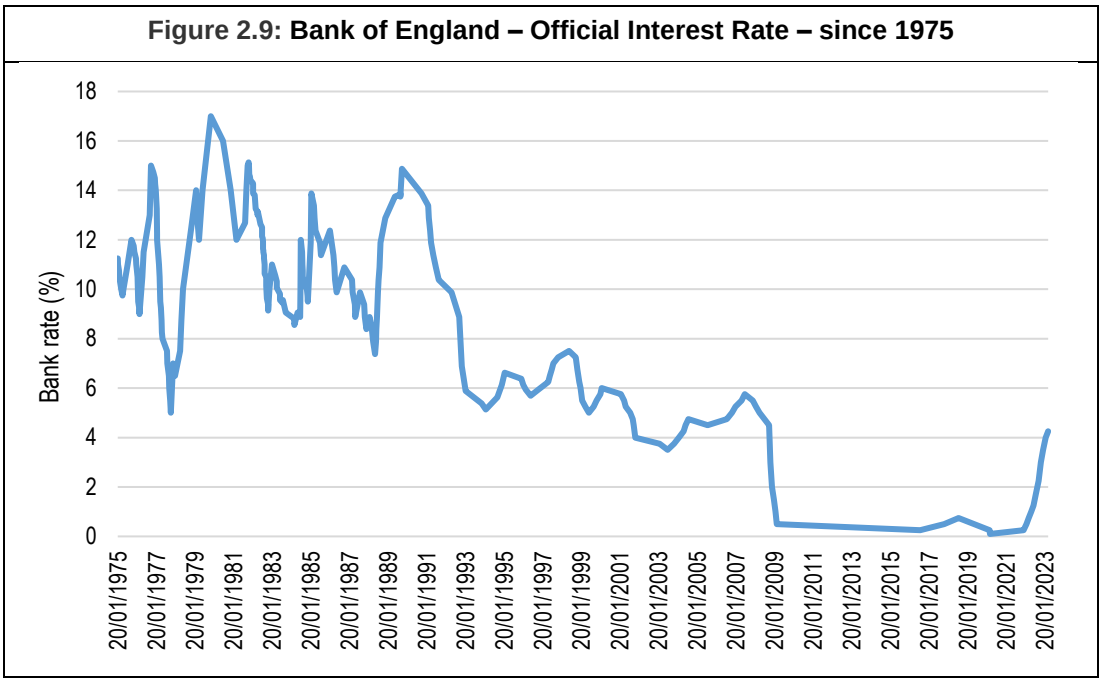
2.30 It is difficult to find any source which genuinely shows that increasing housing supply has any real impact on prices (despite this being a Government view). There are however relevant articles noting the lack of any real link between the two (supply and prices). One notable source is the Bank of England who in a blog in September 2019[10] state:

'We find that the rise in real house prices since 2000 can be explained almost entirely by lower interest rates. Increasing scarcity of housing, evidenced by real rental prices and their expected growth, has played a negligible role at the national level'

2.31 The figure below shows the Bank of England base interest rate back to 1975. From this is can be seen that interest rates since 2000 have been at low levels in a historical context.

[10] https://bankunderground.co.uk/2019/09/06/houses-are-assets-not-goods-taking-the-theory-to-the-uk-data/#more-5400

Figure 2.9: Bank of England – Official Interest Rate – since 1975



Source: Bank of England

2.32 Analysis shows a clear newbuild premium, meaning that delivering more homes would actually increase house prices. The mix of housing delivered is also an important factor when looking at affordability, this does not feature in the Standard Method but is a consideration in the NPPF consultation.

3. Local Perspective

Introduction

3.1 The analysis above has largely looked at national data, with some of this information potentially available at a local level for Elmbridge. Therefore below is some additional analysis, although it should be noted that the data for smaller areas can be more variable and harder to draw definitive conclusions from.

The 300,000 homes per annum?

3.2 It has previously been noted that the only place where the need for 300,000 homes per annum has been drawn is a study by Glen Bramley for Crisis. We do not fundamentally disagree with the work by Bramley but have noted that some of this can be updated, in particular Bramley relies on now out-of-date projections. Using broadly the same methodology as in the Crisis report suggest the actual level of housing need is more like 210,000 rather than 300,000+.

