

Spotlight Hertfordshire Residential Development

2017



SUMMARY

Future opportunities for meeting Hertfordshire's housing need

■ **Strong house price growth:**

House prices have grown by 11.7% in the past year, and sit 48.9% above the 2008 peak. The strongest performing areas in the last year have been North Hertfordshire and Stevenage. P2/3

■ **Stretched Affordability:** Strong house price growth, combined with high housing demand and a delivery shortfall has resulted in some of the highest housing affordability pressure in the country. P2/3

■ **Planning Policy:** Many local authorities in the county are in the

process of developing new local plans. This provides an opportunity to strategically address the land supply challenges facing the area. Co-operation between local authorities will be essential. P4/5

■ **Housing Supply:** Hertfordshire has not seen enough housing development to meet need in recent years. There is a pipeline of over 23,000 new homes, but more sites need to be identified. This situation is complicated by the large amount of land designated as Green Belt. P4/5

■ **New Opportunities:** Infrastructure improvements are likely to open up new areas for housing development. The largest opportunities could be unlocked through Crossrail 2 in the east of the county and upgrades to the A1(M). P4/5

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“Hertfordshire has not seen enough housing development to meet need in recent years”

Savills Research
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Housing

STRONG GROWTH, NEW CHALLENGES

Hertfordshire has seen strong house price growth, driven both by its own economy, and excellent links to London. A lack of supply is leading to stretched affordability

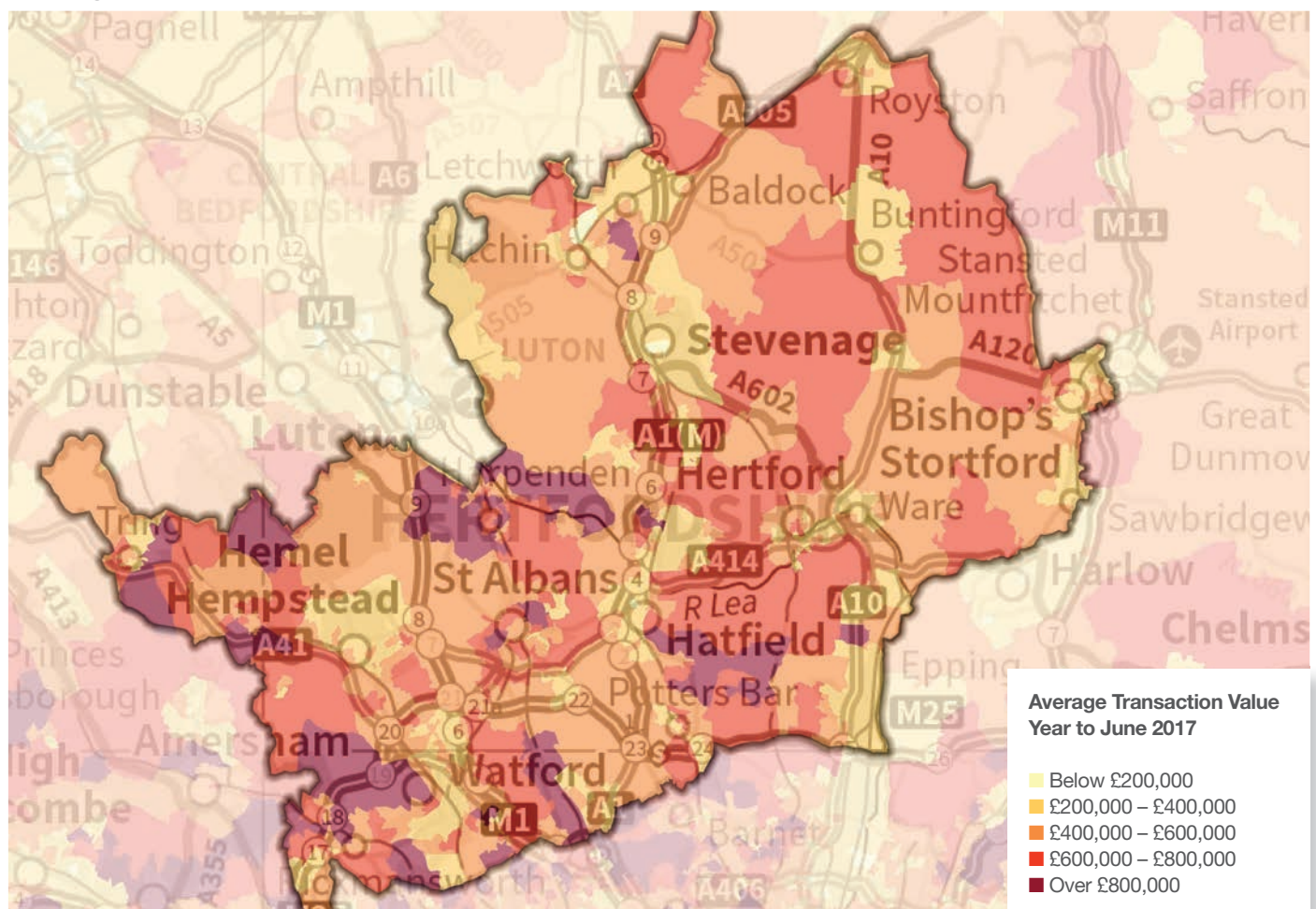
Hertfordshire's thriving economy has seen population growth of 11.9% over the past 10 years, compared to 8.2% nationally, and the number of households in the county is projected to increase by a further 15.5% by 2030. Employers are drawn to the region by a strong workforce with high economic participation. 35% of residents are qualified to degree level.

