

MODELLING FUTURE MARKETS IN NEWCASTLEGATESHEAD

MARCH 2008

This groundbreaking research was undertaken for Bridging NewcastleGateshead (BNG) during the summer and autumn of 2007 on 'Modelling Future Markets' by the School of the Built Environment, Heriot-Watt University, Edinburgh. It develops and adapts existing models of the housing market at both sub-regional and ward level to provide forecasts of key market outcomes over the period 2005-2018.

The outcomes forecast include house prices, affordability, new building and demolitions, migration and household formation, vacant housing, changes in home-ownership and poverty levels.

Importantly, the projected impact of different scenarios and levels of interventions (such as new build, demolition and environmental improvements) on these outcomes are demonstrated for NewcastleGateshead, other parts of Tyne and Wear and the North East, the North West and England as a whole.

Market Prospects – assuming a 'status quo'

Migration: Migration rates in recent years reflect high international in-migration, particularly to Newcastle. The forecast shows annual fluctuations but with Newcastle broadly neutral and Gateshead moderately positive. Both authorities, but particularly Newcastle, will tend to lose 'core' age households (those aged 30-44), but gain younger and international migrants.

Households: Gateshead and Newcastle are forecast to grow at close to the Government's official projected rate, with 6,000 and 10,000 extra households respectively over the period 2000-2016 (performing better than the rest of Tyne and Wear in this respect).

RESULTS SUMMARY

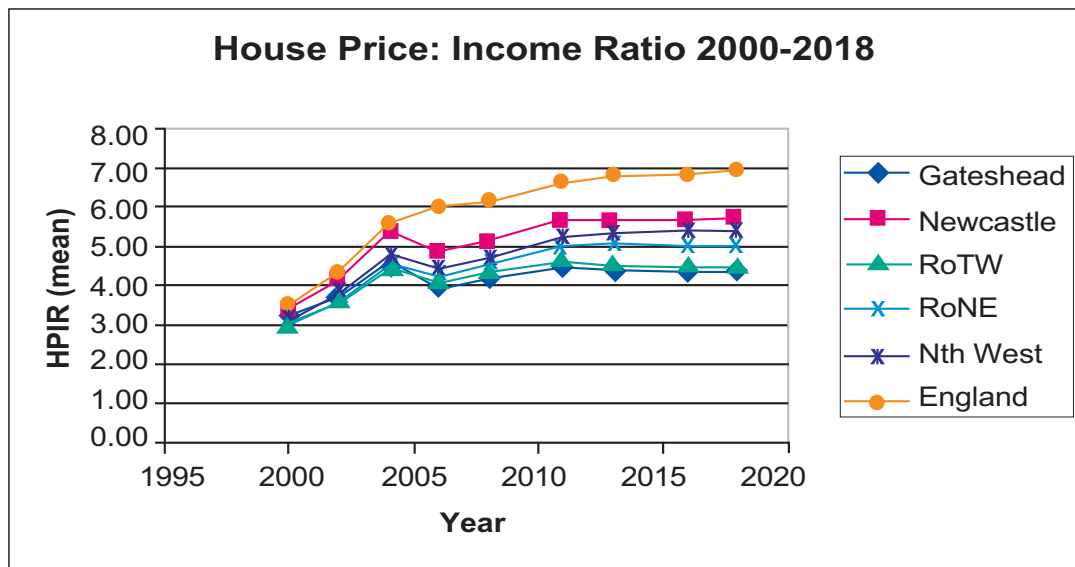
Key Points

- House prices will rise more moderately in the coming period than they did up to 2006
- NewcastleGateshead will continue to grow in terms of household numbers, while still seeing some loss of 'core' age households (headed by those aged 30-44) to surrounding areas
- Higher economic growth would increase prices, without worsening affordability, but as a standalone initiative, would not necessarily attract more households to NewcastleGateshead
- Increased land supply would increase new building and reduce price rises, improving affordability, whilst also increasing household numbers
- The benefits of Housing Market Renewal activity include more stability in house prices, greater household growth and lower vacancies
- BNG 'areas of change' will see substantially more home ownership, less poverty, less flats and less vacant housing by 2018
- A larger programme of comprehensive housing market renewal would increase the extent of these changes, further increasing migration and household growth for NewcastleGateshead while only raising prices slightly
- A lack of future investment in market renewal would leave 'areas of change' close to their current state.

