GUILDFORD BOROUGH

Draft Strategic Housing Market Assessment

A review

March 2014

For the attention of:

Jane Robinson

Senior Planner
Planning Services
Guildford Borough Council
Millmead
Guildford
Surrey
GU2 4BB

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Contact Details

Edge Analytics Ltd.

Leeds Innovation Centre
103 Clarendon Road
Leeds
LS2 9DF
0113 384 6087
www.edgeanalytics.co.uk

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1. Introduction

Context & Requirements

1.1 Guildford Borough Council is seeking to identify an appropriate housing growth target for its new Local Plan. Demographic evidence provides a critical input to the derivation of this target, particularly forecasts of likely population and household change, which give due consideration to a range of demographic, economic and policy factors.

1.2 GL Hearn (GLH) has produced a draft Strategic Housing Market Assessment (draft SHMA)[1] for the Borough Council, with supporting demographic analysis provided by Justin Gardner Consulting (JGC). The draft SHMA is currently subject to public 'engagement', a precursor to a more formal 'consultation' process.

1.3 GBC has requested a short, critical review of the draft SHMA document, evaluating its methodological robustness and commenting on the key statistical outcomes of the report. Specifically, GBC has sought guidance on the draft SHMA's:

- Conformity with the NPPF
- Methodological robustness
- Calculations and statistical analysis
- Strengths, weaknesses and key areas of challenge

SHMA development guidance

1.4 The objective of the draft SHMA has been, "To develop a robust understanding of housing market dynamics, to provide an assessment of future needs for both market and affordable housing and the housing requirements of different groups within the population" (draft SHMA, paragraph 1.1)

1.5 GLH is explicit in its acknowledged compliance with the requirements of the National Planning

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[1] Guildford & West Surrey Strategic Housing Market Assessment – Guildford Borough Council Draft Report. January 2014. Prepared by GL Hearn Limited.
https://getinvolved.guildford.gov.uk/consult.ti/SHMA2014/consultationHome

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Policy Framework (NPPF)[2], the 2007 SHMA Practice Guidance[3] and the draft National Planning Practice Guidance (NPPG)[4].

1.6   Practice guidance states that a SHMA "should be considered robust and credible if, as a minimum, it provides all of the <u>core outputs</u> and meets the requirements of all of <u>the process criteria</u>".

Table 1: SHMA Guidance – Core Outputs

	SHMA Guidance: Core Outputs
1	Estimates of current dwellings in terms of size, type, condition, tenure
2	Analysis of past and current housing market trends, including balance between supply and demand in different housing sectors and price/affordability. Description of key drivers underpinning the housing market
3	Estimate of total future number of households, broken down by age and type where possible
4	Estimate of current number of households in housing need
5	Estimate of future households that will require affordable housing
6	Estimate of future households requiring market housing
7	Estimate of the size of affordable housing required
8	Estimate of household groups who have particular housing requirements (e.g. families, older people, key workers, black and minority ethnic groups, disabled people, young people)

Table 2: SHMA Guidance – Process Checklist

	SHMA Guidance: Process Checklist
1	Approach to identifying housing market area(s) is consistent with other approaches to identifying housing market areas within the region
2	Housing market conditions are assessed within the context of the housing market area
3	Involves key stakeholders, including house builders
4	Contains a full technical explanation of the methods employed, with any limitations noted
5	Assumptions, judgements and findings are fully justified and presented in an open and transparent manner
6	Uses and reports upon effective quality control mechanisms
7	Explains how the assessment findings have been monitored and updated (where appropriate) since it was originally undertaken

*Items 6 & 7 are not deemed relevant to the review presented in this report

[2] CLG. March 2012. *National Planning Policy Framework*.
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf.
[3] CLG 2007. Strategic Housing Market Assessments - Practice Guidance Version 2
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/11812/Strategic_Housing_Market_Assessments-_Practice_Guidance.pdf
[4] CLG. *National Planning Practice Guidance*. http://planningguidance.planningportal.gov.uk/blog/guidance/.

