Knight Frank Residential Research

Central Nottingham Housing Market Analysis

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Central Nottingham Housing Market Analysis
Executive summary

A maturing city

Nottingham city centre has seen a rapid expansion in its residential market over the past decade. From embryonic beginnings in the mid 1990s, the city centre has seen its population double and a whole range of services and facilities have developed to serve this new market.

Along with Manchester and Birmingham, Nottingham was one of the pioneers of the 'city living' residential market. Its pioneer status means it is one of the most important markets to understand in the UK. The city's experience will be shared over time by many other cities and towns, and the direction that Nottingham takes next will help shape future development and regeneration initiatives in the UK.

Current market conditions in the city centre are comparatively fragile. Strong residential take up over recent years has been impressive, but ultimately speculative development has taken place at a level which means that supply has outpaced demand. There is an overhang of supply in the market, especially for smaller one bedroom units, which means that developers and resale vendors are finding it difficult to achieve asking prices.

Should we be surprised by the current state of the market? The same phenomenon has occurred in Manchester, Leeds and Birmingham in recent years, and in the case of Manchester and Birmingham recent experience would suggest that these cities have begun to move on to another market phase with higher rates of unit take up and rising values.

It is important to remember that these are new markets. The tradition of city living in the UK effectively disappeared in the post-war period. Residents were increasingly limited to social housing tenants and occupiers of the few remaining terraced properties left after comprehensive development projects. Over a period of 10 to 15 years, an entirely new market has been created in city centres. The fact that these markets experience periods of over-supply is not especially significant, the wider picture of growing demand over time is, however, of central importance.

The main lesson to take from Nottingham's current experience is that this is a city moving into the next stage of its city centre residential market evolution. The young single and couples market, which is attracted by the current city centre offer, will be insufficient to take up the demand for all of the accommodation which is planned for the city's regeneration zones. Instead, developers and planners are looking at ways of attracting a wider occupier base to live in central Nottingham.

Supply, demand and sustainability of the central Nottingham market

There is projected demand for high quality residential developments within Nottingham city centre arising from: tenants, owner-occupiers, students and inward migrants. However, the supply of city centre apartments has moved ahead of demand. In addition, with 2,100 units (largely apartments) in the city centre development pipeline and over 7,000 units proposed for the regeneration zones, issues of oversupply within the centre may be magnified unless sufficient additional demand comes forward.

Migration is the predominant driver of population change within Nottingham city centre. The city attracts significant numbers of 16-24 year olds from across the country and as such this particular migration dynamic is likely to differ from that experienced across Nottingham as a whole. In addition, the level of 'churn' within the city market is also significant in differentiating this market from others within the broader Nottingham area. The prevalence of the private rented sector within this market supports the transient nature of the population that lives there.

Despite high levels of turnover the city centre population has experienced significant growth in recent years. This growth is expected to continue. However, the shape and form of this growth and how demand stemming from it is realised within the city centre market will depend to a large extent on the type of product offered in the future. The current development pipeline conforms to the status quo of city centre development schemes and so it seems likely that the dominance of relatively young childless households consisting of singles, couples and sharers will continue. Continued dependence on the growth of one socio-economic group creates risk. Whilst this group represents a fast growing and prosperous section of the community, it is also a group that is increasingly sensitive to price and interest rate changes.

Barriers to demand within the central city market are effectively linked to the model of provision with the main barrier being the limited diversity in the product offer. The preponderance of smaller one and two-bedroom apartments appeals to only a limited proportion of the total national, Nottingham LA and the NCHMA population.

Barriers to supply include high land values, the perception that national planning policy is seeking to promote high density development and also the potential risk of being the first to provide a drastically different model of provision. The dominance of smaller one and two-bedroom apartments within Nottingham's city centre market is due to a combination of factors; development economics, demographic change, lifestyle factors and national planning and affordable housing policy.

There are both positive and negative aspects of the supply-demand relationship within the city centre market. Positive aspects include the comparatively prosperous growth of high order professional occupations and a growing business services sector, the rising demand from students, and the successful match between lifestyle interests and the lifestyle offer. In addition the demand-supply balance appears to be relatively constant with the maximum vacancy level remaining constant between May 2005 and May 2006.

In terms of affordability the average property price within the city centre market compares well to the average income of its residents and produces a lower income to price ratio (3.72) than that across the NCHMA (4.49) and across Nottingham overall (4.49). Whilst this is a positive relationship it also shows that the city centre has become relatively exclusive in terms of ownership. The ratio between city centre prices and the incomes of households in the broader market are higher. A key issue for the sustainability of the city centre market is the degree to which it can pull in demand from outside. Further to this is the propensity of households to maintain longer periods of residence and develop a greater connection with the city neighbourhood in which they live.

For the regeneration of cities to continue, the market must succeed in marrying the development offer with the ability of local populations to access the products for sale. The regeneration led development in the zones immediately fringing the city centre market will be important in meeting this need. In light of this, the willingness of developers to move away from exclusively smaller one and two bedroom schemes to a more diverse product should be seen as a positive dynamic within Nottingham's future.