The county is home to leading companies in science and pharmaceuticals, benefiting from good connections to Cambridge. GlaxoSmithKline and Airbus have research facilities at sites in Stevenage and Ware, employing over 2,700 people.

On a smaller scale, Stevenage Bioscience Catalyst and BioPark in Welwyn Garden City have proven to be excellent locations for new and growing biopharmaceutical research and technology businesses. In the south west of the county, the film studios at Elstree and Leavesden Studios draw interest and investment from across the globe.

Links with the capital are also good, attracting London commuters seeking more space and a balance between city and country life. 25.9% of the population of Hertfordshire work in London. London commuters and Hertfordshire's own economy

FIGURE 1 **Average transaction values in Hertfordshire** Year to June 2017



Source: Savills Research

contribute to one of the strongest housing markets in the country.

Additional demand is likely to come in the future from Essex, where Stansted, the UK's fastest growing airport, and the relocation of Public Health England to Harlow are likely to boost economic growth.

Housing market

Hertfordshire's housing market has seen strong growth from 2009, driven by the varied local economy, and strong links to the capital. Prices are currently 48.9% above their previous peak in 2008, according to Land Registry data, and house prices have grown 11.7% across the county over the past year, compared to 7.7% nationally.

However, the highest value areas which had the strongest price growth after the 2008 recession have in recent months seen the market slowing, with values in St Albans growing by only 1% in the last six months, compared to growth of over 5% in the same period in North Hertfordshire.

The highest residential values in the past year have been achieved in the rural areas around Hemel Hempstead, St Albans and Harpenden, where in the year to June 2017 average transaction values were at least £600,000, and in some areas exceeded £800,000. There are still some pockets of the county where average transaction values remain around £200,000, such as Hitchin and Stevenage.

Affordability pressures

There are, however, significant challenges facing the region if it is to continue this high level of growth.

The lack of supply has contributed to rising prices. 3,500 new homes were completed across Hertfordshire in 2015-16. This is over 2,000 homes fewer than the objectively assessed need figure for the county. However, this represents an improvement on the period of 2012-2015, which saw fewer than 3,000 homes delivered in the county each year.

Affordability pressures are becoming an increasing problem. Only Stevenage has a median income to median house price ratio that is below the England average. In St Albans, median house prices are over 16 times median incomes, the second highest of any local authority outside London.

The problem will get worse if local authorities and developers cannot produce major housing development to meet the county's need. This could hinder economic growth, as affordability pressures will prevent people from moving to the county.

Future opportunities

The county is not dominated by one city, but is instead has a network of smaller urban areas. The new towns of Hatfield, Welwyn Garden City, Stevenage and Hemel Hempstead are home to over a quarter of the county's population. These towns are well connected, but are in need of town centre regeneration.

Elsewhere, 53% of the land in the county is designated as Green Belt, which places severe limits on the amount of land able to come forward for development. The less constrained land in the north of the county does not benefit from the same quality of transport links, placing additional infrastructure burdens on developers.

