

The economic demand for housing in the West Midlands, 2006-2026

A final report to the West Midlands'
Regional Assembly

8 February 2010



1: Introduction and context

Purpose of the report

- 1.1 This document reports on the work delivered by SQW Consulting (SQWC) and Cambridge Econometrics (CE) to re-examine the demand for housing in the West Midlands likely to result from economic growth aspirations.
- 1.2 The work was undertaken between August and December 2009. Its purpose was to update, broaden and deepen a previous study undertaken for Advantage West Midlands (AWM) in 2007 which explored the scale of housing demand driven by planned economic growth in the West Midlands between 2006 and 2026 and how this compared with housing supply numbers flowing from the then regional planning work. At the time, that study was intended as one of a number of inputs helping to identify how alignment in emphases could be achieved between the then draft West Midlands Regional Economic Strategy (RES) and Phase 2 of the partial revision to the West Midlands Regional Spatial Strategy (RSS), which was published by the Secretary of State in June 2004.
- 1.3 Work to update and develop the 2007 work in 2009 was considered necessary for three reasons, namely to:
 - update the economic and housing projections in the light of the economic downturn
 - disaggregate the findings and analysis to the individual local authority level (the previous analysis was provided at only the regional and sub-regional levels)
 - provide a further feed into the debate concerning future housing development within a changed policy context. This changed context includes the imminent development of the Strategy for the West Midlands, the refined RSS post review (the Examination in Public Panel Report was published in October 2009), the development of sub-regional housing strategies and the changed institutional investment environment following the creation of the Homes and Communities Agency (HCA) and its associated powers.
- 1.4 The brief for the work identified three objectives, namely to:
 - identify the changes that need to happen in sub-regional and local housing markets to support economic development in line with the aspirations of the West Midlands Regional Economic Strategy and the spatial objectives of the Regional Spatial Strategy.
 - provide analysis at local authority level and aggregated up to sub-regional housing market area level to facilitate the development of sub-regional housing strategies, with findings at regional level presented for comparison and context.
 - set out, in a short position statement, how the economy has changed since publication of the original piece of work.

- 1.5 In addition, there was a specified requirement to provide briefings on the Final Report to Assembly staff and others to ensure that they fully understood the messages within its analysis and conclusions.
- 1.6 Against this background, this report is intended to provide regional and local policy and decision makers with a better understanding of how the economy and housing interrelate, and how and where economic demand for housing and planned housing supply may be mismatched according to a range of economic scenarios. The other outputs from the analysis which accompany this report are:
- a series of concise, information-rich 'dashboards' - one for each local authority - detailing key existing and projected housing metrics and identifying specific issues in relation to any potential mismatch between projected economic growth-led demand and planned housing supply.
 - a full slide set showing the workings of our Housing and Economy Model and providing analysis at the regional, sub-regional housing market area, and local authority levels.
 - in addition, we are providing an accompanying Excel workbook with all the underlying data which has been used in the model.

Moving on from 2007 . . .

Distinctions between the 2007 and 2009 work

- 1.7 This study has been framed as a broadening and deepening of the previous study undertaken for AWM in 2007. The purpose of the previous study was to achieve a better understanding of the inter-relationships between housing and the economy, within the West Midlands. In particular, AWM required an enhancement of the evidence base to inform the development of policies to help support and enhance regional competitiveness through housing provision and identify issues which constrain economic growth. The output was intended to assist in the updating of the Regional Housing Strategy, form part of the evidence base for the partial review of the West Midlands RSS, and inform the emerging RES.
- 1.8 Our response to this was to undertake an in depth literature review which helped develop and progress our understanding of the interrelationship between housing and the economy, and develop the Housing and Economy Model which translated economic projections for two economic scenarios, into the required housing supply to meet economic demand.
- 1.9 Fundamentally, this 2009 study uses the same model as previously; however, there are some key differences between the studies, both in terms of the variables and assumptions comprising the model, the frame for analysis and its overall purpose in relation to the changing policy context. Table 1-1 below summarises these differences in headline terms:

Table 1-1: Key differences between 2007 and 2009 – data inputs, scenarios and analytical framework

Issue	2007	2009
Data sets and dates	Most data sourced from 2001 Census	2001 Census still used as the base, but updated with the Annual Population Survey 2006 used to confirm Census 2001 travel to work areas and Housing Strategy Statistical Appendix 2006 & CLG Live Table 109 used to update tenure patterns.
Economic scenarios employed	Two: <ul style="list-style-type: none"> • Baseline • Convergence 	Three: <ul style="list-style-type: none"> • Baseline • Convergence • Public sector austerity
Geographical level of analysis	Data provided at regional, sub-regional housing market area and local authority level. Analysis at regional and sub-regional housing market area levels only.	Data and analysis at all three levels including detailed dashboards showing key metrics and implications for each local authority.
Scope	Economic demand projections, projected housing supply requirements – scale, tenure and type, and the impact of price and income sensitivities.	Economic demand projections, and projected housing supply requirements contextualised by wider considerations of policy and investment priorities and delivery issues.
Policy context	Convergence scenario aimed to show housing demand that would result if RES aspiration of West Midlands GVA growth rate catching up with that of the UK was realised. Study results intended to input to Phase 2 review of RSS	Convergence scenario has same conceptual basis. Study results intended to inform the development of the Strategy for the West Midlands and sub-regional housing strategies.

Source: SQW Consulting

What the 2007 study said

1.10 In summary, the conclusions from the 2007 work were as follows:

- There is a strong link between net housing demand and employment. Importantly, changing patterns of household formation were *critically important* in driving the future economic demand for housing, with GVA growth and employment coming from convergence with UK growth rates being significantly less so.
- The result, using the Convergence scenario developed for the work, identified an overall scale of housing demand in the region which was broadly consistent with Reference Point planning assumptions (the West Midlands' Regional Assembly Reference Point housing allocations data were provided by Assembly Officers in considering 'Options' in the RSS¹), but significant differences between forecast demand and planned supply were evident at the sub-regional scale.

¹ WMRA Officers provided a 'Reference Point' table to the SQW/CE team on 18 June 2007, based on an analysis and interpretation of the responses of individual authorities to the Spatial Options consultation at that point. The Reference Point figure is thus an officer-sourced one and has no formal status as it has not been endorsed by the

- The projections from the Convergence scenario suggested a continued concentration of dwellings demand in local areas that were already favoured for recent in-migration due to: the perceived desirability of living in these areas, their continued economic buoyancy and the continued propensity of people to commute from areas of housing demand to jobs elsewhere, rather than locating to lower cost areas closer to their workplaces.
- Conversely, in areas where the Convergence-derived projections suggested relatively low levels of demand, the planning assumptions were for a much higher level of housing provision.
- Overall, whilst noting that the study did not investigate potential infrastructural or land supply constraints, achieving the focus of the RES to close the GVA growth gap between the region and that of the UK average, appeared to be inconsistent at the sub-regional level with the proposed regional housing provision to 2026, based on the RSS Reference Point data.
- Analyses of the effect of house price and earnings differentials on travel-to-work flows showed that housing demand was not likely to be overly responsive to price or earnings signals across the region.
- The model indicated that, from an economic growth-led perspective, meeting the RSS Reference Point proposals for housing in particular sub-regional places would demand pronounced employment growth.

Structure of the Report

1.11 The remainder of the report is structured as follows:

- Section 2 explains the conceptual framework for the Housing and Economy model, its core data inputs, assumptions and an explanation of its working. This section also identifies the three scenarios used and the justification behind these.
- Section 3 provides a headline overview of the changes that have occurred in the West Midlands' economy and housing markets since the previous study was undertaken in 2007.
- Section 4 details the findings from running the model and the implications at regional, and sub-regional housing market area levels. Individual local authority results are highlighted where these are of particular significance – for example, substantial variations between the model's projections of the required provision of housing compared with that proposed by the RSS Panel Report.
- Section 5 sets out our analysis in relation to policy and delivery issues impacting on the West Midlands now and into the future.

Regional Planning Partnership. For the purposes of SQW/CE's model, a figure of 412,557 has been used throughout as an approximation for an 'Option 3' figure (2006/26)

- Finally, Section 6 provides our conclusions and recommendations for the study in the round.

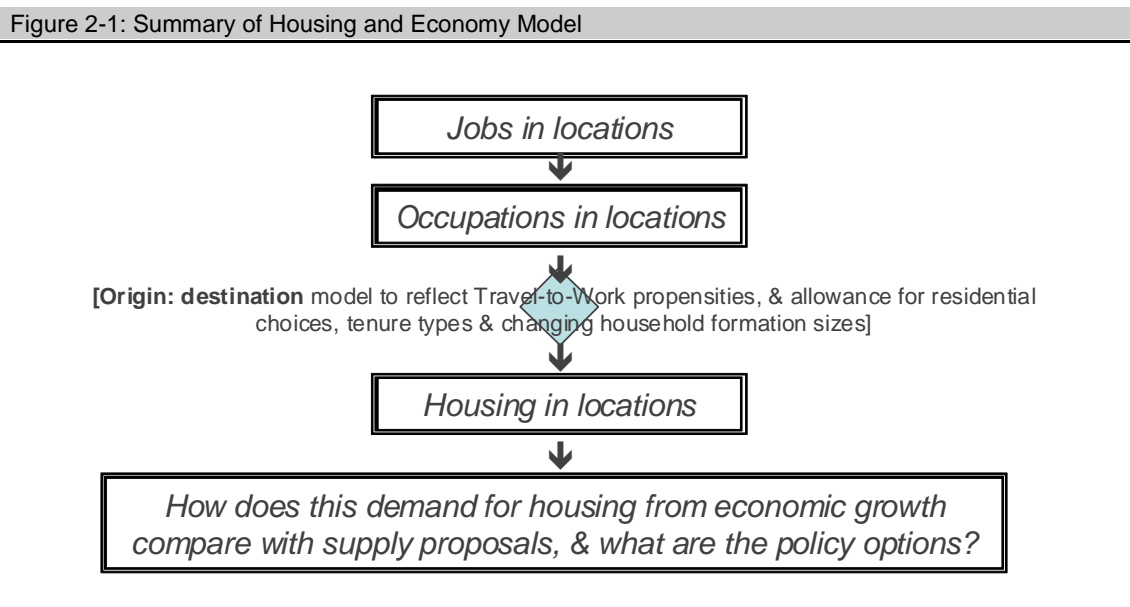
2: The model's conceptual framework, assumptions, economic scenarios, and constraints

- 2.1 This Section provides an overview of the conceptual framework on which the model used in the work is based. Its purpose is to 'explain the workings' of the model we have used, identify the datasets and sources from which the model is populated, detail the assumptions adopted, set out the economic scenarios used, and provide an explanation of the model's constraints, which should be taken into account when using the model to help inform future policy development.

Conceptual framework

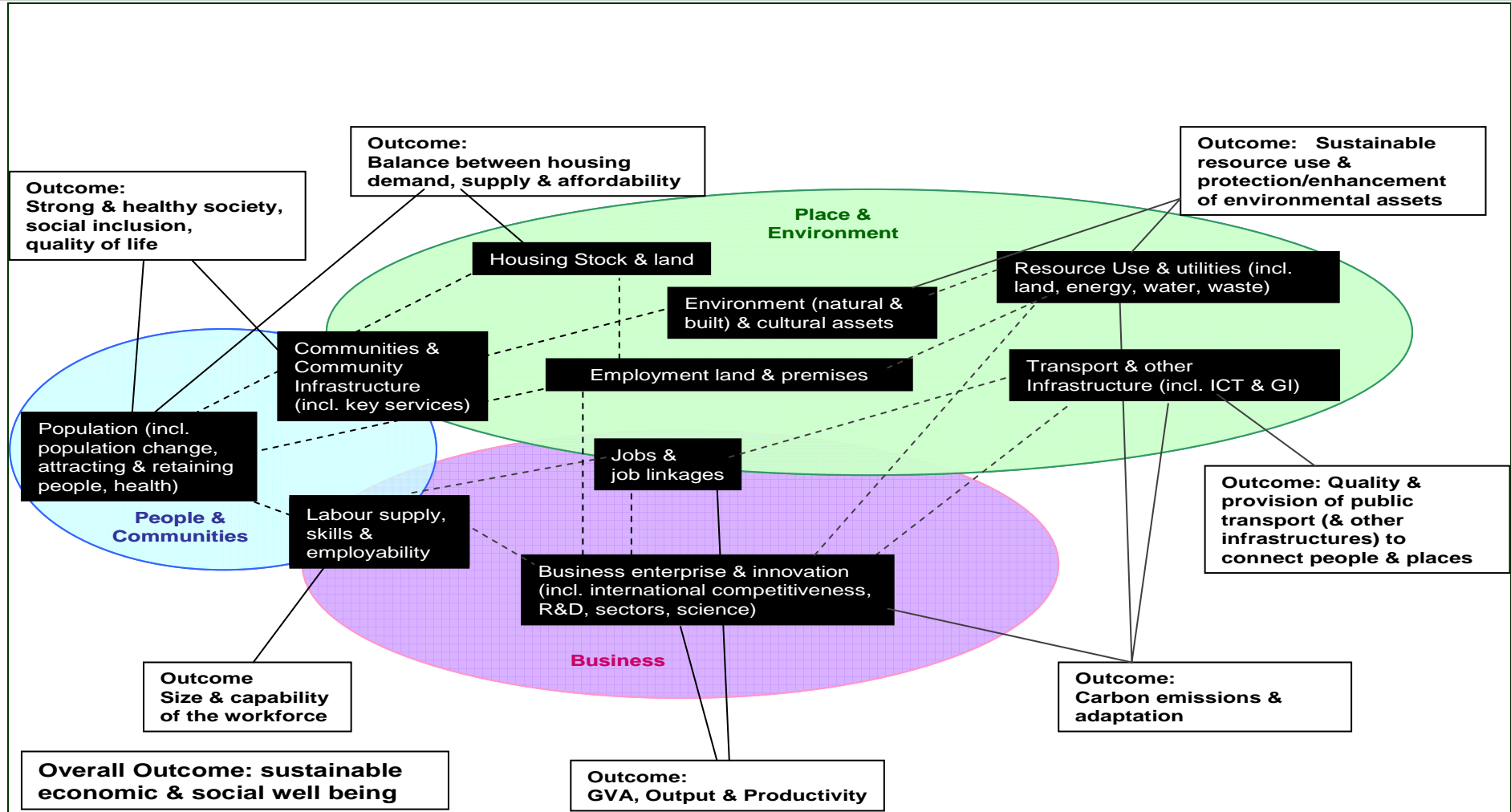
- 2.2 Essentially the model uses the same overall logic and methodology which was utilised in the previous study undertaken in 2007. The inter-linkages and demand and supply relationships between economic performance and housing performance are widely recognised and, since 2007, we have undertaken a number of studies to inform the process of integrated regional strategy making which has further developed our thinking.
- 2.3 The delivery of housing – where, what and how – is now at the top of the political agenda, and presents regional agencies, local authorities, private housebuilders and Regional Social Landlords (RSLs) with a significant challenge. A number of key issues are driving the housing market forward, and these are increasingly influenced by global financial markets, as well as the UK economy, and major shifts in demographic trends, such as dwelling patterns. Housing strategies are now responding both to increasing pressure to ensure that the supply of housing meets the needs of economic growth (whether through regeneration and renewal, or the creation of new housing and settlements), as well as the creation of sustainable places where people want to live.
- 2.4 As the world becomes increasingly complex, the role of housing in economic development, both in terms of providing places for people to live and at the same time contributing to the region's attractiveness, is becoming more important. Understanding the West Midlands' current housing offer along with its future economic intents, and the degree to which the two complement or conflict, is of key importance. The right housing (type, quality, tenure, price) in the right place (access to employment, education, retail and leisure amenities) is an essential condition for continued sustainable economic growth; the current imbalance in housing markets could provide a potential constraint to growth going forward.
- 2.5 Currently, the outcome for housing markets is further complicated by the current economic recession, the collapse in house building, and the fall in house prices. That being said, economic growth will return at some point (although the timing and shape of the recovery remains uncertain) and housing markets are likely to recover alongside it. Recently, there have been some signs of house price increases, potentially indicating the beginnings of recovery.

- 2.6 Table 2-1, overleaf, illustrates the overarching conceptual framework for these interconnections which we have developed as a result of this work. It shows the three key elements (place and environment, people and communities, and business), depicts the inter-linkages between them, and shows how these work together to create specific outcomes.
- 2.7 The model projects residential housing demand from assumptions for the pattern of future economic activity and assumptions about housing choices and demographic change. The model's core driver is that residential housing demand in locations is driven by the propensity to travel to work, recognising that this will vary by occupation. Future projections for housing demand and type of demand are derived by projecting total employment to 2026, and occupation mix by workplace employment, then applying origin: destination shares (in terms of travel to work) to understand likely future travel to work patterns and therefore residents' employment by occupation. The distribution of occupational types can then be used to infer tenure type and associated dwelling type.
- 2.8 The broad logic of the model is summarised as follows:



Source: SQW Consulting

Table 2-1: The conceptual framework for understanding economic development: People, Place & the Environment



Source: SQW Consulting

Assumptions

2.9 The following assumptions have been used in developing and running the model:

- The overall time period for the study was agreed at Inception as 2001 to 2031. However, it has since been agreed that the key findings (and dashboard/final slide set outputs) should consider projections through to 2026, to align with the RSS. Some key housing market data are available for 2006 (e.g. number of dwellings by tenure type) and the previous study reported from this date, so it makes sense to change the start date to 2006 in order to facilitate direct comparison with results from the 2007 study and use the most up-to-date information.
- Three scenarios have been used to model different levels of economic demand and the associated scale and spatial distribution of future housing requirements to support these. A detailed explanation of the scenarios is provided at 2.11 onwards, but in summary these are:
 - **Baseline** – the future growth for the West Midlands, based on historic trends, and incorporating the impact of the recession, as published by CE in July 2009.
 - **Convergence** – where the long-term GVA *growth rate* of the West Midlands (2.4% pa) increases to be in line with the UK as a whole (2.6% pa), meaning that the gap in GVA per capita between the West Midlands and the UK gets no wider (but neither does it close).
 - **Public Sector Austerity** – reflecting the views on future public spending that have developed since the baseline forecast was published in July 2009, incorporating a fall in government (current) spending in real terms year-on-year through to 2013.
- The Housing and Economy model is data driven with its outputs being ‘policy off’ data projections – the projections do not take into account the potential effects of implementing current or new policy. Similarly, it takes no account of proposed housing or infrastructure developments which are currently underway, or in the pipeline which may have a significant impact on the delivery of future housing supply. However, once the model had been run and projections produced, these are then interrogated and considered in the light of the wider policy context and key drivers as detailed in Section 5.
- The economic projections used in the Baseline scenario incorporate a view on the nature of the recession and the shape of the eventual recovery formed in mid 2009. Whilst the impacts of the recession to date are deep and far-reaching, it is important to remain cognisant of the fact that recessions are a part of the longer term economic cycle and not to become too fixated on the impact of the recession in the longer term. The next section provides an overview of the performance of the West Midlands’ economy and housing markets since 2007 showing the impact of the recession, which

has been severe. However, it should be noted that our projections are provided over the long term showing that the economy will emerge from the current recession with a period of economic stabilisation followed by recovery from around 2012 which will filter through to a recovery in the functioning of housing markets.

- The population projections associated with each economic growth-led projection are independent of the population projections used for the CLG 2006-based household projections². However, all scenarios use the *trends* in average household size from the CLG 2006-based household projections. The same trend applies to the average size of household in each type of property. Overall, higher average household sizes are assumed from the 2006-based projections, than in the 2004-based projections, used in the 2007 study, which results in fewer households (and so demand for housing) for a given population. There is no single factor explaining why household size is not likely to decrease as much as was originally predicted. This is determined by revised projections for demographic groups (e.g. by marital status) and household representative rates (the probability of anyone in a particular demographic group being part of a separate household). It is a feature for most districts in the region, although there are some where average household size is now lower than in the 2004 projections, including Solihull and some districts in Staffordshire. Given the employment and projection assumptions from the 2007 study, we would expect that adopting the latest trends in average household size would lead to a lower overall demand for housing than was previously projected.
- Whilst the model focuses on employment drivers to derive demand for housing and its tenure and type components, there is obviously a significant proportion of the population that does not work including young and older people, as well as those who are unemployed. The projections provide estimates of people employed by occupation and also estimates of total population by district. Estimates of the non-working component of the population (e.g. young and older people, unemployed and other economically inactive) are calculated using the Labour Force Survey, 2006. Information from the Census 2001 on the type of property in which different groups of people live (groups which include high managerial and professional, lower managerial, intermediate occupations, never worked/long-term unemployed, and other, such as elderly, young) is then used to allocate the projected number of people in these groups to housing tenures/types.
- The key issue to bear in mind when interpreting the output of the model is uncertainty. We show what might happen if we adopt a number of explicit assumptions. Yet the model provides a sound platform for questioning these assumptions in turn and investigating the consequence of making a range of 'What if' questions.

