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Guildford Local Plan Examination – Matter 2 and Matter 3: Discussion Paper

Our ref 16377/MS/BHy
Date 15th June 2018

Subject Making an uplift in response to market signals to improve affordability | Conclusions on OAN and unmet need

1.0 Introduction

1.1 This paper has been produced in response to the invitation by the Inspector for Lichfields to prepare a note with our reflections following the discussion on the market signals uplift for affordability. It does this with the benefit of the paper (GBC-LPSS-010) supplied on Thursday 7th June 2018 which helpfully summarises the Council's position, namely that it maintains its view that the OAN is 594dpa and that its position is justified because its uplift is 41% above the 2016-based projections if those are used as the starting point. We have also noted the OAN-related commentary in the Council's Position Statement (GBC-LPSS-012) but it raises no new points, other than continuing (like GBC-LPSS-004, GBC-LPSS-010 before it) to make no reference to how the varying levels of OAN being advanced address the need for affordable housing as distinct from the question of market signals.

1.2 Our paper also reflects on the Inspector's summing up at the close of the Examination hearing on 7th June 2018 and his written note (ID-005), to set out – in Section 5.0 (page 10) - a potential way forward for the OAN figure for Guildford.

1.3 The paper is prepared on behalf of CEG, the Earl of Onslow and the Trustees of the Clandon Estate, but has been shared in draft with a number of the Examination participants - including the Guildford Housing Forum - whose evidence argues the Council's Plan does not meet OAN, and has taken on board their comments. Given the Council's subsequent work (which was not circulated in advance to other parties), this paper has not been shared in draft with the Council or those representors who are seeking a reduction to the housing figure in the Plan.

2.0 What is the PPG seeking in considering the market signals uplift?

2.1 All parties are clear on what the guidance (PPG ID2a-020) says. The uplift should be one that is related to "*the affordability constraints …* [and] *other indicators of high demand*" and that "*on reasonable assumptions and consistent with the principles of sustainable development could be expected to improve affordability*".

2.2 One should not apply the Guidance in a dogmatic way, but with a sensible understanding of what the exercise is seeking to achieve. PPG ID2a-014 tells us that housing need is "*not an exact science. No single approach will provide a definitive answer*". At its heart, the purpose of the uplift is to increase supply of homes above that needed to accommodate the number of households expected in the area, in order to improve affordability; i.e. to moderate house price increases to the extent that – at minimum - they do not outpace the growth in incomes. The basis of this policy concept derives from the University of Reading work which has informed

Government thinking on its approach to housing supply[1]. This – as described by the NHPAU[2] – is based on a set of empirically-based principles of which the following are relevant here:

1 If incomes were to remain static, and housing development matches the number of growth in the number of households, prices will be static;

2 However, the elasticity of house prices with respect to incomes is approximately 2.0. In other words, when incomes rise, house prices rise faster. An elasticity of 2.0 means a 1% rise in incomes would increase house prices by 2%

2.3 So, setting aside any attempt to model the issue locally (to which we turn later), the application of the PPG ID2a-020 needs to work on the basic understanding that if supply matches household growth, the only way in which the affordability ratio will not worsen (*ceteris paribus*) is if incomes remain static. Between 2002 and 2017, median workplace incomes in Guildford have increased at a compound annual growth rate (CAGR) of 2.48%[3]; the recently circulated economic forecasts produced by Oxford Economics for Guildford assumes GVA per employee growing over the plan period. Assuming static incomes for the rest of the plan period is not an assumption that could be reasonably expected to occur.

2.4 Therefore, to be reasonably expected to have any moderating effect on affordability (let alone to improve it), any scale of uplift needs to:

1 be sufficiently greater than the growth number of households in the area to counteract the income elasticity effect, given incomes in Guildford are likely to continue to rise;

2 have a sufficient effect on house prices in the context that new build housing is only a proportion (typically c.10%) of total transactions in the market[4] and that the price of new housing is influenced by prices in the second-hand stock[5].

3.0 Could the Council's uplift be reasonably expected to improve affordability?

3.1 The Council's new OAHN is 594dpa (GBC-LPSS-004). This is arrived at by making what the 2017 SHMA Addendum refers to as an "*affordability adjustment*" by adjusting household formation rates for 25-34 year old age groups to bring back these back to 2001 levels. The SHMA considers – correctly – that problems of affordability "*had been influenced at least in part by affordability issues affecting the ability of younger households to form…. An increase in housing supply which resulted in an improvement in affordability could be expected to be manifest in an increased ability of younger households to form.*"[6].

3.2 Unfortunately, the Council's work falls into the trap of a false syllogism by drawing the conclusion that the adverse consequences of this worsened affordability will be reversed by increasing the supply to a level that matches the statistical effect it has had on household

[1] This is made clear by the recent use of this work by MHCLG in its publication "*Analysis of the determinants of house price changes*" published in April 2018.
[2] NHPAU (2009) A Guide to the Reading Affordability Model
[3] Source: ONS Housing Affordability Dataset (which provides data on workplace incomes). 2002 - £23,755, 2017 - £34,322 = 44.48% increase = 2.48% CAGR over 15 years
[4] Land Registry data shows that of the 11,500 housing transactions in the Guildford postcode area (ie not just Guildford Borough) between April 2017 to March 2018, 9% were new build
[5] Chamberlain Walker Economics (2017) The Role of Land Pipelines in the UK Housebuilding Process; para 2.12 states "*Crucially, housebuilders are "price-takers", with selling prices determined by the second-hand market for homes which accounts for c.90% of transactions in the housing market.*"
[6] Para 3.66 of the SHMA Addendum Report for Guildford (2017)

formation for a single age cohort. The SHMA Addendum asserts that this calculation is *"the additional housing which would be required to improve affordability for younger households."*

3.3 This assertion is made by the SHMA and its Addendum without engaging with the question of whether the increase would be sufficient to improve prices in reality.