3.3 Below we have replicated the Bramley analysis for Elmbridge, this follows the same stages as described above, in looking at the 2018-based household projections, taking account of suppressed household formation and also including an allowance for vacant homes and communal establishments. The analysis has looked at two variants of the latest ONS household projections, although both ultimately show the same estimate of need – around 350 dwellings per annum. It is notable that the estimated need using this method is around 60% above household projections and does therefore point to a sizeable market signals/affordability uplift.

Figure 3.1: Updated Estimate of National Housing Need linking to Bramley methodology (figures per annum)

	Principal projection	Alternative internal migration
Household projection	224	220
Additional supressed household formation	101	107
Vacancy allowance	10	10
Allowance for communal population	18	16
Total Need for additional dwellings	352	352

Source: Derived from ONS 2018-based household projections

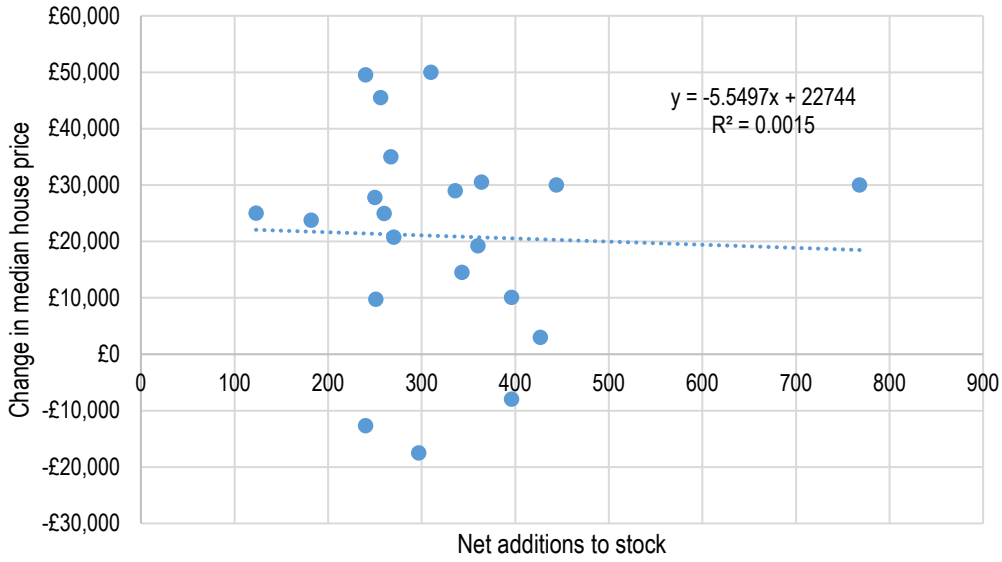
Will building more homes reduce prices/improve affordability?

3.4 The analysis below looks at year on year delivery of homes and changes to median house prices for Elmbridge. As with national analysis, there is no clear correlation between delivery of homes and house prices. Interestingly, the years with the highest (2021-22) and lowest (2017-18) levels of delivery both saw roughly the same increase in prices.

Figure 3.2: Net Additional Dwellings and Median House Prices in Elmbridge (2001-02 to 2021-22)			
	Net additional dwellings	Median price	Change in price
2001	-	£210,000	-
2001-02	360	£229,225	£19,225
2002-03	270	£249,950	£20,725
2003-04	396	£259,998	£10,048
2004-05	444	£290,000	£30,003
2005-06	343	£304,500	£14,500
2006-07	364	£335,000	£30,500
2007-08	260	£359,950	£24,950
2008-09	240	£347,250	-£12,700
2009-10	182	£371,000	£23,750
2010-11	336	£400,000	£29,000
2011-12	297	£382,500	-£17,500
2012-13	256	£428,000	£45,500
2013-14	251	£437,725	£9,725
2014-15	250	£465,500	£27,775
2015-16	240	£515,000	£49,500
2016-17	267	£550,000	£35,000
2017-18	123	£575,000	£25,000
2018-19	427	£578,000	£3,000
2019-20	396	£570,000	-£8,000
2020-21	310	£620,000	£50,000
2021-22	768	£650,000	£30,000

Source: MHCLG Live Table 122 and ONS small area house price statistics

Figure 3.3: Relationship between Net Additional Dwellings and Median House Price Changes in Elmbridge (2001-02 to 2021-22)



Source: MHCLG Live Table 122 and ONS small area house price statistics

Newbuild Premium

3.5 Previous analysis has identified there is a premium paid on newbuild homes, this makes it difficult to see how providing more new homes could improve house prices (and hence affordability) – essentially, if you deliver more of something that is more expensive then the price will increase. The previous analysis suggested a national newbuild premium of around 24% with a figure of 9% for the South East. These figures were based on all sales and could therefore be heavily influenced by the type of sales in different categories (i.e. flats vs. detached houses).