² The 2008 population projections were published by ONS in October 2009 – however household projections derived from these have not yet been published (<http://www.statistics.gov.uk/pdfdir/pproj1009.pdf>)

The three scenarios in more detail . . .

- 2.10 The economic scenarios employed in the model are explained in detail below.

. . . the **Baseline scenario**

- 2.11 The Baseline scenario, detailed in CE's *Economic Prospects for Nations and Regions of the UK 2009*, shows the West Midlands economy following a similar general profile to the UK, with output stabilising in 2010 and sustained year-on-year growth returning from 2011. However, this trend based scenario suggests that a growth rate lower than the UK average would occur in the West Midlands, meaning that the West Midlands' position relative to the UK average would continue to worsen. The scale of the recession in the West Midlands is expected to be much greater than for the UK as a whole, reflecting the relative importance of manufacturing (output from the sector nationally has fallen by much more than that from business services) in the regional economy, and as a result of the way the market for the sector is oriented towards investment goods (that is, the plant, machinery and equipment that enable production). The general outlook for employment in the West Midlands economy differs slightly from that nationally, with the scale of job losses being greater, and more long-lasting. Year-on-year growth in employment is not forecast until 2012 and is expected to remain weak for several more years. In contrast, employment in the UK as a whole is expected to quicken steadily over the medium term (to 2013).
- 2.12 The main difference with the 2007 baseline is that these earlier forecasts did not anticipate the current recession. Outputs and employment were forecast to continue rising at trend rates of 2.5% pa and 0.25-0.5% pa respectively in the West Midlands and 2.6% and 0.6% in the UK. The long-term rates of growth (i.e. 2016-2026) in the current forecast are similar to those forecast in 2007; however, the impact of the recent slowdown, recession and expected recovery over the next couple of years, has a noticeable impact on the levels of activity, particularly employment, that are forecast. Levels of output that were forecast for 2025 are now not expected to be met until 2031. In addition, the current forecasts of employment in the West Midlands in 2031 are lower than those previously forecast for 2026.

. . . the **Convergence scenario**

- 2.13 In the previous 2007 work, a second scenario projecting stronger economic growth over time for the region was utilised. This projected that the West Midlands GVA growth rate would reach that of the UK, based on the performance of regional key clusters, in keeping with aspirations with the West Midlands RES. Considerable discussion was held at the commencement of this study concerning whether such a scenario should still be used. It was agreed that as the sectors actually cover around 70% of the economy as a whole, that the same scenario should still be used, with recessionary impacts built in noting their differential impacts on specific sectors. Using this scenario, growth rates converge from 2011, but the absolute productivity gap is not projected to close – this would require the West Midlands to have a higher GVA growth rate than the UK, which is not projected.
- 2.14 CE undertakes its regional economic forecasting using Standard Industrial Classifications (SIC) which differ slightly in definition from AWM's clusters. In order to run the Housing and Economy Model, the clusters have been mapped onto the SIC as overleaf:

Table 2-2: AWM's Clusters and SIC-based industry definitions

Clusters	Sic-based industry definitions
1. Aerospace	Food, drink & tobacco
2. Automotive	Motor vehicles
3. Building technologies	Other transport equipment
4. Business & professional services	Water supply
5. Environmental technologies	Hotels & catering
6. Food & drink	Construction
7. ICT	Communications
8. Interiors & lifestyle	Insurance
9. Medical technologies	Banking & finance
10. Rail	Professional services
11. Screen image & sound	Textiles, clothing & leather
	Electronics
	Electrical engineering & instruments
	Manufacturing not elsewhere specified

Source: SQW Consulting/Cambridge Econometrics

- 2.15 The recession in the West Midlands has been pronounced and far reaching, as detailed in the next section. This has had an impact generally across the economy, but also has had differential sectoral and spatial effects. Table 2-3 shows how the clusters are likely to perform over the long term compared with the view at the time of the 2007 study:

Table 2-3: Extent to which rationale for assumptions made in 2007 remains in current baseline projections

Industry	Change in performance
Food, drink & tobacco	Long term growth likely to continue at a lower rate than for the UK as a whole
Motor vehicles	Long term growth likely to continue at a higher rate than for the UK as a whole
Other transport equipment	Long term growth likely to continue at a lower rate than for the UK as a whole
Water supply	Long term growth likely to be similar to the UK – no longer steady under performance
Hotels & catering	Long term growth likely to continue at a higher rate than for the UK as a whole
Construction	Long term growth likely to continue at a higher rate than for the UK as a whole
Communications	Long term growth likely to continue at a lower rate than for the UK as a whole
Insurance	Long term growth likely to continue at a lower rate than for the UK as a whole

Industry	Change in performance
Banking & finance	Long term growth likely to be similar to the UK – no longer steady under performance
Professional services	Long term growth likely to continue at a lower rate than for the UK as a whole
Textiles, clothing & leather	Long term growth likely to continue at a higher rate than for the UK as a whole
Electronics	Long term growth likely to continue at a higher rate than for the UK as a whole
Electrical engineering & instruments	Long term growth likely to continue at a lower rate than for the UK as a whole
Manufacturing not elsewhere specified	Long term growth likely to continue at a higher rate than for the UK as a whole

Source: SQW Consulting/Cambridge Econometrics

- 2.16 In the current Baseline scenario, the underlying trend growth in the West Midlands 2016-2026 is projected at 2.4%, compared to 2.6% for the UK as a whole. Therefore the scale of the challenge to raise output growth in the region to match the UK average in the long term is similar to that set out in the 2007 study. Table 2-3 compares the relative long-term prospects for sectors in the West Midlands with the UK as a whole in CE's current published forecast (which is taken as the baseline for the study with the equivalent relative prospects from the baseline forecasts from the previous study (which were the CE published forecasts of the time). The reasoning behind this is that if there has not been a change in the relative prospects for sectors, then the rationale for improvements in the Convergence scenario of the previous study remains valid now. As detailed above, in the majority of cases the relative performance of the sectors remains as it was previously, and so the same adjustments have then be applied to ensure the convergence with the UK GVA growth rate is achieved. However, the relative prospects in motor vehicles, banking and finance, and water supply have changed recently. In the case of banking and finance, this reflects more the developments in the industry elsewhere in the UK than it does performance in the West Midlands.
- 2.17 In the case of motor vehicles, the current forecasts continue to show the prospect for growth being better (albeit it only just better) than for the industry in the UK as a whole, notwithstanding the substantial upheaval that the sector in the region has experienced in the last few years. This outcome does not mean that levels of activity in the sector in the West Midlands will return to pre-recession levels (the loss of output has been substantial), but that current operators in the sector achieve growth in line with the UK average.
- 2.18 There was debate whether the future prospects for the sector were as strong as indicated in the baseline. If not, then the baseline overstates the growth prospects for the region. However, given motor vehicles remains a key 'cluster' for the region, then the assumption in the convergence scenario, that 'actions on the cluster' enable the sector to achieve these rates of growth is appropriate.

. . . and a Public Sector Austerity Scenario

- 2.19 When the underlying projections on which the Baseline scenario is based were first constructed in July 2009, it was recognised that the scale of public sector job losses was a downside risk on the forecast. Since this time, the prospects for the public finances have deteriorated further and as a result the cuts in public spending are likely to be deeper (no matter which administration is in power) than previously thought. Therefore we have developed a more pessimistic scenario for the West Midlands which updates our view on the prospects for direct public sector employment – we have called this the Public Sector Austerity scenario.
- 2.20 The Baseline scenario incorporates the view that government spending would have to be cut back in the medium term, so as to strengthen the wider position of the public finances. The resulting projections show employment in public administration and defence, education and health falling back to 2014, with a net loss of 18,000-19,000 jobs over the period. Our current view is that government (current) spending will fall in real terms year-on-year through to 2013. The sharpest fall in spending is predicted for 2011, at around 2%. When spending begins to rise again (in our view around 2015/2016) the rate of growth will be modest compared to the average rates of growth seen in the past. Within the overall reduction in spending, our view is that spending on health will be maintained in real terms. The sharpest reductions in government spending are assumed to occur in other (non-health or education) central and local government spending, including defence. ‘Other’ central and local government spending is defined as public administration functions.
- 2.21 The outlook for the UK as a whole is for output (value-added) from government services (public administration, defence, education and health & social services) to fall by around 0.4% in 2010, 0.7% in 2011 and to then remain flat in 2012. Growth will return from 2013, but is likely to remain below 1% pa to 2016. The impact of the spending cuts on employment in the sector will be greater than on output, as productivity improvements are claimed will accompany the reduced spending so as to maintain level of services. However, data show improvements in public sector productivity have been difficult to achieve in the past. More generally, improvements often are not realised until after the changes to working practices have been made. Therefore, large improvements in productivity may not be seen in the first few years of spending cuts, so limiting the jobs losses that may be realised.
- 2.22 On our current working assumptions, the cuts in government spending may result in a loss of 7% of current employment in public services (public administration, education and health & social services) with the majority of jobs lost being in public administration. Applying similar proportionate changes to employment in public services in the West Midlands results in the loss of an additional 30,000 jobs, compared with the baseline scenario, and 35,000 by 2031. This is equivalent to about 1% of employment of baseline employment in both years.
- 2.23 Finally, in relation to wider economic impacts, it is important to note that the Public Sector Austerity scenario is based on the *direct* impacts of a contraction of employment and output. It does not take into account the *indirect* implications in the public sector supply chain or the *induced* spend resulting from consumption by public sector employees.

Datasets used

2.24 The key datasets used to provide baseline assumptions in the model are:

- CE's most recent forecasts for the West Midlands published in Economic Prospects for the Nations and Regions of the UK, July 2009³
- CLG 2006-based household projections (for trends in average household size)⁴
- Census 2001 results⁵ provides the following inputs to the model:
 - Travel to work patterns (confirmed using data from the Annual Population Survey, 2006⁶)
 - Relationship between occupation associated socio-economic group and tenure type (although tenure baseline has been updated using the Housing Strategy Statistical Appendix, 2006⁷ and CLG Live Table 109⁸)
 - Relationship between tenure type and house type⁹.
- Annual Population Survey 2006 (provides number of people in work by residence and workplace; data are also used to assess whether there is evidence that commuting patterns have changed noticeably from that shown in the 2001 Census)¹⁰
- Communities and Local Government's Housing Strategy Statistical Appendix, 2006 and CLG Live Table 109 (to update baseline tenure share from 2001 Census)¹¹.
- Labour Force Survey, 2006¹² to estimate proportion of the population in each district which is economically inactive.

Sensitivities of the model

2.25 In addition to the identified assumptions, set out at paragraph 2.9 *et seq*, there are a number of sensitivities, in the way the model operates, which must be taken into account in considering its findings. The most important, and significant, sensitivity is the impact of a change in household size compared with differential economic growth projections on the resulting housing numbers. This was highlighted in the 2007 study as a key dependency, and is due to a small absolute increase or decrease in household size representing a large proportional

³ See http://www.camecon.com/economic_intelligence_services/uk_reg_forecasts.htm

⁴ See <http://www.statistics.gov.uk/cci/nscl.asp?ID=7482>

⁵ <http://www.statistics.gov.uk/census2001/census2001.asp>

⁶ <http://www.ons.gov.uk/about-statistics/user-guidance/lm-guide/sources/household/aps/index.html>

⁷

<http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/localauthorityhousing/dataforms/357553/hssa200607/>

⁸

<http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/stockincludingvacants/livatables/>

⁹ See <http://www.ons.gov.uk/census/index.html>

¹⁰ See <http://www.esds.ac.uk/findingData/snDescription.asp?sn=5891>

¹¹

<http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/localauthorityhousing/dataforms/357553/hssa200607/>

¹² <http://www.esds.ac.uk/Government/lfs/>

change. For example, the 2006-based CLG household projections project average household size falling from 2.4 in 2006 to 2.24 in 2026, a fall of 6½% leading to a resultant increase in the number of households for the same given population. However, the 2006-based projections for average household size in 2026 are 3% higher than that identified by the 2004-based projections, which should lead to a reduction in the number of projected households for the same population size. In contrast, the Convergence scenario represents a sustained shift in the long-term performance of the West Midlands economy. Nevertheless, by 2026 employment is only 3¼% higher, and the population just ½% higher.

- 2.26 To a significant degree, the model treats the West Midlands as a closed system. The projections do account for the fact that some of the jobs created in the West Midlands will be taken by people who are resident outside the region and also that some of those resident in the region will be taking jobs outside of the region. In the alternative economic scenarios, changes in jobs in the West Midlands will reduce the number of people in the region in work (and implicitly the number of people from outside of the region employed in the region – though this last factor has no impact on the West Midlands housing market). However, the alternative scenarios are implemented for the region in isolation of any changes occurring in other regions, which might in turn impact on the number of people in the West Midlands in work or attracting people to the region to live, in order to take these ‘additional’ jobs in other regions.
- 2.27 On commuting, it is important to appreciate that past patterns – which underpin the forecasts – may result from different pressures than those that currently pertain. In some areas, long-distance commuting may reflect positive choices reflecting the attractiveness of different environments and property availability. Elsewhere ‘affordability’ may be a key driver – where people who would prefer to live closer to their place of work are unable to do so because of high house prices. The model assumes these observed ‘propensities to commute’ will continue, although new policies (and delivery of new housing developments) could shift them.
- 2.28 One final point to note. In recent years, all occupation groups and both genders have tended to commute longer distances to work – this behaviour is no longer restricted to male managers and professionals. The future is not predictable. Increasing real travel costs, a concern with sustainability, more opportunities to work at or from home, more people with part-time jobs working unsocial hours – could collectively reduce commuting on a daily basis.

The model in summary

- 2.29 Having detailed the assumptions that underlie the model, the scenarios to be employed and identified the key sensitivities, Table 2-4 provides the stepped logic underpinning the workings of the model.

Table 2-4: SQW/CE's Housing & the Economy Model – step-by-step guide

STEP ONE: WORK PLACE JOBS BY SECTOR

CE's economic projections for each scenario produce a profile of workplace-based jobs for each year between 2006 and 2026 by industry sector for each local authority, HMA and the region as a whole.



STEP TWO: WORKPLACE JOBS BY OCCUPATION

Workplace-jobs by local authority by Standard Industrial Classification are converted to workplace employment by local authority by Standard Occupational Classification using regional SIC: SOC matrices, which vary over time. These data come from the Working Futures projections¹³



STEP THREE: RESIDENT JOBS BY OCCUPATION

Workplace jobs by occupation are then converted to people employed in the workplace by occupation, scaling back to data from the Census 2001 and revised data from the Annual Population Survey, 2006 (to account for people with more than one job). Residence-based estimates of people in employment are derived, initially assuming commuting patterns remain as at the time of the 2001 Census, with different commuting patterns for each occupational type to reflect that people in elementary occupations tend to travel less far to work than professional occupations. The estimates are developed using the commuting patterns identified from data in the 2001 Census and results for subsequent years from the Annual Population Survey, 2006. This calibration adjusts the results for differences in commuting patterns from those in 2001, although analysis of data on employed people by workplace and residence in 2006 from the Annual Population Survey did not indicate any systemic or sustained variation from the commuting patterns shown in the 2001 Census.



STEP FOUR: TRANSLATION FROM OCCUPATIONS TO RESIDENTIAL TENURE DEMAND

In moving from occupations by residence to demand for housing, occupations are translated to socio-economic class. Estimates are also made for non-working elements of the population (e.g. children, elderly, unemployed, economically inactive) using the Labour Force survey, 2006 as the base data. In the Baseline scenario, these non-working components of the population are consistent with CE's forecasts of population by district, and regional unemployment. These forecasts are from the migration element of CE's Employment Prospect projections¹⁴. With the Convergence scenario, the majority of additional jobs are assumed to be taken by existing residents with a small element of in-migration leading to increased population projections. The reverse is true for Public Sector Austerity in that some residents are assumed to leave the area to find work elsewhere and therefore there is a projected overall reduction in population.

The Census 2001 provided information on the number of people that lived in properties of different tenure. This profile is applied to the projections of population by social class to provide estimates of the number of people living in each type of property. Demand for dwellings by tenure is calculated by applying projections of average household size. Estimates of average household size by tenure are calculated from data on the number of dwellings by tenure in the base year (HSSA, 2006). The average household size by tenure is projected to change in line with the trends in the CLG 2006-based projections of households.



STEP FIVE: TRANSLATION FROM TENURE TO DWELLING TYPE & NUMBER

The relationship between the number of dwellings by tenure and type of property by district is available from Census 2001 (there is no more recent data that updates this profile consistently for all districts in the region). This is used to project housing demand by type from housing demand by tenure.



STEP SIX: OVERALL HOUSING DEMAND

Step 6 results in the projected numbers of properties required by local authority, HMA and at the level of the region and by scenario in 2026 which can then be compared with the number proposed by the RSS Panel Report to identify any projected mismatches.

Source: CE/SQW Consulting

¹³ Working Future projections are produced by the Institute of Employment Research (University of Warwick) and CE. The Working Futures 2004-2014 projections are based on the forecasts from the Cambridge Econometrics (CE) regional multi-sectoral dynamic macroeconomic model (RMDM). This provides the general economic scenario. The employment and output forecasts from this model are combined with additional models developed by IER to generate the occupational projections.

¹⁴ Economic Prospects for the Nations and Regions of the UK, July 2009

Understanding the limitations of the model

- 2.30 The model uses *projections* not *predictions* of future economic growth-led demand, and then translates these into future housing requirements using a number of assumptions and inferences. It therefore should not be taken as an exact determinant of required future housing supply distribution across the region, but rather as providing an economic demand dimension to the ongoing debate on housing provision as we move into the development of the Strategy for the West Midlands. Our findings are not a prediction of future economic demand or a concrete identification of where housing should be located to support economic growth, but an informed view of how economic demand will be differentiated spatially if certain economic scenarios are realised.
- 2.31 The model includes a number of constraints, which must be taken into account in its future application and in influencing policy development:
- As detailed under the 'Assumptions' section, the model provides 'policy off' projections. Therefore, it does not take account potential impacts of ongoing or future regeneration programmes, mortgage lending policies, housing investment programmes and other delivery issues such as the provision of infrastructure and availability of housing development land -all of which will have an impact on future housing development patterns.
 - The workings of the model includes a significant degree of reliance on the 2001 Census results which are – at almost nine years old – unlikely to be wholly robust for the current situation. In the last ten years, there have been substantial changes in housing markets – specifically:
 - significant house price rises affecting access to the housing market, particularly for first time buyers
 - rising social rented waiting lists and homelessness as a result of the above,
 - significant growth in the private rented sector
 - an increase in flatted accommodation, particularly within city centres
 - the impacts of the current recession affecting both the delivery of housing development and the availability of loan finance further affecting potential home owners' ability to either get on, or progress up the housing ladder. The latter, combined with high rates of youth unemployment, have led to young people staying at home longer rather than entering the housing market
 - other recession impacts include the undermining of the developers' business model and perceptions of risk within the development industry, which has led to significant reductions in the provisions of supply
 - the development of a small but growing 'intermediate' housing market, primarily based on a number of 'low cost home ownership' options but also including households renting at 'sub-market' rents (typically 80% of the

private market average level). According to CORE¹⁵ data, the main households groups so assisted tend to be private renters and people living with friends or family.

