

# How Many Houses Should We Plan For?

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## Synopsis

The National Planning Policy Framework (“NPPF”) and associated planning guidance places a great deal of weight on household projections as the starting point for establishing housing targets in local plans, but we know from the past record of these projections versus outturns that there is much scope for error. Despite this, lengthy justifications for particular numbers are produced for local authorities. This paper takes an overview of the present state of local plans in Hertfordshire to illustrate how the projections have been taken into account, and importantly, suggests that nevertheless the total of the present plans at the moment is rather below the household projections for the county.

To make matters worse, econometric modelling at the national level tends to suggest that new supply would need to be at a higher rate than household projections to improve affordability. Some suggestions are made for how planning could be made more flexible. The NPPF is a good step forward in many ways, but by focussing too much on localism, the reference to “need” rather than “demand” and placing too much weight on household numbers, it risks perpetuating planning’s tendency to become self-referential.

## Introduction

The NPPF states:

“... local planning authorities should use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area, as far as is consistent with the policies set out in this Framework ...”<sup>1</sup>

This statement begs a number of questions. For example, just how wide is the housing market area? It also provides an opportunity for local authorities to argue (appropriately in some cases) that they are too sensitive in environmental or landscape terms to meet “needs” in full. These are important issues. However, in this paper I am going to focus on the phrases “evidence base” and “full, objectively assessed needs for market and affordable housing”. In that sense this is a narrow paper, which does not attempt any commentary about how to select particular sites.

Further detail on how local authorities should go about assessing need appears in the Planning Practice Guidance.<sup>2</sup> Perhaps the most helpful sentence of this is the first; “Establishing future need for housing is not an exact science”. Marrying up the question of an inexact science with an “objectively assessed” need sounds pretty tricky. The first clue as to how this inexact science should be tackled is: “Household projections published by the Department for Communities and Local Government should provide the starting point estimate of overall housing need.” A literature has of course already developed on this, in particular the Technical Advice Note from the Planning Advisory Service.<sup>3</sup> This has an excellent description of the way in which “need” and “demand” (which were previously distinguished in Planning Policy Statement 3) have become conflated into a rather ill-defined term “need” in the NPPF and accompanying guidance.

<sup>1</sup> NPPF, DCLG, March 2012.

<sup>2</sup> Planning Practice Guidance at <http://planningguidance.planningportal.gov.uk> [Accessed October 7, 2015].

<sup>3</sup> Peter Brett Associates, “Objectively Assessed Need and Housing Targets: Technical Advice Note” Planning Advisory Service, June 2014.

Below I discuss:

- The history of population, and then household, projections for England and their use in planning policy.
- Whether household projections could be expected to be a good guide to the numbers of dwellings that should be supplied at regional or local level.
- Trends in household size.
- An analysis of the present approach to planning for housing across Hertfordshire and a crude assessment of its adequacy.
- The implications of econometric modelling of the housing market for the role of household formation in housing demand.
- Summary and a possible way forward which focuses on demand and social outcomes rather than need and housing numbers.

Many of the arguments in this paper are not new, but rather a continuation of points made in the 2004 Barker Review of Housing Supply (“the Review”) and the follow-up work.<sup>4</sup>

## Population and household projections

In 2007, the Office for National Statistics (“ONS”) published an article looking back at population projections for the UK in the post-war period, which concluded that there were some very large errors in the projections.<sup>5</sup> For example, in 1965 the population of the UK was projected to be 75 million by 2000. The actual outturn was 59 million, much of the error being due to an overestimate of the birth rate. Migration projections, as might be expected, have also been a major source of error. During the last 50 years of the 20th century, the mean absolute error for the UK population was 0.5 million after eight years, although this includes the very large error mentioned above. There is some evidence that more recent projections have shown smaller errors, but even if we assume the average error may be smaller in future (say 0.25 million), do a back-of-the-envelope calculation to adjust this to England rather than the UK, then divide by 2.25 to give a household estimate, this suggests that household projections would be expected to be wrong by 84,000 after 8 years, with uncertainty about whether the outturn would be larger or smaller.