3.4 The flawed logic is manifestly implausible for the following reasons:

1. In the real housing market it is not possible to hypothecate an increase in supply for occupation by a specific age cohort, particularly ones who have less purchasing power than others. Thus, even if the increase did have an impact on prices (it will not, for reasons below) the chances of the increase benefitting that specific cohort are remote indeed.
2. The Council's uplift represents 57 homes per annum[7]. This is an 11% increase above the household projection to which it is applied (the 514 dpa[8]) and would be equivalent to just 0.1% of the total housing stock in Guildford[9]. It would be equivalent to just 2% of the total number of house sales in Guildford in 2016[10]. The prospect of this marginal number of dwellings having an impact on house prices in Guildford defies reality.

3.5 Through the Examination, the Council has fallen back on a single argument to justify why it thinks its uplift will improve affordability, namely that the increase in supply in Guildford compared to past build rates will change perceptions/expectations of house price growth and influence house prices themselves, citing the Barker and Redfern Reviews[11]. It is indeed true that both documents do indeed refer to this concept. Barker states:

"New supply only accounts for 1 per cent of the housing stock, and so even measures which change new supply significantly would not have much effect on prices were it not for the role of expectations."

3.6 Note, however, Barker's reference to expectations <u>supporting</u> the impact of a significant change in new supply. In this context, Barker was in 2004 concluding that, at a national level[12], "*to lower real trend price to 1.1 per cent, 145,000 more houses per annum might be needed, about double the current private sector housing output of 150,000 units*" (ie 295,000 homes) against an estimate at that time of national household growth of 179,000 per annum[13] based on work by Alan Holmans. The Redfern Review[14] similarly refers to the impact of price expectations, but identifies this as something that <u>reinforces</u> the impact of significant increases in supply <u>above</u> the change in the number of households.

3.7 The Local Plan does envisage an increase in supply above the woefully low levels experienced over the past decade. However, simply delivering more homes than in the past will not suppress expectations of price increases <u>if</u> this increase is doing little more than tracking the increase in demand arising from household growth, and economic, job and wage growth (noting the

[7] See Figure 2 of GBC-LPSS-004
[8] See Table 7 of GBC-LPSS-004
[9] Total housing stock in Guildford in 2015 was 57,252 (drawn from Lichfields' work appended to the Solum Representations)
[10] 1,907 (Source: House Price Statistics for Small Areas - ONS). The 57 increase would represent just 40 extra market homes (given a likely percentage delivery of affordable housing at 30%) which would be just 2%.
[11] See Paras 1.43 – 1.45 of GBC-LPSS-003a. The same point is reiterated in GBC-LPSS-008
[12] A UK-wide figure, but the Wales and Scotland proportions are relatively small.
[13] See para 1.17 of the Barker Review.
[14] Para 33 states: *"If the number of households in the UK were to grow at around 200,000 per year, new supply of 300,000 dwellings per year over a decade would be expected to cut house price inflation by around 5 percentage points (0.5 percentage points a year). This could be further reinforced by changing house price expectations (not modelled)."*

elasticity effects of the latter identified in the University of Reading model). In this regard, as noted above, the Council's own evidence base supports the contention that (before any change in headship rates and based on the 0.7% employment growth scenario that ID-005 indicates is too low) Guildford will see significant demographic and economic growth:

- 503 extra households each year[15] (equivalent to 0.88% of household numbers at 2015[16]),
- an annual job growth of at least[17] 675 (equivalent to 0.74% of the 91,528 jobs currently in Guildford[18]) which will clearly drive wage growth in the Borough.

3.8 This compares to a housing requirement implied by the Council's new OAN figure of 571 dwellings per annum (before accounting for the 23 dwelling allowance for students) and equivalent to 1% of stock. Net completions across the whole of England last year were only marginally less than this, at 0.91% of stock.

3.9 Further, the woeful record of housing undersupply has contributed to the trends in house prices shown on Table 25 of the SHMA Addendum, which has seen annual house price growth in Guildford of 11.4% (1 year), 7.5% (5 years), 5.4% (10 years) and 4.0% (15 years), compared to the England average of 4.3%, 3.6%, 2.4% and 2.1% respectively. Further, paragraph 5.34 of the Addendum states:

"Considering absolute house price increases, prices have grown by an average of £16,000 per annum over the last 15 years; but with growth of £26,600 pa over the last five years and a substantial £45,000 over the last year. In the longer-term over a 10 or 15 year period, price growth has significantly exceeded that seen at a regional or national level pointing to a local supply/demand imbalance."

3.10 The Addendum was published in March 2017, with data up to 2016. The ONS data release[19] for the year to September 2017 shows mean house prices increased by a further £25,000.

3.11 In the face of the upward direction of demand (with consequential upward pressure on prices), and the scale of absolute price increases experienced, one would need compelling evidence to be convinced that the 11% uplift above household growth would generate a change in perceptions of house price growth sufficient to moderate, let alone reduce, the affordability ratio. The Council has produced no such evidence.

