



Forest Heath District Market Signals and Objectively Assessed Housing Need

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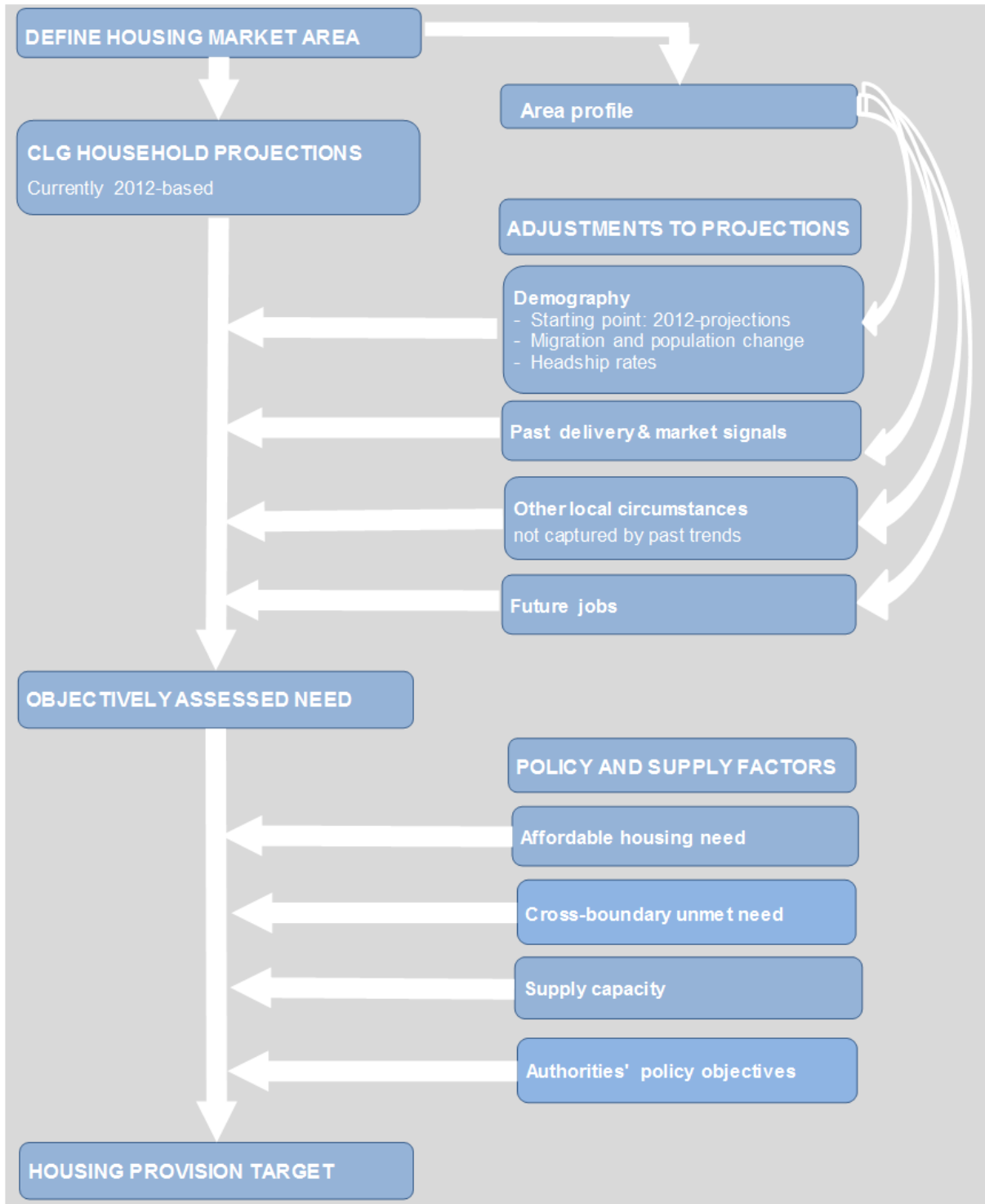
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1 INTRODUCTION

- 1.1 This study was commissioned by Forest Heath District Council to help inform a single-issue review of the district's adopted Core Strategy (2010). The review relates to Policy CS7, which was quashed by a High Court Order in 2011. The policy sets out overall housing provision targets and the broad spatial distribution of housing development. The court order relates to that spatial distribution and does not invalidate the overall targets of 320 new dwellings per annum (dpa) in 2001-21 and 370 dpa in 2021-31. But the Council has resolved to include the overall targets in the review, because they are out of date, being based on the Regional Strategy, which has since been revoked.
- 1.2 In line with the National Planning Policy Framework and National Planning Practice Guidance, local planning authorities should make a full assessment of their housing needs, working with neighbours where housing market areas cross administrative boundaries, and they should meet those needs in full unless they lack the sustainable capacity to do so. The Guidance recommends a method for this assessment and target-setting, which is summarised at Figure 1.1.
- 1.3 The starting point of the assessment should be the demographic projections published by the Department of Communities and Local Government (CLG). These projections should then be tested, and if appropriate adjusted, to ensure that they are a correct reflection of past trends based on the latest available data. The resulting trend-based projection should then be tested, and may be adjusted, for future factors that are not captured by past trends. In particular:
 - If evidence of past provision and market signals suggests that supply historically fell short of need, the trend-based projection will understate the true need and should be adjusted upwards,
 - If supply in line with the projections would not provide enough workers to support the expected growth in jobs, the projection should be adjusted upwards; alternatively there should be other measures to restore the balance of the labour market, such as improvements to transport infrastructure.
 - If the emerging housing number would not provide enough developer contributions to meet the area's affordable housing need, consider an increase so that more affordable housing can be delivered.
- 1.4 In the case of Forest Heath, the Council worked with neighbouring authorities to define the Cambridge Sub-region housing market area (HMA), which comprises all of Cambridgeshire and the western section of Suffolk (Figure 1.2). Housing needs across the HMA were assessed by the 2013 Housing Market Assessment (SHMA).
- 1.5 The SHMA pre-dated the final publication of the PPG and used a different method, which combined demographic projections and labour market calculations rather than considering them sequentially. It concluded that the objectively assessed housing need (OAN) for Forest Heath over the plan period 2011-31 was 7,000 net new dwellings, equal to 350 dpa. The SHMA also estimated that this level of housing