3.6 At a smaller are level if can be difficult to estimate a newbuild premium, particularly for any given year as data can be heavily influenced by specific developments which may be of a certain type or be in a certain location which influences sales prices (both in an upward or downward direction). The analysis for Elmbridge therefore looks at some longer-term trends.

3.7 The table below shows median house prices for existing homes and newbuild properties back to 2002. This data is taken from ONS affordability statistics and is up to September 2021, consistent with the latest published affordability ratio. In the early part of the period studied there appears to be a significant newbuild premium, but in more recent years it is often that case that newbuild homes average a lower price than existing homes – although there is variation by year.

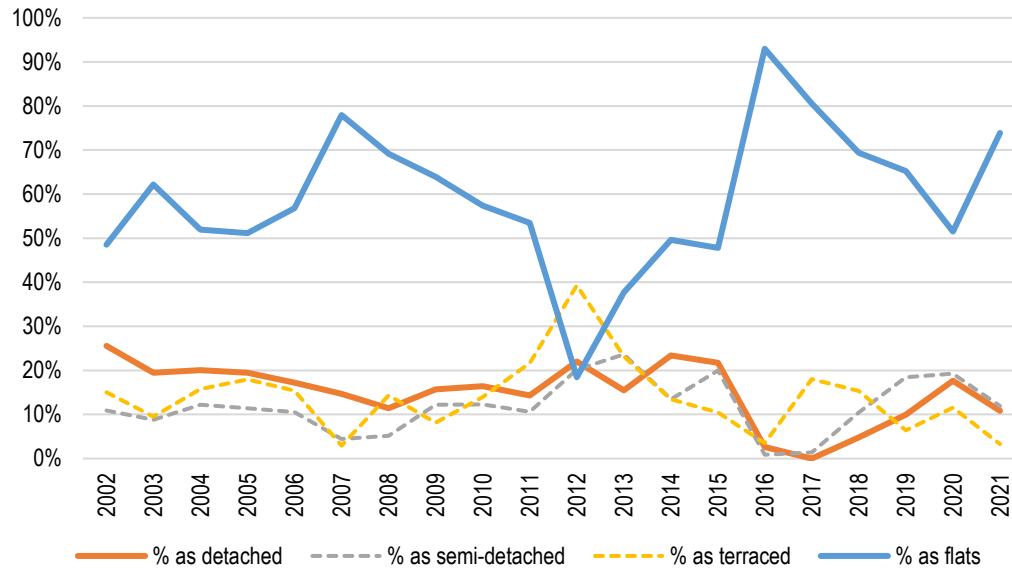
Figure 3.4: Median Price of Existing and Newly-built Homes (2002-2021) – Elmbridge			
	Existing	Newbuild	Newbuild premium
2002	£230,000	£365,000	59%
2003	£250,000	£387,475	55%
2004	£275,000	£370,500	35%
2005	£285,000	£382,475	34%
2006	£312,500	£345,000	10%
2007	£349,950	£322,500	-8%
2008	£380,000	£315,000	-17%
2009	£355,000	£320,000	-10%
2010	£391,207	£432,000	10%
2011	£385,000	£350,000	-9%
2012	£400,000	£460,000	15%
2013	£425,000	£490,000	15%
2014	£450,000	£450,000	0%
2015	£485,000	£697,373	44%
2016	£535,000	£482,950	-10%
2017	£578,000	£515,000	-11%
2018	£566,000	£607,500	7%
2019	£590,000	£399,500	-32%
2020	£600,000	£577,500	-4%
2021	£630,000	£466,000	-26%

Source: ONS small area house price statistics

3.8 The trend shown above is considered unlikely to be pointing to there not being a newbuild premium in Elmbridge and is more likely to reflect the profile of sales in the Borough. This is investigated below, and it should be noted that the locations of homes within the Borough may also have some influence on prices, but it is difficult from the available data to confirm this.