- We should also acknowledge a number of problems with Census tenure data which make it difficult to dig deeper and look at 'intermediate' housing as a separate tenure in the forecasts. Comparison of Census estimates of 'shared ownership' households with data from landlords suggests that many couples jointly purchasing a home recorded their tenure as 'shared ownership' when in fact they were full 'owner occupiers purchasing with a mortgage'. The Census did not include a category of 'intermediate rent'.
- The Census underestimates the 'social renting' tenure and over-estimates 'private renting/other'. This is because a number of local authority and RSL tenant households receiving full housing benefit and paying no rent classified themselves in the 'other – paying no rent' tenure category, which is actually included in 'private renting'. (It is supposed to be restricted to people in tied accommodation or in a property owned by a family member).
- Whilst the model has been recast in the light of the 2006 Housing Strategy Statistical Appendix (HSSA) updating general tenure patterns (based on the survey of English Housing), we have not been able to obtain consistent data to update that from the Census with regards to the relationship between occupation and tenure type (it is likely that there is a significant increase in those in higher occupations renting privately than in 2001) and tenure type and housing type (there has been a significant increase in owner occupation of flats and apartments which have traditionally been considered the domain of private and social renters). Finally, due to both affordability issues and the current difficulties in accessing finance, previous assumptions concerning occupation and housing type (specifically owner occupation) may no longer prove the norm and it is impossible to predict, or project, such patterns into the future.
- In the Convergence scenario, the improved performance of the economy is assumed to result from actions from regional policy makers to support the identified regional clusters. The housing model determines the demand for housing from patterns of employment by sector and occupation. There is not a perfect mapping between the clusters and sectors in the model (defined in terms of Standard Industrial Classifications). Therefore a 'best fit' mapping has had to be adopted.
- The Baseline scenario has the likely future differential impact of cluster growth between locations built in, including recessionary impacts. However, in projecting forward the improved performance of the clusters (the Convergence scenario), we have been unable to obtain intelligence concerning their likely differential impacts spatially and therefore the same effects as for the baseline have been projected forward.

¹⁵ <https://core.tenantservicesauthority.org/#>

And finally. . .

- 2.32 It has been suggested in the course of the work that it would be useful to understand how the model could be run 'in reverse' – that is, identifying the type of sector bases that particular housing numbers might give rise to. It is not sensible to do so, as it is widely accepted that whilst the 'right' housing (quality/type/price) in the 'right' place (residential location including quality of local services and amenities) provides an important underlying precondition to support economic growth, this factor in itself will not determine the economic outcome or the level of new jobs created.

3: Economic and housing markets over the 2007–2009 period

Purpose

- 3.1 This section provides an overview of changes affecting both economic and housing markets in the West Midlands for the period 2007 to 2009. It presents a number of key statistics for the region, drawing on both survey and administrative data, looking to use information sources which are as up-to-date as possible. It also takes into account a number of studies on the impact of the Credit Crunch and subsequent recession on the national and regional labour and housing markets, including impacts on the key areas of regeneration and migration. Alongside the analysis, it draws out a number of key issues and the implications for policy.
- 3.2 We provide a brief review in this section, but do not set out any projections for the future; however, it is important to note that recessions are a usual element of the longer term macro-economic cycle. Whilst the current recession has had a serious impact on the West Midlands' economy and housing markets, long term strategic planning for the future including the development of the Strategy for the West Midlands needs to acknowledge the spatial impacts of the current situation whilst also looking to maximise long term prospects for economic and housing market recovery.
- 3.3 Concurrent to this study, Nevin Leather Associates were commissioned to undertake a much more detailed review of *The impacts of the recession on housing in the West Midlands and the implications for policy*. This examines the headline issues that we have highlighted in a more detailed manner, and we cross refer to its conclusions where relevant.

Methodology & data issues

- 3.4 Where possible, we provide statistical analyses for the region's four overarching sub-regional housing market areas (HMAs) separately, using the most up-to-date information available at a local authority level. However it should be noted that some data sets are only published at the regional level and others relate to unitary and upper tier authorities alone. As the HMAs cut across 'county' areas, it is not always possible to derive statistics at this spatial level.
- 3.5 It should be noted that there can be significant lags in the publication of information; for example, the 'current' detailed employment data for industry sectors at a local authority level is derived from the Annual Business Inquiry (ABI) and this is dated September 2007 (2008 ABI data was not available until this study reached the reporting stage). Consequently, it is not yet possible to track the impact of the recession on individual industries within HMA areas.
- 3.6 Most of the data used to track trends in regional and sub-regional economies and labour markets derive from sample surveys of households or employers. It is important to note that these surveys are subject to sampling error and small variations in values from one year to the next, and are more likely to reflect sample variation than any underlying change in the values

themselves. Trends are best measured over a longer time period when short-term peaks and troughs tend to be moderated-out.

- 3.7 One further issue is that survey methodologies can change over time, creating discontinuities in time series. The ABI is a particular case. In 2006, the survey date was switched from December to September, and the method of calculating the geographical breakdown of jobs of employers with many workplaces was changed. Consequently, it is no longer possible to track employee jobs accurately at a local area level between 2005 and subsequent years. We do not analyse ABI data – first, because of the methodology changes, and second because the changes in employment occurring between 2006 and 2007 will have little bearing on the far more significant job losses occurring in 2008/09.
- 3.8 The challenges identified with using survey data to chart labour and housing market change between 2007 and 2009 mean that this report also draws on available administrative data. Two sets are included which have three particular advantages: they are not subject to sampling error, they are generally available at a local authority or sub-regional level and they are up-to-date. However there are still some shortcomings. The Job Seekers Allowance (JSA) claimant count excludes people who are actively seeking work, but who are not eligible to claim benefits – mainly young people and women. House price data reflects recent transactions, but excludes people who are unable to sell. There is some evidence that the housing market is skewed by sales between households who are relatively well off, with low or no mortgages and who are able to access loan finance. This may result in house price data presenting a somewhat optimistic picture, as those requiring higher mortgages or who find it more difficult to access loan finance are no longer able to enter, or progress within the housing market.

Economic Change

A national overview . . .

- 3.9 The financial crisis and recession have had a more marked impact than any other post-war economic downturn on business activity and output, affecting all regions and a wide range of business sectors, including services. The initial impact was on financial services employment, but the sharp cut-back in credit and lending has impacted across the economy more widely. The construction sector has been very hard hit, contracting by 2009 to around half the size it was in 2007¹⁶ as shown in Figure 3-1 overleaf.
- 3.10 Although some commentators consider that manufacturing industry could be less affected than in previous recessions, there is evidence of significant job losses in regions dependent on capital goods and vehicle manufacturing. Retailing and hospitality industries have experienced reduced consumer demand, and hence job losses have also ensued; wholesaling and transport have, in turn, lost demand and employment.

¹⁶ See *Housing and the credit crunch; follow-up – Eighth Report of Session 2008/09, House of Commons Communities & Local Government Committee, 14th July 2009*

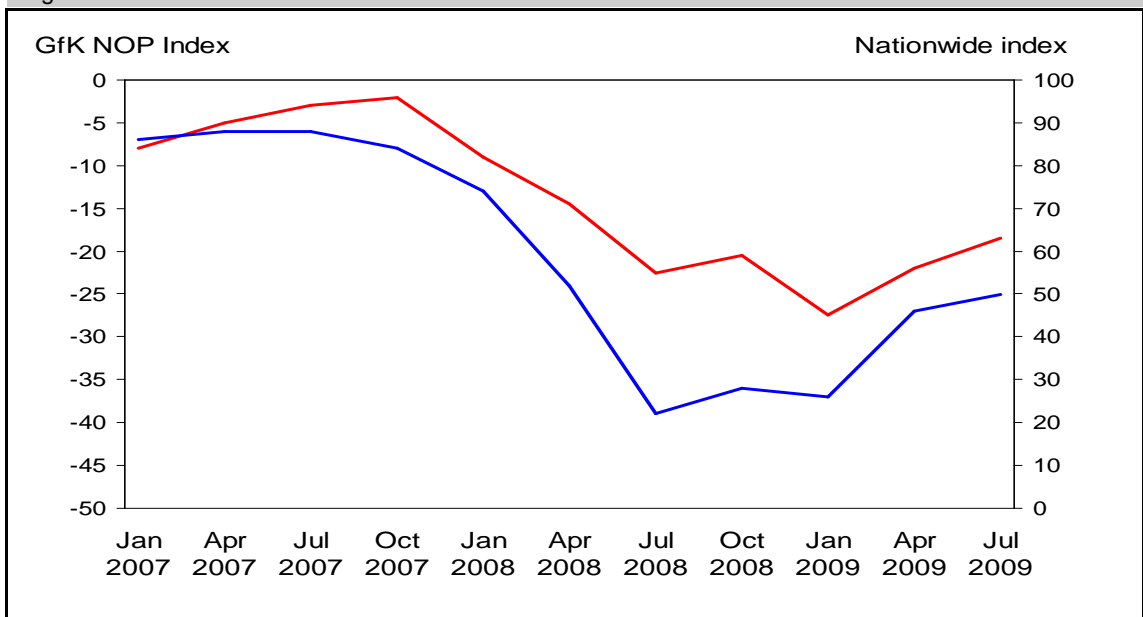
Figure 3-1: Construction output and order performance 2007-2009



Source: ONS

- 3.11 Albeit from a small base, agriculture has been least affected and, until now, the public sector has continued to grow. However, the escalating public sector borrowing deficit means that from 2010 on, there will be major cuts in public sector expenditure and jobs lost in public agencies/corporations, and central and local government (regardless of the ruling administration).
- 3.12 As a consequence, economic uncertainty is pronounced. Whilst confidence has begun to increase in 2009, it continues to remain low in historical terms, as shown below.

Figure 3-2: GfK NOP and Nationwide Indices of Consumer Confidence



Source: GfK NOP

... and the West Midlands' position

- 3.13 In this section, we review a number of key economic and labour market indicators for the West Midlands region to track and plot the impact of the recession.

Workplace population and employed residents – the 'jobs' to 'workers' balance

- 3.14 Table 3-1 provides a summary of the workplace population in each of the four Housing Market Areas (HMAs) for the four years 2005 to 2008. The analysis suggests that increases in employment in the early part of the period have been counteracted by more recent job losses; the Central Area appears to have been affected more than any other. Both Birmingham and Coventry (and to a lesser extent Walsall) seem to be particularly affected by job losses, although there is no overall pattern to these in terms of types of occupation. The West HMA has seen a continued increase in employment over the period, albeit on a small scale, whilst the North and South show fluctuations during the period, but final figures are above those in 2005.

Table 3-1: Estimates of Workplace Population, Housing Market Area Partnerships, West Midlands, 2005 to 2008

HMAP	Jan-Dec 2005	Jan-Dec 2006	Jan-Dec 2007	Jan-Dec 2008
Central	1,464,600	1,474,700	1,465,200	1,431,600
North	307,300	310,000	321,500	313,400
South	364,700	372,200	367,000	384,900
West	297,800	299,600	300,400	301,100
West Midlands	2,433,100	2,456,200	2,454,900	2,431,600

Source: ONS – Annual Population Survey (NOMIS). Note: All figures rounded independently

- 3.15 Table 3-2 summarises the complementary estimates of employed residents by HMA. Again, the data indicate that the Central Area has experienced the bulk of the reduction during 2008. The Central Area has consistently recorded lower employment rates (expressed as a percentage of the population aged 16+) than other areas due to persistently higher unemployment than elsewhere and lower economic activity rates, partly reflecting ethnic issues with very low rates amongst Asian women. The South area continues to show the highest rate of employment.

Table 3-2: Estimates of Employed Residents, Housing Market Area Partnerships, West Midlands, 2005 to 2008; employment rates as % of population aged 16+

HMAP	Jan-Dec 2005	Jan-Dec 2006	Jan-Dec 2007	Jan-Dec 2008
Central	1,445,000 (56.9%)	1,443,500 (56.6%)	1,444,800 (56.5%)	1,416,400 (55.1%)
North	328,000 (59.5%)	321,900 (58.6%)	325,900 (58.9%)	326,000 (58.3%)
South	397,700 (62.4%)	413,000 (64%)	402,800 (61.9%)	407,500 (62.4%)
West	306,100 (61.3%)	303,000 (60.3%)	299,300 (59%)	304,400 (60%)
West Midlands	2,477,000 (58.6%)	2,481,400 (58.4%)	2,472,700 (57.9%)	2,454,200 (57.2%)

Source: ONS – Annual Population Survey (NOMIS) Note: All figures rounded independently

- 3.16 However, volatility in the sample survey-based data means that care must be taken when drawing conclusions about recent sub-regional employment trends in the region. There is some evidence to support an overall reduction in both workplace jobs and numbers of employed residents with the Central Area most affected. Data for January to December 2009 is expected to show further declines in both numbers of jobs and employed residents as well as in the employment rate.

Employer-based surveys of employment

- 3.17 ONS' surveys of employers provide an estimate of civilian workforce jobs for the region as a whole, but not for sub-areas. Table 3-3 below shows the series for the West Midlands for June 2006 to June 2009. Between 2008 and 2009 workforce jobs fell by 82,000, a reduction of 3.1%. Most of the decline was in jobs held by men – reducing by 67,000, as compared with a reduction of 16,000 jobs held by women.

Table 3-3: Civilian workforce jobs, West Midlands, June 2006 to June 2009, (000s)				
Employment	June 2006	June 2007	June 2008	June 2009
Civilian workforce jobs	2,665	2,637	2,656	2,574

Source: Employer surveys, ONS

- 3.18 Together, the workplace population and civilian workforce jobs data suggest that the economic downturn began to have a major impact on employment in the second half of 2008, intensifying in 2009.
- 3.19 ONS has published regional-level estimates of employee jobs by broad industry sector and Table 3-4 provides a summary for the years June 2007 to June 2009.

Table 3-4: Employee jobs by broad industry sector June 2007 to June 2009, West Midlands, (000s)			
Industry sector	June 07	June 08	June 09
Agriculture, fisheries etc	13	25	20
Energy, water, mining	12	13	13
Manufacturing	330	322	284
Construction	114	116	112
Distribution, transport, business services	1,127	1,138	1,078
Education, health, public administration, other services	735	732	739
Total employees	2,332	2,346	2,245

Source: ONS Labour Market Statistics Monthly – November 2009 West Midlands

- 3.20 The table indicates that 101,000 employee jobs have been lost between 2008 and 2009, with manufacturing and distribution and other private sector services most affected (losing 38,000 and 60,000 jobs, respectively). Public sector services continued to grow. However, the official data for construction appears to be at odds with reality, indicating only a very small reduction in jobs. This may, in fact, reflect the fact that many construction workers are either self-employed (and therefore excluded from employment statistics) or are employed on contract through employment agencies (and thus are counted under the 'business services' sector heading).

Employment and unemployment amongst residents: International Labor Organisation (ILO) unemployment & JSA claimants

- 3.21 Data at a regional level suggest that in the period May to July 2009 the percentage of the resident Working Age Population (aged 16 to State pensionable age) in employment, as a proportion of the labour force, was 69.9%; this represents a reduction of 2.3 percentage points over the same period in 2008, and concerningly is the lowest rate of all English regions, apart from London. Despite an increase in the number of economically active residents over the year, the region experienced a significant rise in unemployment. The region's 'International Labour Office (ILO)' defined unemployment rate (as a proportion of economically active residents), rose to 10.5% in the period May to July 2009, higher than in any other region, and 1.1% higher than the next highest region. The corresponding 'claimant count' (the proportion of people of working age claiming Jobseekers Allowance – JSA) rose to 6.6% in August 2009; this is 2.7 percentage points higher than in August 2008. Key statistics are provided in Table 3-5.

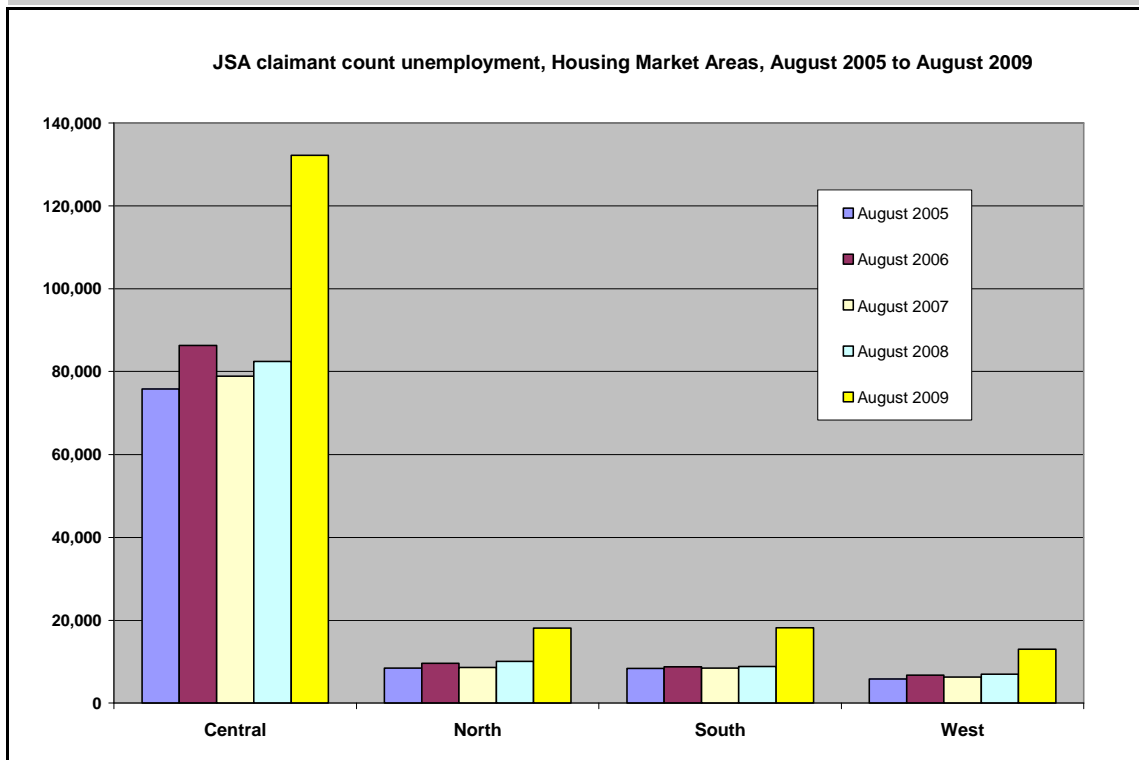
Table 3-5: West Midlands' Labour Market Statistics

Factor	Period	Number s ('000s)	Change on year ('000s)	Rate %	Change on year (%)
Employment	May-July 2009	2,404	-60	69.9%	-2.3
ILO unemployment	May-July 2009	282	+117	10.5%	+4.2
Economically active	May-July 2009	2,686	+58	78.4%	+1.3
Economically inactive	May-July 2009	705	-40	21.6%	-1.3
JSA claimant count	August 2009	182.0	+75.7	6.6%	+2.7

Source: ONS Labour Market Summary 2009 – West Midlands

- 3.22 Claimant unemployment can be measured at HMA level and changes over the past four years, (data month August each year) are summarised in Figure 3-3. Clearly the main increase has only occurred since the summer of 2008. The bulk of the increase has affected the Central HMA, due to the numbers employed within the conurbation. However, the proportionate increase in employment is roughly the same across all HMAs.

Figure 3-3: Claimant unemployment for Housing Market Areas, West Midlands, August 2005 to August 2009



Source: DWP, NOMIS, 2009

Summarising the messages at this point

- 3.23 The recession has hit the regional economy hard from autumn 2008 onwards, resulting in reduced numbers of jobs and increased unemployment. Table 3-6 highlights the main issues facing the region.

Table 3-6: Economic change issues and implications for the West Midlands

Key issue	Implications
Traditional manufacturing jobs have been hard hit as well as services – and the public sector is forecast to be badly hit from 2010 onwards. There are likely to be reduced opportunities for migrant labour.	These changes in the underlying industrial make up of the West Midlands' economy are likely to lead to a mismatch between the needs of growing sectors and the skills of those seeking work. This will have implications for the required content of training courses and the number of people that require re-training. RSS targets for housing and employment land are likely to require review due to the changing industrial structure and potential for reduced in migration to the region.
Construction activity has been hit hard	Some estimates calculate that the development industry has been halved with job losses across all disciplines. Maintaining skill levels with this reduction in the workforce will prove challenging and have implications for the economy as it moves out of recession.
The Central HMA, where employment rates have been lowest historically, has been particularly affected by the recession	Before the recession, there were already significant regeneration initiatives underway in the Central HMA, specifically Birmingham and the Black Country, to address the needs of deprived communities. The recession and its impacts on public service delivery and the development industry are likely to make achieving regeneration goals more challenging.
ILO (broad definition) unemployment at 10.5% is higher	This 'broadly defined' estimate of unemployment has hit

Key issue	Implications
than in any other region.	men and young people particularly hard. There are potential impacts on social capital and community cohesion as well as impacts for local support services and knock-on impacts to the economy in terms of disposable income.

