The local impact of new housing in the North East

Residents are often concerned that a new housing development nearby will reduce the value of their homes. Does the evidence support this?

The understanding of housing markets and prices at the local level is less advanced than it is at wider geographic scales. This follows from the fact that the reduction in scale coincides with an increase in the significance of factors that are highly location-specific (and therefore difficult to measure directly), all of which may impact on the value of adjacent land and property. It is therefore very difficult to identify the specific impact of new housing development on the existing housing stock locally.

In this context, our research presents a methodology for quantifying property value change over time in the area around new housing developments. It is based on transaction volumes and house prices around 26 sites across the North East of England between 2007 and 2016 (Figure 1).

Across all of the local authorities considered, the 'net effect' on property prices in areas surrounding new housing developments was an increase after the time at which the first unit on each site had sold. These findings are of particular relevance given that the impact on property prices, while not a material planning consideration, is often a reason to oppose new housing. While the methodology is not sufficient to isolate the impact of new development on property prices, it does objectively plot local area value change through time. An illustration of the above is provided using two contrasting case studies (Page 2) and by a break-down of the findings at a local authority level and on the basis of different site characteristics (Page 3). The research has highlighted apparent differences in the impact of new housing development on local house prices around greenfield and brownfield sites, as well as in varying site character areas and varying areas of local housing market strength (Page 4).

**HEADLINE FIGURES**

- Average 'Net Price Effect' of new housing: +4%
- Average 'Net Price Effect' around Greenfield Sites: +5%
- Average 'Net Price Effect' around Brownfield Sites: +3.5%
- Average no. of transactions around each site (10-year period): 750

**Figure 1: Summary by Local Authority (2007-2016)**

<table>
<thead>
<tr>
<th>Local Authority</th>
<th>Transactions around sites</th>
<th>House price change around sites</th>
<th>Net Price Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Tyneside</td>
<td>1,417</td>
<td>-5%</td>
<td>-5%</td>
</tr>
<tr>
<td>South Tyneside</td>
<td>610</td>
<td>-4%</td>
<td>-4%</td>
</tr>
<tr>
<td>Durham</td>
<td>630</td>
<td>-3%</td>
<td>-3%</td>
</tr>
<tr>
<td>Sunderland</td>
<td>728</td>
<td>-2%</td>
<td>-2%</td>
</tr>
<tr>
<td>Gateshead</td>
<td>1,102</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Northumberland</td>
<td>654</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Newcastle</td>
<td>813</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Lichfields analysis of Land Registry data
Analysis of house prices at a neighbourhood scale

The following two examples illustrate how the methodology can be used to analyse house price change at a neighbourhood scale across a 10-year period.

These examples provide a clear illustration of temporal changes in housing market activity from two contrasting locations both in terms of site typology and local housing market strength. Both show clear changes in the local housing market once the new housing development started construction. In both cases the impact has been broadly positive. It is acknowledged that across the 26 sites the findings were considerably more complex than the examples presented above; however, there was very little evidence to suggest that significant adverse impacts took place in the vicinity of new housing developments.

Methodology
Using Land Registry house price paid data across a period of 10 years (2007-2016), house price change within a 1 km radius of new housing development was measured across a sample of 26 sites in the North East of England. In this context, ‘change’ is defined as percentage price deviation from the monthly average house price, both before, during and after construction. The monthly average was derived by taking the average of all transactions within the 3-digit postcode district (3DPD) that the new housing site occupies. The study also considered the changes in the number of property transactions recorded within the district over the same length of time.

Site Selection
Sites were not selected if:
- Construction started earlier than 2009 or later than 2015;
- They displayed a strong ‘rural’ character whereby there were very few surrounding properties;
- They lay adjacent, or in close proximity to, other new housing schemes.

‘Net Price Effect’
This is defined as the difference in average price change in properties surrounding new housing sites from the period prior to and after the time at which the first unit was sold. In the examples used, to smooth out the data for clarity of presentation the ‘Net Price Effect’ is plotted on a normalised scale, which adjusts to values on different scales to a common scale to facilitate comparisons.

Figure 2: Brownfield site, Sunderland

- Net price effect: 15.68%
- Approx. no. of dwellings: 200
- First unit sold: Aug 2012

This is an urban brownfield infill development within a weak housing market area – the average house price from 2007-2016 was £87,611. The graph shows that, in comparison with house prices within the 3DPD, over the 10 year period this area has showed progressive decline in house prices. There is a pronounced decline in the number of transactions from the end of 2007 and into 2009 which is most likely a response to the wider economic recession at the time. In summer 2012 there is a clear increase in house price change and also transaction volume, reflecting the increased number of new homes being sold by the developer. However, the graph shows that the increase in transaction volume is not solely attributed to new build sales and that market activity within the pre-existing housing stock also increases.

Figure 3: Greenfield site, North Tyneside

- Net price effect: 9.50%
- Approx. no. of dwellings: 200
- First unit sold: June 2014

This is a new housing site located within the rural-urban fringe, providing around 200 dwellings in an attractive market location. The average price paid for properties within the area from 2007-2016 was £210,318 – significantly above the local authority and regional average for the same period. Although clearly affected by the recession post-2007, the high transaction volume across the time period (close to 1,500 transactions) indicates the local market’s strength and resilience. In 2014, there was a pronounced and prolonged increase in market activity that has returned to, if not exceeded, pre-recession levels. Although marginally, the graph also shows that average house prices within the area have increased after 2014 in comparison with the 3DPD mean.
Common trends across the North East

The results of the analysis show that all seven local authorities displayed a positive mean net price effect (Figure 3) despite the fact that the strong variance in characteristics between individual sites would not necessarily suggest a pattern in net price effect at a local authority level. The largest increase in net price effect of new housing development was measured in North Tyneside, while Newcastle and Northumberland saw the smallest increase. These results should be interpreted with caution – both North and South Tyneside only consisted of one site in each authority, while County Durham had 8 sites – but are nonetheless interesting.

Figure 4: Findings by local authority area

Source: Lichfields analysis of Land Registry data
Analysis by site characteristics

While a greater proportion of the sites chosen were brownfield, analysis shows a greater positive ’net price effect’ surrounding greenfield sites (Table 1). The analysis also shows that sites located in the rural-urban fringe showed a greater positive ’net price effect’ in comparison to urban sites (Table 2).

The majority of sites selected were located in areas of relatively low average house prices across the period 2007-2016 (Table 3). This is considered to be representative of the North East housing market as a whole, since the regional average house price across the same period was £122,489, in comparison to £188,802 at a national level. The net price effect brackets were positive across all prices, with sites in mid-range housing market areas (£125,000 - £175,000) showing the largest positive effect in price change around sites.

Isolating the impact of local housebuilding from other local factors is a complex exercise and further work is required to develop a more robust econometric methodology. However, given the highly location-specific sampling strategy used, this method gives a good degree of confidence to say that if significant value changes have occurred within the 3DPD, new housebuilding is likely to have been a major, if not the exclusive, driver of the observed change.

Conclusions

This analysis from the North East of England presents evidence of positive effects on local house prices and increases in local housing market activity in areas where new housebuilding has taken place. Amidst the Government’s intention to significantly boost housing delivery, it is worth re-iterating the benefits that new housebuilding can bring to a local area. In addition to raising the house price ‘ceiling’ for an area, new housebuilding has the potential to create other positive effects such as local environmental improvements and investment in local schools, highways and open spaces.

Furthermore, an improved understanding of neighbourhood-level house price effects could be a way of reassuring local residents that new homes in their area will not adversely affect their house prices. This could in turn support more positive public engagement locally when planning for new homes.