Uncertainty about population is exacerbated by uncertainty about what will happen to household size. The Town and Country Planning Association has helpfully published a number of articles, often co-authored by the late Alan Holmans whose grasp of these issues remains unsurpassed, on the questions of household projections for England. One of these looked back at the trends between the 2001 and 2011 Censuses, and forward to 2031.<sup>6</sup> The 2011 Census revealed that, compared with the 2008-based projection (which had as its underlying starting point the 2001 Census), there were 287,000 (around 1.3 per cent) fewer households in England than had been projected. Household types also showed large errors, for example, there were nearly 1 million fewer one-person households. These errors were entirely due to problems with projections for the numbers of *households*; the *population* projections used in 2008 were an under-estimate compared with the 2011 Census total.

Looking at the reasons for the household errors, Holmans attributes this in part to the larger proportion of migrants in the population, who tend to have a larger average household size than the domestic population. This could be expressed as lower *household demand* than expected.

However, other reasons for the error could be described as suggesting *suppressed* demand. The ONS has recently suggested about 90,000 more young people annually are living with their parents. Assuming

<sup>4</sup> K. Barker, *Delivering stability: securing our future housing needs*, HM Treasury, (2004).

<sup>5</sup> C. Shaw, “Fifty years of UK national population projections: How accurate have they been?” *Population Trends* 128, Office of National Statistics, 2007.

<sup>6</sup> A. Holmans, “New estimates of housing demand and need in England 2011–2031 [2013] *Town and Country Planning* Vol.82 No.9.

that these young people might otherwise have lived in shared households with an average size of three, this would readily account for 30,000 fewer households forming each year, or 300,000 over a decade, about the same as the 2008-based error. This is probably coincidence; it is likely that the error reflects a number of partly offsetting factors.

ONS household projections are not forecasts, as their statistical release makes clear:

“The assumptions underlying national and population projections are based on demographic trends. They are not forecasts as, for example, they do not attempt to predict the impact of future Government policies, changing economic circumstances or other factors that might have influence (on) household growth.”<sup>7</sup>

It is not surprising, therefore, that the projections are subject to considerable variability, reflecting changing economic and other factors. The table below shows how the projections have developed over time, in the light of Census data, economic developments and, crucially, the rate of new housebuilding.

**Table One: Household Projections for England<sup>8</sup>**

Projection date	Period	Annual household projection
1999	to 2014	150,000
2004	to 2021	189,000
2006	to 2026	209,000
2007	to 2026	223,000
2009	to 2031	252,000
2010	to 2033	232,000
2013 (interim)	to 2021	221,000
2015	to 2037	210,000

The statistical release describing the most recent projections includes the comment that the average conceals expectations that household growth will be faster in the early years (218,000 to 2017) but have slowed to 189,000 by 2032. It also mentions a key sensitivity which is what happens to household size. If the same household size model had been used in the 2015 version as in the interim 2013 version, then the household projections would have been reduced by 20,000 in the early years.

Variation in household projections has tended to be more extreme at regional level. For example, in 2006 the household projections for the North West were 28,300 annually, but just two years later this had fallen to 21,700, a reduction of almost a quarter. This means that household projections for a region or a local authority are subject to at least three kinds of uncertainty: uncertainty about population growth; uncertainty about household size; and uncertainty about inward/outward migration from/to other areas of England.

## Household size

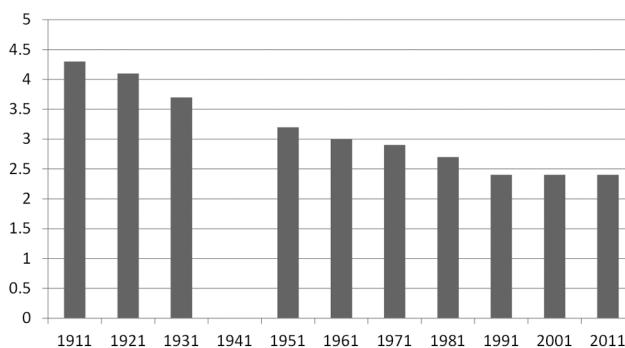
Figure One<sup>9</sup> shows what has happened to average household size in England and Wales according to successive Censuses—a close approximation for what has happened in England alone.

<sup>7</sup> Department for Communities and Local Government, “2012-based Household Projections: England 2012–2037” (2015).