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Guildford draft SHMA content

1.7   The draft SHMA produced by GLH provides a detailed and comprehensive analysis of Guildford Borough's housing requirements, structured as follows:

- Chapter 2: Characteristics of the Housing Market
- Chapter 3: Housing Market Dynamics and Market Signals
- Chapter 4: Overall Need/Demographic Projections
- Chapter 5: Affordable Need
- Chapter 6: Requirements for Different Sizes and Types of Homes
- Chapter 7: Housing Needs of Specific Groups in the Population
- Chapter 8: Conclusions and Recommendations
- Technical Appendix

1.8   The remainder of this document provides a short review of the content of each chapter of the draft SHMA, with summary comments on each. A final section provides summary comments on the draft SHMA's NPPF compliance, methodological robustness and statistical analyses, providing comments on potential areas of challenge.

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2. Characteristics of the Housing Market

Summary

2.1 Chapter 2 of the draft SHMA (with supporting evidence in the Technical Appendix) includes a robust analysis of the wider housing market area (HMA), using a range of data sources on migration, commuting and house price statistics. The analysis concludes that a 'Guildford-centric' HMA that includes Guildford, Waverley and Woking is the most appropriate for an assessment of housing need, acknowledging the complexity of interactions with London and the wider South East.

2.2 For the wider HMA, the draft SHMA examines housing stock and supply, detailing tenure profiles, house type, housing size, overcrowding and under-occupation, vacant and second home statistics. Guildford Borough has a predominance of owner-occupied properties, with a bias towards larger semi-detached and detached properties. It is noted in the draft SHMA that housing delivery targets have been achieved over the 2001-2011 period.

2.3 Demographic statistics on historical change across the HMA are presented, examining the size, qualifications and skills mix of the resident labour force. An historical perspective on jobs growth is provided, together with an illustration of the latest (Experian) forecasts of employment growth anticipated in Guildford, its HMA and the wider South East.

2.4 The analysis makes summary reference to the University of Surrey and its influence upon Guildford Borough's demographic and labour-force profile.

Comments

2.5 GLH makes good use of a wide range of evidence to present a detailed perspective on the housing market in the Borough of Guildford.

2.6 The dominant driver of population change in the last three years has been international migration. The growth component estimates for international migration in 2009/10-2011/12 are inconsistent with (higher than) previous years. Given the continuing uncertainty associated with the robust estimation of UK international migration and the importance of the migration

assumptions in the '5 Yr' trend projection, it is recommended that further scrutiny of the international migration flows (student, worker and other) to and from the Borough is undertaken.

2.7   The latest Experian economic forecast implies a higher jobs growth than previous forecasts. It is recommended that the viability of this forecast in terms of implied sectoral growth is scrutinised. Further detail on Experian's underlying assumptions on rates of economic activity and commuting would also be useful but these are not routinely made available for scrutiny.

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3. Housing Market Dynamics and Market Signals

Summary

3.1   Chapter 3 of the draft SHMA provides an analysis of the housing market structure and dynamics using available data plus first-hand evidence from local estate agents and letting agents.

3.2   A macro-economic context is provided, illustrating the recent recovery in secured lending and buoyancy in the buy-to-let market. The local dimension is presented using statistics on sales volumes and rentals. Guildford Borough's average house price is benchmarked against its neighbours, showing its high average house price relative to its HMA partners and the wider South East.

3.3   The lower quartile income to house price ratio has been calculated to illustrate the worsening affordability picture in Guildford, with a ratio value of 10.6 in 2012, again higher than the rest of the HMA and the wider South East.

3.4   GLH concludes with an assessment that an upward adjustment in the Borough's housing target might be appropriate to relieve affordability pressures.

Comments

3.5   GLH has made appropriate use of statistics to highlight relative affordability issues in a Borough with high average house price compared to its HMA partners and the wider South East.