3.12 Nor has it demonstrated a greater scale of uplift (above the 1% of current stock it currently proposes) would be unreasonable or unrealistic. The Council is not contesting that an uplift can improve affordability, so presumably it would concede that if a bigger uplift was reasonable and realistic, it would deliver <u>greater</u> improvement in affordability in an area with a very significant gap between prices and incomes.

4.0 Other issues raised in the Council's position paper (GBC-LPSS-010)

The scale of uplift above the official household projections

4.1 The Council's argument that its 594 dpa OAN figure is 41% above the official projections is misleading, and ultimately of limited relevance:

[15] Table 7 of GBC-LPSS-004 which presents household numbers without the headship rate adjustment.
[16] 56,768 households in 2015 (See Tables 5-8 of GBC-LPSS-004)
[17] Evidence indicates past trends in job growth have been markedly above the Council's assumed future estimate of employment growth. See footnote 38.
[18] See Para 4.6 of the SHMA Guildford Addendum (2017)
[19] Mean house prices for administrative geographies: HPSSA dataset 12, released on 26th April 2018

1 The Council's evidence is that the student allowance of 23 dwellings is demand not reflected in the household projections, so the comparison is actually 35%[20]. Of this 35% (149 dwellings), well over half (61%) is actually to accommodate extra households attracted to Guildford by economic growth.

2 There is no basis in the current PPG for limiting one's consideration of market signals by making fixed percentage uplifts to the 'starting point'. It is a matter of making a judgement about the "*housing situatio*n"[21] as a whole, in the context of the circumstances in the relevant HMA and local authority area; something absent from the Council's mechanistic approach.

3 There are examples of OAN figures that are above the relevant projections by greater margins (see para 1.21 of the Appendix A to the Taylor Wimpey Matters Statement[22]).

Further examples can be found in the Oxfordshire SHMA[23], the headline OAN outputs for which are shown below. These show – for the "midpoint of the range" - the percentage uplift above the demographic baseline (including an adjustment for shortfall) is 67% (Cherwell), 79% (Oxford), 40% (South Oxfordshire), 102% (Vale of White Horse), 21% (West Oxfordshire) with an overall uplift across the HMA of 63%. Every HMA has its own circumstances, but it is relevant that the 2017 median house price to workplace income ratio in Oxford is 12.3 compared to 12.53 in Guildford. The OAN for Oxford of 1,400 represents 2.3% of its housing stock (2017).

Figure 1 Figure 15 of the Oxfordshire SHMA Executive Summary

Housing Needed per Year (2011-31)	A. Demographic Base + Shortfall	B. To Support Committed Economic Growth	C. To Meet Affordable Housing Need in Full	D. Range: Housing Need per Year	E. Midpoint of Range
Cherwell	682	1142	1233	1090-1190	1140
Oxford	780	700	2058	1200 - 1600	1400
South Oxfordshire	552	749	965	725-825	775
Vale of White Horse	508	1028	683	1028	1028
West Oxfordshire	541	661	685	635-685	660
Oxfordshire	3063	4280	5624	4678 - 5328	5003

Source: GL Hearn

The Council's criticism of alternative approaches

4.2 GBC-LPS-010 is in many respects 'tilting at windmills' in its criticisms of representors' alternative approaches, particularly the points made in para 8, and in its attempts made to critique the approaches using the University of Reading affordability model principles.

4.3 **Firstly**, none of the representors is advocating that the OAN for Guildford should be based on the University of Reading-based modelled approaches as presented, as this would suggest a figure of c.900dpa+ depending on the assumptions used. Rather, the modelled approaches

[20] 571dpa (Table 8 of GBC-LPS-004) cf 422 dpa
[21] PPG2a-016
[22] Central Lincolnshire has an uplift of 47% above the starting point, Derbyshire Dales has an uplift of 60%; Telford and Wrekin is 72% higher.
[23] Particularly relevant here, because it was prepared by GL Hearn – the authors of the Guildford SHMA work

provide a 'touchstone' for the scales of uplift that might be needed to 'peg' affordability at current levels. At Annex 1 we apply some updated modelled (the outputs Lichfields appended to the Solum representations were produced in 2017 and some inputs have been superseded) using the different levels of household growth and dwelling stock growth arising from the latest economic-based demographic scenarios identified in ID-005.

4.4 **Secondly**, the Council's claim that representors are assuming Guildford is acting alone are misplaced. Representors' evidence considers a range of approaches that clearly recognise that other areas will be making uplifts[24]. Indeed, the -2.0 price elasticity applied from the University of Reading work in the modelled approaches is regional (ie based on areas across a region making uplifts); if local elasticities were applied, the uplifts necessary would even greater[25]. In any event, ultimately, the Guidance does set plan makers the challenge of making a judgement over uplifts in that authority area based on the circumstances in that area. That is what the work of representors – unlike that of the Council - seeks to grapple with.

4.5 **Thirdly**, no representor is attempting to estimate precisely the impact of an increase in supply on affordability (this is because the model outputs are being used and interpreted illustratively alongside other factors).