<sup>8</sup> Source: ODPM/DCLG household projections, successive editions.

<sup>9</sup> Source: ONS, Census data for England and Wales.

**Figure one**  
**Average household size**



The big picture is obviously that household size fell pretty steadily from 1951 to 1991, but has since been fairly flat. In the light of this, it is mildly surprising that the 2015 household projections release includes the comment: “As expected, household numbers grow faster than population reflecting the continuing trend of smaller average household size.”

The question of household size is sometimes raised by those who consider the chatter about needing to build more is mistaken. For example, Andrew Lilico dismisses the whole idea that we have not been building enough houses by comparing the surplus of dwellings over households in successive Censuses.<sup>10</sup> In fact, I would agree with his view that we do not, as yet, have a “housing crisis”, a term which seems to be overused. But while I have sympathy with many of his comments, they don’t take account of the idea that a fall in household size might be what people would prefer, and that by failing to build more, this preference is being denied. Sound reasons are needed to deny these preferences, and in addition there are important distributional questions. Of the 1.1 million households who are overcrowded, most are in the rented sector and are less well-off.

Another way to look at this question might be to compare changes in household size in the United Kingdom with those in other major European countries. According to Eurostat, over the past 10 years or so household size has fallen from 2.3 to 2.2 in France, and from 2.1 to 2.0 in Germany. The United Kingdom is unusual, though not unique, among EU countries in having a static household size.

Bramley has criticised the use of household projections for potential circularity at least since 1995.<sup>11</sup> This certainly applies to comments on the past. It’s clearly circular to argue that we must have built enough new dwellings because there hasn’t been a faster growth in households than dwellings; although it is good that any under-building has not resulted in a large growth of homelessness.

## Use of household projections in plans

While the latest planning guidance lays stress on household projections, it also discusses a range of adjustments that should be made in arriving at “objectively assessed need”. The rationale for adjustments could relate to migration flows, a large employer arriving or leaving, a significant recent change in the housing stock or demographic changes. In addition, employment trends and market signals could be

<sup>10</sup> A. Lilico, “There is no UK ‘housing crisis’ and there never was one” (2015) CapX. While the title of his article refers to the UK, the substance mainly refers to England—but everyone who talks about housing slides between these two, including me. This paper also dismisses the crisis on the grounds that the data private rents have been falling in real terms since the financial crisis, and were flat in real terms for several years ahead of it. However, there have been a number of queries raised about the ONS rental series; it has been revised up once and uncertainty remains.

<sup>11</sup> e.g. G. Bramley, “Are Household Projections Self-Fulfilling?” Memorandum to House of Commons Environment, Transport and Regional Affairs Committee, 1998.

considered. The latter includes land prices, house prices, rents, trends in planning applications, affordability and clear indicators of unmet need, such as overcrowding.

All these factors suggest that assessing housing targets is much more complex than just using the household numbers. Even a cursory glance at local planning documents suggests that the work done to support housing needs assessments remains pretty extensive. It is also rather various. To explore this issue further, I have looked at plans across Hertfordshire. This county was selected slightly randomly: it is close enough to my home for me to know a bit about the places and is obviously an area facing possible inward migration from London. There are 10 planning authorities in the county at various stages of local plan development. Some of the plans reflect the policies prevailing prior to the NPPF, whereas others are in the throes of adapting to it.

An initial observation is that the local plan itself is not that prominent on most of the websites, and nor is it always crystal clear what the latest state of play is. A number of authorities state that their timetable for plan development is under review, and generally there is an impression that this exercise is taking longer than anticipated. Below is my best attempt to summarise the situation across the local plans, and the content and approach of the supporting Strategic Housing Market Assessments (“SHMAs”). There should be apologies in advance as I may not have done full justice to the work done, or in some cases not managed to find exactly the right document but these are honest errors.

### *Broxbourne BC*

Broxbourne is consulting on its local plan, aiming for pre-submission in early 2016 with adoption of the plan in 2017. The latest SHMA was produced in 2013, and quotes the NPPF extensively. Perhaps oddly, it does not seem to start from the Department for Communities and Local Government (“DCLG”) household projections, but develops its own from the East of England employment projections. The latter are used with assumptions about migration to develop population projections and then household projections which do take account of DCLG projections for household size. The SHMA runs to 163 pages, including a rather unnecessary account of the global financial crisis and stakeholder discussions which tell of the short-term but have little bearing on long-term planning.