Source: SQW Consulting

Housing market change . . .

Again, looking nationally

- 3.24 Nationally, the number of homes delivered this financial year (2009-10) is likely to be around 70,000, against the government's target in the Barker Review of Housing Supply of 240,000 homes per year by 2016. Starts fell from 166,350, in 2007 to 105,200 in 2008 as sales slumped. According to the National Home Builders Federation, the number of starts in England in Q3 2009 was slightly up, by 2%, as compared with the previous year, suggesting that the bottom of the trough may have been reached.
- 3.25 The impact of the credit crunch has been particularly severe on the development of city centre apartments and buy-to-let properties, with the market for new loans worst hit. There is national evidence that the West Midlands has been particularly affected.¹⁷ Residential land prices in England and Wales (excluding London) fell by 40% in the 18 months January 2008 to July 2009 according to the Valuation Office Agency.
- 3.26 Mortgage lending remains very low, although in late summer 2009 there were some signs of improvement. The 52,700 loans in August 2009 represented a modest 9% increase on July 2009, but accounted for a low 53% of the long-term (seven year) August average before the Credit Crunch, (100,000). First-time buyers accounted for 19,200 loans, lower than in July 2009, but significantly higher than in August 2008. The National Housing and Planning Advisory Unit (NHPAU) estimates that 50% of this group have financial assistance from their family. Very few mortgage lenders are offering 90% loan-to-value mortgages – and then, only for 'low-risk' borrowers.
- 3.27 Although house prices remain significantly lower than at their August 2007 peak, there is some evidence of a small increase in recent months. House price indicators are compiled on different bases, some limited to properties sold with a mortgage and some including expectations of prices realised (that is, indices which cover homes where the sale has not been quite completed, or prices of auctioned homes which are measured at 'expected' sales price). The most comprehensive data set is that held by the Land Registry, although there is a lag in reporting all transactions; this showed a 0.9% increase in average prices across the region in September 2009. However, detailed analysis by Hometrack suggests that the 'active' housing market reflects sales between relatively well-off households, who have low or no mortgages and can access loan finance easily. It does not mean that first-time buyers are finding it much easier to secure a loan. In fact, the Homes and Community Agency (HCA) reports

¹⁷ See *The Credit Crunch & Regeneration: Impact and Implications – an independent report for DCLG, January 2009*. 70% of key partners consulted in the West Midlands reported 50% to 70% decline in residential activity, higher than in any other region.

considerable doubt about how long the modest upturn can be sustained as the average house price to average income ratio remains, at 4.48, well above the long-run average of 4.0.

- 3.28 However, recent national data from the Council of Mortgage Lenders¹⁸ suggests a significant improvement in the number of first time buyers accessing mortgages over the last year. It was reported in December 2009 that the number of first time buyer loans had increased by 34% to 19,700 in October 2009 compared with 12 months earlier and the number of home owner loans had increased by an even greater proportion of 49% to 35,600 in October 2009.

... and the West Midlands' position

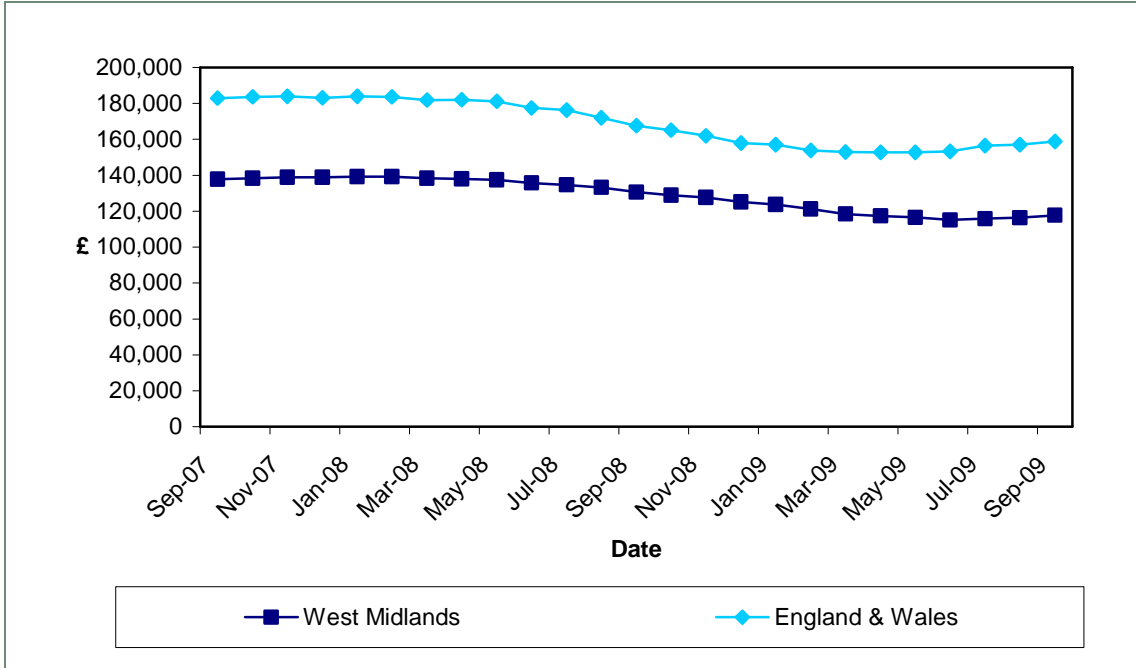
- 3.29 Against this background, we review below up-to-date information on house prices, housing affordability, and volumes of sales in the West Midlands. We then look at house building and changes in tenure. Unfortunately, there is no detailed regional or local information available on mortgage advances and lending, so it is not possible to provide a view of how constraints on lending are affecting the region's housing markets.

House Prices

- 3.30 The Land Registry publishes detailed statistics on the prices of actual property sales. Data for the West Midlands are summarised in Figure 3-4, showing house prices within the region from September 2007 to September 2009 compared with those for England and Wales. This indicates that average prices have fallen from around £138K to just under £118K in two years, a fall of 14.6%. However, there appears to have been a period of stabilisation since summer 2009, with slight price rises in July (0.7%), August (0.4%) and September (1.2%). Not all areas have experienced these effects. For example, average house prices in Walsall have fallen by 17.4% over the two years September 2007 to 2009 and showed no sign of recovery over the summer. However, prices in Solihull have only fallen by 12.5% and signs of positive recovery are starting to be shown.

¹⁸ CML, 2009 <http://www.cml.org.uk/cml/media/press/2489>

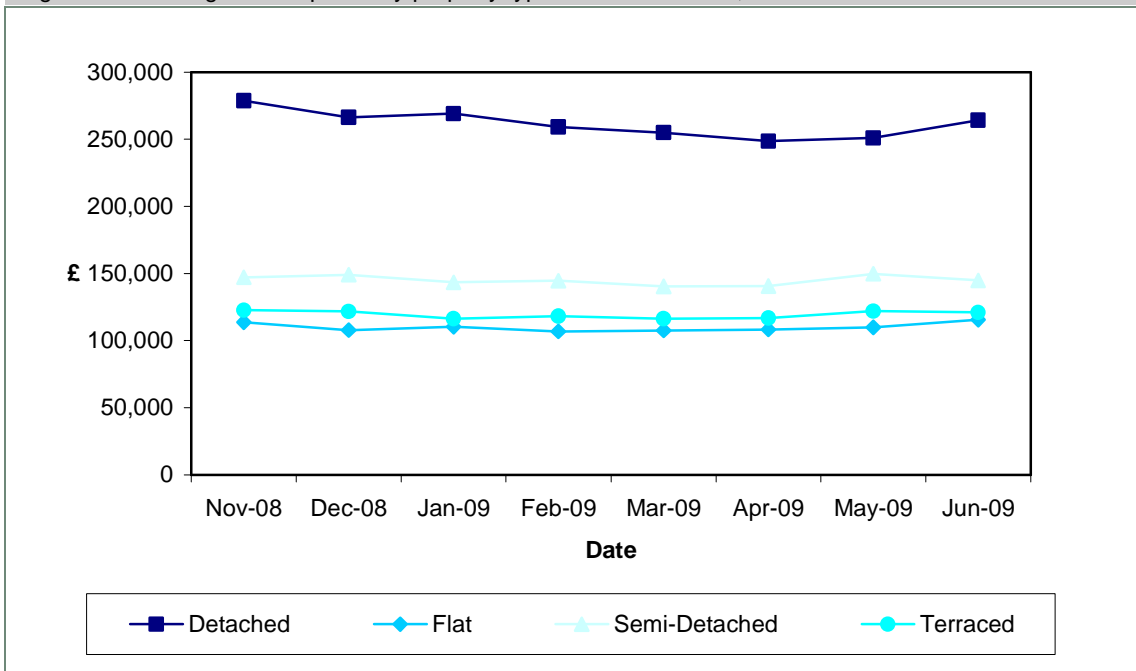
Figure 3-4: Average house prices – West Midlands and England and Wales, Sep 2007 – Sep 2009



Source: HM Land Registry

3.31 WMRA has provided Land Registry data showing the breakdown of house price by type of property for the period November 2008 to June 2009. As shown in Figure 3-5, over the seven month period, there is very little change across all property types. Detached properties show more of an initial decline followed by recent recovery, but prices across the other property types have remained fairly constant.

Figure 3-5: Average house prices by property type – West Midlands, Nov 2008 – June 2009



Source: WMRA/HM Land Registry

3.32 The sluggish movement in sales prices for flats is likely to impact significantly on Birmingham which, in keeping with other urban areas, has seen a substantial renaissance in city centre living over the last decade. In addition, according to Hometrack¹⁹, it is currently cheaper to buy than rent in the city – possibly reflecting a large % of Buy-to-Lets where the owner is trying to cover a high mortgage/purchase price. Stoke-on-Trent has been identified (by Hometrack) as one of the ‘vulnerable’ authorities picked out as being particularly susceptible to repossessions, suggesting that a lot of people took on mortgages at the margins of affordability, and where many jobs have been lost. House prices across all Housing Market Renewal Pathfinders increased massively earlier in the decade, due in part to speculation and the buy-to-let boom; such falsely inflated prices were quickly brought down by the Credit Crunch and ensuing recession.

Affordability – including first-time buyers

3.33 Table 3-7 provides an overview of two key measures of housing affordability for the West Midlands region. The first compares median prices with median full-time employee earnings. The second is more focussed on first-time buyers, comparing lower quartile house prices with lower quartile full-time employee earnings. It should be noted that the most recent data are for 2008. There are no data for Housing Market Areas although statistics for individual local authorities have been published.

Table 3-7: Ratio of median & lower quartile house prices and full-time employee earnings, West Midlands, 2006 to 2008

Ratio measure	2006	2007	2008	Change 2007/08
Median house prices: earnings	6.39	6.46	6.11	-0.35
Lower quartile house prices: earnings	6.78	6.88	6.60	-0.20

Source: CLG Live Tables 578, 576

3.34 Table 3-7 suggests that affordability remains a key issue with ratios of prices to earnings remaining above 6.0. There have been reductions between 2007 and 2008, with pressure remaining acute for first time buyers. These reductions are shown for the region below compared with the rest of the UK.

3.35 At a local authority level, Stoke-on-Trent records the most ‘affordable’ homes for both median and lower quartile ratios, (4.15 and 4.35 respectively). At the other extreme affordability is an acute issue in districts such as Wychavon and Malvern Hills; here the price to earnings ratios remain above 9.00.

¹⁹ <http://www.hometrack.co.uk/commentary-and-analysis/analysis.cfm>

Figure 3-6: UK House prices: earnings ratio change 2007-2009



Source: HBOS (Seasonally adjusted) 2007

Sales Volumes

3.36 Data on sales of property by local authority are published by CLG, drawing on Land Registry records. Table 3-8. The table below summarises sales from 2005 to the end of June 2009 by HMA. At a regional level, after recording more than 108,000 property sales in 2007, the total for 2008 was just over 57,000, a decline of 51,000 or 47%. Sales have declined further between the first half of 2008 and the corresponding period in 2009, down from 33,360 to 19,190.

Table 3-8: Number of property sales in the West Midlands, 2006 to the first six months of 2009 by HMA

Area	2005	2006	2007	Jan – June 2008	July – Dec 2008	Jan – June 2009
Central	52,246	63,515	62,849	20,172	13,716	10,764
North	13,026	15,629	15,427	4,753	3,155	2,664
South	15,432	19,167	17,483	4,931	3,988	3,307
West	10,861	13,932	12,432	3,505	2,916	2,457
West Midlands	91,575	112,243	108,191	33,361	23,775	19,192

Source: Live Table 584 Housing market property sales, based on Land Registry data. Q2 data 2009 is provisional

Housing Stock and new building – Starts and Completions

3.37 Communities and Local Government (CLG) publishes data on house building starts and completions and the annual figures are shown in Table 3-9 for starts and Table 3-10 for completions for the three financial years 2006/07 through to 2008/09. It should be noted that the data are supplied by local authorities and there is missing information; the regional totals include estimates for missing quarters/authorities. In both tables, dwellings built for Registered Social Landlords and local authorities are classed as ‘social housing’, with the ‘social housing’ share of total starts and completions included.

Table 3-9: Housing starts reported by West Midlands' local authorities to CLG, 2006/07 to 2008/09

Area	2006/07 (SH % of all)	2007/08 (SH % of all)	2008/09 (SH % of all)
Central	9,560 (3.9%)	8,350 (9.0%)	3,900 (19.6%)
North	2,160 (5.8%)	690 (8.2%)	280 (9.5%)
South	2,030 (7.6%)	2,180 (10.7%)	1,050 (27.6%)
West	1,780 (5.6%)	2,230 (12.9%)	710 (26.8%)
Region (including estimates); social housing	15,710 (4.9%)	14,560 (9.5%)	7,020 (20.2%)

Source: Table 253 CLG 'Live Tables'

- 3.38 Table 3-9 shows that 'starts' fell significantly between 2007/08 and 2008/09, down from 14,560 to 7,020, a drop of around 50%. However, the numbers of starts of social homes actually increased, rising from 770 in 2006/07 to 1,420 in 2008/09. Expressed as a share of all new building, social housing increased over this period from just 4.9% to 20.2%. At a sub-area level, starts apparently declined relatively more in the North HMA; however, not all authorities reported data on housing starts. Social housing accounts for a relatively low share of new starts in the North area as compared with the rest of the region which could explain this reduction.

Table 3-10: Housing completions reported by West Midlands Housing Land Availability Survey 2009

Area	2006/07 (% affordable ²⁰)	2007/08 (%affordable)	2008/09 (% affordable)
Central	12,372 (19.9%)	11,823 (22.3%)	8,570 (38.9%)
North	2,161 (8%)	2,444 (13.3%)	850 (49.6%)
South	2,959 (16.1%)	2,701 (28.1%)	1,858 (22.1%)
West	2,148 (12.0%)	2,021 (16.4%)	1,289 (39.6%)
Region	19,640 (17.1%)	18,989 (21.3%)	13,432 (38.0%)

Source: 2009 West Midlands Regional Housing Land Availability Survey – data supplied to West Midlands RSS Revision Phase 2 Examination in Public 2009

- 3.39 Reported housing completions also fell between 2006/07 and 2008/09, but not so drastically as starts. Completions of 13,432 in the region as a whole represented 71% of the 2007/08 figure and 68% of the 2006/07 level. All areas appear to have been affected, especially the North where the number of housing completions in 2008/9 represents only 40% of the 2006/7 level (and 35% of the 2007/08 figure). Social housing completions increased from 17.1% of the total in 2006/07 to 21.3% in 2007/08 and 38.0% in 2008/09, with the numbers rising from just over 3,300 to 5,100 per year. Whilst the absolute increase is significant, the proportionate amount is even more so showing the marked reduction in market housing over the time period.

Stock changes by broad tenure group – CLG data

- 3.40 There is limited information available on the composition of the region's housing stock, even by broad tenure groups. CLG publishes one data set for 'private' and 'social' housing at a local authority level, with records up to 2008. A second data set covering years up to 2007,

²⁰ Affordable housing includes Local Authority social rented, S106 and Housing Corporation funded

providing a breakdown by owner-occupation, private renting and both RSL and local authority stock, is published for the region as a whole. Unfortunately, the actual estimates differ, but they show similar trends. Whilst the 'private' stock has increased, the 'social' stock has declined. The data also indicate that there has been a significant increase in the private rented stock in recent years, whereas the number of owner-occupied homes has grown more slowly. Table 3-11 suggests that the number of privately rented homes increased by 10% between 2006 and 2007.

Broad tenure group	2006	2007	Change 06/07
Owner occupied	1,644	1,645	+ 1 (0%)
Private rented	203	224	+ 21 (+10%)
Social rented	447	440	- 7 (-1.6%)
Total stock	2,293	2,309	+ 16 (+0.7%)

Source: Table 109 CLG 'Live Tables'

- 3.41 The stock of private rented homes is likely to have increased further in 2008 and 2009, as problems with buying and selling homes have continued. However, flats have accounted for a significant proportion of new dwellings in Birmingham, and Hometrack report that it is now cheaper to purchase a two-bed flat in the city than rent privately²¹. This may have implications for the future of the 'buy to let' stock. The significant increase in privately-rented property is likely to have led to a change in the household characteristics of this tenure, increasing the proportion occupied by young professionals, families and couples and increasing the share occupied by people in managerial and professional occupations.

Access to housing finance

- 3.42 The Council for Mortgage Lenders (CML) reports that nationally the number of loans advanced in recent months has increased modestly, although they remain well down on the long-term average. However it is important to note that the increase has been restricted to first time buyers; numbers of remortgaged loans remain very low.²² Hometrack consider that, overall, 'any mortgage recovery will be muted at best and short-lived at worse' as remortgage products remain expensive and hard to access.

Again, the key points at this stage . . .

- 3.43 The initial impact of the Credit Crunch fell on the housing market, resulting in a significant reduction in sales and falling house prices from September 2007 onwards. However, house prices still remain high by historical standards (in relation to incomes). With very limited mortgage availability and a requirement for much bigger deposits, the housing market has stagnated. Completions of new homes held up in 2008, but new starts were much reduced and sales of existing homes halved. Social housing starts have held up well, but the size of the sector overall has continued to fall as 'right-to-buy' sales and demolitions have outstripped

²¹ Report to CIH conference in the East of England, 10th November 2009

²² Hometrack report less than 32,000 remortgaged loans in April 2009 as compared with 104,000 a month at the start of 2007: Lending Strategy July-August 2009

new building. The private rented sector stock has increased, although this may be a short-term phenomenon.

Table 3-12: Housing change issues and implications for the West Midlands

Key Issues	Implications
Substantial reduction in house building starts	Failure to meet house-building targets, with increased homelessness and housing stress; major impact on the construction & development industry and knock-on impact on the economy. Cuts in construction industry could take years to resume growth as labour and skills have been lost.
Lack of mortgage finance, 'loan to value' restrictions and requirement for large deposits – first-time buyers particularly affected.	Problems for new-build private sector housing – both owner-occupied and 'buy to let'. 50% of first-time buyers require financial help from family
House prices have fallen across the region, but the largest falls have been seen in Birmingham and Stoke-on-Trent	The over-supply of Birmingham is likely to have contributed to these falls along with the fallout from previously falsely inflated increases associated with speculation around buy-to-let activity associated with Housing Market Renewal Pathfinders.
Although house prices have fallen affordability ratios to incomes remain above the long-term trend	Uncertainty over house prices in near future; lack of supply results in a tight market in many parts of the region
Private renting has increased to compensate in part for reduced sales; social rented sector continues to decline	Need new approach to private renting and its role in helping to provide 'affordable housing' as public sector funding for new social rented housing is likely to reduce in near future

Source: SQW Consulting

To conclude. . .