3.6   Whilst it is evident that Guildford Borough has a particularly acute affordability issue, it is less clear how an upwards adjustment to housing provision would manifest itself as an improvement to the affordability position.

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4. Overall Need/Demographic Projections

Summary

4.1   Chapter 4 of the draft SHMA (and the accompanying Technical Appendix) provide an initial assessment of overall housing need using evidence from a range of demographic forecasts. The approach is consistent with practice guidelines in that it evaluates the validity of ONS projections as a starting point for a housing needs assessment, considers alternative household formation rates and integrates evidence on economic growth forecasts.

4.2   The Chapter begins with a review of the demographic forecasting analysis provided by Edge Analytics[5] as input to Guildford Borough Council's preliminary review of its future housing requirements[6].

4.3   GLH agrees with the inappropriateness of the 2011-based population projection as a basis for long-term planning and expresses a preference for the 'last 5 years' as the basis for setting migration assumptions, providing consistency with the ONS approach.

4.4   GLH makes appropriate use of the 2012 mid-year estimates to develop its own, '5 Yr' updated trend scenario and has also used an updated employment forecast from Experian to present its own 'jobs-led' demographic forecast. These scenarios produce two growth outcomes for direct comparison with equivalent scenarios from the previous Edge Analytics analysis (Table 3).

Table 3: Guildford scenario outcomes

Scenario	Dwellings per year
GLH (5yr Trend)	671
Migration-led (10yr 5yr)	666
Migration-led (5yr)	649
Migration-led (10yr 5yr 80%)	633
Jobs-led (IER)	614
GLH (Experian)	570
Jobs-led (Mid-Range)	502
Migration-led (10yr)	470
Jobs-led (Experian)	392
Net-Nil Migration	204

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[5] *Demographic evidence for local plan development*. Prepared by Edge Analytics Ltd, July 2013
[6] *How many new homes? Background paper.* Prepared by Guildford Borough Council, October 2013

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4.5 GLH concludes the section with a recognition that overall housing need should be evaluated in the context of the wider HMA and concurs with its conclusion from the previous section, that higher housing growth could help to address the affordability issues present in the Borough.

Comments

4.6 GLH has used a suitably robust methodology for the development of its demographic forecasts. A cohort component model has been used for population forecasting and a headship rate model has been used for household forecasts. These approaches are consistent with POPGROUP and ONS methodologies.

4.7 With a general consistency in methodology, the differences in the GLH and Edge Analytics scenario outcomes result from the choice of data inputs and assumptions (Table 4).

Table 4: Demographic scenarios – method, inputs & assumptions

	GLH Approach	Comment
Forecasting methodology	Cohorth component model for population and a headship rate model for households	Consistent with the Edge Analytics (POPGROUP) approach and ONS methods
Historical Population	Mid-year estimates 2001-2012	An additional year of historical data compared to the Edge Analytics scenarios
Fertility & mortality	Age-specific rates taken from the 2010-based projection	Likely to be too low due to the previous over-estimate of population in Guildford. 2011-based
Migration	Last 5 years (2008-2012) used to derive projection assumptions	International migration is a very significant component of the selected assumption
Household headship rates	Mid-point of 2008-based and 2011-based headship rates used for household estimation	Edge Analytics uses both the 2008-based and 2011-based headship rates in its scenario analysis
Vacancy rate	3% vacancy applied throughout the forecast period.	3.76% vacancy applied throughout the forecast period
Economic activity rates	Age-specific rates (with exception of student age-groups) increased in line with linear trend 2001-2011	Edge Analytics has limited its economic activity rate changes to a 10% increase in the 50+ age-group over the forecast period
Unemployment rate	Not stated but may be assumed within the economic activity rates	4% maintained over the forecast period
Commuting ratio	Commuting ratio of 1.0 assumed throughout the forecast period	Commuting ratio of 0.974 assumed throughout the forecast period

4.8 An additional year of historical evidence (2012) results in the higher '5 Yr' trend projection produced by GLH. The very high 'international migration' growth component estimated for Guildford since 2009 manifests itself as the key driver of growth in the trend projection. The uncertainty associated with the robust estimation of international migration (at local authority level) coupled with the impact that this component has upon Guildford's projected trend growth

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suggests that the sensitivity of international migration within the '5 Yr' trend projection, should be presented. Further analysis of local statistics on international migration is recommended.