The outcome is a recommendation to plan for 250 new homes a year with no range offered. Despite quite a high level of overcrowding it is suggested there is no backlog. The DCLG household projections for the next 10 years suggest just over 350 new homes per year.

### *Dacorum BC*

Dacorum adopted a Core Strategy in 2013. In terms of housing, the plan was based on the pre-NPPF London Commuter Belt (West) SHMA conducted in 2008, with adjustments to reflect concerns over protecting the green belt, landscape and other environmental issues. This SHMA started from the (now revoked) East of England plan, which suggested 680 homes each year needed to be built up to 2021.

However, the figure proposed by the council in the Core Strategy is just 430 a year, to reflect the concerns mentioned above. The Inspector allowed the adoption of the Core Strategy only on the grounds that the Council committed to an early review (due for the full local plan in 2017/2018). There was a legal challenge to this decision, in part on the grounds that the 2008 household projections were for 538 households annually. This challenge was rejected in June 2014. The latest 2012 projections suggest a figure of just over 710 for annual household growth to 2022.

### *East Hertfordshire DC*

According to the latest information, the District Plan for East Herts will be submitted in 2015 (although it was hard to discern the timing). The housing numbers in the 2014 consultation document were for 750 new homes a year to 2031. The London Commuter Belt (East) Sub-Region SHMA, prepared by Opinion Research Services and published in March 2013, was referred to in order to justify that figure. Looking at a period to 2033, this SHMA seems to suggest a number close to 850 a year for East Herts. Meanwhile, the 2012 household projections suggest around 820 for the next 10 years.

The plan consultation does not make clear how the 750 figure emerged, although it is pretty much in line with the DCLG 2011-based projections. Apart from the SHMA, the Council had a paper from the University of Cambridge which suggested planning towards the top of a range extending to 17,000 over 20 years (850 annually), but also that there was no strong reason in planning guidance terms to move away from the household projection number.

### *Hertsmere BC*

Hertsmere adopted its Core Strategy in January 2013. It includes planning for 250 houses a year to 2027 and strong support for retention of the green belt. Paragraph 2.29 of the Core Strategy states:

“The existing infrastructure of the Borough would not be able to support significant additional housing development over and above the 15 year housing target set out in paragraph 2.26. In terms of transportation, the South West Hertfordshire area is one of the most congested parts of the region, with no major new road and other transport infrastructure schemes proposed in the area. Additional dwellings will also put pressure on existing healthcare, schools and libraries as well as utilities.”

In light of the upward revisions to the household projections and emerging policy, the Inspector, while finding the Core Strategy sound in December 2012, argued against the view that it would not be possible to accommodate any more dwellings than the above, and further suggested that 250 should be regarded as a minimum. It was suggested, similar to Dacorum, that the Council should commit to a partial review after three years. On that basis the Core Strategy was adopted.

### *North Hertfordshire DC*

North Herts issued a draft local plan in December 2014 with housing targets to 2031. The intention is to submit the plan later in 2015, with the aim of adopting the new plan in 2017. On housing targets, the proposal has shifted a long way from the Council’s February 2013 consultation paper, which recommended 10,700 new dwellings over the 2011 to 2031 period. The draft local plan suggests 14,200 over the same period, including a re-drawing of green belt boundaries and provision for 2,100 homes as Luton spillover. Further, there is a suggestion that additional homes might be allocated within North Herts to accommodate the needs of Stevenage.

In June 2015, an updated SHMA for North Herts and Stevenage was produced by Opinion Research Services. This started out from the DCLG population projections for the two councils of 1,064 households forming a year and then took a different view of migration trends to conclude that 960 households (986 dwellings) was the Objectively Assessed Need for the two together. The basis for the lower number was the use of longer term migration trends, which were asserted to be “the most reliable and appropriate demographic projection”. This SHMA also concludes that the new labour arriving will be appropriate for the projected jobs growth.