The tension between protecting the Green Belt and providing enough land for residential development to


meet need will define the plan making process for many local authorities.

Infrastructure


There are many opportunities for increased housing delivery if the right strategies can be put in place. The Hertfordshire Local Enterprise Partnership has identified the three major radial corridors from London, (M1, A1(M) and M11) as areas for infrastructure driven growth, which could in turn drive more residential development.

Crossrail 2 has the potential to drive further growth as it will offer an alternative route into Central London from the south east of the county. Transport for London estimates Crossrail 2 has the potential to aid the delivery of over 200,000 homes along the line, with around half of the growth potential focused in the northern part of the route.

Although Crossrail 2 is unlikely to be delivered until the 2030s, the proposed four-tracking of the line from Broxbourne into Liverpool Street will increase the speed and frequency of services, and could act as an earlier catalyst to unlock sites. ■

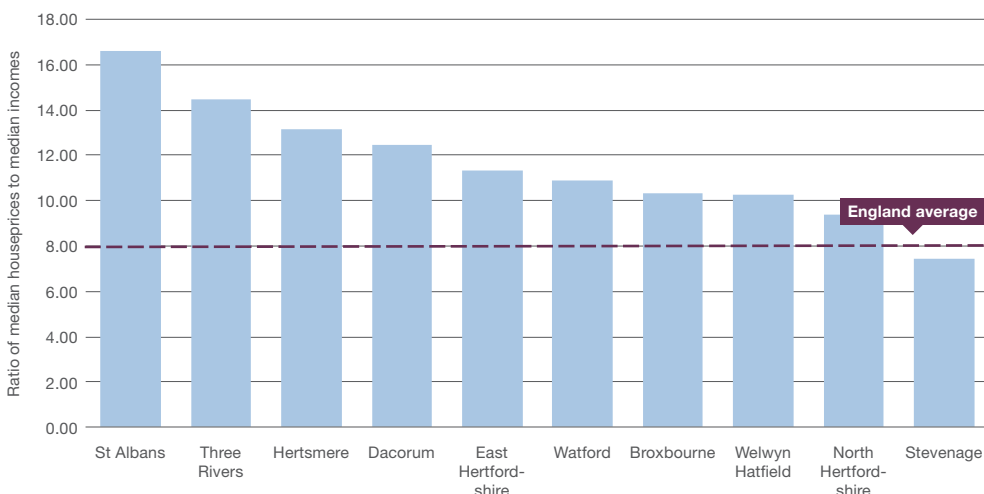


11.9%
Population growth over past 10 years



15.5%
Projected household growth to 2030

FIGURE 2 Housing affordability ratio



Source: DCLG

Housing supply IN THE PIPELINE

The local authorities in Hertfordshire need to provide 30,000 homes over the next five years, but where are the opportunities?

There is a pressing need in Hertfordshire to identify enough land for residential development to meet the need of the growing population. The SHMA targets for the 10 local authorities in the county total nearly 30,000 new homes over the next five years. Under the newly published standardised approach to calculating housing need, this would rise to almost 35,000 homes. We have identified 23,300 homes in the immediate development pipeline.

Currently three local authorities, East Hertfordshire, North Hertfordshire and Stevenage, have a published housing land supply of less than five years. Our analysis, calculating housing need based on the latest SHMA figures, suggests that a further three authorities, St Albans, Three Rivers and Welwyn Hatfield also have not identified enough land for development to meet need.

