



GL Hearn

Strategic Housing Market Assessment

Runnymede BC & Spelthorne BC

Final Draft Report

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EXECUTIVE SUMMARY

This Strategic Housing Market Assessment (SHMA) defines the Objectively Assessed Need (OAN) for housing, as well as considering the need for different types of housing and the housing needs of different groups within the community. The assessment **does not set housing targets** – which need to take account both of unmet needs from other areas and other factors including development constraints and delivery of supporting infrastructure.

The SHMA has considered housing market geographies, taking account of existing research and through analysis of differences in housing costs; as well as migration and commuting flows. The analysis highlights a complex set of relationships at play across Surrey. However, triangulation of the evidence converges upon the Boroughs of Spelthorne and Runnymede sharing the strongest relationships and correlation in both market and behavioural terms. This forms part of a 'London Fringe' in housing market terms. We therefore consider the definition of a single HMA covering these two authorities to be appropriate.

The Demographic "Starting Point"

The latest official household projections are the 2012-based Household Projections published by Government in February 2015. These project household growth between 2012-37 and estimate growth in households of 891 households per annum across the HMA between 2012-37 (399 in Runnymede and 492 in Spelthorne).

We have rebased these projections to 2013 to take into account the latest Mid-year estimates and translated them into a housing need for the 2013-33 period. The overall housing need calculated was for 945 dwellings per annum. This is split into a need for:

- Spelthorne: 511 homes pa; and
- Runnymede: 434 homes pa

However, this figure does not take into account affordable housing need, or include adjustments to take account of market signals or the needs for the local economy. Furthermore out-migration from London fell during the course of the recession and could increase as market conditions improve. Pre-recession trends could re-assert themselves as the economy and housing market recovers. In such circumstances there may well be a higher need still.

Examining Affordable Housing

The SHMA includes an assessment of the number of households each year who require some form of subsidy in meeting their housing needs. This is assessed using the Basic Needs Assessment Model and is a statutory requirement to support policies seeking affordable housing in new developments.

The SHMA analysis indicates that 813 additional households per year will require support in meeting their housing needs (441 per annum in Spelthorne and 371 in Runnymede). This provides clear evidence of the need to increase the supply of affordable housing. It is not appropriate to directly compare the need identified in the analysis with the demographic projections – they are calculated in different ways.

However, given current mechanisms for funding affordable housing provision, it is unlikely that it would be feasible to deliver sufficient overall housing provision to meet the affordable need in full. The reality is that many households (2,763) with a need live in the Private Rented Sector (PRS) and supplement their income with Local Housing Allowance and this is likely to continue. It is therefore not appropriate to increase the overall housing need solely on the basis of delivering more affordable homes.

Examining Market Signals

The SHMA evidence indicates that affordability pressures in the HMA are significant. House prices are above the South East average. Entry level house prices are 9 or more times the typical earnings of younger households compared to a ratio of 6.4 nationally. Over the 2001-11 decade, housing costs increased relative to earnings; whilst household formation and home ownership both fell. An increasing number of households have been living in rented accommodation, shared homes and with parents.

These market signals give a clear justification for an additional uplift to the baseline demographic need. To assess an appropriate adjustment to the overall housing need, GL Hearn has assessed the degree to which household formation levels have been constrained for younger age groups.

We have run a sensitivity analysis which seeks to quantify the implication of returning the household formation rates of 25-34 year olds back to 2001 levels by 2033. This in effect quantifies the level of homes needed to improve affordability and access to housing for younger households.

The analysis indicates that, all other things being equal, an uplift of around 57 homes per annum across the HMA would support an improvement in affordability and household formation rates amongst younger households. This equates to an uplift of 6% from the demographic starting point.

Projected household growth 2013-33 with market signals uplift

| | Runnymede | Spelthorne | HMA |
|---------------------------|-----------|------------|-------|
| Demographic Need | 434 | 511 | 945 |
| Market Signals Adjustment | 25 | 32 | 57 |
| Revised Need (per annum) | 459 | 543 | 1,002 |

This results in a rounded overall need for housing of 1,002 homes per annum which can be disaggregated to 459 homes per annum in Runnymede and 543 homes per annum in Spelthorne.