The SHMA also discusses market signals, remarking in particular the increase of over 1,000 in overcrowded households between 2001 and 2011. Taking this and other signs of growing housing market

stress into account, the conclusion is that 1,085 dwellings a year are needed between the two authorities. For North Herts the answer is 720. This is very similar to the 710 per year suggested in the draft local plan and the approximately 690 latest household projections for 2012–2022. The document broadly follows the methodology in planning guidance and the Planning Advisory Service’s Technical Advice Note. The only exception is the use of longer-term migration trends to adjust the DCLG projections downwards.

### *St Albans DC*

The St Albans website indicates that the intention was to submit the Strategic Local Plan in 2015, adopt it in 2016 and then adopt a detailed local plan in 2017. However, the website also states that this timetable is out of date and being amended. The present local plan dates from 1994.

It is not entirely easy to understand the Council’s present view on housing from the website. Notably, St Albans consulted on a target of an extra 250 houses per annum as recently as 2011. The SHMA in 2013 (all 274 pages of it) suggested a target of 586 houses per annum. The 2014 draft plan talks of 436, which was the lowest of the alternatives suggested in the SHMA. This alternative was based on using a longer period than the previous five years to judge how migration may develop. The latest DCLG projections are much higher at around 650 houses per year. The lower local numbers seem to be based largely around concerns over the green belt, which is extensive and performing the desired role of keeping settlements distinct in many places. Responses to the Council’s consultation indicated that even the lower number of 436 attracted quite a lot of opposition.

The present position appears to be that the Council has asked for more work to be done on the SHMA, which presumably is one of the factors behind the expected delay to the timetable.

### *Stevenage BC*

Stevenage adopted its local plan in 2004. It is now working on a plan for the area up to 2031. The present timetable, set out in a very clear and helpful local development scheme, moves towards adoption of the plan in 2016. In common with some of the other Hertfordshire councils, there has been a reassessment of housing numbers as government policy has emerged.

Stevenage consulted on its emerging plan in 2013, receiving just 188 responses (not all from the local area) despite there being 35,000 households in the borough. The range of questions was extensive and included some (such as what proportion of new supply should be affordable housing) which would be difficult for most members of the public to answer sensibly. In fact, only 19 respondents answered this question. The consultation also included a question about the annual housing target, with choices of 140, 265 and 330. Of those expressing a view, most preferred the lowest option.

As commented above, North Herts and Stevenage jointly commissioned an updated SHMA in 2015. For Stevenage, the outcome was similar to North Herts in coming back to a number close to the household projections, having looked at all the considerations suggested by national guidance. This figure is 365 homes per year.

Consequently, Stevenage published a consultation asking if residents preferred 265 homes a year as a target, or 380 with the latter involving some development of the green belt. The Council recommended the second option. The consultation, which included a strong statement about the benefits of a higher rate of housing supply, closed on July 27, 2015.

### *Three Rivers DC*

Information about the latest housing numbers is particularly hard to find on Three Rivers DC’s website. However, the position seems to be that, following a favourable report by the Inspector, a new Core Strategy

was adopted in October 2011, covering the period to 2026. This was before the NPPF had come into consideration. The proposed 180 dwellings a year was accepted by the Inspector in 2011. I have not been able to find any references on the Three Rivers website to this being revised upward; at the time it was 20 dwellings a year lower than the allocation proposed in the East of England Regional Spatial Strategy (“RSS”) before it was revoked.

In the 2010 London Commuter Belt West SHMA (which runs to 253 pages), the recommendation was for a similar number, but with the additional requirement being purely for affordable housing. This was based on the 2006 household projections. There does not seem to be any reference on the Council’s site to an update of the plan, even though the latest household projections are for rather more than double that number.

### *Watford BC*

Watford adopted a Core Strategy in early 2013 which included a minimum of 260 new housing supply each year for 2006–2031. This figure was based on the 2006 household projections and the proposal in the East of England RSS. The Inspector’s report on the Core Strategy points out that this figure was below the latest household projections and discusses a challenge from Stevenage, who argued that Watford was not taking its share of the county’s housing pressures. The Inspector found the plan sound with the inclusion of comments about a commitment to future joint working and a future review of housing requirements: “Even though these modifications do not refer specifically to an updated SHMA or give a precise timetable for any Plan review ...”

