



# Geography of housing market areas

## **Executive summary**



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## Summary

This research has sought to identify the optimal areas within which planning for housing should be carried out. It links places where people live, work, and move home.

The ideal in planning anything is to do it on a scale that makes it possible to take account of all the costs and benefits. Looking at impacts in too small an area can ignore significant effects: misleading conclusions may be reached on issues such as housing affordability.

Carried out on behalf of the NHPAU by Heriot-Watt University and the Universities of Manchester, Newcastle and Sheffield, this research has looked at different ways of dividing the country into 'housing market areas'. It has explored trade offs between larger areas – over which it is possible to take account of more of the impacts of a set of proposals – and smaller areas – which are easier to deal with from a practical point of view.

Our results:

- reinforce the need for local and sub-regional partnerships to think across administrative boundaries when planning for housing
- indicate the groups of local authorities between which there would be most practical benefits from joint working
- provide a basis for monitoring market conditions across the country whilst minimising the distortions caused by data analysis at an inappropriate scale

### **Why the NHPAU wanted to define housing market areas**

The fundamental argument for planning for housing on a scale that is larger than most local authorities is that market dynamics and population changes don't respect administrative boundaries. They tend to cut across them, operating at different scales.

Analysis and decision making within areas which are functionally as self-contained as possible allows the various factors that affect housing supply to be weighed against demand pressures, with minimum distortion due 'out of area' effects. Affordability measures and housing stress indicators, such as levels of overcrowding or waiting lists, can more meaningfully inform policy making when considered at an appropriate scale.

But what are the right areas within which to analyse housing supply and demand? What serviced sites or potential locations should planners be considering in order to relieve pressures within a particular market?

There will always be a trade-off between the size of area looked at, and the degree of cause and effect between policy and outcomes. If areas are too big, accountability and ownership is lost. If too small, the spill-over effects are too great for the results of analysis to be reliable. Building houses in Southampton will have no impact on prices in Sheffield; but equally building houses in a neighbourhood of Southampton will have only a limited impact in that neighbourhood, since most people will move in from outside. What is critical, however, is that local practitioners understand the context and extent of their housing markets.

### **Relevance today**

Planners need to plan at various scales for different purposes. What the right scale is depends on the balance struck between strategic planning and local accountability.

Relatively loose central guidance led to a patchwork of methods being used to define housing market areas. The resulting geography has been heavily shaped by administrative boundaries and local politics. These areas, used for strategic housing market assessments (strategic housing market assessments), have varied by size and logic from place to place, rather than approximating true functional areas.

That the government recognises the importance of functional economic areas is not in doubt. This is evidenced by the recent invitation to local authority and business leaders to work with the government by coming together in 'local enterprise partnerships'. Such partnerships are intended to be sufficiently strategic by better reflecting the 'natural economic geography' of the areas they serve.

The need for joint planning will vary across the country. It is determined by the level of interdependence between adjoining areas within which jobs are created, people search for work or housing, and where they shop and play. This will be based on labour markets, housing markets, and other – often local - factors. In areas that are critical to the economic, social or environmental health of the country, joint planning is a critical requirement. Here, local plans must consider the wider spatial context, land resources and development outcomes (positive, negative, and displacement effects) of surrounding areas. Local communities need the confidence of knowing that they will be supported by, and not undermined by, the planning decisions of adjoining areas. Local initiative cannot be effective otherwise.

There is also a need to understand and address the current insider/outsider problem with housing supply (amongst other planning issues). Decisions are shaped by 'insiders' within the local community who are primarily concerned with the costs of development, in the broadest sense. These costs are mainly very local. But many of the likely beneficiaries are 'outsiders' drawn from a much wider area. They have no voice in such planning decisions. The value put on undeveloped land by local communities is well in excess of the

immediate welfare benefit to the wider society from its development. But it also has value to society as a whole which can grow over the long term through development. If future benefits are discounted too far, or ignored because they largely accrue to outsiders, then in the long term everyone loses.

## The definition of housing market areas

### **The journey to work**

Of fundamental importance to the house price dynamic is household income. This is what drives demand, with incomes predominantly determined by employment and the labour market.