By providing a level of housing higher than demographic need this would not just improve affordability of market housing but also increase the supply of affordable housing through further affordable housing contributions.

Examining the Needs of the Local Economy

Following the approach in the Planning Practice Guidance, the demographic-based assessment set out above provides a baseline for housing need. The Guidance recommends that consideration is given to whether economic growth could result in a need for additional housing.

The NPPF clearly sets out that the assessment of, and strategies in local plans for, housing and employment need to be integrated with one another¹. The SHMA has considered the LEP's recent evidence regarding economic prospects as set out in the Enterprise M3 Housing Evidence Study. This study directly uses the Experian job forecasts from September 2013.

One of the main limitations of the Experian projections is that they do not take into account capacity for employment land in any local authority. While the macro-economic factors may forecast a level of growth, the local authority may not have the land or floorspace to accommodate this growth.

We have undertaken some basic analysis of the LEP projections which shows a considerable and questionable variance from past trends. Because of the difference there is a level of uncertainty and reliance of the economic projections and these are to be tested further. The Councils have therefore committed to produce their own assessments of employment growth as part of their work on economic/ employment needs. The assessment of housing need may therefore require adjustment, to take account of more detailed evidence regarding economic growth potential, taking account of both factors which may support or constrain economic performance. Once the projections are produced it will trigger a targeted update of this SHMA.

Nevertheless we have modelled the relationship between jobs and homes on the basis of the LEP projections. It models increasing employment rates, linked to an expectation that people will retire later and more women will work. It assumes that commuting patterns will remain stable in proportional terms. It also takes account of evidence that people may hold down more than one job. The modelling indicates that to support the forecast growth in employment (using Experian 2013 forecasts), the following levels of housing provision would be needed:

¹ CLG (2012) *National Planning Policy Framework, Paragraph 158*

Initial Assessment of Annual Need for Housing based on Economic Forecasts

| Housing Need PA 2011-31 | Runnymede | Spelthorne | HMA |
|--|-----------|------------|-------|
| Per Annum Change in Resident Workforce | 544 | 813 | 1,357 |
| Annual Housing Need | 525 | 725 | 1,250 |

Source: Derived from Experian and Census Data

At 1,250 dwellings per annum across the HMA, the level of housing provision necessary to support economic growth could be potentially up to 25% higher than indicated in the trend-based demographic projections when adjusted for market signals. The SHMA modelling adopts a 'policy off' approach which does not seek to change commuting patterns. As set out above, these findings should be considered indicative pending further work on economic growth potential.