4.6 **Fourthly**, the Elmbridge appeal decision cited in the Council paper is of limited relevance to this examination, for the following reasons:

1. The PPG (ID: 3-033) makes clear that Local Plan Examinations are to be preferred to appeals as the basis for considering housing requirement figures[26].
2. That appeal Inspector made his decision on an understanding that the OAN being advanced by the appellant in that appeal was the figure that resulted from the University of Reading-model-based approach. His observation (IR353) that the model is sensitive to input assumptions[27] falls away if the model's outputs alone are correctly regarded only as illustrations and not the sole basis for the concluded uplift. This is the case in Guildford, where representors' suggested OAN figures (typically 700-800dpa) are markedly lower than the model-based figures (900dpa – 1,100dpa) that accompanied representations.
3. The Inspector cast doubt on the modelled approaches based, inter alia, on the following considerations:
   a. He thought there had been price falls in Elmbridge since 2015 in contrast to OBR's forecasts (IR 353): This was factually incorrect. ONS data shows the median price in Elmbridge rose from £495,000 in 2015 to £565,000 in 2017. In Guildford, house prices have also risen;
   b. RICS house price forecasts suggest slower growth in the South East in the short term (IR353): Respectfully, that is of limited relevance if one interprets a model as it should be – as an illustration of the scale of supply necessary to achieve affordability outcomes over a whole plan period, recognising there will be cyclical factors along the way;

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[24] Curiously, the Council criticises representors for both their 'top-down' and 'bottom-up' approaches to answering the market signals question. The Council seemingly favours not answering the question at all.
[25] See para 3.45 of the Lichfields work that accompanied the representations on behalf of Solum.
[26] The PPG states: "*The examination of Local Plans is intended to ensure that up-to-date housing requirements and the deliverability of sites to meet a 5 year supply will have been thoroughly considered and examined prior to adoption, in a way that cannot be replicated in the course of determining individual applications and appeals where only the applicant's/appellant's evidence is likely to be presented to contest an authority's position.*"
[27] This is a criticism that could be applied to any model, including the ONS demographic projections.

c He thought that the model is based on regional elasticities and should not be applied locally (IR 353): Respectfully, this is not consistent with a conclusion that uplifts for market signals in one area are not being made in isolation because, in reality, uplifts are being applied in local authorities across a region based on a range of approaches – regional elasticities are thus wholly appropriate; it would be applying local elasticities (which assume other authorities make no uplift) that would be incorrect;

d He was not aware of any local authorities with uplifts for market signals of that scale (IR355): There are, however, examples of uplifts above household projections of greater scale before this [Guildford] examination;

e He was not aware if the criticisms made at the Mid Sussex Local Plan examination had the same force (IR355). That is a matter for the Inspector's judgement in each case, however, very similar points <u>were</u> made in Mid Sussex; and

f His conclusion of an uplift of 20% did not involve him making a judgement as to what could be reasonably expected to improve affordability, but was based simply on comparables of what had been done elsewhere, which he interpreted as being 10-20% (IR356). He concluded this approach *"may be less satisfactory than sound evidence which is specific to the area in question. Nevertheless, in this case I consider that evidence of what has been done elsewhere is the best evidence before me"*. He was arguably safe to do so in an appeal, but it would not be the correct approach for plan-making which must be 'sound'.

At Annex 1 we have applied the University of Reading elasticities to what has occurred in the market in Guildford since 2010 (based on increases in the dwelling stock, household growth and median workplace incomes) in order to simulate the effect on prices of the interrelationship of these three variables. Clearly, household growth will have been moderated by the under-supply that occurred, but the simulated estimates of Guildford house prices for 2017 based on applying the University of Reading elasticities to the other inputs is within 2% of the actual median house price (£423K cf. £430K) showing the modelled simulation is strikingly accurate. Evidence of this sort was not before the appeal Inspector in Elmbridge.

Overall, the appeal decision is the judgement of the decision taker based on their interpretation of the evidence as it was presented to them. It is not a substitute for a Local Plan examination. It tells us little about the correct approach to be adopted in Guildford through this examination, which benefits from a different body of evidence.

4.7 **Fifthly**, the Council's criticism of so-called 'top down' approaches of representors are misplaced. Looking at growth rates compared to housing stock is part of any sensible exercise to look at what scale of uplift is realistic given the role of new housing within the wider housing market, and the need (at para 159 of the NPPF) for SHMAs to estimate the scales of OAN that "*caters for housing demand and the scale of housing supply necessary to meet this demand*". This is in the context that in some local plans, larger uplifts will not be realistic (and hence some places will make reduced levels of uplift relative to their affordability problems) whereas other locations that can make greater uplifts clearly should do so. In this way, multiple local authorities will contribute to the overall scale of housing supply necessary to improve affordability across HMAs, regions and nationally.

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Should a market signals uplift be applied to economic-led forecasts?

4.8 The Council now claims (para 34 GBC-LPS-010) that the market signals uplift is subsumed by the economic–led figures, and that it would not be appropriate for an uplift to be applied to the economic-led forecasts. This also appears to be the position advanced by the Inspector in para 5 of ID-005.

4.9 To be clear, **it is the Council's own evidence that purports to make an adjustment to improve affordability by uplifting the economic-led forecasts**. GBC-LPS-004 makes its 57dpa uplift to the 514 dpa figure derived from the economic-led projection. The case of representors is that this scale of uplift is not grounded in evidence that it can be expected to improve affordability and that – in the circumstances of Guildford - larger increases are likely to be both necessary and realistic, and thus would be more likely to have an impact on prices in the face of income growth.