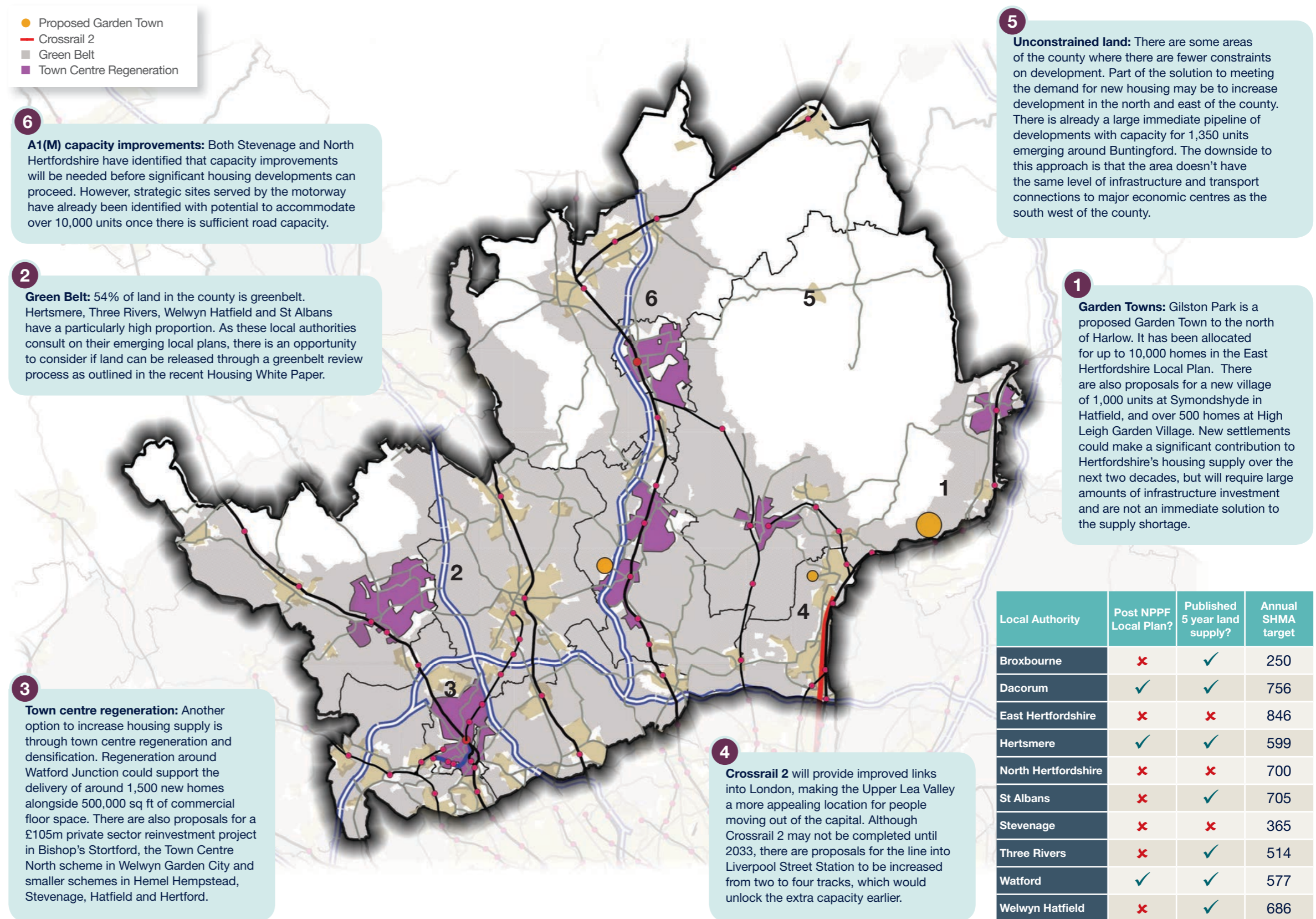
The failure to allocate sites for housing leaves local authorities vulnerable to “planning by appeal”; that is, having to grant permission to potentially contentious projects at appeal as they cannot demonstrate sufficient numbers of units coming forward on other sites. It is preferable to have a defined development strategy with sites allocated through up to date local plans. There is particular sensitivity in this area due to the large amount of greenbelt land.

However, many local authorities are yet to produce an NPPF compliant local plan, and there is a need for local authorities to work together to ensure need that can't be met in one local authority can be accommodated elsewhere. The recent joint SHMA produced by Dacorum, Hertsmeire, Three Rivers and Watford is a step in the right direction.