In the Council’s more recent consultation on the Local Plan Pt 2, the same number for housing delivery seems to be used. Since more than half of the 25 year target was built between 2006/2007 and 2013/2014, the target for the remainder of the period only averages about 190 new dwellings per year. It is hard to find any reference on the site to an update of the 2008 SHMA, although there is a reference to conducting a new SHMA in conjunction with neighbouring authorities. In the light of the 2012 household projections for Watford, which suggest around 530 new households each year, this seems quite striking.

### *Welwyn Hatfield BC*

Welwyn Hatfield is in the course of producing a plan to 2031, which it proposes to submit towards the end of 2015. In 2011, the Council carried out a consultation called “How Many New Homes?” which suggested scenarios for annual new supply ranging from 146 homes per year up to 720. The consultation attracted 941 responses, of which the majority (and a petition) supported the lowest number.

However, the Council’s recent consultation on the local plan proposed 635 new homes a year, following the conclusions of a thorough, if long at 372 pages, SHMA produced in 2014. Looking at the consultation responses, the balance of opinion was for a lower number, although again the number of responses was not large.

### *Hertfordshire: Some tentative conclusions*

Just looking at the numbers, the current state of play seems to be that the number of new dwellings planned in total for the 10 authorities is around 4,300. The latest household projections for 2012–2037 (note that the plans mainly run to 2031, but the household projections don’t seem to alter much here in the later years) for the county is around 5,712. Although this suggests only 75 per cent of expected household growth will be met, if these plans were fulfilled the rate of new supply would still be very much higher than the recent completions data, as over the four years to 2014/2015 this averaged 2,350.



This suggests that even achieving the planned number would be a very significant challenge. It is worth noting that if a rate of new supply in line with the household projections were built out steadily over the next 25 years at a density of 30 per hectare, this would take just 2.9 per cent of the area of Hertfordshire. There would be an additional amount needed for schools, roads and other infrastructure, but, the latter requirement depends more on population growth than on new housing. If the population rises but is housed less generously, pressure on infrastructure will be similar.

Not all of the SHMAs used the household projections in the manner recommended by the present planning guidance. It is, however, welcome that some discuss a range of new supply rates, as it should be clear from the earlier discussion that these trend projections are subject to considerable uncertainty. Uncertainty is rightly stressed in most of the SHMAs. Of course, the total rate of new supply is not the only question these documents have to answer, but nevertheless some of them seem to be of disproportionate length. The recent SHMA update for Stevenage and North Herts, produced by Opinion Research Services in June 2015, follows the guidance closely and is just 62 pages.

However, if some of the SHMAs seem overly long given that they are considering an inevitably uncertain topic, some councils' justification for using a different number is very short. St Albans, for example, justify their lower number of 436 (compared to 586 in the SHMA) on the basis of using a 10-year, rather than 5-year, period for the estimate.

The other issue which emerges from reading these plans and the related Inspectors' reports is that the "Duty to Cooperate" is being applied rather unevenly. All the councils have talked to each other, and joint SHMAs are usual. But only in some cases is there clear evidence of other areas accepting neighbouring councils' overflow pressure. In the case of Watford, there is a decision not to co-operate with Stevenage. This puts a lot of pressure on the Planning Inspectors to try to get the regime to work across housing market areas. With different Planning Inspectors in the same area, there are clear dangers from a lack of coordination.

There is one further oddity worth remarking on. Although it is tangential to the topic of this paper. The West London Commuter Belt SHMA is dated 2008, but the final report was produced in 2010. It is referred to several times above and underlies several of the present housing targets, though of the six authorities it covered (Dacorum, Hertsmere, St Albans, Three Rivers, Watford and Welwyn Hatfield) at least two (St Albans and Welwyn Hatfield) have reassessed their housing targets subsequently.

In line with the guidance for SHMAs prior to the 2010 Coalition Government, West London Commuter Belt SHMA contains a long analysis of the requirement for social rent and intermediate housing. While this is thorough, it does not seem to be a very dynamic market assessment, and it reaches the quite striking conclusion that of the new supply across the six authorities, 27 per cent needs to be social rent, 38 per cent intermediate and just 35 per cent market. The SHMA goes on to recognise the viability issues that may prevent this mix being delivered. Given market dynamics, uncertain income levels of migrants and the role of housing benefit, it is unclear that strong conclusions can be reached. However, this SHMA early on makes a good distinction between need and demand, as indeed did the (now redundant) PPS3.