3.9 The figure below shows the proportion of newbuild homes that are of different built-forms, with a particular focus on flats or detached homes – for virtually all years these are the main form of newbuild accommodation in the Borough. From this it is clear that the proportion of flats in the newbuild mix is higher (often substantially higher) than the proportion of detached homes. Generally, the proportion of flats in the newbuild mix has been increasing, with the proportion of detached home declining although the key message to take is that for all years the number of flats is in excess of detached homes.

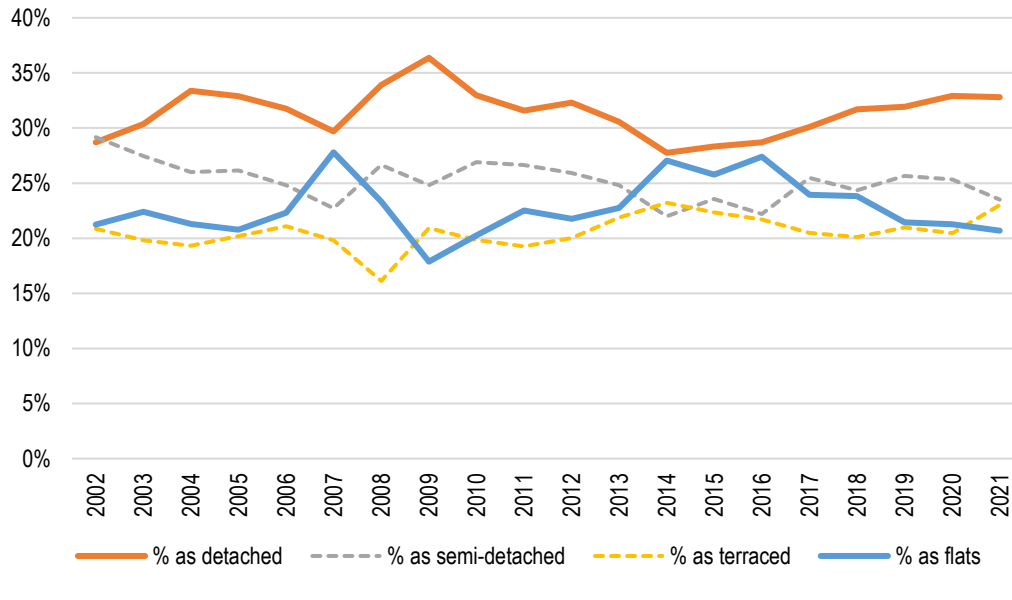
Figure 3.5: Proportion of Newbuild as flats or detached homes (2002-2021) – Elmbridge



Source: ONS small area house price statistics

3.10 We can look at a similar analysis for existing homes and again the focus is on flats and detached homes (although it should be noted that there are a greater proportion of semi-detached and terraces within the existing mix). This shows the opposite pattern, with detached homes having higher sales for all years studied. Taking this and the chart together would point to estimates of a newbuild premium as being heavily influenced by the mix of homes within the newbuild stock.

Figure 3.6: Proportion of Existing sales as flats or detached homes (2002-2021) – Elmbridge



Source: ONS small area house price statistics

3.11 This point can be further investigated by providing a standardised estimate of house prices for new and existing homes based on sales of flat/maisonettes. This dwelling type makes up around 54% of all new sales over the past decade and a median price is included by ONS for all years from their Small area house price data (median prices are missing in some years for all other dwelling types due to a low volume of sales).

3.12 This analysis typically shows a significant newbuild premium, although figures are quite variable from year-to-year. Over the past 5-years the newbuild premium for flats averages 22%, with a figure of 19% over the past decade – pointing to a premium of around 20%.