The Local Plan process also provides an opportunity for greenbelt release in order to provide land for sustainable development. ■

“Seven of the ten local authorities do not have an up to date Local Plan”

FIGURE 3
Hertfordshire Development Opportunities



Source: Savills Research

Demand Analysis

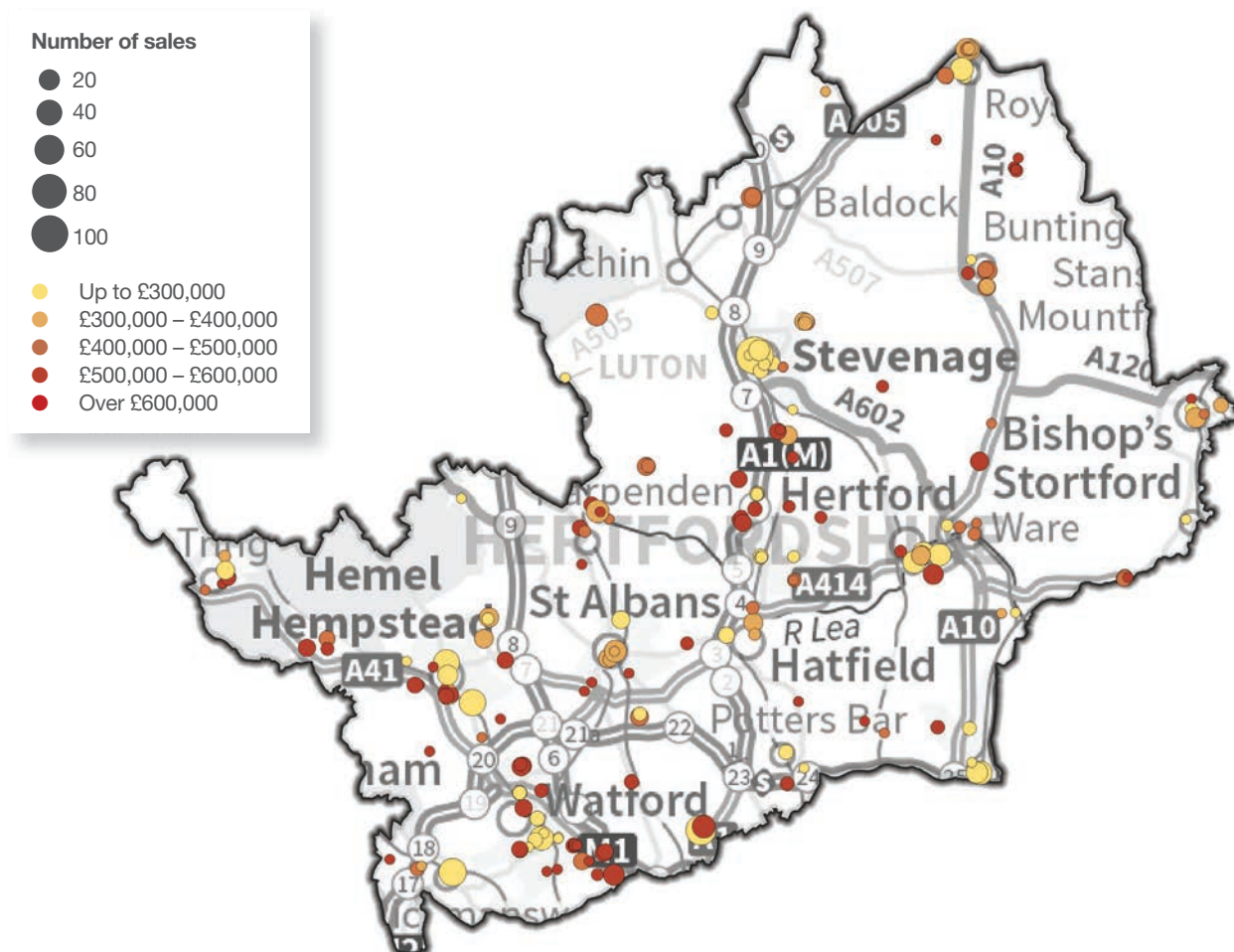
WHAT TYPE OF NEW HOMES AND FOR WHO?

New build homes in Hertfordshire can help to fill gaps in the second hand market

New home sales accounted for 10.3% of all transactions in Hertfordshire in 2016, according to Land Registry data. The bulk of new build flats are sold for between £250,000 and £350,000. New build houses have a broader price range, but there is a clustering of transactions between £500,000 and £800,000.

Buyers of new homes in Hertfordshire tend to be aged between 30-49 years old, looking to buy their primary residence, and drawn from the local area, according to Savills dealbook data. 64% of purchasers were moving within Hertfordshire, and 84% were buying their main residence. There is also a significant proportion of buyers, around 20%, who are moving out from London.