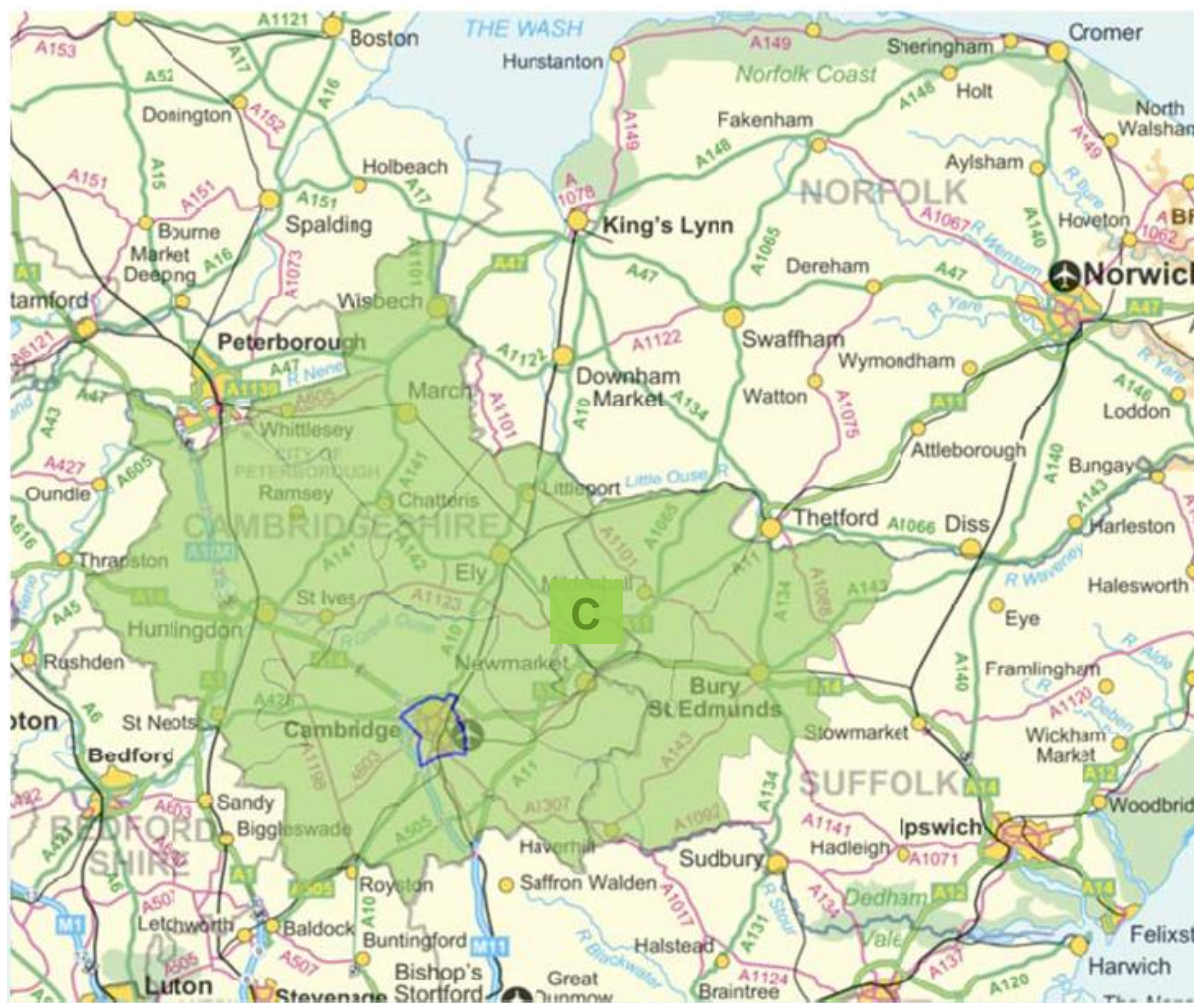
development would be enough to keep the labour market in balance across the HMA, with commuting from other districts offsetting what would otherwise be a labour deficit in the city and South Cambridgeshire. The authorities in the area endorsed the SHMA's analysis and agreed to act on it through the Cambridgeshire & Peterborough Memorandum of Co-operation (2013).

Figure 1.1 Assessing needs and setting targets



Source: Planning Advisory Service, *Objectively Assessed Need and Housing Targets, Technical advice note, 2nd edition, July 2015*

Figure 1.2 The Cambridge Sub-region Housing Market Area



Source: Cambridge Sub-region SHMA 2013

- 1.6 As part of the single-issue review the Council decided to revisit this assessment, using the latest available evidence and the method recommended by the PPG. The new evidence base was commissioned from two separate consultants. The Cambridgeshire Research Group (CRG), part of the County Council, analyses the demographic and labour market evidence. The present study deals with past provision, market signals and affordable need.
- 1.7 The CRG study¹ tests the latest CLG household projection, which is the 2012-based release published in February 2015 and shows growth of 5,940 households over the plan period 2011-31. It concludes that on the information available that projection is the correct demographic starting point. After adjustment for vacant and second dwellings, it produces a housing need of 6,450 dwellings over the plan period².
- 1.8 The CRG also tests the labour market implications of this figure, using the East of England Forecasting Model (EEFM). It estimates that housebuilding in line with the

¹ Cambridgeshire Research Group, *Forest Heath Objectively Assessed Housing Need January 2016*

² Numbers are rounded.

projection would deliver enough workers to match the district's expected job growth, and also to provide additional net out-commuters to Cambridge City and South Cambridgeshire.

- 1.9 In this report we test the CLG 2012 figure of 6,450 dpa against past provision and market signals, to see if it should be adjusted upwards. Section 2 below explains our method Sections 3-5 analyse the evidence and Section 6 draws conclusions.