National overview

- 3.44 The period 2007 to 2009 has been dominated by the fall-out from the Credit Crunch on both the economy and the housing market, and the consequences for the UK and regions have yet to be played out in full. The initial impact of the Crunch and the related cut-backs in bank lending was on the housing market. With mortgage lending hit hard, demand for new and existing homes fell away sharply from a peak in August 2007. This led to falling house prices and falling land values. First-time buyers and buy-to-let borrowers were particularly affected as 'loan to value' mortgages were greatly scaled back and large percentage deposits demanded.
- 3.45 With housing starts for the private market hit hard, there was a cut back in construction employment and a knock-on impact on many other sectors, from architects to builders' merchants and training enterprises. Reduced sales meant fewer household moves, with reduced demand for estate agents, removal companies, DIY, and furniture retailers.
- 3.46 The Credit Crunch deepened into a full-blown economic recession as bank lending reduced across the board and the fall-out of the cut backs in the financial sector impacted on other business sectors. National GDP declined by 5.2% over the year Q3 2008 to Q3 2009.

Regional & sub-regional impact

- 3.47 The impact on the West Midlands has been correspondingly severe. Average house prices have fallen by 14.8% between September 2007 and September 2009, as compared with a fall of 13.5% in England & Wales as a whole (source Land Registry). The broad-level estimate of unemployment (ILO) has seen an increase to 10.5% in the West Midlands in May-June 2009, the highest of all UK regions. Although subject to sampling error, the most up-to-date estimate of employee jobs in the region suggests a reduction of 99,000 between June 2008 and June 2009. The bulk of the job losses identified affected manufacturing (-38,000) and distribution, transport and business services, (-60,000), with construction apparently little affected directly (although agency and contract employees would be recorded as a business service).
- 3.48 At a sub-regional level, it is the large Central Area which appears to have been most adversely affected, with a loss of jobs and workplace population as well as a reduction in numbers of employed residents. The Area's employment rate remains well below the regional average. However, sub-regional data is derived from relatively small sample surveys of households, and is consequently subject to sampling error which can make year-on-year trends difficult to measure.
- 3.49 JSA claimant count data, which provides the most-up-to-date measure of local economic performance, indicates that all sub-regions have experienced a significant economic set back between August 2008 and August 2009; the total regional count increased by over 78,000 in the twelve months.
- 3.50 Housing starts fell by 50% in the region as a whole in 2008/09 as compared with 2007/08 and the downward trend continued into early 2009. Although a very small increase in average house prices was recorded between August and September 2009, we consider that this is likely to reflect sales by the relatively affluent, with little sign of improvement for first time buyers.
- 3.51 Economic forecasters do not envisage the number of jobs in the region returning to 2008 or even 2006 levels until at least 2020. There is general agreement that employment growth – when it does resume – will be slow. With employment falling significantly and unemployment rising, the region is unlikely to attract migrants at past rates and this may have important implications for future house building unless restrictions on mortgage advances to first time buyers can be significantly eased. The Nevin Leather Associates *'Impact of the recession on housing in the West Midlands and the implications for policy'* report recognises that a decrease of migration in the short term will impact on natural change in the longer term due to fewer families migrating in and having children or settling with children. Their report suggests that internal in-migration will drop by as much as 11% up to 2016 before recovering, with net international in-migration also set to decline.
- 3.52 With higher levels of structural unemployment, little if any increase in real pay levels, increased flexible and part-time working as employers seek to spread jobs more equitably, significant cuts in public expenditure and probably higher personal taxes, the outlook for housing remains poor. As banks continue to restructure, loan finance will remain tightly rationed and households will be unable - and unwilling - to borrow high multiples of depleted

incomes. Private sector house-building looks set to perform at well below government target levels.

3.53 Nevin Leather Associates' (draft) report on the impact of the recession on housing in the West Midlands concurs with, and further investigates, the above points. Four issues of particular relevance for this study are raised, which we return to in our analysis in Section 5:

- The housing market recession has resulted more from the Credit Crunch than economic recession – high prices and more flexible and liberalised lending practices have been reined in, with much tighter controls increasing the size of deposits and reducing the amount of advances available which has weakened the housing market.
- The past liberalisation of lending led to greater access to home ownership. However, this has also increased risk which is disproportionate between local authorities. For example, in many of the urban areas, high proportions of first-time buyers have taken out loans which are large relative to their incomes and represent a high proportion of dwelling value meaning a strong chance of negative equity and potential difficulties in repayment as the economic recession bites. This is resulting in increased social polarisation and mobility with wealth concentrated in fewer households than previously.
- On overall tenure patterns, there has been no surge in demand for social housing, with increases in waiting lists being closely associated with reductions in available lettings, due to the continued popularity of right to buy and possibly as a result of tenants being unable to move out of the sector due to the static mortgage market. A significant increase in demand for social housing has not been realised because interest rates are low enabling residents to continue paying their mortgages, support has been provided through Government initiatives and there is a greater willingness of lending institutions to support homeowners through the recession with less of a rush to repossess. However, private renting has increased its share of the housing market, and is likely to continue to do so.
- The economic recession has disproportionately impacted on those younger people who have not yet entered the housing market. This could have an impact on household formation which may be less than forecast through the CLG 2006 projections. The report highlights the likely severe impact of public sector contraction and resulting job losses which may lead to a requirement for additional support interventions to enable people to stay in their own homes.

4: The model's results and analyses

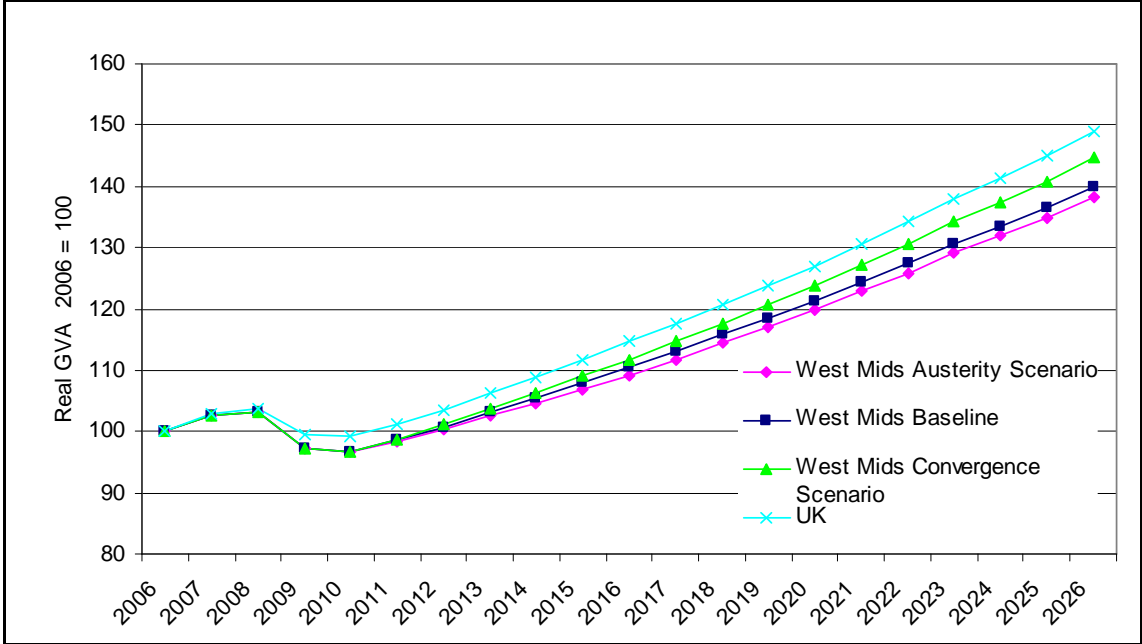
- 4.1 This Section details the results of the model runs for the three selected scenarios, at the level of the region, and the six sub-regional housing market areas. These are as follows:
- North: East Staffordshire, Newcastle-under-Lyme, Stafford, Staffordshire Moorlands, and Stoke-on-Trent
 - South: Bromsgrove, Malvern Hills, Redditch, Worcester, Wychavon, Wyre Forest, Stratford, Warwick
 - West: Herefordshire, Shropshire²³
 - Central 1: Birmingham, Lichfield District, Solihull, and Tamworth
 - Central 2: Coventry, North Warwickshire, Nuneaton & Bedworth, and Rugby
 - Central 3: Dudley, Sandwell, Walsall, Wolverhampton, Cannock Chase, South Staffordshire, and Telford and Wrekin
- 4.2 Where appropriate, In addition, we provide comparisons with the findings from the 2007 study. More detailed analysis of the results and implications for each of the West Midlands' constituent local authorities is provided in the accompanying set of Dashboards, where we have provided one for each local authority.

Projections for the West Midlands Economy

- 4.3 Figure 4-1, overleaf, shows the projected GVA over the period from 2006 showing the impact of the current recession and the differential between the three scenarios. The Baseline scenario shows a continued annual growth rate of 2.4%, Convergence 2.6% (the same as the UK), and the more pessimistic Public Sector Austerity scenario demonstrates growth below that of the Baseline scenario.
- 4.4 The assumptions in the Convergence growth scenario at 2026 favour high value-added activities so that, as Figure 4-2 shows, employment growth even under the Convergence scenario is slower than that for the UK as a whole. As we detail more fully later in this section this manner of achieving future growth has important implications for subsequent housing requirements, impinging on both tenure and type.

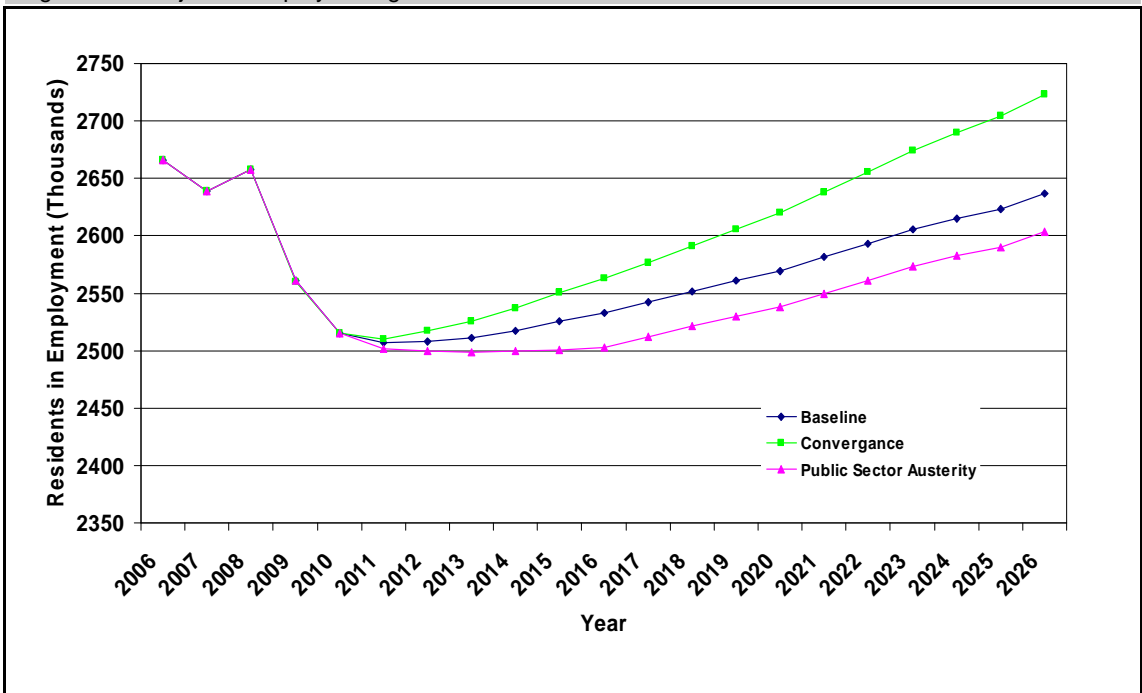
²³ The new unitary authority of Shropshire has been used throughout, with aggregated results from its constituent authorities being used from the baseline date even though this pre-dates its formation to ensure consistency in the working of the model.

Figure 4-1: Projected GVA for the three scenarios to 2026



4.5 The implications of Public Sector Austerity for employment growth show this to be static in the short term, followed by a similar growth to the baseline resulting in a sustained gap in the numbers employed between the Baseline and Public Sector Austerity scenarios.

Figure 4-2: Projected employment growth to 2026 under modelled GVA scenarios



4.6 Importantly, employment rates are not expected to return quite to 2008 levels for the Baseline and Public Sector by 2026, but Convergence is expected to see a stronger increase with a resultant employment differential of 125,000 between Convergence and Baseline, and a further reduction of 40,000 from Baseline to Public Sector Austerity.

- 4.7 Figure 4-3 shows the resulting projection of total employment for each scenario (by broad CE sector) by West Midlands Strategic Housing Market Area. The dominance of Government and other services remains across housing market areas and scenarios, even under the Public Sector Austerity scenario, which allows for significant reduction in public sector employment. Only the South Housing Market Area shows a similar proportion of employment in other sectors - distribution, hotel and catering, and financial and business services. These results are similar to those shown in the 2007 study.
- 4.8 Particular local authorities showing a greater or lesser reliance on Government and other services under the Convergence scenario are:
- Birmingham, Stoke, Stafford and the Black County local authorities show a significant dependence on public sector employment
 - Tamworth, Redditch, Stratford, Warwick, East Staffordshire, Malvern Hills show that they are less reliant on public sector activities, and have stronger private sector bases.

Linking GVA growth in sectors to occupations in residential locations

- 4.9 CE's projections for the types of jobs employed in sectors to 2026 have been translated into occupations going forward using the Standard Industrial Classification (SIC) to Standard Occupational Classification (SOC) converters (40 SICs to 22 SOCs) developed by CE and the Institute of Employment Research (IER) for the Sector Skills Development Agency as part of the national *Working Futures* study²⁴. Figure 4-4 summarises the relationship linking broad sectors and occupation specialisation for establishments in the 2001 Census. The figure also demonstrates that the levels of high value-added occupations vary by sector, with for example hotels and restaurants showing a very high proportion of elementary occupations, whilst education, unsurprisingly, employs a large proportion of professionals.

²⁴ Working Future 2004/14, Sector Skills Development Agency (SSDA), January 2006. See <http://www.ssda.org.uk/ssda/default.aspx?page=28>

Figure 4-3: Projected employment by broad CE sector for West Midlands Housing Market Areas shown for each of the three scenarios: Baseline, Convergence and Public Sector Austerity

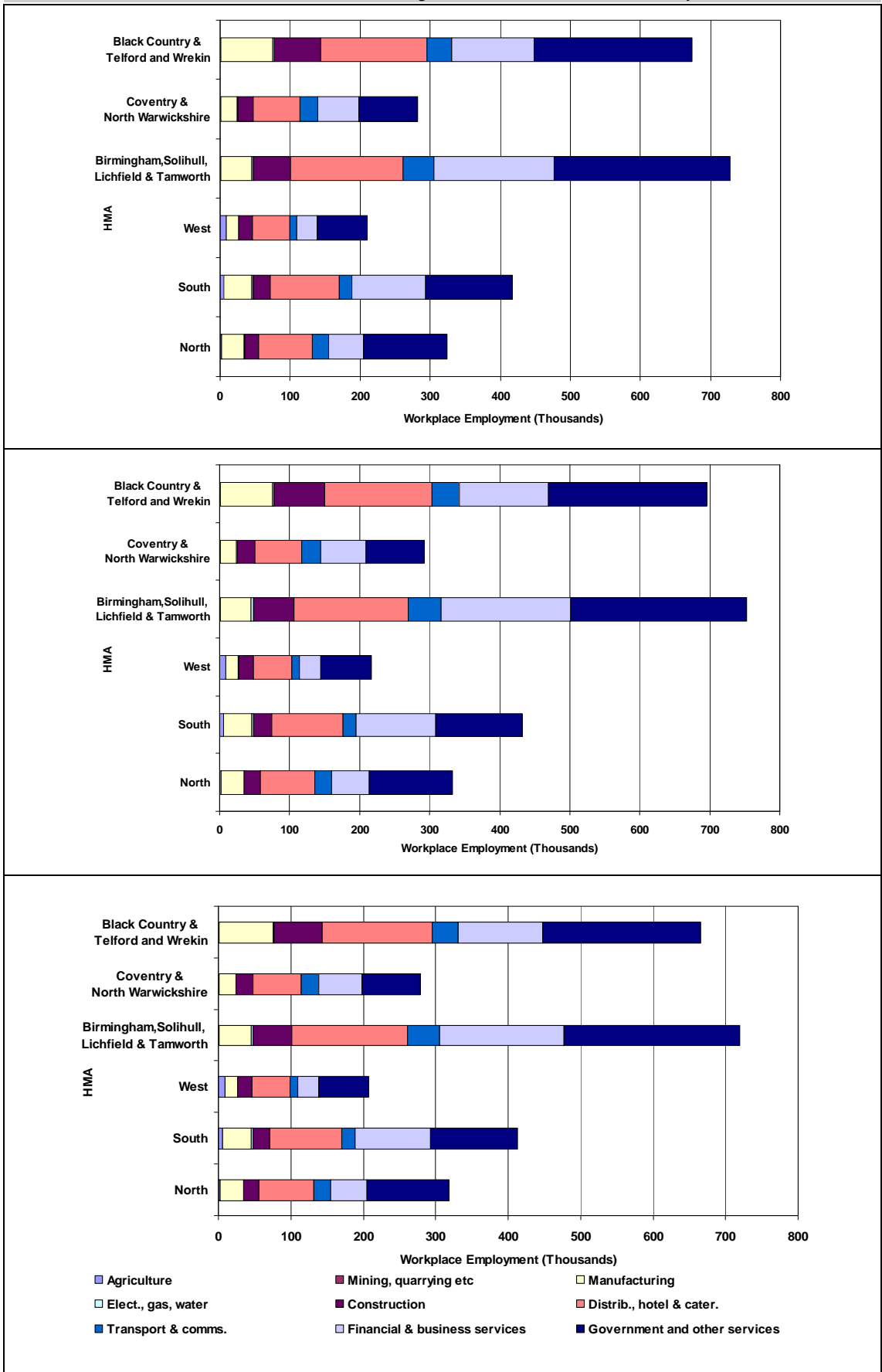
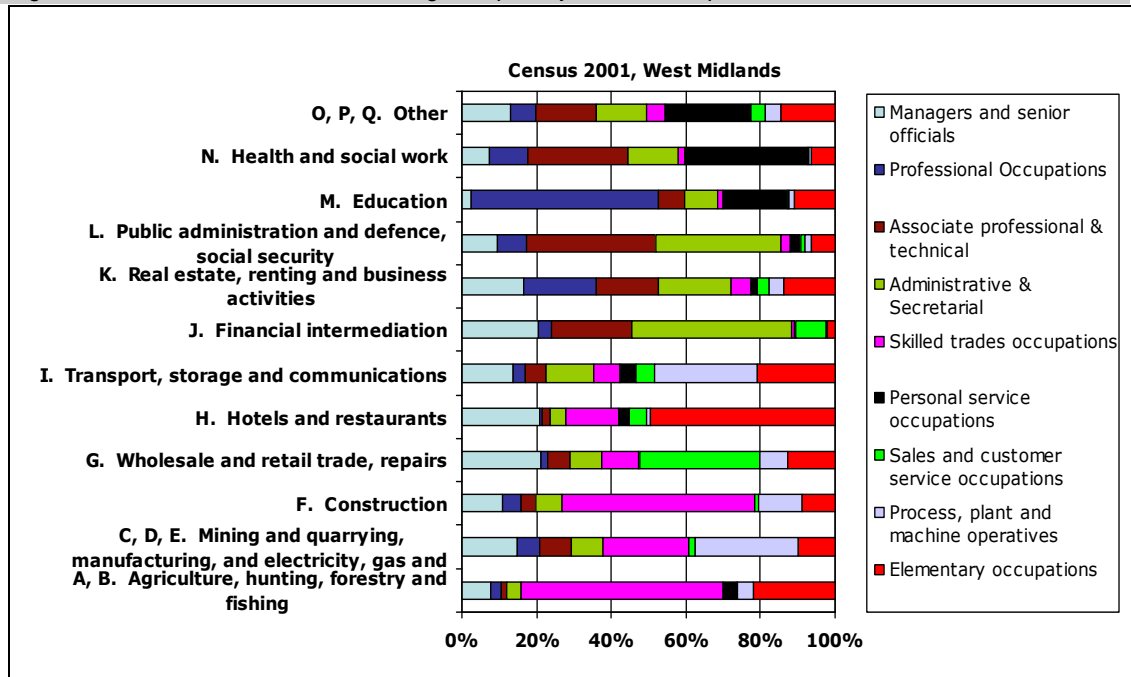


Figure 4-4: SIC/SOC translations turning workplace jobs into occupations



- 4.10 Going forward, the numbers employed in process and elementary occupations will decrease, whilst those in professional occupations are projected to increase. This is fully aligned with the regional economy becoming increasingly knowledge-based in its activities and progressively competing on content, rather than price. Under the Baseline and Public Sector Austerity scenarios, only the West HMA shows an overall increase in aggregate employment. Under Convergence, employment is projected to rise in all HMAs although by variable amounts. There are particularly high losses predicted for Stoke-on-Trent in the Baseline and Public Sector Austerity scenarios due to its current industrial base, but particularly high gains for Warwick under the Convergence scenario.
- 4.11 The next step in the modelling process is then to translate the demand for occupations in workplaces into resident locations, using the key assumption that travel-to-work patterns for occupational groups going forward remains the same as that observed in Census 2001. Analysis to construct commuting patterns consistent with this data on employed people by workplace and residence in 2006 from the Annual Population Survey did not indicate any systemic or sustained variation. The origin: destination matrix derived from Travel to Work Area data (an example for professionals is shown in Figure 4-6) was then applied to the data in Figure 4-5 (occupations by workplace) to provide projections of residence-based demand for locations by broad occupational group. Figure 4-7 suggests there is a strong residential demand coming from higher professional workers and associated support occupations (again to be expected as the region becomes more knowledge based in its activities) which, as shown later, will be key in driving tenure and housing type.