Figure 3.7: Median price of existing and newbuild flats (2002-2021) – Elmbridge

	Existing	Newbuild	Newbuild premium
2002	£150,000	£300,000	100%
2003	£170,000	£234,000	38%
2004	£185,000	£312,500	69%
2005	£192,500	£280,000	45%
2006	£200,000	£275,000	38%
2007	£230,000	£274,995	20%
2008	£240,000	£250,000	4%
2009	£205,000	£232,500	13%
2010	£228,000	£300,000	32%
2011	£230,000	£149,950	-35%
2012	£235,000	£230,000	-2%
2013	£244,950	£250,000	2%
2014	£250,000	£249,950	0%
2015	£290,000	£382,750	32%
2016	£315,000	£476,475	51%
2017	£320,000	£485,000	52%
2018	£321,000	£399,950	25%
2019	£315,000	£365,000	16%
2020	£327,000	£360,000	10%
2021	£345,000	£377,500	9%

Source: ONS small area house price statistics

3.13 The analysis clearly shows a newbuild premium in the Borough and would suggest if the mix of newbuild housing were to be similar to the current mix of housing then house prices would actually rise as a result of additional delivery rather than fall. Indeed, newbuild homes in the Borough can only be considered as more affordable than the existing stock due to having a very different (and smaller) profile.

3.14 The question here is therefore about the existing profile of stock in the Borough and the table below shows accommodation types estimates from the 2021 Census along with the profile of new build homes over the past decade. This clearly identifies recent delivery as being different to the existing stock prolife of the Borough.

Figure 3.8: Current (2021) stock of housing and past delivery by accommodation type – Elmbridge		
	2021 (Census)	Newbuild delivery (2011-21)
Detached	33%	14%
Semi-detached	26%	15%
Terraced	17%	17%
Flat/Other	25%	54%

Source: Census (2021) and ONS small area house price statistics

3.15 The Census data above is for all dwellings in the Borough, and it needs to be remembered that the affordability and sales data is only for market homes – this can have an impact on dwelling profiles as affordable/social housing typically comprises smaller units. At the time of writing, there was no further detail from the 2021 Census of how accommodation types vary by tenure so the table below looks at data from the 2011 Census.

3.16 This analysis shows the mix of housing in different tenures in 2011. Focussing on the owner-occupied sector shows an even larger profile of homes than for the stock as a whole – some 41% of owner-occupied dwellings were detached, compared with just 14% of market newbuild, whilst 13% of the stock was flats, compared with 54% of new delivery. This analysis clearly shows recent delivery has been built with a profile different to the existing stock in the area.

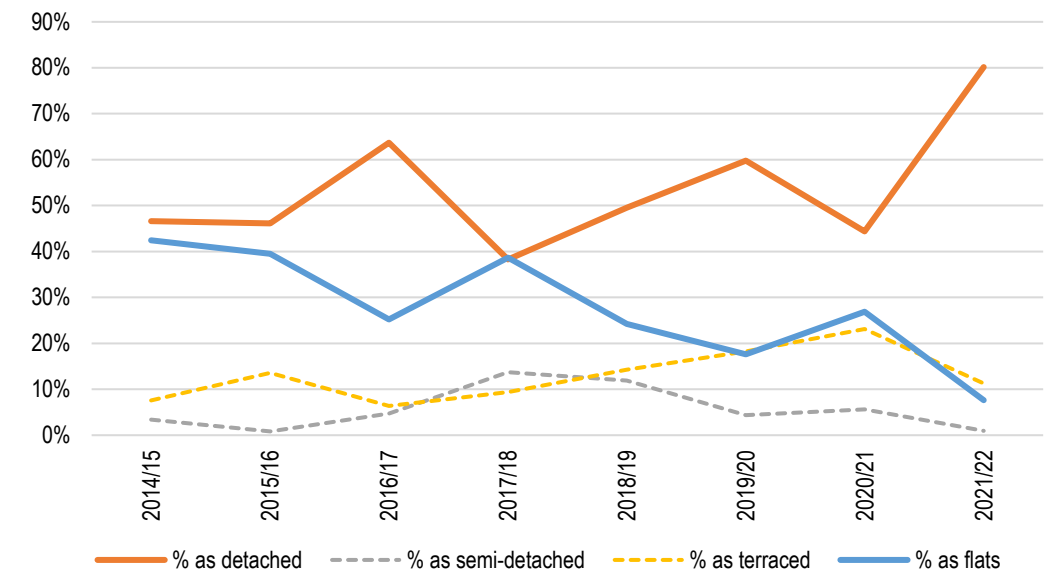
Figure 3.9: Accommodation type by tenure (2011) – Elmbridge				
	Owner-occupied	Social rented	Private rented	ALL
Detached	41%	3%	20%	34%
Semi-detached	28%	27%	16%	26%
Terraced	18%	19%	14%	17%
Flat/other	13%	52%	50%	23%
TOTAL	100%	100%	100%	100%