2 STUDY METHOD

- 2.1 To apply the 'market signals test' correctly, it is important to understand the thinking behind it. This is explained at paragraphs 015 of the PPG:

*'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.'*¹⁸

- 2.2 In other words, demographic projections roll forward past reality – the amount of housing that has been provided in the reference period on which the projections are based. If this past supply met demand (need) in full, then other things being equal the projection should be an accurate reflection of future demand. But if past supply under delivered against demand, then the projection will carry forward that under delivery; therefore it will understate future demand and should be adjusted upwards.

- 2.3 The Guidance goes on to discuss how we can diagnose such under-delivery.

*'The housing need number suggested by household projections (the starting point) should be adjusted to reflect appropriate market signals, as well as other market indicators of the balance between the demand for and supply of dwellings. Prices or rents rising faster than the national/local average may well indicate particular market undersupply relative to demand ...'*¹⁹

- 2.4 It then lists a number of these market signals, comprising mainly price signals (land prices, house prices, rents, affordability) but also indicators relating to the occupation of dwellings (overcrowding, concealed families) and social hardship (households homeless or in temporary accommodation) and adds:

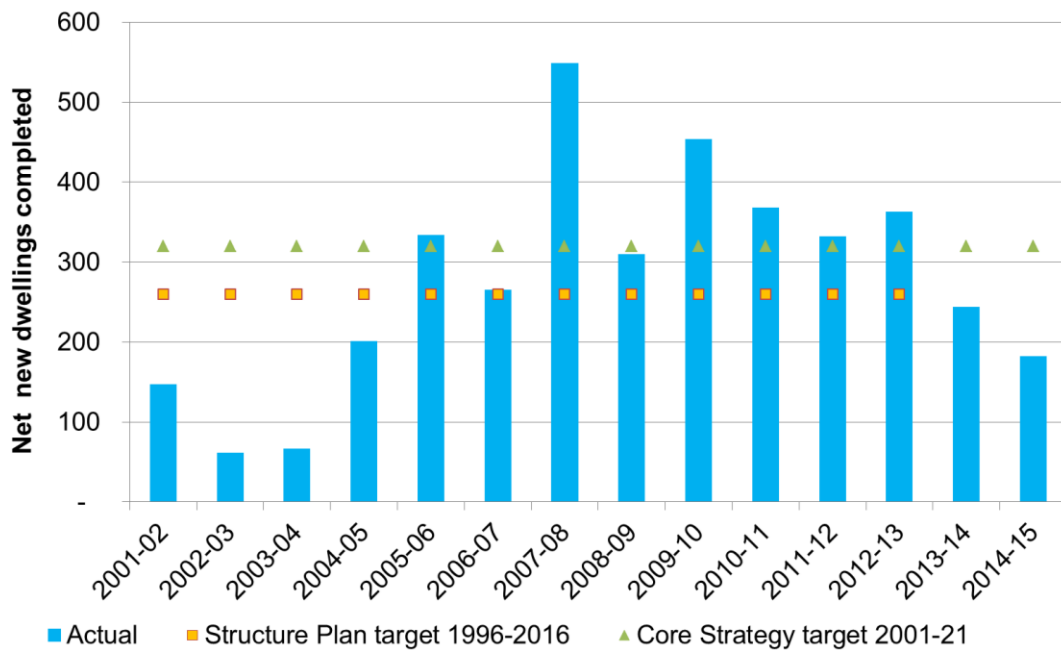
*Appropriate comparisons of indicators should be made. This includes comparison with longer term trends (both in absolute levels and rates of change) in the housing market area; similar demographic and economic areas; and nationally. A worsening trend in any of these indicators will require upward adjustment to planned housing numbers compared to ones based solely on household projections.'*²⁰

- 2.5 Below, we analyse these market signals in Section 4. But first, in Section 3 we look at the direct evidence of past housing delivery, to see if there is any indication that land was undersupplied against demand.

3 PAST HOUSING PROVISION

3.1 Below, Figure 3.1 shows net housing delivery in Forest Heath since the beginning of the century, and Figure 3.2 compares the district's trajectory with those for England and the East of England region.

Figure 3.1 Net housing completions, Forest Heath



Source: District Council

Figure 3.2 Net housing completions, Forest Heath, region and England



Source: District Council, CLG

- 3.2 Delivery in Forest Heath shows much greater changes from year to year than the regional and national totals. This is not surprising, because in the district total numbers are much smaller, and therefore random fluctuations ('noise in the system') are bound to be greater. Leaving aside these year-to-year fluctuations, in general the three series follow similar trends. In Forest Heath, as in England and the East of England, housing delivery rose to a peak in 2007-08 and fell in succeeding years as the recession took hold. Clearly these trends are nothing to do with supply-side constraints. Rather, the downturn from 2008 onwards reflects falling demand due to tighter credit and falling household incomes in the recession and its long aftermath.
- 3.3 However there are two marked differences between Forest Heath and the national and regional trends. The first was a marked dip in delivery, against the national trend, in the two years to 31 March 2004. We do not know the reason for this short-lived downturn. But it has no impact on the 'demographic starting point', because that figure is taken from the CLG 2012 projection, and the base period whose local trends that projection rolls forward only cover the five years from 1 July 2007 to 30 June 2012³. Similarly the scenarios used by CRG to sensitivity-test CLG 2012 exclude the local downturn of the early 2000s⁴.
- 3.4 The second departure from wider trends is more recent: in 2013-14 and 2014-15 completions in Forest Heath continued to fall, while England and the region started a modest recovery. The explanation may be insufficient land supply, due to a planning vacuum in recent years. The 2010 Core Strategy noted that by 2009 the housing sites allocated in the 1995 Local Plan had been exhausted⁵. (This analysis did not count the development capacity identified in the Red Lodge Masterplan as an outstanding allocation, because it already had planning permission.) Accordingly the document noted that to deliver the Strategy would require new land allocations, which would be identified in the emerging Site Allocations Development Plan Document. But this document, now called the Site Allocations Local Plan, is still a work in progress, as the second Issues and Options version was published for consultation in August 2015). Meanwhile housing delivery has been largely on windfall sites, as noted in the Council's 2015 Technical Paper:
- 'Windfall rates in recent years reflect a period of time when the majority of the site allocations from the 1995 local plan were built out, and there was no five year land supply, so a large proportion of sites coming forward were windfall.'*⁶
- 3.5 In recent years Forest Heath has not had an up-to-date local plan, and at times has not had a five-year land supply. In these circumstances, national planning policy says that the local planning policies for the supply of housing should not be considered up to date. In these circumstances, we are informed by officers that the Council has

³ Official demographic estimates and projections relate to the mid-year (30 June), while local authority monitoring data relate to 31 March.