4.10 For reasons explained earlier, it is the increased supply above the demand based on household growth that is highly relevant in determining whether the uplift will have an impact on affordability, and the Council's own evidence (GBC-LPS-004, Tables 5 and 7) is that the household projection driving OAN in Guildford is an increase of 9,551 (2015-34 at 503 per annum based on 0.7% employment growth) rather than the 7,827 in the 2016-based projections, with consequential increased levels of migration. This employment growth will be accompanied by an increased flow of finance into the housing market (in the form of more workers - and with higher wages - seeking homes). If employment growth at 0.8%-0.85% is adopted as suggested by the Inspector in ID-005, household growth will be higher still at around 11,590 (2015-34 at 610 per annum)

4.11 An uplift for market signals that is subsumed by the economic-led figures will not be providing the 'extra' houses needed to impact on affordability and enable increased household formation. The Council's case does not grapple with this point despite it having been made in verbal evidence during the Examination. At Annex 1 we use the Affordability Model to explore the potential implications of not applying a market signals uplift to the Inspector's suggested 625dpa figure based on the 0.85% employment growth rate. This shows that without a market signals uplift, affordability will likely worsen even at a low 1% rate of annual increase in earnings (past rates of income growth were 2.48%). We also note that, had the Council in its paper GBC-LPSS-004 arrived at 0.8-85% instead of 0.7% it would, for consistency, have made a 11% uplift to the Inspector's 607-625dpa figures, giving total economic-based figures of 674-694dpa. Indeed, at para 7 of its paper GBC-LPSS-012 the Council appears to support the 0.8% employment growth figure; the Council cannot credibly deny that it would, on its own case, add a 11% affordability adjustment to give a figure in the order of 678dpa.

The standard methodology

4.12 The Council's case now appears to rely on the 40% 'cap' applied for market signals in the standard methodology. Self-evidently, the standard methodology policy/guidance is in draft and carries limited weight. To recapitulate on points already made:

1. Without the 'cap' which is understood to be the subject of significant ongoing objection to the NPPF/PPG consultation, the affordability uplift in the standard methodology for Guildford would actually be 53%[28]

[28] Based on the latest affordability ratio of 12.53

2 The 40% ‘cap’ is designed to be a ‘ready-reckoner’ indication of what is ‘deliverable’. However, under the current PPG, that judgement that falls to be made based on the local evidence. In OAN terms, the Council has not demonstrated 40% would be the ceiling on deliverability; indeed, a greater scale of uplift has been 'explored' in that 825 dpa was considered as a reasonable alternative in the SA/SEA[29].

3 Neither the Government’s consultation[30] nor the draft PPG[31] itself states in terms that 40% uplift can be expected to deliver an improvement in affordability in every location;

4 One should be careful not to ‘cherry pick’ elements of a new policy and guidance. The standard methodology – with its 40% cap – sits alongside other provisions in policy designed to contribute to housing supply, which includes:

a The PPG is clear that the need figure generated by the standard method should be considered as “*the minimum starting point*” and that other factors may mean further uplifts will be appropriate to include economic growth, infrastructure, growth strategies;

b Plan makers should consider making further uplifts for affordable housing need which will, as per the draft NPPF, including a broader range of affordable housing tenures[32]; and

c The Government clearly envisages a ‘carrot and stick’ approach whereby it is incentivising housing delivery above the 40% uplift using Growth Deals.

In combination, the Government approach does not rely simply on the household projections plus market signals uplifts of up to 40% in order to solve the broken housing market.

Affordable housing

4.13 The Council has not (in GBC-LPS-004 or in GBC-LPS-010) applied its mind to the scale of uplift it might apply to address affordable housing need. The concluded OAN of 594dpa using the 2016-based projections is thus based on an incomplete analysis – failing para 159 of the Framework (in terms of showing how it will address affordable housing need) and omitting the step in PPG ID2a-029.

4.14 The analysis supplied by Mr Boyle QC - on behalf of Martin Grant Homes – shows that the Council’s OAN will deliver just 238 affordable homes even if (as is unlikely) delivery is at 40%, compared to a revised estimate of affordable housing need at more likely rates of delivery (30-35%), it is unlikely the Council’s figure would even “*keep people off the streets*”[33].

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[29] CD 05 paragraph 7.6.3)
[30] Right Homes in the Right Places (2017)
[31] Draft PPG, as released in March 2018
[32] See Draft PPG page 30 which clarifies that affordable housing need will include “*households which can afford to rent in the private rental market, but cannot afford to buy despite a preference for owning their own home*”. It then states (page 31) that: *“The total affordable housing need can then be considered in the context of its likely delivery as a proportion of mixed market and affordable housing developments, given the probable percentage of affordable housing to be delivered by market housing led developments. An increase in the total housing figures included in the strategic plan may need to be considered where it could help deliver the required number of affordable homes.”*
[33] The phrase used by Mr Gardner in the discussion on affordable housing

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Realism and development capacity

4.15 The Council does not contest the principle that the bigger the uplift in supply above household growth, the greater the impact it may have on prices.

4.16 If a local authority were genuinely seeking to tackle the problem of affordability in an area with demonstrably significant affordability problems, it would approach the question in the PPG by looking at how big an uplift it could reasonably achieve to achieve that objective.

4.17 The Council does not appear in its evidence to claim that it would not be possible to build more homes than the latest or original OAN estimates upon which it was relying.

4.18 The Council should be approaching the matter by looking at the realistic demand expressed by likely household growth, and then exploring the scale of uplift that could – in reality – have some impact on the house price growth, deliver more affordable homes, and be reasonable. Under the current guidance, it is this 'triangulation' of the evidence rather than a mechanistic or dogmatic application of percentage uplifts to the 'starting point' that is the correct approach. There is no evidence before this examination to support the contention that 11% (or the 625dpa fromID-005) is a 'tipping point' for the scale of uplift beyond which it would materially impact on migration patterns above that needed in any event to sustain employment growth.