Figure 4-5: Projected change in workplace jobs by 2026 shown for each of the three scenarios: Baseline, Convergence and Public Sector Austerity

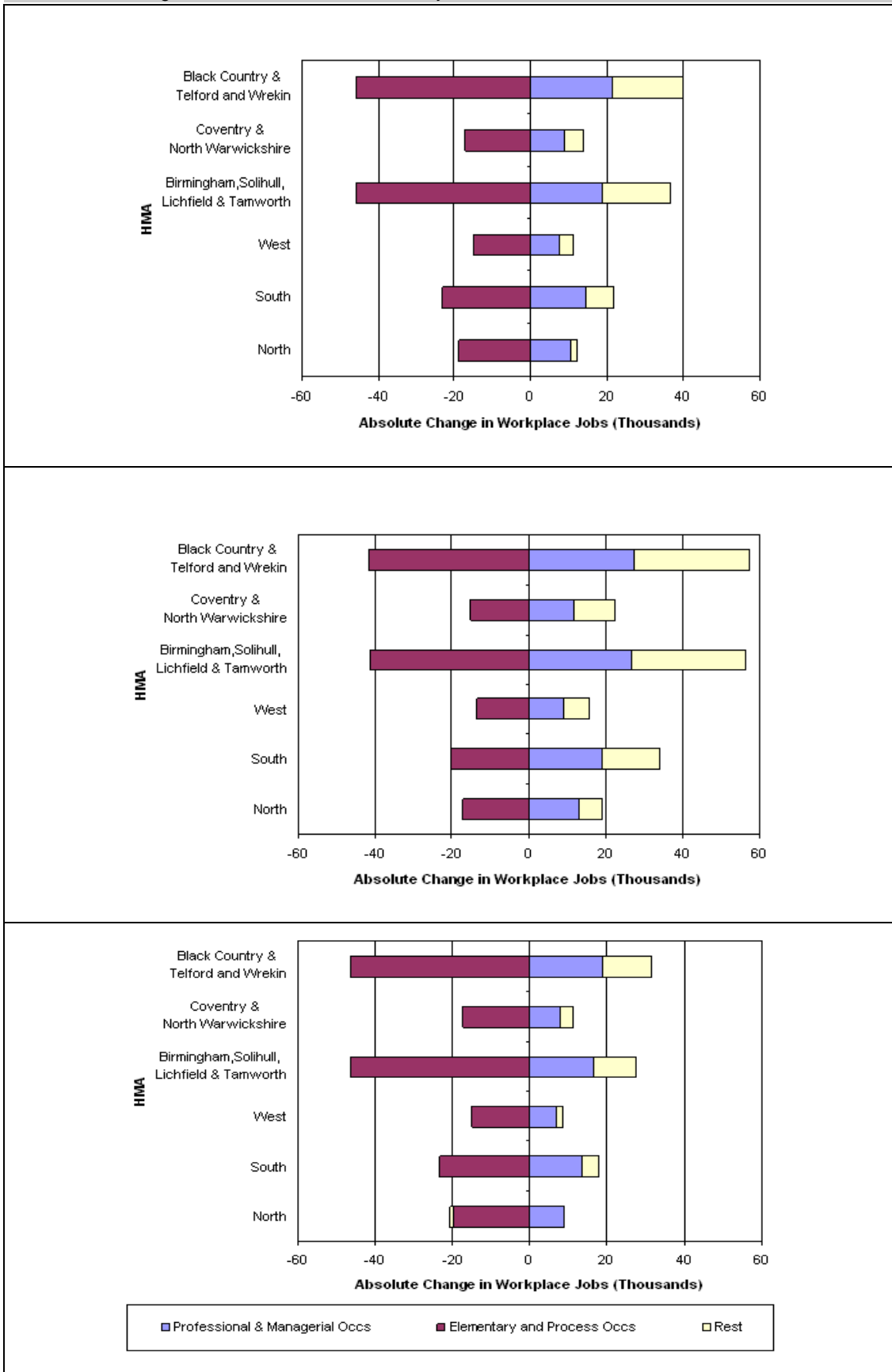


Figure 4-6: Future travel-to-work (TTW) patterns (from 2001 Census & updated baseline using Annual Population Survey, 2006)

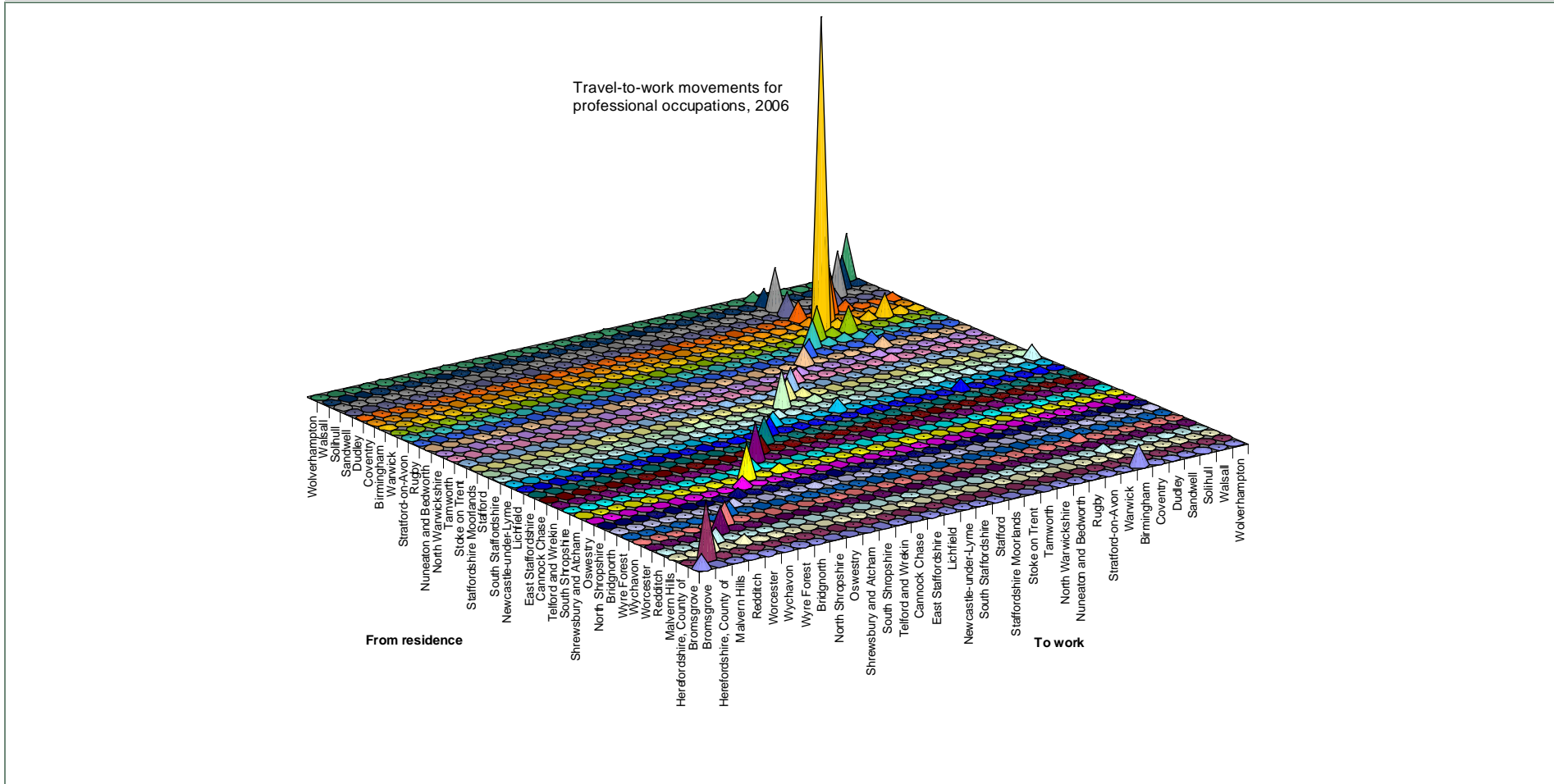
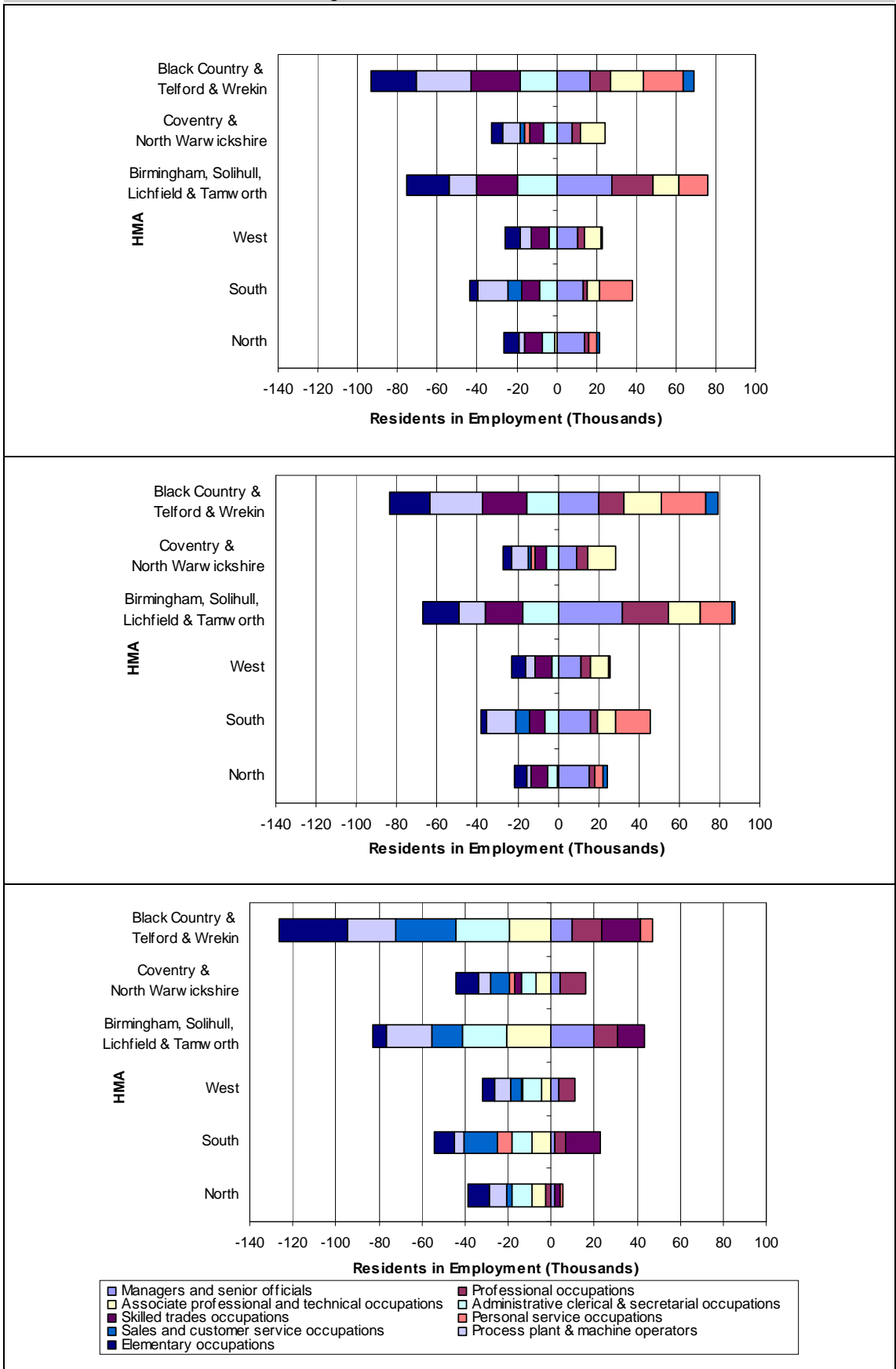
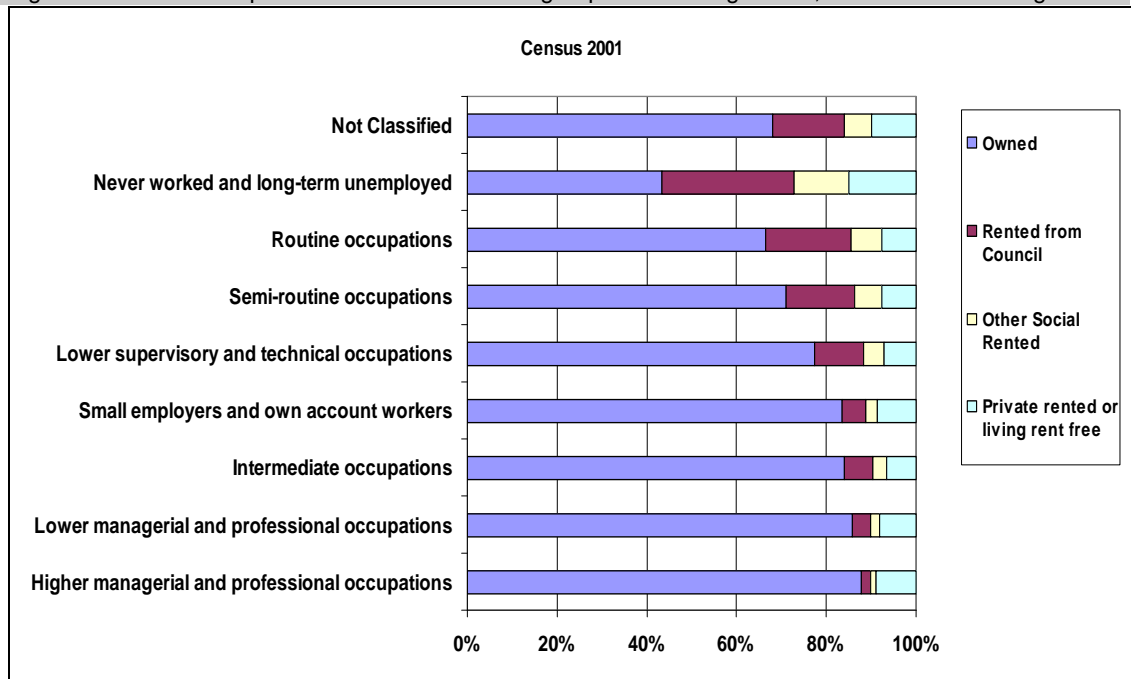


Figure 4-7: Translating onto demand for residence by occupation group 2006-2026 shown for each of the three scenarios: Baseline, Convergence, and Public Sector



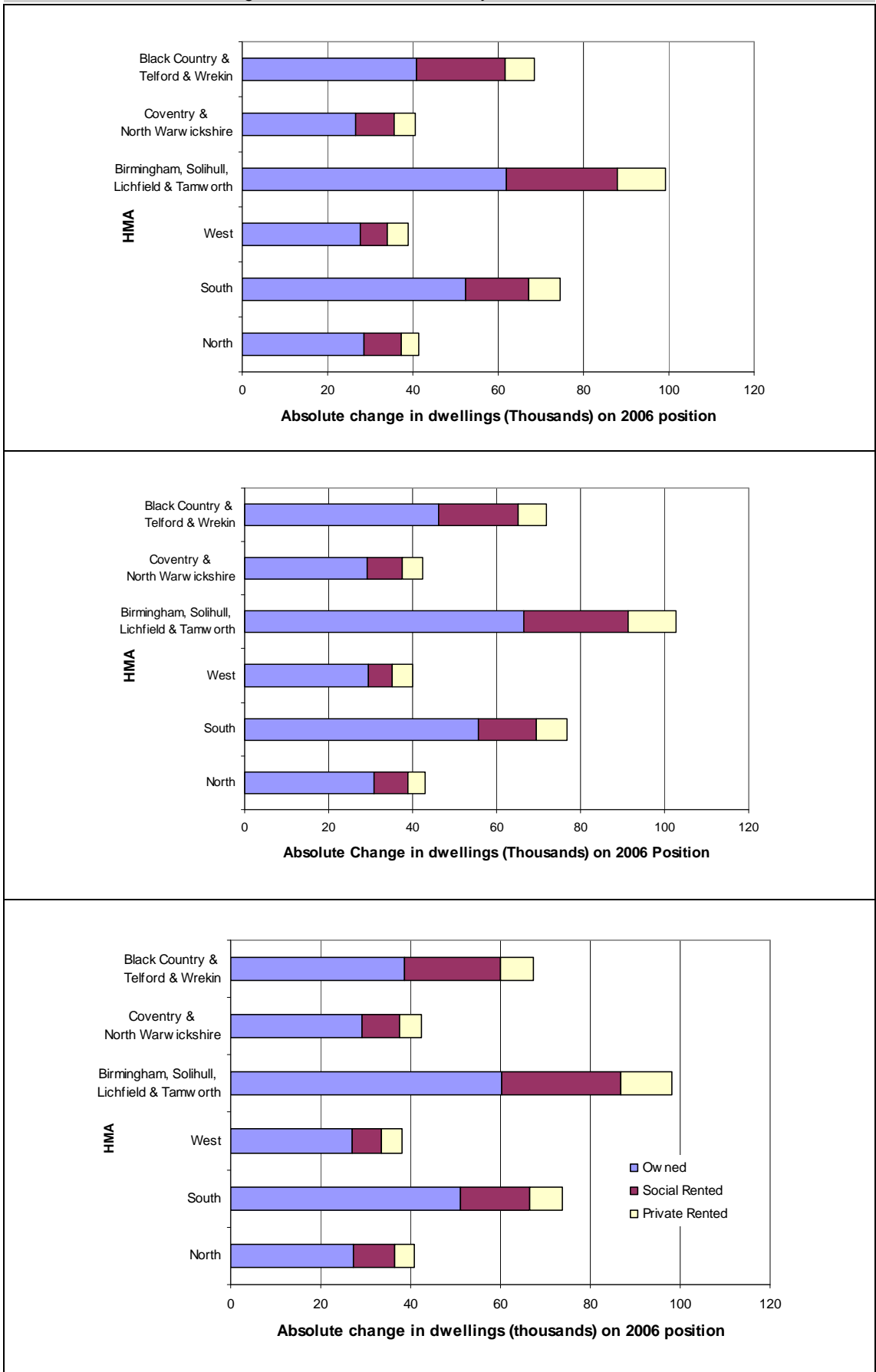
- 4.12 In translating from occupations by residence to demand for housing, occupations are translated to socio-economic class. Estimates are also made for non-working elements of the population (e.g. children, elderly, unemployed, economically inactive). In the baseline scenario, these non-working components of the population are consistent with CE's forecasts of population by district, and regional unemployment.
- 4.13 Census 2001 provided information on the number of people that lived in properties of different tenure. This profile is applied to the projections of population by social class to provide estimates of the number of people living in each type of property.
- 4.14 Demand for dwellings by tenure is calculated from the estimate of demand for dwellings by tenure by applying projections of average household size. Estimates of average household size by tenure are calculated from data on the number of dwellings by tenure in a base year (HSSA, 2006). The average household size by tenure is projected to change in line with the trends in the CLG 2006-based projections of households.
- 4.15 Figure 4-8 presents the relationship between occupation type and housing tenure shown in the 2001 Census data. We have used this to infer housing tenure from the residents in employment occupations identified for each local authority.

