APPENDIX C

Housing market signals

This paper sets out contextual information relating to the housing market within North Somerset. The core principles in the National Planning Policy Framework state that local authority’s plans should take account of market signals. The draft National Planning Practice Guidance expands on this, and advises how market signals should be taken into account. It states: ‘the housing need number suggested by the 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 the supply of dwellings’. It goes on to list market signals that may be relevant and says that ‘prices or rents rising faster than the national/local average may well indicate particular market undersupply relative to demand’.

House building - recession and recovery

Housing completions in North Somerset fell to 515 dwellings in 2011/12, the lowest recorded since 1991/92. The following graph shows the pattern of recovery, following on from high levels of completions in the 1980s followed by the recession of the 1990s.

North Somerset Dwelling Completions 1981 to 2013

Immediately prior to the 1990s downturn, completions averaged 1,119 dwellings per annum (1981/82 to 1988/89). From 1990/91 to 1995/96 completions fell to an average of just 595 per annum. This was followed by a period of gradual recovery while the market regained its momentum, between 1996/97 and 2000/01 completions averaged 839 units per year. From 2001/02 to 2007/08 the market was back at full strength and completions averaged 1,208 dwellings a year.

For 2013 as a whole, construction output across the UK rose by 1.3%. However, despite the recent recovery in the sector, the ONS noted that “output in the construction industry remains well below the pre-downturn peak in 2007”.
Past housing completions against targets

North Somerset has met its previous plan targets and does not have a record of past under delivery. The previous Replacement Local Plan and Joint Replacement Structure Plan targets were met within the timeframes specified.

Land prices

Data available from Communities and Local Government on residential land values is available at regional level. Unsurprisingly, this shows the obvious premium for land in London, but outside the capital, the fluctuations over time have been consistent and follow the same trend of upward growth through the 90s and beyond to a peak in 2007/08 followed by sharp decline and then a stable lower trend thereafter.

Average valuations of residential building land with outline planning permission

Research undertaken by Savills in 2013 shows that greenfield land values across the UK still stand at 32% below their peak, with urban values still less than half their pre-crunch peak.

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1 Source: CLG Live table 563

2 Source: Savills Research, Market in Minutes, Uk Residential Development Land
http://www.savills.co.uk/research_articles/141558/146005-0
Property sales and home ownership

Property sales within North Somerset have fallen in recent years, in line with the completions figures. This is in direct relation to the wider issues of financial availability.

Property sales – North Somerset

Despite this, North Somerset still has relatively high levels of home ownership. At the time of the 2011 Census 73.5% of households within North Somerset were owner occupied, compared to just 63.5% nationally. Both of these figures are around 5% down since 2001. 32,474 of our 88,227 households currently own their homes outright.

2011 Census tenure of households

<table>
<thead>
<tr>
<th>England and Wales</th>
<th>North Somerset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned outright</td>
<td>30.8%</td>
</tr>
<tr>
<td>Owned with a mortgage</td>
<td>32.7%</td>
</tr>
<tr>
<td>Shared ownership</td>
<td>17.6%</td>
</tr>
<tr>
<td>Social rent</td>
<td>16.7%</td>
</tr>
<tr>
<td>Private rent</td>
<td></td>
</tr>
<tr>
<td>Living rent free</td>
<td></td>
</tr>
</tbody>
</table>
Housing market finance

Mortgage lending and finance availability are significant factors affecting housing completions in previous years, and this is expected to continue. Recent figures from the Council of Mortgage Lenders show how sharply lending has fallen nationally since the peak in 2007.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>277,342</td>
</tr>
<tr>
<td>2004</td>
<td>291,249</td>
</tr>
<tr>
<td>2005</td>
<td>288,280</td>
</tr>
<tr>
<td>2006</td>
<td>345,355</td>
</tr>
<tr>
<td>2007</td>
<td>362,758</td>
</tr>
<tr>
<td>2008</td>
<td>253,980</td>
</tr>
<tr>
<td>2009</td>
<td>143,825</td>
</tr>
<tr>
<td>2010</td>
<td>135,342</td>
</tr>
<tr>
<td>2011</td>
<td>141,290</td>
</tr>
<tr>
<td>2012</td>
<td>143,143</td>
</tr>
<tr>
<td>2013</td>
<td>176,675</td>
</tr>
</tbody>
</table>

Total gross lending gives the total value of loans secured on dwellings that are newly advanced by institutions in the period.