⁴ CRG's '5yr' scenario is based on the change from 2009 to 2014. Its '10yr' scenario is based on change from 2004 to 2014.

⁵ See table on page 55

⁶ Forest Heath District Council, Single Issue Review (SIR) of Core Strategy Policy CS&, *Technical paper to support the overall housing requirement and distribution of the district*, August 2015

approved a number of developer-led applications on unallocated sites. Consequently, despite having no allocations remaining the district since April 2015 has had a five-year land supply against the need of 350 dpa assessed in the Cambridgeshire sub-region SHMA.

- 3.6 In summary, since the beginning of the century housing delivery in Forest Heath has broadly followed the national and regional trend, so annual dwelling completions rose until 2007-08 and subsequently fell as the recession took hold. This time profile reflects changing demand, as incomes and access to credit improved in the long economic boom and then deteriorated in the recession. But in 2013-14 and 2014-15, while national and regional delivery rose gently in the economic recovery, in Forest Heath it continued to fall. This may in part be explained by the lack of sites in the earlier period 2013/14, as the Council did not consider it had a five-year land supply until 2014/15, and also due to slow implementation of sites with planning permission. Windfall proposals helped meet demand but may not have filled the whole gap, especially as Forest Heath is an environmentally sensitive area.
- 3.7 We conclude that in the last two years for which we have data, approximately from April 2013 to March 2015, Forest Heath may have underprovided land against demand. If those two years were a significant part of the base period whose trends the demographic 'starting point' projection rolls forward, an uplift to that projection might be justified. But this is not the case, because the base period of the CLG 2012 projection is much later, starting in 2007. Therefore in our view the history of past housing provision does not justify an uplift to the demographic starting point of 322 net new dwellings per annum.

4 MARKET SIGNALS

4.1 Below, we analyse the main market signals set out at paragraph 019 of the PPG. But we exclude two of these signals:

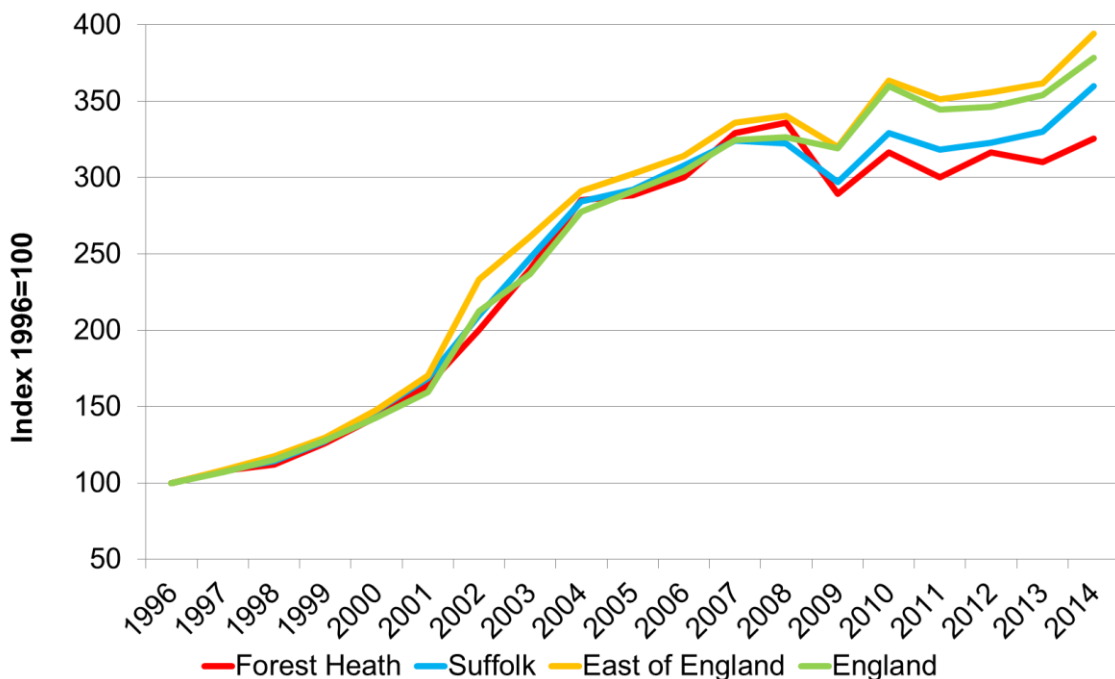
- Land prices, because the necessary data are not available (the statistical series published by the Valuation Office Agency was discontinued in 2010 and there is no alternative source);
- Rates of development compared to previous plan targets, because the discussion at paragraph 019 of the guidance suggests that this item bears on buffers and reserve sites rather than objectively assessed need. (In the last section we have already analysed rates of development, but from a different perspective, assessing them against demand or need rather than earlier targets.)

House prices

4.2 Land Registry data for 2014 show median house prices of £162,500 in Forest Heath, against £217,250 in England, 230,274 in the East of England and £189,143 in Suffolk. Thus, in absolute terms the typical house price in Forest Heath is below all the comparator areas.