Demolitions are expected to continue to play a significant role in NewcastleGateshead.

Vacancies are expected to fluctuate but generally to fall from their current high point by 2018. Social sector household turnover is forecast to fall initially and then level off at a rate above the national average.

House prices rose steeply in the period to 2006; after a pause to 2008, growth is expected to resume at a more moderate rate thereafter, but NewcastleGateshead prices will not rise as much as national figures up to 2018. Affordability will worsen slightly to 2011 and then improve slightly in Gateshead while remaining static in Newcastle, with Newcastle having worse affordability throughout (although still more affordable than average for England).



The impact of different scenarios on the future market

Economic Growth: A higher economic growth scenario would push up house prices 13-14% by 2016, whereas a low growth scenario would see prices rise by 7-8% less than in the baseline (roughly in line with incomes). Higher economic growth would raise net dwelling growth, but would have little net effect on migration or household numbers, so vacancies would be somewhat higher as a result.

Housing Land Supply: The amount of extra land released is much greater than the amount of extra units completed due to a delay-factor in bringing land forward. However, a high land supply scenario would raise new build rates by 25-30%, and this would reduce prices (and improve affordability) by 6-9%.

High land supply would raise net in-migration significantly, resulting in 2,000 extra households in each authority by 2016, but it would also raise vacancy rates by up to a quarter and social sector turnover by a small amount.

Comprehensive Renewal: A comprehensive package of high market renewal intervention in BNG would have a small positive effect on prices by 2016 (2-3%), but a rather larger positive impact on migration and household growth (2-3,000 extra for each authority). Vacancies would rise initially but then fall slightly by 2016, as would social sector household turnover. A 'policy off' scenario of minimal intervention would have broadly opposite effects, leading to a relative demographic decline but with limited effects on prices, affordability and turnover.

High renewal intervention and high growth in land supply: Combining high intervention with high land supply (in line with the draft 'Growth Point' bid for NewcastleGateshead) would mean a sharper dip in the rate of house price growth up to 2016, more net in-migration and household growth (1-2% more households by 2016), though vacancies would be 10% higher as a result.

Ward Level Prospects - baseline

This part of the research concentrated on local markets, wards and BNG's 'areas of change', where regeneration activity by BNG and partners is focused, and how these are likely to respond to different types and levels of intervention:

New homes: New housebuilding output will be concentrated in certain 'areas of change' within the BNG pathfinder area, particularly those close to the city and town centres. These areas will tend to see greater change across a range of market outcomes.

Tenure change: BNG areas will see drops in the proportion of social renting and significant rises in private renting. Starting from a very low base (around 40% across the BNG area as a whole and as low as 20% in some areas) owner occupation will rise by 6.8% points in the 'areas of change' by 2018 compared with very little growth nationally.