Vacancy Rate

4.19 The Council has applied a 2.3% vacancy rate in its analysis (GBC-LPSS-004 para 1.13). We note that the 2011 Census implied a 4% vacancy rate[34] while 2016 Council Tax Data would suggest a vacancy rate of 2.9%[35] and more recent 2017 Council Tax data 3.0%[36]. This suggests the OAN presented by the Council could be a slight under-estimate even on its own figures; utilising a higher rate of 3% as per Council Tax data (yet still not as high as the Census) would add c.4-5 dpa to the Council's OAN, or c.75-100 dwellings over the plan period.

5.0 What this mean for concluding on OAN in Guildford?

5.1 The Council appears to be sticking to its original position[37], despite having been invited on many occasions to reconsider its approach in light of evidence heard.

5.2 This means that, if the Inspector remains unconvinced by the Council's position, it is necessary for representors to put forward a sensible, evidence-based, way forward. In summary, it is considered – based on proceedings at the examination and summing up by the Inspector at the close of Thursday 7th June, and with the benefit of seeing ID-005 – that:

1 The 2016-based projections are clearly the 'starting point'. However, one needs to look at the new projections in the context of PPG ID2a-016 which requires one to look at whether the new projections indicate a "*meaningful change in the housing situation*". The Council's paper (GBC-LPS-004) does not engage with the exercise required in the PPG (ID2a-015 and 2a-017) to consider whether adjustments to projections are necessary to reflect past trends of the demographic implications of past under-supply. This means the position of the new projections as a robust reflection of the demographic baseline has not been established

[34] Source: Census KS401EW All household spaces: 56,200, of which with no usual residents – 2,247 = 4.00%
[35] CTB 2016: All dwellings: 57,640, second homes (line 11) 331, dwellings classed as empty (line 15): 983, exempt dwellings which were unoccupied (exemptions class B, D-L): 347.
[36] CTB 2017: All dwellings: 58,019, second homes (line 11) 348, dwellings classed as empty (line 15): 1,025, exempt dwellings which were unoccupied (exemptions class B, D-L): 387.
[37] Save for its tentative support of the 0.8% employment growth figure.

through the SHMA, meaning little if any weight can be given to percentage comparisons to the concluded OAHN figure. Overall, the new 'starting point' in of itself does not support a reduction in the OAN given the range of factors that inform housing need. Nor

2 It is common ground with the Council that economic-growth means the OAN needs to increase to accommodate the additional labour supply. It is common ground with the Council – based on GBC-LPS-004 - that some sort of market signals uplift should be made to that employment based figure to improve affordability.

3 The approach of the SHMA to employment growth in relying a simple average of three outdated forecasts is not robust. There is credible evidence – including but not limited to past rates of employment growth from the forecasters as well as Nomis, and the economic position of Guildford - that the 0.7% rate of employment growth assumed by the SHMA is too pessimistic and low.

4 Past rates of employment growth recorded by the three established forecasters for 1997-2015 are 1.2%[38]. The Nomis figure (2000-2015) is 0.96%. Looking ahead, the most recent forecasts before the Examination are those from Experian (March 2018) showing a growth rate of 0.88%, consistent with its 2016 estimate. Forecasts need to be interpreted in the light of local circumstances, and in this regard, Guildford is identified by the LEP as a location for major growth[39]. Consistent with ID-005, an appropriate rate of growth might be to adopt a figure of 0.8 – 0.85% as a likely level of job growth. We concur with the Inspector's findings at ID-005 that this range would lead to a figure of between 607-625 dpa[40].

5 Consistent with the Council's own approach in GBC-LPSS-004, to this figure, one would need to make a market signals uplift, in doing so recognising that – by logic and given the market in Guildford - this economic growth will increase price pressures in the local market – in other words, without making a sufficient uplift above that scenario, the extra household and wage growth associated with 0.8%-0.85% employment growth will accelerate the worsening of affordability rather than improve or even stabilise it (see analysis at Annex 1). The Council's 11% headship-rate-based adjustment (which would mean a figure of c.674 – 694 dpa to the higher growth scenario) is not adequate for reasons set out (not least the inability to hypothecate any increase in supply to the 25-34 age cohort). Applying an uplift of 20% to the economic growth scenario (607-625) would imply a figure of 728 – 750 dpa.

6 This range represents a CAGR of 1.2% (or 1.3% of current stock[41]) well within the range of build rates seen in other Boroughs. It would not impact on migration patterns given the level of migration already assumed in the economic growth scenario. The 20% uplift could

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[38] Based on the summary table produced by the Housing Forum with the benefit of past rates of employment growth from 1997 in the tables of economic forecast data released by the Council on 5th June 2018. This shows 1.26% (Experian), 1.28% (Oxford Economics) and 1.07% (Cambridge Econometrics).

[39] GBC-LPSS-SD-007 (Para 3.2.1) states: "*Guildford is a major regional hub in the Surrey and M3 Corridor region, with one of the most competitive local economies in the country outside of London*". Para 6.2 of GBC-LPSS-SD-008 states "*the towns of Guildford and Woking are identified in M3 Enterprise LEP's Local Strategic Economic Plan (March 2014) as 'Growth Towns'. The four towns currently account for approximately a third of jobs and Gross Value Added in the LEP area and are recommended as areas for substantial future growth (between 2014 and 2019 GVA is expected to increase by 14% across the growth towns)*"

[40] 625 dpa represents a pro-rata uplift to reach 0.85% employment growth on 514 dpa (the Council's housing figure based on 0.7% employment growth per annum and 2015 OBR rates), i.e. 514 / 0.7 * 0.85 = 625. We have run 0.8% and 0.85% employment growth scenarios through POPGROUP using as far as we can the same assumptions as the Council (commuting, OBR 2015, etc), which results in similar figures.