Mortgage availability for first time buyers has increased during 2013 when compared to 2012, although is still lower than pre-recession. The following graph shows first time buyer lending figures for the UK.

Number of loans advanced to first-time buyers per quarter

[Graph]

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When compared to home movers who are already on the ladder, the same level of increase has not yet been seen. This can be attributed to the government's help to buy scheme, which is in its second round. This has artificially stimulated the first time buyer sector of the market, by assisting with initial finance, but this will not continue indefinitely.

### First-time buyers, lending and affordability (2013 overall)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of loans</th>
<th>Value of loans £m</th>
<th>Average loan to value</th>
<th>Average income multiple</th>
<th>Proportion of income spent on interest payments</th>
<th>Proportion of income spent on capital and interest payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>268,800</td>
<td>36,100</td>
<td>80%</td>
<td>3.33</td>
<td>11.8%</td>
<td>19.3%</td>
</tr>
<tr>
<td>Change from 2012</td>
<td>23.3%</td>
<td>31.3%</td>
<td>80%</td>
<td>3.26</td>
<td>13.2%</td>
<td>19.8%</td>
</tr>
</tbody>
</table>

### Home movers, lending and affordability (year-on-year)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of loans</th>
<th>Value of loans £m</th>
<th>Average loan to value</th>
<th>Average income multiple</th>
<th>Proportion of income spent on interest payments</th>
<th>Proportion of income spent on capital and interest payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>336,200</td>
<td>57,600</td>
<td>70%</td>
<td>2.93</td>
<td>8.9%</td>
<td>18.4%</td>
</tr>
<tr>
<td>Change from 2012</td>
<td>3.0%</td>
<td>7.1%</td>
<td>70%</td>
<td>2.90</td>
<td>10.1%</td>
<td>19.2%</td>
</tr>
</tbody>
</table>

A significant number of households are still struggling with finance, and the following graphs show the UK profile of mortgage arrears and repossessions.

Arrears on mortgages, by percentage of total balance in arrears

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Affordability, house prices and rent

House prices fluctuations in North Somerset have followed the same broad pattern as the rest of the West of England local authorities and England as a whole, as shown below.

There are no significant differences between North Somerset and the wider housing market area in terms of how the recent recession has affected house prices. Bath and North East Somerset displays relatively higher prices, but the median prices from the other three authorities do not show a marked difference from the national average.

Source: CML Research http://www.cml.org.uk/cml/media/press/3817
The pattern of affordability ratios over time also follows the same trend as the national picture and other West of England local authorities. Again, Bath and North East Somerset shows a relatively higher affordability issue, but North Somerset is lower than the South West average, slightly higher than Bristol and similar to South Gloucestershire, as shown below.

16.2% of North Somerset’s households currently rent privately, compared to 16.7% nationally, compared to 11.3% and 11.9% respectively in 2001. The social rented sector currently accounts for 9.2% of North Somerset’s households, compared to 17.6% nationally, and no significant change in this sector has been seen between 2001 and the 2011 Census.

Average property rents within the area currently stand at £764, with a median average of £550\(^9\). This is a similar level to the South West average, which has fallen over the past year, as shown in the map below\(^{10}\).

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\(^9\) Source: [http://www.home.co.uk/for_rent/current_rents_by_town.htm](http://www.home.co.uk/for_rent/current_rents_by_town.htm)

\(^{10}\) Source: [https://homelet.co.uk/rentalindex/regional-map](https://homelet.co.uk/rentalindex/regional-map)
January 2014 Rental Index UK Regional Map

The regional map shows the monthly and annual changes in agreed rental amounts for each region of the UK.
Other factors influencing house building

Major building projects elsewhere, such as the Hinkley power station site in Somerset, will impact on labour force availability and the supply of construction materials. This is a concern of major house builders as well as the council.