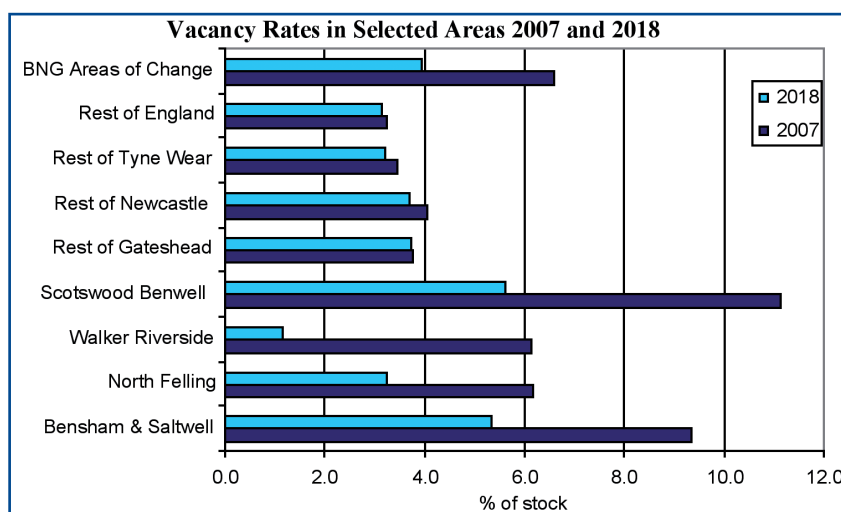
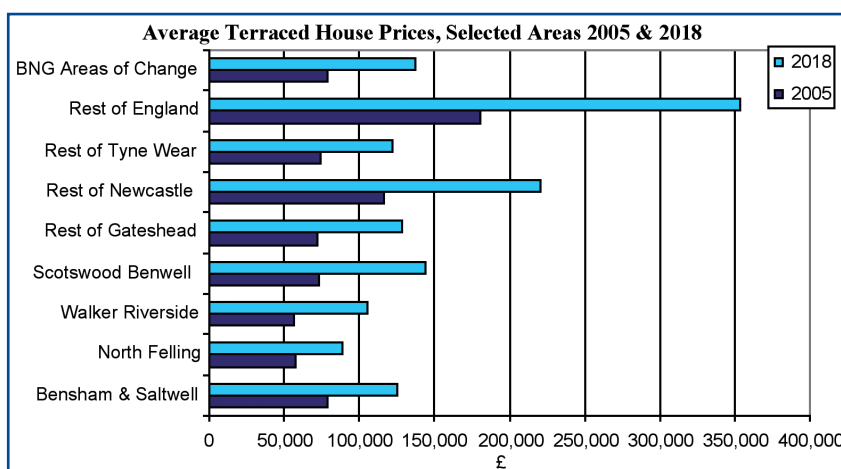
Poverty rates are forecast to fall more in poorer BNG neighbourhoods than elsewhere, falling from 26% to 19.4% in the 'areas of change' between 2002 and 2018. This should increase spending power and potentially service quality in these areas.

Vacancy rates in the 'areas of change' will fall from 6.6% in 2007 to 4.0% in 2018.

Falls will occur in most areas but rates will continue to be higher in some areas nearest to the city and town centres.

House prices in the 'areas of change' rose from a low base by about 15% more than city and town-wide averages between 2001 and 2005. In the coming period, while still relatively affordable, they will increase at a similar rate to the city and borough as a whole up to 2011 and then at a slightly lower rate thereafter.

More balanced stock profile: 'Areas of change' will see a reduction in their share of flats from 29% to 23%, against a static picture nationally.



Local Impact of Different Intervention Levels

The following results were generated using further modelling to examine the impact of different levels of interventions compared to the baseline/status quo scenario, namely a scenario featuring high intervention by BNG and partners (including high land supply) and a 'policy off' low intervention scenario:

- Changes in the mix of housing types would be greater for the 'high intervention' scenario but much smaller under 'policy off/low intervention' circumstances; and greater in those areas with more development activity.
- Home-ownership would rise markedly in 'areas of change' under 'high intervention' (8.3% points) but relatively little under 'low intervention' (2.1%). Poverty concentration would fall slightly more in the former case and slightly less in the latter.
- With high intervention, by 2018 there would be a significant reduction in vacancies (0.7% points lower than baseline), whereas with low intervention vacancies would be 0.8% higher.
- High intervention, with a high level of land supply, would initially result in lower rates of price increase compared to a baseline position, but by 2018 prices would be marginally higher than in the baseline. High intervention with a moderate level of land supply would see prices 4% higher than the baseline in 2018 in 'areas of change'. Low intervention would see prices rise by 4.6%; lower than price rises under the baseline position.

Overview of the effects of intervention on BNG 'areas of change'

The baseline modelling demonstrated that the benefits of Housing Market Renewal activity include more stability in house prices, greater household growth and lower vacancy rates.

Broadly, the effects of higher intervention combined with high levels of land supply are positive, as better housing and environment attract more households and generate a greater mix in types of household than otherwise would be the case. The impacts are also broadly in the desired direction for home-ownership, poverty rates, and vacancy rates, with modest positive effects on prices.

High intervention combined with a moderate increase in supply generates better outcomes for prices, vacancies and home-ownership in 'areas of change' than the baseline scenario; though the impacts on affordability and household growth at city and town-wide level are not as positive as they would be for a scenario where a high degree of intervention was combined with higher housing supply.

Further information

The research was carried out by Professor Glen Bramley and David Watkins from the School of the Built Environment, Heriot-Watt University, Edinburgh, in association with Professors Tony Champion and Mike Coombes of the Centre for Urban and Regional Development Studies, University of Newcastle upon Tyne.

The full report is available on Bridging NewcastleGateshead's website:
www.bridgingng.org.uk.