[41] Stock based on DCLG Live Table 125 – 2015 stock (i.e. start of plan period) was 56,950

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be reasonably be expected to improve affordability: the analysis at Annex 1 suggests this uplift would 'peg' it at around 2017 levels, assuming earnings growth is no higher than 1% pa. It is much lower level of uplift than some of the other affordability-modelled approaches presented at the examination. It is a quite clearly a scenario that could be reasonably expected to occur.

7 To this figure would be added the allowance for students of 23dpa. This would imply a figure of c.751 – 773 dpa.

8 Affordable housing need is at least[42] 468 dpa. At a likely delivery rate of 30-35% within schemes alongside market housing[43] would mean 1,337 - 1,560 dpa. Meeting even 50% of affordable housing need at a likely delivery rate of 30-35% would mean 668 – 780 dpa.

9 Recognising that "*no single approach will provide a definitive answer*" (PPGID2a-014), a triangulation of the various factors gives a full OAN figure no lower than c.750 dpa, and presents very strong reasons to conclude on something in the order of 775dpa or more. This 'floor' would be a total uplift on the 'starting point' estimate of household growth, but by proportionately <u>the same or less</u> than the OAN concluded upon by GL Hearn in its SHMA for Oxford, Vale of White Horse and just over that for Cherwell. This (750-775dpa) would represent a CAGR of 1.2% and be 1.3-1.4% of current stock, <u>lower</u> than the figures of 1.6 – 1.8% for recently adopted Plans elsewhere[44]. It is <u>lower</u> than the build rates assumed in the Council's housing trajectory for the period 2021 onwards[45]. It is <u>lower</u> than the 825dpa tested by the SA in its Option 8 and concluded to be 'reasonable'. It is – by any measure - a scenario that could be reasonably expected to occur.

5.3 The above supports a concluded full OAN for Guildford of no less than **750dpa and more justifiably, 775dpa**. This is higher than the 650dpa figure outlined in ID-005 Inspector's note of 11th June 2018, but for the reasons set out, it is respectfully considered that 650dpa:

1 Cannot, given the demographic and housing market implications of 0.8-0.85% employment growth, be reasonably expected to improve affordability (see Annex 1). It is not an approach consistent even with the Council's approach in GBC-LPS-004 because it makes no uplift at all for market signals, not even the 11% headship rate adjustment the Council advocates.

2 Would at 30%-35% of likely delivery provide just 195-228 affordable homes, barely enough to "*keep people off the streets*" (based on the figure cited by Mr Gardner), let alone make inroads to other aspects of affordable need. If affordable housing percentages do not increase from recent averages (23%), it may not even meet this (inadequate) objective.

3 Cannot be demonstrated to be the limit of what is realistically achievable in Guildford, given:

a A figure of 825dpa was considered 'reasonable' in the SA (Option 8);

b Household growth will be around 610pa even <u>without</u> any change in headship rates;

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[42] "*At least*" because the 468dpa is based on newly arising need arising from the 2016-based projections. In reality, the economic growth scenario means there will more households in Guildford, and applying similar need propensities would imply a higher level of newly arising affordable housing need than assumed by GL Hearn's work. The original estimate of 517dpa might be more realistic.
[43] Less than the policy rate of 40% but reflecting small sites are below the threshold and some sites will not deliver due to viability.
[44] See Table 5 of the Lichfields annex to the Matters Statement of CEG/Earl of Onslow and the Trustees of the Clandon Estate
[45] See Figure 2.2 of GBC-LPSS-003a

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c 650dpa is significantly lower than the rates of housing development the Council itself expects to deliver in its housing trajectory from 2021 onwards; and

d At 54% above the 'official' starting point, is less than the rates of increase settled upon in other Local Plans, including in weaker market area (e.g. the 72% in Telford and Wrekin), or in the Oxfordshire SHMA.

5.4 On unmet need, reflecting the evidence and the position of the Inspector in ID-005, an allowance should be made for Woking's unmet need. We note the Inspector's suggestion that this could be a figure of c.50dpa. This would give a working OAN figure (including unmet need) of no less than 800-825 dpa.

5.5 However, we maintain that there has been no evidence to justify a figure that goes below the 83dpa that was justified in the Waverley Local Plan examination and which would be necessary to satisfy para 47 of the Framework. Being consistent with Waverley's approach would provide the basis for **a total OAN – including unmet need – of 833-858dpa**. This is an OAN figure (with a CAGR of 1.33%) that does not take into account – as it should not (PPGID2a-004) – any constraints to delivery and sets the figure of need only, against which policy choices can be made in line with the Framework including para 14. The debate on the land supply, inter alia, can provide the basis for determining how far this need can realistically be met consistent with para 182.

Annex 1: Affordability Modelling at a local level

Applying the University of Reading model's principles to what occurred in reality (Guildford)

In order to explore the reliability of the affordability modelling we have applied some of the historic household growth, income and stock growth variables to the University of Reading's empirically-based principles. Based on the relevant elasticities[46] we can see what these would have simulated for house prices and the affordability ratio, and compare these estimates with what occurred. Earnings and stock growth can be based on recorded data (ONS / MHCLG) and we have applied the Guildford household figures from the 2014-based household projections, albeit recognising that it can be constrained by dwelling supply, so the figures for 2015, 2016 and 2017 will be the projected number for the Borough.