The following graph is taken from a presentation by EDF energy to the council in 2011 and shows the projected workforce for the Hinkley project, which at its peak will require around 5,600 workers in total.

Household occupancy levels and overcrowding

Average household size within North Somerset is 2.3 people per dwelling. At the time of the 2011 Census, the proportion of households within the district that were deemed to have fewer bedrooms than required when taking into account household structure was just 1.9%, compared to 4.7% across England and Wales as a whole. In North Somerset, 77.3% of households in fact have more bedrooms than technically required, compared to 69% nationally.

At the time of the 2011 Census, 745 families within North Somerset were recorded as concealed families. This means that 1.2% of all families are not recognised independently within the household structure as they share a household. The proportion across England and Wales as a whole is higher, at 1.8% of families. It should be noted that this statistic does not necessarily mean that all of these households require dwellings, they may be in this position through choice.
**Summary**

The table below shows each of the categories of market signals suggested by the draft National Planning Practice Guidance, and a summary of the analysis.

<table>
<thead>
<tr>
<th>NPPG category</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land prices</td>
<td>The residential land price data available is reported at regional level. London prices are significantly higher than elsewhere, as expected, but elsewhere within the UK fluctuations over time have been consistent and follow the same trend of upward growth through the 90s and beyond to a peak in 2007/08 followed by sharp decline and then a stable lower trend thereafter. There is no reason to suggest that North Somerset is significantly different to the general trend and therefore no adjustment to the housing requirement should be made on this basis.</td>
</tr>
<tr>
<td>House prices</td>
<td>Given the recent recession conditions, the house price indicators remain unstable. House price fluctuations in North Somerset have followed the same broad pattern as the national average and the rest of the West of England, with the exception of Bath and North East Somerset where prices are higher. Given that there is no marked difference from the current national average or the trend over time, there is no reason to suggest an adjustment to North Somerset’s housing requirement because of local house prices.</td>
</tr>
<tr>
<td>Rents</td>
<td>The private rented sector within North Somerset has grown during the recession, like the national proportion of households within this tenure. Average rental prices are similar to the regional average. The UK rental index by region does not show rising rent levels in the South West, rather they declined by 4.8% during 2013, the biggest decrease of any UK region. These indicators do not currently show a need to adjust North Somerset’s housing requirement.</td>
</tr>
<tr>
<td>Affordability</td>
<td>The ratio of lower quartile house prices to lower quartile earnings has been monitored along with a suite of indicators relating to finance availability. Nationally, whilst finance for first time buyers became more readily available during the past year, home movers did not benefit in the same way. Total gross lending is still significantly lower than the peak. The pattern of lower quartile house prices to lower quartile earnings within North Somerset follows the same trend as other West of England authorities, the regional average and the national figures. This evidence shows no justification for making any adjustment to overall housing provision within the district.</td>
</tr>
<tr>
<td>Rate of development</td>
<td>North Somerset has consistently met previous house</td>
</tr>
</tbody>
</table>

Rate of development
building targets. Dwelling completions fell sharply following the peak in 2007/08 and are now beginning to stabilise. Construction activity across the UK is now beginning to rise, although output in the construction industry remains well below pre-recession levels. Other factors outside of the council’s control may impact of labour force availability and the supply of construction materials, which may cause problems for local house building. There is no evidence at this stage to suggest revising, either upwards or downwards, the overall housing requirement for North Somerset on this basis.

| Overcrowding | When comparing local household structures and occupancy levels with the national picture, North Somerset displays significantly lower than average overcrowding problems. The proportion of families deemed ‘concealed families’ is also lower than average. There is no need to make any revision to the North Somerset housing requirement on this basis. |