4.3 Similarly house price growth in the district has been slower than the comparator areas (Figure 4.1):

Figure 4.1 Median house prices, 1996-2014



Source: CLG, ONS

- 4.4 From the mid-1990 until the pre-recession peak, prices in England, the East of England region, Suffolk and Forest Heath moved almost exactly in parallel. But different areas responded differently to the recession:
- Between 2008 and 2009 the median house price fell more steeply in Suffolk and Forest Heath than in England and the region.
 - From 2009 to 2014 prices in all areas resumed their upward trend. For Suffolk the trend roughly paralleled England and the region. But for Forest Heath the recovery was slower, so it got even further behind the other areas.

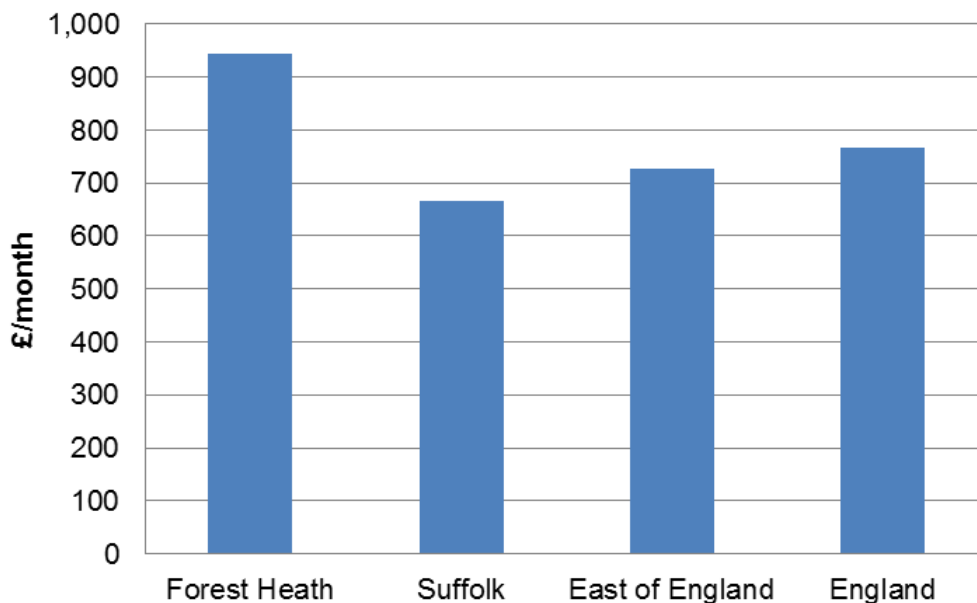
Market rents

- 4.5 Official data on market rents are only available for a short period, from 2011 to 2015, and subject to major caveats. The ONS web page that provides these data warns:

'The sample used to produce these statistics is not statistical[ly valid?] and may not be consistent over time. As such these data should not be compared across time periods or between areas.'

- 4.6 Ignoring this warning, the chart below shows rents for Forest Heath and comparator areas for 2014-15.

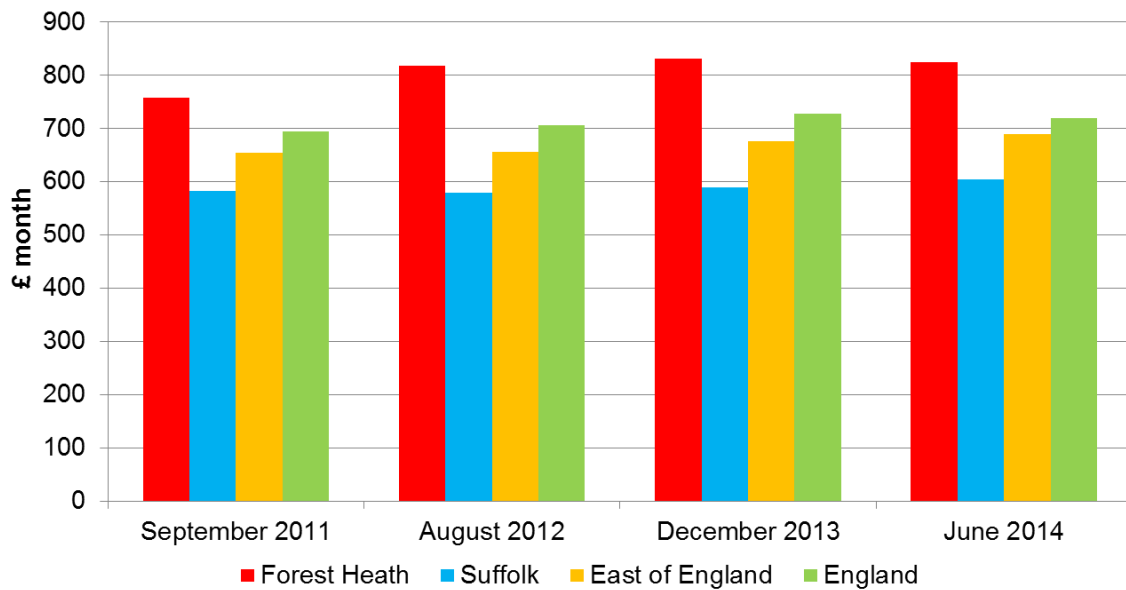
Figure 4.2 Market rents, 1 April 2014 - 31 March 2015



Source: ONS

- 4.7 Rents in Forest Heath, at £943 per month, are considerably above the comparator areas. The district's comparative position was similar at other dates, as shown in Figure 4.3.