By applying the same method and data used to produce the 140 official travel-to-work areas (travel-to-work areas) in England, we have examined different levels of commuting self-containment, or closure. Changing the level of closure directly alters the areas defined.

Current government guidance suggests that travel-to-work areas themselves might be one option to use as the basis for defining housing markets. They indicate areas within which 66.7 per cent of people both live and work. But in terms of areas useful for strategic planning and reflecting the dynamics of housing markets, we consider this level of closure to be too narrow.

We expect longer distance commuters to define the boundaries of housing market areas. In city-regions, people are prepared to commute longer distances in order to live in more pleasant surroundings, or to live closer to a partner's place of employment, or simply to get a job. These longer distance commuters determine the area within which houses are substitutable for each other, whilst providing access to the same employment opportunities.

### **Migration patterns**

Patterns of migration differ from commuting patterns. Many households may only consider moving within quite small areas, whilst others look much further afield. This will be dependent on a number of factors, including social ties, life stage and economic opportunity.

Household search and migration patterns play a role in the geographical spread of house price movements. They also clearly reflect actual behaviour.

We investigated migration closure patterns, using the travel-to-work area method again. There were considerable differences in the size of areas defined between rural and urban areas. This was less surprising than the very significant differences defined by migration patterns between the South East and those in the older industrial areas of the North and Midlands. An analysis of different tenures also gave starkly different results. Whilst the migration patterns for those in social housing were geographically very limited, for those in private rented accommodation they were extensive, even when excluding student moves.

### **The price of housing**

The 'law of one price' indicates that within the same market, the prices of identical 'goods' will be the same. We can use this law to try and determine the areas within which it can be seen to hold for housing, thereby identifying housing markets.

In order to apply this law to the housing market we need to disaggregate all of the various factors that are incorporated into the price of a house. Houses are complex goods. Research shows that as much may be paid for access to a good school as for a sound roof and central heating system. Once the price of housing has been decomposed into all of its characteristics, including those of its immediate outlook and neighbourhood, a standardised price of housing can, in principle, be identified.

This brief explanation indicates the complexity of using the price of housing to determine housing market areas. It requires a wide range of housing, neighbourhood and amenity data to be available. This data then needs to be applied in an accurately specified and detailed model. Such data and model development was beyond the scope of our research. We have instead used a simplified model to test the efficiency of different geographies. This has attempted to quantify how much of the price differential between areas appears to be explained by the boundaries of those areas.

### **Pulling it all together**

There are no easy answers to the definition of housing market areas given both theoretical and practical challenges. Indeed it is not possible to have a uniquely 'right' answer – rather it is important to go for the most appropriate self-contained set of areas. The key task is to generate a widely acceptable geography in a transparent way, using consistent criteria.

The theoretical basis for our geography suggests a sub-national set of housing markets made up of three tiers:

1. framework housing market areas, defined by a high level of commuting closure (77.5 per cent self-containment)
2. local housing market areas, defined by migration patterns (50 per cent self-containment)
3. Submarkets, defined by neighbourhood or house type

Within England, we define a set of 75 framework housing market areas, with a tier of 280 local housing market areas nested wholly within them. We do not attempt to define submarkets in this research. A full report, explanatory maps, digital boundary files and lookup tables have been produced.

The upper tier of framework housing market areas would be most effective in providing a longer term overview of projected household changes, transport connectivities, housing land availability, housing market change and urban