## **The view from econometric modelling**

In 2004, as we approached the end of the work on the Housing Supply Review, the targets contained in it for England were challenged as they were rather higher than the (then) household projections. The targets were based on the outcomes of work carried out for the Review by Geoff Meen, starting from a top-down econometric modelling viewpoint. This kind of approach was then used by the National Housing and Planning Advice Unit ("NHPAU"), which was set up as a result of the Review and disbanded by the coalition government. The papers published by the NHPAU are a valuable source for this alternative approach, and also for the DCLG Affordability Model.

In 2008, the DCLG published a paper by Geoff Meen and others which updated this model.<sup>12</sup> The introduction to that paper points out that if you are concerned with affordability, this is a very different approach from seeking to match numbers of new households with new units. It raises questions about vacancies, demolitions and second homes which are not always considered. Meen's paper focused, as the Review had done, on how much new supply was needed to improve affordability, based on the population projections around at the time (presumably the 2004-based, which for England were 223,000 per year).

The equations for house prices in the model have explanatory variables including households, earnings, interest rates and the user cost of housing. The conclusion was that 180,000 new homes a year would be insufficient to improve affordability, but that 240,000 new homes (somewhat above the household projections) would improve affordability by 2031 for first-time buyers by around one percentage point in terms of house price/income ratios, and add two percentage points to the owner-occupation proportion. Less improvement, proportionately, was estimated from going on to 290,000 new homes per year. More improvement in affordability is gained if the new homes are built in the areas where demand is rising more strongly.

The results from these models have to be regarded as uncertain. This paper has already discussed how uncertain household projections are. Income/earnings growth can also be very unpredictable, especially over short periods of two to three years, and estimation of user cost is fraught with difficulty. But the overall conclusion is clear: income levels matter when considering how many houses to build, if we care about affordability for putative home-owners. It is also evident that significant improvements take a very long time to appear.

In modelling work for the Office for Budget Responsibility, Auterson concludes that the income elasticity of demand for housing services is 2.5 (rather stronger than Meen, who estimated 2.1).<sup>13</sup> Although his article talks about housing services, it seems to look at house prices in the usual sense, i.e. it does not investigate the issue of the price of space which might also be important. The Auterson paper also stresses the investment role of housing, and the importance of including expected capital gains in the equation. It is possible that a role for expected capital gains would tend to mean that at higher rates of housebuilding, house prices might rise less quickly relative to all the other variables, due to reduced price expectations. However, it is some decades since the rate of new supply in England has been sufficiently high to test this.

The significance of income growth in constructing planning targets seems to have become rather lost since the Review. Despite the efforts of the NHPAU, the 2007 document which set out Labour's housing policy at that time referred mostly to household growth, though the 240,000 target picked up on the modelling and was somewhat above household projections at the time of 223,000.<sup>14</sup>

While the NPPF and the subsequent re-write of Planning Practice Guidance both mention market signals, neither clearly mention responding to rising incomes. Similarly, while the SHMAs for Hertfordshire refer to employment prospects, they also do not mention incomes levels very much except in terms of assessing the requirement for affordable housing. And in retrospect, and to my regret, it was not sufficiently discussed in the 2004 Review.

If the econometric modelling is correct, this would suggest that the housing targets at present for Hertfordshire, and very likely in other parts of England too, are further away from those which would be needed to improve housing affordability than is apparent from just looking at the household projections.

<sup>12</sup> G. Meen, "Recent Developments in the Communities and Local Government Affordability Model" (2008).

<sup>13</sup> T. Auterson, "Working Paper No.6, Forecasting House Prices" Office for Budget Responsibility, 2014.

<sup>14</sup> DCLG, *Homes for the future: more affordable, more sustainable*, CLG Cm.7191 2007.