Figure 4.3 Market rents, selected dates



Source: ONS

4.8 As well as being unusually expensive, the private rented sector in Forest Heath is unusually large. Official statistics show that 24% of dwellings in the district are privately rented, against 15-17% in the comparator areas. It seems clear that the unusually high rents and the unusually high prevalence of private renting are due to the same cause: demand from members of the United States Air Force in Europe (USAFE) and their dependents who choose to live off-base. USAFE personnel receive grants to cover their rent⁷. At a recent engagement workshop, the following comments were recorded:

- *'... letting agents confirmed that landlords (i.e. property owners) had asked them for advice regarding the current level of demand on private rental properties and an estimation of what this demand would be after the closure of RAF Mildenhall. Letting agents were concerned that the timeline and plans for USAFE withdrawal from RAF Mildenhall were not available and therefore they were unable to advise and reassure landlords without access to this information. Developers and potential investment buyers of new properties (i.e. as buy-to-let) would also want the same information. The impact on existing planned schemes was also queried by one of the groups.'*
- *'There was a view that the cost of renting a property in Forest Heath and surrounding districts is inflated due to the high living allowance received by USAFE personnel. It was therefore predicted that any drop in rental prices due to the net loss of USAFE personnel could have a positive impact on the housing market as rents would become more affordable for civilians. However, the letting agents would have to manage this change and rent expectations with private*

⁷ See <http://www.housing.af.mil/raflakenheath/referralandrelocation/index.asp>

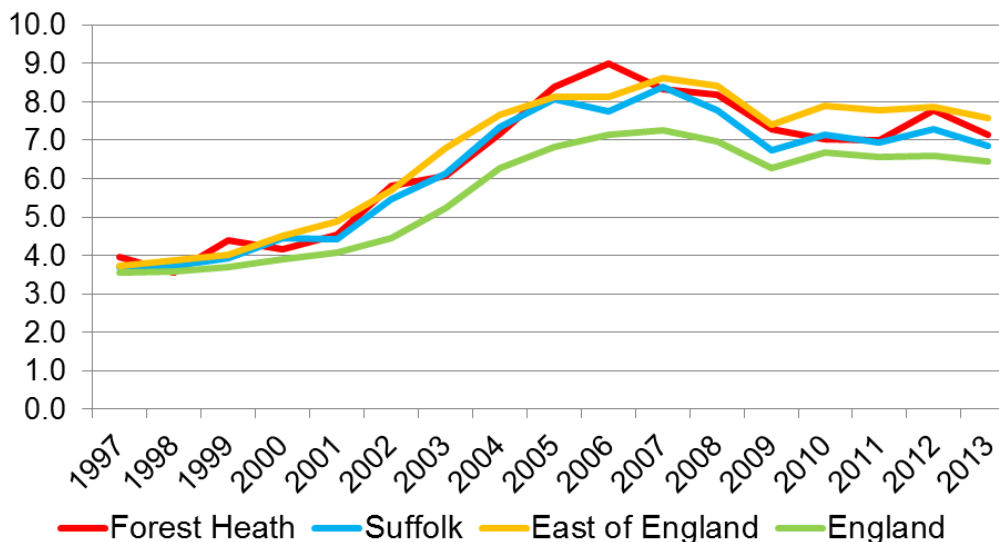
rental landlords, to avoid a loss of confidence and supply, or houses sitting empty.⁸

- 4.9 In summary, there is a dual housing market in Forest Heath. House prices are relatively low, reflecting the ability to pay of the indigenous population, whose earnings are low as we discuss later. But rents are relatively high, reflecting the allowances available to USAFE personnel, which can be used to rent but not to buy property.

Affordability

- 4.10 Affordability, as defined by CLG and referred to in the PPG, is the ratio of lower-quartile house prices to lower-quartile earnings. A high ratio indicates low affordability, where the cheapest dwellings are less financially accessible to people on the lowest incomes. Figure 4.4 shows the index for the study area and comparator areas since 1997.

Figure 4.4 Housing affordability



- 4.11 The latest data available are for 2013. They show affordability in Forest Heath slightly worse than for England, virtually equal to Suffolk and slightly better than the East of England region. Against the England benchmark, the slightly worse affordability in Forest Heath is due to lower earnings rather than higher prices. As shown earlier house prices are below the national average, but residents' earnings are even further behind. In 2014 the average hourly pay for all employees resident in the district was £11.77 and the lowest quartile stood at £7.11, while the equivalent numbers for England were £15.36 and £8.19⁹.
- 4.12 The chart also shows changing affordability over time. In all areas affordability worsened in the boom as house prices rose faster than earnings, and improved in the

⁸ http://www.westsuffolk.gov.uk/Business/RAF_Lakenheath_and_Mildenhall/upload/Impact-on-homes-26Feb15-150326.pdf

⁹ Source: ONS

recession as house prices fell more slowly than earnings and recovered sooner. During the boom affordability in Forest Heath, Suffolk and the East of England worsened more than in England; again this seems due to differences in earnings rather than house prices. In the recession the different areas moved closer together and in the recovery they changed roughly in parallel.

- 4.13 To sum up, affordability in Forest Heath is slightly worse than for England (though not the East of England and Suffolk) and has been so since the early 2000s. The reason is not that houses in the district are relatively expensive (they are not) but that residents' earnings are relatively low.

Overcrowding and concealed families

- 4.14 At the 2011 Census 4% of dwellings in Forest Heath were overcrowded – a greater proportion than Suffolk and the East of England but less than England. Since 2001 overcrowding had fallen in all areas, but the comparative position of the different areas had not changed.

Table 4.1 Occupancy of dwellings, 2001 and 2011

	Forest Heath		Suffolk		East of England		England	
	2001	2011	2001	2011	2001	2011	2001	2011
Under-occupied	77%	73%	82%	76%	78%	72%	75%	69%
Evenly occupied	18%	23%	14%	21%	16%	24%	18%	27%
Over-occupied	5%	4%	4%	2%	5%	3%	7%	5%

Source: ONS

- 4.15 At the 2011 Census 1% of families in Forest Heath were concealed families – which means couples (with or without children) or single parents of dependent children living in someone else's household. The prevalence of concealed families in the district was the same as Suffolk and the East of England, but less than in England. There are no comparable data from the previous Census.

Table 4.2 Concealed families, 2011

	Forest Heath	Suffolk	East of England	England
All families	100%	100%	100%	100%
Concealed families	1%	1%	1%	2%
Unconcealed families	99.0%	99%	99%	98%

Source: ONS

- 4.16 For all areas the great majority of dwellings are over-occupied and the vast majority are families are unconcealed. Therefore the proportions of over-occupied dwellings and concealed families are tiny, and differences between areas are difficult to interpret. Even so, there is nothing in the statistics to suggest that Forest Heath has particularly underprovided housing land against demand or need.