Figure 4-8: Relationship between socio-economic group and housing tenure, Census 2001 findings



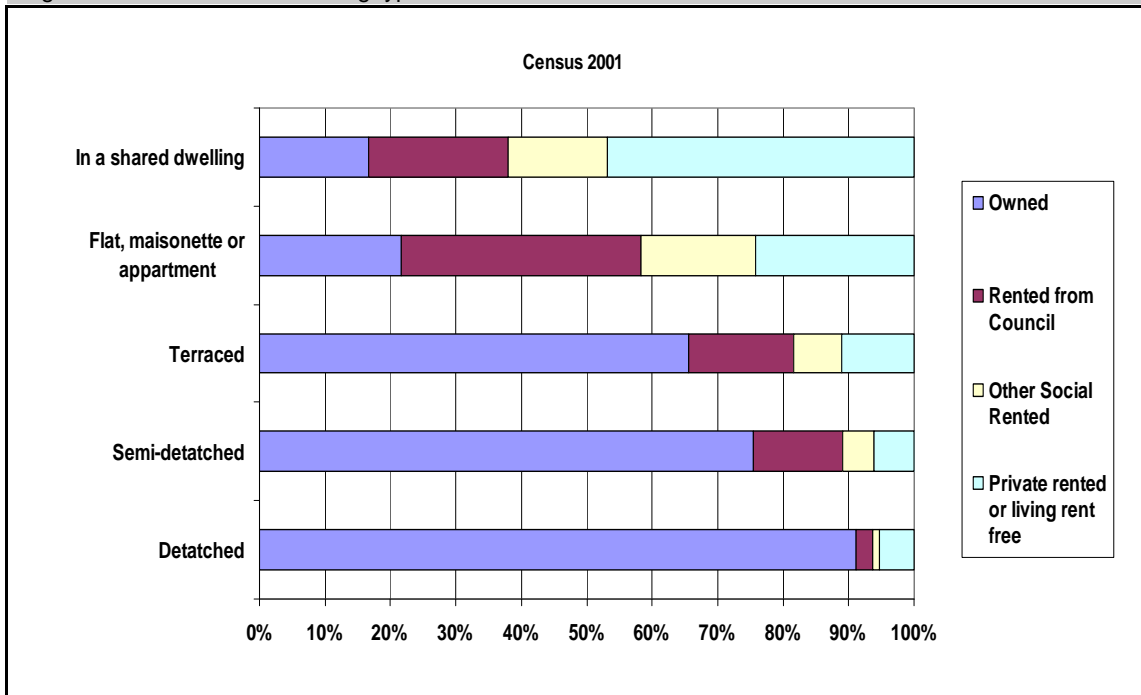
- 4.16 The ensuing change in tenure type by scenario for each HMA is then shown in Figure 4-9 revealing that the Central Areas show a greater requirement for social and private rented properties than the HMAs in the North, South and West. This is to be expected as there is a larger concentration of lower waged workers and workless populations in these areas, which already show a large concentration of these tenures. The proportion of residents privately renting has increased significantly in recent years, but this is not shown in the model or projected forwards due to the reliance on Census data to derive the relationship between occupation and tenure type.

Figure 4-9: Projected tenure type change by scenario & HMA to 2026 shown for each of the three scenarios: Baseline, Convergence, Public Sector Austerity



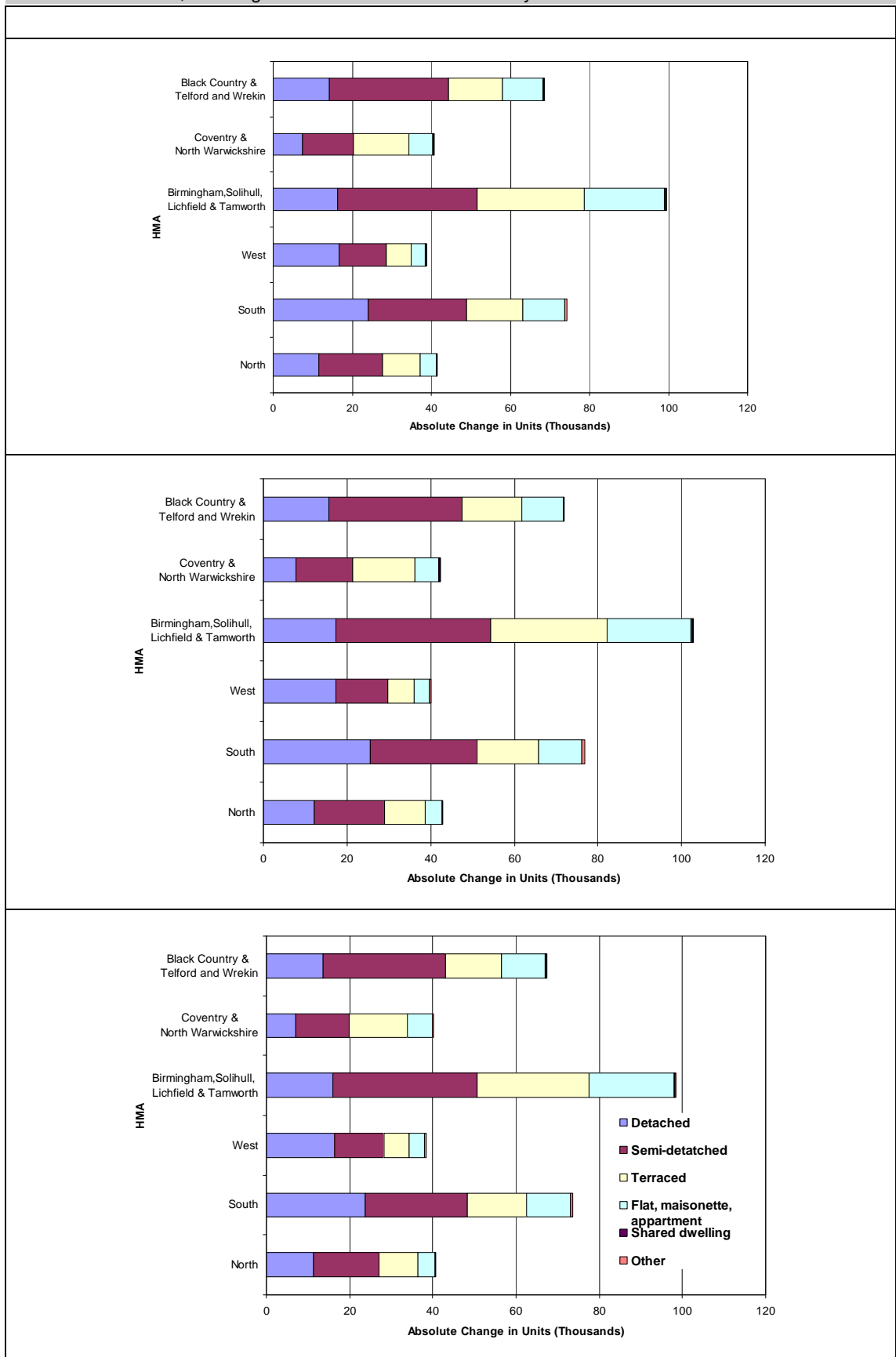
4.17 Figure 4-10 shows the relationship between housing tenure and type based on Census 2001 findings which is again used to project forwards within the Housing and the Economy model.

Figure 4-10: Tenure and housing type translations



4.18 Figure 4-11 shows the projected requirements in terms of dwellings by scenario and HMA. These vary less across the geographies and scenarios, although there is more projected demand for detached properties in North, South and West, and more flats and terraced housing in Central HMAs. Flatted properties have seen a significant rise in city centres, particularly Birmingham, over the last 10 years and terraced properties remain a significant property type in many of the lower value areas particularly Stoke. The findings project a continued relatively high demand for detached properties in the South HMA which is unsurprising as many of these will be located in more affluent and/or rural areas.

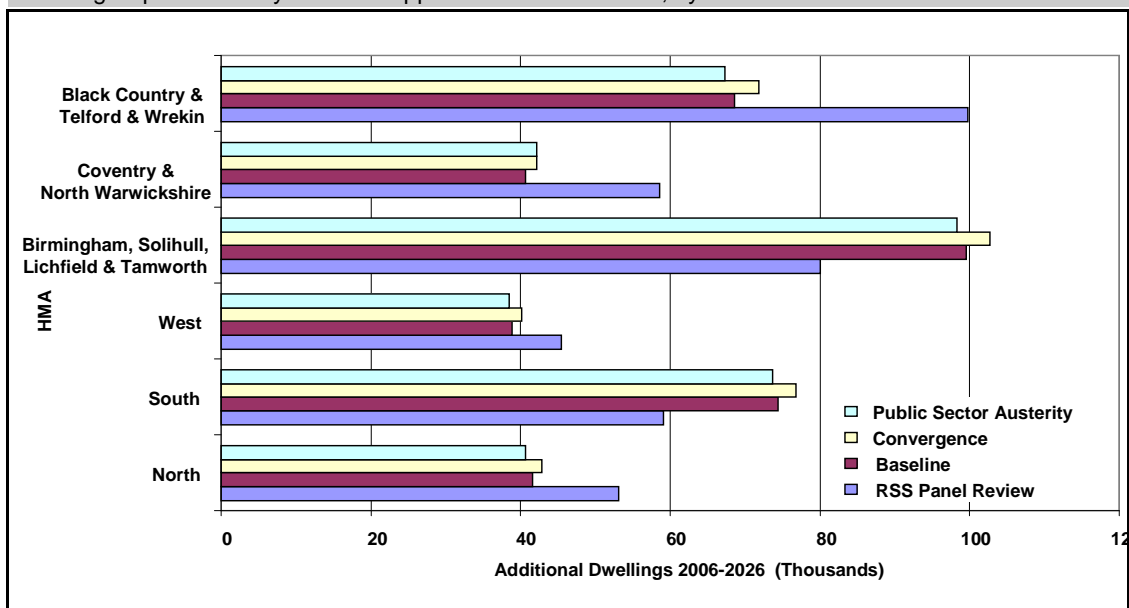
Figure 4-11: Demand components of dwellings change 2006 -2026 shown for each of the three scenarios: Baseline, Convergence and Public Sector Austerity



Source: SQW Consulting, 2009.

4.19 Finally, we focus on the issue of scale and the overall number of additional properties that are required to support each of the economic demand scenarios. The following Figure 4-12 displays the additional housing proposed by the RSS Panel Review by 2026 and the projected additional housing requirements by 2026 to support each of the economic demand scenarios within each of the HMAs. It should be noted that these figures are indicative; as identified earlier, the model does not provide concrete forecasts, but projections based solely on the results of economic modelling.

Figure 4-12: Additional housing proposed by the RSS Panel Review by 2026 . . . & projected additional housing requirements by 2026 to support economic demand, by modelled scenario



4.20 The absolute figures are summarised in Figure 4-12 and decomposed in Table 4-1.

Table 4-1: Comparison proposed and projected housing supply figures for the region and HMAs

Spatial level	Public Sector Austerity	Convergence	Baseline	RSS Panel Review	SHMA (annual housing need)
Central Three	67,300	71,900	68,600	99,800	98,320
Central Two	40,200	42,200	40,600	58,500	23,000
Central One	98,300	102,600	99,500	80,000	144,320
West	38,400	40,100	38,900	45,500	61,600
South	73,700	76,800	74,400	59,000	72,500
North	40,700	42,900	41,500	53,100	41,000
West Midlands	358,500	376,600	363,500	397,900 ²⁵	N/A

Source: CE Projections/RSS Panel Report/Strategic Housing Market Assessments analysis

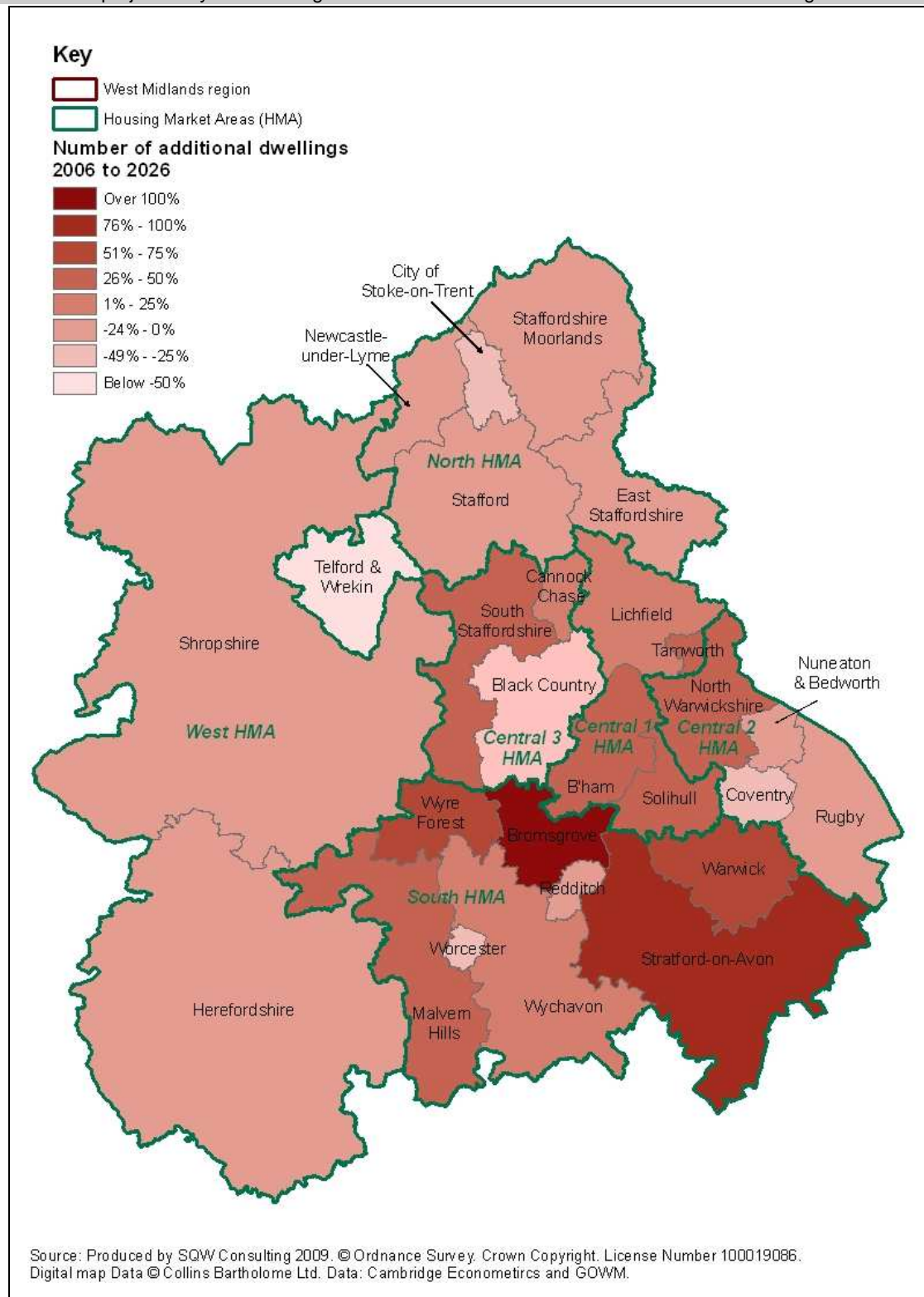
4.21 Table 4-1 shows the difference at Housing Market Area and regional levels between the SQW/CE modelled demand and the proposed planned housing supply figures in the Panel Report for RSS. Also for information, it provides the housing need figures identified by the Strategic Housing Market Assessments. In overall terms, the model projects lower housing

²⁵ RSS HMA figures exclude 2,000 proposed military dwellings

numbers than those estimated in RSS under all three scenarios. The 'gap' number progressively reduces from the Convergence to the Baseline and the Public Sector Austerity scenario. We do not consider the overall scale of the difference at regional level - around 30,000 houses by 2026 - of pronounced concern due to the number of inferences and assumptions built into both our model and the RSS proposed figures.

- 4.22 Under the regional skin, however, as was the case in 2007 there are significant differences. At the HMA level, there are key variations e.g. Central Three and to a lesser extent Central Two, show a significant excess of supply over demand. This is particularly marked for the Black Country and Stoke on Trent. Conversely, both the South and Central One HMAs project an excess of demand over supply with specific variance shown for Stratford and Bromsgrove.
- 4.23 The map in Figure 4-13 (overleaf) shows the degree of variance between housing supply figures required to meet the economic demand projected by the Convergence Scenario and the planned housing supply proposed by the RSS Panel Report, the consequences of which are considered further in Section 5.

Figure 4-13: Map showing the percentage difference between the RSS proposed housing requirements and those projected by the Convergence scenario as a % increase/decrease on the RSS figures



5: The policy issues and the delivery implications

Introducing the analysis

- 5.1 This penultimate Section considers the implications of the model's results in relation to key policy, spatial and delivery issues going forward. The West Midlands is beginning to develop its Strategy for the West Midlands which will replace the existing RSS, RES and Regional Housing Strategy with a single economic and spatial strategy. This should better integrate economic growth aspirations with the spatial pattern of development, in line with the emerging Total Place agenda. The analysis set out in this report is one of a number of important feeds into the process.
- 5.2 The study has revealed that, at the regional level, the overall quantum of housing supply required to meet the economic demand from each of the scenarios is not substantially out of kilter with that set out in regional planning supply figures detailed in the RSS Panel Report. But the regional aggregate hides a number of important differences at the level of component geographies. This finding is aligned with the preceding work we undertook, despite the fact that since then the region has been impacted by a very significant loss in elements of its productive base.
- 5.3 Against this broad background, the material that follows is structured in two parts:
- first, we consider the impact of findings spatially in terms of economic and employment growth, housing distribution, tenure and type, and the degree of mismatch between housing requirements derived from economic demand and those proposed by the RSS Panel Report, particularly at sub-regional housing market area and local authority levels. The accompanying Dashboard Factsheets provide a rich source of intelligence for each local authority which play out the findings in detail. The material in this section analyses these findings in headline terms and highlights those authorities where any mismatch between our projected supply and that flowing from regional planning work is substantial.
 - second, we consider the implications of these findings at all spatial levels contextualising these with wider thinking on policy drivers and delivery issues. Key elements include moving forward to the development of the Strategy for the West Midlands, and the degree to which we consider RSS principles should be taken forward or developed further particularly in relation to the balance between regeneration and growth; the economic and environmental sustainability of planned housing supply *vis-à-vis* that projected through our model.

Spatially differentiated impact of findings. . .