Source: Census (2011)

3.17 The analysis of sales above is based on data from ONS small area house price statistics, which in turn is taken from Land Registry data. For some years the number of sales (particularly newbuild sales) looks to be quite low and may point to some homes being wrongly classified. The analysis has therefore been supplemented by information from the Council (including data drawn from Annual Monitoring Reports).

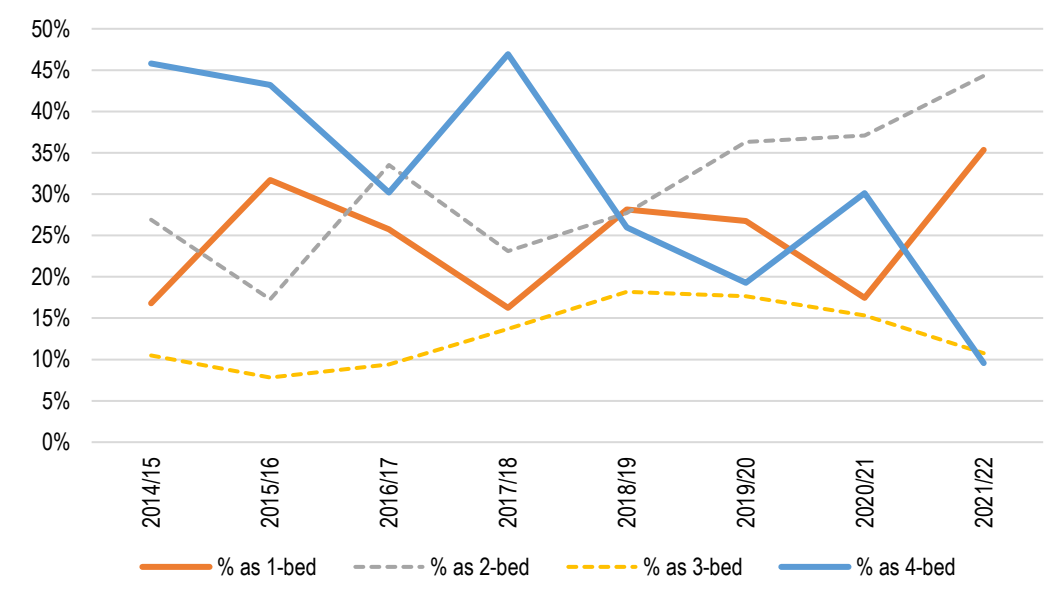
3.18 Detailed information about the mix of new market housing is only available from 2014/15 (up to 2021/22) although data about the number of bedrooms as well as built-form has been provided. The two figures below show trends in built-form and then number of bedrooms – in both cases similar trends are shown to the ONS data, a move towards smaller and flatted development. To some extent this data does point to an 'internal' sift from 2018 onwards where there was stronger support for refusing applications that did not accord with policy nor the Council's evidence base for needing smaller units.

Figure 3.10: Gross new market housing delivery in Elmbridge (2014-2022) – built-form



Source: Elmbridge Council

Figure 3.11: Gross new market housing delivery in Elmbridge (2014-2022) – number of bedrooms



Source: Elmbridge Council

Summary

3.19 Data at a smaller-area level (i.e. for Elmbridge) confirms much of the analysis undertaken at a national level. Key findings include:

- Following the method used by Bramley (which seems to be the main source for the 300,000 homes a year figure nationally) points to a housing need in Elmbridge of around 350 dwellings per annum;
- There is no clear relationship between changes to house prices and the number of homes delivered. Indeed, going back the last 20-years shows those years with the highest and lowest levels of delivery both saw roughly the same change in prices;
- As with other parts of the Country there is a clear newbuild premium in Elmbridge which points to increasing supply actually having the potential to boost rather than reduce house prices; and
- The mix of newbuild homes over the past few years has been very different to the mix of housing in the existing stock (a higher proportion of flats).