5 AFFORDABLE HOUSING NEED

National guidance

- 5.1 The PPG at paragraph 029²³ advises on how plan-makers should take account of affordable housing need:

'The total affordable housing need should be considered in the context of its likely delivery as a proportion of mixed market and affordable housing developments, given the probable percentage of affordable housing to be delivered by market housing led developments. An increase in the total housing figures included in the local plan should be considered where it could help deliver the required number of affordable homes.'

- 5.2 To understand this advice, we need to be clear about the relationship between affordable and total need. This is a complicated issue, which is discussed at some length in the Planning Advisory Service (PAS) advice note on Objectively Assessed Need and Housing Targets¹⁰, which was written by Peter Brett Associates.

- 5.3 As discussed in the advice note, in the PPG affordable housing need is calculated separately from the OAN – which is overall need, covering all sectors of the housing market:

- The two numbers are not directly comparable, because the methods for calculating them are fundamentally different and they measure different things. While the OAN measures the expected demand for net additional dwellings, affordable need measures policy aspiration for affordable, units only', leaving aside the fact that if this aspiration was fulfilled the demand for market housing would fall.
- Logically, therefore, affordable need, as calculated at paragraphs 022-028 of the PPG, is not a component of the OAN. It cannot be combined mechanically to the OAN as calculated at paragraphs 015-021 of the PPG.
- Rather, affordable need is a separate consideration, which may lead Councils to increase housing targets above the OAN calculated earlier.
- In practice, for many areas there is no realistic prospect of meeting the affordable need in full, because affordable delivery is limited by the finance available from public funds and developer contributions, no matter how much land the planning authority allocates.

- 5.4 As the advice note also shows, the above view of the OAN has been generally supported by planning Inspectors (an especially clear discussion of the issue, not mentioned in the note, is in the Welford-on-Avon appeal decision, December 2012¹¹).

¹⁰ Planning Advisory Service, Objectively Assessed Need and Housing Targets, Technical advice note, 2nd edition, July 2015

¹¹ APP/J3720/A/14/2217495.

It was arguably put in doubt by High Court judgments in the Satnam¹² and Oadby and Wigston¹³ judgments, issued respectively on 19 February and 3 July 2015. But more recently it was reiterated in the King's Lynn High Court judgement issued on 9 July 2015¹⁴. In the King's Lynn judgment Mr Justice Dove 'respectfully disagrees' with an interpretation of the Oadby and Wigston judgment that suggests that affordable need is part of the OAN:

'...The Framework makes clear [affordable housing] needs should be addressed in determining the full objectively assessed need (FOAN), but neither the Framework nor the PPG suggest that they have to be met in full when determining that FOAN. This is no doubt because in practice very often the calculation of unmet affordable housing need will produce a figure which the planning authority has little or no prospect of delivering in practice...'

The evidence for Forest Heath

- 5.5 In the case of Forest Heath, we are advised that the Cambridgeshire Research Group has updated its earlier assessment of affordable need across the housing market area, producing an estimate of 2,638 units over the plan period 2011-31. Policy CS9 of the adopted Core Strategy sets a target of 30% of the housing delivered should be affordable (with lower contributions on small sites and Primary and Secondary Villages). Bearing in mind these reduced contributions, the Council has estimated the most likely delivery from planned allocations made through the Site Allocations Local Plan is expected to be 27% affordable provision (this does not make allowance for provision coming forward through rural exception sites or 100% affordable schemes).¹⁵
- 5.6 Although Policy CS9 was set some years ago, we know that it is still deliverable from the recent CIL Viability Study¹⁶. The study splits the district into high, medium and low-value charge areas, according to house prices. It estimates that even in the low-value area all types of residential development can support affordable housing contributions in line with Policy CS9, as well as S106 and S278 contributions that fully mitigate the site-specific impacts of individual developments and still enable a positive CIL charge to be levied.
- 5.7 Over the plan period, if overall housing development over the plan period is in line with the OAN of 6,800 dwellings and 27% of this total is delivered as affordable units, 1,836 affordable units will be built. This is lower than the affordable need of 2,638 units. Therefore, in line with the PPG the Council should consider if it ought to lift its provision target above 6,800 dwellings.

¹² *Satnam Millennium Ltd v Warrington Borough Council*, [2015] EWHC 370 (Admin), 19 February 2015

¹³ *Oadby and Wigston Borough Council v Secretary of State for Communities and Local Government and Bloor Homes limited*, [2015] EWHC 1879 (Admin), 3 July 2015

¹⁴ *Borough Council of Kings Lynn and West Norfolk v Secretary of State for Communities and Local Government and Elm Park Holdings Ltd*, [2015] EWHC 2464 (Admin)

¹⁵ See http://www.westsuffolk.gov.uk/planning/Planning_Policies/local_plans/upload/SIR-to-CS-CS7-Technical-Paper.pdf

¹⁶ Peter Brett Associates for District Councils, *Forest Heath & St Edmundsbury CIL Viability Study*, forthcoming, February 2016