## Conclusions

### *The present situation*

Since being asked to lead two reviews, on housing supply and on land use planning, in the mid-2000s, I have thought a great deal about how planning and economics interact now, and how that might be improved. Economic policymakers spend a great deal of time thinking about the future. Monetary policy is often rightly described as being carried out on a forward-looking basis, and we are all familiar with the medium-term fiscal plans. Similarly, businesses will plan ahead at least one year and more usually three or five. In my years in Ford of Europe, we developed economic forecasts and planned car production for 15 years ahead.

But neither economic policymakers nor business strategists expect the future to develop exactly along forecast lines. Policies and strategies will be adapted each year, and often during the year, as circumstances change and as tax receipts or demand for a product fail to behave in line with past experience. These changes are not necessarily regarded as failures. If the response is made successfully, the long-term goals for economic policy (fiscal sustainability and low, stable inflation) and those for business (usually profitability and market share) can still be achieved.

This is all much harder when it comes to planning for housing. One reason is that the goals of the community are often not clear and may be self-contradictory, for example, seeking more affordable housing as well as retention of any green belt land, no expansion of villages and no pressure on infrastructure. In addition, when circumstances are not as expected, it is more difficult to adapt a plan which may have taken two or three years to prepare and involved a good deal of consultation. For housing development in particular, new supply tends to self-regulate downwards, but if target numbers are insufficient to meet rising demand pressure the mechanism to respond does not work so well. Finally, housing is a slow burn matter. Pressure of demand will not be immediately apparent, large increases in supply will take time, and poorly-situated or badly-designed development stands as a reproach for many years.

The question that plans are seeking to answer in terms of housing targets is not an easy one. However, the SHMAs often seem over-elaborate, without sufficient stress on the wide uncertainties that exist. The consultations which councils base on SHMAs rarely talk about either the outcomes which are desirable in the local housing market in terms of affordability, or about the possibility that the targets might need to be changed in response to economic circumstances. There is a lot of discussion about rather small variations, given the uncertainties, and some of the consultations give the impression that they are looking for the smallest number they can get away with. Pressure on infrastructure also often comes from numbers of people, rather than numbers of housing units, and this point is not always given full recognition.

### *Possible improvements*

Easy to critique present practice, but how might this be improved? There are two ways in which the NPPF might be made more helpful to planning for housing. A good first step would be to reinstate the word “demand” into the planning guidance. The other change is more complicated and more controversial, which would be to strengthen the duty to cooperate or require explicit planning for housing market areas. However, given the length of time taken to produce a set of new plans this might not be easy to graft onto the present system.

Plans could be made explicit in suggesting that in good economic times, housing development might be permitted at a rate which ran up to 20 per cent above the central point trajectories. Greater land supply release would send strong signals about future market developments. Local authorities would, of course, rightly continue to direct where development took place in order to cope with the infrastructure needs and protect sensitive sites and places. The aim would be becoming rather more responsive to demand (not

need). Housing development is not, of course, like car production. Supply responds more slowly and there are more reasons to manage demand.

An alternative would be to adopt the suggestion in Cheshire and Sheppard, which is to consider the price differentials between plots of land zoned for different uses as a “material consideration”.<sup>15</sup> Above some threshold, this would create a justification for more land being converted to the high price uses (at present this would generally be to housing, although it is worth pointing out that in the 1980s and early 1990s residential land prices had not moved away so sharply from industrial/commercial).

In addition, to go back to the recommendations of the Review, local authorities should discuss what the outcomes for affordability might be from different rates of new supply more often. There may be reasons to manage demand, but the implications for first-time buyer prospects and rents should be considered. Consultation work indicates that people then better understand the choices and trade-offs for their communities. Simply saying that more affordable housing is needed will not fit the task and risks attempting to use housing to compensate for unequal income distribution.

Despite the NPPF’s focus on economic development, it is arguable that it has still not overcome the tendency for planning for housing to be circular. Future household growth is predicated on the past, and success is judged by whether the plan is delivered. These issues are not new, as is clear from the references given above. There is a risk that this will simply mean what many already term a “housing crisis” will continue to worsen, especially when local plans are all in place (if ever!) and there is no ability to appeal on the basis of failure to demonstrate five-year land supply. The potential for adverse effects on growth prospects are well-known.

<sup>15</sup> P. Cheshire and S. Sheppard, “The introduction of price signals into land use planning decision-making: a proposal [2005] *Urban Studies* 42/4.