This exercise is necessarily a simulation/illustration, but serves to test the general approach in this type of analysis at a local level. The results in Table 1 show that the simulated estimate of prices and the affordability ratio is within 1.65% of the outcome in 2017, and 5% of the actual change between 2010 and 2017. In other words, the elasticities, when applied to three Guildford-specific variables to generate a house price figure (and affordability ratio) produced a strikingly similar figure to the actual outcome. In this respect, any concerns at the elasticities being regional rather local can be seen to fall away.

Table 1 Effect of household growth, wage growth and stock on prices in Guildford - expected median house prices

		2010	2017
Households		53,816	58,213
Dwellings		55,930	57,839
Earnings		£29,355	£34,322
Median House Prices	Actual	£295,000	£430,000
	Modelled		£422,898
Affordability Ratio	Actual	10.05	12.53
	Modelled		12.32

Source: Lichfields based on DCLG/ONS

Using the model to test the affordability implications of applying a market signals adjustment to the revised employment growth scenario

In ID-005 at para 5, the Inspector identifies that "*Setting a housing figure realistically based on jobs growth and substantially higher than projected demographic growth should therefore address that worsening* [affordability] *trend. Some of the modelling referred to suggests that a much higher OAN would need to be set to make really significant improvements to affordability, but this would appear to be out of balance with the percentage adjustments made in other authorities for affordability with consequent implications for migration patterns.*"

[46] 2.0 for household growth, -2.0 for dwelling stock growth, 2.0 for income growth in line with the University of Reading Model, as explained in http://webarchive.nationalarchives.gov.uk/20121029114150/http://www.communities.gov.uk/documents/507390/pdf/1345079.pdf

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To explore the implications of this suggestion, we have run two scenarios through the affordability model based on the Inspector's suggestion that a 0.85% employment growth figure with and without a further market signals uplift. (750 dpa and 625dpa respectively)

The scenario is based on the assumption that 625 dwellings per annum to meet employment growth would be associated with household growth of around 610 extra households per annum based on the 2014-based household formation rates (ie without any adjustment to headship rates). The Council's approach in its SHMA and subsequent work, had it settled on a 0.8% or 085% figure in its original work, would have been then to add a further 11% uplift to that figure (as shown in Table 8 of GBC-LPSS-004). Thus, any market signals uplift to the 625dpa sufficient to improve affordability has the prospect of inducing household formation across all age cohorts, not just 25-34 year olds, rather than require further in-migration (on the basis of other local authorities making uplifts for affordability to their demographic figures)[47].

Moreover, by logic, without making any uplift to the 625dpa figure (which matches the increased rate of household growth of 610 per annum), the only way in which affordability would not worsen, would be if incomes did not increase. For reasons set out in the main body of this paper, this is not a scenario that could be reasonably expected to occur. To illustrate the potential scale of uplift required to at least 'peg' affordability, we have run these two scenarios for Guildford using the University of Reading elasticities and three different levels of wage growth to see the impact on prices and affordability,

The tested rates of wage growth are 1%, 2% or 3% growth per annum – in other words they are not dependent on national or local forecasts of wage-growth from the OBR or any other party. The outputs for the 0.85% employment growth scenario (625dpa) and with a 20% uplift for market signals (750dpa) are shown in Table 2 overleaf.

What it shows is that 625dpa without a market signals uplift would see the affordability ratio worsen from 11.24 at the beginning of the plan period (and 12.5 in 2017) to 13.45 even if wage growth was only 1%. If wage growth was 2% or 3% the simulation indicates affordability ratio would deteriorate to 14.39 and 16.03 respectively by 2034. The average growth rate since 2010 has been 2.3%, and 2.48% over 15 years. None of this is to say this is a precise impact, but it illustrates how, on reasonable assumptions that:

1. Some form of uplift is necessary given the household growth associated with that scenario; and
2. That uplift needs to be greater than the 11% the Council would have applied had they run their economic forecasts in GBC-LPSS-004 using a 0.85% scenario instead of 0.7%;
3. An uplift in the order of at least 20% is justified to make some attempt – on reasonable assumptions – to even moderate the worsening of affordability that will arise as a result of wage growth from a growing economy, let alone to reverse the adverse trend of recent years.

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[47] This is reflected in the Redfern Review, Chapter 4, para 7 which says: *"Nevertheless, and as already touched on, our modelling shows that greater levels of new housing supply unambiguously lowers housing costs for both renters and owners – something that is more likely to boost their wellbeing than any specific rate of home ownership. It is also relevant to note that while the home ownership rate is unlikely to rise in the face of increases in housing supply, building more homes can stimulate increased household formation and improve availability. Consequently, the absolute number of home owners is likely to rise in response to additional supply"*

Table 2 Affordability Outcomes - 625 and 750 dpa under 1, 2 and 3% wage growth

		2015	2034	
			625 dpa	625dpa + 20% (750 dpa)
Inputs				
Households		56,768	68,358	68,358[48]
Dwellings		56,950	68,825	71,200
Median Earnings	Low (1%)	£33,103	£37,359	
	Medium (2%)		£40,648	
	High (3%)		£48,059	
Impact on Prices and Affordability				
Median House Prices	Low	£372,000	£502,356	£466,491
	Medium		£584,759	£548,894
	High		£770,465	£734,600
Affordability Ratio	Low	11.24	13.45	12.49
	Medium		14.39	13.50
	High		16.03	15.29

Source: Lichfield

[48] The households in 2034 are a fixed input to the affordability model. In reality, the household numbers would expand to reflect that increased affordability arising from a sufficient scale of uplift would induce additional household formation, and not just for the 25-34 age group.