Headline economic impacts

- 5.4 As detailed in Section 2, the current Baseline projection is for the West Midlands economy to follow a similar general profile to the UK, with output stabilising in 2010 and sustained year-on-year growth returning from 2011. The scale of the recession in the West Midlands is expected to be much greater than for the UK as a whole, reflecting the greater relative importance of manufacturing, with a more negative general outlook for employment growth going forward.
- 5.5 The three scenarios have differential impacts for projected GVA and employment growth at the level of the region, HMAs and local authorities. In terms of residents in employment (i.e. the employment rate of those who live in an area, rather than relating to its workplaces), at the regional level the Convergence scenario reveals slight growth from 2006 to 2026 (of 2%) whilst both the Baseline and Public Sector Austerity scenarios show that residents in employment in 2026 will be lower than the 2006 figure by 1% and 2% respectively. This is partly accounted for by the severe fall in employment as a result of the recession, which will only be fully restored in the late 2020s.
- 5.6 All of the HMAs show a reduced number of residents in employment for 2006-2026 in the Baseline and Public Sector Austerity scenarios. The Central One, Central Three and North HMAs show the worst reductions. Within these HMAs, the highest levels of reductions are Coventry (12%), Sandwell (15%) and Stoke (9%) under the Public Sector Austerity scenario. The South HMA is projected to be the most resilient, with Warwick showing an employment increase under all scenarios, including 10% under the Convergence Scenario.
- 5.7 In terms of workplace employment, all HMAs see a projected reduction in employment numbers by 2026 (compared with the 2006 base) for the Baseline and Public Sector Austerity scenarios, with the Central One, Central Three and North HMAs being particularly badly affected. Within these HMAs, the highest levels of reductions are shown for Birmingham (5% reduction within the Public Sector Austerity scenario), Walsall (9%) and Stoke (8.5%). Again, the South HMA shows the greatest employment growth over the period 2006-2026 under the Convergence Scenario (13%) and only shows a slight (less than 1%) reduction in the other scenarios. Interestingly, of the three local authorities showing the largest growth in employment under the Convergence scenario (Solihull, Telford & Wrekin and Warwick), only Warwick is in the South HMA showing a divergence of employment prospects within, as well as between, HMAs.
- 5.8 Across the economy as a whole, occupations will become more high-end, and the demand for process and elementary occupations will fall to 2026. This pattern is revealed across all HMAs, with the greatest absolute and proportional increase in professional employees being shown in the Central One HMA, and the least for the North HMA for both workplace and residents in employment. These findings point to continued strong economic prospects for the South HMA and continued losses in the Central and North areas due to economic restructuring, and the loss of manufacturing in particular. The model projects that different sectors will have different impacts (in terms of output and employment) in different areas due to the nature of the industries involved and advantages of certain locations. The Convergence

scenario projects forward the same pattern of spatial impact. However, it is likely to have a different spatial pattern due to changes in business processes (specifically in terms of ICT), the increasing ability for workers not to be based formally in conventional workplaces, and differential locational advantages. It is crucial for the future economic recovery and sustainable growth of the region that the potential differentiated spatial impact of cluster performance is given more consideration going forward.

- 5.9 The Public Sector Austerity scenario is based on the *direct* impacts of a contraction of employment and output; it does not, however, take into account the *indirect* implications in the public sector supply chain or the *induced* spend resulting from consumption by public sector employees. It is, therefore, possible that the realisation of this scenario could have a more deleterious impact on the economy as a whole and may have a more marked spatial impact on those areas where public sector employment is currently densest, such as the Central One HMA.

... and their implications for housing

- 5.10 The projected housing figures shown in Figure 4-12, Table 4-1 and in Figure 4-13 together provide a useful overview of the potential mismatch between planned housing supply in the RSS and that projected through economic demand. Across the HMAs, the RSS proposes higher housing numbers than the model projects through for the Central Three HMA (where the Black Country shows a particularly severe disparity), and for Central Two, North and West to a lesser degree. Within these, Stoke and Telford & Wrekin show particularly large differentials. The economic scenarios project higher housing requirements for the remaining HMAs of Central One and South than is proposed by the RSS Panel Report, with Bromsgrove and Stratford showing a very high potential mismatch.
- 5.11 From these findings, it can be seen that the projections show continued strong housing demand in many of the areas already favoured, re-confirming the initial position identified in the 2007 work. This is likely to be due to the continued desirability of the areas in terms of residential quality including public services, continued economic prosperity and growth in high-end occupations, and the continued propensity of workers to live in the most desirable areas that they can afford and travel longer distances to work rather than moving to areas of lower cost closer to their workplace.
- 5.12 As a region, in terms of travel to work patterns for professionals, the West Midlands shows high levels of self-containment across the local authorities particularly in the urban centres of Coventry, Stoke-on-Trent and Wolverhampton. Unsurprisingly this pattern is complemented by high levels of in-commuting to Birmingham. The authorities with the highest numbers of out-commuters to Birmingham are Coventry, Solihull and Sandwell. Warwick and Bromsgrove also have high numbers of resident professionals who travel to Birmingham. Coventry and Warwick are the districts with the highest levels of out-commuting whilst there are some cross-regional patterns away from the expected direction such as Wolverhampton to Newcastle-under Lyme and Birmingham to Bromsgrove.
- 5.13 On the issue of tenure, the model's findings can only be considered indicative as the tenure element has been calibrated by using the occupation/tenure pattern from the 2001 Census. Since then, the housing market has changed significantly with the continued contraction of

the social rented sector, greater potential access to home ownership through liberalised lending policies, but with increased house prices driving-out some sectors of the community. At the same time, the private rented sector has increased, and is likely to continue doing so. The projections under all three scenarios identify the continued dominance of owner occupation particularly within the Convergence scenario. Proportions of social rented and private rented remain much lower in accordance with historic trends. Spatially, the scenarios suggest a greater proportion of social rented housing is required in the Central Housing Market Area, particularly Birmingham and Sandwell. Within the other HMAs, Stoke also shows a relatively larger requirement than the average. Conversely, Bromsgrove, Shropshire and Warwick show very high proportions of owner occupation reflecting their relative affluence.

- 5.14 With a reduction in the delivery of social housing, and difficulties in obtaining mortgage finance to access owner occupation, it is inevitable that the private rented sector will continue to grow and provide housing for a much larger proportion of the population than has been seen to date. The private rented sector has historically been characterised by transient populations, particularly students and migrants, however, this has changed over the last decade with greater numbers of young professionals renting as they cannot access the housing market. In addition, there is anecdotal evidence of greater numbers of 'empty-nesters' and families renting privately although this is likely to be from necessity rather than choice. The private rented sector has traditionally been perceived as being problematic due to high levels of anti-social behaviour resulting from homes in multiple occupation and poor landlords who do not maintain their stock or manage their tenants. Increasingly, landlord accreditation schemes and selective licensing are being used to better manage the sector supported by local authority private sector renewal strategies which now recognise its importance. The model's projections show owner occupation and social rented figures which are unlikely to be deliverable within the current housing market and attention should be given to fostering a sustainable, high quality and well managed private rented sector across the region. Finally, it is likely that increased intermediate housing solutions will be required although these are not yet being delivered on a substantial scale.
- 5.15 The model largely projects forward the *status quo*, but housing market performance over the last 15 years or so has, to a large degree, been atypical compared with historic patterns. As identified within the Nevin Leather Associates' report, home ownership looks set to return to the levels of the late 1980s, and the prevailing housing market conditions of the late twentieth and early twenty first centuries, in terms of easy access to finance, large mortgage advances and small deposits are not likely to return quickly. Housing markets are therefore likely to return to former ways, rather than establish a new paradigm. The model projects forward from atypical circumstances and, therefore, it is not surprising that some of the results are incongruent with the current economic and housing market situation.
- 5.16 Turning to house type, again the Census correlation between housing tenure and housing type has been used to project forward supply requirements by type of dwelling linked to economic demand. The proportions of different house type remain roughly the same across all three scenarios, with the West and South HMAs showing more larger house types (detached and semi-detached properties), and the three Central and North HMAs showing a greater requirement for terraced housing and flats due to their more urban nature and less positive

economic prospects. Again, care needs to be taken in relation to the absolute figures due to the reliance on Census 2001 patterns, particularly as there is no data reflecting the relationship between socio-economic group and house type. Since the time of the Census, there has been a considerable increase in flatted properties particularly in the city centres, which will not be reflected in these figures. Similarly, regeneration initiatives and the HMR Pathfinders in particular are aiming to increase the range and choice of properties, and reduce the monolithic supply of terraced housing which does not suit the aspirations of households today. Continuing the status quo in housing provision will simply maintain the current situation in terms of polarised housing markets.

5.17 Across all local authorities, the projections do not indicate greatly different profiles of housing by type going forward, despite the large increase in managing professional occupations. This is due to:

- There being offsetting falls in demand for similar types of houses from other occupations; that is, the net change in demand for a type of housing is much smaller than implied by the additional higher-order occupations
- A loss of information in the model: whilst we know the tenure profile of dwellings by socio-economic class, we do not know the type of property owned by class (that is, the type-profile of owner-occupied housing among managers, demand for which is increasing, could be weighted towards detached properties, while that of class 3. Intermediate occupations, demand for which is falling, could favour terraced or semi-detached properties.)

5.18 As a result of the above, the number of people 'demanding' different types of properties has not increased in line with the increase in higher order occupations because of the counteracting decrease in demand arising from those occupations in decline.

5.19 A more detailed assessment of the implications at the level of individual local authorities is set out in the Dashboard we have developed individually for each authority. These are available separately to this report.

Implications for policy and delivery

5.20 In broad terms, planned housing supply is less than that projected from economic demand in those areas already favoured for in-migration, and more in areas where economic demand is weaker. This will come as no surprise as planning policy actively promotes development to meet housing need and/or achieve the regeneration of deprived areas (both urban and rural) to increase their population as well as improve residential environments for existing residents.

5.21 There are two obvious, yet not necessarily realistic, solutions to this dilemma. Either employment growth needs to increase in areas where planned supply currently exceeds economic and housing demand, or increased housing needs to be provided in areas where demand exceeds planned supply.

5.22 Meeting the RSS Panel Review's housing proposals would require significant employment growth in locations where it is currently declining, and is forecast to continue to decline even once the economy moves out of the recession and into recovery. The scale of required

employment growth may be unrealistic and also a focus on increasing employment, rather than an uplift in GVA, could have the unwanted outcomes of either increasing long distance commuting as people remain in the more favoured areas and travel to where the jobs are being created, or that a substantial number of low value jobs will be created, which would have the effect of reducing rather than increasing the West Midlands GVA growth rate to match that of the UK.

5.23 Spatial policy aspires to achieve urban and rural renaissance in order to achieve environmental sustainability (encouraging people to travel less and minimising the use of greenfield land), and achieve regeneration of deprived communities particularly where out-migration has led to an impact on service delivery. The Housing Market Renewal Pathfinders (in Stoke and Birmingham/Sandwell) and the Impact Investment Locations (including the significant Growth Points Programme) all aim to improve residential quality and 'liveability' of areas, and have been prioritised in all relevant public policy and investment programme, but the housing preference of professional workers is unlikely to be affected by these. Policy makers have grappled with the potential impact of house building outside regeneration areas on the success of initiatives within them for several years. Through our research we have identified two opposing views, both from 2008:

- According to the Nathaniel Lichfield study which provided a core input to the revised RSS housing figures, there is.. 'no evidence that increasing housing supply outside the Major Urban Areas will deter urban renaissance' and 'additional housing can support economic growth, address affordability and support urban and rural renaissance'.
- The West Midlands' Chief Engineers and Planning Officers Group reported in 2008 that in relation to housing distribution 'without further policy intervention, a further 200,000 people could leave the Metropolitan Area over the RSS period which could run counter to both the urban and rural renaissance'.

5.24 Our view is that a balance needs to be struck. A blinkered adherence to urban renaissance with the imposition of planning constraints or moratoria on more popular areas may actually lead to these areas becoming more desirable due to exclusivity, a growth of NIMBYism, and house prices rising beyond the means of local people. Conversely, a total lift on planning controls would not only have severe impacts for environmental sustainability, but could also stymie current progress in the regeneration of the region's cities and towns. Overall, it does appear as if the current balance could be too much in favour of regeneration of the central areas at the expense of additional housing particularly in the south of the region which could have an impact on attracting the required labour supply to meet the requirements of increased higher order occupations, especially as the south of the region becomes yet more integrated with the economy of London and the Greater South East.

5.25 Related to the above, our model does not take into account the availability of land or existing/planned infrastructure to support additional housing in the projected distribution, although other studies, such as that undertaken by Nathaniel Lichfield, consider that sufficient land is available for additional housing and infrastructure issues are not insurmountable.

- 5.26 Over the last ten years, house prices have increased significantly across the region and despite falls during the recession, owner occupation is now out of the reach of far more people than it was at the time of the Census. In the same vein, the Credit Crunch and subsequent recession have made access to mortgage lending and other forms of finance increasingly challenging to any but the most 'credit worthy'. These developments could lead to the favoured locations becoming even more popular and as desirability increases house prices, only those with considerable resources will be able to afford to live in such locations. Conversely, those with limited means will be restricted to the areas which are subject of regeneration, leading to an increasingly polarised region and making the achievement of mixed and sustainable communities an even greater challenge. Our tenure and house type projections (whilst noting the caveat that these are based on 2001 Census patterns) support this continued concentration, with a requirement for greater proportions of larger homes in owner occupation in the South and West, and relatively more smaller terraces and flats in privately or socially rented tenures in the Central HMAs.
- 5.27 Finally, it is important to consider business discontinuities going forward. At this juncture, we can only suggest what these may be, but they could have a significant impact on future required housing supply. Whilst current research suggests that travel to work distances will continue to increase with a sustained reliance on the private car, a greater commitment to the low/zero carbon agenda and increasing technological advances pave the way for home working on a far greater scale than is currently being seen. Within higher professional occupations, there are already a significant proportion of people travelling very long distances to work (across, rather than within regions) but not daily, and spending the remainder of their time working from home. Such changing patterns could have a significant impact on future travel to work patterns and, consequently, housing locations and mixes.
- 5.28 In closing this Section, it is important to recognise that we are not recommending that a whole new set of housing figures should be developed to match the model's economic demand derived supply requirements. Rather, we recommend that these findings should be taken into consideration alongside others, such as housing need, affordability and access to credit, to form the roundest view possible of the drivers on housing demand and supply going forward.

6: Conclusions and recommendations

- 6.1 This study has examined the scale and location of housing demand which is likely to result from three differentiated economic growth scenarios in the period 2006 to 2026, and compared this with the planned housing supply proposed in the RSS Panel Report. These scenarios are based on trend based growth, assumed convergence with the UK average growth rate for the period to 2026 resulting from accelerated growth delivered by regional priority clusters, and a more pessimistic outlook incorporating a fall in government (current) spending in real terms year-on-year through to 2013.
- 6.2 In this concluding section, we identify those messages reinforcing the findings from the 2007 study, those which take it forward, and end with a brief review of the model and a number of recommendations regarding its future application. As highlighted earlier, it should be remembered that the model uses *projections* not *predictions* of future economic growth-led demand, and then translates these into future housing requirements using a number of assumptions and inferences. It therefore should not be taken as an exact determinant of required future housing supply distribution across the region, but rather as providing an economic demand dimension to the ongoing debate on housing provision

Messages reinforcing the findings from the 2007 study

- 6.3 The key messages from the 2007 study have all been confirmed and to a large degree reinforced within the current study. In summary:
- Projected household size remains the most crucial factor in driving the future economic demand for housing, with GVA growth and employment rates having less of an overall impact. The projections resulting from the three scenarios showing small differences in the overall scale of required housing evidence this.
 - The overall scale of projected housing demand across the three scenarios is roughly in keeping with that from the RSS Panel Review, but there are marked disparities between economically driven housing demand and planned supply at the sub-regional housing market area and local authority levels.
 - The projections resulting from the economic growth scenarios suggest a continued propensity for high dwelling demand in more popular areas which exceed the Panel Report's planned supply figure. The reasons behind this are still likely to relate to residential quality, economic prosperity and availability of employment, and a continued preparedness of residents to travel long distances rather than live in more affordable properties closer to work. Conversely, in areas which are currently less popular and in need of regeneration, planned supply figures continue to exceed the projected economic demand requirements.
 - The projections also suggest continued tenure and housing type imbalance with a continued high proportion of owner occupied, larger properties in the South and West

and a relatively larger proportion of privately and socially rented properties in the Centre. This pattern is in fact likely to be even more marked with the tightening of mortgage lending, vulnerability of home ownership of some of the urban areas, particularly Stoke, and increasing unemployment.

- 6.4 Whilst these confirmations are helpful, it is important to recognise that the economic situation that the region faces is now markedly different than in 2007. A key difference, which will have serious implications for the region, is the very real prospect of jobless growth through to 2026. Both the Baseline and Public Sector Austerity scenarios project a reduction in overall employment by 2026 (compared to the position in 2006), whilst the 2026 Convergence scenario projects only slight employment growth above the 2006 level.

Moving forward

- 6.5 As we move towards the development of the Strategy for the West Midlands, there is a greater understanding of the interconnectedness and relationships between the economy and housing markets. Planning and economic development decisions are now increasingly being made in an integrated way, with 'silo working' not quite a thing of the past but certainly no longer the norm.
- 6.6 The disparity between planning policy directives and the resulting planned housing distribution and economically-driven requirements should not immediately be dismissed on the basis of conflicting with regeneration policy or fully addressed with large scale house building in the more desirable areas. These findings need to be considered in the light of major affordability challenges (across the region but of particular severity in the South), housing need (particularly within the Central One HMA), and difficulties in accessing finance which could in fact concentrate and sustain the current pattern of development.
- 6.7 Overall, there appears to be an ongoing momentum accentuating the problems already evident in the West Midlands (as in many other areas) of increasing social polarisation between the 'desirable' and 'less desirable' areas, with affluence being the key deciding factor. These issues are likely to remain once the economy emerges from recession and enters recovery and are likely to continue to do so into the future. Significant progress with regeneration initiatives or a greater commitment to the zero carbon agenda reducing commuting distances will be required to address this challenge.

Reviewing the Housing and Economy Model

Modelling in the real world . . .

- 6.8 In framing the model, we have taken an approach which relies on modelling a continuation of past trends and existing patterns in terms of distribution, tenure and housing type. Data limitations mean at present we have little other choice. In taking forward projections which fundamentally reinforce the status quo, it is unsurprising that economic demand requirements do not meet those of the RSS planned supply, particularly when RSS is deliberately trying to re-focus development patterns to enable the regeneration of urban and rural areas, protect the countryside and meet evident need. However, in doing so it does provide a useful input to the

embryonic Strategy for the West Midlands – these are the patterns that are likely to emerge without intervention.

- 6.9 Overall, this report, its findings and analysis should be viewed and considered as providing the economic demand input into the housing debate. We have provided projections, not predictions in an area of policy which is dominated by people's preferences – preferences which are not always logical and cannot easily be projected through an economic model.

Thinking about developing the model

- 6.10 This report sets out the findings from a second run of the model, following its first iteration in 2007. We consider the model provides a useful and challenging addition to the housing figures debate. It has its constraints, and ultimately modelling people's preferences will never be a perfect science. That being said, going forward we would want to offer the following recommendations to ensure subsequent works moves the collective knowledge forward:

- **Data asymmetries and gaps** – work will be required to address some of the gaps in up-to-date information, which are a significant constraint to the model. There is a legitimate exposure in that the model is very overly reliant on Census 2001, causing difficulties as we move further away from the Census date. This is a relevant issue of wider applicability than just this model. For example, there is no consistent, publicly available, secondary data on current or projected housing tenure patterns at the national, regional or local authority levels or travel to work data making planning for housing extremely difficult.
- Understanding and improving alignment between the proposed **Impact Investment Locations** and the Strategy for the West Midlands will be essential. Whilst still at the proposal stage, the move to Impact Investment Locations (IILs) could represent a potentially huge uplift in housing development. And although the Growth Point interventions are included within the RSS Panel figures, it is unclear to what degree other proposals are taken into account in modelling housing supply.
- **Further work is required to understand future business discontinuities** and how these may influence the future development of employment and housing location. Changing business processes and more flexible arrangements for the location of workers could lead to less travel to work journeys but over longer distances or reduce these altogether although home working will never completely replace the face to face communication which is essential for success within knowledge industries. Technological developments and the impact of varying levels of commitment to the low/zero carbon agenda, along with increasing fuel prices, are all likely to be key within this area.
- It is essential that more work is undertaken to understand the **likely spatially differentiated impact that will result from improved performance in the region's** clusters to achieving a greater GVA growth rate for the region. More fundamentally, work could be usefully done to better identify those sectors where real future growth is likely to come from. Within the model, the performance of clusters within the baseline scenario is projected to have different spatial impacts as different locations

will have specific advantages for different industries. However, there is no intelligence available to inform how these spatial impacts may differ if cluster performance is improved, which is a significant shortcoming.

- **Further consideration of how the regional housing offer compares with that of other regions** should be undertaken to ensure that proposed interventions enhance the West Midlands' competitiveness in terms of attracting workers, particularly those in higher order occupations in knowledge industries who are essential to long-term economic prosperity. At present, the model considers the West Midlands region as a 'closed system', and with any future application of the model it may be useful to include a benchmarking element with the performance of other regions' economies and housing markets. Such benchmarking would increase the model's wider applicability and enable policy makers to understand, rather than asset, the degree to which the region's housing offer genuinely provides it with a competitive edge.