In addition, whilst not fully embracing affordable housing obligations, developers appear to welcome flexibility and choice in the way these obligations are met. Current policy favours on-site provision with local authorities and developers operating within this policy framework instead of off-site provision which is favoured more. Experience from locations where a greater district-wide enforcement of affordable housing policy has been adopted (notably London) suggests that developers do begin to take the new policy in their stride, albeit after a period of adjustment.

In terms of delivery, there is however a downside. On some sites commercial development, not usually faced with the same affordable housing requirements as residential, can become an alternative and more lucrative option for the land owner. Another factor influencing the flexibility of developers to the imposition of affordable housing requirements is the growth in intermediary affordable housing tenures. Key worker housing or shared equity products are more valuable in terms of sales revenue to the developer and also in terms of the perceived fit with market tenure housing. If it is assumed that the 20% affordable housing requirement in Nottingham allows for a sizeable proportion of intermediate tenure provision then the outlook for developers working within these restrictions is more positive.

However it would be wrong to be pessimistic about the current and future health and sustainability of the central Nottingham residential property market as we have identified numerous strengths within local supply-demand spheres:

- Demand has risen significantly in recent years within the city centre population.

- The population grew by 90% between 2001 and 2005 with a majority of this growth being associated with inward migration from young, childless adult households employed within higher order occupations on above average incomes and, more recently, students.

- Existing residents report a high level of satisfaction with the city centre living environment.

- A fairly unchanged vacancy level within the city centre over the past two years suggests that demand is remaining fairly stable against the level of supply (if occupancy levels are taken as a measure of demand). Stability of demand within the centre might be due in part to the high level of satisfaction among existing city centre residents towards the city centre environment.

- A growing business services sector is supportive of city centre residential demand.

- Proposals for city centre retail, cultural and leisure improvements should help underpin future demand growth.

The Nottingham city centre living experience is evolving

Existing and new stock within the city centre, and planned stock for the regeneration zones, is largely dominated by smaller one and two bedroom apartments. However, some recent and proposed developments have included an element of larger apartments and townhouses, an example is the Trent Basin development being undertaken by ISIS in the Waterside regeneration zone. Developers interviewed for this report revealed an openness to providing units other than one and two bedroom apartments in central Nottingham providing 'the right' demand, economic and planning conditions were in place.

The regeneration zones have the potential to widen the central Nottingham market offer, potentially offering lower land values than the city centre, larger sites and a lower density urban context that might collectively enable developers to deliver more mixed schemes. These schemes whilst still being led by apartments could also incorporate products including town houses, mews houses, larger apartments, crash-pads, eco-homes, live-work units and serviced apartments.

The provision of a more diverse mix of homes within the regeneration zones may assist in widening and diversifying the demand demographic of the central Nottingham market. The provision of alternative units is only part of the process needed to draw in a broader range of occupiers. To fully capture the interest of occupiers like families and older adults, occupiers who have traditionally avoided city centres in favour of city fringe, suburban and semi-rural/rural locations, it would seem necessary to replicate within the regeneration zones some of the most popular elements of these ‘external’ markets.

Access to good schools, local shops, surgeries, a safe and relatively low-traffic street scene, off street parking and green open spaces are elements of city fringe, suburban and rural locations which prove popular with residents. These types of features may be usefully reproduced, in some form, within the regeneration zones to best secure interest from a wider market.

The planned development within the surrounding peripheral regeneration zones represents a clear opportunity to accommodate a greater mix of new build properties for a wider range of households with varying composition and incomes.

Investment in the provision of amenities, to support a diversifying demand demographic within the regenerated markets, will not only add value to the city fringe but also add important value to living within the central city market. In the same way that development led investment within the city centre has provided support for the regeneration of the peripheral areas in the past, the remit within the regeneration zones of providing a more diverse supply of housing will support the transition and maturing of the city centre market. This in turn will also support demand within the city centre re-sales market.

Analysis of the socio-economic profile of residents show that the household population of Nottingham city centre is dominated by young prosperous households in professional occupations (at about 60%), but that there is also a significant dichotomous population of those within the lowest socio-economic groups, representing approximately 40% of households. Policy led investment within Nottingham’s regeneration zones will seek to attract households from the larger NCHMA where the profile is more evenly distributed. This more diverse distribution of households is also reflected within the NCHMA income distribution. Careful and ongoing monitoring of the socio-economic profile of the wider Nottingham residential demand pool is essential to aid planning policy development.

A dominant socio-economic group does not necessarily preclude the emergence of a sustainable city centre. However, it does limit the markets role within the housing system as a whole. It is therefore important that planning policy and regeneration led market intervention aids the widening of market demand. As such the final policy mix devised to help achieve the desired mixed and sustainable communities in the regeneration zones will need to be carefully developed in order to support and not hinder new build activity.

There is limited direct experience to draw on in attempting to secure the wider and deeper market demand Nottingham is seeking to achieve. As we stated above Nottingham is effectively a market leader in this area. Our research and survey responses point to a combination of:

- Market making initiatives – providing in advance or in tandem with developments the facilities older occupiers and families want to see in their neighbourhood.

- Policy led encouragement – for example encouraging the provision of an element of family accommodation on larger developments.

There is, in effect, the potential for a partnership approach to move the city forward and to fully exploit the potential of the regeneration zones.