FIGURE 4
New build sales 2016



Source: Land Registry

Demand from these buyers is strongly linked to employment centres; locations with major employers in the local economy or fast links into London or Cambridge are the most popular.

Rental Demand and Investment Potential

Investors make up a small proportion of the market, amounting to only 13% of new build purchasers over the past three years. Apartments have been the dominant type of development in the major urban centres, accounting for 57% of new build sales in Watford and Rickmansworth, and 77% in Bishops Stortford in 2016.

Buy-to-let investors make up a higher proportion of the market here relative to locations further away from London, looking to take advantage of robust rental growth and higher yields.

We are forecasting a 19% increase in mainstream rents across the UK over the next five years. Rents in the Outer Commute zone, which includes places such as Stevenage and Letchworth Garden City, have grown by 8.4% in the past five years, with demand particularly strong for 1 and 2 bed properties.

Downsizers and Retirement Living

The new build market in Hertfordshire has also seen strong demand from downsizers. 29% of Savills new build buyers cited downsizing as their reason for moving, compared to 13% of those buying in the second hand market. This suggests that new build homes, particularly those designed with downsizers in mind, are providing a product that cannot be found in the existing housing stock.

The retirement housing market has traditionally focused on 'needs' based demand. However, over the last few years we have seen the emergence of an aspirational downsizer market. House buyers in this market are typically aged in their mid to late 60s, and seeking to unlock housing equity or move to a smaller, more manageable home, that still has spacious rooms and plenty of storage space.

Help to Buy and First Time Buyers

Help to Buy would appear to be tailor-made for many locations

in Hertfordshire like St Albans, Rickmansworth and Harpenden, with first time buyers struggling to get on the property ladder due to high prices and challenging deposit requirements.

However, these areas have seen the lowest take up from the Help to Buy equity loan scheme, with only 81 sales (7% of all new build sales) supported by Help to Buy in St Albans since April 2013.

This is mainly because prices in these areas are still unaffordable to the majority of first time buyers, even when using the scheme.

Instead, they have been turning to cheaper locations.

In Dacorum, 39% of new build sales since April 2013 have been supported by Help to Buy Equity Loan. There have also been high numbers of Help to Buy sales in East Hertfordshire and Welwyn Hatfield. ■

FIGURE 5
Help to Buy assisted sales

Local Authority	Help to Buy Sales since April 2013
Dacorum	479
East Hertfordshire	283
Welwyn Hatfield	203
North Hertfordshire	166
Stevenage	165
Watford	129
Hertsmere	124
Broxbourne	106
St Albans	81
Three Rivers	80

Source: DCLG

FAST FACTS



10%

New home sales as a proportion of all transactions in 2016



31%

of buyers are aged between 30-49



20%

of buyers are moving from London



29%

are moving in order to downsize



1,816

sales have been supported by Help to Buy

OUTLOOK

■ East of England to Outperform London:

In November 2016, we forecast that the East of England would be the strongest performing region over the next five years, with house price growth of 19%. In Hertfordshire, this will be driven by a strong local economy and buyers moving out of London in search of better value for money.

However, the strong recent rise in values in parts of Hertfordshire means that buyers are becoming increasingly stretched. Future house price growth will be strongest in the lower value areas.

■ Continued Demand for Land:

Given the strength of the residential

market, demand for land in Hertfordshire is anticipated to remain high.

Housebuilders are predominantly seeking immediate land with capacity for 100-150 units without large remediation or infrastructure costs. In the longer term, there is always demand for well-located strategic sites, and registered providers are increasingly entering this market.

■ Infrastructure Driving Growth:

Major infrastructure projects will act as a catalyst for development across the county, from Crossrail 2 in the east to the Metropolitan Line extension in Watford. Motorway upgrades could also release strategic sites in the north of the county.

■ Planning for Growth:

Hertfordshire should be building almost 6,000 homes per year, but has delivered only half that number for the past five years. Failure to deliver enough homes to meet need will exacerbate affordability pressures and hinder wider economic growth.

Local authorities have a crucial role to play in bringing forward more land by identifying sites through the Local Plan process. Given the high levels of planning constrained land in Hertfordshire, it is essential that all local authorities produce up to date Local Plans, providing a strategy for sustainable development that will meet the county's need.

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