4.9 Fertility and mortality assumptions applied in the GLH scenarios are likely to be too low as they are derived from ONS 2010-based statistics, calculated prior to the 2011 Census recalibration. Higher fertility and mortality will counter-balance each other somewhat, although higher fertility is likely to result in a higher '5 Yr' trend projection given the importance of (younger-age) net in-migration to population growth.

4.10 In both of its scenarios, GLH makes the assumption that future household headship rates are likely to lie within the range of outcomes suggested by the 2008-based and 2011-based household model; an approach that is consistent with that applied by Edge Analytics in its scenario analysis for Guildford Borough Council.

4.11 Vacancy rates differ slightly between the GLH and Edge Analytics approach. The 3% average applied by GLH is an appropriate assumption.

4.12 GLH has made assumptions on changing rates of age-specific economic activity. It has assumed that rates will continue to increase in line with the 2001-2011 trend (with the exception of the 16-24 student age-group). This contrasts to the Edge Analytics approach which confined its economic activity rate changes to the 50+ age-group. The GLH approach will result in higher economic activity rates, enabling the higher jobs growth forecast to be accommodated by higher labour force participation rather than additional net in-migration.

4.13 In its latest scenario studies for other geographical areas, Edge Analytics has applied a slightly different approach to its adjustment of economic activity rates, modifying the 60-69 age-groups only, to take account of changes to the State Pension Age. This has been in response to an increasing level of scrutiny on these assumptions. The choice of economic activity rates in scenario modelling is now a key issue that will be subject to challenge at inspection, so further sensitivity analysis on these assumptions is recommended.

4.14 It is not clear what level of unemployment has been assumed in the GLH analysis but it may have been subsumed within the economic activity rate assumptions. Commuting ratios are broadly consistent between the GLH and Edge Analytics scenario approach, maintaining a 'balanced' commuting picture over the forecast period with the size of the resident labour force matching the number of jobs available within the Borough.

4.15   The latest Experian economic forecast implies a higher jobs growth than previous forecasts. It is recommended that the viability of this forecast in terms of implied sectoral growth is scrutinised. Further detail on Experian's underlying assumptions on rates of economic activity and commuting would also be useful but these are not routinely made available for scrutiny.

4.16   All jobs-led scenario outcomes fall below those of the majority of the 'trend' scenarios due to the high net in-migration that is implied by the choice of the '5 Yr' migration assumptions. The longer, 10 Year historical period results in a lower average net migration impact as the high international migration estimate suggested in the most recent years is dampened by lower migration estimates for previous years.

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5. Affordable Need

Summary

5.1 Chapter 5 of the draft SHMA provides a detailed assessment of 'affordable need', following the SHMA Practice Guidance in the application of a Basic Needs Assessment Model.

5.2 As guidance now requires, the need assessment is based upon evidence derived from secondary data sources, including 2011 Census statistics, demographic forecasts, house price and rent statistics and income data. The relationship between housing costs and income is the key driver of the affordable need assessment.

5.3 To assess affordability GLH has examined households' ability to afford either home ownership or private rented accommodation, 'without financial support'. It estimates that 50.5% of Guildford Borough's households are unable to access market housing on the basis of income levels, making explicit that it takes no account of existing equity or savings in that affordability calculation.

5.4 GLH makes an assessment of current affordable housing needs and needs that are likely to arise in the future as new households are formed (942 per annum in total). This is matched to the 'supply' of affordable accommodation based upon historical trends (251 per annum) and a backlog estimate to produce a net affordable need for 2013-31 of 718 per year.

5.5 The sensitivity of this estimate to income thresholds is acknowledged and presented as is the role of the private rented sector in meeting future affordable need.