- 5.8 The answer depends partly on the district's sustainable supply capacity – an issue which has been considered in earlier consultation documents and is not revisited in the present report. It also depends on demand-side capacity, i.e. the capacity of the market to absorb additional housing. In the Welford-on-Avon appeal decision referenced earlier, the Inspector comments on this as follows:
- 'Neither the Framework, nor the planning guidance, expresses a preferred approach in relation to affordable housing. In coming to a view on this, I am mindful of advice in the planning guidance, that the total affordable housing need should be considered in the context of its likely delivery as a proportion of mixed market and affordable housing developments, given the probable percentage of affordable housing to be delivered by market housing led developments. It goes on to advise that an increase in total housing figures should be considered where it could help deliver the required number of affordable homes. It seems to me, however, that this is likely to be a rare circumstance, since it begs the question, since the OAN will, in all likelihood, have captured the full demand for market housing, of who the purchasers be of the additional market houses would be, who would, in turn, be funding the additional affordable housing. If they were to come from outside District for instance, that could have implications in terms of the 'duty to cooperate'. For the purposes of this appeal, a pragmatic approach seems to me, to take a realistic view based on how much affordable housing can viably be provided as part of the overall OAN which may, or may not meet the assessed need for affordable housing. Even if it did not, I am not persuaded, for the reason set out above, that it would be necessarily appropriate to increase the OAN.'*
- 5.9 In other words, given that the OAN already includes all the demand for market housing, if the OAN were to be uplifted to pay for more affordable housing the Council should consider where market demand over and above the OAN would come from. The Eastleigh Inspector, also referenced earlier, raised the same question. He also answered it, pointing out that neighbouring Southampton had a small deficit of housing provision over objectively assessed need. Accordingly he recommended that Eastleigh should accommodate this cross-boundary unmet need, which would be an opportunity to provide some additional affordable units – though not to meet the affordable need in full, which would be unrealistic.
- 5.10 In the case of Forest Heath, no neighbouring authority, either in or beyond the HMA, has asked the Council to accommodate its cross-boundary unmet need. Indeed Forest Heath's partners in the HMA have agreed a Memorandum of Co-operation which does not require cross-boundary transfers. If Forest Heath nevertheless were to provide housing land in excess of its OAN, this could adversely affect demand and hence the take-up of allocated sites elsewhere in the HMA, contrary to the Memorandum and the wider Duty to Co-operate.
- 5.11 In summary, therefore, from a market perspective it does not seem advisable to lift overall housing provision above 6,800 dwellings in order to provide more affordable housing.

6 CONCLUSIONS

- 6.1 Our analysis of past provision and market signals suggests that there is little justification for an uplift to the demographic projections. In the base period whose trends the projections roll forward, 2007-12, the evidence mostly suggests that housing land supply has met demand. But there is one indicator that points in the opposite direction: the exceptionally high level of market rents, which is due to demand from USAFE personnel and their families. Arguably this could justify a 'market signals' uplift to the demographic projections, although the link between the private rented sector and overall housing provision is not clear. If the Local Plan had provided more housing land in the past we cannot be sure that the supply of rented housing would have been higher and rents would have been lower.
- 6.2 Even assuming that a market signals uplift is appropriate, it is difficult to determine the size of that uplift. The PPG provides no meaningful guidance on this::
*'Market signals are affected by a number of economic factors, and plan makers should not attempt to estimate the precise impact of an increase in housing supply. Rather they should increase planned supply by an amount that, on reasonable assumptions and consistent with principles of sustainable development, could be expected to improve affordability, and monitor the response of the market over the plan period.'*²¹
- 6.3 Given that the PPG is silent, the only indications on the size of any uplift come from the Planning Inspectorate. Three Inspectors examining Local Plans have advised on this matter. We summarise their findings below.
- 6.4 In Eastleigh, the Inspector noted that affordability had worsened more than the national average and rents had risen more than the average (we cannot tell how Forest Heath compares, because it is not clear what periods the Inspector was referring to). On this basis he concluded that *'a cautious approach is reasonable bearing in mind that any practical benefit is likely to be very limited because Eastleigh is only a part of a much larger HMA... Exploration of an uplift [to the demographic projections] of, say, 10% would be compatible with the "modest" pressure of market signals'*.
- 6.5 In Uttlesford, the Inspector mentioned that house price increases had been slightly less than for Essex and England but from a very much higher base (for comparison, in Forest Heath house price increases have been less than comparator areas and from a much lower base). He also noted that median rents were higher than these comparators and had risen faster (the position Forest Heath is similar); and affordability had risen to a much higher peak prior to the recession (again Forest Heath is similar). *'Taking in the round'* these market signals as well as affordable need, the Inspector advised an uplift of 10%. He did not apportion the uplift between market signals and affordable need.
- 6.6 In Canterbury, the Inspector focused on three main market signals:
- Median house prices 12% above the national average (for comparison, as noted earlier Forest Heath house prices are well below the average);

- House price growth some 20 percentage points above the national average (again Forest Heath is below the average);
 - Affordability ratio consistently above the national benchmark - currently 9 against 6.5 for England (the ratio for Forest Heath is 7).
- 6.7 The Canterbury Inspector recommended an uplift of 30% to take account of these market signals, together with future jobs, affordable housing need and a post-recession recovery in national household formation rates. The Inspector noted that these four factors overlapped and did not apportion the uplift between them.
- 6.8 From the three cases discussed above we cannot draw definite conclusions about the correct market signals uplift for Forest Heath. This is partly because the evidence used in Eastleigh, Uttlesford and Canterbury is not directly comparable: the indicators used are not always the same, some are measured as absolute levels and others as rates of change, they refer to different dates and are compared with different benchmarks. A further difficulty is that only one of the three Inspectors, in Eastleigh, provides an uplift for market signals alone. In the other two areas the adjustments they propose also take account of affordable need, future jobs and the impact of the recession on household formation.
- 6.9 In short, the size of any market signals uplift cannot be simply inferred from earlier examples; it also requires judgment. In our judgment the supply-demand imbalance reflected in the demographic projections for Forest Heath is less than for Eastleigh and Uttlesford and far less than for Canterbury. Therefore we suggest a market signals uplift of 5%.
- 6.10 On this basis the district's objectively assessed need is 6,800 net new dwellings over the plan period 2011-31, equal to 340 net new dwellings per annum (dpa). The discussion in Chapter 5 above suggests that it is not advisable to increase this number in order to meet more of the affordable housing need.
- 6.11 The objectively assessed need of 340 dpa is fractionally below the 350 dpa calculated in the Cambridge Sub-region SHMA (2013). This reduction will not have a significant impact on the demand-supply balance for the rest of the housing market area, as calculated by the SHMA and endorsed in the 2013 Memorandum of Co-operation. Given that the assessed need has not increased, there is no reason why Forest Heath would want to export unmet need to other parts of the HMA.