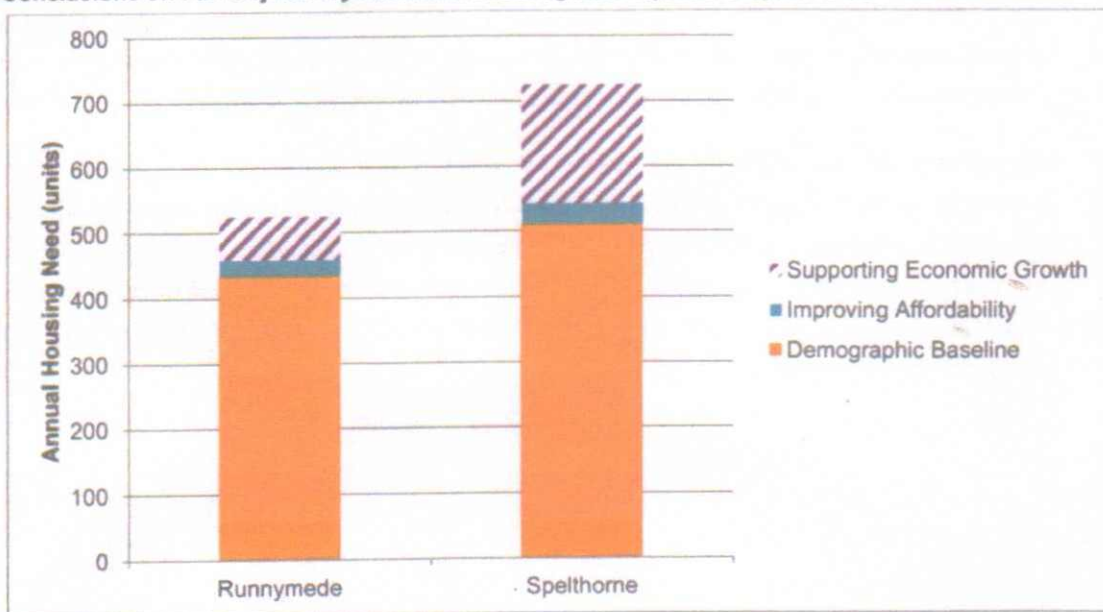
Conclusions on Overall Housing Need

Taking account of these adjusted household formation rates for younger households, the SHMA draws the following rounded conclusions on the overall need for housing over the 2013-33 period:

- Runnymede: 459 - 525 homes pa
- Spelthorne: 543 - 725 homes pa

The lower end of the range reflects demographic trends and an adjustment to improve affordability. The upper end reflects the potential level of housing which could be required to meet the needs of the local economy. The derivation of the conclusions on housing need is shown below.

Conclusions on Full Objectively-Assessed Housing Need by Authority, 2013-33



Source: Derived from demographic projections and Experian

In the absence of development constraints, the higher end of the range shown above could potentially be considered to represent the full 'objectively assessed need' (OAN) for housing. This represents in total an annual need for 1,250 homes across the HMA. In accordance with the Planning Practice Guidance, this takes account of the level of housing provision which is expected to be needed to support economic growth and improve affordability.

However there are some caveats which need to be recognised. The higher end of the range takes account of Experian economic forecasts. These have been used without consideration of employment land capacity and detailed interrogation of the growth potential of the Boroughs' economies. Nor does it take into account any likely impact as a result of any expansion at Heathrow Airport.

Through more detailed consideration of economic growth potential in the Boroughs, it may be appropriate to refine the evidence taking account of local factors which may influence future economic performance.

Where development constraints influence the ability to meet housing need in full, we would recommend that any shortfall in housing provision is measured against the demographically-assessed need as in these circumstances it would be unlikely that affordability would improve; and housing provision could constrain economic growth. In these circumstances, policies for economic growth would need to take into account the expected growth in the workforce.

The demographic-based assessment thus represents what we would consider to be a minimum level of housing need (1,002 dpa), leaving aside at this stage any constraint-based factors - as the Planning Practice Guidance requires.

The National Planning Policy Framework sets out that local authorities should seek to meet housing need within their areas where it is sustainable to do so and consistent with policies within the Framework. The Framework however affords significant protection to Green Belt.

Conclusions on Housing Mix

In addition to considering the overall need for housing, the SHMA considers what types and sizes of homes – both market and affordable – will be needed.

The SHMA identifies that there is a need for a mix of house sizes across the HMA, as the figure overleaf indicates. The conclusions drawn take account of how the structure of the population and households are expected to change over the period to 2033 and how people occupy homes.

In terms of size mix, our analysis (taking account of demographic trends and market evidence) concludes that the following represents an appropriate indicative mix of affordable and market homes at a HMA-wide level.

Need for Different Sizes of Homes across Runnymede and Spelthorne

| | 1-bed | 2-bed | 3-bed | 4+ bed |
|----------------------|--------|--------|--------|--------|
| Market | 5% | 30% | 45% | 20% |
| Affordable | 35-40% | 25-30% | 25-30% | 5-10% |
| All dwellings | 15% | 30% | 40% | 15% |

Source: Derived from demographic projections

It should however be noted that this analysis is aimed at informing strategic policies over the plan period and there will be a range of factors which will influence demand for different sizes of homes over time, particularly demographic changes, growth in real earning/savings, housing affordability and wider economic performance. There is also a geographical dimension and the specific mix of housing needed at a local level will be influenced in part by gaps in the existing housing offer locally (such as differences between the urban and rural areas).