Comments

5.6 Guildford Borough has acute affordability issues. Therefore, this translates into a significant need for affordable homes if future needs are to be met.

5.7 In its evaluation of affordable need, GLH has applied the appropriate methodology recommended in the Planning Practice guidance, making appropriate use of the available secondary data sources. It has also applied suitable 'sensitivity' analysis to evaluate the impact of different income thresholds upon affordable need estimates.

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5.8   The choice of the '5 Yr' trend growth scenarios as the 'preferred' scenarios has an impact on the affordable need outcomes. A range of outcomes based upon additional (trend and jobs-led) scenarios evidence would seem to be appropriate given the acute nature of the affordability issues within the Borough and the uncertainty associated with international migration estimation.

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6. Requirements for Sizes and Types of Homes

Summary

6.1 Chapter 6 of the draft SHMA considers Guildford Borough's housing requirements in terms of its tenure and size profile.

6.2 The analysis uses 2011 Census statistics to present a 'baseline' perspective on housing mix in Guildford Borough (although 2001 Census statistics also form part of the analysis).

6.3 The future requirements methodology combines an analysis of existing tenure/size issues with an evaluation of the household implications of GLH's '5 Yr' trend projection, using 'household reference person' (HRP) outputs from the projection model to inform the analysis.

6.4 Whilst acknowledging the inherent complexities of matching demographic change to required housing mix, the analysis considers both the market and affordable sector, providing a size profile for each and a tenure mix on affordable homes.

Comments

6.5 GLH makes appropriate use of the latest Census statistics in its analysis.

6.6 The choice of the '5 Yr' scenario as the 'preferred' growth trajectory is again important; no sensitivity is presented around alternative demographic growth outcomes.

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7. Housing Needs of Specific Groups

Summary

7.1 Chapter 7 of the draft report considers the housing needs of sub-groups within Guildford Borough's population: older persons, people with disabilities, households with children, young people and students.

7.2 The analysis presents a variety of statistics from the 2011 Census, POPPI data and population projection outcomes, to profile the different sub-groups to enable conclusions to be drawn with regard to future provision.

7.3 GLH uses prevalence rates in combination with the '5 Yr' population projection to assess how Guildford Borough's changing demographic profile might impact upon housing requirements within sub-groups of the population.

7.4 The analysis presents an analysis of the impacts of an ageing population profile and its relationship to ill-health and disability and the life-stage choices that will influence housing requirements in the Borough.

7.5 The analysis also makes reference to the need to consider how the (younger) labour force can be maintained with an appropriately affordable housing offer.

7.6 The effect of the recent expansion of Guildford's student numbers is noted, with an indication that international students are likely to be an increasingly large proportion of the student population as the University of Surrey seeks expansion of its postgraduate student numbers.

Comments

7.7 GLH has produced a detailed analysis of sub-group requirements using a range of sources and appropriate methods.

7.8 The '5 Yr' trend scenario is used as the basis for evaluating the level of need associated with specific groups. An illustration of the sensitivity of these numbers in relation to alternative demographic growth outcomes would be appropriate.

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7.9   Further growth of student numbers is an important dimension. Further research to assess how the growth in the number of international students aligns to 'trend' projections is recommended.

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8. Summary

8.1 GLH has completed a comprehensive, detailed and robust analysis; presenting a draft SHMA that is written and presented in a clear and informative style. The document provides each of the core outputs required in the SHMA guidance (Table 5).

Table 5: SHMA Guidance – Core Outputs

	SHMA Guidance: Core Outputs	
1	Estimates of current dwellings in terms of size, type, condition, tenure	✓
2	Analysis of past and current housing market trends, including balance between supply and demand in different housing sectors and price/affordability. Description of key drivers underpinning the housing market	✓
3	Estimate of total future number of households, broken down by age and type where possible	✓
4	Estimate of current number of households in housing need	✓
5	Estimate of future households that will require affordable housing	✓
6	Estimate of future households requiring market housing	✓
7	Estimate of the size of affordable housing required	✓
8	Estimate of household groups who have particular housing requirements (e.g. families, older people, key workers, black and minority ethnic groups, disabled people, young people)	✓

8.2 The analysis is presented within the context of the wider HMA, although the study acknowledges that further cooperation between adjoining local authorities is necessary. GLH has engaged with local estate agents and letting agents in its development of the draft SHMA but it is not clear whether engagement with developers has been required as part of the process (Table 6).