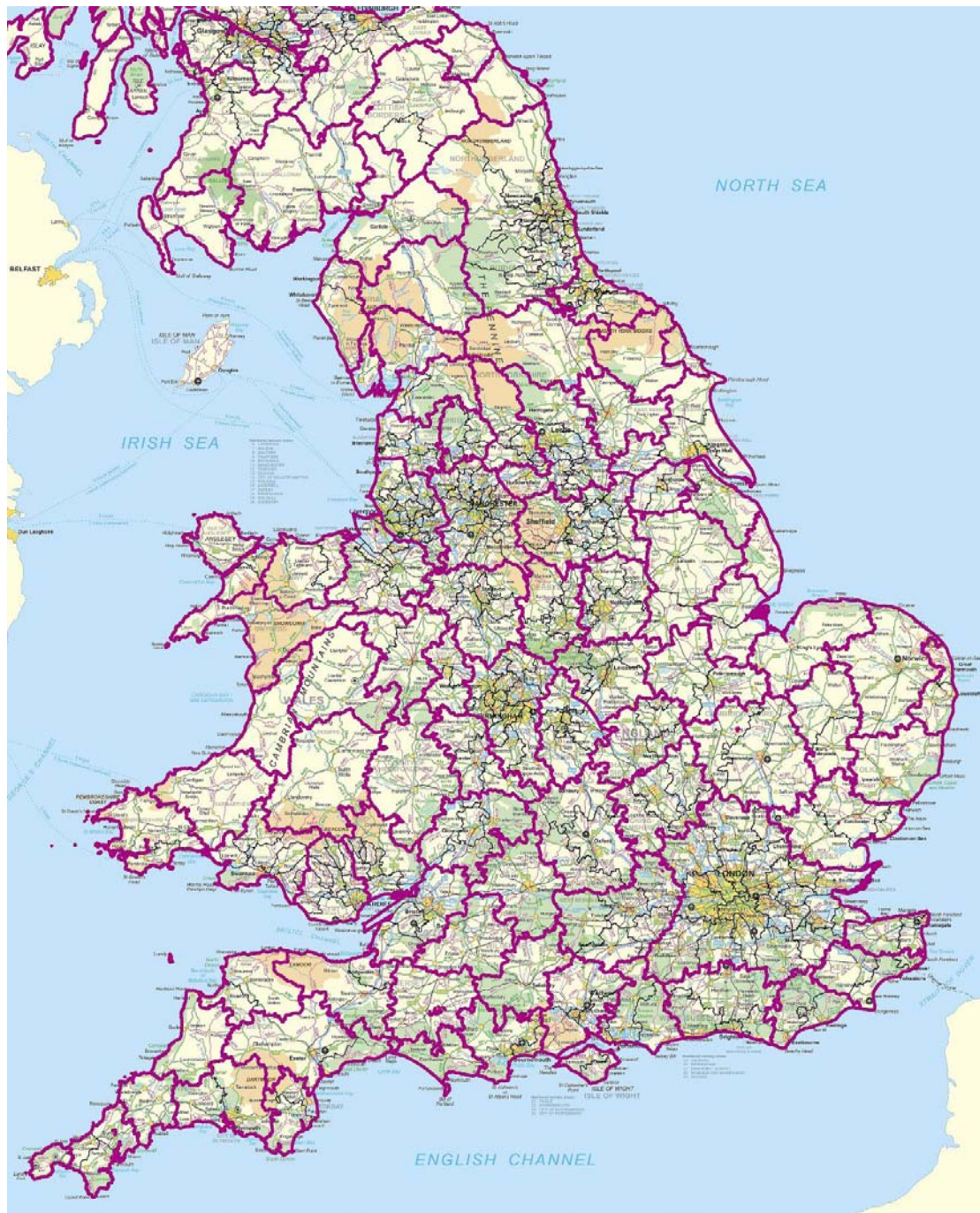
capacity, thereby addressing major initiatives like growth areas. As such it provides areas suitable for delivering a strategic planning framework. Both a 'gold' and 'silver standard' upper tier has been produced: the silver standard best-fits the ward-based gold standard to local authority areas.

In larger and more urbanised areas the framework housing market area tier can include several distinct areas which reflect more localised housing market conditions. In such areas, separate lower tier housing market areas are identified. Here the dynamics of local changes in the housing market can be examined, providing a more flexible perspective for considering shorter term and day to day planning activities.

Both tiers require local authorities to establish appropriate partnership working. They should encourage local authorities to be less insular in their thinking and to take better account of the realities of cross-boundary issues in their analyses and policy development.



## Map – Gold standard upper and lower tier housing market area geography



Key:

Upper Tier - purple boundaries

Lower Tier - black boundaries nested within purple boundaries

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