Policies for what proportion of homes in new development schemes should be affordable need to take account of evidence both of housing need and of the viability of residential development. The NPPF sets out that percentage targets for affordable housing need to take account of viability evidence.

Our assessment of affordable housing needs indicates that, in delivering affordable units, a HMA-wide mix target of 23% intermediate and 77% social or affordable rented homes would be appropriate. Any strategic policy should however retain a degree of flexibility both to take account of local level variations which we have identified, as well as any site specific issues.

In the affordable sector, we recommend that the focus of provision is on smaller properties. However, the recommended mix also recognises the potential role which delivery of larger family homes (3 and 4 bedrooms) can play in releasing supply of smaller properties for other households together with the limited flexibility which one-bed properties offer to changing household circumstances, which feed through into higher turnover and management issues. These have been balanced against the recent Government reforms to social housing and welfare, including issues associated with the changes introduced by Government to housing benefit eligibility for working-age households in the social housing sector.

For market housing, we recommend that the focus of new provision is on two and three-bed properties. This would serve to meet the needs of newly forming households and younger families in the HMA as well as demand from older households downsizing and looking to release equity in existing homes, but still retain flexibility for friends and family to come and stay. There is however likely to be a notable level of continued need for larger family properties arising from existing growing households and those migrating into the HMA.

The mix identified above should inform strategic borough-wide policies and help to inform the 'portfolio' of sites which are considered and ultimately allocated through the Local Plan process. However, we would again recommend that strategic policy retains a reasonable degree of flexibility to ensure that, in applying mix to individual development sites, appropriate regard can be given to the nature of the development site, the character and existing housing stock of the area as well as the most up-to-date evidence of need/demand.

Needs for Groups within the Population

Over the period to 2033 the population of older persons in the HMA is expected to grow, with the population aged over 55 expected to increase by 42%. Many older households will remain in homes which they have lived in for many years. However some may wish to downsize, and this has been taken into account in the conclusions drawn on the mix of homes needed.

Some older households will require specialist housing or support. Others may need to adapt their homes to meet their changing needs. It is expected that a growing older population may result in an increase in the number of people with dementia by over 1,700 between 2013-33, with growth in the number of persons with mobility problems of over 3,800. Some older households will require specialist housing solutions. The SHMA identifies a mid-point need for 1,850 additional specialist units of housing for older people between 2013-33, including sheltered and extra care homes.

In addition, the SHMA indicates a need for 191 bedspaces in care homes over the period 2013-33 - 69 in Runnymede and 122 in Spelthorne. This does not form part of the household population and so is separate to the need identified for housing. The same is true for student halls of residence.

The BME population of the study-area is relatively large in comparison with the South East region and has grown significantly over the past decade. Where possible the Councils should provide advice to BME groups and in particular ensure that accommodation quality (particularly in the private rented sector) can meet the needs of such households which are disproportionately likely to contain children.

Lone parents are also particularly disadvantaged with a high reliance on rented housing. Projections suggest an increase in the number of children in the study-area over the next few years and if past trends are repeated this will also see a notable increase in the number of lone parents. Again advice about housing options and maintaining a good quality of accommodation will be critical to ensure that such households' needs are best met and that children are provided with a full range of opportunities (e.g. education) as they grow up.

Young people are important for any area due to the long-term economic potential they can bring. As with other groups there are some indications of this group being disadvantaged with a reliance on rented accommodation and high levels of unemployment. Given that the housing options for young people may be

more limited than for other groups it will be important to monitor the accommodation quality – this will need to focus on HMOs given general trends of an increase in house sharing over time.

While the overall number of students is expected to increase in Runnymede by 2031 so too is the number of student bed spaces owned by the University and other service providers. However this includes a presumption of development being allowed.

There is limited data available on demand for custom or self-build property. Runnymede Council have set up their own register for those interested in this type of property. The National Custom & Self Build Association's data suggest that there is interest for around 430 such households across the two districts,

For all of the above groups, with the exception of residential care homes and student halls of residence the need for these properties will be met as part of the general supply, they are not in addition to it.

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