8.3 GLH has made appropriate use of Census statistics and a range of other secondary data sources. The affordable need calculation is consistent with SHMA guidance and there is an appropriate sensitivity analysis on the affordable homes assessment using different income thresholds. The analysis of housing mix and the housing requirements of population sub-groups make appropriate use of available data sources.

8.4 GLH has used a suitably robust methodology for the development of its demographic forecasts. A cohort component model has been used for population forecasting and a headship rate model has been used for household forecasts. These approaches are consistent with POPGROUP and ONS methodologies.

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8.5 GLH has ensured transparency in its choice of data inputs and assumptions and has provided a Technical Appendix to the draft SHMA with additional detail to support its analysis.

Table 6: SHMA Guidance – Process Checklist

	SHMA Guidance: Process Checklist	
1	Approach to identifying housing market area(s) is consistent with other approaches to identifying housing market areas within the region	✓
2	Housing market conditions are assessed within the context of the housing market area	✓
3	Involves key stakeholders, including house builders	✓*
4	Contains a full technical explanation of the methods employed, with any limitations noted	✓
5	Assumptions, judgements and findings are fully justified and presented in an open and transparent manner	✓

*The extent of required engagement with developers is unclear

8.6 With a general consistency in the 'forecasting' methodology, the differences in the GLH and the previous Edge Analytics scenario outcomes result from the choice of data inputs and assumptions, particularly the long-term migration assumption; so the '**amber**' tick in Table 6 relates to the fact that choice of scenario assumptions has an important bearing on the housing numbers presented in the draft SHMA.

Table 7: Guildford scenario outcomes

Scenario	Dwellings per year
GLH (5yr Trend)	671
Migration-led (10yr 5yr)	666
Migration-led (5yr)	649
Migration-led (10yr 5yr 80%)	633
Jobs-led (IER)	614
GLH (Experian)	570
Jobs-led (Mid-Range)	502
Migration-led (10yr)	470
Jobs-led (Experian)	392
Net-Nil Migration	204

8.7 The '5 Yr' trend projection is selected by GLH as the most appropriate basis for the objective assessment of need. Output from this growth scenario is used to inform the draft SHMA analysis on affordable need, housing mix and the requirements of specific sub-groups of the population.

8.8 According to the ONS components-of-change, the dominant driver of population change in Guildford Borough in the last three years has been international migration. Given the continuing

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uncertainty associated with the robust estimation of UK international migration and the critical importance of this migration assumption in the '5 Yr' trend projection, it is recommended that further scrutiny of the international migration flows (student, worker and other) to and from the Borough is undertaken. The past and future growth in international student numbers is of particular importance to this scrutiny.

8.9   The high migration growth assumptions of the '5 Yr' scenario, override the jobs-growth impact suggested by GLH's 'Experian' scenario. It might be argued that this scenarios provides a more realistic link between economic and demographic change but this is difficult to confirm without further scrutiny of the international migration assumptions and the basis of the jobs-growth forecast itself.

8.10   The latest Experian economic forecast implies a higher jobs growth than previous forecasts. It is recommended that the viability of this forecast in terms of implied sectoral growth is scrutinised. Further detail on Experian's underlying assumptions on rates of economic activity and commuting would also be useful but these are not routinely made available for scrutiny.

8.1   Given the sensitivity of the housing needs analysis to forecasts of demographic change, Guildford Borough Council should continue to review its underpinning demographic evidence when new population projections are released by ONS in summer 2014 and when new household projections are released by CLG later in 2014.

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